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Sofinnova's Jim Healy on 'more rational market' as four biotech startups near their IPOs

by Kyle LaHucik on September 12th, 2024

In what's shaping up to be another slow year for biotech IPOs — better, however, than the 2022 and 2023 doldrums — Jim Healy is somewhat of an outlier.

Only four biotechs from this year's IPO class are trading above their debut pricings: CG Oncology, ArriVent BioPharma, Rapport Therapeutics and Contineum Therapeutics.

Healy is on the boards of two of those: cancer drugmaker ArriVent, which is in late-stage testing with a drug out of a China-based partner; and neuroscience startup Rapport, which spun out of Johnson & Johnson and quickly raised successive megarounds before landing on the Nasdaq.

The Sofinnova Investments managing partner, a self-described venture capitalist of about 25 years, is also on the board of BioAge Labs, an anti-aging and clinical-stage obesity startup that is also in the process of an IPO. He's also on the Seaport Therapeutics board, alongside many other Karuna Therapeutics veterans, and sees potential for a quick run to the public markets at that neuropsychiatric biotech as well.

"I've never really seen the markets close for high-quality companies that have good clinical data and a good development plan that they can execute," Healy said in an interview on Wednesday.

BioAge is one of four biotechs lined up for Wall Street entries in the coming days and weeks, including Bicara Therapeutics, Zenas BioPharma and MBX Biosciences. The market reaction to their debuts could set the tone on investor appetite for the backlog of biotechs looking for their shining moment in New York.

"This current market feels like it's much more selective in terms of the profile of companies that go public," Healy said. All but one of this year's class was clinical-stage when it rang the opening bell, he noted. "And if I look over a longer time frame, clinical-stage companies have outperformed their preclinical peers significantly over the past eight to nine years, so it feels like it's a migration to quality."

For biotech companies to go public in this environment, Healy said it's important they hone in on a lead asset, which is where private and public investors will place "a majority of the value."

"You can get incremental benefit for a second or third indication, or a second drug in the pipeline and the potential of a platform, but the vast majority of the value is assigned to the lead program or lead product," he said.

Before the IPO

Biotech startups have reeled in large financings this year to ensure they get clinical data on their lead programs, rather than raise multiple smaller rounds at various checkpoints prior to the big readout. That has led the industry to go on a tear with megarounds this year, with F2G's $100 million Series H Thursday morning marking the 71st such round of 2024, according to an *Endpoints News* tally.

Access to capital is a big risk in biotech, Healy said, and investors want to decrease the refinancing risk, so they'll raise larger rounds now with crossover investors who can help carry them to a public offering.

One of the megarounds Sofinnova participated in this year, neuropsychiatric biotech Seaport, could be one such example. The clinical-stage startup derives from PureTech Health, the company that also launched Karuna, a schizophrenia drugmaker that Bristol Myers Squibb acquired for $14 billion.

"If I look over our current funds, over the past two funds in particular or past five years, our average time to IPO is less than a year," Healy said. "I would hope that Seaport would fit within our investment [strategy], and it would be outstanding if it could follow the trajectory that Karuna had. But of course, no guarantees."

Biotechs shouldn't get over their skis. Median pre-money valuations have been about $475 million to $500 million this year and last.

"I think companies that are doing private financings that put them well north of that create a challenge for themselves," Healy said. "If you look at the current class of IPOs that have gone public, most have a step-up from their last private financing of around 1.2x, so one needs to consider that in the valuation as well."

Healy said the current market environment feels "much more rational."

"There's a correlation between the stage of development and the enterprise value of companies," he said.

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