Biopharma venture financing retreats, but not by much

Amy Brown

Private drug developers raised less last year than in 2018, but cash remains plentiful and mega rounds abound.

The financing climate for young drug makers cooled last year, but cash was far from scarce. If anything, the major concern heard from private investors at the moment is the long-term implications of an excess of capital.

There were few signs of restraint in 2019, however. The average financing size dipped on 2018’s peak but remained at record levels; the frequency of mega rounds, those that amassed $100m or more, barely slowed. All of which points to an even more pronounced concentration of capital into the hands of a shrinking number start-ups – the count of rounds raised fell to below 400 last year for the first time since at least 2010, according to EvaluatePharma.

This analysis looks only at drug developers, excluding medtech, diagnostics and genomics, for example, so represents a look at what many would consider the most high-risk end of the biopharma sector.

### Biopharma and venture capital - a look at the topline numbers

<table>
<thead>
<tr>
<th>Year</th>
<th>Total investment ($bn)</th>
<th>Financing count</th>
<th>Avg per financing ($m)</th>
<th>No. of rounds ≥$50m</th>
<th>No. of rounds ≥$100m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>13.90</td>
<td>396</td>
<td>36.7</td>
<td>110</td>
<td>32</td>
</tr>
<tr>
<td>2018</td>
<td>17.86</td>
<td>467</td>
<td>40.2</td>
<td>130</td>
<td>39</td>
</tr>
<tr>
<td>2017</td>
<td>13.17</td>
<td>518</td>
<td>37.8</td>
<td>76</td>
<td>19</td>
</tr>
<tr>
<td>2016</td>
<td>10.46</td>
<td>484</td>
<td>23.0</td>
<td>52</td>
<td>15</td>
</tr>
<tr>
<td>2015</td>
<td>11.46</td>
<td>533</td>
<td>22.4</td>
<td>59</td>
<td>15</td>
</tr>
</tbody>
</table>

*Source: EvaluatePharma.*
As long as equity investors and industry display clear interest in these fledgling developers it seems unlikely that venture firms will fret too much about this apparent shrinking of the gene pool. The focusing of capital reflects a shift in investment strategy that has been widely embraced by these company builders and which, as they describe it, allows start-ups to be properly funded and given the best chance of success.

There is some evidence that this strategy is working. The median time to exit via M&A, measured from date of company foundation to buyout, dipped noticeably in 2019, while time to IPO is also historically swift. The latter measure is largely due to receptive stock markets, of course, and an important swing factor for the venture industry this year is the public world’s acceptance of these high-risk offerings.

In terms of takeouts, in the private sphere the M&A wheels are increasingly being greased by tranched deal structures. A separate analysis of EvaluatePharma data published by Vantage today finds that that the proportion of private company takeouts that involved some sort of contingent value jumped to almost 60% in 2019, substantially higher than in the previous two years.

With valuations testing in many therapy fields venture investors presumably have little choice but to accept these back-end loaded terms, particularly if the target in question is relatively early.

This separate analysis also highlights another potential area of concern for the venture sector: the number of private takeouts has declined substantially over the past five years, both in absolute terms and as a proportion of all deals. True, the venture-backed world is substantially better funded now, making selling out less of necessity. At the same time, some of the public deals counted will include relatively recently listed companies in which their venture backers could have retained an interest at the time of buyout: Synthorx, for example, or Armo Biosciences.

And with investor syndicates much larger now, each takeout will presumably benefit a greater number of investors than in the past. But still, viewed alongside a declining number of venture financings, the drop in private transactions is a trend to keep an eye on.

Of course the flip side to all this is a big positive for the venture field: the plentiful supply of buyers and partners for their portfolio companies, in big pharma and beyond. The depletion of big biotech’s pipeline has created another group of cash-rich acquirers in recent years, for example. There is also apparently a deep well of limited partners – investors in the venture funds themselves – keen to inject huge amounts of cash to access biopharma.

This glut of capital has caused valuations to reach eye-watering proportions in some cases. It has also surely
raised unreasonable expectations in many quarters. Whether the declining number of start-ups matters is a question that has yet to really be answered. But for all these concerns it is clear that business is booming for the venture field, and the prevailing mantra seems to be: if you’ve got it, spend it.

For a more in-depth look at what next year might hold for biopharma download our free 2020 preview here.