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For a quick exit, head to the stock market

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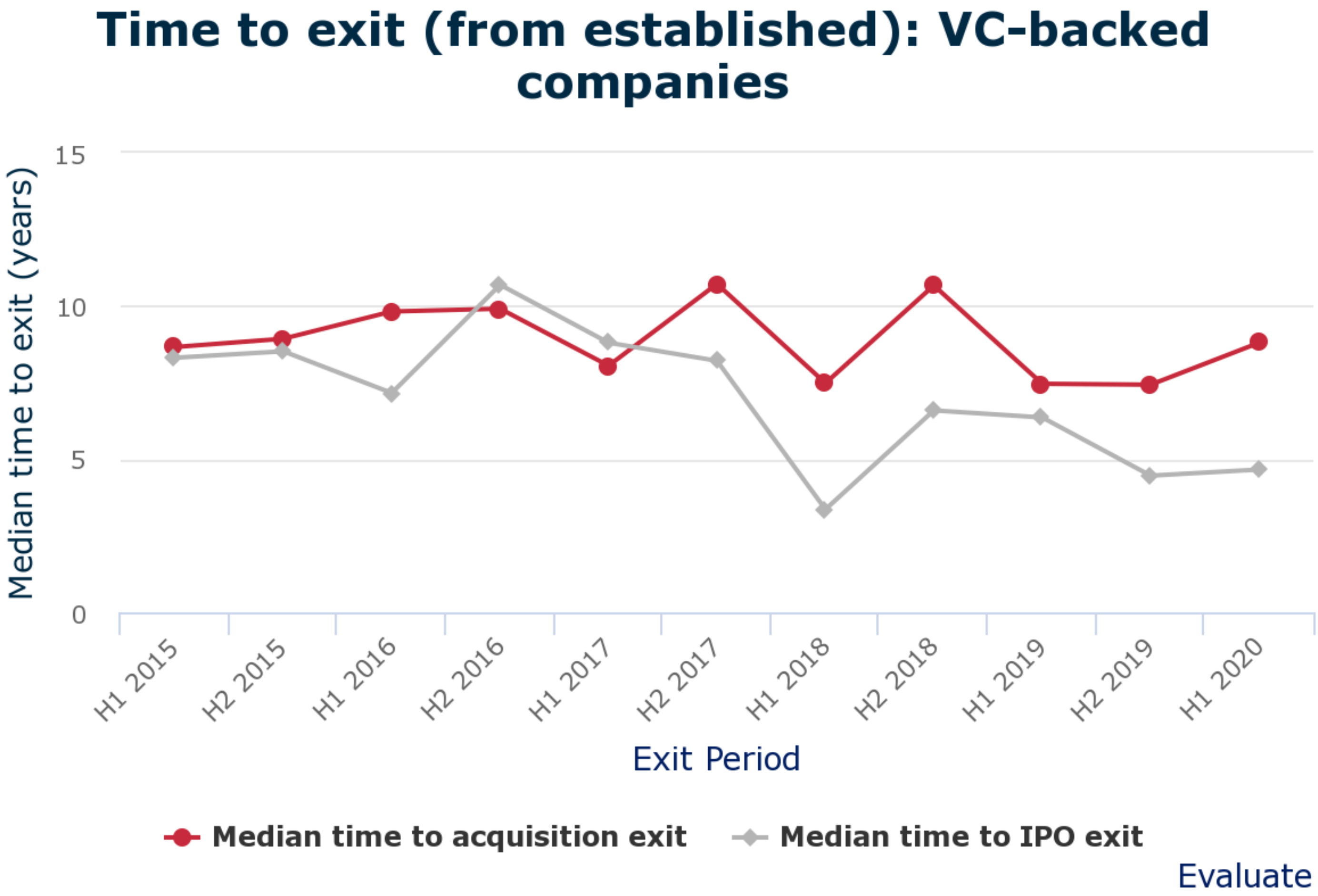
Venture-backed companies are floating earlier, but time to takeout stays stubbornly steady.

Venture funds might be awash with cash, but they still want an exit – and a takeout remains the favoured route. But how long might these investors need to wait after founding a start-up?

The answer is a median of almost nine years, according to *Evaluate Vantage*'s crunch of the numbers, a figure that has shifted very little since 2015. IPOs are another story, however, with the median time to float from founding currently sitting at a little over five years, two years faster than in 2015.

This speed to market has been fuelled by rising demand for biotech stocks from public investors, which in turn has produced some record IPO numbers recently. Strong equity markets have also helped, of course, and with biotech finding itself even more in favour throughout the pandemic venture firms are wasting no time listing their portfolio companies while they can.



The enthusiastic participation of crossover funds in more recent years will also be playing a role here: these investors help load up the balance sheets of these start-ups, making them more attractive to public investors.

Still, there is a growing trend of very early companies, many of which are years away from clinical testing, managing to command huge valuations. The potential for investors to be burned is surely growing, and a series of new issues that go nowhere will do nothing for the long-term health of the biotech IPO market.

Some more egregious examples recently include Passage Bio, which listed in February, a little over two years after being founded. The gene therapy researcher managed to raise $216m at an $840m valuation, despite having nothing in the clinic.

The gene editing company Beam Therapeutics waited a slightly more respectable three years from its founding to float. Again, the company was preclinical, yet was valued at almost $1bn post-money, raising $180m at IPO.

Time to buy?

Acquirers seem less willing to take a punt on these fledgling firms, or at least this is one interpretation of the takeout times data, which has not shown the same drift downwards. This analysis only looks at companies founded after 1995.

Still, while venture investors would prefer to see takeout times get shorter, it is worth remembering that over the past couple of years the biopharma M&A market has not been as active as many would have liked. So perhaps maintaining this median takeout time should be considered an achievement.

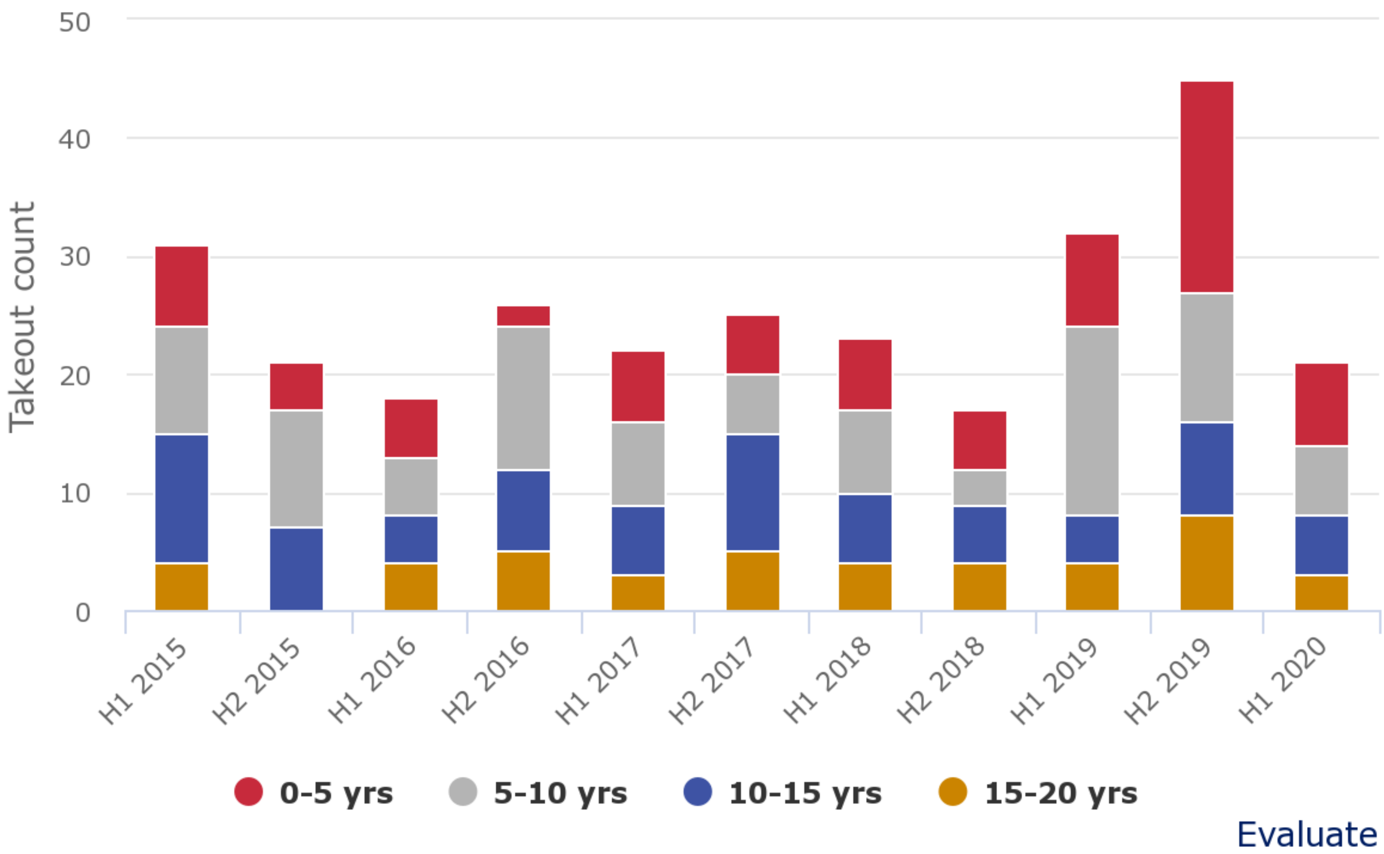
A further analysis below shows that buyers are prepared to take a risk on relatively young start-ups. And in most years around half of the VC-backed buyouts are under 10 years old, around the length of a typical venture fund.

There are always outliers, of course. Some of the quickest include Celgene's purchase of Delinia; Atlas and Sofinnova had only put $35m into the young biotech at the time of the takeout in 2017, for $300m up front, less than two years after Delinia was founded.

Flexus, which was established in 2013, had not raised much more when Bristol Myers Squibb agreed to pay $800m up front in a 2015 takeover.

Venture funds will dine out on these sorts of transactions for years – although these will remain the exception rather than the rule.

VC-backed takeouts by target company age



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