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Investors in new issues embrace 2016’s new reality

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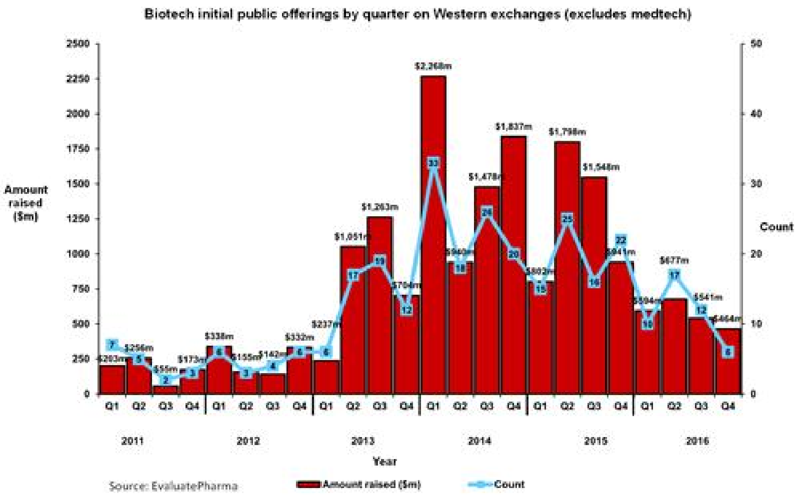
Not a single key metric makes last year’s figures on biotech flotations look impressive. Money raised, both in total and on average, is down, as are absolute numbers of companies going public, strongly demonstrating that the IPO market has followed the broader biotech equity indices in retrenching to pre-boom levels.

And yet, there are individual success stories, including some biotechs that neither had to cut offering prices nor suffered in the market post-float (see charts below). With a line of issuers already forming three weeks into the current year the IPO window can by no means be considered closed.

Groups looking to float include Jounce Therapeutics, the young oncology player that boasts a deal with Celgene, which has filed to raise up to $75m. Those fretting about drug pricing and the new US president might take some comfort in the knowledge that any uncertainty looks to have been short-lived.

Indeed, you do not just have to be a hot oncology player to seek success. Other prospective US floaters span the therapy spectrum, from women’s health in Obseva’s proposed $97m IPO to allergy (Anaptysbio, $60m), vaccines (Visterra, $50m) and opioid addiction (Braeburn Pharmaceuticals, $150m).



Still, as far as 2016 goes it is clear that the times of plenty are over. The $464m raised in biotech IPOs in last year’s fourth quarter was the lowest three-month period since the first quarter of 2013, and the worst fourth quarter since 2012 – periods when the biotech bull market was just starting to get under way.

The number of individual quarterly floats was also the lowest since those same two earlier quarters, and the full-year totals are no better, with 2016 seeing the lowest total number of floats since 2013; full-year total raised and average IPO size were the lowest since 2012 and 2011 respectively.

Again, however, there is a silver lining. The quarter saw the awesome $218m flotation of Myovant Sciences, which, though it has performed poorly in the market, was priced at a premium to its range. For investors who like this sort of thing it bodes well for floats of other majority-owned subsidiaries of Vivek Ramaswamy’s Roivant stable, of which Axovant and Myovant are the first two.

Q4 2016 biotech IPOs on Western exchanges (all Nasdaq unless stated)						
Company	**Date**	**Amount raised ($m)**	**Offering price ($)**	**Discount/ premium**	**First-day close ($)**	**YE 2016 chg since float**
Index Pharmaceuticals	11 Oct	29	8.4	20%	7.00	(27%)
Azurrx Biopharma	12 Oct	5	5.5	(21%)	4.98	(14%)
Celon Pharma (Warsaw stock exchange)	17 Oct	64	16.3	2%	22.28	50%
Crispr Therapeutics	19 Oct	56	14.0	(13%)	14.09	45%
Ra Pharmaceuticals	26 Oct	92	13.0	0%	13.00	17%
Myovant Sciences (NYSE)	27 Oct	218	15.0	11%	13.26	(17%)

Myovant ended up the biggest float of 2016, and raised the most since Axovant's $315m a year before. Only two other 2016 IPOs raised over $100m: Beigene with $158m and Intellia with $113m. However, Intellia and its genome-editing rival Crispr Therapeutics show the difficulty of getting nebulous, early-stage biotechs away: both had to take a cut to proposed price ranges.

However, it is important to stress that price haircuts have by no means become an essential means of getting biotechs onto the public markets. Only two of the six fourth-quarter floats were priced at a discount, and 2016 overall saw no discernible difference in pricing trends versus previous years; were it not for one disastrous outlier, Kadmon, 2016 would have looked a lot better.

Nasdaq premium/(discount) to IPO price range	
Period	**Average**
Q1 2012	(26%)
Q2 2012	(31%)
Q3 2012	(21%)
Q4 2012	(17%)
FY 2012	*(24%)*
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%)
Q2 2016	(19%)
Q3 2016	(10%)
Q4 2016	(0%)
FY 2016	*(12%)*

If nothing else this shows that bankers and investors are acutely aware of the new reality, and are prepared to shift their expectations to match.

Investors will hope for further signs that the US presidential election only caused a brief pause in financing plans. Right now the clearest indicator might be the billion-dollar unicorn Moderna Therapeutics, though for now it is holding its IPO cards close to its chest.

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