

Covid-19 stalls biotech flotations



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Initial public offerings 
Biopharma - Q1 2020

Several young drug developers managed to float in the first quarter, but new issues dried up in March when coronavirus infected the markets. Is the game back on?

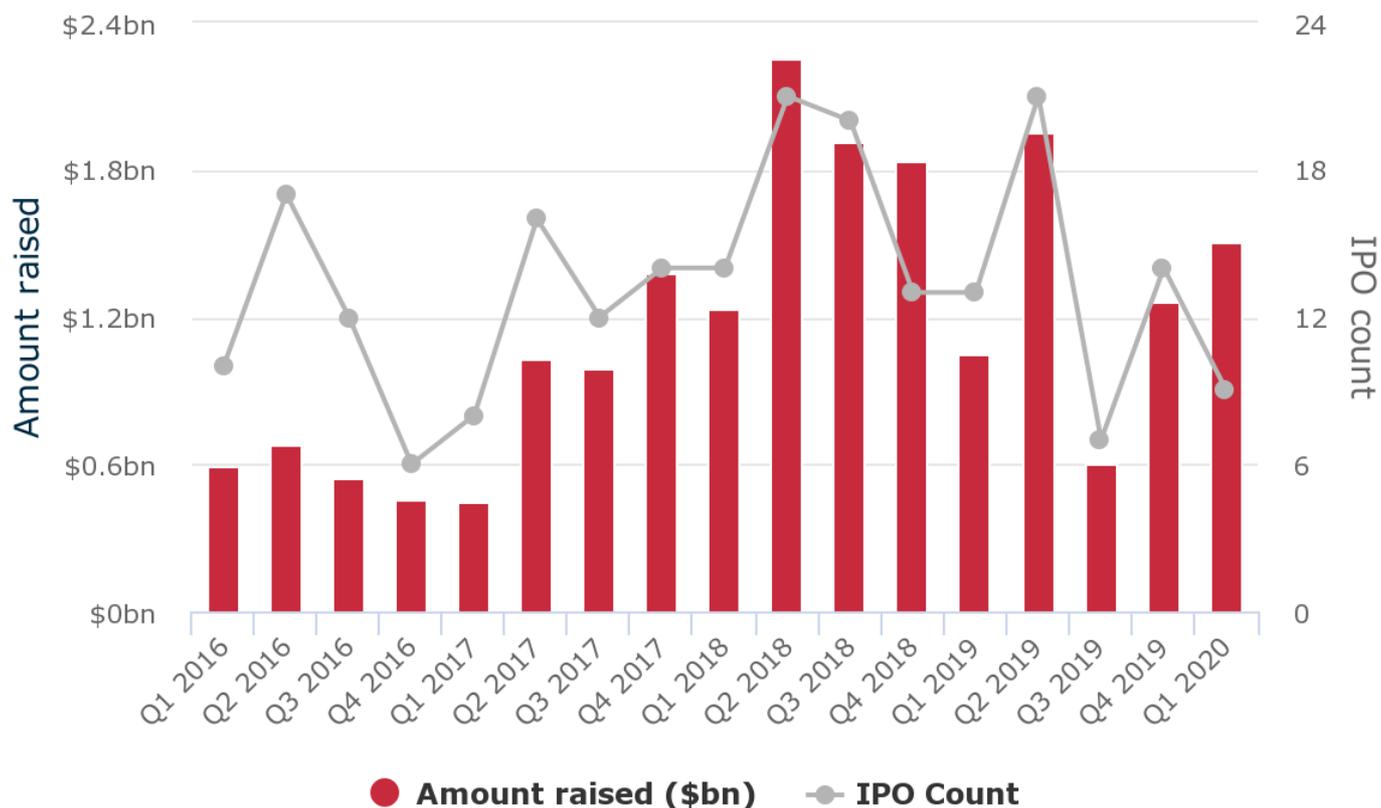
The beginning of this year witnessed a steady flow of well-received biotech IPOs, with nine young drug developers managing to get away before Covid-19 infected the market. By the end of March the stream had dried up.

The hiatus was brief, and encouragingly two companies – Keros Therapeutics and Zentalis Pharmaceuticals – managed to float in early April, so it seems that the window has not entirely shut for these high-risk investments. One of the worst stock market crashes in history is sure to have left its mark, however, and those still harbouring hopes for a public life will have to proceed cautiously.

According to data collected by *EvaluatePharma*, the nine drug developers that floated in the first quarter raised \$1.5bn in total, a respectable haul when looking back over the past few years. The tally would presumably have been much higher had the pandemic not called a halt to proceedings, however.

This analysis includes only drug developers, so represents the very highest-risk propositions that are attempting to go public. Medtech, diagnostic or digital health companies are excluded, and flotations on Western exchanges only are captured.

Biotech IPOs by quarter on Western exchanges

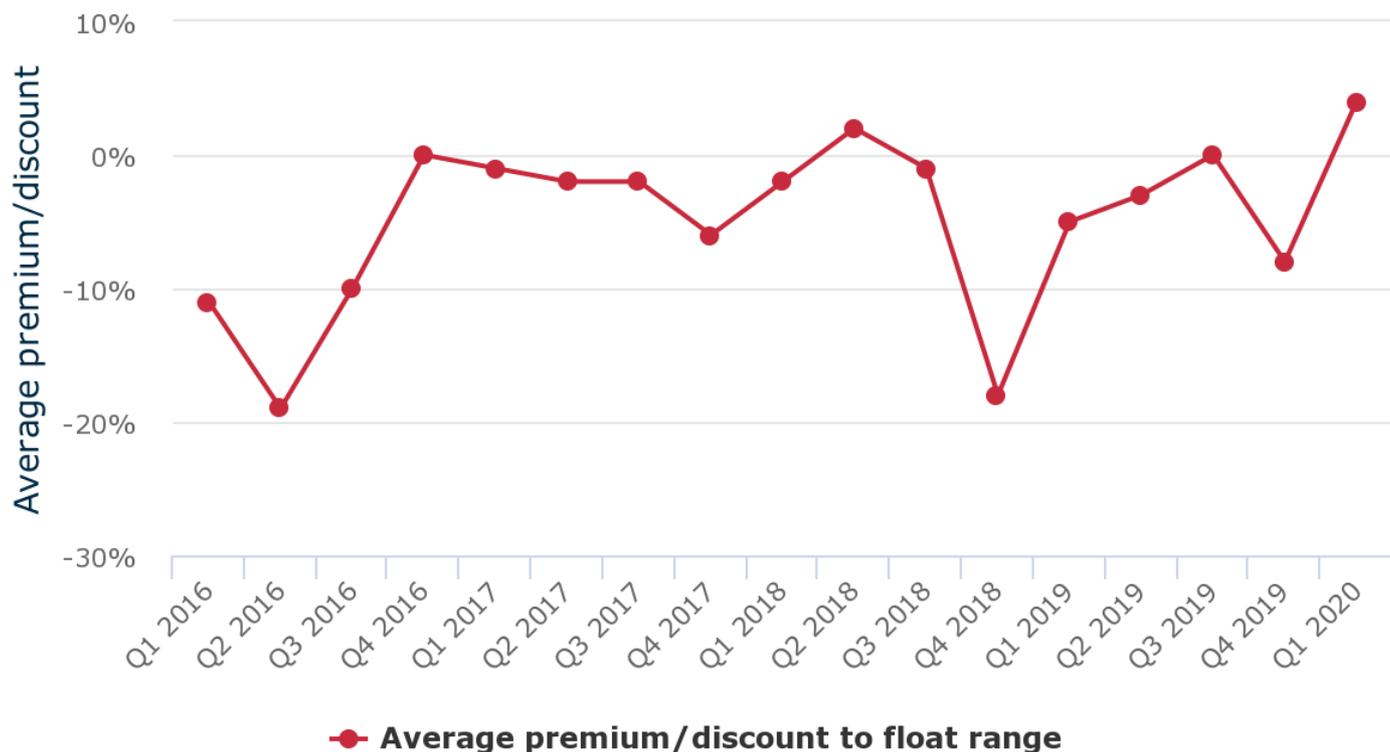


Evaluate

There is certainly evidence to suggest that the pandemic curtailed what was shaping up to a strong run for new issues. Renaissance Capital estimates that 20 companies halted IPO plans in March, across all sectors; as healthcare is currently supplying a big proportion of new issues it seems likely that drug developers make up a fair proportion of that number.

Investors in most cases accepted the valuations placed in front of them in the early part of the year, another indication of the strength of the market. The chart below examines the difference between the initially proposed share price range and the price at which the flotation went out, and a big uptick can be seen.

Average Nasdaq premium/discount to IPO price range



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The caveat here is that the first-quarter cohort was pretty small, and the average was boosted by three companies that priced above the range and/or upsized their deals: Revolution Medicines, Black Diamond and Schrödinger. All are focused on targeted cancer therapies, an incredibly competitive space showing no sign of cooling off.

And, while Imara did not raise a huge haul (\$75m), the rare disease specialist is worth mentioning as it managed to float on March 12th, when the markets were in freefall. True, the deal priced at the bottom of range, but the company had previously upsized the offer; perhaps most impressively, the stock has held water since floating.

Investors must consider Keros and Zentalis pandemic proof to have got away so successfully this month, as market volatility is far from past. Both upsized their IPOs, and are trading substantially higher than their offer prices. The former is developing drugs against TGF-beta, a target attracting much attention, while Zentalis is another targeted cancer drug play.

Those still hoping to float still have a chance, it seems, although whether the worst is over is anyone's guess.

Biggest biotech IPOs on Western exchanges in Q1 2020 (all Nasdaq)

Company	Primary focus	Amount raised (\$m)	Premium/(discount); float price to initial offer	Share price change since float to end Q1
Revolution Medicines	Ras and mTor signalling pathway therpaies	273.7	13%	29%
Black Diamond Therapeutics	Small-molecule, tumour-agnostic therapies	231.3	12%	31%
Passage Bio	Gene therapies for rare CNS diseases	216.0	6%	-13%
Beam Therapeutics	Crispr therapies	207.0	6%	6%
Schrödinger	Drug discovery/ small-molecule oncology	202.0	13%	154%