

WuXi raises \$185 million from IPO

By Yi Tin Chak, | 10 August 2007

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The NYSE listing of the Chinese drug research company receives substantial demand, enabling it to price 8% higher than the top of the range.

China-based drug research and development outsourcing company, WuXi PharmaTech, has priced its US initial public offering 7.7% above the top of the range and raised \$185 million. The deal could further increase to \$212 million if a 15% greenshoe is fully exercised.

According to sources, the deal was 17 times covered with 280 accounts in the book. There was no real price sensitivity and the one-on-one hit rate during the roadshow was high. The majority of investors came from the US, but there was also considerable demand from Asia and Europe.

An observer close to the deal says the investor base is primarily long-only and includes global investors and some health care funds.

"I don't think recent market volatility really had much impact on how the price was set. What we're seeing nowadays is that when the story is weak, the deal is harder to do. But for companies with sound fundamentals, investors are, to a large extent, market neutral," says a specialist.

The price was set at \$14, which values WuXi at 23.3 times its 2008 earnings. This values the company at a higher multiple than its US-listed comparables. Covance, Albany Molecular Research and Charles River Laboratories International trade at 2008 price-to-earnings multiples of 24, 22 and 18 respectively, according to Bloomberg data. WuXi is smaller than Covance and Charles River Laboratories but larger than Albany Molecular Research in terms of market capitalisation.

The company offered 13.19 million American depositary shares (ADS), or roughly 21% of the company post-greenshoe, at a price of \$11 to \$13 apiece. Each ADS represents eight ordinary shares. Of the total, 10 million ADSs are backed by primary shares, while the remaining 3.19 million are sold by a consortium comprising United Overseas Bank, a group of early investors and funds as well as directors and executive officers of the company. JPMorgan and Credit Suisse jointly ran the deal.

"These guys are involved in the testing space of pharmaceutical molecules. It's a unique investment, as people haven't seen something like this from China before. There's a scarcity value here," says a specialist, explaining the solid demand WuXi received.

Global R&D expenditure for both pharmaceutical and biotechnology companies grew to \$55.2 billion in 2006, from

\$47.6 billion in 2004, according to The Pharmaceutical Research and Manufacturers of America. Kalorama Information, a publisher of market research in medical markets, projects that R&D expenditure for the US pharmaceutical industry will grow to \$58 billion in 2009, from \$40 billion in 2005. Kalorama expects US pharmaceutical industry R&D expenditure to grow at an annual rate of 5%-6% from 2005 to 2010 and annual growth for R&D outsourcing is forecast to outpace this at around 15%-18% over the same period.

R&D outsourcing has gained acceptance among global pharmaceutical and biotechnology companies over the last decade, in response to time and cost pressures for developing more innovative, safe and effective drugs. Many large pharmaceutical and biotechnology companies are conducting R&D activities in offshore markets with significant resource and cost advantages, such as China. In 1997, only 37% of pharmaceutical companies outsourced R&D projects while by 2005, the percentage had surged to 70%.

WuXi provides a broad range of laboratory and manufacturing services to pharmaceutical and biotechnology companies including discovery chemistry, service biology, pharmaceutical development and process development services. It also manufactures advanced intermediates and active pharmaceutical ingredients for R&D use.

Last year WuXi's customer base consisted of 70 clients, including nine of the top 10 pharmaceutical and biotechnology companies in the world (measured by 2006 revenues). Most of the company's customers are repeat buyers of its services and have returned for additional, larger and longer-term projects.

WuXi's net income increased 46% to \$8.9 million from 2005 to 2006, on top of a 42% year-on-year growth in 2005 (including total share-based compensation charges of approximately \$3.1 million in 2005 and \$8.4 million in 2006). This represents a two-year compound annual growth rate of 44%. Its net revenues doubled to \$69.9 million from 2005 to 2006, after climbing up 62% from 2004 to 2005. This translates to a two-year CAGR of 83%.

Of the net proceeds, Wuxi will spend around \$40 million to expand its Jinshan facility, and another \$40 million to construct a pre-clinical drug safety evaluation centre in Suzhou. The balance will be used for general corporate purposes, including working capital, acquisitions and expansion of WuXi's service offerings.

WuXi started trading on the NYSE yesterday. It surged 40% on the first day of trading, closing at \$19.6.