

Biotech financing retrenches in Q2

Stacy Lawrence

Biotech financing has returned from its giddy heights at the beginning of the year. Funding declined by 27% from the first quarter's \$17 billion to reach >\$12 billion, and partnerships deals were hit hardest, declining by almost three-quarters. Even with a biotech market

gaining double-digit gains in the second quarter, the amount raised by follow-on financings was off by almost two-thirds. Venture capital and public funding have remained relatively stable; both managed to eke out moderate increases.

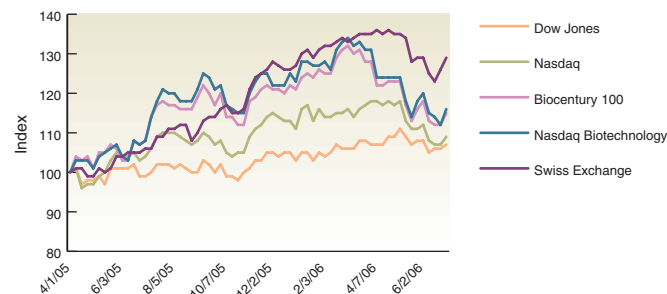
Biotechnology stock market performance

Biotech stocks backslid in the second quarter, with gains about half what they were at the end of the first quarter.

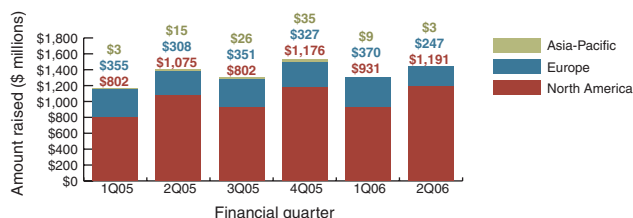
Global biotech venture capital investment

For more than a year, venture capital has held close to ~ \$1.4 billion, with about three-quarters going to North America

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Source: Mulex, BioCentury



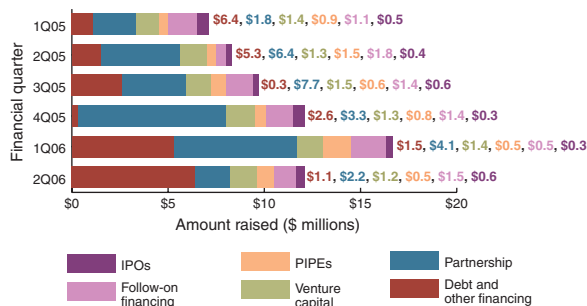
Source: BioCentury

Global biotech industry financing

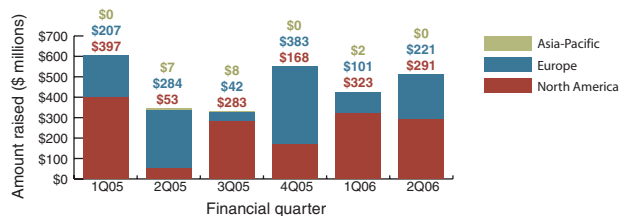
Second quarter financing was off by one-quarter from the extraordinary highs of the first quarter.

Global biotech initial public offerings

In the past six quarters, Europe has accounted for an average of 44% of biotech IPO funds raised.



Source: BioCentury, Burrill & Company



Source: BioCentury

Notable 2nd quarter biotech deals

IPOs			
Company (Lead underwriters)	Amount raised (millions)	Percent change in stock price since offer*	Date launched
Vanda Pharmaceuticals (J.P. Morgan, Bank of America)	\$60	-17%	Apr-06
BioXell (Credit Suisse)	\$47	-	Jun-06
Targacept (Deutsche Bank Securities)	\$45	-23%	Apr-06
BioMimetic Therapies (Deutsche Bank)	\$37	-17%	May-06
Venture capital			
Company (Lead investors)	Amount invested (millions)	Round number	Date closed
Merrimack Pharmaceuticals (NA)	\$65	5	Apr-06
Nanosphere (Bain Capital)	\$57	4	May-06
CoGenesys (New Enterprise Associates)	\$55	1	Jun-06
VLST (Texas Pacific Group Ventures)	\$55	2	Jun-06
Chroma Therapeutics (Nomura Phase4 Ventures)	\$52	3	Apr-06

Mergers and acquisitions			
Target	Acquirer	Value (millions)	Date announced
Diagnostic Products	Siemens Medical Solutions	\$1,860	Apr-06
Serologicals	Millipore	\$1,400	Apr-06
Cambridge Antibody Technology	Astrazeneca	\$1,100	May-06
NeuTech Pharma	Novartis	\$569	Jun-06
GlycoFi	Merck	\$400	May-06
Biacore	GE Healthcare	\$390	Jun-06
Licensing /collaboration			
Researcher	Investor	Value (millions)	Deal description
Human Genome Science	Novartis	\$553	Co-development, co-promotion, license
Metabolex	Ortho-McNeil	\$548	Co-development, co-promotion, license equity, license, loan
Vertex	Janssen	\$545	Co-development, co-promotion, license
Affymax	Takeda	\$535	Co-development, co-promotion, license
SGX Pharmaceuticals	Novartis	\$515	Co-promotion, development, equity, license

*Price as Nature Biotechnology went to press. Deals listed include only those that comply with Nature Biotechnology's definition of a biotech company. Source: BioCentury, Recombinant Capital

Diagnostics investors think positive

Stacy Lawrence

Diagnostics companies have had record fundraising on the public markets over the past few years. Venture capital also expanded last year, raising more than double than in previous years, with \$113 million the average quarterly amount raised over the past year compared with only

\$47 million for a quarter in previous years. Investors seem to be taking seriously expectations that innovations in molecular diagnostics and pharmacogenomics will lead to a rapidly expanding diagnostics market around 2010.

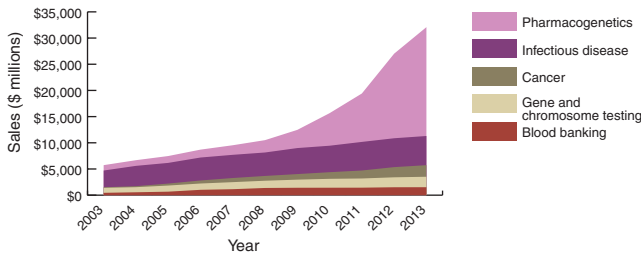
US molecular diagnostic testing market

Pharmacogenetic tests aren't expected to see aggressive revenue growth until around 2010.

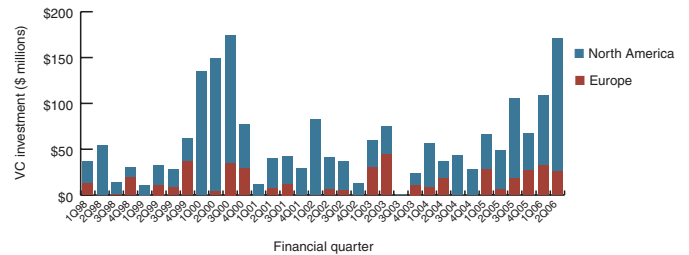
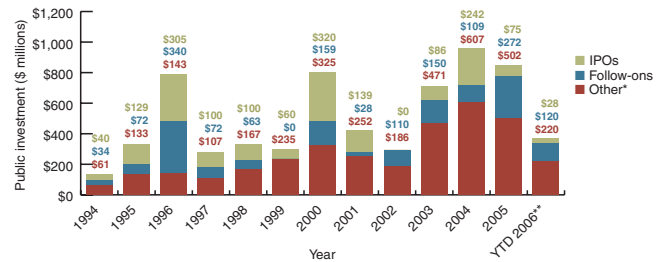
Diagnostic company financing

2006 has seen the first decline in funding for public companies in three years, but VC investment continues to climb.

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Source: Kalorama Information



Source: BioCentury

Projected number of pharmacogenetic tests in US by indication

Neuro-psychiatric disorders, for which there are few means of diagnosis, are expected to dominate pharmacogenetic testing.

Top diagnostics deals of 2005-2006

IPOs

Company name	Value (millions)	Month announced
Genomic Health	\$60	Sep-05
OncoMethylome Sciences	\$28	Jun-06
Oxonica	\$15	Jul-05

Venture capital

Company name	Round number	Value (millions)	Month announced
Nanosphere	4	\$57	May-06
Asuragen	1	\$49	Jun-06
Molecular Insight Pharmaceuticals	3	\$28	Apr-05
XDx	5	\$27	Jan-06
GeneOhm Sciences	2	\$26	Jan-05
Nanosphere	3	\$25	Sep-05

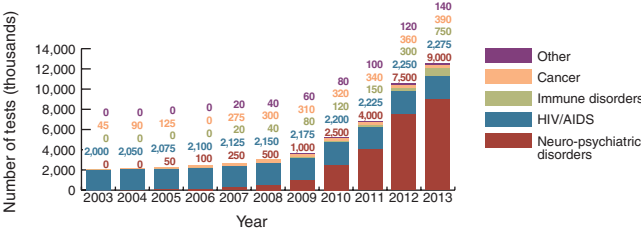
Mergers and acquisitions

Acquirer/target	Month announced	Value (millions)
Siemens / Bayer Diagnostics	Jun-06	\$5,400
Siemens Medical Solutions / Diagnostic Products	Apr-06	\$1,860
Quest Diagnostics / LabOne	Aug-05	\$934
Becton Dickinson / GeneOhm Sciences	Jan-06	\$255
Fisher Scientific / Athena Diagnostics	Mar-06	\$238
Quest Diagnostics / Focus Diagnostics	May-06	\$185

Research partnerships

Investor / researcher	Month announced	Value (millions)	Deal description
Wyeth / Health Ministry of Scotland	Apr-06	\$88	Collaboration
Roche / 454 Life Sciences	May-05	\$62	Discovery
Roche / Innogenetics	Oct-05	\$28	Licensing

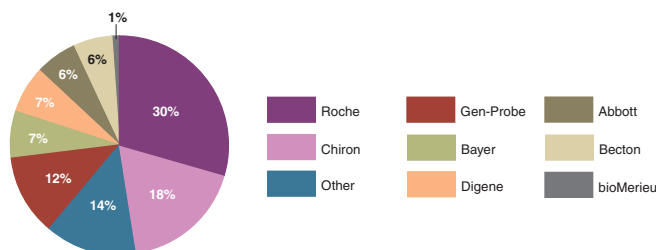
Source: BioCentury, Recombinant Capital



Source: Kalorama Information

Molecular diagnostics US market share

Although molecular diagnostics is an emerging market, especially in the US and Europe, most of the US market is held by only a few companies.



Source: Figure based on 2004 financial reports, Burrill & Company