



HEALTHCARE

## **The Funding Landscape for Small Biopharma Ventures, 2010-2015**

Trends, strategies and priorities

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# Table of Contents

## The funding landscape for small biopharma ventures, 2010-2015

<b>Executive Summary</b>	<b>10</b>	
Macroeconomic trends and implications	10	
Accelerating biopharma collaboration	11	
Valuing investment opportunities in small biopharma	12	
Priorities and preferences of private investors	13	
Top-line trends in venture financing	14	
Investment choices of most active firms in 2009	14	
<b>Chapter 1</b>	<b>Macroeconomic trends and implications</b>	<b>18</b>
Summary		18
Introduction		19
Recent events		19
Supply side factors- higher cost of capital		20
Demand side factors- Decreased earnings potential		21
Provider-level constraints		23
Patient-level implications		25
Short and long term implications		26
Non-dilutive funding in an era of excessive dilution		29
Research grants and government contracts		30
Incentives of non-profit foundations		31
Government incentives and associated initiatives		33
Issues surrounding NDF from non-profit agencies		34



Venture investors versus buyout investors	75
<b>Process of getting new investment</b>	<b>77</b>
Term sheets	78
Type of security	79
Board representation	80
Valuation	82
Capital expenditure	83
Single versus multiple investors	84
<b>Investor priorities in the new landscape</b>	<b>85</b>
Market attractiveness and product-market-focus	86
The organization	87
Financials	87
Business plan	88
Assessment of risks	88
Intellectual property protection	89

## **Chapter 5                      Top-line trends in venture financing                      92**

<b>Summary</b>	<b>92</b>
<b>How to use this chapter</b>	<b>93</b>
<b>Definition of key terms</b>	<b>94</b>
Venture financing	94
Seed	94
Start-up	94
Early stage	95
Growth/expansion capital	95
Later stage	95
Mezzanine	96
Bridge loan	96
Private placement	96
Other	96
<b>Countries attracting the most venture financing</b>	<b>97</b>
Recent trends	98
Conclusions	99
<b>Distribution of venture financing rounds by investment stage</b>	<b>100</b>
Recent trends	101
<b>Further analysis of financing rounds by stage</b>	<b>103</b>
<b>Conclusions</b>	<b>105</b>

## Chapter 6 Investment choices of most active firms in 2009 108

<b>Summary</b>	<b>108</b>
<b>Most active venture capital investors in 2009</b>	<b>109</b>
Analysis of investment preferences	110
Therapeutic areas of focus	110
Investment destinations by geography	113
Stage of investments	114
<b>Two types of venture investors</b>	<b>115</b>
<b>Corporate Venture Capital (CVC) funds</b>	<b>116</b>
Emerging role of CVC in Life Sciences	116
Strategic motivations	117
Novartis Venture Fund	119
Novo A/S, Denmark	121
<b>Independent venture capital funds</b>	<b>125</b>
SV Life Sciences	125
Investment focus in 2009	125
Texas Coalition for Capital	127

## Chapter 7 Appendix 129

<b>Research methodology</b>	<b>129</b>
<b>Index</b>	<b>132</b>

## List of Figures

Figure 1.1:	Components of government healthcare expenditure in US, 2008	22
Figure 1.2:	Market share of generic medicines in Europe, 2007 (by volume)	24
Figure 1.3:	IPOs have recently reappeared at a low level	28
Figure 1.4:	Grant-making focus of Bill & Melinda Gates Foundation	32
Figure 2.5:	How biotech entrepreneurs hope to deal with the financial crisis	39
Figure 2.6:	Reliance of big pharma on R&D externalization	41
Figure 2.7:	Trends in biotech-pharma deals by development stage	42
Figure 2.8:	Overview of partnering issues	44
Figure 2.9:	Option agreements by top 20 pharma companies ( $\leq$ Phase I)	46
Figure 2.10:	Reliance on the option model varies by company	47
Figure 2.11:	Deal structures and responsibilities	48
Figure 3.12:	Primary valuation methodology by investor type, 2009	59
Figure 3.13:	Assessing the net earnings potential of a medical intervention	60
Figure 3.14:	Assessing revenue potential	61
Figure 3.15:	Pricing and positioning	63

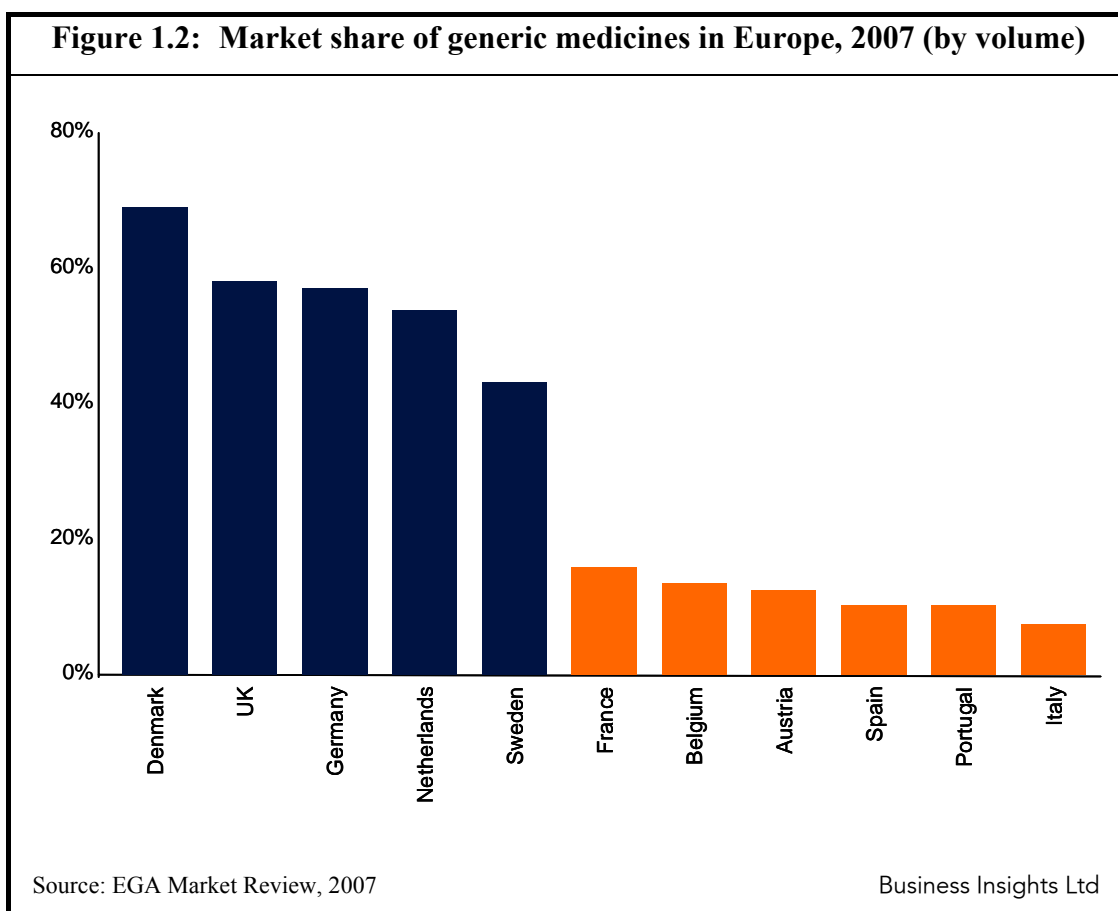
Figure 3.16:	Impact of incoming therapies on payor budgets	64
Figure 3.17:	Development and commercialization costs	65
Figure 4.18:	Company growth stages and funding sources	71
Figure 4.19:	The deal “funnel” at a typical VC firm	77
Figure 4.20:	Sequence of documents	78
Figure 4.21:	Board size: advantages and limitations	81
Figure 5.22:	Geographic distribution of venture financing rounds	97
Figure 5.23:	Trends in geographic distribution of venture financing rounds	98
Figure 5.24:	US investments by region, 2008-2009	99
Figure 5.25:	Total number of financing rounds by stage, 2004-2010	100
Figure 5.26:	Distribution of financing rounds by stage, 2004-2010	101
Figure 5.27:	Trends in financing rounds by stage, 2004-2019	102
Figure 5.28:	Early-stage funding by type, 2004-2010	103
Figure 5.29:	Mid-stage funding by type, 2004-2010	104
Figure 5.30:	Late-stage funding by type, 2004-2010	105
Figure 6.31:	Preferences of top 15 venture finance investors, 2009	111
Figure 6.32:	Preferences of top 15 venture finance investors, 2009	113
Figure 6.33:	Number of deals by investment stage, 2009	114
Figure 6.34:	R&D performance scorecard	118
Figure 6.35:	Novartis Venture Fund investments in 2009	120
Figure 6.36:	Novo A/S ownership structure	122
Figure 6.37:	Novo A/S investments, 2000-2008	123
Figure 6.38:	Novo A/S investments in 2009	124
Figure 6.39:	SV Life Sciences investments in 2009	126
Figure 6.40:	Texas Coalition for Capital investments in 2009	128

## List of Tables

Table 1.1:	Non-dilutive sources of funding	30
Table 2.2:	Established and evolving deal structures	43
Table 2.3:	Incentives in a strategic licensing arrangement	50
Table 3.4:	Overview of valuation methods	56
Table 4.5:	Stages of equity investing	70
Table 6.6:	Most active venture investors in 2009	109
Table 6.7:	R&D focus of top 15 venture investors, 2009	110

current/ future context. There will definitely be greater use of recommendations by bodies such as NICE (National Institute of Health and Clinical Excellence) in the UK, and these recommendations will be carefully studied by payors in other countries as well; leading to more restrictive reimbursement policies for new products.

- **Increased generic usage.** In many of the key markets for biopharmaceuticals, usage of generic drugs is still low. Figure 1.2 below shows how nearly half the markets in Europe still use less than 20% generics in terms of volume of drugs consumed. Other markets have put in place specific policies to encourage generic usage. To reduce healthcare spending, regulators in these countries are expected to replicate tried and tested means of increasing generic usage, such as prescription guidelines, electronic prescribing systems, drug-substitution at the pharmacist level, and incentives/ disincentives for pharmacists and physicians.



## **Venture capital funds**

A venture capital fund invests in early stage companies in need of capital for growth. The companies they invest in usually do not have stable cash inflows and the investment is made on the premise that such inflows will occur in future. VC funds usually structure their investments as preferred stocks, although this is not always the case. They will usually take a minority, non-controlling stake in the company and may often syndicate the risk of the investment among a number of firms.

There are two key criteria that differentiate venture capital from more conventional sources of capital. A VC investment typically:

- ❑ Involves minority equity or quasi-equity participation (owning common shares outright, or having the right to convert other financial instruments into common shares) in a private company;
- ❑ Is expected to be a long-term investment (generally from three to eight years); and requires active involvement by investors in the companies which they finance until they are sufficiently developed for disposition.

It is important to recognize that venture capital represents an active rather than a passive form of financing. All VCs strive to add value, beyond capital, to their investments in an effort to help them grow and to achieve a superior return. Doing this requires active involvement and almost all VCs will, at a minimum, want a seat on the board of directors. It is also important to recognize that although a VC fund invests for the long haul, it does not imply forever. The primary objective of VC investors is to achieve a superior rate of return through the eventual and timely disposition of investments. A good VC will be considering potential exit strategies from the time the investment is first considered.

## **Mezzanine investors**

A mezzanine investor provides later stage investment to companies that already have incoming cash flows via sales of a product or service. Such an investment is invariably

## How to use this chapter

This chapter analyses 7347 venture financing rounds that have taken place over the past five years (January 2004 to April 2010). The details were taken from the MedTRACK Venture Finance database. MedTRACK is a product of Life Science Analytics, a US-based biomedical data company that provides comprehensive pipeline, financial and venture information.

MedTRACK is the most comprehensive database of private and public biomedical companies. It contains financial, pipeline, competitive product, mechanism-of-action, sales, partnering, and patent information on 19,008 biomedical companies worldwide. The information can be sorted by parameters such as disease, competitive products, or clinical trial stage. Search functions reach into SEC filings, websites, business and product descriptions, journals, meeting abstracts, news, and announcements. MedTRACK makes it easy to find the data you need. Users can drill down on company fundamentals to establish an opinion, find partnering opportunities, or respond with educated agility to market news. The database contains 19,008 companies, 93,681 drugs, 48,493 deals, 12,863 venture transactions, 1,253 drug delivery technologies, 653 indications, 516,545 news pieces, 123,582 management contacts, 57 countries, 636,931 SEC filings and more. The Venture Finance Database, which has been used in this chapter, provides comprehensive coverage of over 11,000 Venture rounds and other details for more than 2,000 biomedical companies covered in MedTRACK. The MedTRACK Venture Finance Database is the industry leader for breadth and depth of Venture Finance coverage.