

Q2/2010 Life Science Sector Review

“The wise adapt themselves to circumstances, as water moulds itself to the pitcher.”

- Chinese Proverb

The economic apprehension created by the tenuous nature of business recovery came to the fore in the second quarter with the markets, at best, treading water. Gyration between data points projecting continued tumult and dislocation and far fewer data points offering inklings of hope, at quarter's end the markets found themselves well below their year-end 2009 levels, the S&P off 7.6% and NASDAQ off 7.0%.

While following the broader market lower, the biotech sector seemed to display a bit more buoyancy with the NBI off only 5.2% since the beginning of the year and the BTK actually in positive territory (the difference attributable in large part to calculation methodologies.) This buoyancy provided an opportunity for three new issues to come to market – Alimera Sciences, Codexis and GenMark Diagnostics – though in keeping with recent life science IPO history, none of these issues displayed any real strength. Alimera priced at \$11.00 per share, well below its expected range of \$15.00 to \$17.00, and Codexis priced at the low end of its \$13.00 to \$15.00 range. GenMark's debut netted the company only 75% of expected proceeds. Not surprisingly, none of these issues currently trade above their debut price.

Perhaps in the belief that size does indeed matter and that there is safety in numbers from the persistent economic malaise, M&A activity jumped markedly during the quarter. In total, some 69 transactions were announced, up 38% over first quarter activity and up 64% over the prior year period. Dollar volume also stood out with announced deals totaling \$21.2 billion compared to \$14.4 billion in the first quarter of the year and \$6.7 billion in Q2 2009. Significantly, eight transactions of \$1 billion or more were announced during the quarter, suggesting that many companies are looking to acquisitions and related post-deal operating efficiencies achieved – not organic means – to drive earnings growth. The increase in companies willing to be acquired, despite ongoing weakness in the market, is also telling.

We did note with some surprise that venture financings during the quarter showed some strength, although this strength was tempered by a sizable number of insider rounds. During the quarter over 60 financings were completed, raising more than \$1.2 billion. The number of deals completed increased 24% and aggregate dollar volume increased 62% over first quarter totals. The increase in dollar volume largely reflected

Q2/2010 Life Science Sector Review

deal composition, with biopharma making up 61% of completed Q2 financings. Medical device and diagnostic deals together accounted for only 23% of the total.

It remains to be seen whether these markets can break into the crawl, perhaps even the butterfly, or will instead require a life preserver.

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 deliver superior results for its clients. Member FINRA/SIPC.

*More than investment banking...in **Venture** banking™*

www.johnstonblakely.com