

Sparks provides a welcome springboard for biotech SMEs on SIX Swiss Exchange



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The new SME stock exchange Sparks, launched on 1 October 2021, is helping promising biotech companies accelerate their growth and take their businesses to the next level on SIX Swiss Exchange.

Investments in biotech companies break new records

In 2021, biotech companies listed on SIX Swiss Exchange raised around CHF 200 million in follow-on equity capital transactions. Even though the sums raised are much less than what was accumulated in 2020, they are more evenly distributed across the various companies and, when considered over a period of five years, they are broadly in line with the average. This consistency, even in turbulent times, underscores the Swiss capital market's remarkable ability to satisfy the funding needs of biotech companies.

The biotech sector has also proved to be attractive for venture capital, and investments have, with the exception of 2018, been steadily on the rise over the last few years, reaching new record levels in 2020. This increase in funding has meant more biotech SMEs are maturing to the point at which they can consider an IPO.

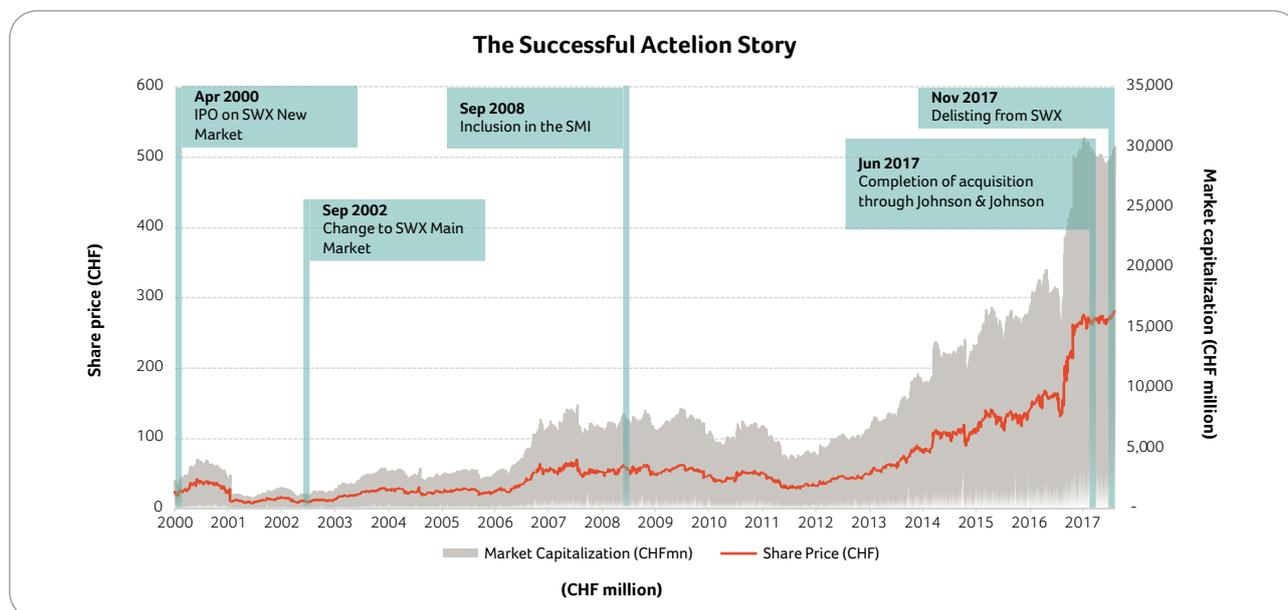
Historically, biotech IPOs in Switzerland have taken place at a relatively late stage, e.g. aiming to raise more than CHF 100 million on valuations of around CHF 500 million, and companies

considering an IPO earlier have had to look outside Switzerland. Sparks aims to change this by providing the missing link in the financing ecosystem, offering biotech companies an earlier route to market, and VCs earlier exit options. The ambition is also to attract companies in earlier stages of development from outside Switzerland.

Enabling the full growth advantages that public markets can offer

A properly functioning public SME capital market is of great importance for Switzerland. Fast-growing SMEs that are primarily financed by private investment are likely to seek a "liquidity event" (a sale to new owners or a listing on a stock exchange) combined with raising growth capital. The introduction of Sparks aims to facilitate access for (fast-growing) SMEs to the public capital markets and to allow more SMEs to enjoy the full benefits that public markets offer.

In the biotech space, this will create the basic conditions for new Swiss biotech success stories, similar to those that we saw around the turn of the millennium on the equity segment SWX New Markets. Actelion, among others, was initially listed at that time and in less



Source: SIX Swiss Exchange

than three years it grew from a startup company into a global biopharmaceutical company, completing the transition to the SWX Main Market Board in September 2002, six years before making the leap onto the SMI. This success story led to a USD 30 billion takeover bid by Johnson & Johnson in 2017.

There is huge potential for more success stories, especially from Switzerland's vibrant life sciences ecosystem with its large number of exciting and innovative companies. Sparks enables these companies to efficiently generate growth capital and take their company to the next level by further expansion domestically and internationally. This ultimately benefits the entire Swiss economy, as it supports the creation and preservation of jobs and expertise in our country.

The segment is also open to foreign companies that want to tap into the Swiss capital market and benefit from Europe's leading exchange for life science companies.

A brilliant start

With its stellar stock market debut on 11 February 2022, the Swiss portfolio company Xlife Sciences, which specializes in the value development and commercialization of promising early-stage research projects from universities and other research institutions in the healthcare sector, became the first company to list on Sparks. The change from the open market ("Freiverkehr") in Munich to a

regulated market in Switzerland allows the company to make itself more accessible to institutional investors, increase the shares' liquidity and further raise its profile. This first listing on Sparks marks the beginning of a new era which should encourage other companies to follow the same path and benefit from the various advantages that Sparks can offer them.

The benefits of public markets that SMEs can access through Sparks

Sparks provides fast growing, capital seeking SMEs in Switzerland with access to the equity public markets and a springboard to take their business to the next level by:

- offering faster and more efficient capital raising opportunities by providing access to new sources of capital that have proven robust throughout varying economic conditions
- enabling SMEs to configure an optimal, diversified and resilient financing structure
- enhancing SMEs' visibility with investors through better publicity and news coverage
- allowing SMEs to further expand or diversify their shareholder structure
- strengthening SMEs' brands and trustworthiness towards clients, business partners and employees
- securing for SME shareholders the protection offered by the Swiss takeover rules

Sparks' listing requirements and trading hours are tailored for SMEs, as shown in Table 1.

Requirement	SIX Main Market	Sparks (SME Segment)
Track Record	> 3 years (possibility of exemption)	> 2 years (possibility of exemption)
Equity-capital requirement	> CHF 25 million	> CHF 12 million
Capital-increase requirement	-	> CHF 8 million (none if equity capital > CHF 25 million)
Max. market capitalization at listing	-	< CHF 500 million
Max. market capitalization post listing	-	< CHF 1 billion (transfer to SIX main market if average over 12-month period is higher)
Freely tradable shares (out of the outstanding shares)	> 20%	> 15%
Market capitalization of freely tradable shares	> CHF 25 million	> CHF 15 million
Min. number of investors	-	> 50 investors
Trading hours	<ul style="list-style-type: none"> ▪ Opening auction at 9 am ▪ Continuous trading until 5.20 pm ▪ Closing auction and TAL until 5.40 pm 	<ul style="list-style-type: none"> ▪ Opening auction at 3 pm ▪ Continuous trading until 5.20 pm ▪ Closing auction and TAL until 5.40 pm

Table 1: Listing requirements for the SIX main market and the Sparks segment

In contrast to the SME growth markets in the EU, the revised SIX Swiss Exchange's regulations enable SMEs to list their shares (not only to seek admission to trading at a multilateral trading facility) and thus to benefit from the advantages of a listing status, including more investment flexibility for the institutional investors' universe.

With the new trading model, that has been optimized for shares of companies with smaller market capitalizations, investors will additionally benefit from enhanced price finding and execution of trades.

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Building up an ecosystem

As a financial market infrastructure provider, SIX Swiss Exchange accepts its responsibility to take on the role of orchestrator in the development of various initiatives and services around Sparks. It will be crucial for the new Sparks equity segment to be part of a vibrant ecosystem, and its success will strongly depend on the contributions of capital market participants.

The ecosystem development efforts of SIX Swiss Exchange focus on extending initiatives that have already been established and proven in the main market such as Stage – a program featuring Baader Helvea, UBS, Zürcher Kantonalbank and Finanz und Wirtschaft, which increases the visibility of SMEs among capital market stakeholders through services such as research coverage and factsheet creation – and Bridge, a platform which offers a consolidated calendar aggregating corporate events across issuers as well as access to issuers.

It also offers a digital catalog which provide an overview of services and providers available in the Swiss capital market to make the listing process easier, plus several new educational offerings such as an e-learning platform that prepares potential IPO candidates for the associated reporting obligations once listed.

Sparks IPO Academy

This exclusive fast-track six month program is designed to help executives of promising fast-growing SMEs prepare for a potential IPO on SIX Swiss Exchange's Sparks segment. It has been jointly developed with several leading capital market specialists in Switzerland.

One of the two biotech companies participating in the first class of the Sparks IPO Academy 2021/22 is Securecell AG. Michele Bomio, CFO of Securecell AG, shares his experiences of the Sparks IPO Academy.

What prompted you to look into a possible IPO for your company?

The topic of an IPO is something we have been looking at for quite some time. As entrepreneurs we felt it was important at an early development stage to explore all possible options and improve the company's IPO readiness. I have previously gone through the IPO process and I can say with absolute conviction that it makes your company stronger, even if you do not end up going public. The Sparks Academy should therefore not only be seen through the lens of helping us in assessing whether going public is the right and feasible next step, but also as potentially strengthening our business.

What was the deciding factor for you to participate in the Sparks IPO Academy and what is your experience so far?

We found the topics, the structure and also the experts to be very high quality. We consider the knowledge building, the networking with these experts and the interaction with peers to be very valuable. When we heard that we had been selected as one of the 13 firms for the first cohort, we felt very honored. The training sessions we have attended so far support my initial statement and we have not been disappointed. Furthermore, the online modules can be easily combined with our busy schedules.

For which companies is the program suitable?

An IPO is often seen as the cherry on the cake in the life cycle of a company, but this does not have to be the case, and the new equity segment Sparks could be an interesting option on the way. However, in order to be accepted for the program, the company must already have a certain maturity and IPO readiness. In my opinion, an IPO should be a realistic option in a short-mid-term horizon (i.e. in the next 24 months) in addition to the listing requirements for Sparks.

¹ Source: SIX Swiss Exchange. The sample group includes: Addex, Basilea, Evolva, Idorsia, Kuros Biosciences, Molecular Partners, Newron Pharma, ObsEva, Polyphor, Relief Therapeutics, Santhera Pharmaceuticals.

² Excluding the year 2020.

³ Source: Swiss Venture Capital Report 2021.

⁴ According to the new Swiss prospectus regime, listed companies can issue new shares for up to 20% of the already outstanding share capital each year without having to issue a prospectus.

⁵ A Swiss incorporated company being primary listed on a foreign exchange may be vulnerable to unsolicited takeovers. With a primary listing in Switzerland and a regulated market like Sparks, the company secures for its shareholders the protection offered by the Swiss takeover rules.

