

Storm clouds gather for biotech flotations



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Initial public offerings

Biopharma - Q3 2019

Only seven drug developers managed to float on Western exchanges in the third quarter, and new issues in October have struggled, with Biontech the latest example.

Is the IPO window shutting for biopharma? Evidence is mounting that this might be the case, from a big drop in the number of flotations in the third quarter, to downsized offerings and a handful of aborted attempts. And, for those that do manage to get away, a warm welcome is far from guaranteed.

The backdrop to this is a very rocky period on the stock market: Nasdaq, the US exchange on which most young drug developers try to list, took a tumble at the end of September, and drug stocks were singled out for particular punishment. The Nasdaq Biotechnology Index slumped 8% in the final weeks of September, and started October down on the year.

As a result many companies are being forced to accept lower – some would argue more realistic – valuations. A case in point is Biontech, which had to strip 20% from its IPO price and reduce the number of shares on sale to win support from public investors. The mRNA player ended up raising only \$150m; it had initially been targeting up to \$264m.

Biontech shares, which started trading yesterday, fell 5% to \$14.24, giving the company a \$3.2bn market cap. That is still a huge valuation for a group with only a handful of projects in the clinic and much left to prove. Many investors believe that its valuation will continue to sag, echoing its US rival Moderna's experience, particularly as the cash-hungry German company, which employs an astonishing 1,000 people, will soon need more money.

All eyes will now be on Vir Biotechnology, the subject of another huge offering, which is set to float today. The company's IPO has been priced at \$20, the low end of its proposed range; this would raise the infectious disease specialist \$143m and give it a \$2.2bn market cap.

Doing what is necessary

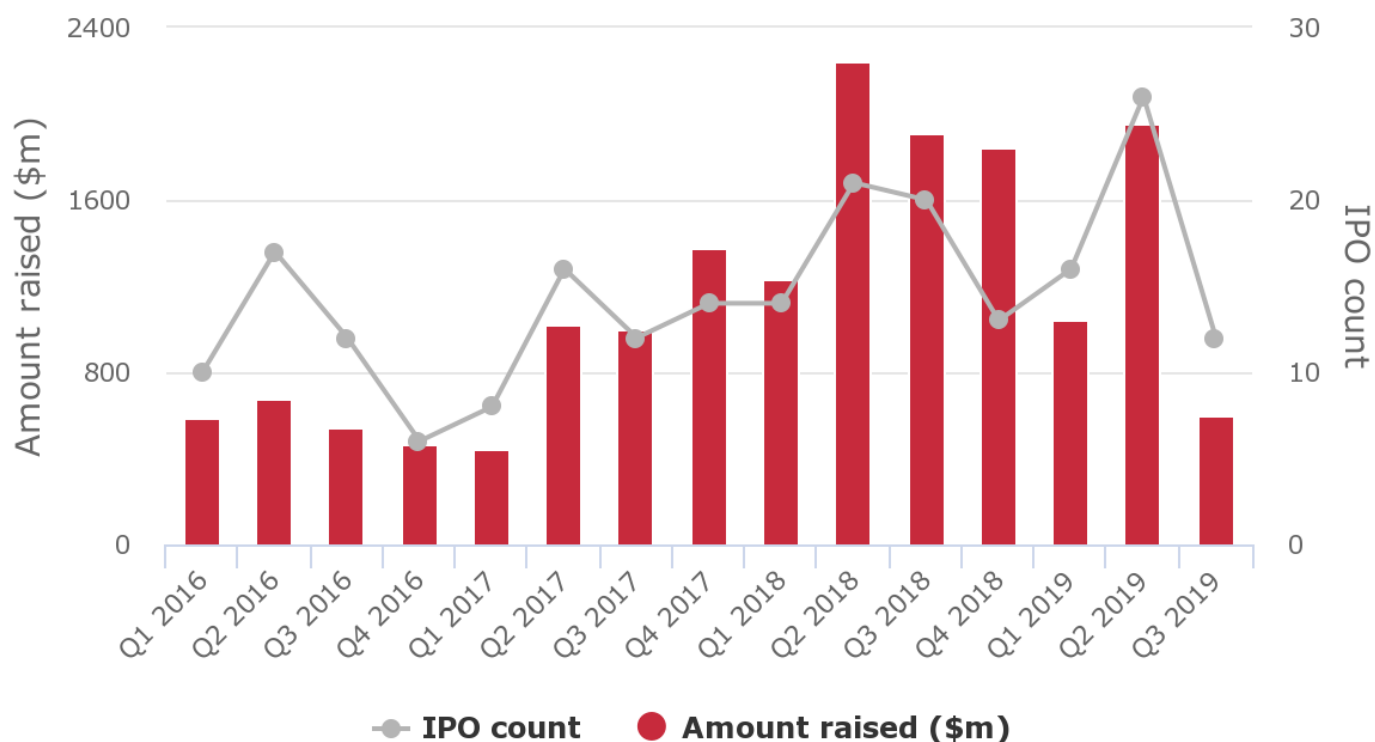
Biontech did what was needed to go public, unlike ADC Therapeutics, which pulled its Nasdaq IPO in early October, citing adverse market conditions. This was certainly a testing time on the markets, but the company was also gunning for some very big numbers: its proposed terms would have given it a market cap of \$2bn and \$200m of fresh funds.

A commitment from insiders to buy 57% of the new stock was not enough to convince public investors, and

presumably ADC declined to trim its valuation to tempt them on board.

Another company that pulled its IPO in early October was Monopar Therapeutics, which was lining up a \$40m flotation. It is hard to see market conditions improving to the extent that these companies will be able to return any time soon, unless they are willing to negotiate on valuation.

Biotech initial public offerings by quarter on Western exchanges



Vantage analysis of Evaluate data

These upsets in October were largely foreshadowed in the third quarter: only seven companies listed on Western exchanges during this time, representing the slowest three-month period for biopharma flotations in more than two years. The chart above, based on data collected by *EvaluatePharma*, looks only at developers of human therapeutics, and excludes sectors like medtech and diagnostics.

The total amount raised was boosted by two substantial offerings, from Springworks and IGM Biosciences, which managed to get out before the markets turned south at the end of September, and are just about managing to stay in the black.

Many companies will be hoping to float before the US enters its full-blown election period, when political uncertainty and the inevitable heightened scrutiny of drug prices are likely to prompt many investors to seek less volatile propositions. But, as conditions stand currently, it is hard to see the final months of 2019 generating a much prettier picture than the previous quarter.

Support for biopharma flotations has far from dried up, if the amount of money some of these companies have been able to raise is anything to go by. But unsubstantiated valuations are increasingly being questioned. Whether the punishment comes in the form of a downsized IPO or a falling share price post-float, a new reality is forming.

Biggest biotech IPOs on Western exchanges in Q3 2019 (all Nasdaq unless stated otherwise)

Company	Primary focus	Amount raised (\$m)	Premium/(discount); float price to initial offer	Share price change since float to end Q3
Springworks Therapeutics	Rare diseases and oncology	186.3	6%	20%
IGM Biosciences	Oncology	175.0	0%	11%
Satsuma Pharmaceuticals	Migraine	82.5	0%	0%
Mirum Pharmaceuticals	Rare diseases	75.0	0%	(33%)
Fulcrum Therapeutics	Genetic diseases	72.0	(6%)	(59%)

Source: EvaluatePharma.