October 05, 2020

Few clues to flotation fever in past performance

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Investors are piling into biotech IPOs, but the track record of previous years' new issues shows how hard it is to pick winners.

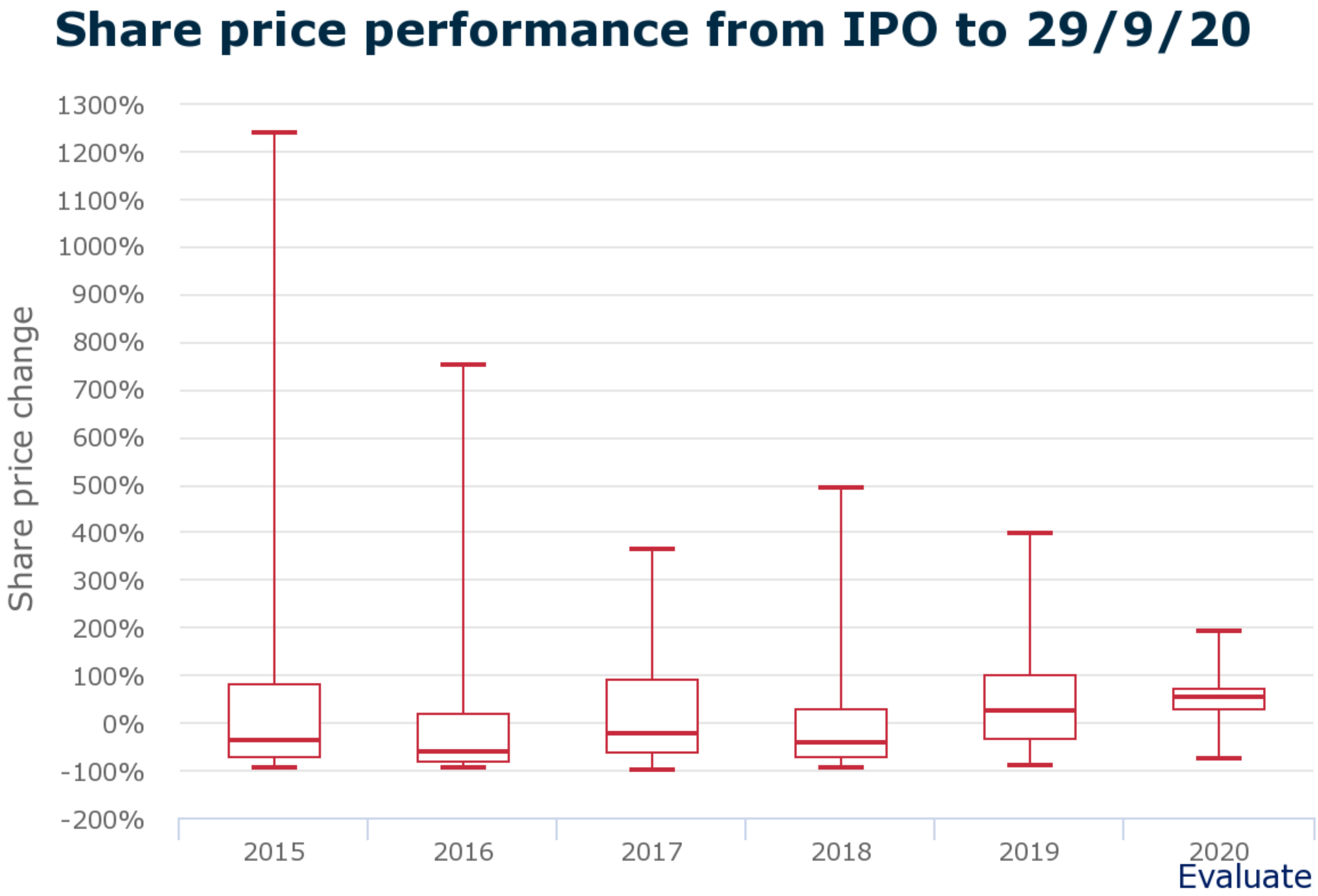
Past performance is not an indicator of future performance, goes the adage, and those throwing money at biotech IPOs this year will have to hope that it holds true. The median return from all but one of the past five years’ flotations is negative, with 2018 looking particularly disappointing.

That year was considered a very successful period for biotech IPOs – but almost three quarters of the biopharma companies that floated in 2018 are currently trading underwater. The new issues of 2020, meanwhile, are performing strongly, although of course it is very early days for these companies. Investors would do well not to forget the real nature of drug development.

That nature is high risk and high reward, but those rewards are few and far between. This analysis tracked the performance of the 261 development-stage drug developers that listed on Nasdaq or New York stock exchanges from 2015 to the end of June this year; only 16 have been bought at a premium to their float price.

Another 12 were either taken out at a discount or their share price collapsed and they became reverse merger targets. And considerably more languish as zombie companies, presumably awaiting the same fate or worse: almost a fifth of the new issues that are still trading have lost at least three quarters of their listing price.

The chart below describes the performance of each years’ new issues, or at least those that remain trading, to the end of September 2020. Takeout and reverse merger targets have been removed; notable cases are detailed below. Only research-stage drug developers make up this analysis, and sectors like medtech or digital health are excluded.



The performances of the classes of 2016 and 2018 are similarly dire, yet the financing climate was very different in each of those years. In 2018, the average biotech IPO raised $108m, setting a record for the decade, with $7.2bn raised in total. However, 2016 was something of a desert, with biotechs banking only $2.3bn via IPOs, and the average flotation raising a mere $51m.

Of course the graph above is only a snapshot in time, and performances will change. And not all investors in these stocks will stick around to find out how these stories end. For now, however, of the 234 IPOs still trading, losers outnumber winners: 128 were below their float price at the end of September, versus 106 above.

Still, there are some spectacular gains among the risers: 50 companies have seen their share price at least double. Investors might argue that you only need to pick one or two of these big winners.

Any shareholders in Myokardia's 2015 float still holding today would certainly agree. The company was already the best-performing new issue in this analysis, and today's $13.1bn takeout by Bristol Myers Squibb, at a 2,150% premium over its listing price, ranks as the biggest M&A return (*Bristol bets big on Myokardia, October 5, 2020*).

Takeout targets and RIPs			
Company	**Year of IPO**	**Buyout premium over float price**	**Detail**
Bought for a premium...			
Avexis	2016	990%	Novartis, $8.7bn in 2018
Synthorx	2018	518%	Sanofi, $2.5bn in 2020
Forty Seven	2018	497%	Gilead, $4.9bn in 2020
Gone and rather forgotten...			
Flex Pharma	2015	-96%	Salarius, reverse merger in 2019
Edge Therapeutics	2015	-95%	PDS, reverse merger in 2019
Phaserx	2016	-94%	Roivant acquired out of chapter 11 in 2018
Note: Myokardia, at 2,150% premium, announced as going to press. Source: EvaluatePharma.			

The chart above shows that 2020's IPOs mostly remain above water. However, it is worth remembering these new issues are coming to the market at valuations not seen for years, if ever. The average raise over the first half of this year came in at $186m, and it is no longer unusual to see a company floating at a $1bn or higher market cap (*Another huge quarter for biotech flotations, October 1, 2020*).

Strong demand for all things biotech is supporting these valuations, but the market can deteriorate very quickly. And, for investors to win big, a takeover must happen at a premium. For many of these newly minted, and frequently very early-stage, public companies, that premium looks to be already baked in.

Winners and losers: best and worst performing IPOs each year			
Going up	**Return on float price**	**Going down**	**Loss on float price**
2015			
Myokardia	1,239%	Nabriva Therapeutics	-95%
Beigene	1,069%	Neos Therapeutics	-96%
Axsome Therapeutics	750%	Kempharm	-98%
2016			
Reata Pharmaceuticals	750%	Spring Bank Pharmaceuticals	-89%
Crispr Therapeutics	498%	Outlook Therapeutics	-89%
Editas Medicine	82%	Novan	-95%
2017			
Zai Lab	360%	Allena Pharmaceuticals	-91%
Krystal Biotech	308%	Aileron Therapeutics	-92%
Biohaven Pharmaceutical	272%	Sienna Biopharmaceuticals	-100%
2018			
Kodiak Sciences	476%	Vyne Therapeutics	-91%
Twist Bioscience	436%	Aptorum Group	-92%
Allakos	330%	Iterum Therapeutics	-95%
2019			
Turning Point Therapeutics	396%	Axcella Health	-77%
Karuna Therapeutics	382%	Stealth Biotherapeutics	-89%
IGM Biosciences	373%	China SXT Pharmaceuticals	-94%
2020			
Schrödinger	188%	Fusion Pharmaceuticals	-29%
I-Mab Biopharma	179%	Polypid	-31%
Forma Therapeutics	151%	Aditx Therapeutics	-80%
Note: only includes stocks still trading. Share price Sep 29, 2020 vs float price. Source: EvaluatePharma.			

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