

Foundation's flotation points to new era for medtech IPOs



[Elizabeth Cairns](#)

IPOs are rare in medtech, and the type of extraordinary success seen with diagnostics company Foundation Medicine's listing last month is even rarer. Just eight medtech companies listed in the first three quarters of 2013, compared with 35 biotechs. Foundation, which raised by far the most, was the first medtech company this year to get away without a haircut – indeed, it listed at an almost unheard of 20% premium (see table).

"I think Foundation Medicine is a landmark," Allan Marchington, a partner at venture firm Apposite Capital, tells *EP Vantage*. "Their IPO was enormously successful – their share price doubled on the second day." With three more medtech firms having announced their intention to float, the sector is showing an increased appetite for the stock market.

Enthusiasm

Foundation's flotation succeeded, says Mr Marchington, because it was able to build enthusiasm. "They've got an exciting product, a great management team, a good investor group, and they've managed to present a story which holds together," he says. The company is developing a comprehensive cancer test designed to enable individualised treatment based on the molecular subtype of each patient's cancer. The laboratory-developed test is already in use commercially.

More has been raised in medtech IPOs so far this year than in all of 2012, and this could be because medtech is following biotech's lead. Mr Marchington says: "The IPO market in 2013 is fabulous. Biotech has been leading the charge, but it has been a pathfinder for some of the most successful medical device companies."

Medtech IPOs on western stock exchanges in the first three quarters of 2013

Company	Date	Amount raised	Offering price	Range	Discount/premium	Exchange	Share price from float to September 30
LipoScience	January 25, 2013	\$45m	\$9	\$13-15	(36%)	Nasdaq	(44%)
Spineway	February 13, 2013	€4.9m (\$6.6m)	€7.47 (\$10.46)	-	-	NYSE Euronext Paris	28%
Cancer Genetics	April 05, 2013	\$6.9m	\$10	\$10-12	(9%)	Nasdaq	103%
SpineGuard	April 26, 2013	€8.1m (\$10.5m)	€7.29 (\$9.50)	€7.29-8.91	(10%)	NYSE Euronext Paris	8%
Electrical Geodesics	April 3, 2013	£8m (\$12.1m)	120p (\$1.82)	-	-	AIM	20%
Nanostring Technologies	June 25, 2013	\$54m	\$10	\$13-15	(29%)	Nasdaq	10%
Cellular Dynamics International	July 24, 2013	\$46.2m	\$12	\$12-14	(8%)	Nasdaq	53%
Foundation Medicine	September 24, 2013	\$106m	\$18	\$14-16	20%	Nasdaq	120%

Because takeouts are now happening much later in a medtech company's development, finding further sources of funding has become increasingly essential.

"More recently, larger companies are saying they've got to see sales before they move forward [with a buyout]. The IPO market allows you to refinance the company, to take the company to the sales exit point without relying on venture capital," Mr Marchington says.

This is a reaction to the growing stringency of the FDA and consequent longer timelines to approval, as well as increased pressure on pricing. Tim Haines, a partner at Abingworth, agrees. "70% of medtech acquisitions are post-FDA approval. Unlike biotech, very few of the acquisitions [take place] when the products are in the development stage. Not only do acquirers want to see regulatory approval, they also want to understand the reimbursement pathways before they'll acquire."

It is somewhat fortuitous that, as startups and their venture backers are pushed towards listing as a means of obtaining more cash, the IPO window is starting to open. Mr Haines says: "there are signs that medtech companies are looking at IPOs as the market in general improves."

Financing events

As such in medtech, as has been the case in biotech for some time, IPOs are no longer considered an exit for existing investors. "They're financing events. Down the road they will provide liquidity to venture investors, and that's important, but in and of themselves, those transactions haven't refilled coffers," Daniel Levine of Burrill & Company tells *EP Vantage*.

Also just like in biotech, it is increasingly common for a company's venture backers to play a part in the IPO. "If you look particularly at a lot of the deals that were done in the first half of this year, to get those deals done, the existing venture investors committed to buying big chunks," Mr Levine says.

This is echoed by Mr Marchington. "These days in most IPOs the existing investors have to invest, which is unusual – you didn't used to have to do that. You have to give people confidence that you're still a believer. The backers invest at the IPO, perhaps 25-30%."

That private biotech companies have been making the most of stock market gains to launch an IPO is hardly surprising ([Floats rise out of the biotech bubble at last, July 10, 2013](#)). But if medtech IPOs become more successful, the question will be whether there is genuine investor enthusiasm for medical devices, or whether

they are being pulled up by the success of their biotech brothers.

Summary of medtech IPOs, 2010-2013			
Year	Total amount raised	Number of IPOs	Largest round
2010	\$589.7m	8	Pacific Biosciences, \$200m
2011	\$583.3m	9	Tornier, \$166m
2012	\$257.8m	9	Globus Medical, \$100m
2013 to September 30	\$287.3m	8	Foundation Medicine, \$106m

Spark

The current biotech boom has been a very localised US phenomenon, says Mr Haines: “In the public markets there is increasing appetite for risk, and biotech in the US has benefited – in Europe it has flatlined. The last time there was a boom, in 2000, Europe benefited to a comparative degree to the US.”

Should further successful medtech floats occur, it will be interesting to see whether the US will be favoured here too. “We struggle in Europe for the serial entrepreneurs,” Mr Haines says. “It becomes a self-fulfilling prophecy – we’re not able to build momentum in the sector. The science is great, the inventions are fantastic, and we do build good companies, but many get acquired by US groups along the way.

“But the markets could spark at any time. If the macro environment and belief in Europe increases, there will be more confidence – and there’s a feeling that that’s starting to change. We could see the tide lifting the Europe biotech and medtech boats in the next 18 months.”

Mr Levine says: “It’ll be interesting to see if the success of Foundation Medicine reverberates and opens the door for other similar companies to go out. Right now, people are seeing this as an opportunity to get deals done – they’re lining up fast and furious to get funded while they can. For a lot of people, they don’t know how long this is going to last.”

Four medtech companies – Veracyte and Biocept, both molecular diagnostics firms, orthopaedics specialist LDR and insulin pump developer Tandem Diabetes Care – have filed for IPOs and are surely hoping that the enthusiasm is still present.

However even if the medtech IPO market does continue to pick up, buyouts will remain the preferred choice of exit for VC backers. But with acquirers waiting longer and longer to swoop, investors may increasingly be forced to accept a flotation while they wait.

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