Evaluate Vantage

April 12, 2016

# Audacity pays off for the few newly public biotechs

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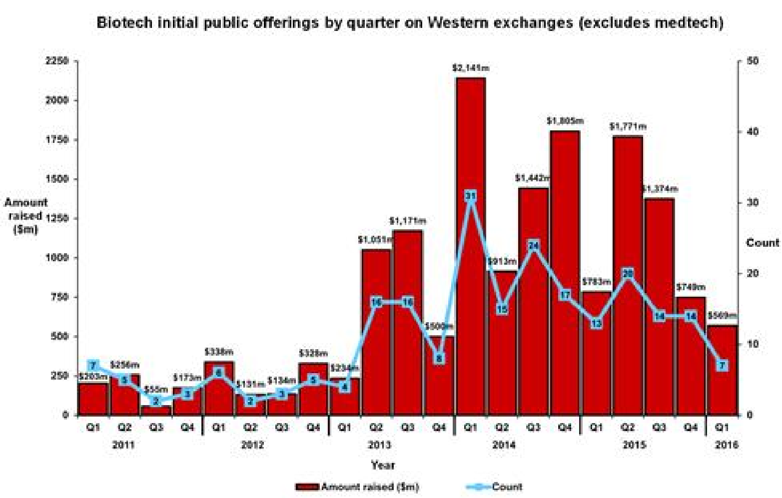
With just seven IPOs on Western stock exchanges, the first quarter of this year has seen the fewest companies go public since the first quarter of 2013. In dollar terms things were not much better: at $569m the total raised was the lowest since the fourth quarter of the same year.

It is perhaps surprising that as many as seven companies were able to brave the exchanges bearing in mind the butchery on the markets over the past six months or so. Encouragingly, most have seen their stock rise since – one to an exceptional degree. It appears that, for now at least, who dares wins.






That said, most of the companies had to price their offering at a lower point than they had hoped in order to hook investors. Gene therapy group AveXis managed to get away at its announced range, and BeiGene, which develops targeted cancer therapies priced at a 4% premium, but all the others had to take a haircut.

These discounts were not overly severe by historical standards, but they were greater than those seen last year. The average figure for the past quarter was 11%, compared with just 5% in 2015. Even Editas, whose $94m Nasdaq IPO has been wildly successful, had go out at the lower end of its range.

| Nasdaq premium/(discount) to IPO price range | |
|---|---|
| **Period** | **Average** |
| Q1 2013 | (23%) |
| Q2 2013 | (12%) |
| Q3 2013 | (6%) |
| Q4 2013 | (31%) |
| ***FY 2013*** | ***(15%)*** |
| Q1 2014 | (9%) |
| Q2 2014 | (18%) |
| Q3 2014 | (16%) |
| Q4 2014 | (9%) |
| ***FY 2014*** | ***(12%)*** |
| Q1 2015 | (7%) |
| Q2 2015 | (5%) |
| Q3 2015 | 6% |
| Q4 2015 | (17%) |
| ***FY 2015*** | ***(5%)*** |
| Q1 2016 | (11%) |

It is apparent from the data that there is no longer such a thing as a small flotation. Only one of the first quarter IPOs was under $50m, and then only just.

The average size of this quarter's IPOs was $81.2m, larger than that for any annual period since 2011. As a response to risk this is understandable: investors know they have the best chance of a return if they can put up enough cash to get the company as close to commercialisation as possible. There is safety in numbers.

That said, there was only one nine-figure IPO last quarter. BeiGene is – what else? – an immuno-oncology company which, though based in China, raised $158m listing on Nasdaq. Though the Nasdaq biotech index declined 23% across the first quarter, there was clearly money to be made if a company is active in the right sector.

There is one indication that the darkest period is over. There were no IPOs in December of last year or in January of this, but with five in February and two in March things might have picked up.

| Year | No. of IPOs | Amount raised ($bn) | Avg. raised ($m) | No. raising >$100m |
|---|---|---|---|---|
| Q1 2016 | 7 | 0.57 | 81.2 | 1 |
| 2015 | 61 | 4.68 | 76.7 | 17 |
| 2014 | 87 | 6.30 | 72.4 | 18 |
| 2013 | 44 | 2.96 | 67.2 | 7 |
| 2012 | 16 | 0.93 | 58.2 | 2 |
| 2011 | 17 | 0.69 | 40.4 | 2 |

Of the seven companies going public in the first quarter, Editas Medicine appears to be the winner. Though it did not drum up as much cash as BeiGene, its shares have performed outstandingly, more than doubling since it floated in early February. Remarkably Editas does not have any projects in the clinical yet; investors seem to have taken the promise of its gene-editing technology largely on faith.

Six of the seven have seen their stock rise, though in the case of both Proteostasis Therapeutics and Syndax Pharmaceuticals the IPO discounts were so sharp the shares have not yet reached the level at which they were initially priced. It was a similarly disappointing story with the only non-Nasdaq IPO. UK group Shield Therapeutics raised £32.5m ($47m) on Aim but had originally filed to raise £110m by listing on the London stock exchange in September.

Neither does Corvus Pharmaceuticals have anything to crow about. It is early days for the group – another immuno-oncology player – but it is the lone company whose share price has declined, albeit by just 3%.

It is clear that the days of a Nasdaq float meaning easy money are over. In some ways biotech seems to have returned to the situation in 2012 and earlier, with few deals and larger price discounts. But the average size of an IPO is much larger now – twice as big as the average 2011 deal. This suggests that backers are more risk-averse than ever, and in the post-bubble world they are right to be so.

| **Q1 biotech IPOs on Western exchanges (all Nasdaq unless stated)** | | | | |
|---|---|---|---|---|
| **Company** | **Amount raised ($m)** | **Offering price** | **Premium/ (discount)** | **2016 Q1 chg since float** |
| BeiGene | 158 | $24.00 | 4% | 22% |
| Editas Medicine | 94 | $16.00 | (6%) | 116% |
| Proteostasis Therapeutics | 50 | $8.00 | (38%) | 21% |
| AveXis | 95 | $20.00 | 0% | 36% |
| Shield Therapeutics (Aim listing) | 47 | £1.50 | - | 17% |
| Syndax Pharmaceuticals | 53 | $12.00 | (20%) | 11% |
| Corvus Pharmaceuticals | 71 | $15.00 | (6%) | (3%) |
| | | | | |
| *Average across all IPOs* | *81* | | | *25%* |

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