Life sciences in the new normal

In this podcast, Thomas Hoffman, Managing Director at Solebury Trout, an investor relations and communications advisory firm, and Joseph Oakenfold in Deutsche Bank's depository receipts team explain why life sciences companies are more than just flashes in the pan, but will be here to stay long after the new normal has been reached. They also share why Asian and European healthcare companies see the US as integral to their investment strategy

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Joseph Oakenfold, Deutsche Bank Depository Receipts

Janet Du Chenne: Tommy, can you give us a bit of background on yourself and how you came to work in the US healthcare sector?
Thomas Hoffman: Thank you for having me today. So, I studied media business in Germany, and while studying my sister married an American and they moved to New York City. And while I was studying, Solebury Trout kept on asking us if we want to come over to the US and join them at the firm. I kept on pushing back, but then in 2001, when I finished my studies I decided to move to New York City. Fast forward almost 17 years later, Trout Group has grown to four offices globally in New York, London, San Francisco and Boston with 60 employees and multiple silos, including broker dealer etc. And before getting acquired by PNC Bank and it merged together with Solebury. Fast forward three years later I was approached by Joe to tell my true story of how I joined the Trout Group in the healthcare sector.

Janet Du Chenne: Joe, turning to you, and how did you come to work in this particular area and how did your paths cross?
Joseph Oakenfold: I've been working in the American Depository Receipts product area for over 20 years doing all manner of roles in multiple locations around the globe. I spent a bit of time in Asia and a lot of time in Europe and the US. This is an interesting and dynamic niche the equities market, but I was asked about three years ago to focus on helping healthcare companies access it. And that's taken my role to a completely new level. Firstly I had to familiarise myself with the particular way that healthcare and life sciences companies grow. And secondly, I had to understand a bit about the science as the core purpose of these companies. I'm aware that banking is often viewed as sterile industry but working with the healthcare sector, it actually allows us to make a positive impact, and help companies that are literally changing lives for the better. The current pandemic and the situation is no greater example of this. As for when I met Tommy, I think it was a couple of years ago in New York, when I arranged a meeting with the Solebury team, without really knowing that much about them. And I suppose eight or nine conferences later, the rest is history and it's a partnership that we are really enjoying,

Janet Du Chenne: As an investor relations and communications advisory firm based in the US, how do you help European, Asian and other non us healthcare companies in accessing the market. And why do you think so many companies are focusing their time here?
Thomas Hoffman: Excellent question and thank you for bringing it up. I think what US companies and also European companies and Asian companies understand is that with a lot of the long term investors it's all about relationships and the relationships that they can build with the investment community. A lot of money's in the US. The US definitely deploys a lot of money in the biotech and healthcare sector. And a lot of these companies' goals is actually about being listed in the US to accomplish that. They have to have a strong base of investors that are supporting the story, supporting the company and moving it through the IPO into the public markets. Banks, obviously are a huge factor in that process.

But they also want the companies to have established such relationships prior to even going that route. And that's where we can be very helpful and help CEOs and management to understand the US market, be introduced into those investors and build those relationships that they then support them with the IPOs. And looking at the US markets, and in particular during this pandemic, they are still very strong, and firms themselves are raising money faster than they are spending. As an example, one investment firm closed back in February (2020) with about US$1.2 billion raised. And then during the pandemic, they were very opportunistic. They got a lot of inbound requests and then raised an additional US$1.2 billion. That will be dedicated to biotech and healthcare, so now they're sitting on US$2.4 billion. They also told me that they are currently watching 500 companies or 500 publicly traded companies and about 300 private companies where they are thinking about investing and putting money in. They need to deploy their money so to create alpha and we are here to show them who the investors are, provide them with information and, and build these relationships that are long term, and support the company in that process.

Janet Du Chenne: Joe, what role does Deutsche Bank, and American depository receipts, play in all of this?
Joseph Oakenfold: Well, companies only have a very select group of banks that can act as depository receipt agent for a company. ADRs are a vehicle that many companies use to list or trade their shares in the US. For that you need an agent, which is the depository bank, and the depository bank administers those ADRs for the company. We’re an integral part of the transaction but it's a lot more than that. We're a partner for companies, sometimes, helping them to navigate the market, working with them on corporate events, corporate actions, but also working with third parties and good partner companies to help our clients find new investment so it's a long term relationship, but also a critical one that we play for companies that are looking to access the US markets.

Janet Du Chenne: Despite the pandemic, many companies have still listed in the US and have raised capital. In this environment, would you say this is a flash in the pan or do you think this will continue?
Thomas Hoffman: Sure, absolutely. Despite the global epidemic, many of those companies have listed here and we personally work with about six companies that listed in the past six months, including the very first one, which is one of the leading Covid-19 vaccine players. They are continuing to focus on upcoming possible IPOs and. Back in the days if I look back five years ago we mainly worked with US listed or listed companies. And now, 20-30% of our portfolio is private companies that are looking forward to an IPO. I think announcements in the first two weeks of January are going to be very important on creating further momentum. As we heard from a major Cambridge, Massachusetts based investor, there are two most important weeks for announcement in any given year, which is the week post Labor Day, and the week during the JPMorgan healthcare conference. That won’t change so we will most likely see a lot of announcements about fundraising through IPOs. Several of our private companies are looking for that window of opportunity. In addition, there have been a ton of private rounds raised in 2020.
Everybody knows that there has been a lot of private companies that raised a lot of money and these monies and these companies need to IPO. Most of those investors participated with an exit strategy there - those rounds were marketed and highlighted as crossover rounds. Another reason why these IPOs were so successful is because a lot of these crossover rounds, have been done with club deals in the sense that the investors we're raising the money together, amongst friends and with the eye of participating in an IPO. Many IPOs before launch were already more than 100% subscribed. Another interesting note is that a smaller fund told us a few weeks ago they are not investing in crossover rounds anymore. But they will still continue focusing on the IPOs. So, again, they want to watch what's going to happen on the crossover rounds but they believe that the IPOs and the public offerings are going to continue.

Janet Du Chenne: Joe do you share a similar view?
Joseph Oakenfold: Yes. I'm seeing lots of companies lining up to list in the US well into 2022. In fact, many of them are asking about follow-ons. This is a sector that isn't cyclical like others. Companies are constantly in development and testing, and then the need to raise capital doesn't go away. So I think volatility has more of an effect on timing and if we're talking about momentum, what we normally see in the sector is a flow of either high or low valuation IPOs, but what the pandemic has shown us in the past year is that investors, particularly generalist ones, have seen the benefits that come with this model, with the sector and with the companies, and hopefully they're going to continue to pay a premium to support it in 2021. It can be really interesting to see how those more generalist investors react once things start to open up and also how companies are choosing to come to market. For example, SPAC (special purpose acquisition companies)[1] transactions was a decidedly new trend for 2020. In September, 50% of all capital raised in the US was in SPAC form. Time will tell if that's a good or a bad thing or a good structure, but I don't see the flow of companies, slowing into 2021.

Janet Du Chenne: With three workable vaccines having high efficacy rates and vaccinations underway in some countries, there seems to be a glimmer of hope for some return to normalcy. So with your view of the investor community, would they start to move away from the sector and into some of the more recovery stocks or is the focus on emerging healthcare and Life Sciences here to stay for the longer term?
Thomas Hoffman: It is not really a question of if, but more or less about how much they're going to move the stock or the money into other sectors and again recovery stocks. The generalists we saw in 2020 will likely start to rotate out of the space a little bit. A lot of the healthcare specialists are hedging their portfolios and are reevaluating their investments, on a quarterly, and in some cases monthly and even daily basis. Even major investors like T. Rowe decided to restructure the investments and focus again on more some of their large cap names. That doesn't mean that there is no money for other companies that just shift and relocate. New investors will pop up, other investors will start focusing on the others. Another family office mentioned that they are investing money into almost every single biopharma IPO, not really understanding the science behind it but knowing they can afford to sit out.
At a Wall Street-on-Tap panel, one of the speakers highlighted that in 2020, even if you had no idea what you're doing and if you would have invested in every single biotech IPO, you would have been up 40%. But to your question, yes, people will also move some of their portfolio into recovery stocks just to take some of the winnings and some of the gains and be less exposed.

Janet Du Chenne: Staying with the return to normal. We saw investor engagement practices changed in 2020. What will become of the big virtual world that has been created?
Joseph Oakenfold: The virtual world is here to stay at least for part time during the week I expect. As far as conferences and deal and non-deal road shows are concerned, the virtual worlds going to continue to be part of it. Personally I think once conferences start to open up as physical events, people are going to rush back to attend them, at least for the first few that that come out. They're going to become hybrid events with virtual attendance included alongside some physical attendance. The C suite may do one or two trips a year and do one or two virtual road shows, so we might actually see an increase in the investor engagement through the virtual platforms. Where the major change is going to come is going to be in the virtual pre-deal roadshows. Those are definitely going to stay. The speed and the efficiency that's been gained through doing that virtually is here to stay.

Janet Du Chenne: Tommy are you seeing something similar?
Thomas Hoffman: Yes, I agree with almost everything that Joe said. We will see how conferences will adapt in the future. One virtual event we hosted had 200 or 250 people in attendance. In one of

them we have a doctor participating: he was literally with a patient, one hour prior to the event, and then joined the event, spoke for an hour, and went back with his patients. It's just something that is not possible in the physical world. They have to take two hours of the two days of their time for travelling. But they love the human interaction. I think those bespoke events will continue. Some of those scientific events will continue in a physical world, but several of those investor conferences, are either going to be hybrid, and in some cases are going to continue as virtual only. And coming back again to my earlier point that's why it will be so much more important to build those relationships. I mean it was hard enough to build relationships in our physical world, it's going to be even harder in the virtual world and that’s where our firm can help.
Janet Du Chenne: It sounds like the advice to healthcare issue is for the New Year would be: take these opportunities do more of these events, and it's not a road to be undertaken alone. You need partners.
Thomas Hoffman: Yes, definitely and you need to adapt to this new environment. We had one company who we hosted a company specific event with, attended by 30 or so investors. Now they in this pandemic we’ve helped them host about six events and in one of them one of the largest shareholders sent the CEO at note to say it was one of the most successful ones he has been to. Again, not saying that this is a world we will live in purely in the future, but it's not as Joe mentioned it's not going to go away.

Janet Du Chenne: What themes will become apparent in 2021? With ESG topics dominating many boardroom discussions, what advice could provide to some of the health care companies as they look to their ESG strategy?
Thomas Hoffman: At Solebury Trout, about a year and a half ago we already started building out our ESG, diversity, inclusion framework and now it's being adopted in, in the financial world. And it's doing actually very well in the sense of educating companies and helping them build theirs out and several companies are now adding ESG as their own sub portion of the entire website, and really highlighting that part of the business. And we've seen investors that are not even going to invest in companies that don't have an ESG process. We will see that more and more of that, including in the healthcare sector, including in biotech, and it's a good thing. I think there's going to be challenges and we've seen that in particular in biotech and healthcare: I had this conversation with other team members in recent past, where they that an investor called up more about wanting to know diversity in the clinical trials, and the company doesn't even know how to answer the best yet because they are blind and they have no have no insight into who is participating in the trials. So the question here is how are you ensuring that there is diversity in the clinical trial, if you are depending on a certain parts in the world where you are hosting your clinical trials? We are trying to find answers and we will find answers in the future. We just need to figure this out. But I'm sure we will sometime soon and we'll have answers to those questions.

Janet Du Chenne: Joe any last thoughts on what issuers can expect in 2021?
Joseph Oakenfold: I agree with Tommy there's going to be bumps in the road this year at first because the year is still going to be dominated by Covid and the restrictions across different countries. As we saw in the second half of 2020, I don't think this is going to stop companies from listing in the US, and we certainly hope they use ADRs to do so. There's a potential for IPO valuations to slip as those generalist investors that Tommy was talking about earlier look for returns elsewhere. But the US is still going to be the only real pool of capital able to sustain these later stage funding rounds, so it's something to look forward to. China's relationship with the US will be something to watch because it's not just about Chinese companies looking, or Chinese companies that have already been listed in the US. It's also US regulators, having a look through to the Chinese based VC firms, and the investments they have into international companies that are looking to list in the US and on the US exchanges. So it's something to bear in mind as we go into 2021: expect a little bit more scrutiny from all regulators. I'm still confident 2021 is going to be a good year for the industry. And we should see more non US companies successfully raising capital in the US.

[1] https://www.investopedia.com/terms/s/spac.asp