

# Record year for funding



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The year 2015 has turned out to be a record year for the life sciences sector in Europe. Figures from S&P Capital IQ suggest that on European regulated markets, 28 companies raised CHF 1,062.5 million by way of initial public offerings, a 27% increase on 2014. In Switzerland, the funds raised by the listing of Cassiopea in July 2015 surpassed the transaction volume of Molecular Partners' initial public offering in November 2014 by 65%. Follow-on offerings by biotech companies on SIX Swiss Exchange in 2015 were up 320% on 2014.

Whereas three biotechs increased their capital by an overall amount of CHF 40.1 million in 2014, 2015 saw four companies in the sector raise a total of CHF 168.2 million in additional capital. The largest chunk of this was driven by Evolva (CHF 57.4 million) and Santhera Therapeutics (CHF 54.8 million). Overall, Swiss biotech companies were able to raise 135% more capital in 2015 than in 2014. They benefited from the highly advantageous conditions prevalent in the sector during the year.

Biotechnology's transformative potential has led many SIX-listed firms, from a wide variety of sectors, to make use of biotechnological processes in the search of cross-business synergies with high commercial value.

- The major flavor and fragrance house Givaudan plans to increasingly rely on biotechnological processes to produce difficult-to-source essential oils.
- Similarly, the biotech company Evolva is developing high-value molecules for the production of alternatives for nature-grown ingredients used in the health, nutrition and wellness industries.
- Food giant Nestlé increasingly operates at the intersection of health and food, tackling illnesses such as Alzheimer's disease through the Nestlé Institute of Health Sciences and its cooperation with biotech firms.

- Finally, the biotech company Lonza unites two business segments – Pharma & Biotech and Specialty Ingredients – under one roof. By combining biotech expertise with chemical know-how it is able to tackle challenges that go beyond disease prevention. Water cleanliness, food supply, hygiene and wellness are also among the major business areas in which the company operates.

Against this background we interviewed three experts on the challenges that publicly listed interdisciplinary firms face in the life sciences space. We focused particularly on communications with investors and the Swiss financial market's ability to cater to their particular needs.

Participants:



Dr. Toralf Haag,  
Chief Financial Officer,  
Lonza



Jakob Dynnes Hansen,  
Chief Financial Officer,  
Evolva



Dr. Chandra Leo,  
Investment Advisor,  
HBM Partners

## SIX Swiss Exchange: In what way is your company multidisciplinary or diverse?

**Jakob Hansen:** We view ourselves as interdisciplinary in several aspects: we apply a technology that was originally developed for pharma (red biotech) but we now use the technology in areas such as food ingredients and personal care (white biotech).

Until a few years ago, we worked entirely in the R&D area but we now gradually are into downstream disciplines such as scale-up and manufacturing (white biotech). Finally, we have several partners, like Cargill and L'Oréal who operate in very different fields.

<b>Company Name</b>	Molecular Partners AG (MOLN)	Cassiopea Spa (SKIN)
<b>Listing date</b>	5 <sup>th</sup> November 2014	1 <sup>st</sup> July 2015
<b>Deal size</b>	CHF 106.2 million	CHF 175.6 million
<b>Market cap (@IPO)</b>	CHF 459 million	CHF 373 million
<b>Pricing range</b>	CHF 28.00 to 35.00 per share	CHF 30.00 to 40.00 per share
<b>Issue price</b>	CHF 22.40 per share	CHF 34.00 per share
<b>Lead managers</b>	JP Morgan (Global Coordinator), UBS	Jefferies (Global Coordinator), Credit Suisse (Global Coordinator), Bank am Bellevue
<b>Use of proceeds/ Rationale for the deal</b>	Proceeds were used for funding the continued drug development and for investing in R&D activities as well as potential in-licensing	Proceeds went to the parent Cosmo which provided funding to Cassiopea in order to advance the company's lead compound to the completion of phase III trials

Source: SIX Swiss Exchange; Molecular Partners, Cassiopea

**Toralf Haag:** Lonza is a multidisciplinary and diverse company serving a large variety of industries using a broad range of R&D and manufacturing technologies. Today, even the use of our long-standing biotechnology expertise is multidisciplinary; not just in pharmaceutical and biotech industries, but also in the agrochemical and nutrition ingredient markets.

**SIX Swiss Exchange: What kind of investors do interdisciplinary firms attract?**

**Toralf Haag:** Interdisciplinary companies have the ability to attract a broader range of investors as they normally focus on a specific theme; for example pharma, biotech, life sciences, etc.

**Jakob Hansen:** We do not think investors choose us primarily because we are interdisciplinary. They like our products, the technology and the fact that the risk/reward trade-off is more beneficial than in red biotech. But some investors may appreciate that we address quite different market segments.

**Chandra Leo:** Interdisciplinary firms attract different types of investors: on the one hand, they are of interest to specialist investors focused on either of the individual sectors they are engaged in; on the other hand, generalist investors may view an interdisciplinary strategy as a built-in means of risk diversification.

For historical reasons, some large conglomerates – like GE, Philips or Siemens – include healthcare activities, although typically more focused on medical devices and diagnostics than pharma. Conversely, many large pharma players were also active in adjacent sectors, such as chemistry, agriculture or animal health.

Over time, many of these pharmaceutical companies have split off or sold certain non-core businesses to increase their appeal to investors. Others, for example, have embraced a combination of prescription drugs and consumer health, to reduce the impact of drug patent expirations on their overall business.

**SIX Swiss Exchange: How do interdisciplinary companies most efficiently communicate with investors and what challenges do they face?**

**Jakob Hansen:** That can indeed be a challenge. Investors and analysts often want to put a company in a clearly defined box to enable comparison with other companies. For interdisciplinary companies that's not so easy. So we have to repeat over and over again exactly what we're doing and why.

When we were a biopharmaceutical company, analysts and investors knew exactly how to value us based on their clinical NPV models. When we moved into food ingredients and personal care, people were struggling.

To give an example of this complexity: some investors may put us in the 'Food' box and compare us with Givaudan and Nestlé. However, this doesn't make sense as these are so much larger and profitable. Other may put us in the 'Pharma' box and compare us with Basilea who focuses on drug development and has a very different risk reward profile.

Over the last few years, we have fortunately been able to make most investors and analysts understand and appreciate our interdisciplinary profile.

**Chandra Leo:** It is important for companies to clearly explain to investors which – offensive or defensive – benefits arise from their interdisciplinary positioning. A key question is whether the interdisciplinary activities create real synergies, for example in research and development or on the commercial side.

**Toralf Haag:** Interactions with investors on a daily basis is of the essence. Interdisciplinary companies of a certain size attract investors on a global basis rather than nationally. Roadshows to the main financial markets globally, the attendance of specific investor conferences and the constant/daily contact via telephone is of high importance.

**SIX Swiss Exchange: Does the Swiss market have the analyst know-how needed to fully comprehend your firms' diversity?**

**Toralf Haag:** Yes, the Swiss market has experts and these sell-side brokers have the ability to fully understand multidisciplinary companies.

**Jakob Hansen:** In my view it's hard to give a general answer. Interdisciplinary companies may operate in many different areas. As such, it may be difficult for analysts to assess all the possible opportunities. In our case, we are generally quite pleased with the quality of our analyst coverage.

**Chandro Leo:** There is currently a small number of publicly listed Swiss companies that embody an interdisciplinary approach; companies such as Lonza and Evolva. Other firms are active at the intersection of healthcare and IT. In so far as Swiss analysts possess a deep understanding of the healthcare and life sciences space, they will be able to grasp the value of such interdisciplinary businesses.

**SIX Swiss Exchange: How does being listed help you make use of your cross-business synergies and what are the benefits of being listed as a cross-sector company?**

**Toralf Haag:** In Lonza's business cross-business synergies are coming more from the expertise developed over decades, the diverse technologies and manufacturing capabilities, and the market orientation, rather than being a listed company.

**Jakob Hansen:** I think investors like our business model and diverse products. The fact that we happen to be interdisciplinary is not key.

**SIX Swiss Exchange:** **In your view, when does a spin-off of a division make sense and what is required for it to be positively viewed by investors?**

**Toralf Haag:** A spin-off makes sense when a subdivision has no or little synergy with the core business. A concentration on the core business is always positively viewed by investors.

**Jakob Hansen:** In my view, the key conditions for a successful spin-off are that it has a sufficient size and that it offers a good equity story.

**Chandra Leo:** One can distinguish between two scenarios. On the one hand, a split-up or break-up is the separation of two large established businesses operating under the same roof. Such a maneuver should provide more visibility to the individual businesses, more transparency to investors and thus lead to a higher combined valuation of the parts.

On the other hand, a spin-off in the stricter sense 'sets free' a smaller unit that may face difficulties thriving within a larger entity. Optimized incentive systems, a different corporate culture and a new set of investors can carry such spin-offs to success. The fact that corporate spin-offs already come with experienced management teams as well as industry-grade assets and processes sets them apart from many start-ups with academic roots.

**SIX Swiss Exchange:** **Have the Swiss capital markets and SIX Swiss Exchange been able to accommodate your needs at the time of, and after, your listing?**

**Jakob Hansen:** Since we went public in 2009, we have raised a total of CHF 130 million in equity capital on SIX Swiss Exchange in three rounds. As we do not have access to debt financing, these funds are crucial to finance our operations. In addition, our stock has been a currency to do four bolt-on acquisitions which strongly benefited the execution of our strategy. So SIX Swiss Exchange has been an excellent platform for our corporate development.

**Toralf Haag:** Lonza has been listed since 1999. In the past years Lonza has been able to issue bonds at very favorable conditions. All financial market instruments have been in good shape.

**Chandra Leo:** HBM Healthcare Investments (HBMN) is a holding company invested in an international portfolio of innovative private and public companies from the biotech, specialty pharma and medtech sectors. The listing on SIX Swiss Exchange gives HBMN's shareholders the unique opportunity to participate in the medium- and long-term value generation of the underlying companies, while retaining a daily liquidity of their investment. With investors having a good general understanding of health-care and life sciences, the Swiss capital market provides an ideal environment for HBM Healthcare Investments.

#### SIX Swiss Exchange

SIX Swiss Exchange is the leading independent exchange in Europe. It offers outstanding liquidity in trading of Swiss securities and connects companies from around the world with international investors and trading participants. The self-regulatory regime enables it to create particularly market-oriented framework conditions for listing and trading in its highly liquid segments Equities, Bonds, ETFs, ETPs, Sponsored Funds, Sponsored Foreign Shares and Structured Products. SIX Swiss Exchange multiplies the locational advantages of the Swiss financial marketplace with first-rate services and is an ideal listing location for companies of every origin, size and sector. It distributes its own range of indices, including Switzerland's most important blue-chip index SMI®. With the world's most advanced trading technology X-stream INET as well as a wide array of connectivity options and interfaces, SIX Swiss Exchange offers excellent trading conditions. It maintains a close dialogue with both its domestic and foreign customers, to create optimal conditions for their success. Furthermore, SIX Swiss Exchange offers them access to a strong global network which includes SIX Structured Products Exchange Ltd, the Swiss exchange for structured products, the market data provider SIX Exfeed Ltd and the fund database Swiss Fund Data.

SIX Swiss Exchange is part of SIX which offers first-rate services in the areas of securities trading, clearing and settlement, as well as financial market information and payment transactions on a global scale.

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