Johnston Blakely
& Company, LLC

Q1 2007 Life Science Sector Review

"Not too hot, not too cold...but just right?"

As has been the case in the past, just when the data suggests a trend might be emerging, new information comes along to squash that idea. The sector's performance in first quarter did just that.

At the end of 2006, we noted that while IPO activity had picked up considerably in the 4th quarter of the year, venture capital commitments to the space seemed to have fallen off - with dollars raised down not only quarter-to-quarter, not only quarter versus previous-period quarter, but year over year - over year! And we also noted that, at the same time, M&A activity had risen sharply, with seven billion-dollar plus transactions announced in the 4th quarter alone.

We suggested we would likely see these market dynamics continue. Yet first quarter activity went in just the opposite direction. Let's look at the numbers.

For the quarter, we saw well over 60 financings were announced, with the total amount raised exceeding $1.6 billion versus $0.9 billion raised in the 4th quarter of 2006 and $1.0 billion raised in the 1st quarter of 2006. Of the total, the number of biopharmaceutical deals accounted for slightly less than half of the total, with the average financing raising $31 million. Approximately one-third of the deals involved medical device companies, who raised on average $23 mm (which is somewhat distorted by the $110 mm CardioNet financing). Also of interesting, seven diagnostic deals received funding.

M&A activity, though, fell sharply. The number of deals announced in Q1 dropped more than 20% from the 4th quarter of 2006. Only two of the deals announced - Shire's bid for New River and Beckman's offer for BioSite - topped the $1 billion mark, in sharp contrast to Q4 '06 when seven billion-dollar-plus deals were announced.

The financing "boomlet" may in part be the result of the impressive IPO run in the final quarter of 2006 venture investors putting aside - at least temporarily - concerns over potential exit strategies and longer-teem structural issues. But Q1 IPO activity is unlikely to have done much to temper those fears further, especially among biopharma investors, given that only two of the seven life science IPO's (putting aside the Chinese import 3Sbio) were biopharmaceutical issues.

All told we stick to our belief that, save for quarterly anomalies such as that we just witnessed, until a new paradigm-defining event, IPO in the sector will continue to be more of a means to an end than the end itself with activity spotty at best.

But we do see signs that a new industry paradigm may be starting to take shape. We will be coming out with these thoughts shortly. Stay tuned.

Johnston Blakely & Company, LLC is a Boston-based investment bank offering private equity placement and merger & acquisition-related financial advisory services exclusively to companies in the life science sector. The firm incorporates the venture capital tradition of comprehensive company involvement into investment banking engagements to delivery superior results for its clients. Member NASD/SIPC.

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