Influence, connect, save

UK Listings Review
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

5 January 2021

Dear Lord Hill,

RE: UK Listings Review: Call for views

I was delighted to hear of your appointment to this very timely review. As the trade association representing the UK's innovative life science sector, the majority of our 430+ members are equity-backed pre-revenue start-ups and scale-ups, which require significant sources of capital to invest in R&D, scale their operations and ultimately deliver technologies that save and improve lives. A well-functioning London public market is needed to ensure these companies can access the capital they need to invest in R&D and scale in the UK.

The UK's R&D-intensive life sciences sector is universally recognised as world-leading, and it delivers great benefits to the economy, the health of the nation, and it is key to the Government's net-zero agenda. From improving patients' lives through new treatments and digital healthcare, to the development of environmentally-sustainable technologies, such as fossil fuel substitutes, biodegradable bioplastics and the cleaning of polluted waters, our deep understanding of biology is helping to address humankind's greatest challenges. It is as a result of having a vibrant UK life science ecosystem that the UK has been able to play a leading role in the global response to the pandemic and provide its citizens with safe and effective vaccines. For example, UK life science SMEs Oxford Biomedica – now in the FTSE 250 – and Cobra Biologics are providing the UK-based manufacturing capability to deliver the Oxford University and AstraZeneca vaccine to the population as quickly as possible.

As the UK life sciences SME sector matures, scale-up capital is becoming more critical and a lack of it is holding back growth and global expansion of UK businesses. Despite record sums being raised by the sector through venture capital and public markets, the investment is largely coming from overseas, which is a vulnerability for our domestic sector and means value is not being captured in the UK. Companies are increasingly looking to the US public markets for capital or being sold to larger business before their full potential can be realised, adding a further pull to move operations across the Atlantic, to the possible detriment of the UK science base and our economy.

Out of 18 UK life science companies that have IPO'd since 2015, 7 have opted for NASDAQ, 10 for AIM and 1 for Euronext (see Appendix 1 for the full list). But the trend in recent years has become increasingly favourable to NASDAQ, which is the destination of choice for all life science companies globally due to the depth of the capital pool, and the expertise and risk-on approach of the investors. Despite accounting for less than 40% of UK life science IPOs, NASDAQ accounts for 73% of the capital raised through IPOs since 2015.

We do not recognise the London listing rules as the driver of this large disparity. Life science companies require large sums of capital and AIM is not able to provide that currently, meaning they must go to NASDAQ. London does not have a large enough community of investors willing to back life science companies nor the analyst coverage to drive trading, resulting in poor liquidity and unfavourable fundraising conditions.

UK BioIndustry Association | 7th Floor Southside | 105 Victoria Street | London | SW1E 6QT | UK
T: +44 (0)20 7630 2180 | **E:** admin@bioindustry.org | **www.bioindustry.org** | @BIA_UK

Registered office: As opposite.
Registered in England No. 1889626.
Company Limited by guarantee.

I attach with this letter a new analysis we have completed on the UK-quoted biotech sector, which we will publish next week. It shows the sector has outperformed the market during 2020 and demonstrates its value to investors as a countercyclical buffer to market downturns, as well as providing significant growth opportunity in the long-term. Perhaps as a result, the sector has attracted new investors in 2020, led by those from North America (24 new investors, net trading inflow of £649m), UK Retail Execution Only (net trading inflow of £132m) and European investors (16 new investors, net trading inflow of £52m). Ten large UK institutions and ten smaller UK institutions have also invested in the sector for the first time, but overall UK institutions have been net sellers in 2020 (net trading outflow of £22m). See section 3 of the analysis for more information.

This could be changed by attracting more domestic financial institutions alongside international capital to life science companies on the London market, which would create demand for analyst coverage and increase trading to provide liquidity. This in turn would create a virtuous circle. As a champion of the sector, the BIA is leading this work. In September of this year, we published *Opportunity on your doorstep: a guide to investing in the UK biotech sector*[1] to demystify and promote our domestic industry and on 16 December we hosted a webinar with the London Stock Exchange entitled *How to be part of the biotech boom in 2021*. We also regularly promote the sector through national and international media and events.

We also applaud and have engaged heavily with the Government's Patient Capital agenda since 2017, which has made good progress in catalysing venture capital investment. But we believe more could be done to encourage institutional and retail investment in London-quoted life sciences. This could involve promoting the creation of more specialist collective investment vehicles (current examples include Syncona and Arix Bioscience, which have proved highly successful for life sciences), and increasing consumer choice through greater transparency of underlying asset classes in pension schemes, or even establishing a target for pension fund managers to invest in knowledge-intensive companies.[2] Engendering a pro-innovation investment culture in London is critical if the UK is to build an innovation led economy.

Whilst we do not believe listing rules to be a concern or cause of low life sciences IPO activity in London, amendments could aid the attraction of more international capital to quoted life science companies by mirroring the NASDAQ rules. This would provide confidence to global investors who are comfortable investing in UK companies listed on NASDAQ, which could bring them to the London market. We also have concerns that the National Security and Investment Bill will impact almost all businesses within the UK life sciences sector and require scrutiny of almost every deal, and as such risks deterring investment and the attractiveness of the UK to global investment and business activity. It is crucial that it is implemented with care and the scrutiny process is fully resourced to not impede deals.

Improving the functioning of the London public markets for life science companies, alongside other innovative sectors, is crucial to the UK's long-term economic growth and resilience to future public health threats. I look forward to engaging further with your review and working with you to strengthen the UK's funding ecosystem. I would very much like to meet with you to hear your thinking, provide further insight into our sector's relationship with public markets and discuss our ideas. If this would be helpful, please have your office contact Miriam Gedge (mgedge@bioindustry.org) to arrange a convenient time.

Yours sincerely,

Steve Bates OBE
Chief Executive, BIA
sbates@bioindustry.org

---

1 This can be found at: https://www.bioindustry.org/policy/invest-in-biotech.html

2 Knowledge Intensive Companies is a statutory definition used for the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) tax relief schemes

Appendix 1: UK life science IPOs by market

	Nasdaq	LSE AIM	Other (EU)	Year
Freeline	£124.16m			2020
Bicycle	£47m			2019
Diaceutics		£17m		2019
Orchard	£117.75m			2018
Autolus	£136.28m			2018
Sensyne		£60m		2018
Acacia			£36m	2018
Renalytix AI		£22.25m		2018
NuCana	£85.5m			2017
Nightstar	£65m			2017
Verona	£64.4m			2017
Destiny Pharma		£15m		2017
SkinBioTherapeutics		£4.5m		2017
Oxford Biodynamics		£20m		2016
Mereo		£14.85m		2016
Diurnal		£25.3m		2015
Evgen		£6.99m		2015
RedX Pharma		£15m		2015
Total:	**£640.09m**	**£200.89m**	**£36m**	
Percentage of all markets total:	**73%**	**23%**	**4%**	

Source: BIA analysis of Pitchbook, December 2020