

THOUGHT LEADERSHIP FROM THE BDO TECHNOLOGY & LIFE SCIENCES PRACTICE

2014 BDO BIOTECH BRIEFING



BIOTECHS BOOST R&D SPEND

The *BDO Biotech Briefing* examined the most recent 10-K SEC filings of companies listed on the [NASDAQ Biotechnology Index](#). Companies reporting more than \$300 million in revenue were excluded to ensure findings are representative of the vast majority of companies included in the NASDAQ Index. Remaining companies were divided into two groups—those with more than \$50 million in revenue and those with less than \$50 million in revenue—to identify trends and key metrics relevant to each group. The average market cap of companies in the study as of the end of their most recent fiscal year is \$881 million.

Investors are keyed in on the biotechnology industry. According to *The Wall Street Journal*, while biotechs did experience recent market setbacks and a spring selloff, stocks are booming again. In fact, *Street Insider* reports that the NASDAQ Biotechnology Index outperformed the broader market with gains of 66 percent in 2013 and is on pace to repeat that positive performance again in 2014.

As biotechs look to maintain investor confidence, the *2014 BDO Biotech Briefing* found that average R&D expenditures increased 14 percent in 2013, reaching \$56.5 million, up from \$49.5 million in 2012 and \$44 million in 2011.

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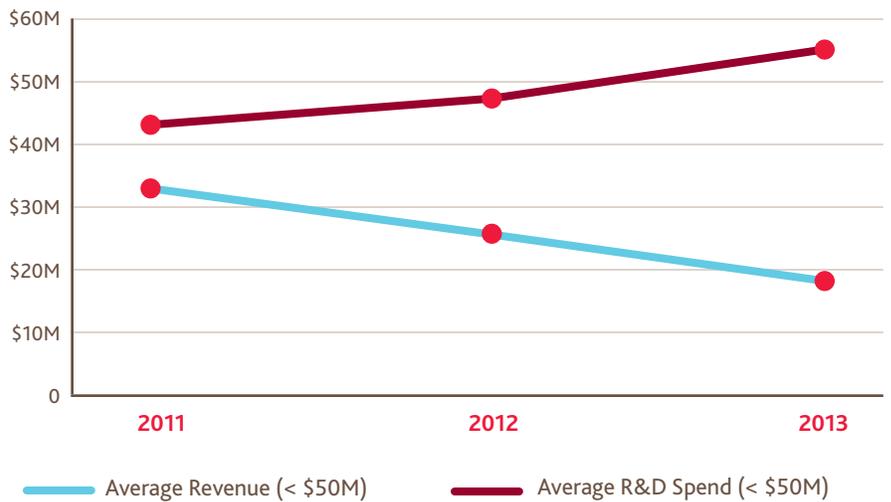
“Biotech continues to be an industry to watch,” said **Ryan Starkes, partner and leader of the Life Sciences Practice at BDO**. “R&D spending is on the rise as biotechs look to leverage cash reserves and capitalize on accelerated timelines and increased approvals from the FDA. Already this year, the FDA has approved 32 new medicines, which should bode well for industry investors and biotechs with late-stage projects well into 2015.”

▶ WITH REVENUES RISING, BIOTECHS ARE INCREASINGLY FOCUSED ON R&D

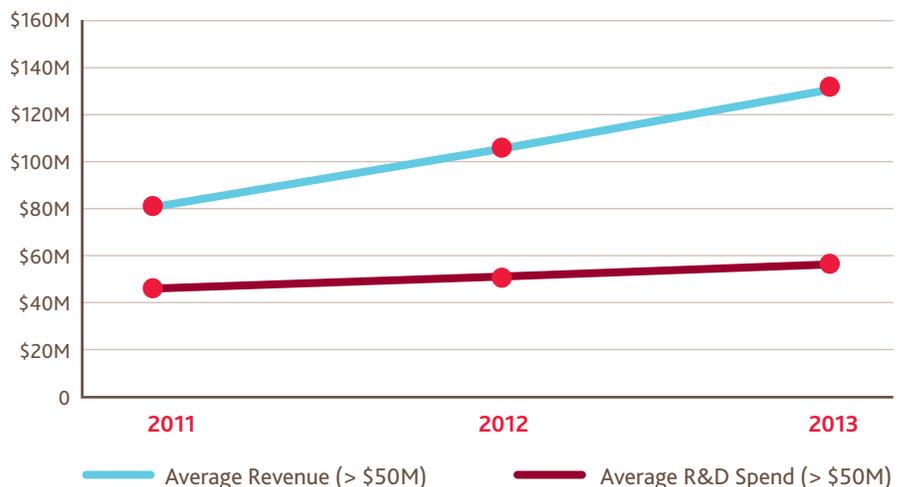
Average R&D expenditure at large biotechs—companies with over \$50 million in revenue—increased 16 percent in 2013, and small biotechs saw an increase of 13 percent in R&D spending. Revenue among biotechs jumped 11 percent in 2013, up from 9 percent in 2012. However, large companies were the ones leading this revenue charge. Large biotechs saw a 28 percent increase in revenue to \$137 million, while small biotechs reported a 28 percent decrease in average revenue. Small biotechs have seen a decline in average revenue for two consecutive years.

Despite overall revenue growth, companies are seeing larger losses along with increased expenditures. On average, biotechs reported \$65 million in losses, up from \$53 million in 2012 and \$38 million in 2011. Eighty-six percent of companies analyzed reported losses in 2013, down slightly from 2012.

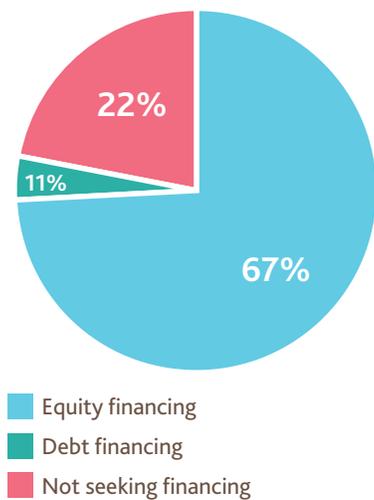
R&D Spend and Revenue Trends for Small Biotechs



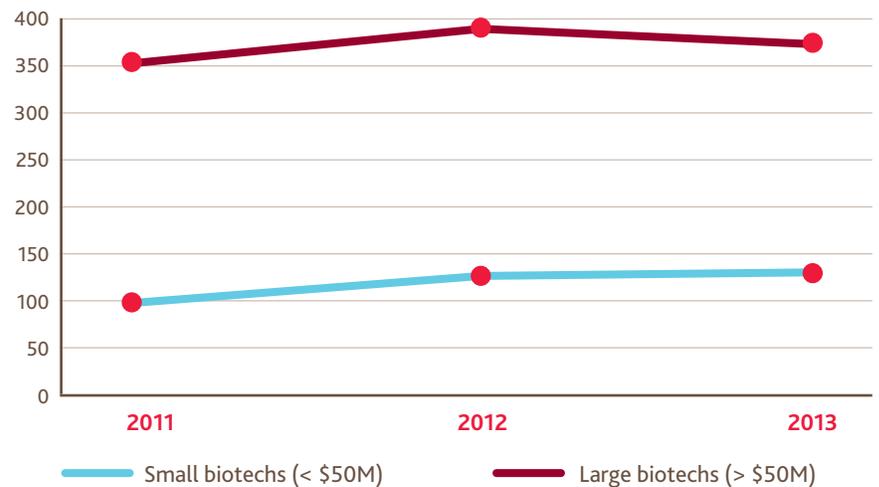
R&D Spend and Revenue Trends for Large Biotechs



Financing Across Biotechs



Average Number of Employees



► BIOTECHS FIND SUCCESS WITH EQUITY FINANCING

In 2013, a majority of biotechs (78 percent) looked to the capital markets in 2013, up slightly from 2012 (74 percent). Among companies who raised capital, nearly all (95 percent) did so through the equity markets. Specifically, companies raised an average of \$81 million in equity financing, which is 28 percent more than the amount companies raised in 2012. Small biotechs were particularly successful, raising an average of \$90 million, up from \$68 million in 2012.

The few companies that did pursue debt financing also found success, securing an average of \$85 million, up significantly from \$58 million in 2012.

► HEADCOUNT HOLDS STEADY

Headcount at biotechs dipped just slightly in 2013, following two years of increases. Biotechs reported an average of 218 employees, 3 percent lower than 2012 levels. Small biotechs saw a slight increase in average number of employees—average headcount moved from 125 in 2012 to 128 in 2013. On the other hand, large biotechs reported a slight decline, with an average of 370 employees, compared to 380 in 2012.

According to BDO's second annual [Life Sciences RiskFactor Report](#) published in August 2014, 94 percent of life sciences companies cite their ability to attract and retain talent as a critical risk to their business.

As biotechs continue to experience strong returns and capitalize on growth opportunities, this may compel companies to reevaluate their staffing needs to accommodate their growth rates.

Ryan Starkes told *FierceBiotech*, "What was good to see [in this year's Biotech Briefing] was the consistency, the continued growth in the industry and the investment in science. The key to this trend," he says, "is the overall ability for companies to access the capital markets, to get that investment."

“Despite investor fears over market volatility, biotechs have adjusted well to these hurdles,” said Aftab Jamil, partner and leader of the Technology & Life Sciences Practice at BDO. “The NASDAQ Biotechnology Index is up and even outperforming the S&P 500, making the environment more attractive to investors, ripe for IPOs and beneficial to companies looking for access to capital markets to fund future innovations.”

► BIOTECHS PRIORITIZE CASH RESERVES

As biotechs look to fund more R&D and growth initiatives, maintaining liquidity continues to be a priority. In 2013, biotechs reported an average of \$159 million in liquid assets, up 26 percent from 2012 and 47 percent from 2011. Biotechs held, on average, an equivalent of 2.8 years worth of R&D expenditures on hand. This is up slightly from about 2.5 years worth of R&D spending reported over the previous two years. Large biotechs were especially prudent in 2013, reporting \$174 million in liquid assets, nearly

three years worth of R&D spending. Small biotechs were strategic in cash management as well, holding 2.75 years' equivalent of R&D spending, up from 2.37 years' worth last year. Maintaining liquidity to fund ongoing R&D activities and clinical trials is a critical success factor for the long term success of biotechs.

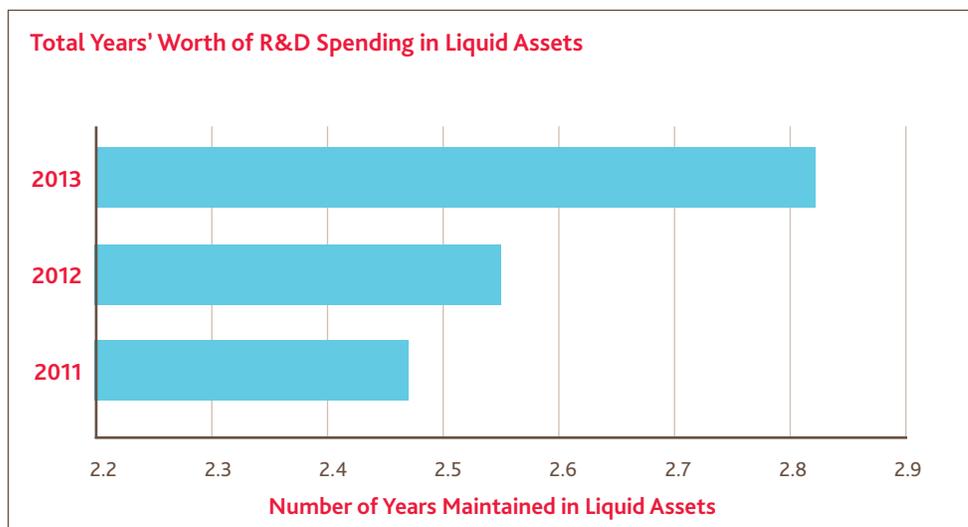
► SIGNIFICANT RETURNS HELP SPUR BIOTECH IPO MARKET

Biotechs continue to offer exceptional shareholder value. In 2013, biotechs reported

an average total shareholder return (TSR) of 85 percent, a significant increase from 39 percent in 2012. This trend is consistent with positive forecasts around biotech companies' earnings. According to S&P Capital IQ, the sector's profits are expected to grow 35 percent in 2015, compared with 20 percent for healthcare as a whole and 15 percent for the broad stock market.

Additionally, the average market cap of companies in the study, as of the end of their most recent fiscal year, reached \$881 million, a significant increase over the average market cap of the companies analyzed in 2013, which was \$653 million.

Amid remarkable returns, companies are eager to capitalize on high investor interest. According to *Renaissance Capital*, there have been 51 biotech IPOs year-through-September 2014, up 113 percent over the same period in 2013. Moreover, *Forbes* reports that more than \$2.5 billion was raised in new offerings this year, and 2014 is already the second busiest IPO year in the 30-plus year history of biotech. Overall, there are many factors contributing to the booming biotech IPO market, but one that has been consistent over the past few years is the JOBS Act. According to the *National Venture Capital Association (NVCA)*, over 80 percent of the biotech offerings this Spring utilized the JOBS Act to initiate their IPO.



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