Evaluate Vantage

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Biotech venture funding shrinks as post-boom shape emerges

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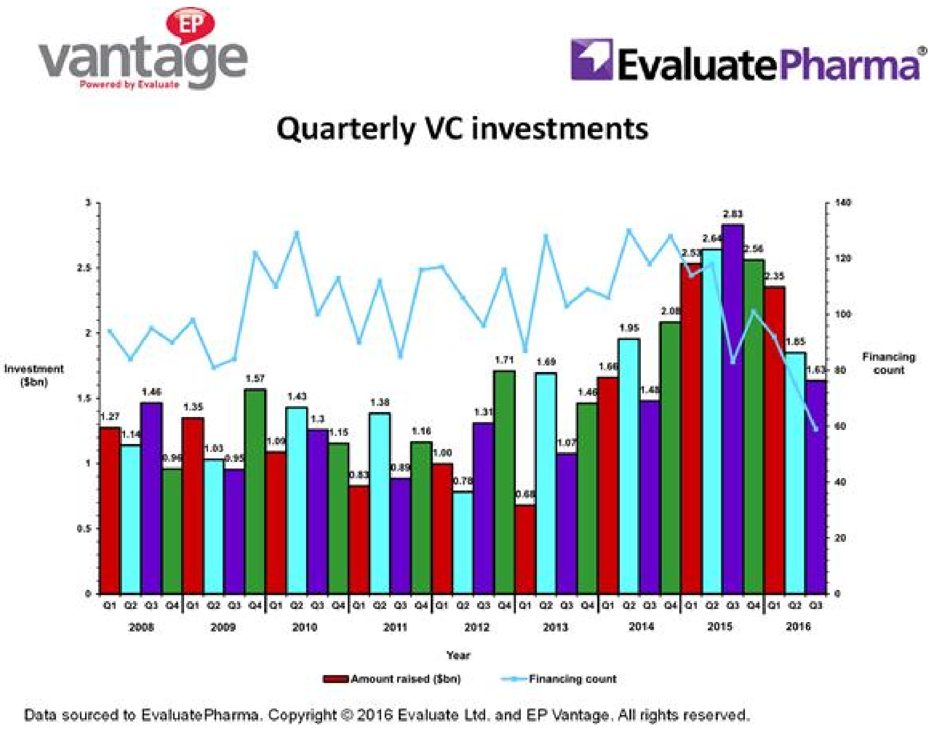
Biotech venture investments registered a fourth consecutive quarterly decline in the third quarter, and a third consecutive dip in the number of financings, an analysis of global data from *EvaluatePharma* finds.

These seemingly worrying trends are far from the complete picture, however. The $1.63bn raised is the second-largest third-quarter of the past 10 years – behind the record-breaking 2015 – and venture firms continue to amass substantial new funds. The sector is settling into its post-boom life, and big rounds are keeping the totals afloat (see tables below).



Despite a downward trajectory to the topline measures displayed above, it should be remembered that this is a sector that remains well capitalised. The data in this analysis include only companies developing human therapeutics – diagnostics and medtech are excluded, for example – and relate to all regions where information is readily available.

Venture firms made the most of the boom by raising new funds where they could, and many are still actively investing. Only yesterday Sofinnova raised its biggest biotech-only fund to date, closing it at $650m, $100m more than it was initially targeting.

There are worrying signals for start-ups and their investors, of course, including less buoyant stock market conditions and mounting nervousness as the US presidential election approaches. Overall, however, few could argue that this is struggling sector, even if it is finding its new shape as the biotech boom fizzles out.

This shape seems to show an intensifying trend towards fewer but larger rounds. As the table below shows, there have already been more $100m+ rounds so far this year than in the whole of 2014, and almost as many $50m+ rounds. Clearly 2015 is an outlier, on many measures, so the huge totals reached last year cannot really be considered a fair comparison on an ongoing basis.

What is interesting, however, is that the average raised per round this year is on a par with 2015. This is solely down to the substantial drop in the number of financings being arranged.

Annual biotech venture capital investments					
Date	Investment ($bn)	Financing count	Avg per financing ($m)	No. of rounds ≥$50m	No. of rounds ≥$100m
9mth 2016	5.6	226	24.9	32	6
2015	10.2	416	24.6	56	13
2014	7.2	482	14.9	35	4
2013	5.0	427	11.7	12	3
2012	4.8	435	11.0	16	2
2011	4.3	403	10.7	11	3
2010	5.0	452	11.0	13	3
2009	4.9	385	12.7	16	2
2008	4.9	363	13.4	14	1

This year has seen two huge rounds in the Moderna and Intarcia fund-raisings, of $415m and $215m respectively. And Denali's $130m haul is more impressive considering that it raised $217m only last year in a series A, and that it is working in the CNS field (*Denali lets Rip with biggest funding round, August 26, 2016*)

Moderna's fundraising ranks as the biggest ever venture round, and could grow even larger with future closings.

Over the past few years many of these larger rounds were essentially pre-IPO raises, with the entry of crossover funds playing a big role in swelling the pot last year. However, with the markets less receptive to new issues, these types of investors have largely exited this sector.

Speculation abounds about whether Moderna and Intarcia will ever float – neither has issued firm intentions to do so – but if positive clinical data emerge for the former, and the latter achieves commercial success, the prospect will surely grow.

Either way, the absence of crossover funds should have meant the average amount raised per round dropped this year. That this has not happened demonstrates how rounds are generally getting bigger, even when a start-up is not heading directly for flotation.

These days venture firms clearly prefer to be investing within a large, strong syndicate, and to provide a new company with access to sufficient capital to reach proof of concept or some other pre-determined milestone. The advantages to this, from the investor's perspective, are clear.

However, this presumably means that there is an ever-growing rump of early-stage or too-high risk propositions failing to get financed. If capital is being invested more wisely – the duds simply never seeing light of day – this trend should not carry long-term implications for the innovative health of the sector. Unfortunately, this theory is probably far too optimistic.

Top five rounds of Q3 2016			
Company	Investment ($m)	Round	Date
Moderna Therapeutics	451.0	Series undisclosed	Aug
Intarcia Therapeutics	215.0	Series I	Sep
Denali Therapeutics	130.0	Series B	Aug
Oncorus	57.0	Series A	Jul
MicuRx Pharmaceuticals	55.0	Series C	Sep

Top five rounds of 9mth 2016			
Company	**Investment ($m)**	**Round**	**Date**
Moderna Therapeutics	451.0	Series undisclosed	Aug
Intarcia Therapeutics	215.0	Series I	Sep
Denali Therapeutics	130.0	Series B	Aug
Zai Lab	100.0	Series B	Jan
DalCor Pharmaceuticals	100.0	Series B	Apr

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