EgonZehnder

Synthesis

Discussions with European Biotechs - Bringing Purpose in a Time of Crisis

On April 8 and 9 Egon Zehnder virtually convened a number of biotech board directors. Both groups engaged in rich discussions and shared some of the challenges being faced by their companies, often on the front line of responding to COVID-19. The subjects included finding opportunities and honing purpose at a time of crisis, managing the impact of that crisis on business, the importance of leadership and talent, and naturally the challenges of financing in the context of highly volatile markets. We have summarised below our key takeaways from these conversations.

Finding opportunities and honing purpose at a time of crisis

- The issue for leaders is how to take opportunities from this moment: the lockdown is not going to last forever. The virus is unusual and we are probably going to have to learn to live with it for a while, but there is no way we can impose a two-year lockdown. There will be some safe haven sectors, in what is obviously many ways a disaster zone; healthcare, where companies have good fundamentals, is a very good place to be
- There is an operational opportunity to look at how we work and find ways to improve. Challenging though these times are, there is an opportunity at the moment to see things with a fresh set of eyes and be more reflective about purpose, vision, goals and priorities
- Biotechs need to react promptly to requests for help (e.g. in sharing critical IP), but also to be agile in managing the potential downside of long-term patent infringement as a result of this short-term responsiveness
- Active communication about where COVID-19 provides some specific opportunities to each company to offset potential losses elsewhere is critical to sustain purpose and profile in the market
- For the big pharmaceutical companies a six-month delay is a big problem, and all of their pipelines are on hold at the moment. This is likely to result in a significant increase in strategic M&A and licensing

- Looking for good deals: business development people are currently spending less time travelling the world and, housebound, are in a situation where they can be reached for strategic deals

Managing critical business issues

- It is crucial to minimising disease impact on staff through working at home, rotation of staff at labs and the like
- Companies need to manage local COVID-19 regulations, which differ, but often encourage site closure/mothballing and the leveraging of government job retention schemes
- Biotech players need to use their networks effectively to get through this: "there is only so much we can do on our own" – scale is important
- There is a need to leverage the messaging from big pharma that acknowledges this is not just a small company/biotech issue, but that everyone is affected
- Clinical trials are profoundly impacted by COVID-19. Companies are facing difficulties of knowing how to quantify with integrity the impact of an evolving situation: however most recognise it will take at least 4 to 6 months to clear, and will vary in different geographies. They will be balancing the need to communicate transparently and quickly on the impact of COVID-19 on clinical trials while ensuring appropriate confidence is sustained
- All global companies will be managing different realities across markets: some centres are still recruiting (Australia), some are starting to reopen (Denmark), while many others have stopped completely. Unfortunately, the US and the UK seem to be badly impacted. The US in particular appears to have been largely unprepared

Leadership and talent will play a key role

- Maintaining morale and focus will be critical, but negative messages amplified by the news media are making this difficult. Leaders need to balance positive messaging focused on the longer term with a sensitivity to the fact that many of their employees may feel more financially threatened than their leaders do, and they may need more personal and psychological support. The advantage in the healthcare industry is that there is a clear sense of purpose linked to responding effectively to the crisis, which has huge potential to sustain morale
- It will be critical to navigate the next 2 to 3 months carefully. There is a risk that some companies will decide to lay people off, when in fact they should hibernate but then prepare to hit the ground running. Being conservative

and risk averse will not be helpful: companies should do all they can to keep the best people. It is important to remember just how hard it has been to hire the best talent: any moves that are made need to be "no regret" decisions

- Strategy will be critical, together with ensuring the right team to execute the resulting plan
- There is a concern amongst those with production facilities that there may not be the people available to execute future plans: currently, it is extremely difficult to induct people into a business when they cannot be met, and they cannot be taken to see the factories. We need to be creative in solving for this

Financing availability varies greatly

- For publicly traded companies, institutional investors are now very hard to come by, compounding the issues already raised by the Woodford debacle and other recent negative events. There does not appear to be any soundly-based repricing of biotechs at this point, so there is a need for companies to bridge through to the point when that happens
- The most challenging position is for the small to mid-caps on AIM and NASDAQ with less than two years' cash. For any companies that have less than one year's cash, the directors need to consider at what point they are likely to be in a "wrongful trading" position. This is more complex than usual as the government has relaxed the rules, putting a premium on accurate and up-to-date information
- However, given there are 250 to 300 companies on the NASDAQ with a lot of capital and trading below cash, there will almost certainly be opportunities for reverse mergers for players in the opposite situation. Some companies are being inundated with bids and offers by prelaunch companies who don't want to raise equity
- On the other hand, some VCs have raised money and are keen to put it to work, and see opportunities to get a good position in high quality companies relatively cheaply. These players are still very much open for business. Nonetheless, while they are moving as quickly as they can, companies are looking for answers in a week whereas most VCs are needing 6 to 8 weeks to make a decision
- Private equity players would be extremely selective as usual, but by contrast public funding agencies need to show activity right now more than they need to show performance, so "now is the time to ask"
- Meanwhile the IPO window is not closed: people are looking for good deals and sometimes valuations have been sustained despite the COVID-19 situation

- Companies may also well need to look to new sources of capital: the Emiratis have a lot of capital and are setting up biotech funds as they diversify out of oil and into other growth areas. As the specialist funds have not always delivered the goods here, those with a different risk appetite who are less hung up on detailed clinical profiles may be interested in the potential for territory-based licensing deals in areas like China, Japan and the Gulf
- Specifically in the UK, some of the government's approach to investment has felt quite parochial and siloed, seeking to gain national advantage, versus establishing the basis for a global coalition to defeat the disease
- One of the important issues is around R&D tax credits: the timeliness of claims could make an enormous difference for some players. There was some evidence of the UK Treasury understanding this and streamlining their approach
- Finally, payment of government workforce cost subsidies will have a time delay in most markets which could be very difficult for some companies in terms of cash flow

The path ahead – caution and first glimpses of a possible future

- The COVID-19 crisis is clearly not going away magically and quickly. A lagging wave of infection in the emerging markets (particularly Southern Asia, Africa and the Middle East), which may take off more towards the middle of the year, may provide some new pressures in managing the global pandemic as humanitarian issues are likely to compete for priority with the desire in more developed markets to restore economic activity
- It was noted that some of the populations were likely to be much better served than others, and that some (for example those with a high prevalence of HIV/AIDS) were likely to be more vulnerable
- China may provide some clues about the future pattern as it is currently ahead of the curve: It looks like Q2 will be for many businesses back to about 80% of normality: traffic jams are now back in Beijing
- Some parts of the healthcare industry are growing. For example, branded generics in China with relevance to COVID-19 are above budget, although inventories are moving from stock builds to depletion very rapidly
- There has been a leap forward in the use of videoconferencing and all approaches that avoid face-to-face contact. Initially at least, it is going to be hard to get new patients to start trials unless they can do remote starts
- There is an aggressive level of monitoring in China to prevent a second wave, and currently all new cases are imported and are very much in control,

whereas Singapore and Hong Kong are on the brink of another lockdown. It seems that fairly dictatorial containment will produce better outcomes at the moment

- Nonetheless there is considerable concern about a second wave, and that the virus may not be affected by seasonality
- Longer term, there is an observation that despite SARS which clearly pointed to the risk of a pandemic a decade ago, we were nonetheless unprepared: how do we avoid this going forward?

If you would like further information please contact:

Mark Byford
London
mark.byford@egonzehnder.com

Anna Vichniakova
London
anna.vichniakova@egonzehnder.com

Marie Grønnegaard Christensen
Copenhagen
marie.gronnegaard@egonzehnder.com

Covid-19 Micro-Website

We have launched a micro website where this and other informative pieces are posted. This site will be regularly updated: click here for further details.

About Egon Zehnder

Egon Zehnder is the world's preeminent leadership consulting firm, sharing one goal: to help people and organizations transform. We know what great leaders can do and are passionate about delivering the best solutions for our clients.

Our more than 500 Consultants in 68 offices and 40 countries form one powerful, collaborative team. Our services include: leadership development, individual, team and organizational effectiveness, CEO search and succession, executive search and assessment, Board advisory, and cultural transformation.

For more information visit www.egonzehnder.com and follow us on LinkedIn, Twitter, and Instagram.