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Cash Flow Considerations at the End of the 'Easy Money' Era

Not long ago, biotechnology and medical device companies faced a relatively straightforward road to going public. They raised money, went through the IPO and sold to or merged with Big Pharma. The ease of the IPO process made them appealing targets for venture capitalists, who could cash out their investments after the public offering.

A sluggish IPO process has disrupted both the traditional business path and capital markets. Many venture capitalists are more particular with their new investments because they cannot monetize their existing investments because fewer of their portfolio companies are going public.

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Revisit R&D

Research and development (R&D) activities number among the largest expenditures companies incur. For pharmaceuticals, that includes costs ranging from drug discovery through the different phases and trials. For medical device products, that encompasses expenses for parts, labor, beta testing and trials, where applicable.

Opportunities are available to lower R&D costs. Parts of the U.S. offer tax and other monetary incentives for R&D performed within their jurisdiction. Countries like Australia offer capital to U.S. companies who conduct R&D in-country. Some companies give up future rights of their product to Chinese companies for the Chinese market in exchange for capital infusions that can be used for R&D.

Reduce Unnecessary Expenses

Companies should critically examine expenses incurred for some of their employee programs. Putting a spending cap on company-expensed meals or eliminating extraneous workplace programs help the bottom line. Outsourcing some company functions may be more cost-effective than performing them in-house.

Look for Other Sources of Capital

To bolster their cash flow, companies should reconsider their federal grant options, which include SBIR and DARPA programs, to fund their R&D growth. Companies can also reach out to Big Pharma to fund part of their trials.

Develop a Strategy

Despite the challenges in the IPO and capital markets, the life sciences sector has many resources available. An innovative approach to managing costs and accessing incentives can help companies capitalize on their opportunities and achieve their objectives.



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