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Venture Mega-Rounds Return to Biotech

The number of deals for $100 million or more have put biotech on pace to come close to full-year 2021's record total, industry data show

By Brian Gormley

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The Charles River near the campus of Harvard University in Cambridge, Mass., where many biotech companies are based. Photo: Charles Krupa/Associated Press

Venture mega-rounds are on the rise in biotechnology as the outlook for the industry brightens.

Sixty-eight U.S. and European biotech startups raised venture financings of $100 million or more this year through Aug. 31, putting this year on track to at least approach the 106 mega-rounds closed in 2021, the highest number on record, according to Silicon Valley Bank.

Venture capitalists are increasingly confident that biotech is stabilizing after two years in which valuations reset lower from their 2021 highs. Mega-rounds also reflect a flight to quality, as investors crowd around what they view as the strongest companies, some observers said.

“We’re seeing investors really focus on quality over quantity,” said Jackie Spencer, head of U.S. relationship management, life science and healthcare for SVB.

Mega-rounds are becoming common, even though fewer deals are getting done and less venture capital is going into biotech. Venture investors put $15.3 billion into 351 biotech financings in this year’s first half, compared with $36.6 billion through 845 rounds in all of 2021, according to SVB.

Giant financings help startups propel medicines through clinical trials and buffer them against setbacks. And they reduce one of the biggest risks in biotech: that a company will run out of cash before its drug shows potential.

To be sure, mega-rounds can lead to trouble if a startup blows through its newfound capital. Investors will often push for financings to be meted out in tranches to protect themselves in just such cases.

Reunion Neuroscience, a Morristown, N.J.-based company targeting psychedelic drugs for mental-health disorders, recently raised a $103 million Series A round in three tranches, with roughly a third coming up front, about a third awarded for reaching milestones in its mid-stage, or Phase 2, clinical trial, and the rest if the trial yields positive results, Chief Executive Greg Mayes said.

“It’s a way to pay for performance and requires that the companies remain disciplined,” Mayes added.

Mega-deals this year also differ from those closed in 2021 in that they come together more slowly. Back then, it might take only weeks; these days, the pace is more measured. Because competition for deals has eased, investors have more time to evaluate startups and are finding several with compelling data and reasonable valuations, observers said.

“Investors are discriminating more today,” said Stephanie Sirota, partner and chief business officer of life-sciences investor RTW Investments. “The diligence that is happening today feels like it is more rigorous.”

The highest-quality science, entrepreneurs and investors in biotech increasingly are clustering together, which should improve venture-capital returns, some said.

“If there is a migration to quality, I think it de-risks the industry,” said Dr. Jim Healy, managing partner of biotech investor Sofinnova Investments. “As an asset class, we should see better performance.”

The use of artificial intelligence to speed drug development has also stirred interest within biotech, but investors are searching for the technology platforms that yield drug candidates quickly.

Boston-based Superluminal Medicines, which applies machine-learning, chemistry and other capabilities to drug discovery, raised an $120 million Series A round of financing earlier this month after collecting $33 million in seed funding last year.

The company, which develops oral treatments for metabolic diseases and other conditions, used its seed financing and technology to create six drug programs. That helped catalyze this latest round, an infusion that will enable the company to put its first drug into clinical trials and advance other compounds, CEO Cony D'Cruz said.

When raising funds, biotechs typically aim to secure enough capital to gather clinical data and support themselves for a year or more after, which gives them time to assess their next move. Startups raising large sums need specific plans for deploying the capital and avoid veering off course, some investors said.

"Having access to more capital does not necessarily mean it needs to be spent on more things," said Dr. Aaron Royston, a managing partner with biotech investor venBio. "Focus is really important."

Startups raising mega-rounds at a high valuation also can face pressure to grow into it—and the prospect that their next financing will be done at a lower price if they don't succeed.

"It can be a killer if you take a high valuation and then the next round you have to do a down round. The whole psyche of your investors goes sour," said Cheryl Reicin, partner and international chair of life sciences for law firm Mintz Levin Cohn Ferris Glovsky and Popeo.

Still, mega-deals for high-quality biotechs are competitive and difficult to get into, said Geoffrey Smith, founder and managing partner of life-sciences investor Digitalis Ventures. Mega-rounds will continue because many large venture funds are looking to put capital to work and the cost of running clinical trials is rising, investors say.

A $100 million financing, for instance, might once have been enough for a large, late-stage clinical trial, but now a smaller, mid-stage study could cost that much, said Dr. Srini Akkaraju, founder and managing partner of biotech investor Samsara BioCapital.

"Part of it is the reality of the dollars these companies need," he added.