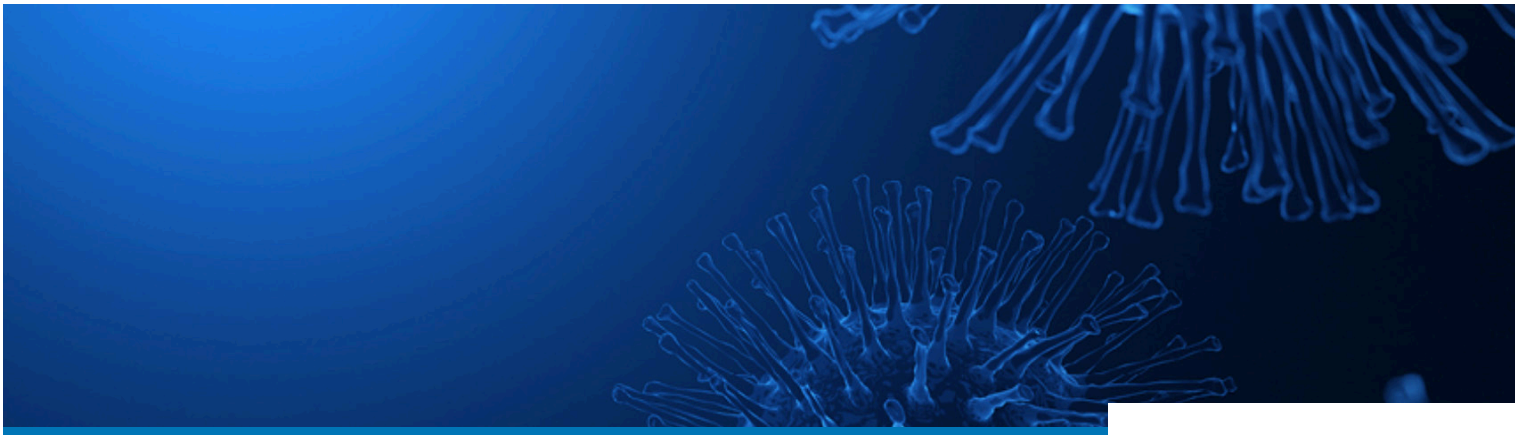

Life Science Investment Community Survey:

Assessing COVID-19 Disclosure Expectations and Implications

FTI CONSULTING™

As we move past the initial panic and any off-cycle business impact announcements related to COVID-19, companies are at a critical inflection point as they prepare for first quarter earnings and adjust full year investor relations planning. With a somewhat clearer understanding of the near-term business impact of the virus juxtaposed with the uncertainty around timelines and longer-term consequences, companies are in a difficult position of trying to maintain transparency with investors looking for directional updates around key value drivers without much of the information currently in hand.

For most clinical stage companies, this pandemic will certainly mean a delay in clinical programs and regulatory filings – the primary drivers in valuation; extending timelines will have a direct impact on their balance sheet, as they will need more cash to complete and analyze the same number of clinical trial results.

Commercial stage companies have more elements to their business that will be impacted beyond clinical delays, including supply chain issues, financial performance, guidance, manufacturing, cash management, and others.

With investor conferences going virtual and non-deal roadshows halted, what does a proper investor engagement strategy look like in this COVID-19 era? Further, how should management teams communicate to the Street with no understanding of timelines and full economic impact from the virus?

To help assess current capital markets expectations and provide more context around COVID-19 impact and best practices, FTI surveyed select members of the Life Sciences investment community to ascertain insights into three areas:

- Near-Term Disclosure Expectations
- Strategic Implications
- Investor Engagement

Near-Term Disclosure Expectations

Adjusting Normal Course of Investor Communications

While it is important to maintain financial communications 101 best practices such as transparency and consistent messaging, our survey highlights the Street's desire for frequent touchpoints and incremental information, even if outside of normal course of communications, and even if many questions cannot be answered.

Some common themes were underscored by respondents in helping frame the impact of COVID-19:

> ***"Management has the best line of sight on its business and shouldn't get a pass given the admittedly tremendous uncertainty that exists. A simple recognition of the high level of uncertainty combined with quantification of aspects a company can reasonably assess at this point provides a reasonable approximation of the negative impact."***
>
> ***"It would be very helpful if Life Science companies would communicate in terms of scenarios and try to quantify business impact, and also quantify a timeframe of slowing growth, recovery and path to normalized growth."***
>
> ***"Remind investors of what the business can do during 'normal' times. Focus on a strong balance sheet to weather the storm and not have to depend on capital markets."***

A separate but related survey finding shows that **approximately 75% of respondents would be concerned over "slight" or "significant" delays in earnings results**, signaling that while the investment community might be more forgiving right now around lack of information, they do not see the current pandemic as a reason for delaying information.

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75%

of respondents would be concerned over "slight" or "significant" delays in earnings results

FTI'S TAKE: As highlighted in FTI's thought leadership piece published in March, Guiding the Street During the COVID-19 Pandemic, *it is essential to avoid overpromising or downplaying the pandemic's impact only to disappoint later. This will signal that management does not have a firm grasp of what is happening with the business, and investors are likely to severely punish companies for going down that path.*

This white paper also highlights *"key objectives and considerations that most companies should be employing to communicate with the Street"* while acknowledging there is no one size fits all solution. These considerations include:

1. Pre-announce ahead of earnings
2. Provide recurring business updates
3. Address your COVID-19 mitigation strategies
4. Highlight your liquidity and balance sheet strength

SEC's Recent Statement on Earnings and COVID-19

With the SEC's announcement on April 8 urging ***"public companies, in their earnings releases and analyst calls, as well as in subsequent communications to the marketplace, to provide as much information as is practicable regarding their current operating status and their future operating plans under various COVID-19-related mitigation conditions,"*** earnings conference calls, Q&As, and follow-up 1-on-1s will have a different feel this quarter. Notwithstanding COVID-19's impact on quarterly results, investors and analysts will have a finer focus on future business, specifically the impact from the current pandemic.

Additionally, the SEC states ***"Company disclosures should reflect this state of affairs and outlook and, in particular, respond to investor interest in: (1) where the company stands today, operationally and financially, (2) how the company's COVID-19 response, including its efforts to protect the health and well-being of its workforce and its customers, is progressing, and (3) how its operations and financial condition may change as all our efforts to fight COVID-19 progress. Historical information may be relatively less significant."*** With this in mind, companies may want to revisit messaging priorities across earnings communication materials and get ahead of potential questions that will likely come up in Q&A.

Clinical Program Implications

Over 90% of respondents expressed some level of concern for clinical trial delays across six different therapeutic areas provided in the survey. Further, it was nearly unanimous that respondents anticipate some level of delays for IND filings as a result of COVID-19.

As noted by one respondent: ***"There are existing expectations for clinical trial delays, so any language on observed COVID-19 related impacts should be clear and defined with little ambiguity in the potential interpretation. Otherwise, investors will likely skew to a negative interpretation and could be sensitive/prone to overreaction."***

We are already seeing several well-known companies of varying sizes communicate clinical program delays, including Moderna, JAZZ Pharmaceuticals, and Eli Lilly, just to name a few.

FTI'S TAKE: Coupling these results with many clinical and commercial stage companies already announcing clinical trial halts to support social distancing initiatives, we recommend companies focus less on *if* they will signal clinical program delays, but how they want to communicate delays to the Street. With timelines and FDA response rates out of management's control, emphasizing the facts or providing scenario timelines, i.e. anticipated trial durations once recruiting resumes, signals confidence to the investment community and showcases management control of key inflection points.

Operational and Financial Impact

Like clinical programs, new product launches are also facing delays, postponing treatments for patients and pressing companies to rethink their launch timelines, rollout strategy, and P&L impact. Examples include Bristol Myers' ZEPOSIA® (indicated for the treatment of relapsing forms of multiple sclerosis) and Neurocrine's Opicapone (an add-on therapy to levodopa for adults with Parkinson's).

Aligned with our clinical delay findings, the Life Sciences investment community has seemingly baked in adverse operational and financial impacts into their current projections, demonstrated through the following suggestions for management teams which imply negative effects to company financials:

- ***"[Provide] Impact on revenue reductions relative to operating expense"***
- ***"Explain any cost reductions the company has taken in response to lower than expected revenue."***
- ***"[Explain] to what extent revenue is deferred or lost."***

FTI'S TAKE: We have seen the market's swift drop in valuations across the board, signifying the likelihood of disparity between real and perceived company valuations. From an investor relations perspective, this indicates an increased need to translate current economic conditions as it relates to individual companies for investors. When companies own their narrative and correct misconceptions, investors will be better equipped to appropriately value companies rather than default to industry-based inputs in their models.

Forward Looking Guidance

When considering how to handle forward looking guidance in this environment, recall its primary purpose is to signal company expectations to the investment community and minimize volatility.

While we are accustomed to investors pushing for incremental guidance during normal circumstances, our survey indicated a change to this mindsight. To underscore how unique of a situation we are experiencing, **almost 40% of survey participants prefer Life Science companies suspend or withdraw guidance in the near-term.**

40%

prefer Life Science companies suspend or withdraw guidance in the near-term

As it relates to the upcoming earnings cycle, survey respondents offered the following suggestions when considering forward looking guidance:

- ***"Identify all risks in your business. What could be the next shoe to drop? Take the pain now in lowering guidance versus stringing it out, as we would rather see numbers taken down massively now and raised over time. We prefer as much stability/predictability as possible."***
- ***"Don't say you won't be impacted or barely impacted; highly unlikely in this environment."***
- ***"…suspend guidance if warranted."***
- ***"Carefully consider whether to revise full year guidance or if full year guidance is currently relevant."***

FTI'S TAKE: We have already witnessed Life Science companies withdrawing or suspending financial guidance, such as Insmed, Exact Sciences, and Nevro Corp, and anticipate this trend to continue through first quarter financial results. With little insight around future environment and performance, and a low degree of confidence in internal forecasts, external guidance offers no real value and potentially sets the stage for decreased management credibility.

Strategic Implications

As it relates to capital allocation strategy and broader industry developments, we identified two trains of thought in our survey responses: those with an aggressive, proactive mindset, and those with a conservative, "steady as she goes" approach.

In other words, is this an economic blip that offers opportunity, or a long-term issue where cash and liquidity will be highly valued?

Cash Deployment to Shareholders

Interestingly, our survey results noted a divide around share repurchases. Roughly one-third of respondents were supportive, one-third were neutral, and one-third were unsupportive. This large variance likely stems from philosophical differences and how long the current pandemic will endure.

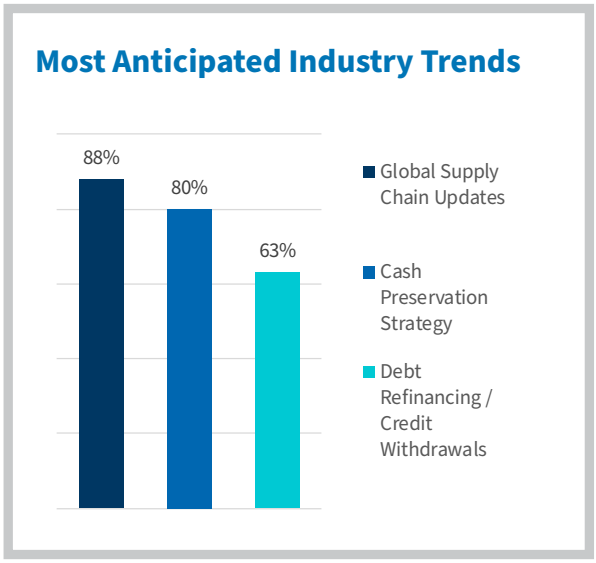
Less surprisingly, nearly all respondents believe there will be some degree of dividend decreases, with most expecting "some" or "few" companies to decrease dividend programs. While normally treated as a last resort, the investment community is showing expectations for proactive measures by companies to reserve cash, according to our survey results.

Industry Trends: M&A, Pipeline, Fundraising

The largest anticipated Life Sciences sector trend is global supply chain updates (88% of respondents), followed by a pullback in R&D spend or pipeline investment as a cash preservation strategy (80% of respondents), and an increase in debt refinancing and credit facility withdrawals (63% of respondents).

While over half of the respondents also anticipate decreased M&A activity, others noted an expectation for "more M&A as the outlook stabilizes" which we believe is more likely the longer our economy remains in a recession or stagnation, compelling companies with limited financing options to become sellers even with suppressed valuations.

For clinical stage companies, one respondent noted an expectation for a "rush to raise capital for small biotechs, but venture capital markets may dry up."



FTI'S TAKE: As an industry, we are likely heading into a much more selective period for investors, given an outsized demand relative to supply. More on this in the "Investor Engagement" section, but our viewpoint is that this only heightens the need for strong investor engagement and financial communications strategies.

Investor Engagement

Like most of the business world right now, the Life Science investment community is playing defense. When building investment strategies and identifying novel technologies, our survey indicates a reduced appetite for introductions with new companies compared to pre-COVID-19 conditions. While approximately 20% of respondents noted an increased interest in new meetings, the majority showed either no change or a decreased interest in meeting with new companies, suggesting a focus on understanding the business impact of COVID-19 for existing investments. Further, with a strong possibility that social distancing will carry through the spring Healthcare investor conference season, investor engagement strategies will be further impacted.

For companies looking to raise money at a time when the equity and debt markets are unpredictable, staying in front of investors and differentiating yourself from competitors is more important than ever. As one investor stated, ***"Thoughtful IR communications with existing shareholders goes a long way during times of uncertainty."*** Similarly, companies looking to raise awareness across the financial community should continue to differentiate themselves from their peers and remain top-of-mind for investors and analysts.

FTI'S TAKE: This should not suggest a pause in marketing efforts, but rather emphasize the importance of frequent and timely outreach and quality investor targeting and engagement strategies. Our survey responses imply overcommunicating in the near- to medium-term is preferred and will benefit investors as they constantly assess business conditions. Companies who maintain a constant dialogue are best positioned to build long-term credibility and maximize valuation.

Going Virtual

While some respondents noted a preference for substituting face to face meetings with video conferencing while social distancing continues, the majority continue to prefer phone calls. We see a potential shift towards video conferencing preferences the longer social distancing remains the norm.

In terms of current overall appetite for video conferencing:

- **Of our survey participants, 50% labeled phone meetings as "very important" while 15% labeled video conferencing as "very important"**
- **The number of respondents who believe video conferencing will be "very/moderately important," is roughly the same as the number of respondents who believe it will be "slightly/not at all important."**
- **Two out of every three respondents expect face-to-face meetings to be replaced by phone meetings; one of every three expect face-to-face meetings to be replaced by virtual meetings.**

However, as this pandemic draws out into May, there are expectations a shift towards increased video conferencing will occur as a proxy for in-person meetings. As one respondent noted:

> ***"Eventually, if the social distancing drags on after April 30 there will be a demand for video conferencing and not just conference calls"***

Final Thoughts

The first earnings cycle during this COVID-19 era will certainly present Life Science companies with disclosure and engagement decisions that have no historical reference point to guide decision making. Understanding that it is hard to answer many questions with certainty, disclosure efforts should be guided by the principles of transparency, a candid assessment of strategic and business impacts, and proactive and regular interactions with the investment community. Companies that can communicate effectively during this difficult earnings cycle will not only differentiate themselves across the competitive landscape but will also build credibility and establish best practices that can extend well beyond the COVID-19 pandemic.

Notes and Methodology

This primary research was conducted online by FTI's Digital & Insights team, from 25th – 31st March 2020, with n=34 respondents actively involved in investment within Life Sciences. The research consisted of 15 questions. Due to the standard convention of rounding, please note that some totals may not add up to 100%.

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