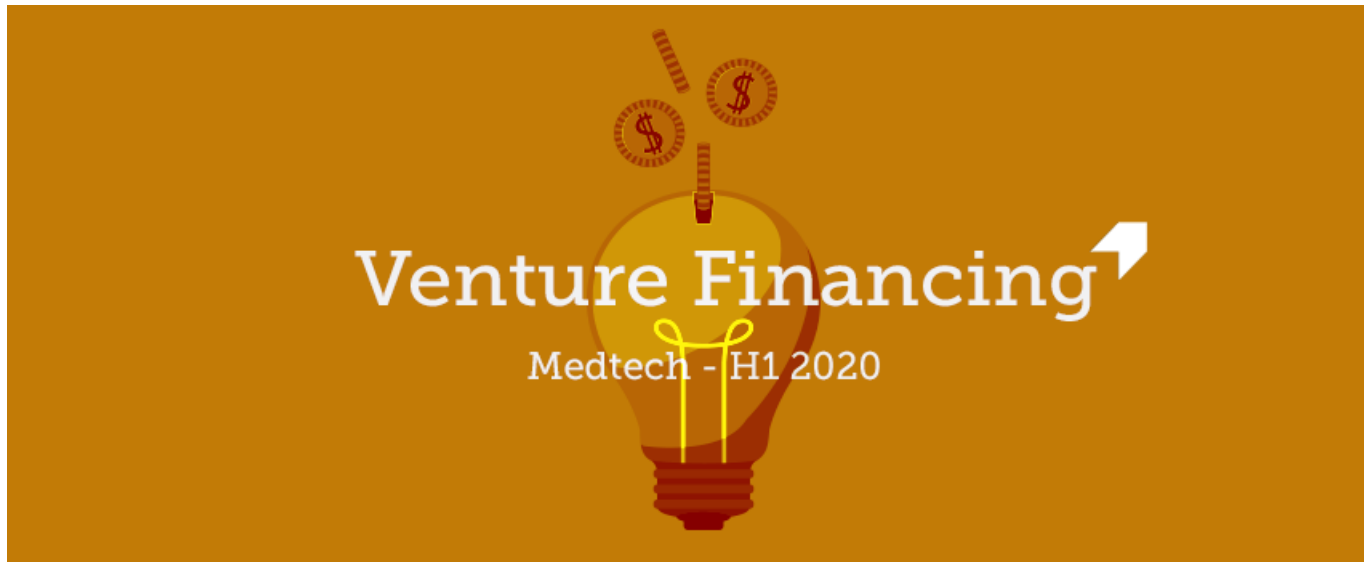


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Medtech venture investors live up to their name



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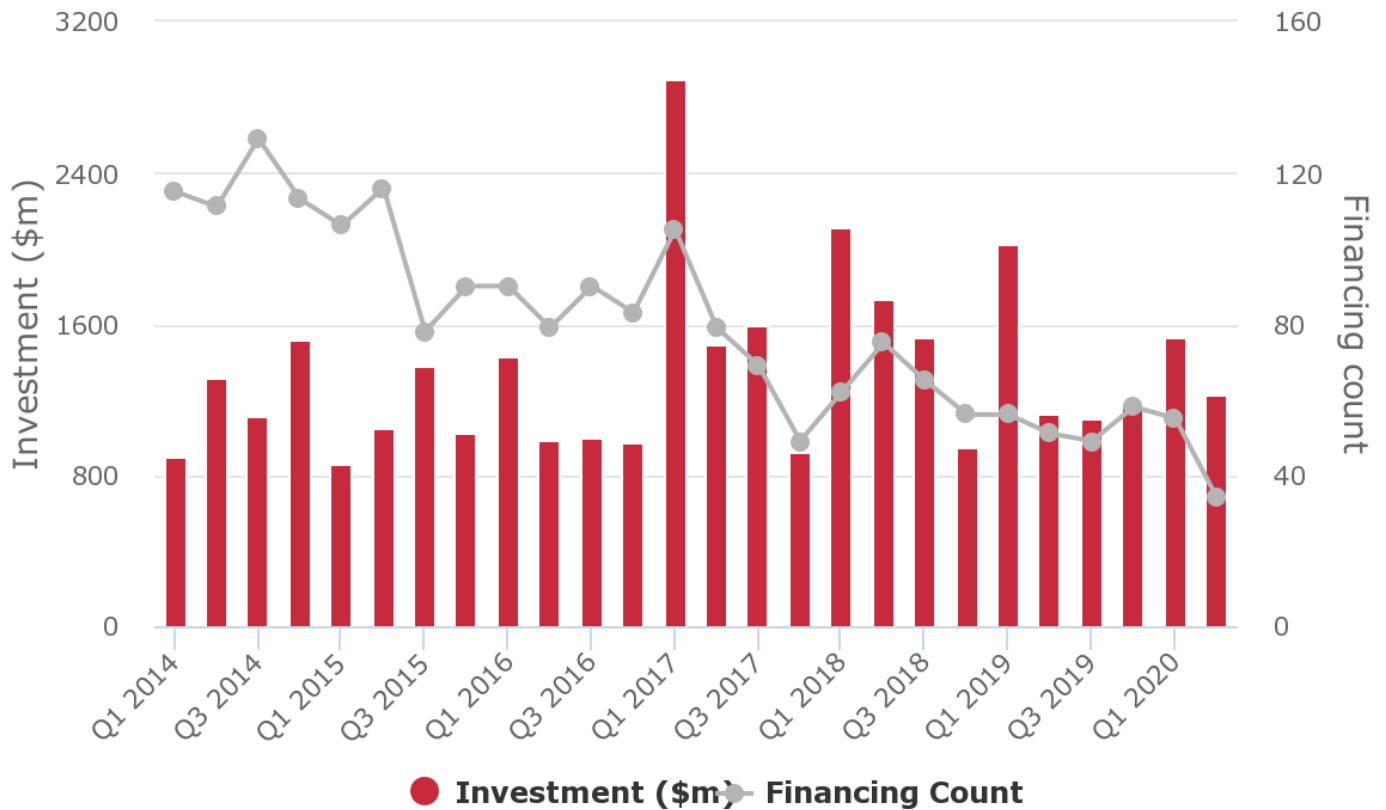


Fortunately for medical device start-ups, it takes more than a pandemic to put venture capitalists off doing deals.

The first half of 2020 might be expected to have posed a uniquely difficult challenge for private medical device developers in need of cash. Not so, it appears. Venture investors were unable to meet start-ups' management in person but the money changed hands somehow: \$1.2bn was invested in early-stage medtechs in the second quarter of this year, just when lockdown measures were at their harshest.

Overall the total venture investment raised by medtechs so far this year is very respectable. But look closer and investors do not appear to be white-knuckling too much after all. VCs are reacting to the riskier environment by banding together in bigger syndicates, and prioritising later rounds for relatively de-risked companies.

Medtech VC investment, 2015-2020



Evaluate Vantage

A prime example of the trend towards big rounds for relatively established companies is Grail's \$390m series D haul in May. The liquid biopsy developer has a track record of monster financings, notably its \$1.2bn series B, raised over two tranches in 2017 and 2018. The most recent cash injection came partly from the Canada Pension Plan Investment Board – hardly a wild risk-taker – and Illumina, the sequencing giant from which Grail was spun out.

The second largest amount raised was the \$165m funding of Karius, also a diagnostics company, and one that deploys the ever-appealing technology of artificial intelligence. Karius says it uses next-generation sequencing and AI to “map a patient’s microbial landscape from a single blood draw”, using the cell-free DNA shed by microbes to identify the pathogen causing the patient’s disease.

Karius’s multi-pathogen test does not diagnose Covid-19, since it detects DNA rather than RNA. This did not deter investors, and in fact the company managed to attract 2020’s most prolific venture backer: Silicon Valley-based Khosla Ventures.

Khosla has led two of the four medtech VC rounds it has participated in so far this year. Its small seed investment in E25Bio was a deliberate Covid-19 play: the start-up is working on an antigen test for the disease.

Khosla Ventures' 2020 medtech investments				
Date	Round	Investment (\$m)	Company	Focus
Jan 10	Series C	32.0	Inflammatix	In vitro diagnostics
Feb 24	Series B	165.0	Karius	In vitro diagnostics
Mar 18	Seed Capital	2.0	E25Bio	In vitro diagnostics
Apr 28	Series A	8.7	Heartvista	Diagnostic imaging

Source: EvaluateMedTech.

Like many VCs, Khosla is investing money while it can – as the spike in total funding in the second quarter suggests. The economic impact of the pandemic means hard times are coming, and investors will want to load their portfolio companies up with cash to cushion them against an environment in which drumming up further money is deeply challenging.

The same pattern is playing out a level above: VCs are themselves seizing what might be the last chance in a while to raise cash from their limited partners. For example, in mid-March the healthcare-focused venture firms LSP closed its largest ever European life sciences fund at \$600m – notably more than the fund’s \$450m target.

The medtech venture funding landscape is looking good for now, despite the dearth of smaller deals. But harder times might well be coming.

Top 10 medtech VC rounds of H1 2020

Date	Round	Company	Investment (\$m)	Focus
May 6	Series D	Grail	390.0	In vitro diagnostics
Feb 24	Series B	Karius	165.0	In vitro diagnostics
Mar 6	Series F	Insightec	150.0	Diagnostic imaging
Jan 2	Undisclosed	Oxford Nanopore Technologies	144.5	In vitro diagnostics
Feb 4	Series E	Outset Medical	125.0	Nephrology
Apr 16	Series D	Reflexion Medical	100.0	Radiology
Feb 4	Series C	Hinge Health	90.0	Digital health
Jan 6	Series G	Sonendo	85.0	Dental
Jan 8	Undisclosed	Zap Surgical Systems	81.0	Radiology
Feb 6	Undisclosed	Genapsys	75.0	In vitro diagnostics

Source: EvaluateMedTech.