# Many Biotech Firms Could Soon Face a Reckoning from the Pandemic Era IPO Craze

The recent Chapter 11 filing of the popular genetic testing firm 23andMe was headline news given its high brand awareness with consumers but could foreshadow what may come for many biotech & life sciences related companies, especially those that had their IPO this decade. There are dozens of biotech & life sciences companies that went public since 2020 and have little to show for their efforts so far in the way of developed drugs or therapies, sales or operating profits—just mountains of R&D-driven red ink and depleted cash balances as they strive to achieve breakthroughs in diagnostics, novel drugs or therapies. Their biological clock is ticking away with each passing quarter.

Let's take a step back. Investing in early-stage biotech & life sciences companies traditionally has been the province of venture capital (VC) funds that employ the intellectual human capital needed to find, evaluate, nurture and finance these arcane opportunities through early stages of clinical development until they require larger cash infusions via public capital markets or large industry players to fund late-stage trials and commercialization activities. VC investors take a portfolio approach to investments in this highly specialized and diverse sector, knowing that a majority of these bets will fail but the few winners will more than make up for it. In fact, my colleague Michael Rachlin, the co-leader of FTI's Life Sciences Corporate Finance practice, recently commented that the probability of technical and regulatory success (PTRS) that a pre-clinical drug will reach commercialization is less than 10 percent. Additionally, this clinical journey can take up to ten years to play out and can cost upwards of $1 billion. This isn't like investing in fast food chains. A deep understanding of these complex technologies and a stomach for this type of risk profile is required to properly evaluate and execute on these prospective opportunities.

But something changed in 2020-2021. Dozens of early stage biotech & life sciences companies that historically would have received VC backing and funding were able to go public via the IPO market, many of them without a defined clinical profile and "not ready for primetime" as to investors' expectations of being a public company. Nearly 100 biotech & life sciences companies went public via the IPO market in 2020-2021 raising more than $23 billion, more than in any other two-year period this century, and accounted for more than 60% of the 151 biotech & life sciences companies that raised $37 billion from IPOs in 2018-2024 (**Figure 1**). This excludes another 27 "backdoor IPOs" of biotech & life sciences companies that were done via reverse mergers with SPACs in 2020-2021, which only added to these totals. Many public investors took a flyer on these IPOs that in other times would have been funded and subjected to intense scrutiny by highly knowledgeable VC investors during their early stages of clinical development.

In retrospect, this surge of IPO activity for such startups was arguably part of a broader investing mania that occurred during the COVID period, which included other investment crazes in cryptocurrencies and meme coins, meme stocks, SPACs and non-fungible tokens (NFTs). All of these asset classes caught a big wave in 2020-2021. Some have since wiped out (SPACs and NFTs) while others struggle to remain relevant. As for these biotech & life sciences companies, they raised tons of cash in those years and have since used it to fund research and product development, knowing it will take years to become commercially viable. So where do they stand nearly five years later?

Of the 151 biotech or life sciences companies that had their IPOs since 2018, 115 (76%) remain public companies; of these, 111 (96% of the 115) have continued to report operating results that can be evaluated. The other 36 (24%) either have been acquired (takeover or take-under) or otherwise have gone private, reorganized or liquidated and are no longer reporting operating results publicly.

For these 111 public companies with operating histories since 2021, consider the following results:[1]

- ***54 companies currently have an equity market value that is less than cash and equivalents compared to 40 at the end of 2024 and just 3 at the end of 2021.***
- Average equity market value per share / cash and equivalents per share is 1.4 currently compared to 1.8 at the end of 2024 and 3.3 at the end of 2021.
- The average cumulative stock price return for these companies since 2021 is -65%.
- 43 companies reported no revenue in 2024 compared to 62 in 2021.
- 26 companies reported revenue greater than $50 million in 2024 compared to 20 in 2021.
- 104 companies reported negative EBITDA in 2024 compared to 92 in 2021.
- Consensus estimates from equity analysts (who are known to be bullishly biased as a group) expect 79 companies to be EBITDA-negative in 2025 and 77 to be EBITDA-negative in 2026.
- EBITDA-to-cash & ST investments was -56% in 2024 vs. -32% in 2021, meaning that, on average, operating losses consumed a larger share of available cash last year than in 2021.

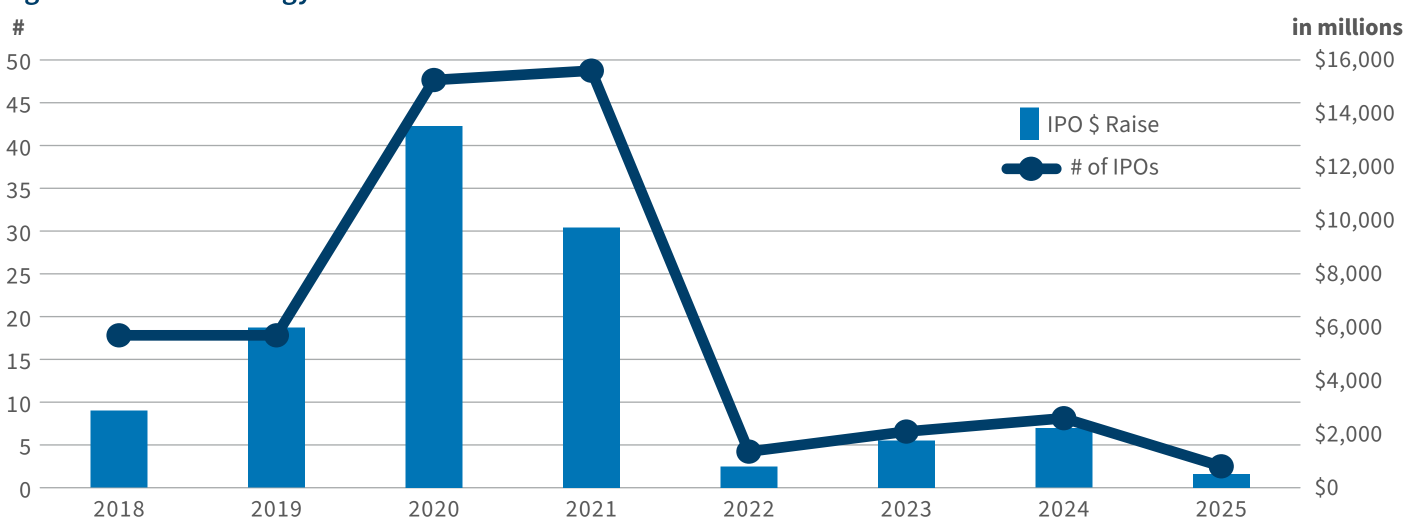
All told, these results represent slow progress at best, with nearly 40% of these companies still reporting no revenue last year and only 23% having achieved meaningful sales volume. Nearly all of them were still EBITDA-negative in 2024. Much like tech stocks, companies in this sector typically are expected to generate operating losses for years—even after first launching a commercial drug—so we don't want to sound naïve about how this works. However, several years now

have passed for many of these companies and the end of the tunnel is not yet in sight while copious amounts of cash have been consumed. Many biotech & life sciences companies still have ample amounts of cash but the burn rates remain concerningly high. Many will require additional rounds of financing to have any chance of reaching commercial viability but public capital markets are no longer as receptive to financing these types of companies as they once were, if at all. Large established pharma and biotech companies would be an obvious source of new capital but certainly not as mere lenders and not likely on shareholder friendly terms either.

Some of the few fabulous winners in this space eventually will become familiar names (such as BioNTech and Moderna) while the losers will quietly disappear. The fallout has barely begun and FTI Consulting's Life Sciences team has been busy supporting a number of in-court and out-of-court restructurings, including Amyris, PhaseBio, Tricida, TriRx and Gritstone bio, and we expect there will be many others in the coming years.

However, restructuring transactions among biotech & life sciences names have not and likely will not be headline grabbers or protracted events. These companies typically have minimal or modest amounts of funded debt, so their failures don't register with the rating agencies or get counted in debt default statistics. Many prospective failures will result in liquidations and winddown events, with debtors selling their component IP assets to other industry players or financial sponsors for pennies on the dollar. Debtor-in-possession (DIP) financing for these asset-lite businesses will be challenging to find. In many instances, there won't be an underlying business to reorganize as a going concern, just IP assets that will be picked over by industry buyers. Their endings will come with much less fanfare than their arrivals, with the widely covered bankruptcy filing of 23andMe in the business media being the exception.

## Figure 1 – Biotechnology and Life Sciences IPOs




Source: S&P Capital IQ and FTI Consulting analysis

Endnote

[1] Source: S&P Capital IQ and FTI analysis

**MICHAEL EISENBAND**
Global Segment Leader of Corporate Finance & Restructuring
+1 212.499.3647
michael.eisenband@fticonsulting.com