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Bloated on arrival? Biotech's weightiest new issues

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A big valuation at float is no guarantee of ongoing investor support, as a look at the sector's biggest IPOs reveals.

This year has seen four drug developers come to market in the US with valuations of at least $2bn each, the biggest run of IPOs of this size the sector has witnessed. This is largely a function of the ballooning of private valuations over the past couple of years, meaning that these biotechs arrived at the feet of public investors at ever higher price tags.

Of course these investors do not need to accept sky-high valuations, and this month has witnessed several instances of pushback. ADC Therapeutics, for example, withdrew a flotation that would have given the Swiss firm a $2bn market cap, while Biontech was forced to take a 20% haircut to get away, equivalent to shaving almost $1bn from its valuation.

The German has company has enjoyed something of a rally this week, and now sits comfortably above its IPO price; volatility in the first few weeks of trading is not unusual, and it will be interesting to see where Biontech's valuation ends up by the year end.

The performance of some of the sector's other big IPOs, by market cap at float, shows that starting off with a huge valuation is certainly no guarantee of long-term success. The hit rate in drug development means that this is always the case, of course, but a "herd mentality" among investors is often cited as another reason for the huge pots of money that some companies are amassing. And the chart below demonstrates how following the crowd does not always pay off.

Vir Biotechnology was the latest big beast to float; its IPO was finally priced at $20, the low end of the initially proposed range, and the stock has since sunk to $14. The presence at the helm of George Scangos, the former chief executive of Biogen, had a lot to do with this company's ability to attract such large numbers, though its performance on the market suggests that there are big question marks over its valuation.

Genmab and Morphosys perhaps do not really fit here, as both had products on the market when they debuted on Nasdaq, and had prior European listings. But these companies at least had a basis for such valuations. It is hard to imagine groups like Rubius and Nantkwest, which floated without even having projects in the clinic, getting away with multi-billion dollar valuations in the current climate.

Like any cohort of high-risk biotech bets, this list contains blow-ups and success stories alike, with many still to play out. But it is notable that the combined market cap of all 12 companies has grown by around $12bn – and even if removing Juno, the most “successful” on this list based on a $9bn takeout by Celgene, the group's value has risen by almost $5bn.

Still, if any trend can be seen here it is that those with very early assets have failed to keep their value. Progress at early-stage companies is much harder to track and assess, a fact that seems to become more apparent when these groups reach the market.

Biotech's biggest flotations – by technology and stage at listing			
Company	**IPO date**	**Technology**	**Pipeline at float**
Genmab	Jul 2019	Antibody platform	Darzalex and Arzerra on the market, 1 x ph2, 4 x ph1
Moderna	Dec 2018	mRNA therapies	1 x ph2, 9 x ph1
Biontech	Sep 2019	mRNA therapies	1 x ph2, 6 x ph1
Morphosys	Apr 2018	Antibody platform	Tremfya on the market, 2 x ph3, 14 x ph2
Nantkwest	Jul 2015	Natural killer cells	No clinical projects
Vir	Oct 2019	siRNA, antibody and T cell platforms	I x ph2, 1 x ph1
Allogene	Oct 2018	Allogeneic CAR-T platform	I x ph1
Juno	Dec 2014	Autologous CAR-T plaform	2 x ph1
Bridgebio	Jun 2019	Genetic diseases, technology agnostic	3 x ph3, 1 x ph2, 1 x ph1
Rubius	Jul 2018	Red blood-cell based therapies	No clinical projects
Galapagos	May 2015	Targeted small molecules	3 x ph2, 1 x ph1
Axovant	Jun 2015	Single Alzheimer's asset	1 x ph2
Source: EvaluatePharma, SEC filings.			