

Q1/2010 Life Science Sector Review

“Everything that goes up must come down. But there comes a time when not everything that's down can come up.”

- George Burns

Looking at nothing else but the markets' performance last quarter, one might conclude that all is right with the world. The broader market indices continue to rebound sharply from year-ago lows, with the S&P 500 up 4.9% and the NASDAQ up 5.7% in the first three months of 2010. More impressive has been the performance of biopharma, the NBI up over 11% for the quarter and the BTK up some 32% since January 1st. Yet the markets' robust performance seems to mask a sustained economic uncertainty created by the tenuous nature of business recovery. Other indications suggest the while the indices' performance may be telling the truth, it certainly isn't the whole truth.

During the quarter, four new issues came public: Ironwood, Anthera, Aveo and (though many may question the value of its being public) CorMedix. These issues all faced pronounced headwinds getting out. Not only were the companies forced to accept sharply reduced offering prices – in Anthera's case debuting at 50% of the expected range – but also in some cases underwriters were required to inventory much of their share allocation. And these issues continue – more-or-less – to tread water.

Yet Benjamin Zander (who gave an amazing talk at the recent Flagship Ventures 10th anniversary event) might place performance in another light. The conductor of the Boston Philharmonic might instead say, *“During the quarter, four new issues came to market!”* Much can be said for that glass-half-full perspective. While certainly we are not close to the ebullience of 1999 and 2000 when nearly 300 new issues came public each year, the current IPO pace is well above that of the recent past when the number of new issues each quarter could be counted on one hand.

Regardless, financing activity remains constrained and the tentative nature seen in the public markets seems to be reflected in the private sector as well. For the quarter, announced life science financings totaled approximately \$750 million across 50 or so deals – more or less in line with year-prior performance. But the year-prior period saw markets reach the depths of despair. Moreover, committed first-quarter dollars fell sharply from the previous quarter. That the number of completed deals remained relatively consistent quarter-over-quarter suggests that valuations likely remain under pressure. Given that current venture fundraising remains nearly 60% off its 2007 peak, valuation pressure is likely to be sustained.

The quarter's M&A activity continued to remain relatively brisk. While the number of announced deals slipped slightly from the previous quarter, it was up considerably from the year-prior period. Measured by dollar volume, the first quarter of 2010 outpaced both Q4 2009 and Q1 2009 (after adjusting for the three mega-mergers in Q1 2009). Notable deals announced during the quarter include both the \$7.2 billion acquisition of Millipore by Merck KGaA and Astellas Pharmaceuticals' \$3.5 billion hostile bid for OSI Pharmaceuticals – yet notable for perhaps different reasons.

Not only did the Millipore deal dwarf virtually all others announced during the quarter (we excluded Novartis's bid for the remainder of Alcon from the quarter's tally given its outstanding option to acquire the Nestlé equity position), but also Thermo Fisher seemed to snatch defeat from the jaws of victory after Merck emerged from apparently nowhere to hit the bid. The Astellas offer for OSI marked the second hostile bid for a biopharma company within the past few months, Biogen Idec's bid for Facet Biotech being the other. That acquirers' display a willingness to go hostile might signal a change in perception related to the importance of management and company culture. The generally accepted wisdom has long been that company management – and their secret sauce – is often core to the intrinsic value of entities with so much on-the-come. These hostile bids would suggest otherwise.

It was interesting to note that no sooner had Biogen Idec publicly pronounced to Facet shareholders that its revised and final bid of \$17.50 per share placed a fair and full value on the company, Abbott stepped in and paid \$27.00 per share.

Value remains in the eye of the beholder.

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