Small Public Biotechs and Costs of Compliance with Sarbanes-Oxley Section 404(b)

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Background on the Biotechnology Industry

• Vast majority of biotechs are pre-revenue

• Average biotech development timeline is 10 to 15 years before generating product revenue

• Average cost of bringing a product to market is $2.6 billion
Background on the Biotechnology Industry (cont)

• Ardelyx, Inc. is a clinical stage, pre-commercial, specialized biopharmaceutical company focused on developing first-in-class medicines to improve treatment choices for people with cardiorenal diseases

• Ardelyx went public in 2014 as an emerging growth company (EGC)
Background on Biotech and the JOBS Act

*IPOs through August 1, 2019*
IPO On-Ramp Ending for Growing Number of Biotechs

No. of Biotechs Subject to SOX 404(b) Phase-In

Source: Craig Lewis and Joshua White: Science or Compliance: Will Section 404(b) Compliance Impede Innovation by Emerging Growth Companies in the Biotech Industry? (February 2019)
Science or Compliance?

• **SOX 404(b) compliance costs Biotech EGCs an average of over $800,000 per year**

• Biotech investors are focused on the science behind the company

• Investors could demand 404(b) compliance but do not

Source: Craig Lewis and Joshua White: *Science or Compliance: Will Section 404(b) Compliance Impede Innovation by Emerging Growth Companies in the Biotech Industry?* (February 2019)
SEC’s Proposed Rule

• Expansion of SOX 404(b) relief for companies until they exceed $700 million in public float or $100 million in revenue is a welcomed step forward to making our public capital markets more accessible and attractive to small companies.

• In the biotech industry, it is common for companies with few employees and simple corporate structures to have high valuations.