

Biotech venture funding falls from 2015 peak



[Madeleine Armstrong](#)

Last year saw a record-breaking venture capital haul for private biotech companies, but this feat looks unlikely to be repeated in 2016. If current levels of investment continue there should be around 278 venture financing deals raising a total of \$7.2bn this year, well below 2015's numbers (see tables below).

While the dollar sum raised in the first half of 2016 is respectable compared with previous years, the number of deals has fallen sharply, with the drop-off in the second quarter particularly stark. It seems that the trend towards fewer, bigger transactions is becoming even more pronounced, spelling bad news for most start-ups.

It is also concerning to see the second-quarter decline in both the number of rounds and the total raised, as this has been a strong quarter in previous years.

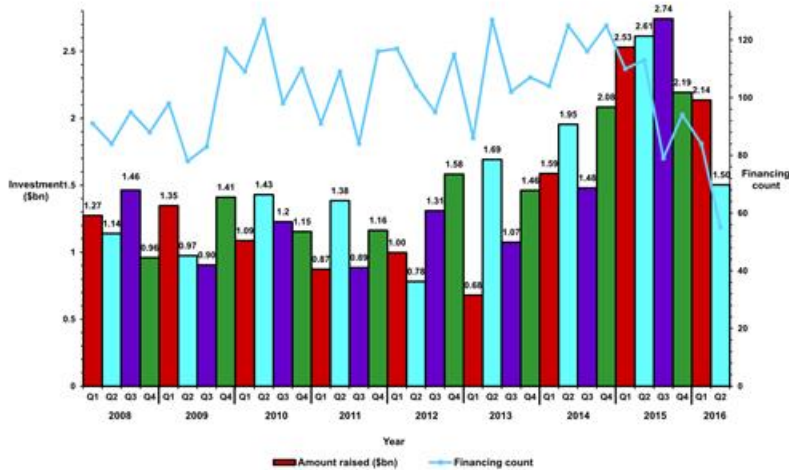
Annual VC investments					
Date	Investment (\$bn)	Financing count	Avg per financing (\$m)	No. of rounds ≥\$50m	No. of rounds ≥\$100m
H1 2016	3.6	139	27.4	22	2
2015	10.1	396	25.6	55	13
2014	7.1	470	16.4	35	4
2013	5.0	422	13.2	12	3
2012	4.8	431	12.1	16	2
2011	4.3	400	12.1	11	3
2010	5.0	451	12.2	13	3
2009	4.9	385	14.1	16	2
2008	4.9	362	15.4	14	1

And things could get worse if the turbulent economic and political situation makes investors wary of ploughing more money into biotech companies, a risky bet even before taking into account the market volatility caused by recent events including the UK's vote to leave the EU.

Moreover, public markets have had more downs than ups in the past year as biopharma companies grapple with souring sentiment over pricing practices, among other things ([2016 share gainers signal flight to safety, July 5, 2016](#)).

All of this has resulted in a sickly IPO market – and, with this exit route now shut off for many, venture capitalists are even less likely to take a chance on an unproven player.

Quarterly VC investments



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The shift towards more cash, but only for the select few, has been going on for some time, though – certainly longer than the market downturn, having been evident in the past couple of years. The situation is similar, although even more severe, in medtech.

Even so, the first half of 2016 did not see the huge rounds that dominated 2015, headed by Moderna’s mammoth \$450m series D ([Biotechs raise record venture capital haul in 2015, January 18, 2016](#)).

The biggest fundraisers last quarter were DalCor Pharmaceuticals, which is developing treatments for cardiovascular disease, and the recently formed Hengrui Therapeutics, an oncology-focused US spin-out of China’s Jiangsu Hengrui Medicine Co.

Top 10 rounds of Q2 2016

Company	Investment (\$m)	Round	Date
DalCor Pharmaceuticals	100.0	Series B	Apr
Hengrui Therapeutics	100.0	Undisclosed	Jun
Kala Pharmaceuticals	68.0	Series C	Apr
Aptinyx	65.0	Series A	May
F2G	60.0	Undisclosed	Jun
Vedanta Biosciences	50.0	Undisclosed	Jun
Hua Medicine	50.0	Series C	Apr
Entasis Therapeutics	50.0	Series B	Apr
FLX Bio	50.0	Series B	Apr
Alpine Immune Sciences	48.0	Series A	Jun
G1 Therapeutics	47.0	Series C	May

Notwithstanding these two rounds, most of the first half’s biggest deals came in the first quarter, including three of the top five. But none of the first-quarter rounds, and only two of those in Q2, reached \$100m – a big change from 2015, when 13 deals met or exceeded this threshold.

The surge in mega-rounds last year might be explained by the interest from crossover funds, which have perhaps become more wary this year as the appetite for biopharma IPOs slowed.

Indeed, three of the 13 companies in 2015’s \$100m club – Nabriva Therapeutics, Editas Medicine and Mereo Biopharma – have since floated, while crossover funds Wellington and RA Capital were involved in Moderna’s round. Even so, Moderna has said it is not interested in going public.

Meanwhile, two of the groups - Acerta Pharma and StemCentRx - have now been acquired, meaning that braving the public markets is no longer necessary.

In contrast, Kala is the only one in the 2016 first half's top 10 to pique the interest of crossover funds, with investment from Wellington and RA Capital.

Top 10 rounds of H1 2016			
Company	Investment (\$m)	Round	Date
DalCor Pharmaceuticals	100.0	Series B	Apr
Hengrui Therapeutics	100.0	Undisclosed	Jun
Mission Therapeutics	86.4	Undisclosed	Feb
Forty Seven	75.0	Series A	Feb
C4 Therapeutics	73.0	Series A	Jan
Kala Pharmaceuticals	68.0	Series C	Apr
NextCure	67.0	Series A	Jan
Aptinyx	65.0	Series A	May
Millendo Therapeutics	62.0	Series B	Jan
Zymeworks	61.5	Series A	Jan

Across the board, life for smaller biopharma players is set to get tougher: as well as the stagnating IPO market, M&A is also seeing a preponderance of fewer, bigger deals, leaving the other major exit route in doubt for many.

The knock-on effect could be even scarcer venture cash for all but a handful of lucky ones. It looks like the gap between the haves and have-nots in biotech is set to become wider, at least for the foreseeable future.

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