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June rush drives near-record quarter for biotech flotations

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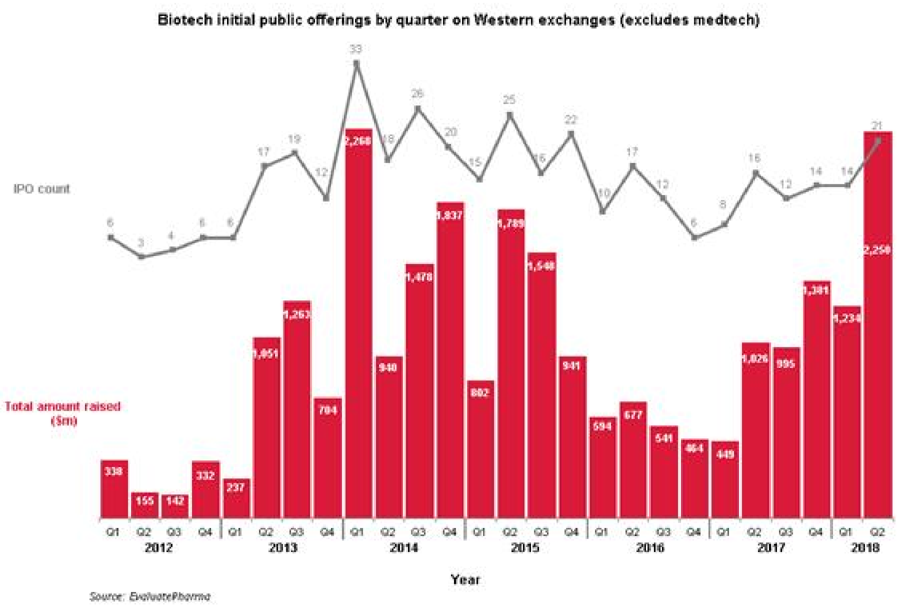
Biotech IPOs raised a huge $2.3bn on Western exchanges in the second-quarter of 2018, as private companies rushed to market ahead of the summer lull.

Are happy days here again? Or was the rush of late June biopharma flotations a sign that the window could swing shut as the markets become more volatile this autumn? Whatever the case, the number of public listings and amount raised in the second quarter of 2018 almost sets a new record, and should bolster confidence in the health of the sector.

Signs that advanced technologies like CAR-T and gene therapy can succeed both in the clinic and with regulators have led to enthusiasm across biopharma, carrying along even a drug reformulation play like Xeris Pharmaceuticals. The average amount raised in 2018's IPOs so far is well above even the boom years, suggesting that the woes of big biotechs like Celgene have driven investment dollars into earlier-stage rivals.



Even if the valuation of the biotech sector broadly stands below its boom-level peak, the 21 flotations and $2.3bn raised in the quarter just ended would have looked very healthy even during the biotech boom.

There might have been more IPOs and more money raised during the heady days of 2014, but not by much; the 2018 second-quarter total stands just $18m short of the amount raised in the first quarter of 2014, the peak of the current cycle.

It might be a little more difficult to explain why, however. Certainly US FDA approvals of cell and gene therapies like Kymriah and Luxturna have paved the way for investors to view these sciences as reality, rather than science fiction, allowing subsequent players like Autolus and Avrobio to get away.

And then there is the issue of timing. Any company readying an IPO knows, of course, that avoiding the late-summer doldrums is crucial, making late July a deadline by which, in a normal year, a float has to take place if it is not to be delayed until after the summer.

This time around, with a hard-fought US mid-term election approaching in November, investors might remain wary of risk through much of autumn too, until the question of congressional control can be settled, and IPOs might not find favourable trading conditions until after that. Thus bankers might have advised companies looking to float to act now or wait until 2019 – too long, perhaps, for many venture-backed groups nearing the end of their cash runways.

Top 10 Q2'18 biotech IPOs on Western exchanges (all Nasdaq unless stated)

Company	Amount raised ($m)	Offering price ($)	Premium/(discount)	First-day close (lc curr)	Q2 2018 chg since float
Tricida	222.00	19.00	12%	26.00	57%
Polyphor*	154.95	38.01	4%	38.2	(17%)
Kiniksa Pharmaceuticals	152.59	18.00	0%	19.47	(4%)
Autolus	150.00	17.00	6%	25.00	58%
Translate Bio	122.00	13.00	0%	11.52	(3%)
Forty Seven	113.00	16.00	7%	15.05	0%
Surface Oncology	108.00	15.00	7%	13.33	9%
Eidos	106.00	17.00	6%	23.12	20%
Aptinyx	102.00	16.00	7%	20.20	51%
Avrobio	100.00	19.00	12%	31.20	50%

**SIX Swiss Exchange. Source: EvaluatePharma.*

Biotech investors, meanwhile, look like they have soured on the big-cap names as clinical setbacks or high-risk pipeline projects await critical milestones. The $37bn in lost valuation recorded by Celgene, for example, means that there is money to be spent on earlier-stage companies by investors who have reduced or eliminated their holdings in the big cap group.

This could help explain why groups like Avrobio, Tricida and Forty Seven were able to upsize their IPOs significantly.

With the upsizing came an impressive average float size – $107m – with 12 of the 21 breaking $100m. Tricida’s $222m floatation, the biggest of the year so far, was helped along by news of positive phase III results with its kidney disease asset TRC101 shortly after IPO papers were filed.

Moreover, the average float came in at 2% above the mean proposed range; even the height of the biotech boom the only period in which the average IPO did not take a haircut was the third quarter of 2015.

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%)
Q2 2018	2%
Source: EvaluatePharma.	

While flops just after listing remain rare, investors were last week reminded of the risk of disaster when a late 2017 float, Arsanis, discontinued its phase II trial of ASN100, a monoclonal antibody to treat pneumonia in patients on ventilators. Arsanis shares fell 73% to near-cash levels, a fate that could easily await members of the second quarter's IPO class should their clinical programmes fail.

Sustaining the second quarter's IPO pace throughout the rest of 2018 would be a difficult and surprising feat. Still, although the flotation totals might well have been artificially inflated by worries that investors will turn away from risk in the second half, they should be taken as a sign of good health. The sector might perhaps only begin to worry if 2019 starts off more slowly than 2018 did.

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