A stock market rebound created a strong finish for biopharma flotations in 2019, with four $100m-plus floats, led by Phathom Pharmaceuticals.

It was always going to be hard to live up to 2018’s bumper IPO haul, and so it has proved, with a decent performance in 2019 suffering by comparison. However, it could have been worse, as much of last year’s showing was down to a strong recovery in the last quarter.

Until October it had looked as if the IPO window for young drug makers might be shutting as western stock markets contracted. Only seven companies listed in the third quarter, prompting fears that the year would end on a huge down note.

This analysis looks only at drug developers, excluding sectors like medtech and genomics.
Instead 14 listings, including four $100m-plus floats, helped 2019 finish with a flourish as the markets bounced back to health. New biopharma issues raised a total of $4.86bn over the year, a far cry from the $7.23bn amassed in 2018 but a comfortable beat of 2017’s $3.85bn.

Chief among the saviours of the fourth quarter was Phathom Pharmaceuticals, which raised $209m, making it the third-biggest listing of the year. Phathom’s achievement is more impressive given that it upsized the offering, selling more shares than initially intended, and that the company operates in the not-too-fashionable area of gastrointestinal diseases.
A look at trends in investor sentiment shows that the final quarter of the year is traditionally a tough period to float, and last year was no exception. The average discount to initially proposed price ranges was at least less severe than in the final quarter of 2018.

The fourth-quarter figures below do, however, hide some big differences. While the likes of 89Bio and Aprea Therapeutics managed to stick to their pre-IPO price ranges, that Car-T player Cabaletta Bio had to lower its price by 27%, which could say a lot about the glut of companies in this space. Biontech and Galera Therapeutics also had to swallow a significant discounts to make listing dreams come true, with Biontech failing to raising the $264m it had initially targeted.
More encouraging for healthcare investors is that many of last year’s sizeable biotech flotation are trading above water; Aprea has tripled in value, for example. However for venture investors the story is perhaps less encouraging.

The chart below looks at the difference between the average share price achieved while a company was private - a figure supplied in most US registration documents - and the price at float. This suggests that early investors are not able to achieve the valuation uplifts at IPO they once could.

However, one thing to note about many of the companies listed here is the immaturity of their pipelines, meaning the vast majority do not have sales and are unlikely to have any in the foreseeable future. Future funding requirements will have to be met through follow-on offerings, which could signal much harder times if the markets turn again.
As to what the future holds for this year’s IPOs, the market is more opaque than normal. US stock markets keep climbing, with Nasdaq hitting record intra-day highs this week; while this is usually good for those looking to float, concerns that a big correction is due are also building.

The US presidential election is another confounding factor, but again it is less than clear what another Trump victory, or a defeat, could mean for healthcare stocks.

But with the IPO window open for now and healthcare indices moving upwards, biotech is making the most of the opportunity. The Chinese company I-Mab is pencilled in for a potential $100m listing later this week. How it fares will be an interesting, not only for an insight into investor appetite for Chinese healthcare stocks following Zai Lab and Beigene’s US listings. Others in the IPO queue, including Arcutis and Black Diamond Therapeutics, will be monitoring I-Mab’s reception as they head to market themselves.