Capital Markets in the Time of Pandemic – Second Quarter Biotech Update

As we reach the mid-point of 2020, the second quarter was the busiest quarter for biotech equity to date, and we continue to see an active IPO market with issuers pushing to expeditiously get on file and take advantage of the continued investor receptiveness to biotech equity offerings. The ongoing effect of COVID-19 has brought about some interesting trends during the 2020 IPO frenzy. Although many were at first hesitant to launch a road show in light of COVID-19, "early canaries in the coal mine" Zentalis Pharmaceuticals and Keros Therapeutics successfully launched and priced their upsized offerings at the top of the range.

The inability to have the traditional 10-day in-person road show meetings has resulted in truncated four-day virtual road meetings, which was utilized by both Zentalis and Keros and the biotech IPOs that followed. This shortened book building process has shifted priority and significance to testing-the-water meetings, resulting in more robust and fulsome meetings to allow issuers and underwriters to assess market interest. Additionally, with the XBI outperforming the S&P, we've seen more generalist investors shifting their investments to biotech. This increase in demand has, in turn, resulted in larger than usual IPOs pricing, with several issuers raising in excess of $200 million after upsizing their offering and pricing at the top of, or above, their initial offering range. Importantly, the completed IPOs have generally traded well, opening sharply up on the first day of trading, which in turn fuels the pipeline of issuers and demand.

Another interesting development in 2020 is the traditional lack of disclosure regarding insider participation on the cover of S-1s to show support for the IPO, which was the norm in 2019 and previous years. In 2019, banks typically looked to have insiders fully cover the IPO with insider demand before launching the deal and expressly signaled the insider support by having prominent disclosure on the cover of the S-1. In 2020, we've seen banks move away from this express disclosure and marketing angle in order to signal to new investors that meaningful allocations will be available as the company looks to diversify its inventor base. As we look forward into the back half of the year, July is shaping up to be another busy month with several companies having publicly filed their S-1s to commence the 15-day waiting period before beginning their road shows. The desire for companies to commence their IPO process with organizational meetings and bake-offs continues, and if the market holds, the third quarter, and even the fourth, could continue to the trends we've seen to date.

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