Evaluate Vantage

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First-quarter floats hold amid uncertain climate

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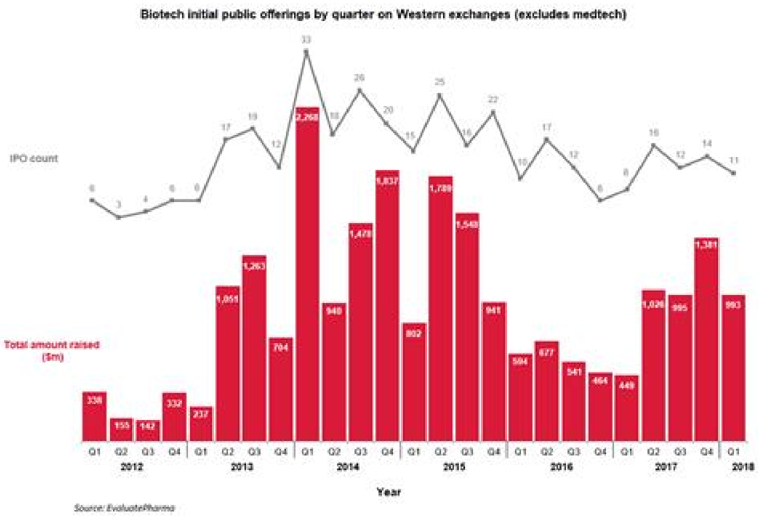
Biotech IPOs record another strong quarter, setting the pace for a bumper year of new issues.

A surge in IPO cash raised in the first quarter appears to confirm that the biopharma sector has put the moribund days of 2016 well behind it. And, with the opener traditionally the quietest quarter of the year, the industry's appetite has no doubt been whetted for a bumper 2018.

However, there are factors that could hit the current positive sentiment, not least the ongoing stock market volatility. Investors might also be spooked by a couple of early setbacks involving big first-quarter IPO success stories – most recently Menlo Therapeutics (see tables below).



Today Menlo joined Solid Biosciences in an unenviable group of companies that have flopped shockingly soon after going public. While Solid tanked in March on safety fears, Menlo's slump today was down to an old-fashioned trial setback with its sole clinical asset, the NK1 receptor antagonist serlopitant.

The failure of the phase II Atomik study, in severe itching in patients with a history of atopic dermatitis, does not appear to have dampened Menlo's enthusiasm for the project – in today's announcement the company claimed two previous phase II successes and said it still planned to start a phase III study in prurigo nodularis this quarter.

Investors disagreed with the optimistic outlook, sending the group's stock down 72% this morning.

Data from two more phase II trials of serlopitant are due late this year or early next, in chronic cough and itching associated with psoriasis. Positive results would help rehabilitate Menlo's stock, but more disappointments could be fatal.

Serlopitant's stumble raises more questions about the wisdom of backing big pharma cast-offs – the project originally came from Merck & Co – and perhaps this is a lesson investors should heed in future.

Q1 2018 biotech IPOs on Western exchanges (all Nasdaq unless stated)						
Company	**Date**	**Amount raised ($m)**	**Offering price ($)**	**Discount/ premium**	**First-day close**	**Q1 2018 chg since float**
Cue Biopharma	2 Jan	66.15	7.50	7%	11.63	87%
Eyenovia	25 Jan	27.30	10.00	(9%)	9.92	(9%)
Menlo Therapeutics	25 Jan	136.85	17.00	3%	28.71	121%
Armo Biosciences	26 Jan	127.99	17.00	13%	29.74	120%
Solid Biosciences	26 Jan	143.74	16.00	(14%)	22.62	(53%)
Restorbio	26 Jan	97.74	15.00	0%	16.88	(36%)
Sol-Gel Technologies	1 Feb	86.24	12.00	0%	13.64	(14%)
Evolus	8 Feb	60.00	12.00	(8%)	11.5	(31%)
Acacia Pharma*	5 Mar	49.03	4.44	(12%)	3.4	(6%)
Bioxcel Therapeutics	8 Mar	59.99	11.00	(8%)	11.03	(7%)
Arcus Biosciences**	19 Mar	138.00	15.00	7%	17	3%
**Euronext. ** NYSE. Source: EvaluatePharma.*						

Another member of the class of 2018 is already on shaky ground: Armo's stock was off 10% on Friday as the company got caught up in doubts about immuno-oncology combinations after the blow-up with Incyte's IDO inhibitor epacadostat.

Still, Armo's cytokine-based approach represents a different mechanism to epacadostat, so the company still has a chance to turn things around. Much of its near-term performance will hinge on upcoming results with its lead asset, AM0010; Armo will present phase I solid tumour data as this year's Asco, and the phase III Sequoia study in pancreatic cancer is ongoing after an interim analysis in March.

Remarkably, all three of these companies managed to raise over $100m in their respective offerings, and with another monster float from Arcus 2018 is on track to beat the 15 $100m-plus IPOs recorded last year (*Tide turns as 2017 IPOs ramp up, January 15, 2018*).

If flotations continue at this pace 2018 should also see a similar deal total to 2017 – although the number of IPOs might be slightly short, suggesting that a move towards fewer but bigger bets is continuing.

Biotech IPO market by year				
Year	**No of IPOs**	**Amount raised ($bn)**	**Avg amount raised ($m)**	**No raising >$100m**
Q1 2018	11	0.99	90	4
2017	50	3.85	77	15
2016	45	2.28	51	3
2015	78	5.09	65	17
2014	97	6.52	67	18
2013	54	3.26	60	7
2012	19	0.97	51	2
Source: EvaluatePharma.				

In another sign of the rude health of the public markets, more companies are achieving their proposed offer prices, with the average discount to IPO price ranges at a mere 2%.

It is still unclear whether this is down to exuberance in the public markets or whether companies are being more realistic in what they can achieve. The high number of large offerings, however, suggests the former explanation is more likely.

Nasdaq premium/(discount) to IPO price range	
Period	**Average**
Q1 2014	(9%)
Q2 2014	(18%)
Q3 2014	(16%)
Q4 2014	(9%)
FY 2014	**(12%)**
Q1 2015	(7%)
Q2 2015	(5%)
Q3 2015	6%
Q4 2015	(17%)
FY 2015	**(5%)**
Q1 2016	(11%)
Q2 2016	(19%)
Q3 2016	(10%)
Q4 2016	(0%)
FY 2016	**(12%)**
Q1 2017	(1%)
Q2 2017	(2%)
Q3 2017	(2%)
Q4 2017	(6%)
FY 2017	**(3%)**
Q1 2018	(2%)
Source: EvaluatePharma.	

Signs of a frothy market could raise red flags for the rest of the year. The souring of sentiment in the sector, not helped by losses in big biotech stocks, will not improve the overall landscape for smaller players – and with the aforementioned failures among the recent IPO crop, investors might think twice before getting their wallets out.

Still, reports that the Alzheimer's player Alzheon is planning an $80m IPO this week suggests that there are enough optimistic – some might say gullible – investors around. The company's lead project, ALZ-801, is a prodrug of tramiprosate, a compound that previously flunked phase III.

Alzheon plans to start its own phase III trial which it says will use a personalised medicine approach, focusing on mild Alzheimer's patients homozygous for the Apo E4 genetic variant. Given the long list of failures in the disease, the company could soon be joining Solid and Menlo in the roster of 2018 IPO disappointments.

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