



## The Pulse of Biotech

*Early-stage companies continue performing well, capital markets should remain constructive in 2015*

April 1, 2015

Today's early-stage Biotech equity financings continue to challenge conventional market wisdom, performing just as well – if not better – than their later stage peers. Coming off an incredibly robust year in Biotech, everyone is wondering if the bull market will continue. While there may be lulls in activity or minor pullbacks, we believe the market will continue to be, overall, constructive in 2015.

### Early-Stage IPOs Continue to Perform Well

Remarkably, investors are still demonstrating a healthy appetite for new issues by early-stage Biotech companies. As of the end of the first quarter, two Phase I IPOs had been completed.<sup>1</sup> While Pre-Clinical / Phase 1 activity is just shy of the pace established in 2014 (there were ten Pre-Clinical and Phase I IPOs last year), it is noteworthy that two early-stage companies had their public debut in the first months of the year. Despite recent volatility at the end of March, Flex Pharma Inc. is trading above its offering price.

But it's not just the early stage IPOs that are providing attractive returns for investors. IPOs as a whole are performing well. There were seven Biotech IPOs in the first quarter of 2015 – not on pace with the 65 new issues we saw in 2014, but a healthy level nonetheless. As a group, the seven stocks are up, on average, nearly 32% from their offering price.

It is also interesting to note the pricing on those seven deals: roughly 29% priced above the range; 29% priced in range; and 42% priced below. After the recent volatility, four of the seven issues are trading below their offer price. These results illustrate the presence of discerning Biotech investors and a healthy market. Indeed, while concerns about a Biotech bubble persist, we believe that this balanced pricing and other statistics refute the idea that there is cause for concern.

IPO pricing in 2014 was similar: 46% of the deals priced below range and 14% priced above. However, 64% of those deals are currently trading above their offer price.

Development Phase	Total No. of Deals	% Change			Offer to Current	IPOs Trading Above Offer
		File to Offer Offer Price	% Above	% In Range		
Pre-Clinical	0	-	-	-	-	-
Phase 1	2	11.5%	50.0%	50.0%	0.0%	4.0%
Phase 2	3	(23.1%)	0.0%	33.3%	66.7%	(1.2%)
Phase 3	2	11.9%	50.0%	0.0%	50.0%	91.4%
<b>Total Offerings - 7</b>	<b>Mean</b>	<b>(3.9%)</b>	<b>28.6%</b>	<b>28.6%</b>	<b>42.9%</b>	<b>32.3%</b>
<b>Amount Raised - \$585.7</b>	<b>Median</b>	<b>0.0%</b>	<b>28.6%</b>	<b>28.6%</b>	<b>42.9%</b>	<b>(1.2%)</b>

Source: Dealogic and Factset as of March 27, 2015.

### Strong Markets Boost Follow-On Activity

Investor interest in new issues is carrying through to follow-ons as well. There were 48 Biotech follow-on offerings in the first quarter of 2015, including four Pre-Clinical/Phase 1 follow-ons. Once again, the noteworthy numbers are related to performance and price. Approximately 58% of these follow-ons are trading

<sup>1</sup> All equity financing numbers are as of March 27, 2015.

above their offer price. Also, the file-to-offer discount, on average, is just under 8%. Later stage companies are pricing strongly with discounts that are significantly lower and, in some cases, receiving a premium over the filing stock price.

Development Phase	Total No. of Deals	% Change			FOs Trading Above Offer
		File to Offer Price	Discount to Last Trade	Offer to Current	
Pre-Clinical	2	23.0%	(3.6%)	(10.1%)	0.0%
Phase 1	2	(11.4%)	(4.4%)	6.2%	100.0%
Phase 2	25	(9.3%)	(5.4%)	(0.9%)	48.0%
Phase 3	19	(5.7%)	(2.7%)	12.4%	78.9%
<b>Total Offerings - 48</b>	<b>Mean</b>	<b>(7.9%)</b>	<b>(5.0%)</b>	<b>9.9%</b>	<b>58.0%</b>
<b>Amount Raised - \$5,598.4</b>	<b>Median</b>	<b>(6.8%)</b>	<b>(4.2%)</b>	<b>6.0%</b>	<b>58.0%</b>

Source: Dealogic, BioCentury and Factset as of March 27, 2015.

Of these follow-on offerings, approximately one-half have involved a company with a technology platform, and approximately 65% are companies that went public in the last 27 months. For example, Auspex Pharmaceuticals had its IPO in January 2014 and completed two follow-on offerings within a year of its IPO.

### Looking Ahead

Despite an uptick in recent volatility, investors continue to show an appetite for Life Sciences stocks. With strong new issue performance, an ongoing stream of major M&A deals, and a Food and Drug Administration demonstrating more productive relationships with companies, we expect the market to remain constructive in 2015.

There are several macroeconomic issues that could give way to an increase in volatility, including Fed policy and the pace of growth of the U.S. economy, as well as in Europe and Asia. But in our view, those potential changes will only affect the appetite of the fair-weather Biotech investor or generalists. The fundamental investor in this sector understands the value proposition and will view those events as an opportunity to buy. We believe these trends will support those companies looking to raise funds.

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