

## Corporates pump yet more venture cash into medtech



[Elizabeth Cairns](#)

With device makers finding it ever harder to drum up financing from traditional venture funds, the investment arms of big medtech – and big pharma – have increased their activity. Last year nearly 30% of all medtech funding involved corporate VCs, a record high.

The early-stage crunch, however, is not being resolved by corporate activity. Of all the funding rounds involving corporate VCs, just 2% were seed funding and 9% series A. The sweet spot for corporates is not far off that for traditional VCs: series B to series E rounds, where a company's technology is at least partly derisked and one big push might just get the group to an inflection point.

And these rounds are big pushes. A total of \$5.8bn was raised by private medtech groups last year, \$1.7bn of which came from rounds with corporate venture capital (CVC) participation, 29%. But only 14% of the number of rounds in 2017 had corporates involved.

The analyses below count only those rounds where the value was disclosed. A corporate round is classified as one having any involvement by a corporate, as either lead or supporting investor.

Year	No of rounds with CVC participation	% of total medtech rounds with CVC participation	Value of rounds with CVC participation (\$m)	Value of all rounds (\$bn)	% of value from rounds with CVC participation
2008	26	9%	455.9	3.2	14%
2009	29	8%	503.2	3.5	14%
2010	22	5%	486.8	4.5	11%
2011	30	6%	624.5	4.5	14%
2012	24	6%	563.0	3.7	15%
2013	26	6%	679.9	4.2	16%
2014	23	5%	993.8	4.6	22%
2015	32	9%	990.5	4.7	21%
2016	30	10%	1,117.7	4.2	27%
2017	33	14%	1,668.9	5.8	29%

Source: EvaluateMedTech.

The average size of rounds with corporate involvement is bigger than ever – for the first time this figure topped \$50m, bigger even than the \$43.2m figure in 2014.

The rounds CVCs joined in 2017 were more than twice as large, on average, as those without corporates: \$50.6m vs \$25.0m. This is actually a pullback from last year, when the CVC rounds had an average size of \$37.3m, nearly three times as large as the non-CVC rounds.

Another interesting phenomenon is the clustering together of several corporates in a single round. Nexeon Medsystems, which develops and sells implanted neurostimulation devices for chronic neurological diseases including Parkinson's and essential tremor, attracted the interest of Abbott, Boston Scientific and Surmodics in a \$1.2m round in August.

At the other end of the scale, liquid biopsy group Grail's monster \$900m financing came from Bristol-Myers Squibb, Celgene, Johnson & Johnson and Merck & Co, which invested alongside other non-corporates.

<b>Corporate VC rounds are bigger</b>		
<b>Year</b>	<b>Avg size of CVC rounds (\$m)</b>	<b>Avg size of all rounds (\$m)</b>
2008	17.5	11.1
2009	17.4	10.1
2010	22.1	10.8
2011	20.8	9.3
2012	23.5	9.4
2013	26.2	9.3
2014	43.2	10.6
2015	31.0	13.1
2016	37.3	13.6
2017	50.6	25.0

*Source: EvaluateMedTech.*

The strategies underlying these investments vary from group to group. Some corporate venture arms are run almost independently of the parent company, and are focused simply on generating a financial return. But some are interested in building a portfolio in a particular area, and some are funding what they see as a promising technology that they might wish to acquire in future.

In other words, the investor might not plan on acquiring the start-up itself – but it probably has to believe that someone else will.

### **Big spenders**

J&J is by far the most prolific investor of the past decade, via its venture arm Johnson & Johnson Development Corporation. It has invested over \$2.6bn in 60 medtech companies since 2008, nearly twice as many as its closest competitor, Medtronic.

<b>The five most prolific corporate VCs in medtech over the past decade</b>			
<b>Investor</b>	<b>No of rounds</b>	<b>Total value (\$m)*</b>	<b>Avg size (\$m)</b>
Johnson & Johnson Development Corp	60	2,633.1	43.9
Medtronic	35	1,118.1	31.9
Novartis/Novartis Venture Funds	27	624.5	23.1
Boston Scientific	19	334.3	17.6
Pfizer/Pfizer Venture Investments	14	240.7	17.2

*\*Total value of rounds in which the investor has participated. Source: EvaluateMedTech.*

But in 2017 J&J only made three investments in medtech groups, putting it behind both Medtronic and Boston Scientific, with five each.

Boston's investments are particularly interesting. Where Medtronic's five investments are spread over various therapy areas, from hearing aids to diabetes, all of Boston's are in companies developing neurological technologies.

As well as its interest in Nexeon, it has backed Neuros Medical, which is working on a neurostimulator for various kinds of chronic pain; Neurotronik, focused on cardiac autonomic nerve stimulation for heart failure; Amphora Medical, whose technology is designed to reduce the nerve signals responsible for overactive bladder; and Setpoint Medical, which aims to treat inflammatory diseases via electrical impulses ([Setpoint](#)

[leads the Crohn's medtech race by being the only entrant, October 20, 2016](#)).

Boston Scientific clearly believes that neurological technologies will be important in the future – it will be interesting to see whether it acquires any of these groups itself.

Over the past decade the pattern of increased corporate activity is plain as day. What would be reassuring for early-stage companies in this sector would be more effort on the corporate investors' part when it comes to seed funding and series A rounds.

<b>CVC rounds by series over the last decade</b>			
	<b>Total raised (\$m)</b>	<b>No of rounds</b>	<b>Avg size (\$m)</b>
Seed funding	61.9	5	12.4
Series A	787.0	49	16.1
Series B	2,984.1	78	38.3
Series C	1,831.5	69	26.5
Series D	1,195.0	37	32.3
Series E	851.8	20	42.6
Series F	651.0	12	54.3
Series G	252.0	8	31.5

*Source: EvaluateMedTech.*

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