Evaluate Vantage

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Medtech venture backers go in early

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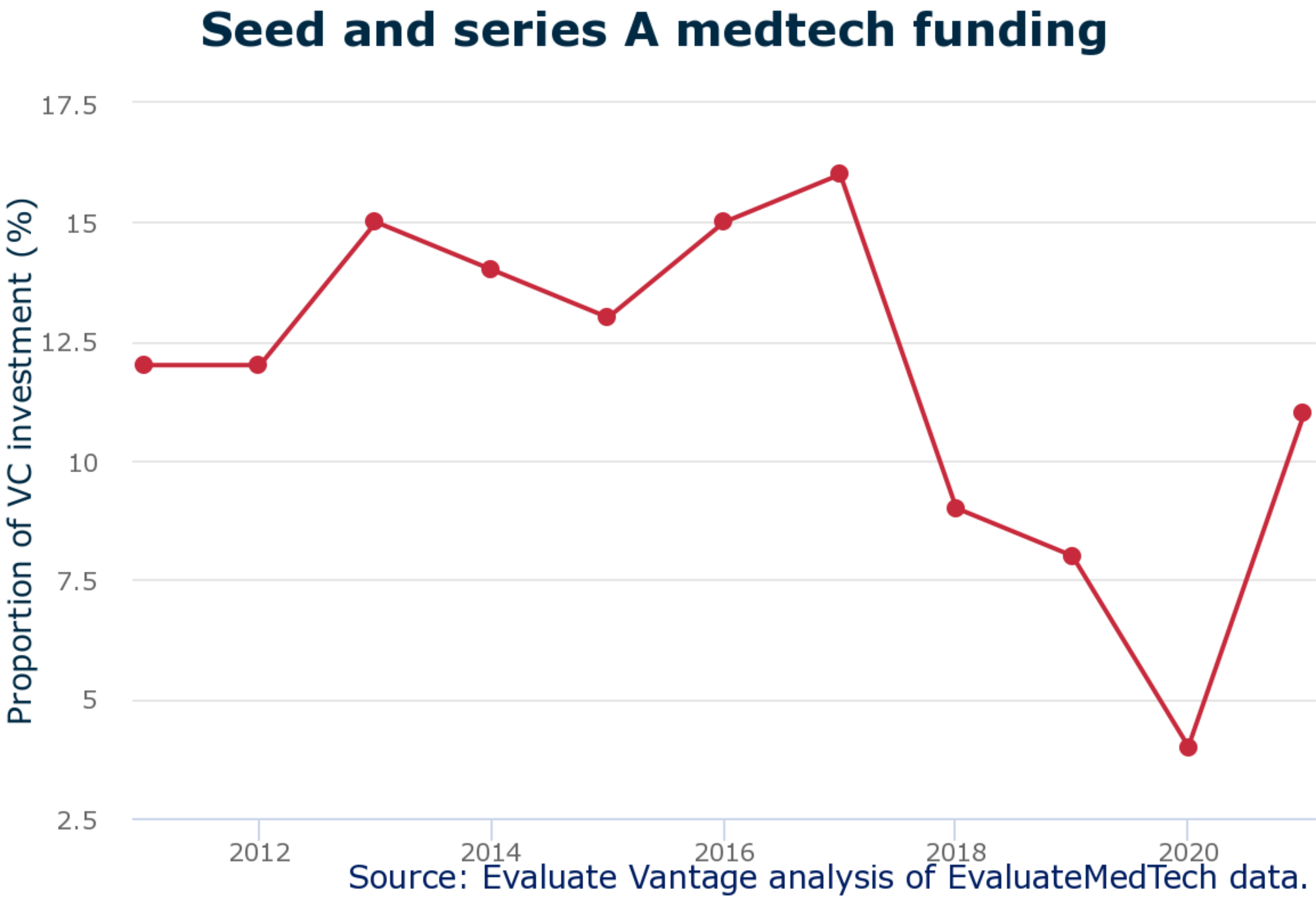
A sudden increase in seed and series A funding bodes well for the year ahead.

The remarkably robust dealmaking in the medtech sector last year seems to have led venture investors to rediscover their willingness to back young companies. Of all the venture cash invested in device and diagnostics makers so far this year, 11% went into seed and series A rounds – the highest proportion since 2017.

True, this only covers the first four and a half months of 2021. But the uptick in early funding is so stark compared with the steady decline over recent years that it would be surprising if it were not maintained to the end of the year. And it chimes with recent industry trends showing how swiftly venture funds can turn a profit, with the rewards naturally greatest for those that get in on the ground floor.

From the start of this year until May 12, private medtechs had raised a total of $1.7bn. While the lion's share went into series C and D rounds, there has been a clear shift towards investing in earlier deals for younger companies.



The seed and series A rounds conducted so far this year amount to $195m. The biggest of these deals was Delfi Diagnostics' $100m series A, and it is no coincidence that this company is developing a liquid biopsy.

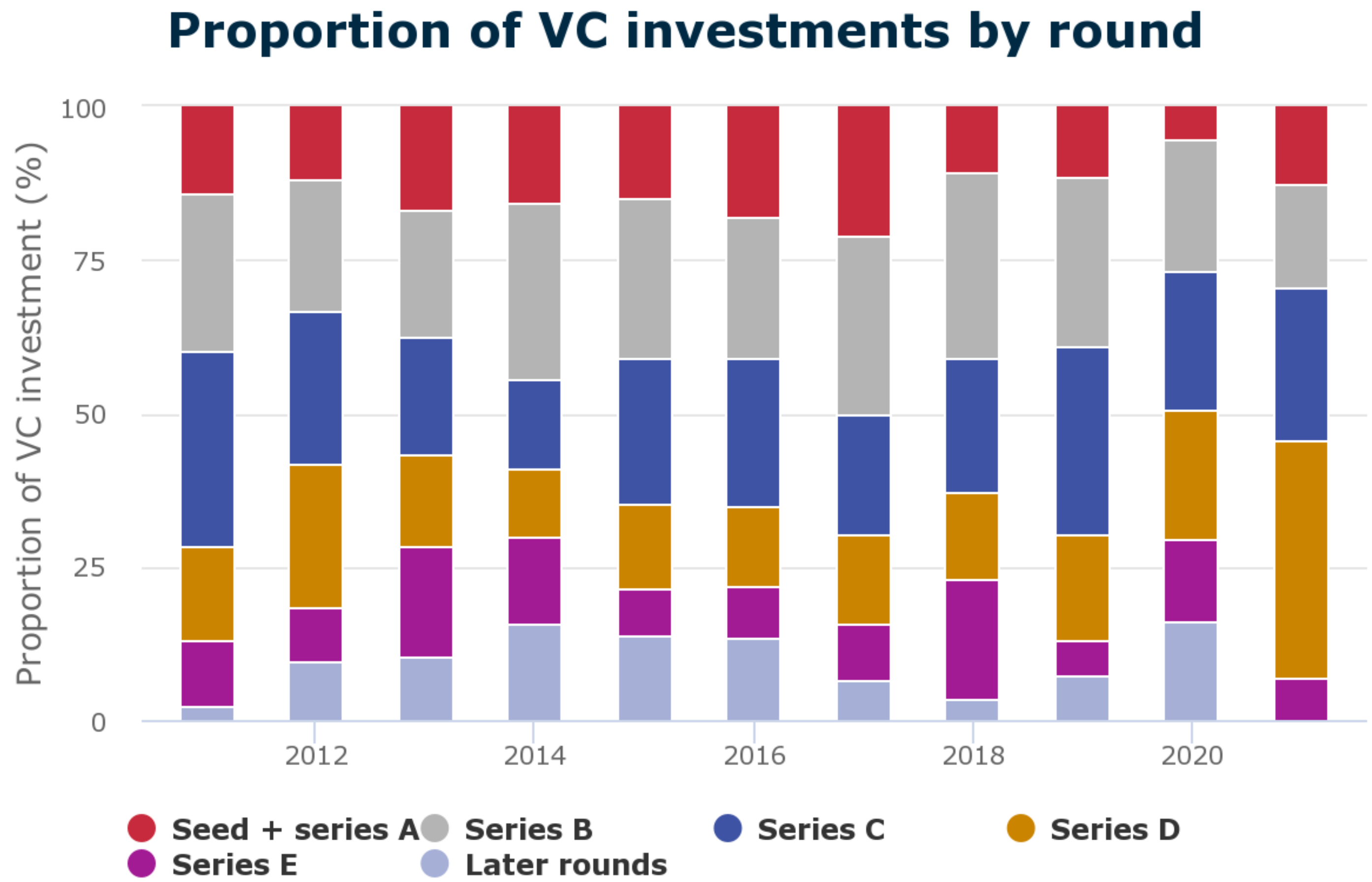
Blood and treasure

Cancer blood tests are a scorching hot area for dealmaking at the moment. Neogenomics' pounce on Inivata last week was the latest example of the appeal of this technology, which is seeing increasing acceptance among oncologists. And that was an exemplar of a different trend – that of a corporate VC investing in a liquid biopsy group and then swiftly acquiring it.

With Grail and Thrive having also followed this investment-to-buyout path, it is clear that there is a strong motivation for venture investors, corporate or not, to back these companies.

The $830m raised by Caris Life Sciences this week is another case in point. This ranked as the biggest round of the year so far, and was the company's fourth funding deal; its backers must be hoping for a takeout here too.

A look at which rounds attract the greatest proportion of the year's total VC funding shows another intriguing finding: so far this year there have been no series F or later rounds. Previous years have seen rounds as late as series I. Paradoxically this might actually be a consequence of the free-flowing venture environment.



ate Vantage analysis of Evaluate Medtech data. Does not include undisclosed rounds.

Though they seem to have swung earlier than in prior years, 2021's venture rounds are bigger, too. The average size of a VC deal so far this year is a startling $52m – vastly overshadowing even last year's record high of $38m. It seems that, having had little difficulty raising funds and thus finding themselves with vast pools of cash to disburse, VCs are willing to put up the kinds of sums that would in other years have gone into series F or G rounds, into Cs and Ds instead.

The big question is whether this level of comfort with earlier, riskier bets will last. A few more liquid biopsy buyouts might go a long way to reassuring private investors that money staked on young companies is not as unsafe as they might fear. On the other hand, if the strong start to 2021's M&A scene in medtech fizzles out, expect VCs to ricochet back to the relative safety of the series I.

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