

Taking Stock of the IPO Route

Rising Markets Fail to Draw Many Local Newcomers into Public Arena

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If past is precedent, 2017 appears to be a good year for local companies looking to raise more capital through an initial public offering.

Two San Diego-based companies have gone public so far this year, and both have beaten their fundraising targets. Both were in the region's vaunted life science industry, from which the majority of the area's IPOs tend to emerge.

In April, Tocagen Inc., a drugmaker targeting the most common form of brain cancer with a gene therapy product, ended up pulling in \$98 million after announcing its intent to raise \$85 million. It's the latest San Diego-based company to go public, and one of the region's largest IPOs in years.

Earlier in the year, another life science company took the plunge. Biotech company AnaptysBio Inc. said it was looking to bring in \$60 million, then ended up with \$75 million. It was the first biotech in the nation to go public this year.

Both firms' stock prices have increased significantly in value since they went public, with Tocagen up 20 percent and AnaptysBio up about 31 percent as of closing June 13.

As long as the stock market's performance remains strong, other local companies are likely to consider following in their path, said San Diego State University's Nik Varaiya, director of graduate programs and a finance professor at the college's Fowler College of Business Administration.

"The stock market has been doing well, so there is still a window of opportunity for companies to try to go public," he said. "Clearly, they want to go public in rising markets."

This year's local IPOs are already outperforming last year's when it comes to average return. Proceeds raised and median deal size – \$173 million and \$86.5 million, so far – remain below that of 2016, but one more IPO would likely push those metrics above last year's.

Mixed Results from 2016

Last year was an underwhelming one for local IPOs.

Three San Diego companies went public, half the number that did so in 2015.

One was Carlsbad-based medical device company Obalon Therapeutics Inc., which makes a weight-loss balloon system. The company was the first life science firm in San Diego to go public in 16 months. But since its stock market debut, the company's stock has fallen by about 27 percent.

Innovative Industrial Properties, a real estate investment trust that buys legal, medical-use cannabis cultivation and processing facilities then leases them back to their proprietors, has seen its stock fall by about 7 percent following its IPO, which raised the company \$67 million.

Micro-cap Airgain Inc. has been the most successful of the San Diego-based companies that went public in 2016. After raising \$12 million in its IPO, the wireless antenna maker's stock has risen 80 percent, from \$8 per share to about \$14 per share as of mid-June.

Other Financing Options

Overall, however, the number of companies that have decided to go public in the U.S. has slowed as firms have chosen to wrangle financing from other routes or be acquired.

“It appears those companies have been able to access capital without going the IPO route,” Varaiya said. “A number that potentially would have gone public have been acquired, so instead of an IPO route it's been an acquisition route.”

Varaiya, whose research focuses on startups and mergers and acquisitions, said total market capitalization has risen even as fewer companies are publicly traded.

Still, “if companies go public and they are successful going public, then it encourages others to come in,” he said.

What could dampen the momentum, Varaiya said, would be a market correction.

Drivers of the record stock prices this year have included optimism about possible tax reform, for example, but that hasn't come to fruition, he said.

“Anything that creates more uncertainty could slow down the growth of the market and therefore the IPO market,” he said.

In the first quarter of the year, the average IPO gained 11 percent, according to investment advisory firm Renaissance Capital.

“While total deal count was reduced by M&A and timing-related factors, the quarter's moderate volume and positive returns laid a solid foundation for a year still on pace to see over 150 IPOs,” Renaissance Capital said in a report about first-quarter IPOs.

Nationwide as of June 14, the number of IPOs reached 65, offerings which raised about \$17.4 billion, the investment advisor reported.