A top VC at a $2 billion biotech fund reveals the 3 ways he finds new companies to invest in

Lydia Ramsey

Sofinnova General Partner Mike Powell Courtesy Sofinnova Investments

- **Sofinnova Investments General Partner Mike Powell is used to the risky business of placing bets on young biotech companies.**
- **Before Powell is willing to invest, he carefully evaluates the biggest risks facing each company.**
- **Business Insider spoke to Powell about how he makes his investments in biotech companies, from placing bets on drugs that big pharma companies are leaving behind to pulling from universities.**

The biotech industry is inherently risky, something Sofinnova Investments General Partner Mike Powell is well aware of.

"This business that we're in is super technical," Powell told Business Insider. Menlo Park, California-based Sofinnova has about $2 billion under management and invests in biotech companies. "There's a lot of different risks."

At its core, a drug in development can either succeed or fail when it's tested in humans.

That in itself is a big risk, but there are other factors that can either lead to a potential treatment's success or failure, from having a good team in place, to understanding what's required to get through the regulatory process, to making sure you set up the trial in the right way.

Each of those factors represents a separate risk, in Powell's view. Before he invests in a company, he wants to be sure that the company has most of those risks managed, though it's ok with him if one or two linger, because he figures he can help the company solve or manage its remaining risks, he said.

The push and pull of new biotechs

Powell's sole focus is on companies that make therapeutics, particularly those in the cancer, neurology, dermatology, and rare disease spaces. Powell has a long track record in drug development. Before joining Sofinnova in 1997, he worked on treatments at the biotech Genentech.

Powell said there are three main ways he finds new companies to bet on. Sometimes, he invests alongside other biotech VCs in transactions. Then, there are two other main ways new companies get created.

"There's both a push and a pull to deal flow," Powell said. The "push" refers to when pharmaceutical companies decide to offload some of the drugs they've been working on to prioritize other drug candidates.

"We take those programs that they don't want any more and we will sometimes beef them up and keep them going." Powell said. "Sometimes we'll change the strategic direction with new indications."

For example, in 2013, Pfizer was looking to shed an experimental preventive migraine treatment called fremanezumab. Instead of leaving it on the shelf, Powell and other investors like Canaan Partners spun it into a company called Labrys Biologics in 2012.

Labrys in 2014 got acquired by Teva Pharmaceuticals for up to $825 million. It's now one of a handful of approved preventive therapies for migraines.

Deals like the Labrys one make up roughly 20-40% of the deals Powell does, he said. Another third comes from the "pull" of checking out what universities are working on. The rest of his investments come from investing alongside other venture firms in biotech companies.