

Market Report Q2II

Public Biotechs Drive Funding Increase in H1 2011 v. H1 2010

By Trista Morrison
Editor

Biotech companies raised a total of \$13.3 billion in the first half of 2011, reclaiming much of the fundraising ground that was lost when the markets crashed in 2008.

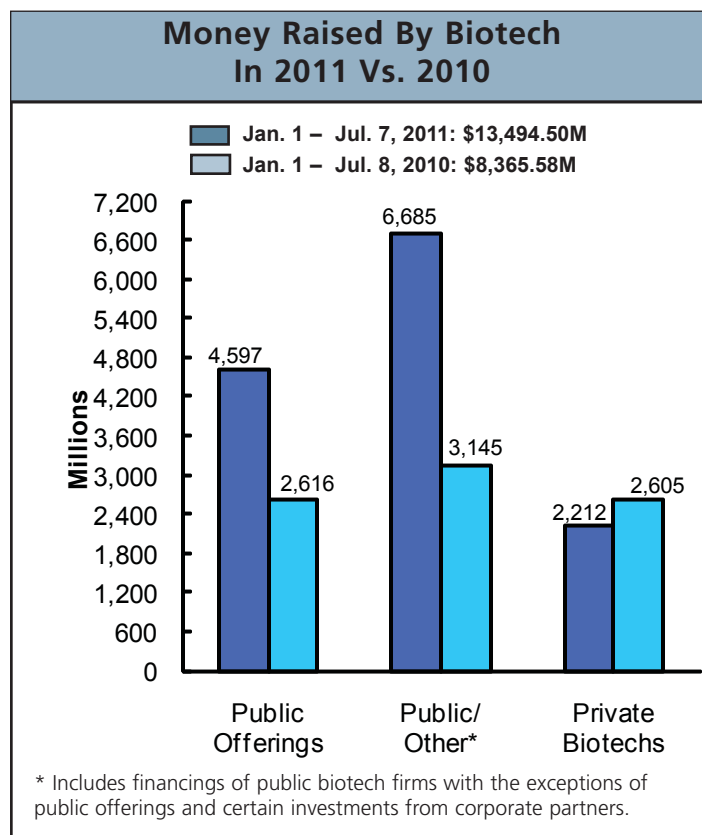
Back then, first-half biotech fundraising totaled a paltry \$5.9 billion. The recovery was slow and painful: \$6.6 billion in first-half of 2009 and \$8.1 billion in first-half of 2010. Although the first-half 2011 total is still shy of the \$17.3 billion raised in first-half 2007, it's a whopping 64 percent jump over last year, according to data from *BioWorld Insight* and *BioWorld Snapshots*.

Public companies carried most of the load. Private company financings actually fell to \$2.1 billion in first-half 2011, from \$2.5 billion in first-half 2010. Public offering activity, however, jumped to \$4.6 billion from \$2.6 billion, and alternative financings jumped to \$6.6 billion from \$3.1 billion.

There are reasons to believe financings of public biotechs will continue apace, especially as an increasing number of firms prepare to transition from clinical to commercial enterprises. But on the private side, "cautious optimism" is still the name of the game for venture capitalists, according to Sofinnova Ventures general partner Michael Powell, and as venture firms face make-or-break time for raising new funds, some start-ups are searching for money elsewhere.

Milestones Drive Public Offerings

When it comes to follow-on public offerings, "the markets are definitely open," said Josh Muntner, managing director of investment banking for ThinkEquity. There is plenty of cash available – thanks to investors who received big payouts on



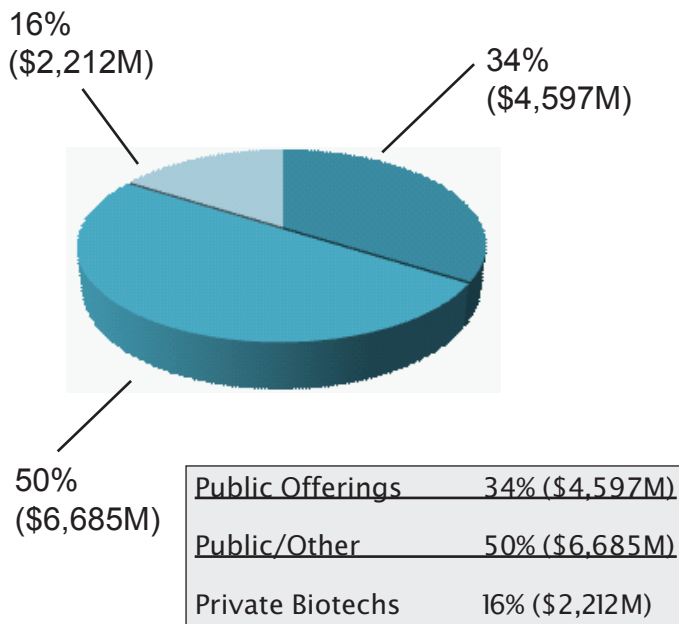
deals such as Sanofi SA's acquisition of Genzyme Corp. – and there is no shortage of attractively discounted financings in which to put it.

The \$4.6 billion biotechs raised through follow-on offerings (and a handful of initial public offerings) in the first half of this year dwarfs the \$2.6 billion raised in first-half 2010, \$1.7 billion raised in first-half 2009 and \$1.5 billion raised in first-half 2008.

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Some of the biggest follow-on deals so far this year were Nektar Therapeutics Inc. at \$234.5 million, Exelixis Inc. at \$189.75 million, Seattle Genetics Inc. at \$178.25 million and PDL BioPharma Inc. at \$155.25 million.

Muntner noted that many of the companies doing big public offerings in the first half of the year were leveraging stock increases associated with late-stage clinical or regulatory milestones and padding their coffers ahead of pivotal trials and/or product launches. He predicted that other biotechs in the same situation will continue to drive public offering activity in the remainder of the year.

For public biotechs in earlier-stage trials, however, the fundraising picture is not as rosy, said Michael Brinkman, managing director of health care investment banking at Jefferies & Co. Inc. "Money is available, but the terms are less favorable," he said.

Brinkman also noted that "wall-cross follow-ons," in which companies market a deal privately for a few days and then sell the rest publicly, have steadily gained traction over the past year and have become the "financing vehicle of choice for most biotechs." (See *BioWorld Insight*, Oct. 4, 2010.)

Quarter-over-quarter, the \$1.43 billion raised in second-quarter public offerings was less than half of the \$3.24 billion raised in the first quarter – though both were better than the \$1.09 billion raised in the second quarter last year. Muntner attributed the drop-off this May and June to broader market

concerns, including the earthquake in Japan and financial crisis in Greece, and he said stocks have largely recovered and deal-flow has picked up again in recent weeks, setting the stage for a strong third-quarter.

Good IPO Returns Not Enough

Despite the success of follow-on public offerings in the first half of the year, initial public offering (IPO) activity has been anemic.

Six firms tracked by BioWorld – AcetRx Pharmaceuticals Inc., BG Medicine Inc., Endocyte Inc., Fluidigm Corp., Pacira Pharmaceuticals Inc. and RedHill Biopharma Ltd. – raised \$308.5 million through IPOs in the first quarter. Three more – Medgenics Inc., Sagent Pharmaceuticals Inc. and Tranzyme Pharma Inc. – raised \$158.84 million in April.

No other biotechs have braved the IPO waters since, despite the fact that the biotech IPO class of 2009 to 2011 as a whole was trading up 33 percent as of May 31. (See *BioWorld Insight*, June 6, 2011.)

A handful of biotechs have doubled in value since their IPO, but many priced at such severe discounts to their expected ranges that even a 100 percent gain in the aftermarket leaves them valued at less than their management and boards think they're worth. Hence biotechs like Ambit Biosciences Corp. have yanked their proposed IPOs in favor of another venture round. (See *BioWorld Today*, June 13, 2011.)

Make or Break Time for VCs

Private biotech financings fell to \$2.1 billion in the first-half of 2011, down from \$2.5 billion in the first-half of 2010, but still better than \$2.06 billion in the first-half of 2009 and \$1.96 billion in the first-half of 2008.

"The general feeling is that things are a little bit better than before," said Sofinnova's Powell. The venture funding pace is perhaps a little slower than it was over the last decade as a whole, but a lot of VCs are looking at deals, and good companies are still getting financed, he added.

There were several hefty late-round financings this year, as private biotechs shied away from the IPO window. Symphogen A/S raised \$131 million, Intrexon Corp. raised \$100 million, Circassia Ltd. raised \$98 million and Merrimack Pharmaceuticals Inc. raised \$77 million.

Yet start-ups were not left out in the cold: Seed and Series A rounds made up nearly one-third of the first-half private biotech funding. Alexis Borisy, partner with Third Rock Ventures, said he is seeing a "very healthy appetite for groundbreaking innovation," both among venture investors and among potential big pharma and big biotech acquirers.

Looking at the second quarter specifically, the \$1.27 billion raised by private biotechs was slightly less than the

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WORD ON THE STREET

"We've always had too much money in every damn company we've invested in."

– Gus Lawlor, managing director at HealthCare Ventures, on why returns are so dismal

"We need an FDA that's more interested in promoting new drugs than in postponing them."

– Jim Greenwood, BIO president and CEO

"Going public is just another source of financing."

– David Hung, CEO of Medivation Inc.

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\$1.35 billion in the second quarter of last year, but more than the \$844.8 million in the first quarter of 2011. "It feels like we have moved to new normal," Borisy said.

Powell, however, noted that some changes may yet lie ahead. Many venture firms that should have been out raising new funds in 2009 and 2010 put it off because of broader market troubles, but many of them will be forced to start pounding the pavement late this year and early next year. "If they do well, you could see venture activity increase," Powell said. "If not, you will see it drop off."

Rise of Private Alternatives

One of the more interesting trends in private biotech funding during the first half of 2011 was the fact that many of the largest rounds did not come from venture investors.

Some of the later-stage rounds, like those from Symphogen and Merrimack, included a mix of venture and institutional investors. Circassia's round was led by Imperial Innovations plc, the technology commercialization arm of Imperial College London.

On the earlier-stage side, oncology and infectious disease start-up Ascleptis Inc. raised \$100 million in a seed round led by Hangzhou Binjiang Investment Holding Co., a holding firm for Chinese real estate billionaire Jinxing Qi. Additional money came from Ascleptis' CEO and other private entrepreneurs. Meanwhile Acetylon Pharmaceuticals Inc. raised an impressive \$27 million Series B from private individuals.

Powell noted that there are always a handful of private companies that pursue non-venture sources of financing. "Some founders have been very successful raising money through their circle of friends, but the average founder doesn't have those connections," he said.

The biggest start-up round this year was \$200 million raised by cancer company H3 Biomedicine. But as a subsidiary fully funded by Eisai Co. Ltd., it is debatable whether or not that money should fall into the financing category.

Borisy classified H3 as a pharma R&D model rather than a start-up. But he said the company is exciting because it is a "new example of financing early stage science and

innovation." Big pharma's push to externalize research is creating a lot of new business models, like product development companies. "There is clearly a lot of experimentation, and I think you will see more interesting deals," Borisy said. The challenge, he noted, will be figuring out how these new business models can provide returns that reward their risk.

Public Alternatives Now Mainstream

In the first half of 2011, public biotechs raised \$6.6 billion through private placements, registered direct offerings, rights offerings, at-the-market deals, loans and other such financing alternatives. Even backing out Amgen Inc.'s massive \$3 billion senior note deal, the total stacks up well against \$3.08 billion raised in the first-half of 2010, \$2.89 billion raised in the first-half of 2009 and \$2.47 billion raised in the first-half of 2008.

With debt available on the cheap this year, Amgen was not the only biotech taking advantage. Endo Pharmaceuticals Holdings Inc. raised \$900 million through the sale of senior unsecured notes, while Dendreon Corp. raised \$620 million through an offering of convertible senior notes.

Muntner noted that tough pricing and loosening of shelf filing requirements have decreased the use of PIPEs as a financing vehicle. Straight registered direct offerings, too, have given up some ground to wall-cross follow-on offerings, but they continue to be used. Pharmacyclics Inc. raised \$57.1 million this way in the first half, and other large registered direct deals included \$25.1 million raised by BioSante Pharmaceuticals Inc. and \$23.5 million raised by Cleveland BioLabs Inc.

Muntner also noted that at-the-market (ATM) offerings, which biotech has dabbled in for years, appear to be gaining traction. He reported that an increasing number of companies are asking bankers how to do ATMs, attracted by their cost-effectiveness and the flexibility of being able to sell shares into the market as needed. (See *BioWorld Insight*, Sept. 7, 2009.)

BioCryst Pharmaceuticals Inc.'s \$70 million ATM – announced after the close of the second quarter – is one of the largest such deals done by a biotech to date. ■