

Q1/2008 Life Science Sector Review

"You better start swimmin' or you'll sink like a stone, for the times they are a changin'."

- Bob Dylan

The wild gyrations that characterized the markets' overall activity for the quarter also aptly described activity in the life sciences. The BTK, down more than 15% by mid-March, rebounded sharply in the final weeks of the quarter to cut that decline by nearly two-thirds. Nonetheless, the turbulence took its toll, significantly dampening enthusiasm across the board as we witnessed marked drops in both public and private equity financings, and M&A activity. Predictably, the markets' turbulence led to a paralysis among market participants. The key question now being is this paralysis transient or might it be more enduring?

A mere 12 new issues came to market for the quarter, down a staggering 82% from the activity of the prior three-month period. More disconcerting yet was the fact that the last time new issue level was this low was during the doom and gloom of 2002/03, which begins to leave little doubt as to whether or not we are headed towards recession (if not already there). The silver lining to this cloud though may be that if investors have an appetite for anything, it was the life sciences, as 25% of the issues came from this sector.

This relative enthusiasm for the life sciences to some extent carried over to the private equity markets. For the first quarter, the number of venture backed financings completed reached the mid 60's, consistent with last year's quarterly totals and well above 2007's third quarter low. However, we do note that there appears to be a continuing trend towards declines in dollar amounts raised - both in aggregate and on average. Both metrics showed declines of nearly 40% from the year prior period. Given relative similarities in deal type and funding rounds, this would infer a *sharp drop in realized valuations*.

Even sector M&A activity, which in the prior quarter reached record levels, witnessed a substantial dollar-volume pullback. For the quarter, we recorded 40 or so transactions which while not too far from the lower end of recent quarterly activity, was notable for the sharp quarter-over-quarter drop of 40%. More significantly, aggregate transaction value dropped 75%, from \$20.0 billion in the fourth quarter of 2007 to under \$5 billion in the first quarter. And whereas multiple billion-plus dollar deals were announced last quarter, Q1 2008 saw not a single transaction crossing the billion-dollar threshold. Pfizer's acquisition of Serenex was noteworthy in that it represented yet another example of big pharma's apparent greater appetite for earlier technology acquisitions rather than later-stage product opportunities as was pointed out in the recent *Pharmaceutical Canada* article we authored.

We still believe big pharma, in particular, will find the remainder of the year challenging given the ongoing structural issues the industry faces compounded by heightened scrutiny of

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drug costs in this election year. But then again, against a backdrop of overall economic malaise, who won't find it tough sledding - a least in the near term.

Can you say backstroke???

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