

## The venture money keeps flowing for biopharma



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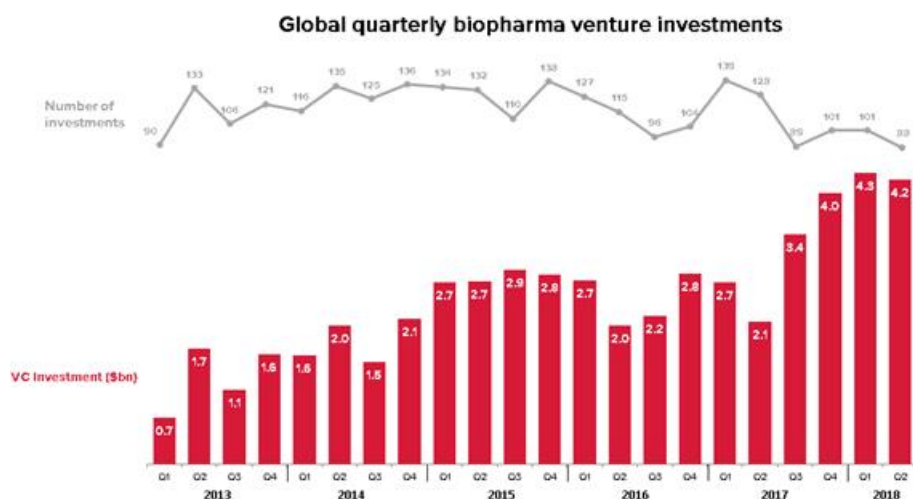


### Private drug developers raised a record \$8.5bn in the first half of 2018, amid a surge in mega rounds.

Pharma deal bankers might be feeling the pressure, but over in the venture financing world it's a different story. In the first six months of 2018 private drug developers raised \$8.5bn, a figure that before 2015 would have represented a record-breaking annual haul.

But venture capital is booming across all sectors, and over the past few years a new normal has emerged. Huge funding rounds of \$100m are no longer unique - *EP Vantage* counts 19 so far this year among biopharma groups, more than across the whole of last year - while the number of companies getting funded is continuing to shrink (see tables below).

Presumably this means that there are start-ups out there starved of cash, though venture capitalists argue that the diminishing number of funding rounds reflects stricter investment criteria and the fact that smarter choices are being made.



Source: EvaluatePharma

A decade of quantitative easing and record low interest rates have helped created the venture boom, and it

will be a few years yet before these funds' own investors, known as limited partners (LPs), can examine the returns from the years of plenty. Determining whether this asset class is delivering on the huge influx of cash that it has been handed will help dictate whether the good times continue.

Until an answer emerges investors and portfolio companies will continue to make hay, and drug developers have not been shy in this regard. This analysis focuses exclusively on developers of human therapeutics, excluding medtech, for example, and is based on funding announcements from all global regions, as collated by *EvaluatePharma*.

The second three months of 2018 mark the third consecutive \$4bn-plus quarter for venture financing, driven by eight rounds that raised more than \$100m each. Notably, two of the top 10 rounds were bagged by China-based drug developers, and the huge flow of cash into Asian companies is another trend. Growing competition among US venture investors for prime opportunities has forced many to look offshore, while many Far East investors are similarly flush with cash.

The UK was also well represented this quarter – the gene therapy play Freeline and the secretive AI company Benevolentai both secured bumper rounds, with the latter boasting of a \$2bn pre-money valuation.

<b>Top 10 rounds of Q2 2018</b>			
<b>Company</b>	<b>Investment (\$m)</b>	<b>Round</b>	<b>Location</b>
Allogene Therapeutics	300	Series A	US
Cstone Pharmaceuticals	260	Series B	China
Innovent Biologics	150	Series E	China
Freeline Therapeutics	123	Series B	UK
Benevolentai	115	Series undisclosed	UK
Precision Biosciences	110	Series B	US
Kaleido Biosciences	101	Series C	US
Constellation Pharmaceuticals	100	Series undisclosed	US
Beam Therapeutics	87	Series A	US
Sutrovax	85	Series C	US

*Source: EvaluatePharma.*

The table below shows how these mega-rounds have really exploded in the past couple of years. With investors increasingly willing to work together to capitalise companies fully in one go, a philosophy has emerged that strives to give management teams time to think about more than the next funding round. And with non-traditional investors arriving on the venture scene, and corporates also enthusiastically involved, the pool of funds to draw from has never been deeper.

The good times look set to continue: today the life sciences investment specialist Abingworth closed a new fund at \$315m, beating its \$300m target.

## **Breakthroughs**

The recent influx of biopharma venture cash has also coincided with several scientific breakthroughs becoming clinical realities – like gene therapy and advances in immuno-oncology. This has not only encouraged the cash to flow, it has also further bolstered the valuations of companies perceived to have potential.

The downside to a valuation arms race is that, when these private entities look to move into the hands of either public investors or acquirers, disagreements over price tags can occur, which is one cloud on the horizon for investors. M&A deal volumes are disappointing this year, something that will not have escaped the venture world's notice ([Shikeda masks slow second quarter for buyouts, July 3, 2018](#))

For now, similarly exuberant public investors are keeping the IPO window wide open, which is another strong indicator for the venture sector, particularly as investors continue to favour the small-cap space over larger biopharma ([June rush drives near-record quarter for biotech flotations, July 2, 2018](#)).

But for real money to be made these portfolio companies need to move into new hands at some point. It is hard to see this boom being declared an unequivocal success unless bigger drug makers start shopping more

regularly.

Annual VC investments					
Date	Investment (\$bn)	Financing count	Avg. per financing (\$m)	No. of rounds $\geq$ \$50m	No. of rounds $\geq$ \$100m
6M 2018	8.5	189	44.8	66	19
2017	12.1	442	29.9	72	16
2016	9.7	442	23.4	48	13
2015	11.0	514	22.5	56	13
2014	7.3	512	15.4	35	4
2013	5.1	457	12.6	12	3

Source: EvaluatePharma.

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