

Biotech sector remains under pressure despite previous COVID gains.

An increase in interest rates, higher than expected inflation, regulatory pressures, and a post COVID slump are creating a tough environment for the sector.

The Biotech sector, as seen during the global pandemic, remains one of the most innovative and important sectors within the global economy. Many companies within this sector have benefited from strong growth in demand for their products over the last few years, as COVID-19 vaccinations and antiviral treatments, that have been critical to reopening world economies and returning normality to billions of people around the globe, have boosted sales figures. Pharmaceutical companies subsequently experienced record share price increases and large inflows of cash as a result. Since the end of the pandemic, this situation has changed, and a growing number of pressures are starting to take their toll on company balance sheets. A story of revenue normalization, higher interest rates, leading to more expensive and difficult financing opportunities, and a rise in regulatory pressures, that are likely to restrict future innovation, are all starting to impact the industry.

Top ten global Biotech shorts - Ranked by % Shares outstanding on loan

| Stock Name | ISIN | SEDOL | TICKER | % Shares Outstanding on Loan |
|-----------------------------|--------------|---------|--------|------------------------------|
| Novavax Inc | US6700024010 | BJDQXG4 | NVAX | 41.08 |
| Cassava Sciences Inc | US14817C1071 | BJVLKZ9 | SAVA | 33.61 |
| Bioexcel Therapeutics Inc | US09075P1057 | BF4VBS8 | BTAI | 29.68 |
| Delta-Fly Pharma Inc | JP3549370009 | BFD20H4 | 4598 | 25.69 |
| Nanostring Technologies Inc | US63009R1095 | BBL59X6 | NSTG | 25.05 |
| Omeros Corp | US6821431029 | B4NB858 | OMER | 24.77 |
| Idorsia Ltd | CH0363463438 | BF0YK62 | IDIA | 23.48 |
| T2 Biosystems Inc | US89853L3024 | BR2P540 | TTOO | 23.17 |
| Pds Biotechnology Corp | US70465T1079 | BJQN8B2 | PDSB | 22.42 |
| Perseus Proteomics Inc | JP3836800007 | BHNC9S2 | 4882 | 22.39 |

Source : S&P Global Market Intelligence Securities Finance
As at November 13th 2023

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When looking across the sector, a number of pharmaceutical companies across the globe continue to experience short interest (measured as the percentage of shares outstanding on loan) of greater than 20% of their free float.

The most shorted biotech company, Novavax Inc (NVAX), currently has 41.08% of its outstanding shares on loan and is one of the most shorted

companies across the S&P 500. The long / short ratio for this stock stood at 1.16% on November 13th, suggesting a very bearish sentiment. Novavax Inc (NVAX), the developer of the COVID vaccine, has seen its share price decline since the end of the pandemic. It's product pipeline reportedly remains relatively thin, focusing on flu and COVID vaccines only, causing short sellers to target the company. Cassava Sciences Inc (SAVA), the second most shorted biotech company globally, continues to suffer from a petition filed against it, requesting a halt to a trial of the company's new Alzheimer's drug. The company's share price continues to struggle as a result, leading speculators to short 33.61%

of the company's outstanding shares. The company's long / short ratio currently sits at 9.11% which again, indicates a bearish sentiment in the stock.

US biotech companies in particular face further challenges in the current inflationary environment. The Inflation Reduction Act (IRA) continues to weigh on any future profits across the sector as Medicare price negotiations, intended to reduce the cost of high-priced drugs, and inflation rebates become a reality.

The negative outlook across the sector is also being reflected across exchange traded funds. XBI – the SPDR S&P Biotech ETF, has been one of most shorted USD denominated ETFs of the year so far. Year to date securities lending revenues surpassed \$23M between January and October with an average fee topping 2% and an average of 23.45% of its outstanding shares on loan. This ETF has been one of the top five highest securities lending revenue-generating ETFs year to date.

When looking at the exchange-traded fund flow data for the pharmaceutical sector, year-to-date (January to November 13th, 2023), approximately \$2.64B has flowed out of funds that invest solely in the Biotech sector. The majority of these flows were seen across two ETFs in particular, IBB – iShares Biotechnology ETF and XBI – SPDR S&P Biotech ETF.

With interest rates ranging from 0% to over 5%, the increased cost of debt is significantly impacting the profitability of biotech companies, leading to financial strain. As of November 14, 2023, 87% of the biotech firms in the S&P 500 have disclosed their Q3 earnings, reporting a modest positive surprise of approximately 1%. This indicates a more challenging market environment for the sector. With diminishing growth, earnings, and profits, biotech companies face an elevated risk to the sustainability of dividends. The dividend growth rate for these companies has contracted to around 5.5% for the current fiscal year, compared to the approximately 8% seen in FY'22. Two primary factors account for the sector's underperformance this year.

- M&A activity has served as the main catalyst propelling the sector's inorganic growth. However, due to increased financing costs and diminished equity prices, the pace of M&A activity in the current year has been notably sluggish.
- Confidence in the sector has been dampened by a combination of cost-cutting measures, less robust pipelines, and the anticipation of regulatory changes. These factors collectively contribute to an overall decrease in the sector's confidence.

As can be seen through the data, the Biotech sector faces a number of challenges. Innovation appears to be the key to increasing investor confidence within the sector as new product pipelines provide all important future revenue streams. Whilst Biotech as a sector remains high risk, as drug development remains notoriously challenging and expensive, it also has a lot to offer both investors and the global population, as we have all recently experienced, once successful new products have been launched.

For more information on any of our data sets or our securities lending products and services please contact: **Global Sales Team** h-ihsm-global-equitysalespecialists@spglobal.com

Data Sets used: Securities Finance, ETF and Benchmarking Services, Dividend Forecasting, Data Insights.