

THE IMPORTANCE OF A FINANCIAL PLAN FOR LIFE SCIENCE EXECUTIVES

Life science companies in particular are experiencing a period of change due to shifts in age and demographics, disease, entry of new technologies and increased government regulations.

Corporate executives within the life science industry face many unique wealth management challenges and opportunities. Along with running a successful company and answering to shareholders and a board of directors, they also have complex earnings packages, concentrated stock positions and a high likelihood of liquidity events – which can be financially complex. Managing this complexity is increasingly difficult within today's environment due to SEC rules and regulations and the constantly evolving and complex nature of business' lifecycles. The global macroeconomic environment and unpredictable investor reactions contribute to volatility that can be extreme for executives with concentrated equity positions. Life science companies in particular are experiencing a period of change due to shifts in age and demographics, disease, entry of new technologies and increased government regulations.

Though these challenges exist, the potential for high dollar value transactions is high. In fact, in the last 12 months, the healthcare sector had the most number of IPOs with the highest number of total proceeds. Additionally, returns for the S&P



500 Biotechnology Select Industry Index and the Bloomberg San Diego Biotechnology and Pharmaceutical Index (BSDBX) for the past 5 years have been strong. The S&P 500 Biotechnology Select Industry Index and the Bloomberg San Diego Biotechnology and Pharmaceutical Index had an average annual return of 15.96% and 4.50% respectively over the past 5 years through May 6, 2016.

Though we have seen positive growth over the last few years, the last 12 months have shown

decreased activity and returns in the sector for San Diego. For the past 12 months through May 6, 2016, the S&P 500 Biotechnology Select Industry declined -29.74% and the Bloomberg San Diego Biotechnology and Pharmaceutical Index declined -30.68%. This is an opportunistic time for exercising options if the stock price is close to the strike price and anticipated to appreciate. This allows the executive to lower their taxes upon exercise while starting the time period for long-term capital gains treatment on the stock. Another strategy for consideration is outright

gifting future appreciation to future generations while values are low. This allows future appreciation to take place outside of the taxable estate and sets up long-term gains for future appreciation of the stock.

Life Science company executives have fewer trading windows than other industries. This industry tends to have information flowing within senior management that is nonpublic from FDA trials, pending mergers and other milestones. As a result, it is important that executives consider 10b5-1 trading plans during an open window. A 10b5-1 trading plan allows an executive to set up a pre-determined plan to sell the stock over a specific price beyond a specific date in the future. As a result, if trading blackout is implemented due to material nonpublic information, trades can continue as dictated by the pre-determined plan.

It is imperative to put a financial plan in place and have it continually monitored to allow for changing life events, new opportunities and market dynamics. Some estate and tax planning techniques include charitable gifting and Grantor Retained Annuity Trusts (GRATs). Charitable Gifting is a good way to get a tax deduction, and can be a useful strategy for high wage earners, and should be considered, if and when the stock recovers. Gifting in a year when you have substantial income at the highest taxable rate provides the most benefit. An individual can gift either cash or securities and receive a tax deduction; though gifting appreciated securities provides an additional benefit from avoiding capital gains tax. A GRAT is a wealth transfer technique that provides a low-risk



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opportunity to transfer wealth to family members potentially without paying gift tax. A GRAT is a useful planning tool if a security is expected to increase in value substantially during the term of the GRAT, thereby getting all taxable appreciation out of the grantor's estate. The grantor of the GRAT receives a yearly annuity, and then the amount of the appreciated security goes to the stated beneficiary.

The peace of mind offered by a well-constructed financial plan is invaluable to help clients navigate periods of uncertainty during liquidity events. Although a concentrated equity position in the current San Diego Life Science environment can be daunting, the financial planning process offers an executive and their family clarity, direction and discipline. If you would like more information about any of the planning techniques in this article, please visit www.callancapital.com, or call (858) 551 3800.

Disclaimer: Past performance is not a guarantee of future results. Callan Capital does not provide individual tax or legal advice. Clients should review planned financial transactions and wealth transfer strategies with their own tax and legal advisors. For more information, please refer to our most recent Form ADV Part 2A which may be found at www.adviserinfo.sec.gov. S&P Biotechnology Select Industry Index is designed to measure the performance of narrow GICS® sub-industries. The Index comprises stocks in the S&P Total Market Index that are classified in the GICS biotechnology sub-industry. The Bloomberg San Diego Biotechnology and Pharmaceutical Index is a price weighted index of biotechnology and pharmaceutical companies headquartered or competing with companies in San Diego.