



Moderator



Adam Lohr
Moderator
Partner, Life Sciences Senior Analyst
RSM

In January 2019, Lohr was selected as a senior analyst in RSM's cutting edge Industry Eminence Program, which positions its senior analysts to understand, forecast and communicate economic, business and technology trends shaping the industries RSM serves. These senior analysts advise clients on conditions influencing middle market leaders. His focus is on the technology and life science industries.

Lohr has over 12 years of accounting and finance experience, serving private-equity-backed and private-closely-held companies in the middle market. He focuses on high-growth companies that are globally active in life sciences, technology, and consumer products industries. He specializes in providing financial audit services and helping clients respond to technical, regulatory and economic changes that impact their business.

Panelists



Najjam Asghar
Chief Financial Officer
Sorrento Therapeutics

Asghar serves as the Chief Financial Officer (CFO) of Sorrento Therapeutics, Inc. leading the functions of Finance, Accounting and Tax. Prior to his appointment as the company's CFO, Asghar served as the company's Chief Accounting Officer since June 2019. Prior to joining Sorrento, he served NuVasive, Inc. from October 2015 to June 2019, leading various accounting and finance functions. He was instrumental in several acquisitions to build upon NuVasive's portfolio of products, segments, geographic expansion and helped the company achieve its goal of more than \$1 billion revenue. He worked at PricewaterhouseCoopers from June 2003 to September 2015 where he served various S&P 100 and S&P 500 clients in North America and Asia in the audit and assurance practice.

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Pandemic Pushes Life Science Companies to Innovate, Shift Focus

LIFE SCIENCES: Leaders Share Insights at Virtual Roundtable Meeting

■ BY JAY HARN

With COVID-19, the world's spotlight has been on life science companies and San Diego is one of the hubs of the industry. Recently RSM and the San Diego Business Journal sponsored a virtual roundtable meeting to hear some of the thoughts and insights of several leaders in the industry.

Panelists were **Wayne Woodard, chief executive officer of Argonaut Manufacturing Services; Oliver Rocroi, vice president – communications with the California Life Sciences Association; Mark Herbert, chief business officer at Scientist.com; Najjam Asghar, chief financial officer of Sorrento Therapeutics; Moderating the panel was Adam Lohr, partner, life sciences senior analyst with RSM; Edward Robles, partner, tax services San Diego Life Sciences industry leader, RSM; Justin Chaitin, business development director, RSM; and Barbara Chodos, president and publisher of the San Diego Business Journal.**

What follows is a sample of the conversation. Remarks have been edited for space and clarity.

Some of the first things discussed were how has each of their companies reacted or adapted to the pandemic? This was new ground for each of them.

Wayne Woodard, CEO of Argonaut Manufacturing Services felt adapting and bringing a sense of normalcy was crucial for his employees. "We didn't have a rule book when this started back in March. So, we kind of had to figure out...first off... 'are we really an essential company?' I think we all probably felt we were, but, we had to make up our own definition for it. Nobody tried to shut us down, as we were trying to provide diagnostic support to those who needed it quickly. For us it was almost surreal, because we would get on the roads and nobody was there. We had to

be at work to keep things moving, to create capacity and capability for people who needed diagnostic kits. So that part of it was rewarding, but I think when we look back at it, what we've tried to do as much as possible is provide as much normalcy as we could and to make accommodations. I think that has had a positive impact on our employees."

Najjam Asghar, CFO of Sorrento Therapeutics felt that the expectations from a life sciences company, saw a shift in the mindset of its employees as they were helping address a global pandemic directly:

"We are an oncology company that has one of the largest antibody libraries, and we were using that to develop immune therapy treatments from an oncology perspective. And in the beginning of Q1, when we saw the spread of this global pandemic we thought we could help by leveraging our antibody library and developing an antibody therapeutic. We believe that anti-body therapeutic solutions is potentially going to be the solution to the global pandemic.

"There was no real playbook on how to operate during a pandemic, but eventually people got used to it while practicing social distancing in a safe manner. And so far, we have been very successful in developing and maintaining a safe working environment for our employees while operating as an essential business. We believe our scientists to be heroes because they are tirelessly working through a pandemic. Our COVID strategy is not just a vaccine. We have multiple therapeutic and diagnostic treatments in the works. All our R&D people are passionate, they want to solve the problem which the world is facing. They work day and night to make things work."

As a B2E platform, **Mark Herbert, chief business officer at Scientist.com** saw changes in the types of projects they were called

on to help facilitate to help companies keep going during the pandemic.

"The ability to adapt to the pandemic really became evident with the platform we've developed. We connect service providers with biopharma organizations. You can think of us as an amazon.com or match.com for the pharmaceutical industry. And the best thing about our platform from a legal perspective is biopharma clients sign one single marketplace agreement and automatically have contracts in place with a network of over 3,600 suppliers. So it gives companies a lot of optionality as it pertains to managing shelter-in-place restrictions, as well as giving your researchers remote access to drive their internal testing funnels."

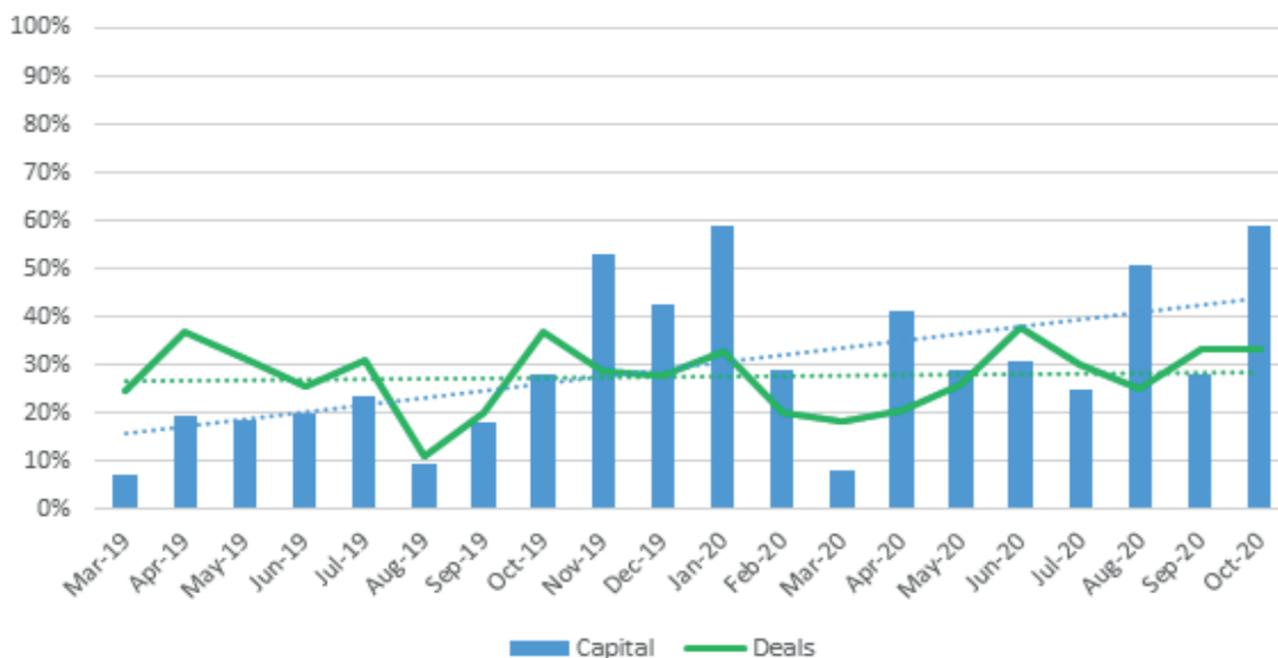
"The majority of our business is pre-clinical in nature. About 85% of the overall volume of transactions placed through our marketplaces are for pre-clinical services. The other 15% is for regulatory development and commercial service, and you can think about people shoring up their clinical budgets because a lot of the clinical activities were put on hold due to the pandemic and the risk associated with patients entering a clinical trial. A lot of those monies were reallocated to preclinical budgets, and there were restrictions around shipping compounds from France to the US or France to Germany. So, the nice thing about our legal structure coupled to our supplier intelligence databases, is that we can build out the connectivity, and contain border supplier networks for our clients," he said.

"We also saw a big push, especially across our top pharma clients -- to advance their pre-clinical pipelines, not slow anything down. This has resulted in the best year in company history with \$300 million of revenue to date -- that's about

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This chart illustrates the amount of life science PE&VC activity as a % of all PE&VC investment in San Diego.

San Diego PE & VC Deals: Life sciences as % of all activity



Source: PitchBook, RSM US LLP



Mark Herbert
Chief Business Officer
Scientist.com

Herbert has 20+ years' experience in pharmaceutical and biotech research across multiple platforms and therapeutic areas. He last served as Interim President of Arcturus Therapeutics. Previously, he was Head of U.S. Business Development at WuXi AppTec. Mark previously served as Director of Pharmaceutical Sciences at Aragon Pharmaceuticals, Inc. which was acquired by Johnson & Johnson in 2013. He is an author or inventor on over 35 peer-reviewed manuscripts and patents and has led or contributed to the submission of 13 investigational new drug (IND) applications and one new drug application.



Edward Robles
Partner, Tax Services
San Diego Life Sciences
Industry Leader
RSM

Robles has 20 years of Big Four public accounting experience, including 15 years in San Diego. He serves both public and private strategic growth companies and is experienced in serving clients in a variety of industries. Robles is experienced in coordinating global tax service delivery for U.S.-based multinational corporations and foreign-headquartered clients with significant United States operations. He has significant experience with ASC 740, including assisting with purchase accounting, reviewing and preparing multi-national tax provisions, and analyzing uncertain tax positions. He has served the biotech, life sciences, technology and SaaS industries.



Oliver Rocroi
Vice President of Communications
and External Affairs
California Life Sciences Association

Oliver Rocroi serves as vice president of communications and external affairs for the California Life Sciences Association (CLSA). Based in CLSA's Washington, D.C. office, he is responsible for the development and implementation of external communication strategies, directing the association's advocacy activities while incorporating strategic communications and alliance development objectives.

He has significant public relations, advocacy, government affairs, and campaign expertise developed over his twenty year career, having spent time as a legislative staffer, professional consultant, lobbyist, and public relations professional before leading CLSA's state advocacy team in Sacramento for three years.

He has been directly involved with over 15 legislative, congressional, and state-wide campaigns in addition numerous regional ballot measures, local and county government campaigns, and public education initiatives. He is a graduate of California State Polytechnic University Pomona, with a degree in Aerospace Engineering.



Wayne Woodard
Chief Executive Officer
Argonaut Manufacturing Services

With 28 years of management experience in operations, supply chain and general management, Woodward's primary focus (in three different industries) has been on building global operations capabilities with particular emphasis on working with external manufacturing services companies. Woodward most recently worked at Thermo Fisher/Life Technologies through its Ion Torrent acquisition. He previously worked at Affymetrix, Electroglas and Ridge Technologies. Wayne began his career in manufacturing at Sun Microsystems. Wayne focuses intensely on execution and detail, which is why he also bottles his own wines.

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115% over last year. Not to mention, we obviously have a couple of months remaining where people are trying to close out their yearend budgets. And so, we feel our model was positioned well to navigate through the unknowns and uncertainties associated with COVID; for example, travel restrictions, closures, and shelter in place restrictions. We've been very fortunate to be on the positive side of the pandemic -- things haven't slowed down. I think all of society, not just biopharma and healthcare, have truly embraced e-commerce as the wave of the future, whether it's having food or supplies delivered to your home, or outsourcing pharmaceutical services to advance your internal pipeline. In hindsight, we were just very fortunate to be well positioned prior to the pandemic."

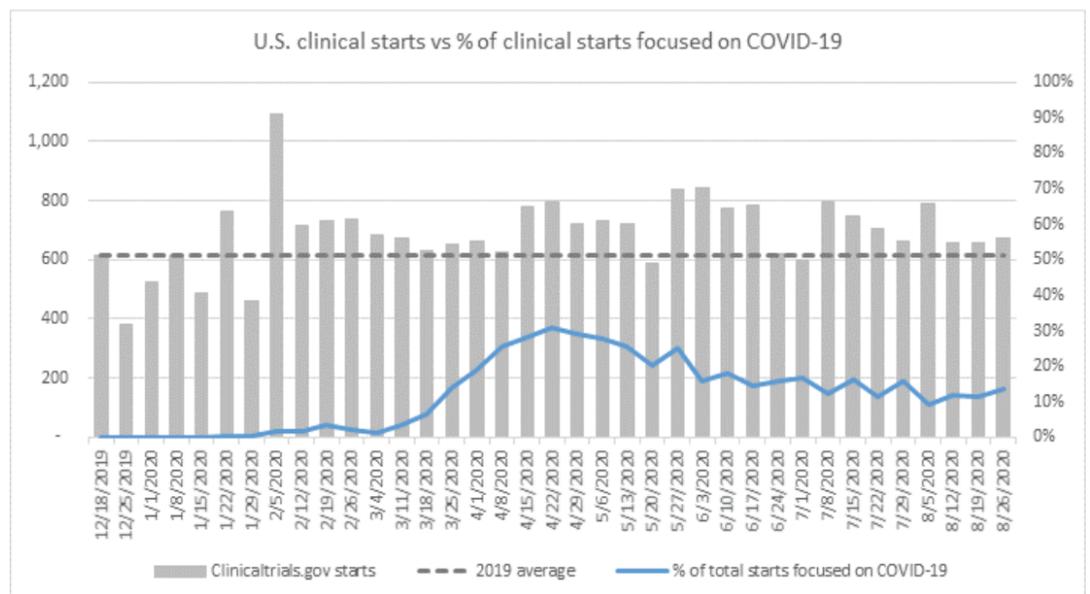
One of the silver linings of the pandemic has been the increasingly positive public perception of life sciences and the pharmaceutical industry as there becomes a significantly broader understanding of what life sciences are by the community. And the capital markets have responded very well. **Oliver Rocroi vice president – communications with the California Life Sciences Association** agreed.

"I think a lot of that starts with the fact that we were all forced to start to have to research what pandemic really means, what vaccine discovery looks like and what therapies are available. There was so much information, there was

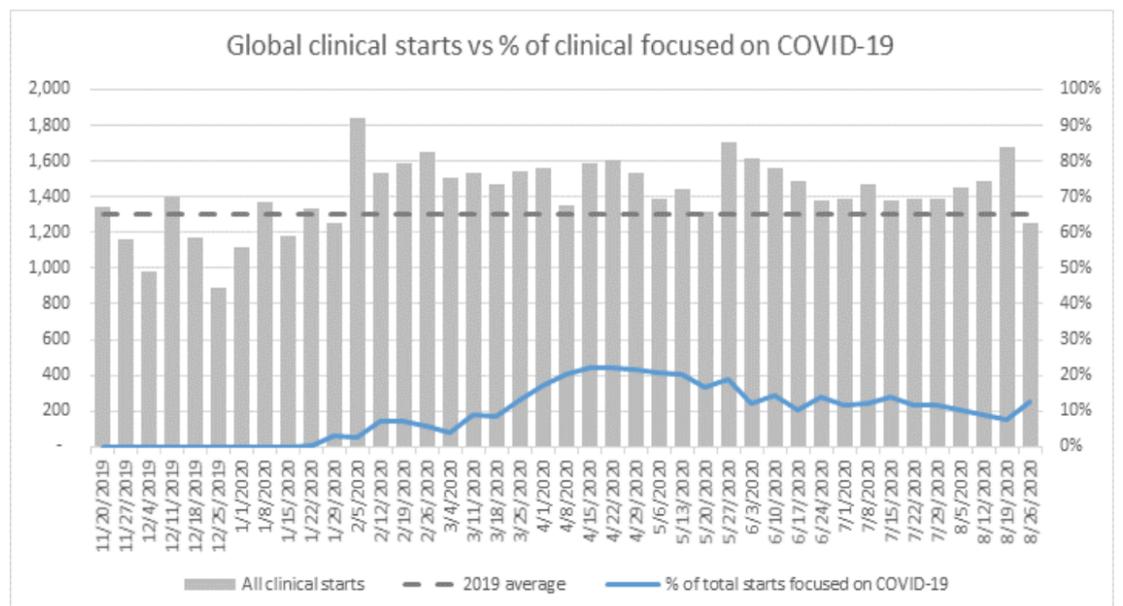
almost information overload about data, and then the rest of the world stopped. No sports or TV shows, you started to run out of stuff to watch. So, I think that the general public, as a whole, had a much deeper understanding of the life sciences. And I think, many of the companies represented here, California in particular, really rose to the occasion of taking on this challenge. I think for once our industry did a really good job with external public relations. The pharmaceutical industry doesn't always have the best reputation. We've been getting beat up for awhile over pricing and all of a sudden it gave us an opportunity to really put a positive spin on what it means to actually do the difficult things we do," he said.

"I think there's a deeper appreciation, especially early on when so many people were just scared. We have members in just about every county in California, 58 different sets of local orders, how they interplayed with state orders, how those interplayed with federal orders and those orders were changing all the time. You had people, who had to take care of their personal lives, kids, the lack of supplies and stores, and then companies, some of whom are very small. We would have to interpret things that they had never considered before. Do I need to give my employees a letter so that they don't get pulled over by the CHP? How did they deal with the stigma of living in a neighborhood and being the only car driving down the street on the way to work? But no, I hope this elevated public awareness continues because I think goodwill of our sector really depends on our ability to not forget and not allow people to forget that we provide so much value, playing our part combating this pandemic, not only to the state, but for the world."

The following two charts (first is U.S., the second is global) show the number of clinical trial starts per week as well as the % of those starts that were focused on COVID-19. 2019 average weekly starts are included as a reference point.



Source: Trial Insights, RSM US LLP



Source: Trial Insights, RSM US LLP

Mark Herbert added: “I think that the key word is trust. If you look at the public at large and the trust it had in the biopharma community prior to the pandemic, it was very low. Whereas, once COVID hit, people started to ask, ‘what are our options?’ Who is our hope? And biopharma became the only option. So, trust in the industry has increased quite a bit in 2020. And I think that trust has obviously been realized across the capital markets; if you invest it’s been a great year.”

“I remember growing up and my family telling me big pharma has a cure for cancer and they’re just keeping it under lock and key because they want to sell us, you know, a daily, chronic drug for the rest of our lives. You begin to realize that’s just, hogwash, it’s hearsay because people don’t understand what biopharma is actually doing. The associated probability of successful drug discovery is fairly low. You have to take a lot of shots on goal to get a therapeutic that’s actually commercialized. But the interesting thing about COVID is that it instilled trust in the general populace that was not there previously. You know, many people were focused on healthcare costs and secrecy as I previously mentioned, and now they’re focused on hope, which I think is a good thing for all of us,” Herbert said.

So, what will be next after the pandemic? After FDA approval of several vaccines, will there be a shift in focus? Will vaccines that have been ignored for so long become back in vogue? Will it be therapeutics? Will it be biologics? What do you see as the next decade of focus area?

Wayne Woodard, CEO of Argonaut Manufacturing Services said that in his view diagnostics are the future. “We support not only biopharma, but also all these molecular diagnostic assays that have been created. Genomic tests are becoming the gold standard in diagnostics. I mean if you wander around Sorrento Valley, you’re going to run across a lot of biopharma companies, but you’re also going to see several other companies in the diagnostics business. Recognizing the importance of testing and what testing is going to be like in the next five to ten years is exciting. I don’t think we’ll be caught this flat footed again, I think that people will be creative and innovative, especially with their focus on point of care assays, this will be an exciting place to be for some time. We feel like the molecular diagnostic market is just getting started. Our clients are not only developing diagnostics for viruses like COVID-19 -- they are doing the same for cancer, inherited diseases and other illnesses. Imagine all these other things that people are going to want to better understand. People are becoming much more comfortable with going to their doctor or pharmacy for a diagnostic test that will use genomic information to guide them with next steps. This will be an incredible opportunity for all life sciences in San Diego County. People in San Diego County have done some amazing work to assist through the first phase of this pandemic. As hard as it is to consider, I think the future is incredibly exciting when you look beyond our hardships today. We all now understand how critical it is to be ready to test a large number of people very quickly using genomic information and come up with a solution to get them back on the road. We must learn from this as we simply can’t do this again.”

Because life sciences are doing well right now and San Diego has such a great ecosystem for this category, the future of growth and new businesses looks bright for the region, but finding enough talent could be difficult. **Najjam Asghar of Sorrento Therapeutics** says it is challenging, but they have been able to hire more than 130 people in the last year. “Most of the people who we hire, they’re not just your normal work force. They need to have a science major. Most of our workforce is highly skilled and we have a hundred plus Ph.Ds in the company. This can be very daunting. So, it is a

challenge to attract some of those really highly competent individuals. Every job, which we have posted, has had so many responses. There are a lot of job opportunities available, especially the technical level ones, and when we post we have massive numbers of people applying. San Diego is a small city, but it has very promising tech and biotech companies here.”

The buzzword in 2020 has been COVID, but in 2019, it was digital transformation. Both **Mark Herbert** and **Oliver Rocroi** had unique perspectives of how the digital acceleration is going to be impacted.

“I would answer that question in one word – telemedicine. The increasing use of the general population and being willing to change from the historically in-person interactions with physicians to doing that over a device means that insurers and doctors and other non-traditional tech or life science groups are going to need to hire people that understand how those transactions work. Then they need to just be able to handle that data in ways that are a little different. So, we all know digital health is on the rise more and more, so to Wayne’s point on the testing front that data from wearable tech can help us in the ability to predict the next pandemic,” **Oliver Rocroi** said. “Hopefully there are going to be new investments in areas that have been a little overlooked. I think this, is definitely on the rise – for example attention to antimicrobial resistance. I also think certain counties, certain cities in particular, are going to weather this workforce migration better. San Diego is going to be fortunate in storm that effort. Not to pick on San Francisco, but San Francisco is in trouble. It has big tech companies telling people they never have to come back to an office, while having just passed increases in sales tax, I mean, that downstream effect is, crazy. San Diego, I think, will benefit from the mixture of defense, biotech, traditional tech and the diversity of that workforce, and hopefully attract some of that new talent.”

“And to add along that, I’ve obviously spent 20 years in the biopharma community and, you know, a chief digital officer was not something that I was familiar with until about the last one or two years. And I think every big pharma company, you know, even a mid-tier biotech company has that position in place. And so, they have embraced digitalization, they have embraced big data. How do we take data that’s outside of a well-controlled clinical trial and, you know, dissect, or tease out information so we understand how to expand our label plan or how to target a specific patient population. And again, this is all big data-driven, which, without the connectivity that we have today was never accessible,” Herbert said. “And back to San Diego talent. I think the one thing that we neglected to highlight is the richness of our institutional ecosystem. You know we have all these young eager students that are just trying to get traction in the world. And then if you compare it to San Francisco or Boston, you know we have a home market that’s actually somewhat accessible.”

Investment is still key. **Mark Herbert** added: “We need to invest, we need to devote resources. We need to have those fire extinguishers available in every doctor’s office, so when a pandemic does surface we have the ability to try to truncate or limit the spread at the start, as opposed to leaning on the biopharma community to accelerate a vaccine. And I think, we’re going to have to have some other therapeutic interventions, whether it’s a direct antiviral or some post COVID type treatment to really handle the pandemic at large. But it’s encouraging to see the community take a step back and realize that there is a need to invest in the future that doesn’t have commercial value today, but may have huge value in the face of these, unknown, unforeseen pandemics that could emerge in the future.” ■

COVID-19 Illustrates How Quickly Life Science Ecosystem Can Adapt and Pivot

■ By ADAM LOHR, RSM

The SARS CoV-2 (COVID-19) pandemic has devastated the health, safety and economic security of billions of lives globally. The pandemic has also placed significant pressure on the life sciences ecosystem as governments and the public depend on these companies to produce critical medications, diagnostic kits and medical supplies to combat the virus, and more importantly, innovative therapies and vaccines to rein it in. All this while continuing to produce the medications, devices, and diagnostic tools that billions of people depend on for conditions other than COVID-19. This urgency has pushed life sciences companies to operate and innovate at an unprecedented rate and has illustrated how quickly the ecosystem can adapt and pivot in a time of crisis.

Widespread shortages of PPE, ventilators and traditional medications were avoided; on-going clinical trials, while impacted during the summer, have recovered without major disruption; and drug developers have worked as an international team to develop hundreds of COVID-19 vaccine and therapy candidates in a matter of months, a record for the Western world. While distribution of vaccines under emergency use authorization has commenced with Pfizer’s approval in December, infections are rising at an alarming rate throughout the United States and Europe, we are in no way out of the woods just yet. But progress is being made and much credit should be given to our life science professionals, including all those in San Diego that are also contributing to the pandemic efforts.

A byproduct of the spotlight on life sciences has been the increased understanding of the ecosystem and the long-term market opportunity by institutional and retail investors. According to our analysis of initial public offering (IPO) data accumulated by Bloomberg, since 2018, life science IPOs have represented approximately 25% of all IPO capital raised and 44% of all IPO activity (excluding Special Purpose Acquisition Companies, and holding companies). In 2020 those already impressive numbers surged to approximately 31% of IPO capital raised and 54% of all IPOs. The private capital markets have also taken an increased interest in life science companies. Specifically looking at private equity (PE) and venture capital (VC) investments in San Diego based companies, there has been an overall slowdown in the number and value of deals in 2020, but our life science companies have proved to be a bright spot. Comparing the pandemic period of March through October year over year, we see that the number of life science deals has stayed flat, but the amount of investment has nearly doubled.

In our opinion this indicates that the relative value of our life science companies has far exceed their non-life science peers, which have seen double digit declines in terms of capital raised and deal count over the same period.

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