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Europe’s venture boom trails the US

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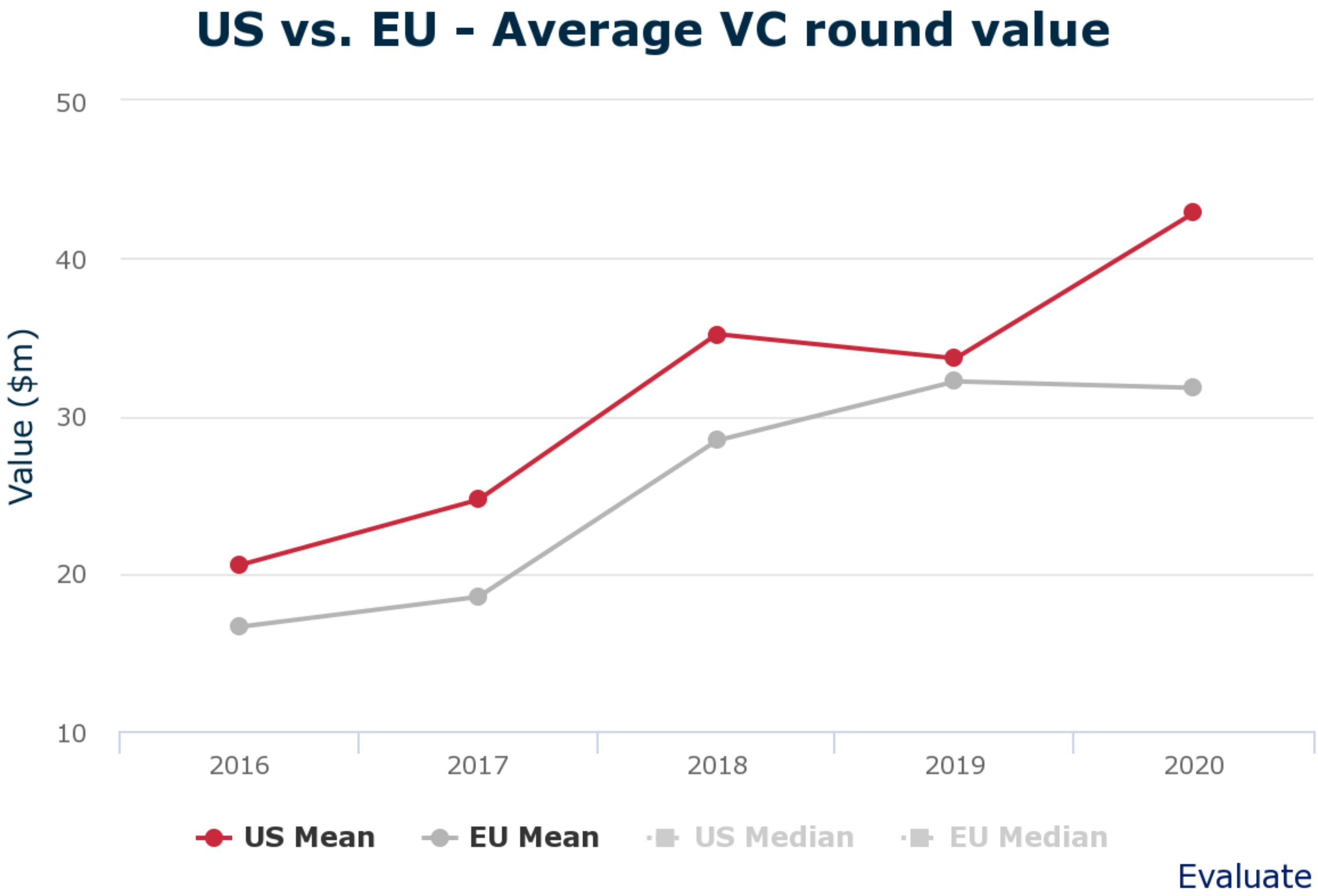
But financing sizes have grown by a similar amount on both sides of the Atlantic.

US-based biopharma groups have always had access to much deeper pools of venture capital than European start-ups, but the divide has become starker amid the venture capital boom of the past few years.

Over the five years to 2020 the annual venture haul in the US almost doubled, to $13.6bn. Europe mustered a mere 26% growth in the pot over the same period, with young developers banking $2.3bn last year, according to *Evaluate Pharma*. Dig deeper and some of the differences start disappearing, however, with average round sizes expanding by a similar amount.

On average, US companies are still raising more than their European cousins, but that gap had narrowed, the chart below shows. Until last year, that is, when a wide open IPO window tempted many private groups to the stock market, leading to a big jump in large, pre-IPO financing rounds – known as crossovers – which gave the US numbers a big boost.

On a median basis the numbers are much closer, the caveat being that the volume of fund raisings is much lower in Europe. These data concern pure-play drug developers only; medtech, diagnostic or digital health firms, for example, are excluded.



European venture capitalists are under no illusion as to the realities of these data. Compared with the US, in Europe there are substantially fewer specialist investors, plus more cautious investment cultures more generally, and several language barriers. All of this means that competition for deals, and therefore valuations, is frequently lower on the continent than across the pond.

"It is difficult to get the best investors in the US to pay attention to Europe. Which is another reason why prices are much lower, even at later stages [of clinical development]," says Antoine Papiernik, managing partner of Sofinnova.

The European venture firm is seeking to capitalise on this disparity in valuations between the two regions. It recently raised a €445m ($540m) crossover fund to help late-stage private European developers attract US investors; the fund will also back Europe-listed biotechs that want to switch to Nasdaq in the US.

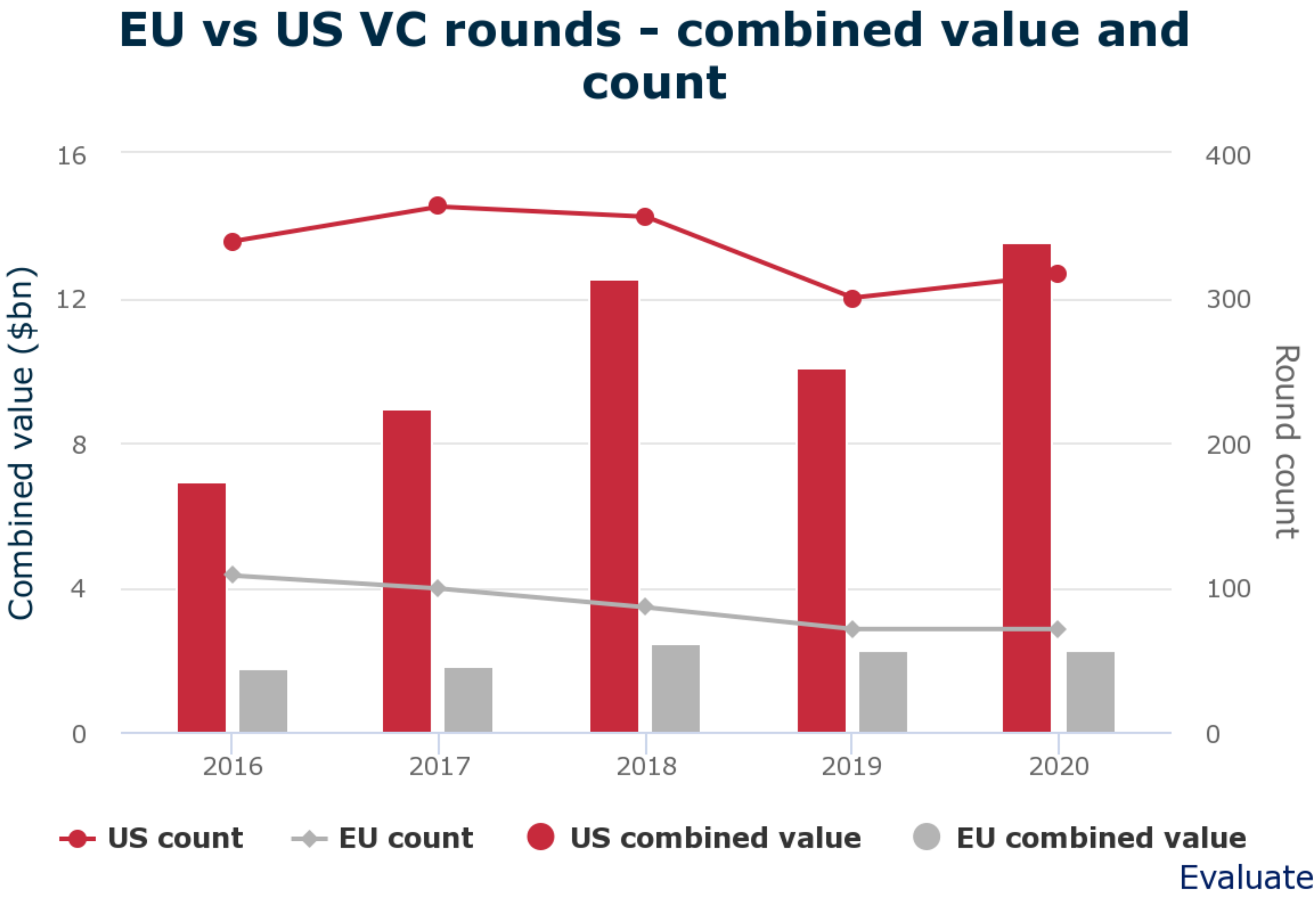
"You have to embrace [the money in the US] otherwise you will be left in a ditch," Mr Papiernik says. "Sovereignty is fine for presidents and prime ministers, but if you are a biotech company you have to go where the funds are."

Mr Papiernik stresses that European companies do not have to relocate to the US, but says that many need help to tap the funds available in that region. By making a late-stage company based in Dijon look like a Boston-based company, for example, the crossover fund will seek to arbitrage the need for late-stage capital in Europe.

Still, the chart below shows that Europe is still a long way from even coming close to the US in terms of private financing. But venture investors point to a maturing of the biotech sector in Europe, with management teams improving in quality, and growing investor interest.

As for the science, this has never been an issue for the regions' young drug developers. Access to capital has always been the biggest drag. By getting better at tapping US funds, this too could become less of a problem.

Evaluate Vantage's recent analysis of trends in corporate venture funding can be read here: The retreat of corporate venture funding?



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