Evaluate Vantage

August 17, 2011

# Venture capital-backed companies follow focus on oncology

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Flows of venture capital might be slowing (*Vantage Point – VC fund slump in first half points to tougher times ahead, August 17, 2011*) but the money that is invested has to go somewhere and an analysis of where venture-backed drug developers are placing their bets paints a not entirely unsurprising picture.

Oncology projects account for around a third of R&D projects in the pipelines of these companies, a figure that has remained fairly constant over the last five years and certainly reflects research and partnering trends throughout the industry. Meanwhile therapy areas that show signs of falling out of favour include endocrinology and cardiovascular, the data from *EvaluatePharma* show (see table below).

**Percentage flows**

The table below was constructed by analysing the pipelines of companies that raised venture capital each year, since 2006. The analysis only encompasses companies working on human therapeutics; it does not capture medical technology or diagnostic areas.

The number of active R&D projects in each company by therapy area was counted, to provide a snap shot of what these groups were working on at the time of their fundraising.

The percentages were calculated using the number of companies that raised venture capital in each year and the count of active R&D projects in each therapy area across the cohort.

Not all the money raised over this period would have been directed at all of these projects. But by providing an overall picture of the cohort's research focus the analysis shows where venture capital funds were likely to be flowing each year, and how that might be shifting.

| Research focus of VC-backed companies | | | | | | |
|---|---|---|---|---|---|---|
| **Therapy Area** | **H1 2011** | **2010** | **2009** | **2008** | **2007** | **2006** |
| Oncology | 34% | 31% | 30% | 35% | 37% | 29% |
| CNS | 15% | 12% | 14% | 19% | 14% | 15% |
| Systemic Anti-infectives | 12% | 16% | 20% | 9% | 17% | 9% |
| Sensory Organs | 9% | 3% | 3% | 4% | 4% | 3% |
| Musculoskeletal | 5% | 6% | 3% | 5% | 4% | 8% |
| Respiratory | 4% | 4% | 4% | 2% | 3% | 1% |
| Blood | 3% | 2% | 2% | 3% | 2% | 3% |
| Cardiovascular | 3% | 7% | 5% | 5% | 4% | 9% |
| Gastrointestinal | 3% | 6% | 3% | 4% | 3% | 7% |
| Dermatology | 2% | 3% | 5% | 3% | 3% | 4% |
| Endocrinology | 2% | 4% | 6% | 6% | 3% | 9% |
| Genito-urinary | 2% | 2% | 2% | 2% | 3% | 1% |
| Other | 4% | 3% | 4% | 4% | 4% | 3% |

With the IPO window still firmly shut for early stage drug developers, a sale to a larger organisation remains essentially the only way venture capital backers can hope to make a return on their investment. As such, companies that are developing products or technologies that could catch the eye of larger suitors are going to find it a lot easier to attract venture dollars.

“Right now big pharma is the only exit available and we chose our projects with that in mind. It will remain so until it is possible to IPO clinical stage biotech companies again,” says Bobby Soni, a principal with Novo Seeds, which invests in very early stage companies in Scandinavia.

Given big pharma and big biotech’s scramble for oncology assets over the last five years it is not surprising to see that so many private companies are striving to deliver what those at the commercial end of the business are seeking, and are attracting venture capital investment to do so.

A recent analysis of partnering trends also underscored this trend, with more deals struck over cancer fighting products last year than any other therapy area (*Oncology remains hot area for deal making as CNS shows a surge, August 3, 2011*).

Elsewhere, interest in most therapy areas such as blood products and dermatology appears to have stayed fairly constant over the last five years. However money flowing into cardiovascular and endocrinology projects looks to have waned.

Given the huge and costly pivotal studies now required to get agents to treat heart conditions and diabetes to market, this is not surprising. This increasing clinical burden is even putting off cash rich big pharma, so it makes sense that early stage companies would decide to shift their focus to more manageable indications.