

Ongoing Market Volatility Dampens Public Financings for Biotech

Solid month for venture financings, but Burrill & Company says small number of large financings obscure reality that funding remains difficult to come by for early-stage companies.

San Francisco, November 1—The medical device maker Zeltiq Aesthetics managed to complete a \$91 million IPO, the first life sciences IPO since the end of July. No biotech companies made public debuts in October as public financing remained lackluster and continuing volatility dampened activity in the capital markets despite a rebound in stock prices.

Zeltiq, which offers a non-invasive technology to get rid of fat by freezing it, managed to sell 7 million shares at \$13, but it was below its target range of \$14 to \$16. That's not surprising as half of the 16 life sciences IPOs to debut on U.S. markets this year came in below their target prices. Originally, the company had hoped to raise \$115 million through its offering.

Biotech financing activity in October continued its downward trend with no money raised through public offerings and sharp declines in PIPEs and debt offerings. Overall, public financing activity for the sector fell by more than 60 percent to less than \$1.2 billion compared to October 2010. Partnering activity in the month also fell by nearly 50 percent to just under \$2 billion in disclosed deal values.

“We continue to see encouraging developments within the sector as companies report positive clinical results,” says G. Steven Burrill, CEO of Burrill & Company, a global life sciences financial services firm. “But right now the market remains jittery as concerns remain about the sovereign debt crisis in Europe and worries grow about the ability of the Congressional super committee in the United States to reach agreement on a plan to reduce the deficit.”

While first funding rounds accounted for about half of the \$547 million total raised through venture capital and private equity rounds in October, the numbers alone don't tell the story. Six companies completed initial rounds that accounted for 44 percent of the month's total venture and private equity funding as they raised a combined \$237.5 million between them. These companies featured seasoned life science executives in top management positions. They included \$55 million for Puma Biotechnology headed by former Cougar Biotechnology CEO Alan Auerbach, \$42 million for Dermira headed by former Connectics CEO Tom Wiggins, and \$40 million for Imagen Biotech with former Eyetech Pharmaceutical CEO David Guyer serving as executive chairman.

“Given the current environment, venture investors are funding companies that have management with proven track records and often, through acquisitions or in-licensing, a pipeline with products already moving toward the marketplace,” says Burrill. “The environment for raising private capital continues to be difficult for early-stage companies and capital remains expensive.”

Life Sciences Capital Scorecard (USD M)

| | YTD Through 10/31/11 | YTD Through 10/31/10 | Change |
|---------------------------------------|-------------------------|-------------------------|--------|
| Total Global Venture Capital | 8,290 | 8,147 | 1.8% |
| U.S. VC | 6,298 | 6,286 | 0.2% |
| Total IPOs (41 in 2011 v. 36 in 2010) | 3,536 | 3,939 | -10.2% |
| U.S. IPOs (14 in 2011 v. 15 in 2010) | 1,212 | 1,152 | 5.2% |
| Total Global PIPEs | 2,843 | 3,159 | -10.0% |
| U.S. PIPES | 1,191 | 1,671 | -28.7% |
| Total Global Follow-ons | 7,921 | 3,230 | 145.2% |
| U.S. Follow-ons | 2,089 | 2,689 | -22.3% |
| Global Debt Offerings | 36,709 | 30,607 | 19.9% |
| U.S. Debt | 22,172 | 24,546 | -9.7% |
| Global Other Financings | 10,274 | 8,165 | 25.8% |
| U.S. Other Financings | 4,475 | 6,365 | -29.7% |
| Total Global Public Financings | 61,204 | 48,101 | 27.2% |
| Total U.S. Public financings | 31,859 | 36,423 | -12.5% |
| Global Partnering | 29,255 | 55,275 | -47.1% |
| U.S. Partner/Licenser | 17,875 | 31,771 | -43.7% |
| Global M&A | 140,287 | 126,650 | 10.8% |
| M&A, U.S. Target | 79,150 | 59,421 | 33.2% |

On the M&A front, affiliates of The Carlyle Group and Hellman & Friedman are taking Pharmaceutical Product Development, or PPD, private in an all cash deal valued at \$3.9 billion. The two private equity firms are paying \$33.25 per share for PPD, a 29.6 percent premium over its closing price September 30. The deal is seen as a sign that the CRO business, which had been under pressure in recent years because of the global recession, is turning and poised for growth, particularly in emerging markets.

Despite the worries over the sovereign debt crisis in Europe, stock prices overall improved during the month. All of the Burrill indices moved higher led by the Burrill Mid-Cap Index, which rose 17.4 percent for the month. That compared to a 9.5 percent gain for the Dow Jones Industrial Average and an 11.8 percent rise in the Nasdaq Composite Index. Advancers outpaced decliners 2 to 1 in the sector during October with 70 companies that started the month with a share price of at least \$1 posting a gain of 20 percent or better.

Burrill Indices

| INDEX | 12/31/10 | 9/30/11 | 10/31/11 | CHANGE MONTH | CHANGE YEAR |
|----------------------------------|----------|----------|----------|-----------------|----------------|
| Burrill Select | 365.12 | 396.75 | 407.48 | 2.70% | 11.60% |
| Burrill Large Cap | 526.55 | 476.25 | 485.41 | 1.92% | -7.81% |
| Burrill Mid-Cap | 218.10 | 271.18 | 318.36 | 17.40% | 45.97% |
| Burrill Small Cap | 94.97 | 82.31 | 88.40 | 7.40% | -6.92% |
| Burrill Diagnostics | 158.05 | 162.56 | 174.67 | 7.45% | 10.52% |
| Burrill Personalized Medicine | 106.26 | 97.40 | 98.87 | 1.51% | -6.95% |
| Burrill BioGreenTech | 152.78 | 135.21 | 151.12 | 11.77% | -1.09% |
| Canadian Biotech | 55.68 | 52.99 | 53.31 | 0.60% | -4.26% |
| NASDAQ | 2652.87 | 2415.40 | 2684.41 | 11.14% | 1.19% |
| DJIA | 11577.51 | 10913.38 | 11955.01 | 9.54% | 3.26% |
| Amex Biotech | 1297.61 | 1124.97 | 1171.41 | 4.13% | -9.73% |
| Amex Pharmaceutical | 305.88 | 305.44 | 317.13 | 3.83% | 3.68% |

The U.S. Food and Drug Administration approved one new drug in October—ApoPharma's Ferriprox to treat patients with iron overload due to blood transfusions in patients with thalassemia, who had an inadequate response to prior chelation therapy. That brings the total of new drugs approved by the FDA this year to 26, more than the 21 in all of 2010.

The FDA also unveiled a new plan to address the most pressing concerns of industry and patient advocates, highlighting its efforts to build a better agency as it makes its case to Congress for a bigger budget. The plan's "Innovation Initiative" could make the going easier for industry. Some steps are aimed at improving its review process. These include building infrastructure to drive and support personalized medicine, creating a rapid drug development pathway for important targeted therapies, and improving consistency and clarity in the medical device review process.

In Europe, a legal ruling delivered a major setback to efforts to commercialize therapies based on human embryonic stem cells. Europe's highest court ruled that scientific researchers in the European Union cannot patent inventions relying on the destruction of human embryos. The decision by the Court of Justice of the European Union won't prevent the use of human embryos in research. But it does make the funding of such research significantly less attractive for commercial entities, since the results will not be able to secure intellectual property protection.

The issue of value continues to put pressure on life sciences companies as payers seek to cut waste by not paying for therapies and diagnostics that don't work. In response to the changing environment, Roche has proposed pay-for-performance pricing in Germany to hospitals and public insurers for its cancer drug Avastin. Under the plan, the company would refund payers when the drug doesn't work.

In the United States, molecular diagnostic makers may soon be facing greater demands in order to get reimbursement from the Centers for Medicare & Medicaid Services. Draft guidelines from the West Coast administrator for CMS, if enacted, would deny reimbursement for molecular diagnostics unless they have first demonstrated validity and usefulness.

"The rising cost of healthcare is putting pressure on payers to spend their money more wisely," says Burrill. "Companies will increasingly be forced to demonstrate that their products are not only safe and effective, but deliver value."

About Burrill & Company

Founded in 1994, Burrill & Company is a diversified global financial services firm focused on the life sciences industry. With more than \$1 billion in assets under management, the firm's businesses include venture capital, private equity, merchant banking, and media. By leveraging the scientific and business networks of its investment team, Burrill & Company has established unrivaled access and visibility in the life sciences industry. This unique combination of resources and capabilities enables the company to provide life sciences companies with capital, management expertise, insight, market intelligence, and analysis through its investments, conferences, and publications. Headquartered in San Francisco, the company oversees a global network of offices throughout the United States, Latin America, Europe, and Asia. For more information visit: www.burrillandco.com.

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