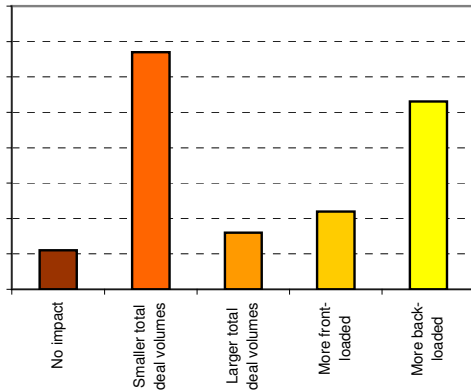






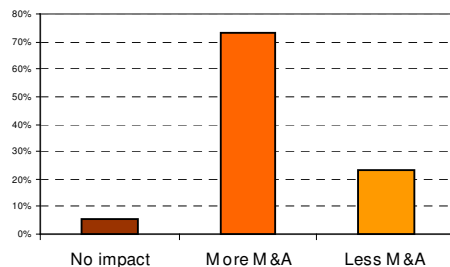


(figure 12).



**Figure 12: How will deal terms evolve?**

There is a general agreement that the current downturn will stimulate M&A activity (figure 13). Discussing with industry executives the upturn in M&A might only be taking place in a couple of months when the financial markets reach the bottom and biotech is running out of cash and has to restrict operations because of dried out funding resources.

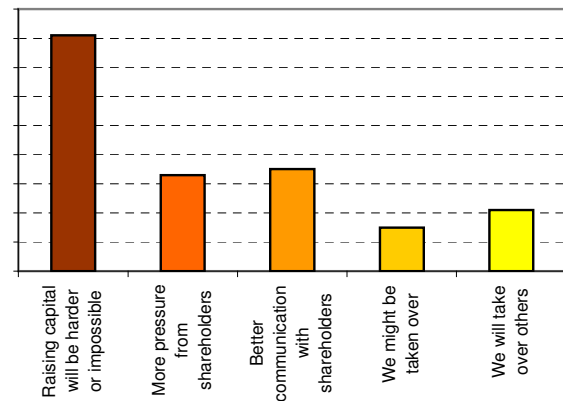


**Figure 13: How will the downturn impact M&A activity?**

### Impact of crisis on financing

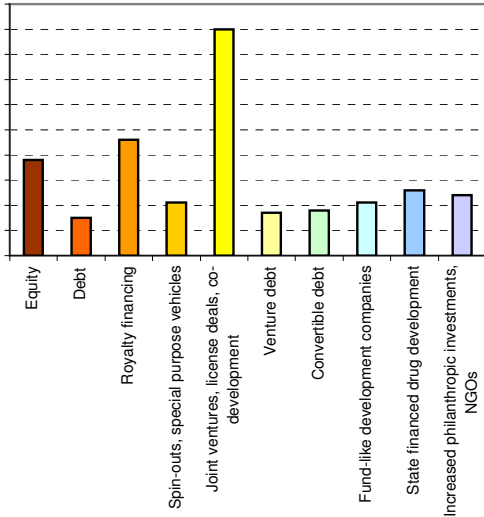
Respondents agree that raising capital will be much more difficult. There is broad consensus about the effects of the crisis, except that no pharma

company expects to become an acquisition target (figure 14).



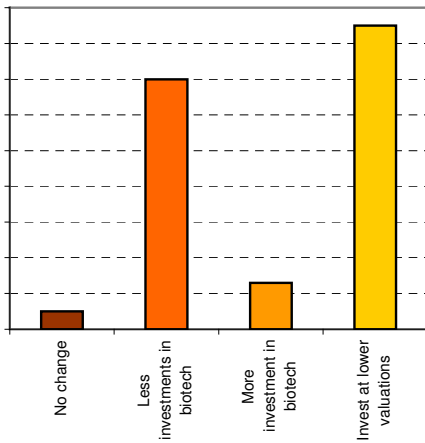
**Figure 14: Effects on financial situation of company.**

Not surprisingly, equity is not seen as the preferred way of funding in the coming months. Joint ventures or license deals will be more dominant, and also royalty financing deals will gain in popularity (figure 15).



**Figure 15: Ways of funding.**

VCs are expected to invest less and at lower valuations. Again, biotech seems to be in the worse negotiation position, like in license deals. This perception is confirmed by the VCs themselves, no-one answered to invest more or even that there will be no change (figure 16).



**Figure 16: Reaction of venture capitalists.**

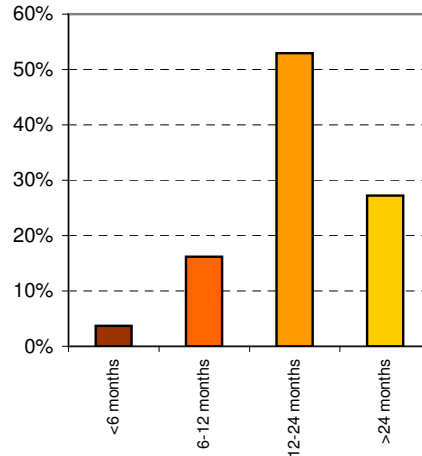
The investment behaviour in public equity is less clear. There is a trend of

shifting from biotech to pharma, but not all agree to that. Such a shift can be explained by the notion that during economic downturns, risky and long-term investments are given up in favour of save bets (figure 17).

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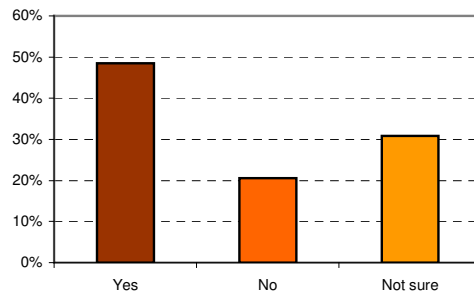
**Figure 17: Reaction of investors in public equity.**

The IPO window is expected to open up in 1 to 2 years again. These answers match pretty well the answers to the question about the estimated length of the financial downturn (figure 18).



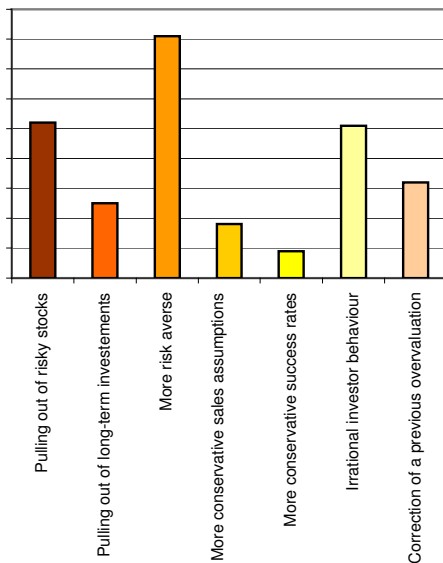
**Figure 18: When will the IPO window open up again?**

Not surprisingly a big majority over all groups thinks that biotech stocks are currently undervalued (figure 19).



**Figure 19: Are biotech stocks undervalued?**

The reasons for this undervaluation are mainly seen in market dynamics, i.e. reallocation of capital and a generally increased risk aversion. This is in line with the initial remark that the underlying fundamental data is not impacted by the financial crisis. Only the discount rate, containing the risk premium, is really impacted by the crisis (figure 20).

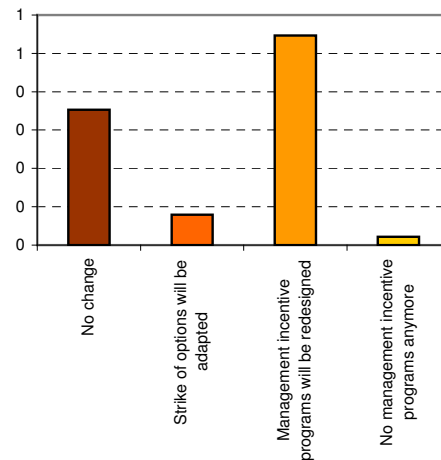


**Figure 20: Why have most biotech stocks lost in value?**

### Management incentive programs

Finally, we have asked whether there will be a change of the management incentive programs as currently discussed in the banking sector. 2 out of 3 investors responded that there would be change in such programs, and also a slight majority of biotech participants. But a simple adjustment of the strike

price in option programs, as we have seen sometimes in the 2002 downturn, does not seem to be solution (figure 21).



**Figure 21: Management incentive programs.**

### Discussion

The financial crisis will undoubtedly impact the biotech and pharma sector. Lay-offs, reduction of R&D activities, or firms stopping operations due to a lack of financing will be the results. Nevertheless, the consensus that the crisis will not last more than 12-24 months should make all of us optimistic that those companies having still enough cash will get away with a black eye. We can also expect a long-lasting change in the financing in favour of long term, risk adverse financing models, license contracts, or joint ventures. The current situation will be a big challenge to all those companies that are not funded for the next 24 months. But it might also be a chance for the sector to move from quantity to more quality.