Evaluate Vantage

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# Where is the venture cash going? To the US and giant B rounds

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With public markets still buoyant and venture firms raising substantial new funds a bumper first quarter for private biotech financings has followed the record breaking 2014. But where, more specifically, is the money going?

It has been clear for some time that rounds on average have been getting bigger – a trend exacerbated more recently by the crossover funds coming in to help shepherd companies to market – and a big jump in series B financings last year probably reflects this. Geographically, meanwhile, the US continues to dominate the scene, with Europe showing a worrying dip in the opening months of the year (see analyses below).

It is of course dangerous to draw too many conclusions from a few months' data, but the table below suggests that in the opening months of 2015 European companies struggled to maintain their share of the pot of cash and the number of deals being struck. The story remains the same, if slightly less dramatic, when discounting the vast and previously unheard of $450m D round raised by Moderna Therapeutics in January, which distorts the picture in the US somewhat.

| Dividing the pot - VC investments in the US and EU | | | | | | |
|---|---|---|---|---|---|---|
| | Total investment ($bn) | | | | | |
| | Q1 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| US & EU | 1.67 | 6.21 | 4.69 | 4.47 | 4.07 | 4.54 |
| US | 1.51 | 4.89 | 3.46 | 3.58 | 3.28 | 3.39 |
| EU | 0.17 | 1.32 | 1.23 | 0.89 | 0.79 | 1.15 |
| US as % of total | 90% | 79% | 74% | 80% | 81% | 75% |
| EU as % of total | 10% | 21% | 26% | 20% | 19% | 25% |
| | Number of deals | | | | | |
| | Q1 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| US & EU | 58 | 387 | 370 | 392 | 358 | 394 |
| US | 46 | 321 | 265 | 291 | 265 | 284 |
| EU | 12 | 66 | 105 | 101 | 93 | 110 |
| US as % of total | 79% | 83% | 72% | 74% | 74% | 72% |
| EU as % of total | 21% | 17% | 28% | 26% | 26% | 28% |

This divergence appears to have started in 2014, when the US started to attract a bigger proportion of the venture funds available (*Biotech first-quarter venture haul unprecedented since crash, April 22, 2015*).

Given that the Nasdaq stock market, particularly at its current frothy levels, allows US companies a relatively easier IPO option than the disparate and generally less supportive European exchanges – and therefore presenting the VCs with an exit opportunity – this is perhaps not surprising.

EU drug makers can take heart from talk of funds crossing the pond to search for less aggressively priced investment propositions, heady competition for many US investments having driven valuations ever higher.

And the end of the day it is encouraging to see that sums raised in both territories last year were the highest since the crash. Europe will never match the US in its fund-raising potential, but at least in both regions the pot of available cash is getting bigger.

**What stage?**

In terms of where the money is going, a look at investments by round shows that over the past few years series As and Bs have taken it in turns to attract the dominant share. The below analysis looks at global investments, so it includes companies outside the US and Europe, a wider pool than in the above.

Taken together, however, A and B rounds have represented around half the money invested each year.

Venture Capital investment rounds

| | Total Investment ($m) | | | | | | Total Finance Deals | | | | | | % Investment per Financing Round | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financing Round | Q1 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | Q1 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | Q1 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
| Seed Capital | 6 | 70 | 155 | 102 | 124 | 82 | 1 | 57 | 66 | 37 | 40 | 25 | 0% | 1% | 3% | 4% | 3% | 1% |
| Series A | 78 | 1,159 | 1,105 | 1,131 | 1,257 | 1,312 | 10 | 91 | 124 | 123 | 115 | 80 | 4% | 18% | 27% | 24% | 29% | 22% |
| Series B | 559 | 2,274 | 1,029 | 1,100 | 1,044 | 1,222 | 23 | 119 | 75 | 64 | 71 | 59 | 29% | 35% | 21% | 23% | 24% | 20% |
| Series C | 288 | 940 | 862 | 793 | 500 | 1,301 | 10 | 56 | 51 | 47 | 33 | 53 | 15% | 14% | 18% | 17% | 12% | 22% |
| Series D | 632 | 931 | 441 | 679 | 375 | 525 | 6 | 30 | 29 | 29 | 19 | 19 | 32% | 11% | 9% | 14% | 9% | 7% |
| Series E | 272 | 250 | 467 | 195 | 308 | 209 | 5 | 16 | 16 | 15 | 14 | 9 | 14% | 4% | 10% | 4% | 8% | 1% |
| Series F | - | 42 | 230 | 140 | 40 | 50 | - | 8 | 6 | 10 | 3 | 7 | - | 1% | 4% | 3% | 1% | 5% |
| Series G | - | 132 | 52 | 270 | 127 | - | - | 4 | 3 | 2 | 2 | - | - | 2% | 1% | 6% | 3% | 2% |
| Series H | - | 209 | - | - | - | - | - | 2 | - | - | - | - | - | 3% | - | - | - | 0% |
| Series I | - | 93 | - | - | - | | - | 1 | - | - | - | | - | 1% | - | - | - | - |
| Series Undisclosed | 93 | 605 | 314 | 292 | 461 | 1,101 | 8 | 65 | 54 | 70 | 61 | 103 | 5% | 10% | 8% | 6% | 11% | 18% |
| Annual Total WW | 1,929 | 6,577 | 4,893 | 4,715 | 4,253 | 5,866 | 66 | 411 | 396 | 421 | 369 | 358 | | | | | | |



The huge jump in series B financing last year probably reflects the presence of so-called crossover funds. These tend to be non-traditional venture investors, funds that have access to a much bigger pool of capital and which can carry much larger investment rounds; these are typically brought in before IPO to support the flotation and give public investors the confidence to join the party.

And, although cash is much more freely available now, venture firms are much more cognisant of refinancing risk these days, and are tending to support companies with larger and stronger syndicates and larger rounds.

However, it is also worth noting that over the past few years the correlation between the stage of investment and a company's readiness to float has been eroded. So while in the past companies would tend to be up to a series D or E before attempting an IPO, these are now happening much sooner.

This was seen last year with Juno and Spark Therapeutics, both of which launched IPOs after substantial series B rounds of $134m and $73m respectively. Earlier this year Adaptimmune signalled its intention to float and it has only raised an A round to date; this was a substantial $104m round, and another pre-float private financing cannot be ruled out.

While these factors are influencing the later rounds, another observation to emerge from this analysis is the dip in seed capital last year. Many start-ups continue to struggle to raise funds, particularly in less trendy therapy areas, a fact of life exacerbated by the pull of VCs towards companies with an eye on the market, and a nearer-term exit opportunity.

It seems that this end of the drug development spectrum is not feeling the benefits of the sector's new-found wealth, a problem that should not be shrugged off lightly. It can only be hoped that, once venture firms have made some healthy profits at the late stages, they start turning more of their attention to company formation.

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