BioWorld™

Venture financing: Less Zoom but still plenty of capital in correcting market

By Jennifer Boggs

December 1, 2022

When the COVID-19 pandemic effectively shut down travel and conferences starting in the first part of 2020, the general lament was that the lack of face-to-face interaction would hamper biopharma companies' ability to secure deals and investments. Instead, the opposite happened. Now, coming off two years of record-breaking financing, the biopharma sector is facing an inevitable correction, though a handful of venture capital (VC) panelists suggested there's room for optimism.

For one, there is still a "tremendous amount of capital in the system," said Nina Kjellson, general partner at Canaan, during a Nov. 30 virtual salon hosted by Demy-Colton. Acknowledging that the $36 billion raised by venture funds for health care in 2021 might make the $15 billion raised in the first half of 2022 seem a little paltry by comparison, it still offers a "tremendous amount of dry powder," she said.

The drop in available capital might also bring down overly inflated valuations and prompt biopharma firms to be more precise in their planning or, as Kjellson put it, lead to "a time of returning to fundamentals," such as outlining a clear strategy and focus rather than just touting the potential of an expansive platform or burgeoning pipeline.

The size of venture investments might also change in the current market, predicted Marian Nakada, vice president of venture investments at Johnson & Johnson Innovation. "I think they are rightsizing back," she said.

One aspect of venture investing all panelists agreed on was a slowing of the pace. Accelerated by both the availability of capital and the quick convenience of Zoom meetings, financings deals rocketed during the past two years.

From the beginning of 2022, Maha Katabi, general partner at Sofinnova, said there has been a roughly 30% to 40% drop in the volume of venture transactions, largely because rounds are taking longer to pull together. Companies need to start planning earlier, figuring out how to time the round with the next inflection point such as a clinical dataset or preclinical derisking event, “an element of the story that would make or create significant momentum,” she said. “We don’t see any companies coming to us anymore saying they have a term sheet and are closing in two weeks.”

But this isn’t a new routine for industry. This was the way of raising venture funding only a few years ago, back in 2019. “It used to be a good six months to put a good round together,” Katabi reminded the audience. Companies simply have to get used to that time frame again. “Take your time. Go out with a clear message … and clear inflection point.”

Overall, Katabi views the current market as a “much better time for investors” to look at new opportunities and technologies. “It’s a much more rational environment than the one that has predominated over the last couple of years.”

Canaan’s Kjellson pointed to another cause of slowing investment timelines: the lack of FOMO, or fear of missing out. The flurry of 2020 and 2021 IPO activity was a boon to investors, who couldn’t get into deals fast enough. Now, however, “every IPO from 2019 to the present is down an average of 50% and the IPO [window] is all but closed.” On top of that, investors are “incrementally reserving” capital for their existing portfolios. So even though “a huge amount of venture capital is in the system … that FOMO, that urgency to get [a deal] done in two weeks or two months is done.”

In terms of other advice for companies seeking venture funding, little has changed, as panelists said they looked for experienced teams – if a first-time CEO, then a veteran advisory group – clearly laid out strategies and support of key opinion leaders.

It’s also worth revisiting VCs that might previously have declined to invest, especially if the reason involved “addressable issues” such as tweaks in the development program or adding executive expertise, said Katabi. VCs put in a significant investment in time to conduct due diligence, so it’s worth engaging in subsequent conversations. “When we spend time with companies, we really have a vested interest.”

One tactic that panelists agreed doesn’t work? Cold pitches.

“Entrepreneurs really do have to be resourceful,” said Katabi. “But don’t ever think a cold outreach makes sense.”