

Medtech VC enters a gilded age - but with even less cash for series As



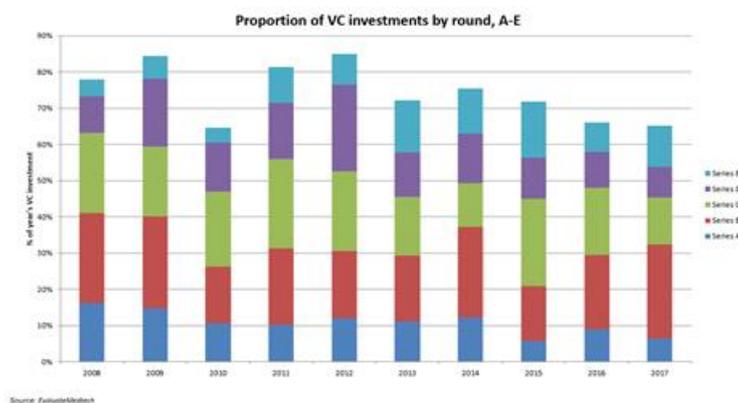
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Vast amounts of venture cash are available to medical device makers, but its distribution is uneven.

Glad tidings! So far this year private medical technology developers have managed to raise more cash from venture capitalists than ever before, with over \$5.5bn having been pumped into the industry. But 2017 has seen the fewest VC deals for a decade – just 226 – meaning a few lucky companies are scoring massive paydays while others are unable to find funding.

And once again the proportion of the money going into series A rounds has diminished. Just 6% of that total has gone to fund companies at this early stage as investors cluster in bigger rounds for more established, derisked companies. Considering the untrammelled growth in the average size of all VC rounds over the last four years – this figure is now an astonishing \$24m – it is worth asking how much longer these trends can persist.

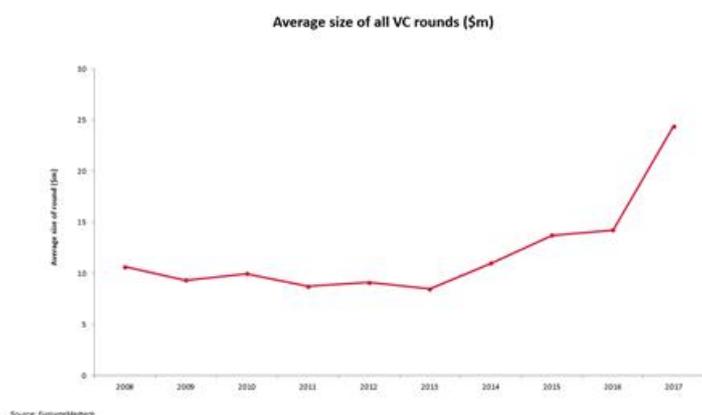


As can be seen from the above graph, the proportion of VC cash going into series As has not reached the nadir seen in 2015, when these rounds received just 6% of the total venture investment that year. Nonetheless the trend to later rounds is unmistakable, despite the larger-than-usual percentage going into B rounds this year

thanks to Grail's monster \$900m round in March.

One intriguing artefact in the 2017 data is the funding secured by Google's sister company Verily Life Sciences. Verily obtained \$800m in seed funding, though as this was achieved by selling a minority stake to Singapore's National Wealth Fund, Temasek, it is perhaps debatable whether it counts as true venture investment. It has been included in this analysis, where it raises the average size of a seed funding round from \$2.6m in 2016 to \$64m in 2017.

In any case Verily's round is highly likely to be a one-off, and as Verily is itself an unusual company; it would seem unwise to draw too many conclusions from this one deal.



As well as the amount of venture funding hitting an all-time high in 2017, the average size of the rounds has shot up too, from last year's figure of \$14.2m – the previous high – to \$24.4m. This surely will see a regression in 2018, if only because VCs will want to see if the backers of Grail and Verily make a return before rushing to do more deals on this kind of scale.

Another likelihood for 2018 is that series A rounds will get scarcer, and start-ups will have to work harder to close them. Those companies that have secured the largest series As this year are mostly offering technologies that are cheap to produce or that promise cost savings – diagnostic tests are a perennially popular choice.

Top 5 series As of 2017

Date	Company	Investment (\$m)	Investors	Focus
7 August	Karius	50.0	Data Collective; Innovation Endeavors; Khosla Ventures; Lightspeed Venture Partners; Spectrum 28; Tencent Holdings	In vitro diagnostics
24 August	Rarecyte	30.0	5AM Ventures; Telegraph Hill Partners	In vitro diagnostics
13 June	Centogene	26.8	Careventures; CM-CIC Investissement; Deutsche Private Equity; TVM Capital	In vitro diagnostics
18 September	Cambridge Medical Robotics	26.0	ABB Technology Ventures; Cambridge Innovation Capital; Escala Capital; LGT Capital Partners; Watrium AS	General & plastic surgery
1 May	Lensgen	21.0	Hoya Group; Relativity Capital	Ophthalmics

Source: EvaluateMedtech

If 2018 does see fewer enormous rounds it would be nice to think that a consequence might be that more smaller deals get done at the earlier stages. However, if the trend over the last decade is anything to go by, it seems likelier that this will simply mean a shrinking pool of cash in general – and particularly for start-ups.

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