

Global Financial Market Turmoil Overshadows Biotech Successes in 2011

Burrill & Company Sees Opportunities in 2012 for Innovative Companies to Prosper

SAN FRANCISCO, CA, Jan 03, 2012—The biotech industry in 2011 scored notable victories with major drug approvals, deals, and advancements achieved. But while the industry finished the first half of the 2011 on pace for one of its biggest years of fundraising yet, global economic worries and political fights over government debt in Europe and the United States weighed heavily on financial markets and overshadowed the industry's successes.

“These pressures not only hampered companies' ability to obtain funding in the second half of the year, but also raised the specter of cuts to governments' expenditures on healthcare and biomedical research,” says G. Steven Burrill, CEO of Burrill & Company, a diversified global financial services firm focused on the life sciences industry. “With capital scarce and expensive, companies will need to focus their investments on clear paths to revenues. They will also have to develop products that push beyond incremental improvements on available products and instead concentrate on disruptive solutions that make healthcare costs more sustainable.”

The Burrill Biotech Select finished the year up 18.5 percent. That outpaced the Dow Jones Industrial Average, which rose 5.5 percent on the year, and the Nasdaq Composite Index, which closed in negative territory as it finished the year down 1.8 percent. The Burrill Mid-Cap Index was the best performer in the Burrill family of life sciences indices, ending the year up 35.4 percent, while the Burrill Personalized Medicine Index was the worst performer, closing down 5.3 percent for the year.

BURRILL & COMPANY INDICES

BURRILL INDICES	12/31/10	12/30/2011	Weekly Change	Year Change
Burrill Select	365.12	432.49	1.34%	18.45%
Burrill Large Cap	526.55	529.22	1.19%	0.51%
Burrill Mid-Cap	218.10	295.33	-0.28%	35.41%
Burrill Small Cap	94.97	90.52	1.93%	-4.69%
Burrill BioGreenTech	152.78	151.00	0.00%	-1.16%
Burrill Diagnostics	158.05	175.42	-0.08%	10.99%
Burrill Personalized Medicine	106.26	100.62	0.22%	-5.31%
Canadian Biotech	55.68	59.17	2.44%	6.26%
NASDAQ	2652.87	2605.15	-0.52%	-1.80%
DJIA	11577.51	12217.56	-0.62%	5.53%
Amex Biotech	1297.61	1090.18	1.44%	-15.99%
Amex Pharmaceutical	305.88	332.94	-0.15%	8.85%

Life sciences companies across the globe during 2011 raised a total of \$82.4 billion in public financings, up from \$65 billion in 2010. Debt financings dominated fundraising both years and accounted for the overall fundraising growth in 2011. Global life sciences public equity financings (IPOs, PIPEs, and follow-ons) totaled just \$16 billion, a 7.9 percent increase over the \$14.8 billion raised in 2010, thanks largely to follow-on financings in China.

In the United States, public equity financings in 2011 totaled \$5.7 billion, down 17.4 percent from \$6.9 billion a year ago. Fundraising slowed considerably in the United States in the second half of the year as markets swung wildly in the face of the European debt crisis and the fights in the United States over the raising of the debt ceiling, the Standard and Poor's downgrade of U.S. credit, and the inability to reach agreement in Congress on how to reduce the budget deficit.

A total of 16 life sciences companies managed to go public in the United States in 2011. Together, they raised \$1.4 billion. That compares to 20 IPOs in 2010 that raised a total of nearly \$1.4 billion. As a group, the life sciences IPOs of 2011 fell 29 percent from their initial offering prices as of the close of the year. Getting the deals done was not easy. Ten of these companies went public below their target price ranges and, as a group, these companies sold nearly 28 percent more shares than they had set out to sell while raising about 13 percent less than they had hoped.

The specialty pharma Sagent Pharmaceuticals, which went public at the high end of its target range, was the biggest gainer as of December 30, closing up 31 percent to \$21. The medical device maker company Kips Bay Medical was the steepest decliner, falling 83 percent to finish December 30 at \$1.34. Public market volatility weighed on public financings overall. U.S. follow-ons fell 20.4 percent and PIPE offerings dropped 23.1 percent from year-ago levels in 2011.

The nearly \$9.9 billion invested in the sector through venture capital reflected an 8.7 percent increase over last year. But there are growing concerns about the future role traditional venture investors will play in funding biotech. Several life sciences venture capital firms in 2011 announced plans to reduce investment in the sector or exit it completely. That reflects both frustration with regulatory barriers and the weak market for initial public offerings that has made it difficult for venture investors to capture returns on their investments.

On the M&A front, 2011 saw a conclusion to the long negotiation between Sanofi and Genzyme. Divergent views on the value of the pioneering rare disease biotech were closed with the use of contingent value rights that could be worth up to \$14 each. The rights closed the year at \$1.17, a reflection of Wall Street's uncertainty about their value. Those rights could add as much as \$3.8 billion more to the agreed on \$20.1 billion deal. Other notable deals included generic drug giant Teva buying the biotech Cephalon for \$13 billion; Japanese drug giant Takeda buying Switzerland's Nycomed for \$13.7 billion to broaden its access to Europe and emerging markets; and Gilead's planned \$11 billion purchase of hepatitis C drug developer Pharmasset*. Gilead's \$137 a share bid for Pharmasset, an 89 percent premium on Pharmasset's shares from the close the day prior to the bid, ended the year as the sector's biggest gainer as it rose 488.6 percent to close the year at \$128.20.

LIFE SCIENCES CAPITAL SCORECARD IN USD M

	2011	2010	Percent Change
Total Global Venture Capital	9,906	9,116	8.7%
U.S. VC	7,555	6,975	8.3%
Total IPOs (46 in 2011 v. 39 in 2010)	3,748	6,767	-44.6%
U.S. IPOs (16 in 2011 v. 20 in 2010)	1,394	1,431	-2.6%
Total Global PIPEs	3,347	3,782	-11.5%
U.S. PIPEs	1,498	1,949	-23.1%
Total Global Follow-ons	8,881	4,255	108.7%
U.S. Follow-ons	2,832	3,556	-20.4%
<hr/>			
Global Public Financings Exclusive of Debt	15,976	14,804	7.9%
U.S. Public Financing Exclusive of Debt	5,724	6,936	-17.4%
<hr/>			
Global Debt Offerings	55,456	37,872	46.4%
U.S. Debt	35,919	30,550	17.6%
Global Other Financings	11,070	12,322	-10.2%
U.S. Other Financings	5,200	6,846	-24.0%
<hr/>			
Total Global Public Financings	82,423	64,998	26.8%
Total U.S. Public financings	47,563	44,332	7.3%
<hr/>			
Global Partnering	37,845	61,303	-38.3%
U.S. Partner/Licenser	22,853	34,001	-32.8%
Global M&A	159,699	148,561	7.5%
M&A, U.S. Target	95,231	71,854	32.5%

The U.S. Food and Drug Administration approved 30 new drugs in 2011, compared to 21 in 2010. Among the notable drugs that won approval during the year were Vertex Pharmaceutical's oral hepatitis C drug Incivek, Bristol-Myers Squibb's melanoma drug Yervoy, the first new melanoma drug in 13 years, and the first to extend the lives of patients with late-stage disease; and Human Genome Sciences' lupus drug Benlysta, the first new lupus drug in 50 years. Despite the increase in FDA approvals of new drugs in 2011, regulatory uncertainty continues to plague the industry. Increasingly we will see the FDA move away from being a gold standard for the world to seeing it be a late adopter as companies move to win approval for innovative therapies in other countries first.

Personalized medicine also emerged as a bright spot for the sector with the FDA's approval of Roche's melanoma drug Zelboraf and Pfizer's non-small cell lung cancer drug Xalkori. Both drugs were approved with companion diagnostics to determine which patients would benefit from their use. The FDA also approved Seattle Genetics' lymphoma drug Adcetris, a drug that marries an antibody to a toxic chemotherapeutic payload to deliver a targeted therapy to a certain sub-group of lymphoma patients.

"With these approvals, personalized medicine took a major step forward. It is clear that not only drugmakers but regulators are embracing the benefits," says Burrill. "With the expiration of patent protection on Pfizer's best-selling statin Lipitor, the era of the one-size-fits-all blockbuster is drawing to a close. We'll still have billion-dollar drugs, but they will be developed and prescribed with an understanding of a patient's individual genetics."

Though the U.S. Supreme Court has said it will rule on the constitutionality of the Patient Protection and Affordable Care Act, the healthcare reform legislation passed in 2010 has already set in motion significant change. Regardless of the court's ruling, meaningful reform will be driven by payers, physicians, patients and technology. The pace of that reform will only accelerate.

As we begin the new year, the volatility that has characterized the financial markets in the second half of 2011 is likely to continue. Europe's sovereign debt crisis will take years to work through and with 2012 being an election year in the United States, the divide between the parties is not likely to be bridged. While the industry continues to raise a substantial amount of capital, much of it is going to fund large, well-established companies. Smart companies will raise money when they can rather than waiting until they need to raise money. G. Steven Burrill's predictions for 2012 can be found at <http://www.burrillandco.com/content/news/PR-predictions%202011-final-v2.pdf>.

"Despite the turmoil in the financial markets, there remains enormous opportunities for companies that deliver true innovation and value," says Burrill. "With the JPMorgan Annual Healthcare Conference slated for the second week of January, investors will renew their excitement over the progress being made by the biotech industry."

* Burrill & Company is an investor in Pharmasset.

About Burrill & Company

Founded in 1994, Burrill & Company is a diversified global financial services firm focused on the life sciences industry. With \$1.5 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 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, transactional support, 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 .

Contact:

Daniel Levine

Managing Director

Burrill & Company

dlevine@b-c.com

415-591-5449