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The retreat of corporate venture funding?

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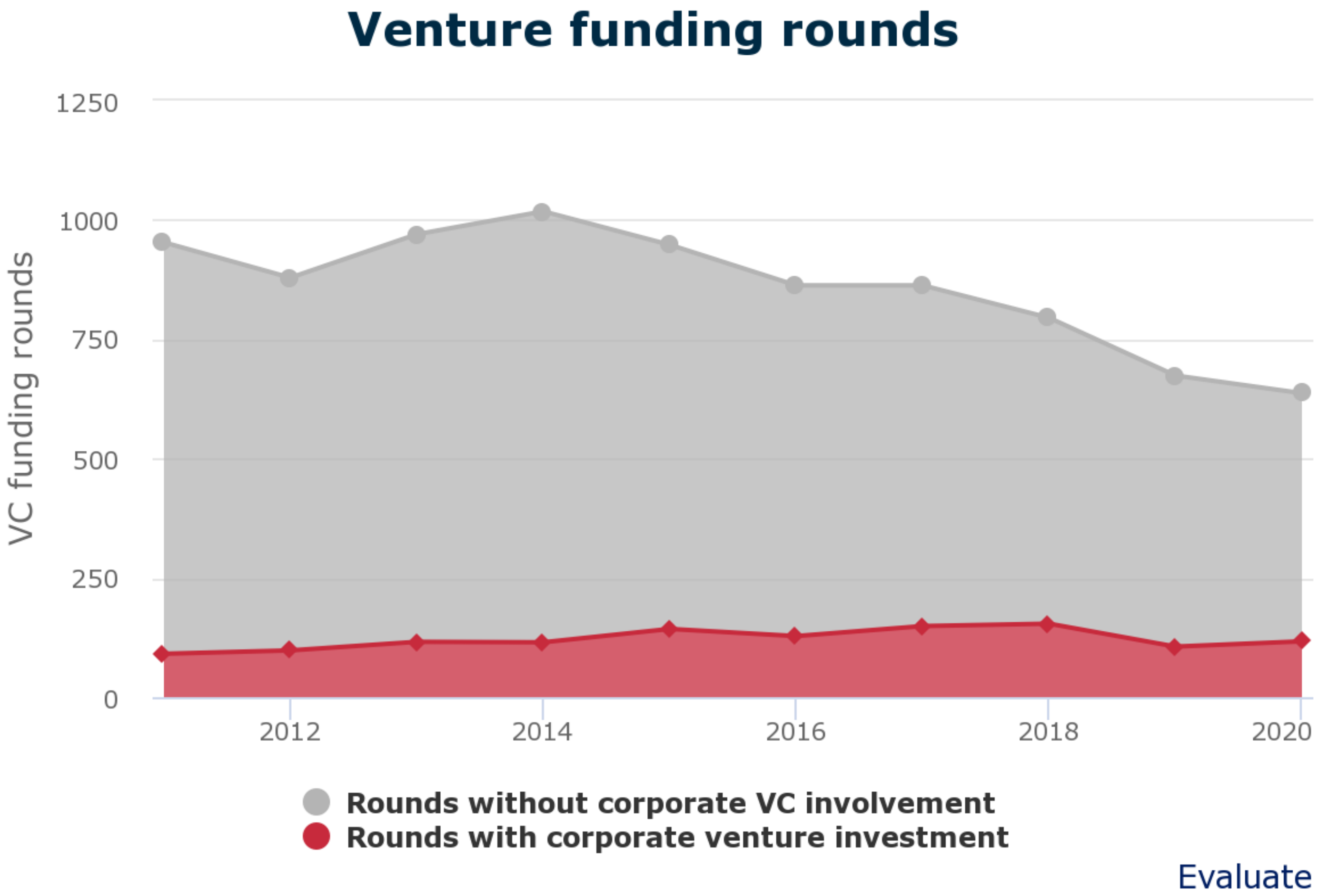
Many corporate-backed funds remain enthusiastic venture investors, but some might be hitting the brakes.

Corporate venture firms are well established as important sources of funds for young drug developers, after stepping up activity around a decade ago to top up shallow pools of private capital. But signs of retreat are now emerging from these industry-backed funds.

This is evident from an analysis of corporate funds' overall activity, as well as in closer looks at the sector's most active investors, using data collected by *Evaluate Pharma*. However it should also be remembered that the roles played by larger developers in the start-up space have evolved in recent years. In many ways big pharma's ties to external, early-stage research are closer than ever before.

Growth of the pharma industry's involvement in venture capital came at the same time as developers expanded links with universities and broadened partnerships and collaborations with small developers. These "externalisation" efforts were driven by the realisation that small, nimble developers were good at discovery, resulting in drastic slimming down of pharma research divisions.

Fast forward to 2021, and access to cash is no longer a pressing problem for biotech start-ups, while the heavy-lifting of company formation can be left to a very well-funded and mature private venture sector. It is therefore understandable that some corporates might feel inclined to ease back from investing at the coalface.



The 10-year view above shows how corporates have grown in importance on the venture scene.

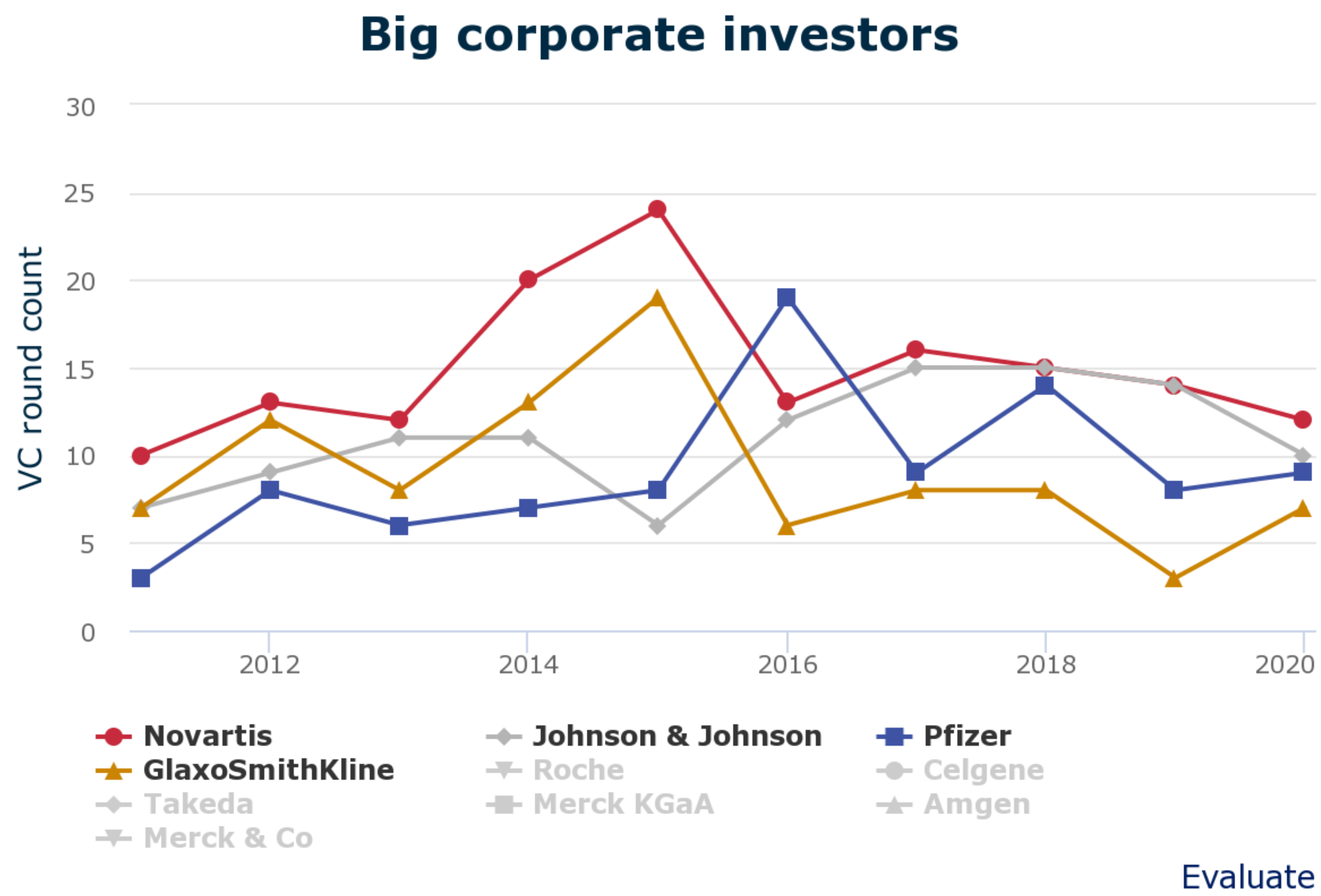
In 2011 10% of venture investment rounds had at least one corporate fund involved. The proportion peaked at 19% in 2018 before starting to dip. This analysis will understate the corporates' presence in recent years: at the start of the decade it was almost unheard of to have more than one industry-backed fund involved in a financing, whereas these days this is considered commonplace.

True, the decline in rounds with corporate involvement from 2018 coincides with a dip in financing volume overall; this in turn has been largely driven by the focusing of capital into fewer but larger rounds.

A much starker fall in activity can be seen via a count of individual corporate funds named in financing announcements. Industry-backed investors made 113 investments in 2011, peaking at 216 by 2018, and then dropping sharply to 144 and 142 in the past two years; these numbers are based on disclosures in press releases, collated by *Evaluate Pharma*.

Conversely, a count of individual private investor names shows continual growth over the 10 years. This makes sense when considering that richer financings rounds has meant larger investor syndicates. But these trends also support the notion that some corporate retrenchment is occurring.

The chart below shows the activity of the 10 most active corporate funds over the past decade. Only a couple of firms, Takeda and Roche, for example, can be said to have kept up the pace more recently. In total, these 10 funds made 59 investments in 2020, the slowest year since 2011 and dropping dramatically from a peak of 99 in 2018.



This is not to suggest that external sources of innovation are becoming unimportant to big pharma, or that large developers are losing interest in the start-up space.

“Big companies have totally understood that being next to us and understanding what we have in our portfolio matters,” says Antoine Papiernik, managing partner of Sofinnova, a Europe-based venture fund. “They want to know what’s cooking, even if it’s far too early for them.”

Mr Papiernik says Sofinnova holds regular sessions in which a selection of the firm’s portfolio companies present to executives from large developers, to help keep them abreast of early-stage science and areas of focus. Lines of communication between biopharma and private sector venture funds are surely more open than ever before.

Thus retrenchment in these numbers belies shifts in the way large developers are supporting and interacting with the external, early discovery space: for example, by becoming investors in the private funds instead, or by setting up or investing in incubators or shared laboratories, or by choosing to directly invest in a start-up as part of a research collaboration.

It is true that pullback by corporate funds could gather steam. Glaxosmithkline’s corporate arm, SR One, spun off as an individual entity last year, and more could follow (SR One was included as a corporate fund in this analysis). The exit of Celgene will also be felt. That big biotech was a very active venture investor, whereas Bristol Myers Squibb has shown little interest in this activity.

However, the venture boom is showing no signs of deflating overall. While funds continue to flow readily into private firms' coffers, it is easy to see increasing numbers of large developers seeking less intensive ways to track early-stage research.

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