

Another tough quarter for biotech IPOs

Eighteen months on from the opening of the IPO window for private US biotechs and the sun still struggles to shine. Five US pharma or biotech companies went public in the first quarter, up from three in the same period last year, yet average 'haircuts' remain severe and newly listed shares struggle to perform. Add in a couple of aborted IPO attempts and the outlook remains decidedly cloudy.

So far Endocyte looks set to be the star IPO graduate from the first quarter, raising \$86m in the biggest public debut since Pacific Biosciences racked up \$200m six months ago. Shares in the Indiana biotech have gained 23% since listing and look set to rise again today on a positive European regulatory assessment of phase II ovarian cancer therapeutic, EC145, although the stock remains lower than its filing price (see table below).

Severe haircuts

The average 'haircut', the discount between the final offering price compared to the company's original filing price, in the first quarter was around 50%.

Tibet Pharmaceuticals is included here as an IPO on the Nasdaq stock exchange, although clearly a company which sells herbal medicines is worlds apart from the rest of the IPO peer group, made up of development stage biotechs. Excluding Tibet from the analysis and the average 'haircut' rises from 46% to 56%.

Pharma/Biotech listings on Nasdaq in Q1 2011							
Company	IPO Date	Raised (\$m)	Float Price (\$)	Filed Price (\$)	'Haircut'	Latest share price (\$)	YTD share performance
Endocyte (ECYT)	04 - Feb - 11	86	\$6	\$13 - \$15	-57%	\$9.49	+23%
Pacira Pharmaceuticals (PCRX)	03 - Feb - 11	42	\$7	\$14 - \$16	-53%	\$8.64	+23%
BG Medicine (BGMD)	04 - Feb - 11	40	\$7	\$13 - \$15	-50%	\$7.98	-4%
AcelRx Pharmaceuticals (ACRX)	11 - Feb - 11	40	\$5	\$12 - \$14	-62%	\$3.17	-30%
Tibet Pharmaceuticals (TBET)	25 - Jan - 11	16.5	\$5.5	\$5 - \$7	-8%	\$4.30	-23%
Average		45	\$6	\$12	-46%		-2%

There is clearly still a big difference between what public investors are prepared to pay compared to a company's internal valuation. Meanwhile both Clarus Therapeutics and Aldagen scrapped their IPO plans this quarter, their existing shareholders naturally reticent to go public at any cost.

Merrimack Pharmaceuticals' recently completed \$77m series G financing round from new and existing venture capital (VC) investors suggests that, depending on a company's stage of development and shareholder support, private finance to get a company to the next step and eventual trade sale remains the preferred exit option.

Indeed, although VC funding remains tight, significant late stage finance can be raised which dwarfs most IPOs. Four of the top ten biggest financing rounds of the past five years have occurred within the last 12 months ([VC](#))

[funding for human therapeutics remains depressed](#), April 20, 2011).

Although IPOs are not really an exit in themselves, they can still be an important stepping stone to bigger and better things, which could eventually provide a decent return on investment to long-term shareholders.

For example, two of the three companies that went public in the first quarter of 2010 - Ironwood Pharmaceuticals and Aveo Pharmaceuticals - have posted impressive share price gains after sluggish starts. The third company, Anthera Pharmaceuticals, has also recently put in a good share price performance which hints of better things to come.

These examples therefore provide encouragement to those that went public in the first quarter, particularly AcetRx Pharmaceuticals which has struggled so far, and to companies currently contemplating an IPO.

Endocyte on a roll

One company that needs no further encouragement is Endocyte. Although the company had to slash its offering price, it still managed to raise more than originally planned by more than doubling the number of shares it sold, from 5.4 million to 14.4 million.

Shareholders who had their holdings diluted more than they would have liked will therefore be delighted by today's news that the European regulator will accept an early filing for EC145 and a companion diagnostic, EC20, based on phase II data.

Hopes will naturally be raised that the FDA will also agree to an accelerated filing for EC145, a conjugate of folate and vinca alkaloid, and Endocyte shares breached \$12 in early trade this morning, double the float price and within touching distance of the original filing price range of \$13 - \$15.

Endocyte is currently showing that going through the pain of an IPO can pay off, even in the short term, although it is more likely to be the exception that proves the rule which currently states that biotech IPO conditions are extremely tough.

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