



IPOs: New challenges and opportunities ahead for life sciences startups

TOP IPO TRENDS:



Investors globally are taking a more cautious approach toward investing in life sciences and, in particular, emerging growth biotech companies as we begin a new year.



In China, investment will trend toward tech, including life sciences.



We will increasingly see Chinese-founded life sciences startups seeking IPOs in China, Hong Kong, and the U.S.

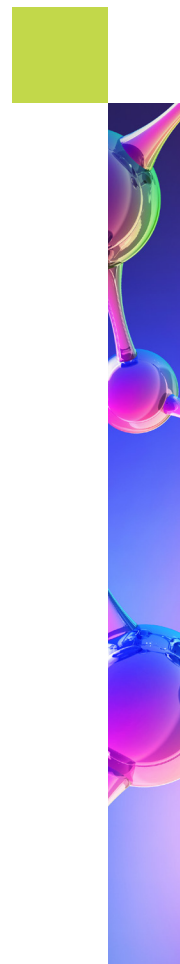


Looking back on 2021, the number of life sciences IPOs priced in the U.S. is expected to exceed the number in 2020. Recently, the U.S. IPO market has been choppy, with many emerging growth biotech IPOs trading near or below listing price. Many companies and their investors and underwriters are opting to wait until early- to mid-2022, pending more stability in the broader life sciences IPO market. Looking forward, renewed investor interest in 2022 will be dependent on and fueled by sector and asset reallocations, anticipated increased M&A activity, and potentially exciting clinical data and approvals.

Looking to Asia, it has been three years since listing rules reform allowed pre-revenue biotech companies to list on the Hong Kong Stock Exchange. The Hong Kong stock market has emerged as one of the most important listing venues for the life sciences sector globally. The biggest beneficiaries of Hong Kong's nascent biotech scene have been biotech startups and, increasingly, medtech companies. Furthermore, we are seeing U.S.-based and larger global funds investing more in these companies prior to their IPOs.

The IPO market in Hong Kong is now coming back to earth following a high point in 2020, when we saw many life sciences companies fetching high valuations, with stock prices rising sharply during the first day of trading. The biotech market remained extremely busy at the start of 2021, but now, the entire Hong Kong life sciences market has settled down. Investors seem to be taking a more cautious approach, and we expect to see this trend continue throughout 2022.

For years, we saw heavy investment within China in the so-called platform economy, which includes big e-commerce companies. But now China has made the creation and development of its own high-tech companies into a national priority, including through policy measures that support hard science and technology companies. This will prompt investment to trend toward hard-tech, high-end manufacturing, semiconductor chips, and pharmaceutical and biotech. Life sciences will, however, continue to face competition for investment from less heavily regulated sectors.





We anticipate that we will increasingly see Chinese startups seeking IPOs in China, Hong Kong, and the U.S. These will be used to raise capital lifeblood to finance critical research and development for the companies, to reward executives and employees, and also to create exit options for investors and shareholders.

IPO TIPS:

- Issuers and investors should remain nimble. While we continue to see early-stage pipelines generate significant investor and IPO interest, capital markets can remain choppy and investors could pull back, requiring companies to stay private longer.
- Prospective issuers and investors should familiarize themselves with the legal requirements for listing to ensure that their legal structure, financial information, and development programs meet local requirements.
- Issuers should assemble a team of the best scientists, engineers, and leaders, as well as a team of experienced advisers, including lawyers, auditors, and bankers with excellent knowledge of the life sciences market.

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