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Bumper first quarter for VC investments raises hopes for year ahead

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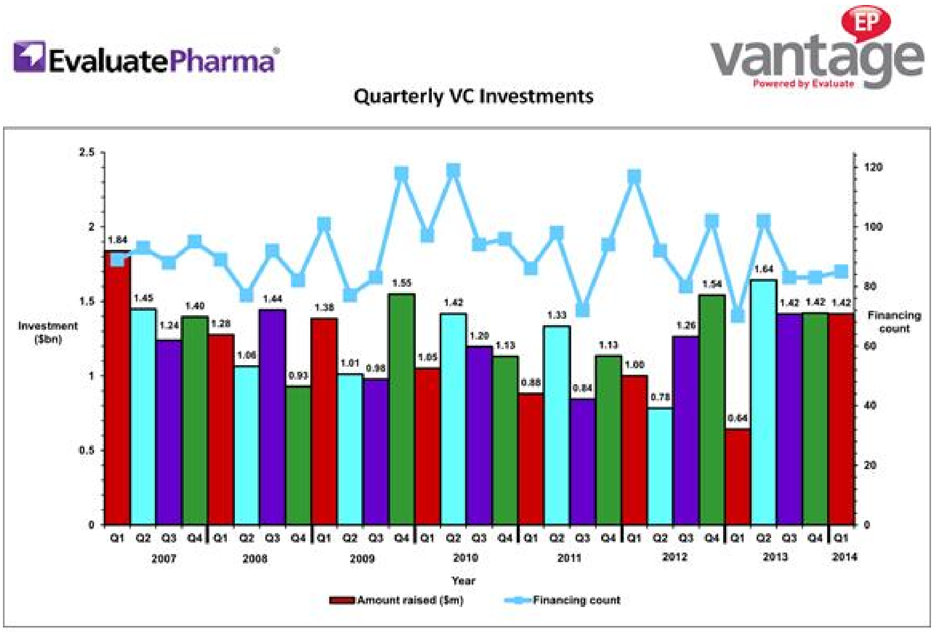
Venture capital raised by private drug developers totalled $1.42bn in the first quarter of 2014, the biggest pot of cash raised across the first three months of any year since 2007, *EvaluatePharma* data show.

Predictions that the recovery in financial markets would feed through more strongly this year and further improve the financing climate for these companies appear to be coming true. The figures make for encouraging reading for those involved in the very early stages of drug discovery, many of whom have felt little benefit from surging equity markets (see tables below).



Source: EvaluatePharma

The data in this analysis summarises financing rounds raised by companies involved in developing human therapeutics; it excludes those involved in medtech research or diagnostics, for example. These businesses, working at the very highest-risk end of the drug development sector, were particularly badly hit when the funding climate froze in the wake of the banking crisis. Compared with the public sphere, they have only relatively recently experienced a thaw in conditions.

The quarterly data above suggests the recovery that seemed to take hold last year has set in. The first three months of 2014 was the fourth consecutive quarter to see more than $1bn raised, an encouraging run. And although quarterly data can fluctuate substantially, the strong open to the year raises hopes for the remainder of 2014.

The table below shows that 2013 was the most lucrative year for this sector since 2007, and industry players will be hoping that this year holds further improvement while perhaps cautiously bearing in mind that late 2007 also saw the start of the credit crunch.

Annual VC investments		
Financing date	**Investment ($bn)**	**Financing count**
Q1 2014	1.42	85
2013	5.12	338
2012	4.59	391
2011	4.19	350
2010	4.79	406
2009	4.92	379
2008	4.71	340
2007	5.92	365

The opening of the IPO window, which has improved venture capital firms' chances of exiting their investments and returning profits to their own shareholders, has played a big part in getting more funds flowing to private start-ups. The huge amount of money raised in the first quarter through initial public offerings suggests that a flotation remains an option for those considering life on the stock market, and provides another strong indicator of health for the venture capital industry (*Biotech's record-breaking quarter shines spotlight on sustainability, April 1, 2014*).

Nasdaq has provided a platform for the vast majority of newly public companies and the huge amount of money being raised by public and private businesses in the US continues to dwarf other regions. But signs of strength can be found elsewhere – the fact that two European companies make it into the five biggest first-quarter VC rounds, below, is testament to this.

The German drug developer Glycotope tops the table with its $75m investment. The company is backed by long-term investors, the Strüngmann brothers and Andreas Eckert, and admittedly does not boast typical VC backers (*EP Vantage interview – Backers place €55m bet on Glycotope technology, March 12, 2014*).

And the other European, Swiss antibody specialist NovImmune, has also attracted investors outside the traditional venture sphere. Rosetta Capital, which led its bumper $66m round, is more typically associated with direct secondary transactions while previous investors have included BZ Bank Aktiengesellschaft.

Wherever the sums come from, European drug developers will be comforted to see that they are capable of finding the sorts of sums normally associated with their US cousins.

Biggest private financings of the first quarter			
Company	**Financing round**	**Investment ($m)**	**Location**
Glycotope Group	Series undisclosed	74.9	Germany
Melinta Therapeutics	Series G (estimated)	70.0	US
NovImmune	Series B	66.0	Switzerland
C3 Jian	Series D	60.5	US
Kolltan Pharmaceuticals	Series D	60.0	US

Despite the encouraging signals that can be found in the first-quarter figures, problems remain for this sector.

Very early-stage companies can still find it tough to attract interest, and there is plenty to suggest that many venture firms are choosing to focus their money on later-stage investments. And, while the venture firms themselves are managing to raise new funds more easily, they are still under pressure to prove to their own shareholders that they can turn the biotech bull run into profits.

But few can be discouraged by signs of more money flowing through the system.

All data sourced to EvaluatePharma.

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