

## Q2 2007 Life Science Sector Review

*"Yes, Dana, the birds are flocking off Singing Beach"*

The markets head into the heart of summer off a strong second quarter showing. And the strength seen seems to be rather broadly based with no single area distancing activity in others. The market for initial public offerings showed signs of continued activity, venture capital financings continued at the brisk pace seen in the first quarter and acquisition activity surged. This despite the weakness seen during the quarter in sector bellweathers Amgen and Genentech. Summertime, it would seem, has set in and all is okay.

Venture financing totalled slightly over \$1.5 billion for the quarter. Total dollars raised during the second quarter came in slightly behind the total for the 1st quarter but still represented a sharp rebound from the downward trend that continued through the end of 2006. This rebound in activity was also evidenced in the number of completed deals, with nearly 70 financings completed in the 2nd quarter compared to a total in the low 30s in the year prior period. Also carried over from the prior quarter was the distribution of deals, with slightly under half involving biopharmaceutical companies and medical device financings accounting for a third of completed transactions. We did note, however, the pull back in June which seemed to coincide with public market retreat, the BTK falling from a high of 836.80 to close the quarter at 777.49.

The rebound in venture financing activity this year may be partially explained by IPO activity. Eleven issues debuted in the second quarter, following seven issues in the first quarter. While certainly not record activity, these figures reflect respectable public market appetite for new life science issues despite - one might argue - the persistent pressures on the sector. And the range of companies to come public was broad, from biopharma to genetic diagnostics to discovery technologies. At present, roughly half of these issues are trading above their IPO price suggesting that new issue appetite may endure - which in turn may provide a number of IPO candidates the sustained market receptiveness necessary to explore tapping the public markets themselves ahead of the 2008 presidential election season - and the uncertain financing environment it is likely to create.

While access to the public markets may provide some comfort as an exit alternative, it seems clear that merger and acquisition remains a key source of liquidity - and a the key impetus driving venture financings. For the quarter, M&A activity totalled \$36 billion, a total somewhat distorted by AstraZeneca's \$15.6 billion offer for MedImmune. Yet even without the MedImmune deal, the \$20 billion quarterly deal tally still remains an impressive figure and included 6 additional billion-dollar-plus transactions. Also noteworthy were the number of second-quarter serial acquirors - companies announcing multiple transactions during the quarter: Integra Lifesciences (2); Amgen (2); Roche (3); and Inverness Medical announcing 4 acquisitions for the quarter.

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So with relative strength shown across the board, the sector appears poised for a eventful and quite active summer season, which absent a change in the prevailing winds may portend a extended period of sustained enthusiasm.

And if the birds over Singing Beach are any indicator, the run hasn't ended.

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*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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