

## Floats stumble in Q1 as bubble debate escalates



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In the “it is/is not a bubble” debate, those arguing “is” have a data point on their side with the news that first-quarter biopharma flotation totals were among the most disappointing in two years.

It might be too soon to declare an end to the good times, as quarterly blips have cropped up even during the astonishing buoyancy seen in IPOs since early 2013. A return to form in Q2 will have deal bankers breathing easier – but a repeat of the \$783m raised in Q1 might have fund managers reviewing their portfolios (see tables).

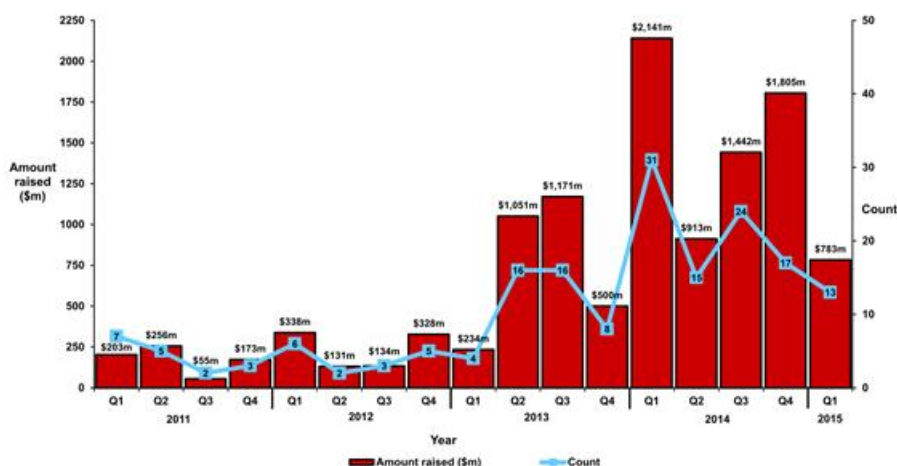
### Explanations

Before traders start putting in their sell orders, several explanations could exist for this fallback, which made Q1 the second-worst since the sector flung open the IPO window two years ago.

Q4 2014 had seen 17 companies float on the public market and raise \$1.8bn in the process, capping a year in which 87 IPOs took in \$6.3bn. It could simply be that so many near-public companies jumped in 2014 that few were left after the new year came and went.



Biotech initial public offerings by quarter on Western exchanges (excludes medtech)



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First quarters of any year also can be among the slowest, 2014’s incredible \$2.1bn notwithstanding, as the entire financial sector recovers from the slowdown of the year-end holidays.

In addition, this March saw a market wobble that, although not as significant as 2014’s, could have discouraged companies with shelf registrations from following through. And the big medical meetings that tend to liven up biotech sentiment, like the EASL liver meeting and ASCO cancer conference, occur in Q2.

Nevertheless, the Q1 floats, or lack thereof, should have market watchers paying attention. Only two other quarters since the IPO window opened have seen the total amount raised dip below \$1bn – one of them, Q2 2014, saw a massive sell-off as macro concerns about drug pricing, most significantly Gilead Sciences’ Sovaldi, hurt sentiment. The other quarter to drop below the \$1bn threshold was 2013’s Q4.

<b>Nasdaq premium (discount) to IPO price range</b>	
<b>Period</b>	<b>Average</b>
Q1 2012	(26%)
Q2 2012	(31%)
Q3 2012	(21%)
Q4 2012	(17%)
<i>FY 2012</i>	<i>(24%)</i>
Q1 2013	(23%)
Q2 2013	(12%)
Q3 2013	(6%)
Q4 2013	(31%)
<i>FY 2013</i>	<i>(15%)</i>
Q1 2014	(9%)
Q2 2014	(18%)
Q3 2014	(16%)
Q4 2014	(9%)
<i>FY 2014</i>	<i>(12%)</i>
Q1 2015	(7%)

What did get away was of pretty good quality. The average discount to the guided price range for floats on the important Nasdaq exchange was 7%, just missing out on being the lowest of the current IPO window, and across all exchanges it was 2%. The share price rise so far looks healthy compared to 2014's IPO crop, although there is plenty of time left for setbacks that could make that number look a little less impressive.

The big float of 2015 so far has been Spark Therapeutics, which has been the beneficiary of renewed interest in advanced treatments like engineered T-cell therapies. In Spark's case, the one-time antipathy towards gene therapy has disappeared and in its place it found \$185m in funding for its pipeline of assets for eye, blood and central nervous system disorders.

The enthusiasm did not end with its size: on its first day the shares doubled, and Spark's stock now stands at three times its IPO price.

### Q1 biotech IPOs on Western exchanges (all Nasdaq unless stated)

Company	Date	Amount raised	Premium/(discount) to range	First day close	31 March close
Zosano Pharma	January 27	\$57m	0%	0%	(8%)
Ascendis Pharma	January 28	\$124m	6%	5%	(4%)
FlexPharma	January 29	\$99m	23%	(7%)	23%
Tracon Pharmaceuticals	January 30	\$41m	(23%)	(6%)	40%
Spark Therapeutics	January 30	\$185m	15%	117%	237%
Poxel1	February 06	€25m (\$28m)	(10%)	8%	67%
Bone Therapeutics1	February 06	€32m (\$37m)	3%	0%	37%
EyeGate Pharma	February 13	\$5m	(14%)	0%	(42%)
Inotek Pharmaceuticals	February 18	\$46m	(57%)	0%	(10%)
Nordic Nanovector2	March 23	NOK500m (\$61m)	2%	8%	18%
Redx Pharma3	March 27	£15m (\$17m)	-	0%	(1%)
OSE Pharma4	March 30	€21m (\$24m)	15%	(3%)	(10%)
Cerenis1	March 30	€53m (\$58m)	15%	(3%)	0%
	<b>Average</b>	<b>\$60m</b>	<b>(2%)</b>	<b>9%</b>	<b>27%</b>

1Euronext, 2OSE, 3LSE AIM, 4AMF

While Spark gets the award for the biggest float of 2015 so far, the biggest premium went to FlexPharma, which is working on a programme to treat cramps and spasms in patients with severe neuromuscular conditions.

At the other end of the spectrum, Inotek Pharmaceuticals took the biggest haircut at 57% and EyeGate Pharma has performed least well on the year, with shares down 42% since the float.

Impressively, European companies represented six of the 13 IPOs in Q1. This perhaps confirms UK fund manager Neil Woodford's strategy of preferring European biotechs because of the high valuations of their US counterparts.

Biotech Cassandras have been proven wrong repeatedly in this boom, but it is a truism that the good times will have to end sometime. Expect Q2 IPOs to be watched closely as investors try to determine whether the first three months were a mere blip or a sign of things to come.

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