THE WALL STREET JOURNAL.

http://www.wsj.com/articles/ipo-market-comes-to-a-standstill-1454178166

MARKETS | STOCKS | ABREAST OF THE MARKET

IPO Market Comes to a Standstill

Zero initial offerings in January threaten private firms' ability to raise capital; biotech firms to test frosty waters

By **CORRIE DRIEBUSCH**

Jan. 30, 2016 1:22 p.m. ET

A frigid January for initial public offerings is pointing to a hard winter for fledgling firms seeking to go public.

There were no U.S. IPOs in January, the first monthlong drought since September 2011, when the eurozone crisis was in full swing and the debt rating of the U.S. had just been downgraded, according to data provider Dealogic. Investors and analysts attribute the dearth to the global stock-market rout of the first two weeks of the year, which signaled a broad retreat from risk by

There were no U.S. IPOs in January, the first such month since the eurozone crisis in September 2011, according to data provider Dealogic. *PHOTO: AGENCE FRANCE-PRESSE/GETTY IMAGES*

investors.

If sustained, the reversal threatens to send ripples through global financial markets. Many analysts and traders view a healthy IPO market as a necessary precondition for a sustainable advance in the broad stock indexes.

In recent years, markets were “wide open and companies that wanted to raise capital could,” said Eddie Yoon, portfolio manager of the Fidelity Select Health Care Portfolio, with $9 billion in assets.

But now some companies, both public and private, could face being shut out for an extended period, as many investors seek to reduce risk by focusing on firms with histories of steady profitability and revenue growth.

The number of U.S.-listed IPOs in 2015, as well as the total money they raised, declined sharply from 2014. Cracks appeared in the market during the second half of last year as volatility in stocks escalated and decreased investor appetite for risk led to some companies, including retailer Neiman Marcus Group, to delay going public.

Stock performance for recent IPOs has also faltered. Some of the biggest offerings of last year trade below their offer price, including First Data Corp., which raised more than $2.8 billion in its IPO, and Fitbit Inc., which raised about $841 million.

While some technology and Internet startup companies were able to raise money in the private market last year and steer clear of a choppy IPO environment, there is some concern that may not be possible in 2016.

The faltering IPO market also is likely to weigh on the valuations of private companies, many of which received lofty valuations during the process of getting private financing from Silicon Valley investors. Fissures already began to appear in that market last year as the IPO market showed signs of strain.

The fate of biotechnology companies is most in focus. While an IPO slowdown is problematic for all sorts of companies, including the technology sector in which dozens of companies have raised money privately at billion-dollar implied valuations, biotech is getting special scrutiny from investors because the sector is widely viewed as the most vulnerable to diminishing access to public funding.

It can take many years and millions of dollars to bring early-stage drugs through clinical trials and approval by the Food and Drug Administration.

Several new share offerings by already-public biotech companies have floundered this year, not only pricing at steep discounts, but also falling even further the session after pricing. So far this year, new-share offerings by biotech companies have dropped 15% from the time of the announcement of the deal to the end of trading after the sale, according to data from Dealogic.

"If the market does reopen, it will be for higher quality companies," Mr. Yoon said.

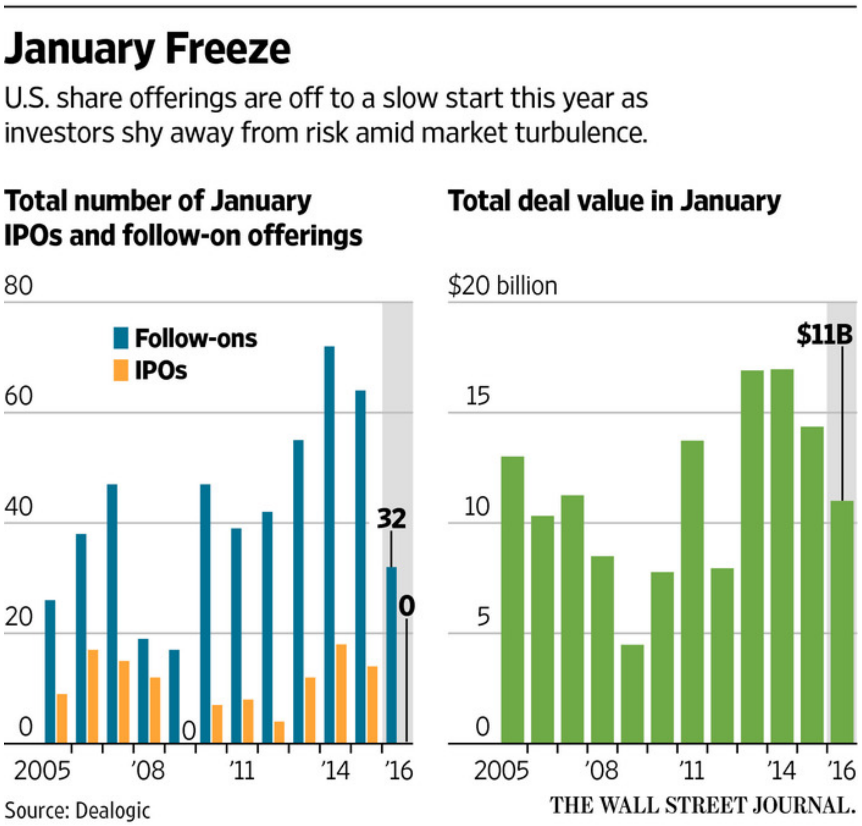
At least three IPOs were withdrawn or postponed in January due to market conditions, according to Dealogic, including that of online lender Elevate Credit Inc.

This week, the IPO market will face another test, as at least two biotech companies are expected to attempt offerings raising roughly $225 million in total, according to regulatory filings and people familiar with the deals.

Among the companies planning stock-market debuts the first week of February are BeiGene Ltd. and Editas Medicine Inc., according to people familiar with the deals.

Immuno-oncology drug developer BeiGene is seeking to raise roughly $127 million, if it prices at the midpoint of its expected range, according to a regulatory filing, with the proceeds going to clinical trials as well as research and development.

Genome-editing company Editas Medicine is in the early stage of development



of a treatment to correct disease-causing genes in patients and is aiming to raise about $100 million at the midpoint of its expected range. The company, which reported $837,000 in revenue for the first nine months ended Sept. 30 while incurring a net loss of more than $60 million in the same period, plans to use the money raised for preclinical studies and clinical trials, among other things. Editas plans to price its IPO Tuesday, according to people familiar with the deal.

To be sure, biotech shares have periodically sold off sharply only to bounce back. While biotech stocks are near their lowest levels in more than a year, their values have more than quadrupled since lows hit in 2008.

And many firms won't necessarily founder even if the market remains closed. A merger boom in the health-care industry has helped lift biotech valuations, as many large pharmaceutical firms are perceived to be open to acquisitions and partnerships in a bid to boost soft revenue growth.

Such arrangements aren't the favored option of many biotech executives, however. They tend to prefer raising funds in initial offerings because they "want to remain in control of the drug and reap all the benefits," said David Chalupnik, head of equities for Nuveen Asset Management, which manages $142 billion.

Shares of early-stage biotech companies, those that don't have any products that have been approved for sale, performed well in past years, as a broad stock-market advance buoyed by expansive central-bank policy helped push up the prices of the riskiest securities. Some investors were further encouraged by some experimental drugs becoming blockbuster sellers.

But a broad market pullback is now eroding those gains, thanks to dimming global-growth expectations, high valuations and concerns about the impact of the Federal Reserve interest-rate-increase cycle that began in December.

The Nasdaq Biotechnology Index is down 21% this year. Shares of biotech companies that made their stock-market debuts last year are down an average 27% from their IPO prices.

The declines have "quickly shut the window for the vast majority of companies that want to go public," said John Schroer, portfolio manager of the health-sciences fund run by Allianz Global Investors, which oversees $477 billion.

Exacerbating the retreat: outflows from biotechnology funds that once poured billions of dollars into the market annually.

From August to December, investors pulled about $1.5 billion from stock mutual funds and exchange-traded funds with biotech in their name, according to Morningstar Inc. Since 2011, investors have put a net $17.6 billion into these funds, Morningstar data show.

The J.P. Morgan health-care conference in January, in which companies typically release clinical trial results and provide guidance, did little to help energize the sector.

Investors said they were disappointed at the conference—which also is attended by corporate executives and analysts—when stalwarts such as Celgene Corp. unveiled projections they believed were merely in line with, or slightly weaker than, expectations. They said they were similarly dissatisfied by McKesson Corp. cutting its earnings forecast for 2016, blaming weaker-than-expected pricing trends for generic drugs.

Editas's IPO will test whether investors still want to put money into biotech companies, particularly those in the preclinical stage of development.

"A year ago with how hot gene therapy was, this could have definitely gotten done," said Marshall Gordon, senior health-care analyst at ClearBridge Investments, which manages $104 billion. Now, he said, he isn't so sure.

Write to Corrie Driebusch at corrie.driebusch@wsj.com