

What pandemic? Biotech floats break records



[Edwin Elmhirst](#)



Initial public offerings 
Biopharma - Q2 2020

After a brief pause in the first quarter flotations have come flooding back, with drug developers raising almost \$5bn so far this year.

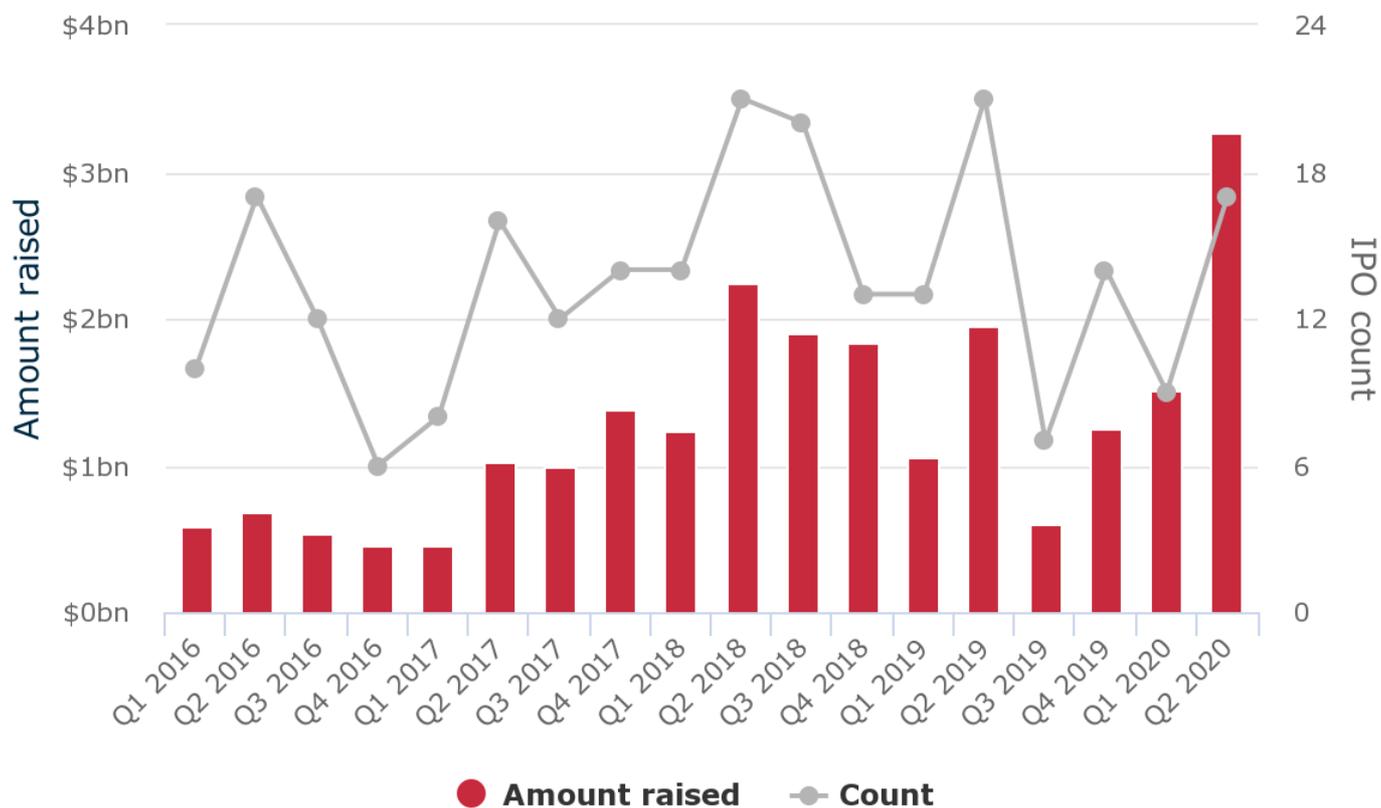
Given the depths of the panic that sent stock markets crashing in late February, the strength and speed of the recovery has been remarkable. And there are few places where this is more evident than biotech IPOs, the statistics around which show few signs of a global pandemic.

Of course it could be argued that the arrival of Covid-19 spurred much of the demand seen recently for young drug developers; investors have been reminded of the sector's worth, while chasing potential beneficiaries of the outbreak. Biotech was already on a run before the pandemic hit, however, so this is far from the only explanation for the sums raised in the second quarter - a record-breaking \$3.3bn, according to *Evaluate Vantage's* analysis.

This view of the sector concerns only those companies developing human therapeutics - excluding medtech, diagnostics and digital health - so it provides a snapshot of the riskiest end of healthcare. Flotations on all Western exchanges are tracked.

The pandemic did cause IPOs to go on hold for most of March, so to a certain extent the huge second quarter can be explained by companies that were to have gone out that month being pushed back.

Biotech IPOs by quarter on Western exchanges



Evaluate

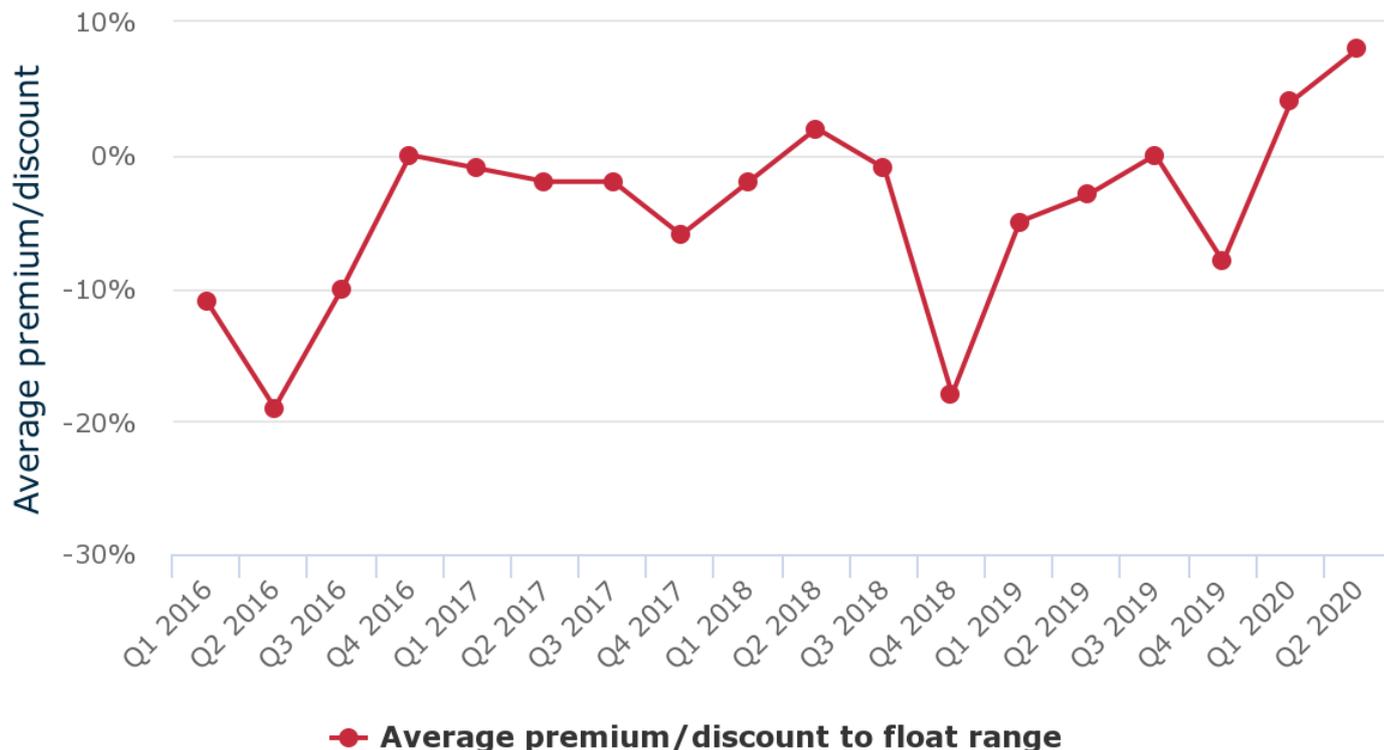
However, this result is also down to the huge amount of capital being made available to these firms. The average amount raised by an IPO in the first half came in at \$193m – only the second time, following 2018’s \$106m average raise, that this total has moved into three figures in our analyses. It should be noted that [Royalty Pharma’s \\$2.2bn flotation](#) is not included in the tally.

With the number of new issues largely flat, the trend to bigger individual offerings is apparent. This is one way in which investors are trying to lessen the risks of funding this end of the biopharma sector: by providing substantial sums to those considered more likely to succeed, and allowing them more than one shot on goal, rather than spreading the money more thinly.

But it also clear that there is huge demand for these floatations. The chart below shows that on average companies received more than they originally set out to raise in the second quarter, with investors’ largesse apparently at levels not seen for at least five years.

The premium or discount is calculated from the midpoint of the initial share price range proposed, and the float price at IPO.

Average Nasdaq premium/discount to IPO price range



Evaluate

A look at individual examples illustrates this enthusiasm. The second quarter's largest IPO, of the [China-US cell therapy researcher Legend Biotech](#), amassed a \$487m haul, after first setting out to raise up to \$100m.

Forma Therapeutics ended up banking \$319m, after pricing its offering 18% higher than its first pitch and selling two million more shares than originally intended. No company had to offer a real discount to get away, with the worst result being a price within the initially proposed range.

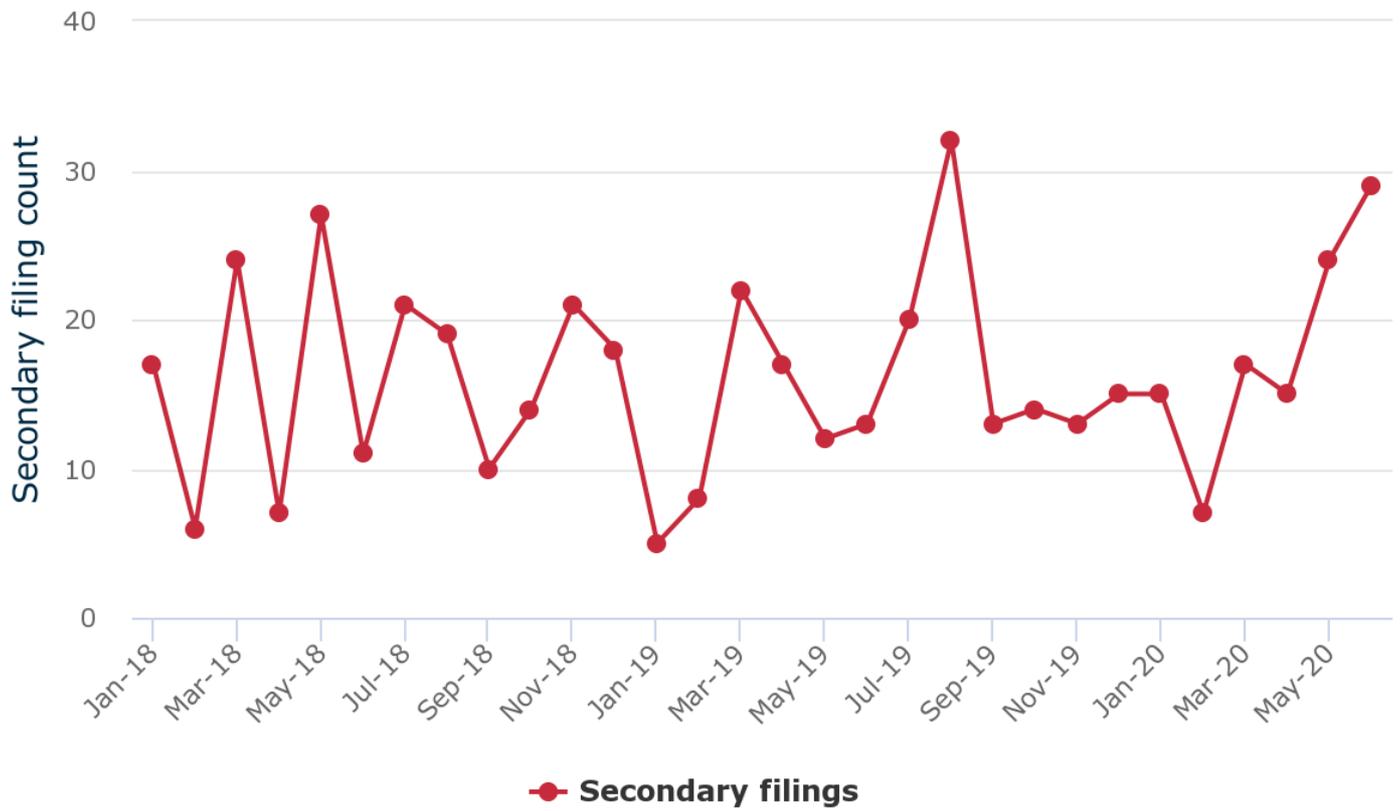
Further sign of support for biopharma can be found in a brief look at the secondary market, below; listed biopharma companies are apparently having no problem topping up their coffers. The chart shows a count of S3 or F3 registration forms, the documents firms must submit to the SEC before selling new shares.

The pandemic is making the future unpredictable, and persuading companies to stock up while they can. Investors are also favouring companies with "fortress balance sheets", [bankers at RBC Capital Markets wrote recently](#).

This helps to explain the trends seen, in both the IPO and secondary markets. However, it is worth remembering that much of this strength is US-centric. Only one European IPO has happened this year, that of Belgium's Hyloris in June, though several continental firms took advantage of Nasdaq's strength and listed across the Atlantic.

Given the deep pools of capital that are readily available, it is easy to see why foreign issuers are attracted to the US markets.

Biotech secondaries



Sources:sec.gov, Evaluate