

IPO Boom likely in 2004

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After a lull for 12-18 months, there has been buoyancy in the biotech market—globally as well as locally. Strong fundamentals, global uptrend, and the booming Indian stock markets give the right platform for the launch of biotech Initial Public Offerings (IPOs). A report on the Indian and global biotech IPO pipeline.

Globally, there has been a sudden surge in biotech filings. For instance, towards September-end five Massachusetts firms, Aderis Pharmaceuticals Inc., First Marblehead Corp., Nitromed Inc., TolerRx Inc. and Vaso Active Pharmaceuticals planned IPOs. The combined worth was \$400 million. Watertown biotech Acusphere set the tone with \$52.5 million debut. The mood was not restricted to the Bay State alone.

The same sentiment was reflected across the US. Genitope Inc. went public offering 3,700,000 shares of its common stock at \$9 per share on the Nasdaq to raise close to \$33 million. CancerVax Corp., a biopharma company focused on cancer therapies, ended up raising \$72 million after pricing six million shares at \$12 per share. Myogen Inc. raised about \$70 million. Adolor Corp.'s offering was approximately \$119 million. This is a partial list of IPOs since September.

There are about 20 odd biotech companies waiting to go public now and raise close to \$1 billion according to some analysts. There have hardly been any IPOs in Europe, but in mid-2004 Europe too is expected to open out.

India follows global footsteps

The conditions in India are similar or even better than that globally. In fact the trend in the past six months suggest increasing investor confidence and a great IPO bazaar ahead. According to a Business Standard report, IPOs worth Rs 22,000 crore are

expected to come out in the next 12 months. In the first six months of this financial year, Rs 1,868 crore was raised through public issues, both debt and equity. The six equity IPOs in the market this year are now commanding a combined market capitalization of Rs 12,839 crore, creating shareholder wealth of Rs 7,795 crore according to the report. Besides, there has been over subscription to almost all the IPOs that have come after September. And experts believe that there would be oversubscription in most cases in future.

Biotech may not lead the IPO revolution. But it definitely has a strong case to gain in 2004. With the Securities and Exchange Board of India (SEBI) mandating a wide range of disclosures in the prospectus for public offers, the current list of IPOs that are coming are of quality and with strong fundamentals. This paves the way for companies in biotech too to exploit the markets as during the year, biotech companies have made significant progress on all counts—the ability to attract investments, talent new products and make money too.

According to BioSpectrum-ABLE Survey, the biotech industry in FY 2002-03 was Rs 1830 crore. The industry has invested heavily. The total investment in the industry in 2002-03 was Rs 635 crore. The R&D manpower grew over 74 percent. The biotech industry is expected to grow by about 26 percent this year and hopes to invest close to Rs 1,000 crore in the next couple of years.

Several biotech companies plan to go public. Biocon, Shantha Biotechnics, Amreshwara Agri Bio, Bharat Biotech, etc. are looking to go IPO. In fact Bangalore-based bio-pharma major Biocon India could be the one to take lead. It is planning a March 2004 launch of its IPO. It intends an equity capital expansion through a restructuring of its paid-up capital and reserves before that. It has also entered a tie-up with the HSBC-ABN Amro Bank consortium for a Rs 150-crore debt financing for part-funding of its Rs 500-crore expansion programme. The public offer will be done entirely through the book-building route and it has appointed DSP Merrill Lynch and Kotak Mahindra Capital as the book running lead managers. HSBC Securities & Capital Markets will be the co-book running lead manager. Biocon has indicated that the company proposes to offer 10 percent of its equity in the IPO, but the size of the issue will decide the company's new equity capital after the proposed equity restructuring plans.

The success of Biocon's IPO would set the benchmark for future IPOs in the sector. For it is the No.1 biotech company in the country and has strong fundamentals. CRISIL, India's leading credit rating agency, has maintained its P1+ rating for the Rs 20 crore short-term debt programme. According to CRISIL, "The rating continues to reflect Biocon's strong presence in the statins business and its leading position in industrial enzymes. Its R&D skills in fermentation technologies and its US FDA-approved facility for manufacturing Lovastatin also support the rating. These business strengths are complemented by Biocon's favorable financial profile, which is characterized by robust sales growth (compound annual growth rate of 50 percent since FY 98-99), healthy profit margins (24.9 percent at the operating level and 14 percent at the profit after tax in FY 02-03), comfortable gearing (0.56 times as on 31 March 2003) and healthy debt-servicing ratios. The rating strengths are, however, tempered to some extent by the large ongoing capital expenditure programme, the market-related risks on some of its new product launches in the biologicals segment and the flattening growth in the industrial enzymes sector."

Be it the biopharma, agribiotech, or informatics segment, the chances for IPO successes look bright. But everyone is adopting a wait and watch policy till Biocon IPO takes off. Bharat Biotech, Biological E, Shantha Biotechnics, all need money to expand and grow. They have strong fundamentals, quality products, relationships, and vision. Some experts believe that the biotech IPO has the potential to attract collectively Rs 500 crore in 2004.

Sentiments the key

Why is the market for initial public offerings coming to life? In the US, the stock market sustained a rally since March. The Dow Jones Industrial Average went up by 16-17 percent and the Nasdaq Composite Index by 45 percent. That sentiment is believed to be one of the reasons for companies, who had put off their IPOs, to go public.

The traditional financial measures like revenue, income, and sales may be important, but what pushes the case of a biotech company is the FDA approval. The companies, which are focused on new therapeutics, have found favor. For instance, Genitope is focused on the research and development of novel immunotherapies for the treatment of cancer. Its lead product candidate, MyVax, is personalized immunotherapy. CancerVax Corp. is focused on cancer therapies too. It is focused on obtaining approval of the Canvaxin therapeutic vaccine for the treatment of melanoma and colon cancer. Myogen Inc. is focused on the discovery, development and commercialization of small molecule therapeutics for the treatment of cardiovascular disease. Adolor is specializing in prescription pain management products. Its lead product Entereg (alvimopan) is being developed to manage postoperative ileus and its next product candidate is a sterile lidocaine patch in clinical development for treating postoperative incisional pain. It is not that their IPOs were oversubscribed. Nonetheless the

ball has been set rolling.

Positive Vibes

Altogether, the biotech sector has positive vibes. According to the PricewaterhouseCoopers, Thomson Venture Economics, and National Venture Capital Association MoneyTree Survey, for the first time in seven years, biotech was the number one industry and attracted \$873 million in VC money. About 17 drugs got the nod from the US FDA by July, against 20 in total last year. All these conditions only indicate that 2004 may be a good year for biotech IPOs

Those actively considering IPO or have just launched â€

Amareshwara Agri Bio: A Hyderabad-based biotechnology company, it has decided to tap the capital markets with a Rs 25-crore IPO. The company has roped in Firstcallindia Equity Advisors as its financial advisors to navigate the IPO process. The IPO proceeds will be used for the expansion activities of the firm like development of GM crops, setting up of a biotechnology lab to carry on research and development in this segment. The company has a net work of more than 15,000 seed farmers and does contract production in over 20,000 acres of land under its various production programmes in the seed production areas of cotton, maize, sorghum, pearl millet, sunflower, hybrid rice, soybean and vegetable seeds. It has also plans to produce and market bio-control agents and bio fertilizers.

Kolar Biotech: Company's aim is to develop NCEs with the help of research institutions/universities in India, acquire lead molecules through licensing, redefine pharmacological activity of molecules, analyze toxicological profile, offer promising NCEs to global pharma companies and offshore drug testing.

Gland Pharma: Hyderabad-based liquid injectibles manufacturing company is planning to raise \$25 million to meet its fund requirements for manufacturing capacity expansion, marketing support and a foray into regulated markets. The company presently has a paid-up capital of Rs 9.68 crore. It has got the US Food and Drug Administration (FDA) approval for its injectibles facility at Dundigal near the city. The approval was obtained for some of the products that the company will manufacture for Apotex Corp.

Shanta Biotechnics: It had launched recombinant Streptokinase in November is planning to tap the capital market with an initial public offer. The proceeds from the issue would be utilized for expansion of capacity and also provide an exit route to existing equity investors. Morgan Stanley Mutual Fund has 7 percent stake while SBI Mutual Fund has a 3 per cent stake. Both these funds had invested Rs 50 crore for the 10 per cent stake. Of the remaining 90 per cent of the equity, Indian Promoters and Oman collaborators hold 45 per cent each.

Ch. Srinivas Rao

Biotech Sizzlers

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There are several interesting products on horizon.

According to IBM, in 2010, the pharmaceutical industry will not only make white powders; it will sell a variety of products and therapeutic healthcare packages that include diagnostic tests, drugs and monitoring devices and mechanisms, as well as a wide range of services to support patients. "Targeted treatment solutions" will deliver bigger shareholder returns than they have ever delivered before. Drug discovery and development will be underpinned by an understanding of how different disease function both at a molecular level and as part of a biological system. The molecular sciences will enable the industry to define diseases much more accurately and to create a collection of treatments and services for patients with specific disease subtypes, rather than making one-size-fits-all drugs for patients with similar symptoms but essentially different diseases.

Similarly things will change of the agriculture and environmental side. There will be genetically engineered crops with better protection against diseases but also those with high nutrients and high yielding capacities.

India is also taking several initiatives. We have seen the transgenic potato and rice developed here, indigenous Bt cotton, India's the world's only country to be working on buffalo genome, Pune University has developed VirGen, an indigenous virus identification software programme. So things are happening here too.

On another count, biotech has been in news in the last three months for acquisitions, mergers, and IPOs. Pfizer Inc. entered into an agreement to acquire Esperion Therapeutics, a biopharmaceutical company focused on the development of high-density lipoprotein (HDL) targeted therapies for the treatment of cardiovascular disease. Esperion brings a novel approach to the emerging area of HDL therapy and reverse lipid transport for the acute treatment of cardiovascular disease. GE and Amersham agreed to merge. With this, GE wants to accelerate the development of molecular imaging and personalized medicine.

We present to some of the top recall products of 2004 and why they would make a difference to the world.

India's Bt genes

Indians are known for copycatting. But not always. It is mainly because of brain drain of intellectuals. We do find talents working on different innovative ideas at various labs in India to come out with indigenous products. A team of scientists at National Botanical Research Institute (NBRI), Lucknow has indigenously synthesized two Bt genes Cry 1AC and Cry 1 EC, which may launch a tug of war with Monsanto's Bollgard. These two genes may bring down the actual production cost and put a full stop to the production and sale of spurious Bt cottonseeds, which is rampant at Gujarat.

Gene scan in 3D

Chromosomal disorders occur in 0.7 percent of live births. They increase in frequency with advanced maternal age. To provide equivalent accuracy and more comprehensive diagnostic capabilities, Biocept is developing a 3D HydroArray Chromosomal Disorders Diagnostic. This 3D HydroArray diagnostic is for prenatal diagnosis of a broad range of aneuploid and deletion disorders. Clinical trial results to date indicate that the diagnostic will be a major advance over currently available methods. Biocept currently offers two theme 3D HydroArray systems, the 3D HydroArray Apoptosis System, and the 3D HydroArray Signal Transduction System. In addition, Biocept can produce customized 3D HydroArray Systems to meet the needs of individual investigators and labs.

Cancer-tackling antibodies

Are you a victim of a deadly illness, cancer? Then look at Immunomedics Inc, which is developing, manufacturing and marketing innovative antibody-based products to combat deadly illnesses. It is in the process of developing antibody against cancers expressing carcinoembryonic antigen called CEA-Cide (labetuzumab). At present CEA- Cide is in Phase I/II clinical trials for the treatment of certain solid tumors. The antibody has been humanized, a process that depletes by about 90 percent all murine components in the antibody by replacement with human immunoglobulin, or antibody, structures. This antibody is in clinical studies as a naked (unlabeled) and a radiolabeled conjugate, for the therapy of diverse cancers expressing CEA, including colorectal, pancreatic and breast cancers.

It's GM Canola now

After making inroads in India by launching three hybrids of Bt cotton with product called Bollgard, Monsanto, a provider of agricultural products and solutions based at St Louis, US is entering Australia with Roundup Ready canola. It is also planning to take up field trials for GM corn in India. Developed by Monsanto Australia Roundup Ready canola got the approval from the Federal Government's Office of the Gene Technology Regulator (OGTR), Australia for commercial cultivation. GM Roundup Ready canola has undergone field trials in Australia and is tolerant to the herbicide glyphosate that will help in weed control while the canola crop is growing. It is a special type of herbicide tolerant canola developed using plant biotechnology. It offers farmers a safe and more effective way to control weeds in their crops than existing herbicide tolerant canola, including Triazine Tolerant canola, which is the current market leader in Australia. Triazine Tolerant canola makes up more than 60 percent of Australia's canola crop.

Genetic skin care

Are you suffering from a chronic skin disorder, Psoriasis? Don't scratch head or skin either. Genentech has developed a

humanized therapeutic antibody, Raptiva, designed to selectively and reversibly block the activation, reactivation and trafficking of T-cells that lead to the development of psoriasis. Genentech has got the US Food and Drug Administration (FDA) approval in October 2003 for the treatment of chronic moderate-to-severe plaque psoriasis in adults 18 years or older who are candidates for systemic therapy or phototherapy. In clinical studies, Raptiva demonstrated a rapid onset of action, in some patients by four weeks, in the reduction of symptoms associated with psoriasis. Raptiva prevents T-cells from becoming activated and entering the skin. This, in turn, inhibits the process that leads to plaque formation. As Raptiva starts working in the body and plaque formation is slowed, psoriasis symptoms start to clear.

5-in-one vaccine from Serum

Pain of injecting the vaccines at regular intervals is over. Now the babies can have relief of taking one vaccine instead of four against the deadly diseases Hepatitis -B and DPT. The scientists at the Pune based Serum Institute of India, a leading manufacturer of DPT vaccines are working on a combination vaccine, which is expected to be launched by end of first quarter of 2004. This combination vaccine will reduce the number of injections required for children from four to one. Serum, a Rs 450 crore vaccine manufacturing company is exporting its products to over 160 countries. Its path-breaking clinical trials include; a sero-conversion study to assess the impact of Measles Vaccine at 9 months of age and MMR vaccine at 15-18 months of age, Reacto-genicity and safety of Measles Vaccine with regard to neurological side-effects, Immunogenicity and Reacto-genicity of indigenously produced MMR vaccine, Sero-conversion following Rubella immunization in girls aged 9-11years, Reactogenicity of Rubella Vaccine in adolescent girls.

Pesticide-killer protein

Growers look at using traditional chemical pesticides and growing crops of genetically engineered for pest resistance to reap profits. Due to widespread criticism from environmental groups, government regulators, consumers, and labor advocacy groups, growers are finding it difficult to use these approaches. To overcome the problems faced by the growers, EDEN Bioscience Corp. has developed Harpin technology, which provides growers with a highly effective alternative approach to crop production that addresses these concerns. Messenger is the first of a series of products based on the Harpin Protein technology. Harpin Proteins induce disease resistance and promote increased yield in a broad range of agriculture and horticulture crops. Harpin Proteins induce the natural disease immune system and growth pathways inherent within each plant.

Antidote for anthrax

Human Genome Sciences Inc. has developed a human monoclonal antibody drug called ABthrax that protects against anthrax in animals. It is a synthetic antibody that neutralizes the main toxin produced by the anthrax germ. ABthrax could prove to be useful as an adjunct to or replacement for antibiotics currently used to treat anthrax. The human trials will only determine if the drug can be safely administered, as it is not considered ethical to expose humans to anthrax spores to determine its efficacy. The company has also got the USFDA permission for conducting clinical trials under the Bioterrorism Act of 2002.

