Biotech IPOs steam ahead in 2014

G. Steven Burrill
is CEO of Burrill & Company.

Journal of Commercial Biotechnology (2014) 20(2), 48–50. doi: 10.5912/jcb654

If you walk into most private biotech company boardrooms today, it is likely that you will hear a discussion about whether to go public. Companies at every stage of development are either getting ready to file for an initial public offering or thinking about it. Although the slowdown in new issues at the end of 2013 gave observers pause that the robust biotech IPO market of 2013 might slow down in 2014, the reality has been just the opposite. By the middle of March, 28 life sciences companies had completed initial public offerings on U.S. exchanges, raising $1.8 billion in new capital, and collectively on average trading 47.4 percent above their initial offering price.

With another 25 companies having publicly filed their intention to go public, and unknown others having filed confidentially and testing the waters, the wave of life sciences IPOs shows little sign of abating any time soon. It is a particularly attractive time for life sciences companies as biotech stocks continue to trade up and investors remain interested in the sector.

Castlight Health, the latest health-related company to complete an initial public offering in the United States, raised $178 million in an offering priced above its target range. The digital health company provides web-based tools for employers and consumers to gain clarity around their healthcare costs, usage, coverage, and choices—in other words, price transparency in a healthcare market that is growing price conscious. It soared 149 percent in its trading debut, a sign of the importance of digital tools for the transformation of healthcare.

Life sciences stocks in general and biotechnology stocks in particular had a stellar year in 2013 as investors flocked to the sector to capture gains driven by macroeconomic and healthcare specific factors. Wall Street had one of its best years in the past decade as the U.S. economy improved and investors poured new money into the capital markets to take advantage of the upward movement of stocks. At the same time, good M&A premiums, Big Pharma's investment in external innovation, and the growing importance of healthcare in an aging world all drove biotech stocks to new heights. While the Nasdaq Composite Index ended 2013 up 38.3 percent, the Burrill Biotech Select Index closed the year up 61.5 percent, its best performance since the index was started in 1994.

The 39 new drug approvals in 2012 was an indication to investors that the U.S. Food and Drug Administration and industry could work well together. As new, innovative drugs reached market and promising ones in the pipeline advanced with encouraging clinical data, investors who had previously shunned the biotech sector, now embraced its potential to deliver groundbreaking products to help patients. New regulatory rules and programs to speed the development of innovative medicines also stimulated investors' appetite.

Big biotech companies, once the stepchild of Big Pharma, began supplanting pharma's place at the top of the drug development ladder. Gilead Sciences, Celgene, and Amgen now rival their Big Pharma counterparts in terms of market capitalization. Growing revenues and earnings, and the rising value of their shares have propelled them to the forefront in revenue growth and dealmaking.

All of these factors have fueled the market for both new and follow-on issues, especially for drug developers. Since the beginning of 2014, these companies have collectively raised $1.4 billion in 22 IPOs and $4 billion through follow-on offerings on U.S. exchanges. In 2013, U.S. drug developers raised $2.8 billion in 38 IPOs (not counting Zoetis' $2.6 billion IPO) and $6.6 billion through follow-on offerings.

Barring a big market correction, 2014 IPOs are on pace to best biotech's performance in 2013 in terms of the number of new issues. On average the companies completing offerings this year are performing in the aftermarket as well as the companies that completed IPOs in 2013. They are also pricing the offering more rationally as far as investors are concerned, with the final offering price just 9.6 percent below the midpoint of the original target price. That compares to an offering price 13.9

Correspondence:
G. Steven Burrill. Burrill & Company, US. Email: sburrill@b-c.com

Table 1: Biomedical IPOs in the United States: 2014 vs 2013 averages by category

Therapeutics	2014	2013	Change
Average capital raised* (USD M)	61.7	69.8	-11.6%
Return from IPO	56%	54.1%	3.5%
Raised vs target	6.9%	6.4%	7.8%
Price vs target	-8.9%	-15.5%	42.6%
Shares offered vs target	21%	31.6%	-33.5%
Median: Stage of lead product	Phase 2	Phase 2	
Insider buy-in: percent of total deals	73%	65%	12.3%
Median buy-in: percent of total deal value	23.5%	26%	-9.6%
Medical Devices	**2014**	**2013**	**Change**
Average capital raised (USD M)	40.4	97.5	-58.6%
Return from IPO	11.6%	64.6%	-82.0%
Raised vs target	-26.8%	10.4%	-357.7%
Price vs target	-31.2%	3.6%	-966.7%
Shares offered vs target	7.2%	6.4%	12.5%

*Average excluding Zoetis' IPO

percent below the midpoint of the original target price for 2013 IPOs.

In terms of total capital raised, the size of this year's crop of offerings have averaged $61.3 million per IPO. That compares to $69.8 million on average per IPO in 2013 when Pfizer's animal health unit Zoetis' $2.6 billion IPO is excluded. One reason for the smaller deals is that fewer companies increased the total number of shares offered compared to their original targets. Companies going public in 2014 increased the number of shares offered by an average of 17.7 percent compared to a 22.8 percent average increase in the number of shares offered by companies going public in 2013.

A closer comparison of therapeutics IPOs in 2014 compared to those in 2013 finds some differences that suggest that initial public offerings are being priced more reasonably and that aftermarket price appreciation has become more rational, a sign that there may be fewer generalist investors chasing quick pops from IPOs in hot demand to sector investors interested in the fundamentals of a company and its long-term potential to build value.

For example, the percentage of companies pricing within their original target range increased to 53.6 percent in 2014 compared to 44.2 percent of IPO pricings in 2013. In 2014, about one-third of companies priced their offerings below their expected target range compared to 2013 when 42.3 percent of companies completed offerings priced below their expected target range.

Companies at all stages of development are going public in 2014 but are generally not more seasoned than their counterparts in 2013. In 2014, 82 percent of drug developers that completed IPOs have lead products in mid-stage development or beyond, compared to 92 percent of companies that went public in 2013. In both years, the majority of companies going public have lead products in mid-stage development, 45.5 percent of companies in 2014 compared to 60.5 percent of companies in 2013.

Though existing investors participated in a greater percentage of drug developers' initial public offerings so far in 2014, 73 percent versus 65 percent of such offerings in 2013, the median buy-in amount was less, 23.5 percent of the offering in 2014 compared to 26 percent of the offering in 2013.

Five companies that completed IPOs in 2014 are focused on treating pain, but high-risk areas such as gene therapies, RNA-based therapies, and rare diseases have garnered the strongest interest by investors. Top performers include companies such as RNA-based drug developer Dicerna Pharmaceuticals, up 135 percent in mid-March. The biotech priced an upsized IPO at the end of January at $15 a share, above its target range, to raise $90 million. Shares opened their first day of trading at $30 and kept on climbing, ending the day at $45.50, up 203.3 percent, the largest opening day gain of any biotech IPO in at least nine years. Dicerna plans to begin clinical testing of its experimental treatment for hepatocellular cancer and other solid tumors by mid-2014.

One day later, UltraGenyx Pharmaceuticals, priced its upsized IPO above the target range to raise $121 million. Its shares also soared in the first day of trading, rising 101 percent. The biotech, which develops therapies for rare genetic metabolic diseases, was up 185.7 percent in mid-March. UltraGenyx' pipeline includes five experimental compounds with its most advanced product, an extended-release formulation of sialic acid, in mid-stage testing for hereditary inclusion body myopathy, a genetic muscle-wasting disorder.

Auspex Pharmaceuticals (up 153 percent) and Revance Therapeutics (up 136 percent) are two other top performers among the companies that have completed IPOs in 2014. Auspex is focused on treatments for rare neurological diseases. It lead therapeutic is in a late-stage study to treat the rapid uncontrolled movements associated with Huntington's disease. The biotech plans to submit an NDA for the drug's approval before the end of the year. Revance Therapeutics is developing a Botox gel that is in late-stage development and is designed to smooth wrinkles, the first topical formulation of the neurotoxin.

Given the favorable market conditions on Wall Street, companies in Europe and Israel are choosing to go public in the United States instead of in their home countries. Dutch biotech UniQure, a developer of gene therapies, raised $92 million in an upsized IPO above the target range in the beginning February, and was followed by U.K. biotech Egalet, and Israeli firms Lumenis and Galmed Pharmaceuticals. Several European and Israeli companies are in the IPO queue.

The stream of European companies looking to go public in the United States may slow to a trickle, however, as the successful IPO of cat-allergy drug developer Circassia on the London Stock Exchange in mid-March raised hopes that interest in biotech IPOs will cross the Atlantic. Circassia raised $333 million, the largest life sciences IPO so far this year. Another British biotech, Horizon Discovery, has lined up to go public in London, while three French biotechs have announced their intention to IPO on the NYSE Euronext exchange.

While boom years for biotech have been followed by years of drought in the past, the industry has matured. There are more than 900 drugs in late-stage development today. The biotechnology industry has moved from one with little revenues to a profitable industry in the aggregate. No longer is it an industry driven on promises, but instead it is driven by its strengthening fundamentals and the value it provides for patients. And investors are making money betting on its ability to produce value.