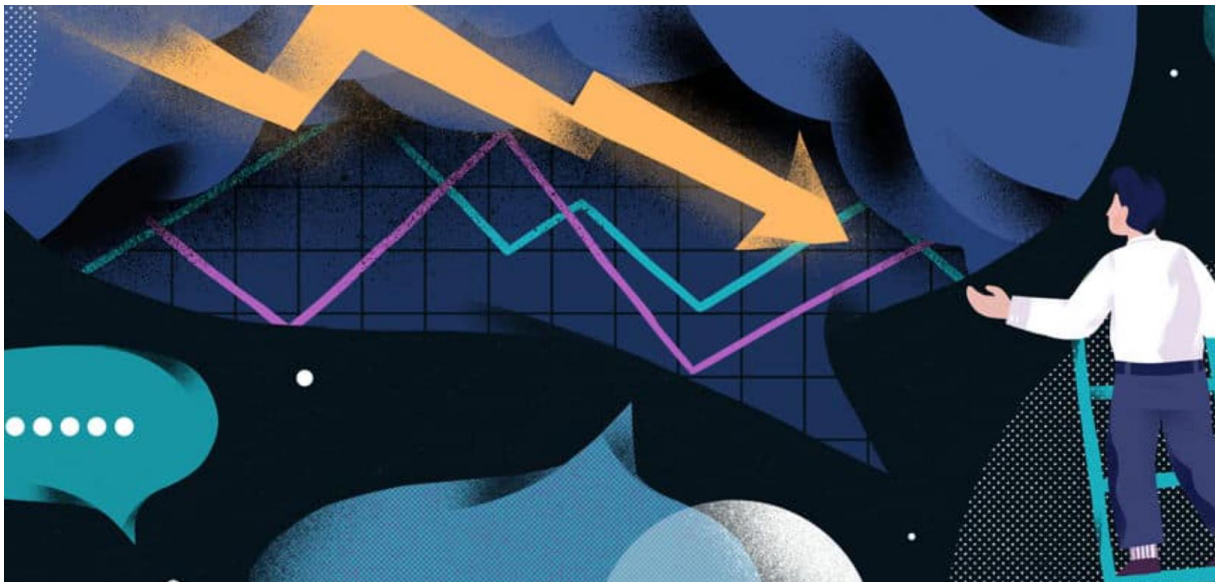


Biotech Stocks in “Total Eclipse” as Financial Pressures Mount

BY [JONATHAN SMITH](#)
15/03/2022 - 6 MINUTES

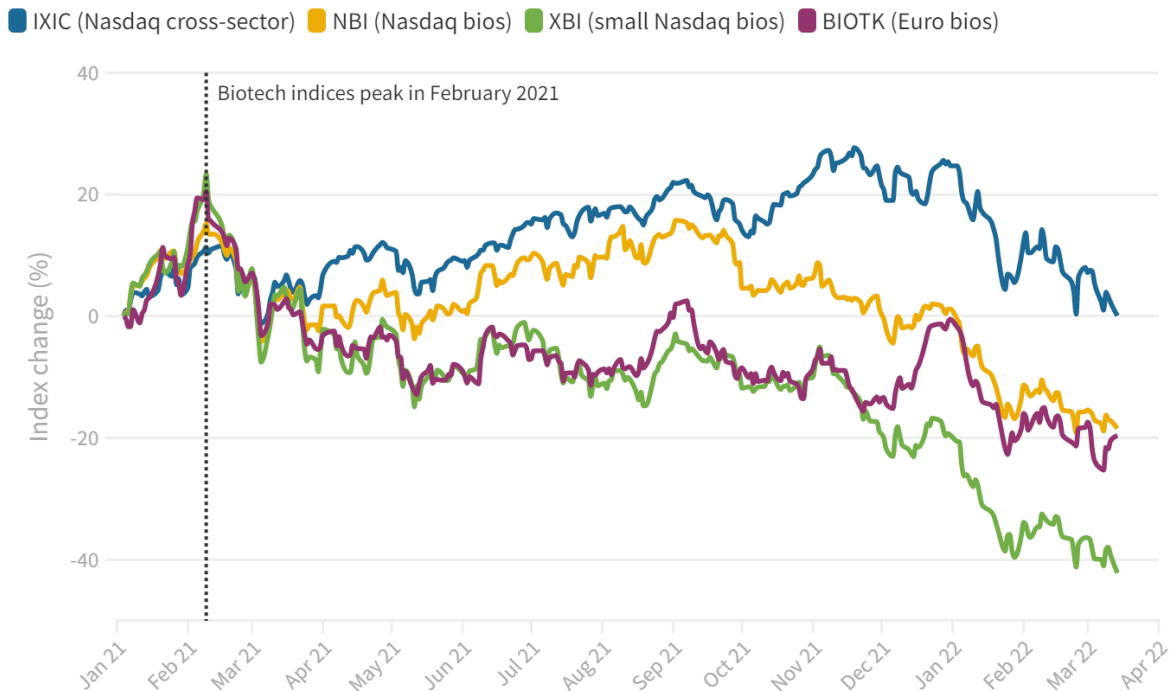
More than a year after biotech stock indices peaked, the markets are worse than ever. Meanwhile, rumors of an impending wave of opportunistic biotech acquisitions are yet to materialize.



In February of last year, biotech stocks across Europe and the US saw the end of a [pandemic-fuelled growth spurt](#). Since then, the stock growth of many biotech companies has collapsed, leading to volatility in established biotech stock indices. Biotechs with small-to-midsize market capitalizations were disproportionately impacted, represented by Euronext’s Next Biotech index (BIOTK) and the S&P Biotech index (XBI).

Biotech stock performances in 2022

Click in the legend to hide or show data



Source: Nasdaq, Euronext • Data as of 15/03/2022

Nasdaq Composite Index represents cross-sector stock market performance. Using first trading day of 2021 as a reference



✿ A Flourish chart

The markets were seen by many as [due for a correction](#) after 2020's stunning stock performances. However, the volatility has been more severe and long-lasting than many investors anticipated. For example, the XBI has plummeted 40% since the start of 2021.

"I think it's gone beyond the expectations of everyone on XBI, and for a while now," said Bertrand Delsuc, founder of the business intelligence firm Biotech Radar. "We often talk about the planets being aligned when things are positive, but right now, it's more of a total eclipse for biotech; at least on the public markets."

Despite the volatility last year, there were big initial public offerings (IPOs) launched by European biotech companies, such as from [Evotec](#) and [Oxford Nanopore Technologies](#). However, the supply of big European biotechs gunning for an IPO has slowed to a trickle in [the first quarter of 2022](#). The UK cell therapy company TC Biopharm, one of the few biotech companies that have IPO'd this year, had a [disappointing debut](#) on the Nasdaq in February.

One main reason for the tumult in biotech stocks has been the [influence of so-called 'tourist' investors](#). This group of generalist investors had entered the biotech sector in

2020 to seek out opportunities in companies developing ways to [fight the Covid-19 pandemic](#). However, [growing inflation](#) and other financial pressures are reducing appetite for risk and tourist investors are starting to sell off their stakes in biotech.

"Before the biotech indices started to lose ground last year, biotech enjoyed a record, multi-year bull run," said Sander Slootweg, Managing Partner at the life sciences venture capital firm Forbion. "Towards the end of this run, rather than clinical-stage companies, many early-stage platform companies made their way onto Nasdaq, sometimes years from the clinic. In more uncertain market environments, these are the first companies to take a hit."

There are many other factors contributing to the general malaise. The invasion of Ukraine by Russia in late February [shook the world](#), and its repercussions on public markets could be profound. In the US, the government is [renewing calls](#) to control drug prices, which causes uncertainty for life sciences investors. Meanwhile, Delsuc told me the newsflow from public European biotech companies in 2022 has been relatively uninspiring in quality and quantity compared to previous months.

Some of the biggest stock price drops this year have happened for companies that have hit major setbacks. The stock price of the UK firm Synairgen sank by over 80% following [negative phase III results](#) for its inhaled Covid-19 treatment. And a drug for a rare disease developed by the Danish company Orphazyme has been [rejected by the FDA and EMA](#) in the last year, dropping the firm's stocks by more than 70%.

In contrast, life sciences venture capital (VC) continues to flow at [record highs](#). The combination of this growth with public biotech stock volatility is creating an unusual situation for life sciences VC firms where they [have fewer options](#) to get a return on their investments in private biotechs.

According to Slootweg, big VC firms like Forbion are well equipped to navigate the stormy public markets. *"Smaller players, however, may experience more issues in raising new funds as the critical mass of having a broad team with both investment professionals and operators, adequate fund size, and deep-pocketed limited partners is all of critical importance in today's market environment,"* he added.

One common prediction in the industry is that there will be a wave of big pharma companies acquiring private and public biotech companies. This would take advantage of suppressed market capitalizations and form a useful exit plan for many VC investors. However, this expectation hasn't yet materialized.

According to Dylan van Haaften, Managing Director and Head of Healthcare Equity Research at the investment bank Bryan, Garnier & Co, the treatment programs acquired in biotech takeovers may still carry too much risk for big pharma companies. The preferred route may be collaboration and licensing deals going forward.

"Most announced pharma deals over the past two years have been considered quite value-destructive – particularly in new modalities like [cell and gene therapy]," said van Haaften. "The backdrop is not great."

However, Sloatweg is confident that big pharma companies have huge amounts of cash to burn on acquisitions, and expects more activity on this front. *"With a collective coffer of around \$500B, we can expect to see a pick-up in the pace of acquisitions,"* he added.

While the last two years have been gloomy for biotech public investors, there are glimmers of success, especially when looking at the big picture.

"If we zoom out historically, 60%–70% of biotechs are down a year, and yet the average return is still quite substantially positive," said van Haaften.

Companies with positive stock growth so far this year include those with solid cash flow prospects such as PharmaMar, in addition to firms with positive clinical data. The French firm Acticor, for example, saw a stock price jump of almost 50% when its antibody drug [reduced deaths](#) from acute ischemic stroke in a phase Ib/IIa trial.

"Later-stage companies with the most experienced and capable management teams, and most compelling innovations are generally able to attract funds either privately or publicly," said Sloatweg.

Special purpose acquisition companies (SPACs) could also continue to play a role in [helping late-stage biotechs go public](#) with fewer risks than traditional IPOs; Forbion [launched its own SPAC](#) in late 2021 with the intention of taking a biotech company public. Nonetheless, the SPAC scene for biotech companies is [starting to cool down](#) after a record 2021.

Biotech investors are certainly in for a bumpy ride over the next several months, as drug pricing debates and financial pressures such as rising energy prices and potential recessions continue to bite. Meanwhile, the pandemic is far from over: [vaccine-resistant Covid-19 variants](#) continue to threaten healthcare systems worldwide.

According to van Haaften, it's becoming clear now that *"it was too early to assess if Covid has effected a positive change [on biotech stocks]. But ultimately there is more cash in the sector than ever – which does offer a unique opportunity for investors willing to go deep and be selective."*

Cover image via Elena Resko