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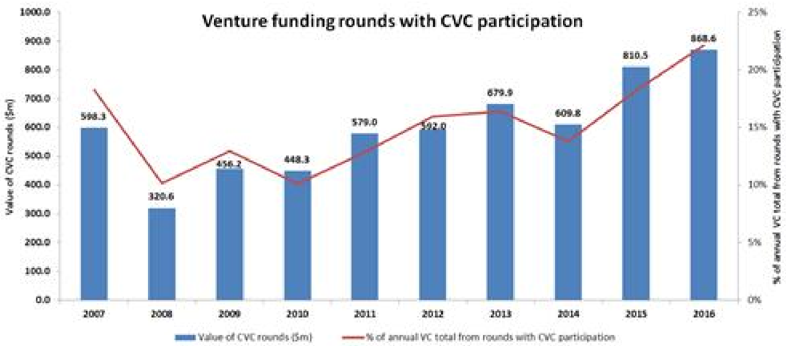
Corporate venture capital – saviour of medtech?


Elizabeth Cairns

Big medtech and big pharma are taking a greater role in the funding of medical device start-ups. 2016 was the first year in which the corporate venture arms of the large strategics have put up more than 20% of the cash for early-stage medtech companies, *EvaluateMedTech* data show (see graph below).

Venture rounds with corporate participation are big – around twice the size of a standard VC round. This is a clear sign of strategics' determination to get their protégés to an inflection point – sometimes, but by no means always, with an eye to acquiring them themselves.

Anecdotal evidence of both these patterns – more corporate activity, and the greater size of corporate rounds – has been mounting over the past year or two, with last year seeing an eye-popping $175m round for Flatiron Health and $100m for Grail. And, though 2015's total value of corporate VC rounds was lower, it saw an even bigger round: Adaptive Biotechnologies scored $195m from investors including Illumina, Becton Dickinson and Celgene.



Source: EvaluateMedtech

Now the anecdotes are backed with hard data. The total value of rounds with corporate participation hit $869m last year – 22% of all venture investment in the sector.

This figure has increased fairly steadily since 2008, when the financial crisis saw the corporate cash raised nearly halve from 2007's total of $598m. The figure for total corporate investment did not recover to near-2007 levels until 2011, but since 2013 it has been markedly higher – with the exception of a blip in 2014.

Year	No of rounds with CVC participation	Total no of rounds	% of rounds with CVC participation		Value of CVC rounds ($m)	Value of all rounds ($bn)	% of value from rounds with CVC participation
2007	21	253	8%		598.3	3.3	18%
2008	22	301	7%		320.6	3.2	10%
2009	29	380	8%		456.2	3.5	13%
2010	20	435	5%		448.3	4.4	10%
2011	34	515	7%		579.0	4.5	13%
2012	25	411	6%		592.0	3.7	16%
2013	30	476	6%		679.9	4.2	16%
2014	25	430	6%		609.8	4.4	14%
2015	31	339	9%		810.5	4.5	18%
2016	26	259	10%		868.6	3.9	22%

That said, the corporate rounds now make up more than a fifth of total investments only because the overall venture figure has shrunk. Only $3.9bn was pumped into start-ups last year; if this level had remained steady from 2015’s figure of $4.5bn, corporate activity would only make up 19% of the total.

So, despite the increased effort on the part of big medtech and big pharma, the decline in development capital being made available to the medtech sector is such that the gap is still widening.

Inflection

It has also long been apparent that VCs clustering together into ever-larger rounds is a growing problem, since it limits the number of start-ups that can benefit from early-stage capital (*Huge medtech venture rounds mean start-ups starve, January 19, 2016*). Corporate activity, it seems, is only exacerbating this situation.

Rounds in which corporate VCs have taken part tend to be around twice that of standard rounds: $26m versus $13m in 2015, and $33m versus $15m last year. This makes sense as a risk-reduction strategy whether the investor’s ultimate aim is to acquire the company or simply to make a return on its investment.

In either scenario the investor will want to get the company to a point where its devices are approved in the US, or at least CE marked. This means piling on the cash right from the start – Grail’s $100m series A last year and Helix Opco’s $100m in seed capital in 2015 are exemplars here.

Corporate VC rounds are bigger		
Year	**Average size of CVC round ($m)**	**Average size of all rounds ($m)**
2007	28.5	13.0
2008	14.6	10.5
2009	15.7	9.3
2010	22.4	10.2
2011	17.0	8.8
2012	23.7	9.0
2013	22.7	8.7
2014	24.4	10.3
2015	26.1	13.2
2016	33.4	15.1

So which companies are putting all this money up? One investor is head and shoulders above the rest: J&J. Its venture arm, Johnson & Johnson Development Corporation (JJDC), has participated in rounds worth an astonishing $1.6bn in the medtech sector over the past decade, more than twice as much as the second-placed company, Medtronic.

Note that this does not mean J&J has itself paid $1.6bn. It is not possible to say precisely how much J&J has invested as the individual contributions of investors within a VC round are vanishingly rarely disclosed.

According to an executive at J&J, JJDC is the oldest corporate venture group in existence, and prides itself on being a leader in investing in medical devices. And, separate from the direct investment the company has a network of incubators called JLABS, another way in which it fosters innovation (*J&J looks to external innovation to secure the future, October 14, 2015*).

Perhaps the most remarkable of the corporate VCs is not particularly prolific, but it is extremely generous. Illumina has participated in just five rounds in the past decade. But the rounds to which it has contributed are worth a total of $454m, giving an average size of $91m.

Three of the top five corporate investors in medical technologies are conglomerates, and arguably more accurately described as big pharma than big medtech: J&J, Novartis and Roche make 35%, 12% and 23% respectively of their sales from devices or diagnostics. And some of the other prolific investors in device companies, including Pfizer, Novo Nordisk and Debiopharm, have no presence at all in medtech.

The most prolific corporate VCs in medtech			
Investor	**No of rounds**	**Total value ($m)***	**Avg size ($m)**
Johnson & Johnson	55	1,683.3	30.6
Medtronic	27	806.6	29.9
Novartis	23	482.7	21.0
Boston Scientific	14	224.5	16.0
Roche	13	369.9	28.5
**Total value of rounds in which the investor has participated.*			

But even a pure pharma company can benefit from medtech start-ups bringing technologies to market: companion diagnostics or blood glucose sensors are obvious example of such technologies. And quite apart from that, some companies make venture investments without a strategic angle – just like traditional venture funds, some corporates are simply seeking a pay day.

To contact the writer of this story email Elizabeth Cairns in London at elizabethc@epvantage.com or follow @LizEPVantage on Twitter