ENDPOINTS NEWS

Sofinnova's Maha Katabi on recent M&A and IPO success and how deal flow has 'never been any better'

by Kyle LaHucik on February 16th, 2024

Maha Katabi has had a great three months. The Sofinnova general partner has been in the boardroom of two recent M&A exits: radiopharmaceuticals maker RayzeBio, sold to Bristol Myers Squibb, and asthma startup Aiolos Bio, to GSK.

Katabi, who joined Sofinnova in 2019 after roles at Oxalis Capital and Sectoral Asset Management, is one of the leaders of the third-most active investor in private biotech financings last year, per a January report from investment bank William Blair. Sofinnova also recently led a $170 million Series D for BioAge to run mid-stage obesity trials.

Endpoints News spoke with Katabi about the funding landscape for drug developers, M&A appetite in the current financing environment and more.

The following interview has been edited for length and clarity.

Kyle LaHucik: Start with your general reflections on 2023.

Maha Katabi: A lot of private companies that were in the clinic that would have gone public in prior years were now willing to consider private financings — either to strengthen their syndicates so they'd be in a better position when public markets were ready again or simply a larger availability of clinical-stage assets. [Now,] valuations are a lot more rational. Clinical-stage is valued higher than preclinical, which wasn't the case in previous years.

LaHucik: You mentioned more companies forming around clinical-stage assets. Do you see this becoming mainstream?

Katabi: There's a lot more of that for a couple of reasons. [Pharma's] pipeline prioritization exercises are ongoing in addition to everything that's available from Chinese companies. We capitalized on that in building up Aiolos, but there are numerous other opportunities, whether it's in the inflammation space, metabolic, oncology. That, to us, has been a business model that we really like. We don't shy away from taking single-asset risk.

LaHucik: Talk more about what the RayzeBio experience was like, going from an IPO in the fall to an M&A exit just a few months later.

Katabi: If you look at how RayzeBio was set up, it was to build a pipeline of radiopharmaceutical assets that was focused on actinium as a radioisotope. The management team did a terrific job in not only just building the pipeline and having essentially a differentiated value proposition with a new radioisotope compared to lutetium, but also securing manufacturing and supply of actinium and being able to do that more effectively than their competitors.

This is not a modality that too many pharma companies are experienced in. You can count them on one hand. Having the footprint that RayzeBio had created a lot of potentially interested buyers and, in the filings that were shared, there were three bidders in the end.

LaHucik: In terms of other private biotechs that you work with like Star Therapeutics and Quanta Therapeutics, I'm wondering what the next steps are for companies like those and what the IPO appetite has been with six so far this year.

Katabi: The IPO pipeline seems to have quieted down a bit. Metagenomi being the outlier in terms of stage, every other company has been more de-risked with clinical data, so it's continuing that theme and the appetite that we saw from public market investors in 2023. For the rest of the year, it's the same advice that we continue to give our portfolio companies: Build solid clinical development plans to create opportunities along the way to de-risk and deliver proof-of-concept data and align our financing strategy with these key inflection points.

LaHucik: Is this year looking better for flat rounds or maybe even up rounds? And for the companies that are nearing IPOs, are they having to right-size their valuations before they go out?

Katabi: It all depends on where you started from. If a company happened to have raised at times [when] the markets were super exuberant, then yes, flat rounds, maybe potentially down rounds, are still a possibility. For companies that were nimble, capital-efficient, generated value with clinical milestones, there's more excitement about actually recognizing this value and paying up in certain cases.

LaHucik: In terms of the deal flow that you're looking at every year, has that level changed at all with where biotech has been the past two years, or has it stayed pretty consistent?

Katabi: The deal flow — it's never been any better. Probably that's a function of how public markets have corrected. A lot more companies are interested in exploring more fully the availability of capital in private markets before going down the IPO path.

LaHucik: What are some other areas that you're excited about currently?

Katabi: We're continuing to look in the immunology/autoimmune space. We just had the ArriVent IPO from our group, and so targeted oncology remains high on our list. We also funded OnCusp in the targeted oncology space recently. Probably more to come. CNS is a big theme. We had the Karuna exit. We currently have a few targeted neurodegeneration companies in our portfolio, and we will likely be doing more. Ophthalmology has been a good area for us, as well, and there are quite a few innovations not just in gene therapy but in other modalities.

LaHucik: When you invest in multiple startups in a similar therapeutic area, what are some of the key differences you look for?

Katabi: Going back to the Aiolos story, what was differentiated about that story was, yes, the mechanism of action was de-risked because of Tezspire from Amgen, but having a best-in-class asset with once every six months [dosing], potentially longer, and the ability to impact multiple indications, was a key factor. Would I invest in another TSLP company? We would want to take it to the next level. That's one mechanism of action. How well does it combine with other mechanisms of action in the inflammation space?

LaHucik: In terms of M&A, talk more about what you're seeing from Big Pharmas. Do you think there could be more Phase II or earlier deals this year?

Katabi: The transactions that we have seen over the last 12 months skew later-stage. We might see more of a mix. I wouldn't say 50/50 by any stretch, but certainly a few companies will take the opportunity to look at earlier-stage.

LaHucik: We've seen a few new fund formations. Do you think there will be more funds this year?

Katabi: That's hard to tell. M&A generates liquidity. It's great news for everybody that we're in a cycle where liquidity is back and this is what in general entices LPs to come back in. At a higher level, asset allocators have been and are thinking through how to manage their portfolios in a high interest rate environment and as that potentially resets over the next 12 months will potentially be more interested in the illiquid asset class.

LaHucik: Are there any other themes or trends that you're seeing?

Katabi: It'll be interesting to see what an election year brings to the industry. Everybody is expecting that the second half of the year will potentially be more volatile, but we'll see if that transpires.

Read this article on the website