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Life Sciences Public Offering Fervor Strengthens In 2015

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Law360, New York (February 05, 2015, 8:49 PM ET) -- Life sciences companies are rolling out initial public offerings and follow-on offerings in droves as investors snap up the chance to take an early bite out of innovative new therapies, a phenomenon picking up speed from 2014 that's driven in part by sizzling-hot mergers and acquisitions activity and partnerships forged with big pharmaceutical companies, experts say.

With nine IPOs and even more follow-on offerings priced since Jan. 23, the year is shaping up to be an even stronger one than the banner year recorded in 2014, when life sciences companies easily topped the charts for the most active sector.

"So far, things still feel good. The pipeline still feels robust," said Peter Handrinos, a Latham & Watkins LLP partner. "A lot of bankers and investors are interested in what’s happening. So far, so good. Green lights all around. I expect a very positive year in terms of IPOs and other capital markets activity in this space."

Here, *Law360* takes stock of the current life sciences frenzy and what might be driving the vast number of public offerings.

J.P. Morgan Conference Stirs Excitement

In the world of public offerings, there are several factors in play that can make for a busy end to January. Companies come back from the holiday lull and take time to evaluate how the market is performing and, for those whose financial year ends in December, decide whether to hurry up and price before their financial reports go stale in mid-February or to wait until about March, when they will have their audited 2014.

But for life sciences companies in particular, the J.P. Morgan Healthcare Conference held each January serves as a vital jumping-off point. There, surrounded with investment banks, potential investors and fellow innovators, they are able to really take the temperature of the market, Handrinos explained.

"The ecosystem that exists around the conference is at least as large as the official conference. All of the investment banks are there, all of the large pharma companies are there. Anybody who is anybody is there," he said. "A lot of companies use that opportunity to see how things are going, to figure out how excited investors are and update people on their story. It's a very natural way to refamiliarize potential investors, retouch with folks."

The two weeks following the conference tend to be jam-packed with not only IPOs, but follow-on offerings as well, as companies look to draw on the momentum from the gathering, which kicked off on Jan. 15 this year.

"When a deal gets launched shortly after, you are taking some of that excitement around the space that occurs at the conference, and translating that into business activity," Handrinos said.

During the last week of January, eight life sciences companies launched initial public offerings, together raking in $625.7 million in capital as two priced above their targeted range and two missed their mark. The IPOs came in the wake of 12 life sciences companies lining up follow-on offerings targeting more than $1.5 billion.

Stamps of Approval Warm Up Prospects

Life sciences companies with innovative technology — such as immunotherapy cancer treatment developers Kite Pharma Inc., Bellicum Pharmaceuticals Inc. and Juno Therapeutics Inc. — can really boost investor interest as they look to pour cash into the next big breakthrough early on. All three saw their public offerings soar during the last full week of December.

"As a general matter, most technology companies don't tend to go out until they hit certain key metrics. With life sciences companies, if it's early stage but it's a really interesting technology, it's potentially addressing a significant market of unmet need, the management team is proven and respected, the company has been validated by reputable investors ... there are a number of factors that can lead to investor appetite for a much wider range of IPO activity in that space," said Charlie Kim, a Cooley LLP partner.

But with so many life sciences companies now pouring onto the public market, one way to stand out from the crowd is to have well-known and respected private financing leading up to the debut or a partnership with an established pharmaceutical company, according to Robert Freedman, a Fenwick & West LLP partner.

"They often raise funds just before or even overlapping the IPO. If you can get these private investors interested, you are taking in some cash now, reducing the overall risk, it can be a fairly large sum to move your clinical trials forward," he said. "Mezzanine financing is also a bit of a stamp of approval on a company."

Spark Therapeutics Inc., a gene therapy-focused biotech company developing drugs to treat blindness, was able to lock down $72.2 million in a private placement of shares of Series B convertible stock from a group of investors including Sofinnova Ventures Inc. and T. Rowe Price Associates Inc., as well as the Children's Hospital of Philadelphia, where the company conducted many of its clinical trials.

To top off that stamp of approval, in December, a month before its IPO, Spark locked down a global collaboration agreement with drugmaker giant Pfizer Inc. for the development and commercialization of a hemophilia B treatment, according to its prospectus.

Philadelphia-based Spark saw a particularly warm welcome from investors, raising $161 million in an upsized IPO and recording a 117 percent first-day pop in its Jan. 30 trading debut.

Lively Pharma M&A Fuels IPOs, Follow-Ons

The sizzling-hot M&A activity in the life sciences space, particularly among large drugmakers, has also fueled capital markets activity, and after a banner year of multibillion-dollar deals, large and midsized companies are expected to continue to grow their pipeline through acquisitions, noted Phillip Torrence, a Honigman Miller Schwartz and Cohn LLP partner.

"The most likely driving force behind that type of activity is the amount of M&A activity in the life sciences sector in 2014. All indications are that the big pharma companies will continue to be looking for opportunities in 2015 and 2016," Torrence said.

A busy 2014 went out with a bang as drugmaker Merck & Co. Inc. in December announced the acquisition of Cubist Pharmaceuticals and its bread-and-butter antibiotics lineup in a deal worth $9.5 billion.

Without skipping a beat, M&A activity among pharma companies barreled along into 2015, with Swiss biotech giant Roche Holding AG rolling out a $2 billion spending spree in January while British drugmaker Shire PLC snapped up New Jersey-based rare disease biotech NPS Pharmaceuticals Inc. in a $5.2 billion all-cash transaction.

As large pharmaceutical companies continue to refill their pipeline with drugs and therapies developed by early-stage life sciences companies and midcap pharmaceutical companies look to take on their larger competitors, investors are keen to buy into young life sciences firms with a strong story that could be the next target in the pharma M&A boom, boosting interest in IPOs and follow-on offerings, Torrence explained.

"It will likely sell for a substantial premium for what investors invest in at the initial public offering," he said. "Whether that happens the first year, or two or three years later, that's all across the board. But for a lot of these investors, it's definitely a compelling investment thesis."

That certainly rang true for shareholders of injectables and biosimilars giant Hospira Inc., which Pfizer Inc. on Thursday announced it would acquire in a $17 billion deal. The $90-per-share cash offer represents a 39 percent premium over Hospira's close on Wednesday.

Jobs Act Greases Wheels for Smaller Offerings

While the Jumpstart Our Business Startups Act of 2012, or Jobs Act, didn't specifically fuel interest in life sciences companies' public offerings, the ability for an emerging growth company, or one with less than $1 billion in revenue, to line up a less expensive and confidential registration process for a potential IPO opened the door to life sciences companies who otherwise might not have taken the risk, Freedman said.

"The ability to get in line without the world knowing, and then, when the market conditions look right, being able to jump into your IPO just a few weeks later — that makes it much less of a gamble for companies," he said. "The Jobs Act has also reduced costs. If you are only raising $50 million in an IPO, versus a tech company that might raise $1 billion, the fact that is costs less reduces another risk of going forward."

Having the chance to also test the waters with potential investors has helped companies better hone their message and really determine if an IPO is in their best interest, Freedman explained. And the slow build in life sciences offerings since 2012 highlights how the Jobs Act helped to grease the wheels for this smaller offerings to gain momentum.

In 2012, the market saw a handful of life sciences debuts, but the following year, IPOs in the industry began to pick up speed as the first set of IPOs gave others the confidence they needed to move forward, Handrinos noted. Soon, the floodgates were open, only closing briefly for hiccups caused by market volatility.

"In 2013, the thaw started to come in. Some big-picture, exciting things started happening. The investors got excited, not just people focused on the space but also on big picture developments. You started to see the first wave of IPO companies," Handrinos said. "As one company starts to get good traction on their IPO and continues to deliver good news, another starts to dip their toe in the water."

--Editing by Katherine Rautenberg and Emily Kokoll.