

Venture capital

Theme 1:

Life sciences venture capital funding picture

Theme 2:

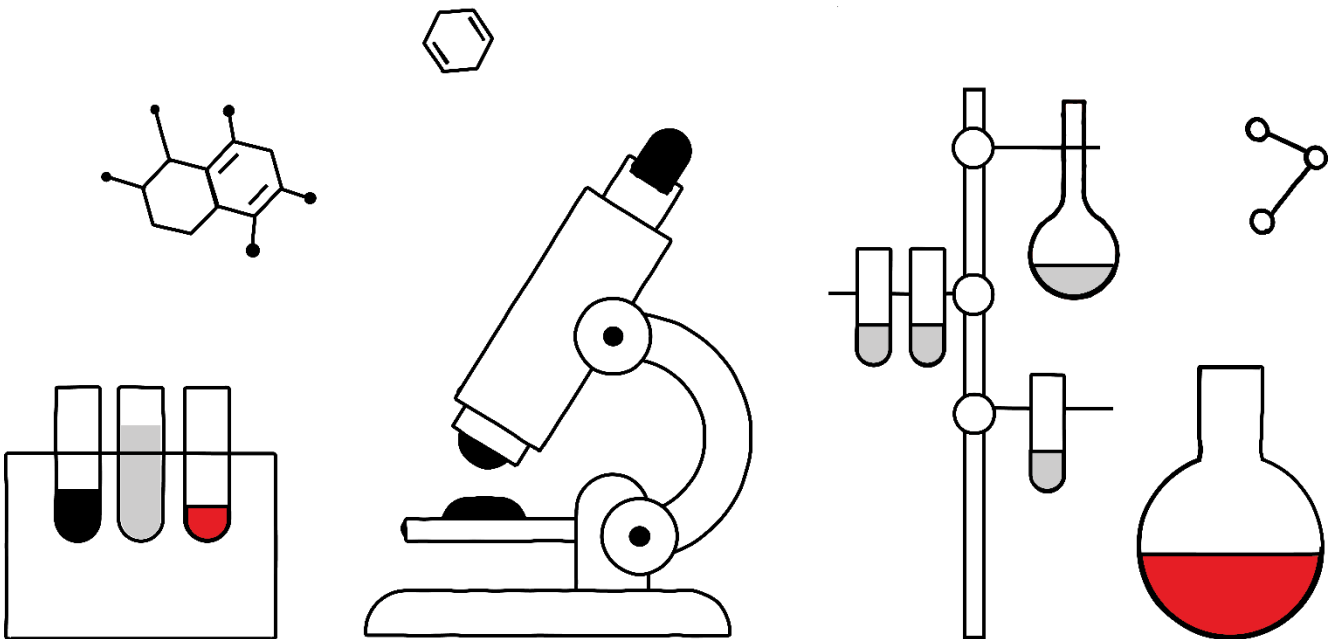
The growing role of big pharma

Theme 3:

Regional variations

Panel discussion

Key themes from our conference's venture capital panel



UBS Asset Management inaugural life sciences conference

In June 2023, UBS Asset Management hosted an inaugural life sciences conference to discuss the latest trends and challenges affecting the life sciences industry. One of the panels focused on venture capital (VC) and these are some of the key themes that emerged.

Theme 1:

Life sciences venture capital funding picture

On the face of it, venture capital (VC) fundraising for European and US life sciences companies tells a challenged story – VC funding fell by 25% in 2022¹ whilst 1Q23 was the weakest quarter in three years. However, the panel participants agreed that the funding levels in 2021 had characteristics of a bubble, in which the appetite for high-risk assets during a period of ultra-low interest rates were exacerbated by the focus on life sciences companies, driven by the pandemic. The pressure was intense and deals were rushed through.

Alex Mayweg of Versant Ventures described the funding rounds as like *“this train is leaving the station. Are you on or off... which wasn't healthy.”* Now funders are able to take more time to conduct due diligence and fully assess the science over several weeks. This is a far better equilibrium for the market to be operating in.

The first six months of 2023 has been described as a period of browsing as the market has eased back, but ultimately VC funds are still sitting on dry powder which needs to be spent.

As **Tim Funnell** of Monograph Capital put it *“there's a lot of money still in VC funds... and they charge fees from their LPs to invest money, so we are going to see that money start to be deployed.”*

Despite the slow start to the year, he thinks overall funding levels will pick-up and match or even exceed the volumes from 2022.

The panel also noted a significant polarization between portfolio companies. Those with good quality data are still finding funding, but others are falling aside – one panellist commented that *“if you were the 5th best Oncology treatment in 2021 you were still getting funding, today you're not.”* **Klaus Breiner** of Pureos Bioventures added that the days of investors going big on US series A rounds for companies targeting the *“next big technology where nobody knows if it will ever work”* are over. VC funds now want to invest in companies which have a clear line of sight to the clinic and implementation of their technology, rather than just big ideas. And they're still seeing meaningful raises for these types of companies.

There has also been a shift in preferences in the type of treatments which are getting support. Oncology, while still a fundamental sector of biotech, has found funding rounds harder to come by, whereas treatments in novel areas such as obesity and psychology, have seen a resurgence. VC funds are also increasingly looking to de-risk current and future financing rounds by syndicating deals with other investors.

¹ Pitchbook, June 2023

Theme 2:

The growing role of big pharma

As VC fundraising has fallen from peak levels, the panellists all recognized that there had been an uptick in M&A activity from big pharmaceutical companies, who have a reported USD 1.4 trillion of firepower. Biotech companies now represent two thirds of molecules in the industry's R&D pipeline, up from a third two decades ago. By contrast big pharma companies account for 23% of pipeline activity, down from 48% over the same period², as their blockbuster treatments head towards patent expiration.

Alex Mayweg noted

“pharma is more reliant on biotech today... 10 years ago they weren't. It's now a major source of their innovation.”

The alignment of interest has improved, with start-ups making early rounds with big pharmaceutical companies to seed ideas and get an early lead from business development teams on areas that require new treatments. The easing of deployment velocity from VC funding has also contributed to bringing big pharma back into the market. They have historically been much slower to get deals done than VC funds, so struggled to compete in the heat of the market in 2020/21.

However **Tim** did add that he felt they are still a bit hesitant, and to get funding moving forward quicker you really need “two in the race” for the round. Big pharmas are also operating their own corporate VC funds which are playing an increasing role in the market. Tim commented that they are “less valuation sensitive and more strategic, we're seeing more term sheets being led by corporate VCs because they have the confidence to go out with USD 10-20 million here and there. They just want the asset.”

Theme 3:

Regional variations

The panellists recognized that there had been a historic arbitrage in valuations between the US and Europe, which reached a peak in the US during the 2020/21 funding boom. In Europe, **Klaus** commented “we haven't seen that much uptick in European valuations, even during the hype years.” Now US valuations are coming down and “downrounds” have become more common, the arbitrage is less pronounced.

But **Tim** believes investors still see opportunities in Europe. Rather than being driven by relative value, it's off the back of the strength of the intellectual capital in the region:

“We're seeing that many of the US groups are looking over this way... the European universities and science base is still extremely strong.”

But as a less mature market, one of the challenges Europe faces is the smaller number of senior executives (compared to the US) with the experience of taking the science through to commercialization.

To illustrate this point, **Alex** used an analogy of someone wishing to climb a Swiss mountain, who would need an experienced Swiss mountaineering guide with them to point out the good views and the risks.

With fewer companies in Europe that have gone through this process, there aren't as many CEOs with the experience to guide you “up the mountain.” **Klaus** highlighted that within Europe there is a geographical variation – with the UK and Switzerland having more experienced executives, whilst less mature markets like Germany and Spain have far fewer home grown options.

But both Tim and Alex believe this can and will change over time. VCs with experience in growing small companies can educate home grown future executives, whilst in the age of Teams and Zoom, European-based executives can learn a lot from their counterparts in the US. And lastly, executives from European big pharmaceutical companies are increasingly willing to jump ship and takeover the reigns of VC backed companies.

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