



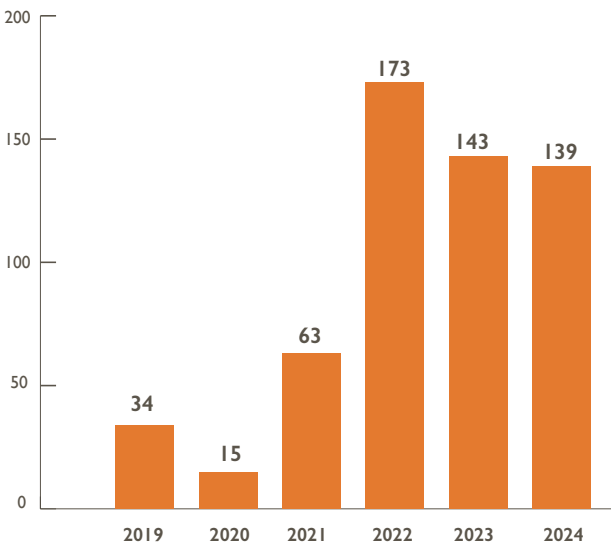
The Latest Trends on Biotech Companies with Negative Enterprise Values: Insights and Implications

In the post Covid era, the spotlight turned sharply towards biotech companies with negative enterprise value (EV). While many saw them as good potential reverse merger targets, few of these transactions occurred. A detailed analysis over the past five years reveals important trends and lessons about this phenomenon.

1. **The number of biotech companies with negative EV significantly increased post covid, growing from 34 in 2019 to 173 in 2021.** The number, as of June 2024, stands at 139. This dramatic increase can be greatly explained by the money that flowed quickly into the system, propping up many companies with questionable intrinsic value.

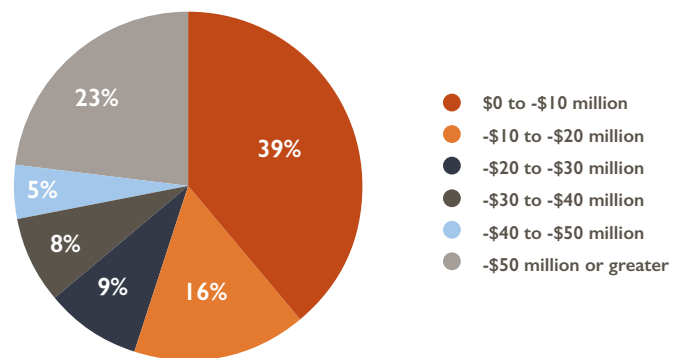
2. **Interestingly, the severity of negative EVs varied widely.** While 39% of these companies experienced relatively mild (between \$0 to -\$10 million), a significant portion (16%) reported EVs lower than -\$50 million. This severe negative EV often points to either profound financial distress or substantial cash reserves, potentially setting the stage for acquisition by larger entities or a revaluation on their worth.

Total Number of -EV Companies by Year



Source: Capital IQ by Standard & Poor's (S&P)

Percentage of All Companies (2019-2024) with -EV's between:



Source: Capital IQ by Standard & Poor's (S&P)

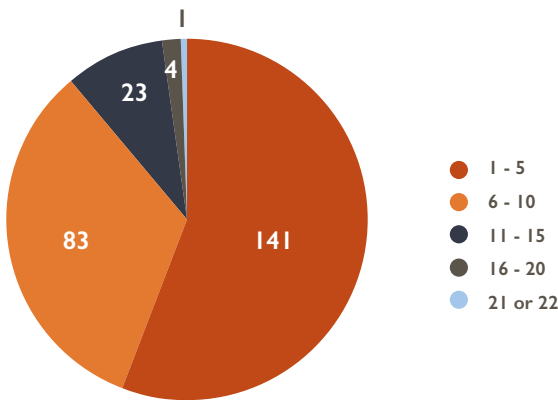
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3. Examining the duration for which companies remained in the negative EV bracket provides further insights.

Most companies (141 out of 252) experienced negative EVs for a brief period (1 to 5 quarters), suggesting these were temporary financial dips or strategic financial adjustments. In contrast, a smaller number of companies sustained negative EVs for longer periods (6 to 10 quarters), which might indicate deeper financial issues or strategic decisions to maintain high liquidity.

Number of Quarters Unique Companies had -EV (2019-6/30/2024)

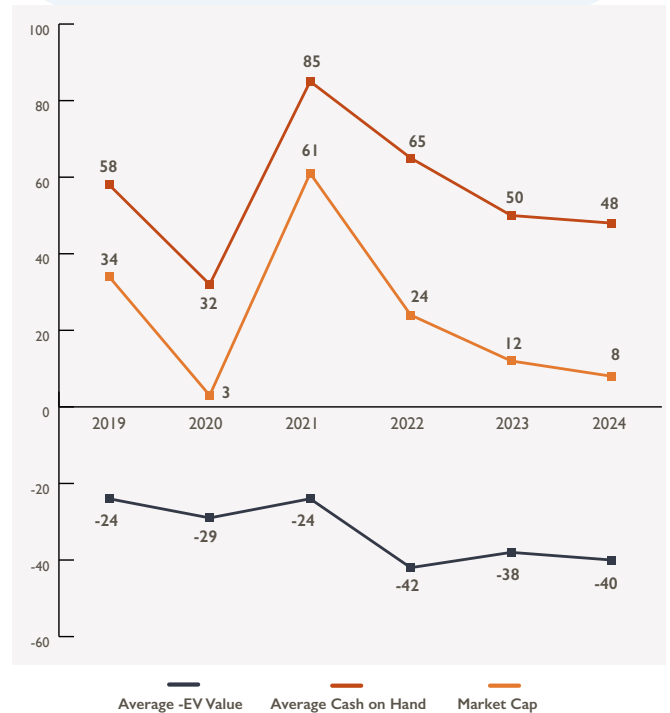


Source: Capital IQ by Standard & Poor's (S&P)

4. A notable pattern emerges from the average metrics across these years reveals intriguing patterns.

There was a significant spike in the average cash on hand in 2021, reaching up to 85 million, which correlates closely with the peak in negative EVs in 2022. This alignment suggests that companies were possibly building up cash reserves in anticipation of prolonged economic challenges or leveraging their financial strategies to optimize valuation metrics. By mid-2024, it appears that the number of companies with negative EV is diminishing, but the average negative value is increasing. This could indicate a souring of investor sentiment towards these companies as market caps are dropping faster than cash on hand.

Average -EV/Cash/Market Cap December 31 of respected Year and June 30 of 2024



Source: Capital IQ by Standard & Poor's (S&P)

5. This trend underscores a broader issue within the biotech sector: the inefficient allocation capital.

Investment continues to flow into companies that often lack robust commercial potential. They often look like a great story to the untrained eyes. Currently, 139 companies with an average negative EV of \$40M represent over \$5B of poorly invested capital. This scenario highlights a critical need for more discerning investment strategies within biotech industries. Optimizing capital allocation is essential. Many promising start-ups developing innovative and valuable treatments for patients could significantly benefit from more prudent investment practices.

As the industry evolves, focusing on genuine value and sustainable growth will be crucial for fostering long-term success and innovation.

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