IPOs: the narrow window closes?

The amount of money raised by biotech firms through initial public offerings (IPOs) in the US has consistently dwindled as 2004 approaches its end. The launch of the high-profile and well-received Eyetech Pharmaceuticals in the first quarter of this year was anticipated by many industry insiders to be just the start of a renewed interest in biotech IPOs. Instead, it has proven to be a high point in a somewhat disappointing window.

The current biotechnology IPO market is "a lot less attractive than it was twelve months ago," asserts Jonathan MacQuitty, a partner at life sciences investment firm Abingworth Management headquartered in London. "There's been a gradual ebbing of enthusiasm in the biotech IPO market. And as the year progressed it got harder and harder to generate that enthusiasm."

An analysis of the field of IPO candidates bears this out. No biotech company has filed to go public on the US markets in the fourth quarter as of mid-November. And few filed in the previous quarter. In fact, most of the biotech companies waiting in the wings to launch onto the market have been sitting around since the first half of 2004.

Of the 13 biotech companies currently registered with the US Securities and Exchange Commission to go public, eight of them had already filed in the first half of the year. That's according to Kurt Wheeler, a partner at MPM Capital the largest life sciences venture capital investor in Boston. These unlucky companies remain "just sitting there like dead ducks," says Wheeler, adding: "Whether they're going to get out or not, who knows?"

Wheeler argues that this biotech IPO window may be closing. "A lot of the stronger companies went out in the first half of the year," he says. "The more mature the company, the better that they do. What are still in the pipeline are the less mature companies. Some of the ones that are trying to come out right now are struggling."

If this IPO window is drawing to a close, it will be a disappointment to venture capital investors hoping to cash out of companies. The amounts that companies have been able to raise, as well as company valuations, have been down-sized significantly from the last, much headier IPO window in 1999 and 2000 (see Fig.1).

Only 36 biotechnology companies have gone public since October of 2003 in the US, according to biotechnology financial research firm BioCentury of San Carlos, California. That's far fewer than went in the previous IPO windows from September 1995 to July 1996 and from October 1999 to September 2000 when 55 and 56 biotech companies debuted, respectively.

Figure 1 A comparison of biotech IPOs in the past three windows. Source: BioCentury

And even though about a year has elapsed, as with the earlier windows, much less money has been raised than in the heyday of 2000. This IPO window has seen a total of about \$2.1 billion, less than half of the \$5.3 billion raised in the 2000 window. Still, it is more than the \$1.6 billion raised in the mid-1990s.

Individual companies are not finding the same fortunes, either. On average, biotech companies raised about \$58.5 million a piece through the public markets this time around, whereas the last IPO window had an average amount raised of \$93.7 million per company. Again, the 2004 window did raise more funds per company than in the mid-1990s when the average was \$29.2 million, according to BioCentury.

Different types of companies have been garnering funds this time around. Companies

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described as working on genomics brought in almost \$1 billion in the last IPO window, whereas this time not a single genomics company went public. The same applies to companies working on high-throughput screening, proteomics, microarrays and pharmacogenetics. Cancer, infectious disease and cardiovascular companies, however, remain among the most highly funded, as they were in 2000, and companies working on drug delivery and inflammation attracted substantially more than they had previously.

The international biotech IPO market has remained tepid as well, raising a total of \$705

million compared to \$1.9 billion in the previous window. One bright spot is Japan where an unprecedented six biotechnology companies launched onto the public markets since the beginning of 2004 (see *Nat. Biotechnol.* 21, 1256, 2003). In contrast, the country was on the sidelines completely during the previous periods when biotech companies were floating in Europe and the United States.

But despite the obvious slow closing of this IPO window, venture capitalists are loathe to declare it shut. There are hopes that with a continuation of the Bush administration and a recovering stock market, the run of biotech IPOs could be extended and enlivened once again after the New Year begins (*Nat. Biotechnol.* 22, 1193, 2004).

Still, there is a question of whether there are enough companies far enough along to flourish in the market. Wheeler notes that it's been taking a company with "clinicals in phase 2 or a transformative partnership" that brings in substantial clout and cash to the company for it to perform well on the public markets. He's not convinced that there are a lot of strong candidates still remaining.

MacQuitty disagrees, however. "Yes, there are still good companies out there," he argues. "There are companies with later stage products and companies with broader platforms that will do quite well." He does not know, however, whether the market will recover. "We do not know whether this is sort of an election pause," he comments, adding: "I'm a little bit optimistic that 2005 will be a better year than 2004."

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