

svb



Silicon Valley Bank

Negotiating CRO contracts

Understanding and mitigating FX risks



June 7, 2017

Agenda



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Q & A



Life Science Practice Overview

Derek R. Brunelle
Managing Director
Life Science and Healthcare Practice

The Opportunity

**Between April 2016
and March 2017, SVB
clients transferred
over \$500 million to
the top CROs!**

Life Science and Healthcare

Everything we do helps life science and healthcare companies move bold ideas forward, fast. With more than three decades of experience, SVB meets clients' needs with tailored banking solutions and unparalleled industry insights.

Sector Expertise

Biopharma and diagnostics

Medical devices

Healthcare IT/digital health

Healthcare services

“SVB worked with me when I was nobody. We just raised our first round and they were there. It was definitely a different experience than other banks. They are very much focused on establishing a long-term relationship, and probably our business was not very profitable for them in the first few years, if at all, but being there early creates a strong relationship.”

Emily Leproust, Co-Founder & CEO, Twist Bioscience

“Our relationship with Silicon Valley Bank began in the very early days of One Medical and has continued since. SVB has been a thoughtful partner in supporting our mission to transform health care, with a perspective on long-term impact much like our investors. It's been a great partnership.”

Thomas Lee, CEO & Founder, One Medical Group

Our clients

56%

of CNBC's Top 50 Disruptors in 2016

42%

of life science and healthcare companies that went public in the U.S. markets in 2016 are SVB clients

15%

client growth over Q4 2015

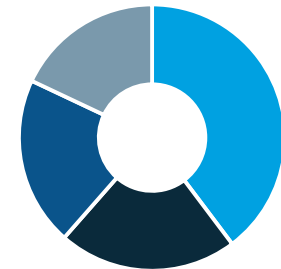
\$21B

in deposits and investments

Loan portfolio

\$2.2B

total loan commitments



\$899M Biopharma and diagnostics

\$492M Healthcare services

\$465M Healthcare IT/digital health

\$407M Medical devices

Our Vision – What Do We Want to Be?

To be the most sought after leader and partner to the global Life Science & Healthcare ecosystem.



Foreign Exchange Solutions

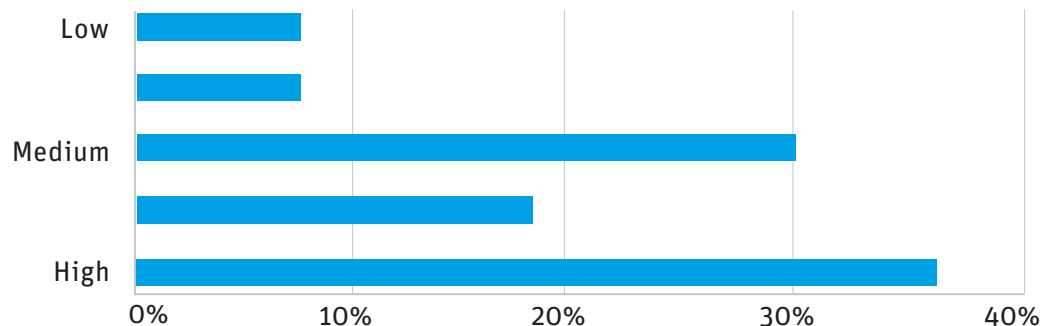
Agile, personal service

- Efficient execution through our online platform or FX traders
- Experienced FX advisors available to resolve any issues
- Spot and forward foreign exchange
- FX derivatives
- Cash deposit accounts in all major currencies

Talk to us if...

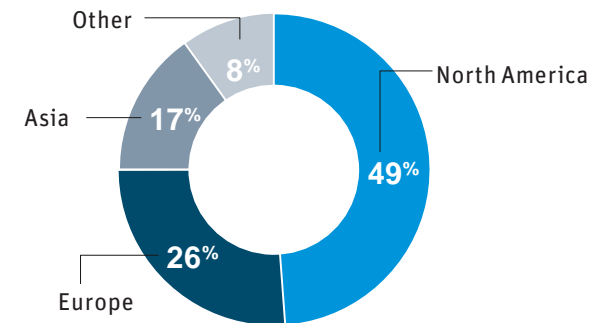
- You are negotiating contracts with a CRO for overseas trials
- You are structuring an international manufacturing deal
- You are paying overseas employees
- You agree to foreign licensing
- You want to protect your A/R from currency depreciation
- You are considering establishing an international subsidiary
- You expect funding from an international investor or partnership

Organizations that cite FX risk effect on earnings forecast difficulty



Source: Association of Financial Professionals 2013 Risk Survey

Distribution of clinical trials studies



Source: All Studies Registered on clinicaltrials.gov (Data as of June 11, 2014)

Case Study – FX Implications

Nate Wyne
Foreign Exchange Advisor



Foreign Exchange & Clinical Research Organizations



1

**Boilerplate
Language**

2

**Protective
Margin**

3

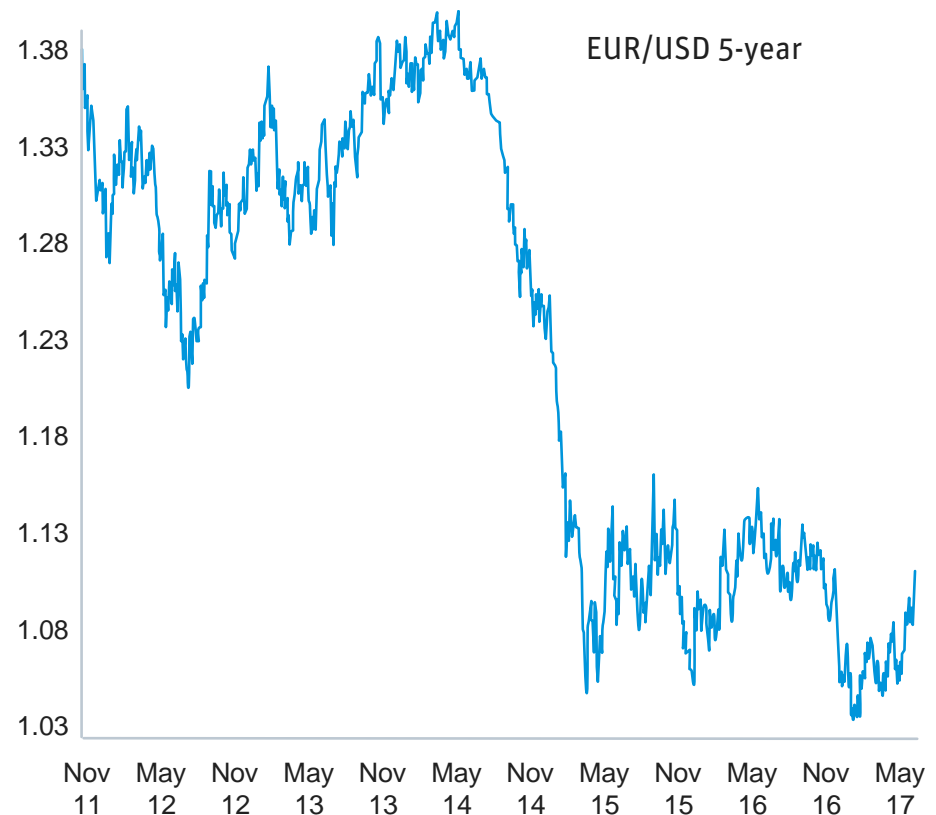
**Strategic
Implications**

Boilerplate Example

The exchange rate of €1.00 to \$1.25 has been used and takes into account XYZ's evaluation of the likely cost increases over the life of the study for the countries involved. Service fees presented in this proposal are valid for a period of 90 days from the date of issue. After that time XYZ reserves the right to revisit prices for services according to prevailing economic conditions.

Key Considerations:

- Time value of money
- Revisiting implications
- Ultimate Costs



FX Risk Management

Primary Goal: Cash-flow / Earnings Stability

Mitigate fluctuations in the USD value of foreign denominated exposures

NOT speculation on direction of foreign currency rates

A prudently implemented risk management policy, consistently applied, seeks to achieve discrete periods of cash flow stability



=



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More Stable
Cash Flows

More Stable
Earnings

Higher Firm
Valuation

Focus and Perspectives

Clinical Research Organizations

Short-Medium Term focus
Bank view: Cautious

FX Reality/Opportunity

Posting Collateral
Forward Contracts/Options

Life Science Company

Long-term focus
Bank view: Competitive

Life Science Company

Direct Hedging
Direct FX Management



FX Risk Solutions

Peter Compton
Senior Foreign Exchange Advisor

CRO Contract - Example

Euro Denominated

CRO requires payment in Euros. Trial expected to last 18 months. Expenses will range from €50,000- €250,000 each month.



Today

Enter FX Forward to buy €100,000.

No cash changes hands.

(may have collateral requirement)

Forward Rate: 1.13

October 15

You receive €100,000

You deliver \$113,000

FX Forwards are derivative contracts and will be revalued each period end for accounting purposes.

Forward and Forward Window Contracts

Hedge currency exposure for more predictable cash flows

Benefits of using Forward Contract



Lock in the exchange rate used to convert currency on a future settlement/delivery date



Managing currency risk with no commissions or account fees



Offers flexibility with regard to the amount of the currency exposure to be hedged (Hedge Ratio)



Forward Window - allows multiple “drawdowns” until the contract amount is used up.

CRO Contract - Example

Contracts that add Rate Averaging Mechanisms

Master Service Agreement – Contract Currency \$



Contract Rate:
1.0952 EUR/USD
(spot rate at time
of work order/
project/ trial)



Comparison
to Actual Rate
at year end or
trial end



5% threshold
triggers payment
of difference
between Contract
and Actual Rate



Result: Exchange Rate
movement of less than
5% borne by CRO.

Exchange Rate
movements of greater
than 5% borne by
Sponsor

FX Options Contract

Hedge Currency Exposure with Tailored Options Contracts

Benefits of using FX

Options

Provides protection against worse case scenario currency movements

Potential to participate in favorable FX rate movements

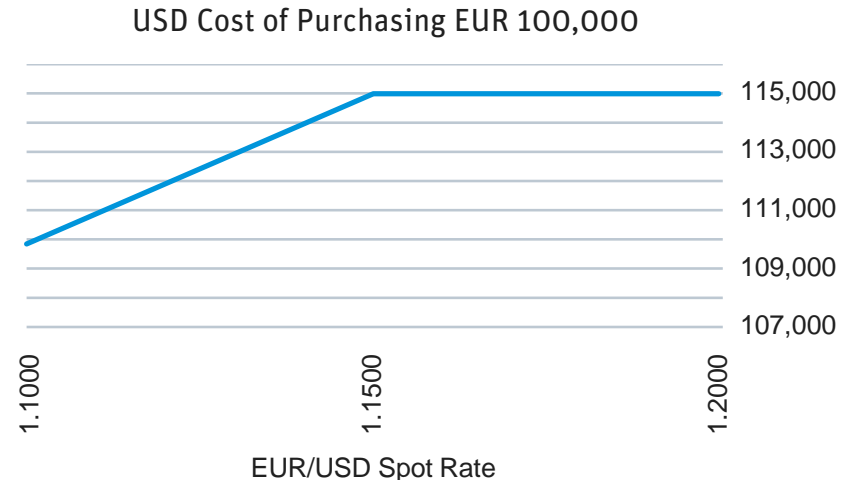
Flexible hedge structures, including buying and selling options, allow for tailored risk management to match CRO contracts

FX Option to purchase €100,000

Strike Level: 1.15

Maturity: October 15, 2017

Premium: \$4,500



Foreign Currency Account (FCA):

A deposit account where funds can be held in a foreign currency

Buy and hold foreign currency until needed for expenses

Locks in the amount of USD required to buy foreign currency

Domiciled in the United States

Able to wire currency into and out of deposit account

No need for derivative accounting/disclosures

Creates a foreign currency denominated asset which may gain/lose dollar value

Does not allow for benefit of favorable movement in FX rate

100% of cash required upfront to buy foreign currency

FX Risk Management: A Guiding Framework



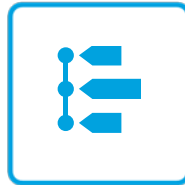
Identify Exposures

Forecasted cash flows by currency by entity.
Consider offsetting payables / receivables
Gather data on accounting exposures (re-measured assets / liabilities)



Evaluate Risks

Compare to management tolerance
Place in context of risk management goals. (i.e. Cash Preservation, EPS, FX Budget Rate, etc.)



Devise Strategy

Simple, transparent Forward contract structure is a standard
Determine hedge ratio and duration. Ex. 50% of forecasted expense
Review hedge accounting treatment needs



Implement and Monitor

Enter FX Hedging Contracts
Revaluation at Period End
Review hedge strategy regularly to be sure accomplishing intended results

A photograph of a laboratory setting. In the foreground, a blue plastic test tube rack holds three test tubes. The first tube on the left contains a yellow liquid and has a small white label with the letters 'AT' written on it. The middle tube contains a yellow liquid and has a white label with '005 2130' written on it. The third tube on the right contains a dark green liquid. The background is blurred, showing other laboratory glassware like beakers and flasks. A semi-transparent blue horizontal bar is overlaid across the middle of the image, containing the text 'Questions?' and a white arrow pointing to the right.

Questions?





Appendix



Derek Brunelle



Managing Director Head
of Southwest Region

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Derek Brunelle is a Managing Director of Silicon Valley Bank's Life Science and Healthcare practice in the Southwestern U.S. He manages two industry niche focused deal teams and oversees all aspects of client origination, product sales and delivery, and personnel management in the region.

Prior to this role, he was Managing Director of Silicon Valley Bank's Structured Finance team in Southern California and was responsible for client origination and portfolio management of venture backed technology and life science clients.

Prior to joining Silicon Valley Bank in 2006, Derek spent six years in the middle market banking practice at Union Bank.

Derek graduated with distinction from the University of Vermont with a major in Business Administration. He lives in San Diego with his wife and daughter. Derek is an active participant on BIOCOM's Capital Development Committee.

Peter Compton



Senior Foreign Exchange
Advisor
Silicon Valley Bank

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Peter Compton is a senior foreign exchange advisor for Silicon Valley Bank's global financial services group, and has been with SVB since 2007. He helps clients design and implement hedging strategies for foreign currency exposures. Compton has over 20 years experience in global financial markets.

Before joining Silicon Valley Bank, Compton spent seven years working in the European equity markets. Based in Germany, he spent four years with HSBC and three years as Head of Equity Sales for ABN-AMRO in Frankfurt. Prior to his work overseas, Compton spent seven years with Bank of America in San Francisco as an equity and fixed income derivative specialist.

Compton holds a bachelor's degree in business and management from the University of Rhode Island and a Master's of Business Administration from San Francisco State University.

Nate Wyne



Senior Foreign Exchange
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Silicon Valley Bank

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Nate Wyne is the Southern California foreign exchange advisor for Silicon Valley Bank. Nate holds a bachelor's degree from the University of Utah in international studies for business.

Nate partners with his clients to create and implement sound risk-management practices around foreign exchange and cash management.

After completing his undergraduate degree, Nate pursued a career in retail banking before moving to commercial and eventually corporate banking. With 13 years of banking experience across the full gamut of advisory roles – Nate enjoys helping growing businesses focus on what they do best.

Disclaimer

Foreign exchange transactions can be highly risky, and losses may occur in short periods of time if there is an adverse movement of exchange rates. Exchange rates can be highly volatile and are impacted by numerous economic, political and social factors, as well as supply and demand and governmental intervention, control and adjustments. Investments in financial instruments carry significant risk, including the possible loss of the principal amount invested. Before entering any foreign exchange transaction, you should obtain advice from your own tax, financial, legal and other advisors, and only make investment decisions on the basis of your own objectives, experience and resources. Opinions expressed are our opinions as of the date of this content only. The material is based upon information which we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such.

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