

VC funding on track for a healthy year as winners take a big share



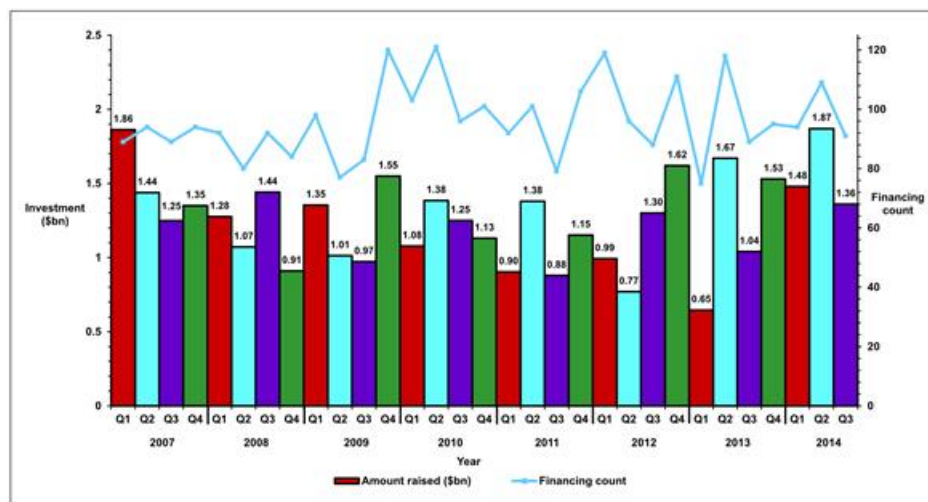
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Venture capitalists invested \$1.4bn in private drug makers in the third quarter, the lowest haul this year. However, the bumper numbers generated in the first half mean that 2014 is on track to be a strong year for the sector, with the total raised to date already surpassing 2012.

The data, from *EvaluatePharma*, also clearly show that the money is flowing to fewer companies in ever larger rounds. Refinancing risk remains a big issue, so while there might be more money available than a few years ago investors are certainly no less cautious about spending it.



Quarterly VC Investments



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After the second quarter, when private drug developers raised more than in any other quarter since the financial crash, it is perhaps not surprising that fund raisings slowed. However, the dip needs to be put into context: the amount raised still made up the biggest third quarter since 2008. This analysis only includes investments made in companies developing human therapeutics; it excludes medtech or diagnostics, for example.

Additionally, improving global economic conditions mean that the venture capital firms themselves are better able to raise new funds, and this is having an influence on the numbers. However, this is still far from easy, particularly in Europe, and a number of firms did not survive the downturn.

Those with a stronger track record of returns have managed to tap existing and new limited partners – big pharma is playing an increasingly important role here – and are investing again. But all are aware of the diminished pool of active investors, many of which are working from smaller funds than previously.

This is one of the reasons why the average size of investment round is growing, as the table below shows. Forming large, strong syndicates that can take a drug developer all the way to proof of concept is far preferable to risking that company floundering while new funds are found. Or not, as the case may be.

Annual VC investments				
Financing date	Investment (\$bn)	Financing count	Average per financing (\$m)	No. of rounds >\$50m
9M 2014	4.71	294	17	24
2013	4.88	377	14	12
2012	4.69	414	13	16
2011	4.32	378	13	11
2010	4.85	421	13	13
2009	4.89	378	15	16
2008	4.71	348	15	13
2007	5.90	366	18	23

This trend also means that super-size venture rounds are becoming increasingly common. So far this year 24 companies have raised \$50m or more, suggesting that a large proportion of the funds are going to a small proportion of companies.

The opening of the IPO window will be playing a part here. A number of the larger rounds will have gone to companies readying for a stock market listing; public investors need to see a well-capitalised company before considering their involvement.

But not all of these big rounds went to companies approaching the stock market. Of the top 10 rounds so far this year, below, only Kolltan is a confirmed prospect – it filed documents last month for an IPO to raise \$86m. Paratek and Glycotope have been linked with such a move, the former back in 2012 and the latter at the time of its fund raising. Outside the top 10, ZS Pharma and Avalanche both raised \$55m in venture rounds this year and are now floated on Nasdaq.

The immunotherapy researcher Juno looks like a prime example readying for a market listing – it has raised a huge \$310m since December 2013 – but its executives have declined to reveal their intentions.

For the other companies amassing big money, however, an IPO does not appear to be an immediate prospect. Luckily, their investors obviously consider them worthy of big bets.

For the chosen few, the consolidation of venture capital investment is not a problem. For the others, which will frequently be earlier stage and requiring substantially more time and money to get where they want, cash will be hard to come by.

Top 10 rounds of 9M 2014			
Company	Investment	Financing round	Date
Intarcia Therapeutics	\$200.0m	Series H*	Apr 2014
Juno Therapeutics	\$134.0m	Series B	Aug 2014
Adaptimmune	\$104.0m	Series A	Sep 2014
Paratek Pharmaceuticals	\$93.0m	Series I*	Jul 2014
Glycotope Group	€55.0m (\$74.9m)	Series undisclosed	Mar 2014
Spark Therapeutics	\$72.8m	Series B	May 2014
Melinta Therapeutics	\$70.0m	Series G*	Feb 2014
NovImmune	SFr60.0 (\$66.0m)	Series B	Feb 2014
C3 Jian	\$60.5m	Series D	Mar 2014
Kolltan Pharmaceuticals	\$60.0m	Series D	Mar 2014
<i>*series assumed</i>			

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