

Market Report Q312

Capital Flows Freely into Biotech Driven by Market Performance

By Peter Winter
Editor

Despite the continuing turbulence in the global capital markets investors have had no qualms about backing the biotech sector – more in public biotechs than in private ones, however. The average increase in the stock values of the 231 public biotech companies tracked by the *BioWorld Stock Report* is up 38 percent year-to-date. The third quarter was particularly hot for biotechs with their collective stock values soaring by an average of more than 12 percent compared with a 4 percent increase in the Dow Jones Industrial Average and a 6 percent increase in the NASDAQ Composite index.

“We have seen an interesting change in investor sentiment in the third quarter,” John Chambers, managing director and head of healthcare investment banking at Roth Capital, told *BioWorld Insight*. “During the earlier part of the year the biotech indices showed that they only appeared confident in investing in blue chip biotech companies; now it seems, given the positive markets, they are willing to take a liquidity risk by investing in smaller companies that have market caps below \$500 million.”

Chambers pointed to the Nasdaq Biotechnology Index (NBI), which includes a broad range of large and smaller companies to make his point. The NBI rose 10 percent in the third quarter and is up a healthy 37 percent year-to-date.

Confirming this observation, *BioWorld Insight* found that the collective stock prices of the 35 public biotech companies in the *BioWorld Stock Report* with market caps greater than \$1 billion climbed an average of 9.5 percent in the third quarter. For those 154 companies with market caps below \$500 million the collective average stock price increased by 17.2 percent.

Welcoming Markets

The welcoming capital markets have allowed biotechnology companies, both large and small, to take advantage of their increased stock values to conduct follow-on financing. In the third quarter more than \$2.8 billion was raised through public offerings compared to only \$507 million in the comparable period in 2011, according to data compiled from *BioWorld Snapshots*.

Padding the statistics was Celgene Corp., which priced two series of senior unsecured notes for an aggregate principal amount of \$1.5 billion. Of those, \$500 million will mature in 2017 and bear interest at an annual rate of 1.9 percent, and \$1 billion will mature in 2022 and bear interest at an annual rate of 3.25 percent. It has been a good quarter for the company with its shares closing Sept. 28 at \$76.40, up 17.75 percent for the quarter. One of the drivers of the increase in value was the company's second-quarter earnings that beat analyst expectations. (See *BioWorld Today*, Aug. 8, 2012.)

The other public financing of note was Idenix Pharmaceuticals Inc., which priced 25.3 million shares, which included 3.3 million additional shares covering overallotments, of common stock at \$8 each for gross proceeds of \$202.4 million. Unfortunately Idenix's share value nosedived two weeks after the FDA placed IDX184, a nucleotide polymerase inhibitor, on a partial clinical hold. The company had also just regained global development and commercialization rights to its other hepatitis C virus (HCV) candidates after the dissolution of its development and commercialization agreement with Novartis AG. (See *BioWorld Today*, Aug. 17, 2012.)

The company's shares closed the quarter at \$4.56, down 55.6 percent.

The positive trend for financings also held true for private placements such as registered direct offerings, rights offerings and at-the-market deals with public biotechnology companies raising \$1.97 billion in the third quarter of 2012 from these vehicles, well over double the \$821 million raised during Q3 2011.

The increased public financing in the third quarter helped global biotech companies collectively raise \$5.91 billion, an amount that was 111 percent more than the \$2.75 billion raised in the third quarter of 2011.

According to statistics compiled by *BioWorld Insight*, the biotech sector is making up for a very sluggish start to the year with a total of \$13.8 billion raised in the first three quarters. This now compares more favorably to the \$16.1 billion raised in the same period of 2011, which, by

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any standards, was considered a very hot year for biotech financing.

"It is a great time to go out to the market with offerings right now," Chambers added. "Closer to the presidential election investors will become more cautious and then we will see the markets pick up again through the end of the year."

Raising VC Still a Challenge

On the venture capital front BioWorld's analysis confirms that deal making for private biotechs still remains extremely challenging. At the three-quarter post of 2012, global private biotechs had raised \$2.35 billion, 33 percent less than the \$3.51 billion raised in the same period of 2011.

The third quarter of 2012 showed an improvement however, with 28 venture capital deals completed in the U.S. that disclosed financial details generating a total of \$588.6 million. This figure was 34 percent higher than the \$437 million raised from 31 deals in the same period a year ago. So far, according to *BioWorld Snapshots*, there have been 81 U.S. venture transactions completed for a total of \$1.6 billion – this compares to the \$1.97 billion raised from 87 deals in the same nine-month period of 2011. The average deal size fell slightly this year to about \$20 million from almost \$23 million last year.

Relypsa Inc. was involved in the top deal in August by closing an \$80 million Series C preferred stock financing to fund pivotal Phase III trials and submission of a new drug application. (See *BioWorld Today*, Aug. 16, 2012.)

The Santa Clara, Calif.-based biotech is developing patiromer (RLY5016), its high capacity non-absorbed oral potassium binder being developed for the treatment of hyperkalemia, a condition frequently prevalent in patients who suffer from renal impairment, hypertension, diabetes and heart failure. It is characterized by elevated serum potassium levels, which can lead to cardiac arrhythmia and sudden death. Relypsa plans to initiate Phase III pivotal clinical trials of the compound this year.

Relypsa was spun out from Ilypsa Inc. after it was acquired by Thousand Oaks, Calif.-based Amgen Inc. in July 2007 for \$420 million.

The other deal of note in the third quarter involved Cambridge, Mass.-based gene therapy firm bluebird bio, which closed a \$60 million Series D financing round. (See *BioWorld Today*, July 25, 2012.)

Proceeds will be used to advance the company's clinical programs in severe genetic disorders, including childhood

cerebral adrenoleukodystrophy (CCALD), beta-thalassemia and sickle cell disease.

IPOs Ahead of '11, Despite 3Q Slowdown

Although the appetite for biotech IPOs cooled off in the third quarter with no deals taking place in August and September, eight companies have gone public year-to-date, compared to the nine deals we saw at this time last year. The amounts generated from the 2012 IPO transactions was \$536 million through the third quarter compared to \$503 raised in all of 2011.

Two IPO deals were accomplished in July. Durata Therapeutics Inc., of Morristown, N.J., priced its initial public offering of 7.5 million shares of common stock at a price of \$9 per share. Although well below its original target price range of \$11 to \$13, an increased number of shares on offer meant that Durata generated proceeds from the offering – \$67.5 million – that were just 9 percent below what the company, which is developing new therapeutics to treat infectious diseases, had hoped to raise. (See *BioWorld Today*, July 20, 2012.)

Durata plans to use the proceeds from its IPO to complete clinical development of its lead drug candidate, dalbavancin, currently in a second pivotal Phase III trial for the treatment of patients with acute bacterial skin and skin structure infections, and to fund commercialization activities in the U.S. and Europe.

Orphan disease firm Hyperion Therapeutics Inc. also priced its IPO in July, generating \$50 million from 5 million shares priced at \$10 per share. (See *BioWorld Today*, July 20, 2012.)

Given the positive capital markets at the present time it is likely that we will see a flurry of companies, currently on the IPO runway, price their IPOs. According to *BioWorld Snapshots* there are nine biotech companies on the IPO runway.

"While the 2012 year-to-date IPO volume is in line with last year, the similarities are not particularly welcome," Mark Heesen, president of the National Venture Capital Association, said in a statement. "Once again we are dealing with major uncertainty regarding how the administration and the Congress will deal with the impending fiscal cliff, a wild card that could continue to impact IPOs this fall. Further, we could see this environment slow acquisitions as well, with corporate acquirers waiting for the election outcomes and more stability to buy those companies that will advance their innovation strategies." ■