

Corporate VC activity in medtech increases - until this year



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In 2018 more than a quarter of medtech funding came from rounds in which corporate VCs took part.

Last year, the investment arms of big pharma, big medtech and academic institutions invested more cash than ever into young medtechs - but only marginally. Corporate VCs were involved in rounds that pumped a total of \$1.6bn into medtech start-ups in 2018, compared with \$1.5bn the year before.

Factor in the drop in overall medtech VC funding in 2018, however, and it becomes clear that the proportion of capital raised via rounds with corporate participation has actually risen, from 23% in 2017 to 27% in 2018. This figure has been increasing steadily since 2010 - but the signs so far in 2019 suggest that it might finally begin to fall back.

So far this year just 14% of the total venture cash raised came from deals with corporate VC involvement, quite a fall from the proportion last year. In terms of the number of deals, however, the proportion remained steady: 17% of VC rounds in 2018 and in Q1 2019 included the investment arms of drug or device developers.

Corporate VC activity in medtech, 2014 - Q1 2019

Year	Value of rounds with CVC participation (\$m)	Value of all rounds (\$bn)	% of value from rounds with CVC participation
Q1 2019	272	2.0	14%
2018	1,565	5.8	27%
2017	1,516	6.5	23%
2016	961	4.3	22%
2015	796	4.7	17%
2014	620	4.6	13%

Year	No of rounds with CVC participation	Total no of rounds	% of rounds with CVC participation
Q1 2019	9	52	17%
2018	36	215	17%
2017	29	274	11%
2016	30	333	9%
2015	27	382	7%
2014	22	466	5%

Source: EvaluateMedTech.

This tallies with *Vantage's* analysis of the relative sizes of corporate and non-corporate rounds. The first quarter of this year was the only period for more than five years in which deals with corporate investors were smaller, on average, than those without.

It would be premature to draw sweeping conclusions from three months of data – a more comprehensive picture will appear when 2019 is out. And the figures for the first quarter have been distorted somewhat by the enormous deal closed by Google's sister company Verily, which had no corporate involvement. In January Verily obtained \$1bn in one fell swoop from investors including Silver Lake and the Ontario Teachers' Pension Planning Board.

Corporate VC rounds are bigger

Year	Average size of CVC rounds (\$m)	Average size of non-CVC rounds (\$m)
Q1 2019	30.2	40.4
2018	43.5	23.9
2017	52.3	20.2
2016	32.0	11.0
2015	29.5	11.0
2014	28.2	9.0

Source: EvaluateMedTech.

The first quarter of 2018 also saw a huge funding round, but this time it did have corporate participation. Bristol-Myers Squibb, Celgene, Johnson & Johnson and Merck & Co all took part in liquid biopsy developer Grail's \$900m series B.

This is part of the reason 2018 was the peak of corporate investing, as measured by the proportion of the total cash raised. Another is that traditional VCs stepped back a little last year; counting rounds including both corporates and standard VCs, device companies raised nearly \$600m less in 2018 than they did the year before.

Growth capital is, of course, still readily available for medtechs active in high-reward sectors such as advanced genetic sequencing technologies, digital medicine and oncology. But even then only when these groups are past the start-up stage.

The investment arms of biopharma and medtech companies, like traditional VCs, play it safe. Most investment over the past five years has gone into series B rounds, though the largest rounds, on average, have been series Fs. In any case very little is going into seed or series A rounds.

It is somewhat surprising that the VC scene, including corporate activity, is as healthy as it is. Last year medtech M&A activity fell markedly, and while the IPO markets are holding up reasonably well industry watchers might question whether these investors can be truly confident of getting their exit.

CVC rounds by series over the past five years

	Total raised (\$m)	No of rounds	Avg size (\$m)
Seed funding	140.5	6	23.4
Series A	594.1	22	27.0
Series B	2,039.2	45	45.3
Series C	1,117.1	34	32.9
Series D	699.2	21	33.3
Series E	438.7	11	39.9
Series F	378.5	6	63.1
Series G	129.0	4	32.3

Source: EvaluateMedTech.

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