

## Q1 2006 Life Science Sector Review

*Deja-vu, all over again?*

Perhaps most notable about the first quarter performance of the life science sector was the lack of anything decidedly notable. In fact, IPO activity, venture investment and merger and acquisition activity in the sector all closely paralleled the levels of activity seen in the first quarter of 2005. However, there did appear to be somewhat of a slackening in activity as the quarter progressed, with what appeared to be a relatively robust January giving way to a more lethargic February and March. What this portends for activity for the second quarter, let alone the remainder of the year, is unclear (although many might conclude at first glance we are in for more of the same).

For the quarter, six new issues came public, primarily in the biopharmaceutical space. This IPO activity closely tracked the activity of Q1 2005 when five new issues came public. Perhaps of more significance, however, was the continued lack of meaningful deal quality of the issues to come public. Moreover, with the exception of the Altus Pharmaceutical deal, the lesser dollars raised in these going public events underscore the current reality that an IPO is not an exit strategy but rather merely an alternate source of funding - for an exit that remains a distant event.

Venture capital investment closely tracked the year-prior period, in both number of deals completed and aggregate amount raised, with nearly \$1 billion raised to fund private companies in the quarter. Activity in medical device financings, which grew so noticeably last year, appears to have backed off a bit with investor appetite for biopharmaceutical deals once again regaining prominence. Interestingly, a number of diagnostic deals were completed this quarter vs zero a year ago, perhaps a suggestion that the prominence of diagnostics in health care is gaining believers.

Sector M&A activity also closely followed last year's first quarter activity in terms of number of deals. Notable, however, was a decided lack of highly-visible deal activity, with Watson Pharmaceutical's \$1.6 billion offer for Andrx the only billion-dollar-plus transaction announced vs. four multibillion-dollar deals announced Q1 '05.

There was one decidedly notable trend seen in the quarter - the increasing prevalence of reverse mergers as a means for private life science companies to go public. For the quarter, there were five reverse go-public events (six if today's EPIX/Predix deal is included). With the increasing use of this strategy to gain public market access (with the number of reverse IPO's pulling even with traditional IPO's this quarter), does this suggest that the intrinsic value of the traditional IPO - or at least the perceived value - is on the wane? Given the belief biopharmaceutical IPO's are today merely an alternate source of funding and not an exit, coupled with the changes to research and market making activities and the distribution power of the Internet, this becomes an interesting question.

Stay tuned.