

Finance/Funding



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▼ VC war chests for biotech startups continue to grow

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Young biotech firms have ample opportunity to raise cash, but they need to appear more robust in order to compete with existing companies that are vying for the same funds.

On May 31, Schroder Ventures (London, UK) closed a new \$402 million fund that adds to the pile of capital that is currently available to support biotech companies. Investors are generally hesitant to spend money in the current economic climate—and much of what they do spend goes to existing portfolio companies—but startups can still expect to tap these cash reserves if they have the right stuff.

Since the biotech bubble burst in March 2000, 20 or more life science venture funds, each worth over \$300 million, have been created (see [Table 1](#)), generating the most private capital available for biotechs since before the bubble began in 1998. Many of these funds will allocate a significant portion of the money to seed and early-stage biotech companies, which will need to take notice of investor demands in order to attract the money.

For example, Addex Pharmaceuticals SA (Geneva, Switzerland) had to satisfy a number of demands from Sofinnova Partners (Paris, France) and Index Ventures (Geneva, Switzerland), the co-leads on Addex's €10 (\$11.8) million Series A round of financing in 2002. The investors wanted the company to in-license a compound and make changes in the management and boardroom, all of which Addex did in order to get the cash. Startups should anticipate the need to perform such moves in order to outcompete their older, larger biotech brethren for funds.

The poor economy can be partly to blame for the raised bar that a startup must reach to obtain venture capital (VC) funding. "We have been looking at a publicly quoted company that has a market capitalization of \$13 million, has \$8 million in the bank, and two clinical candidates that are close to going into Phase 2 trials," says Kate Bingham, a general partner at Schroder's. Startups simply cannot compete with such robust publicly traded companies that can be bought at current low valuations.

Also, the absence of investment exits, such as initial public offerings, has forced many VCs to continue to bankroll their existing portfolio companies. This not only cuts into the amount of money left to invest in startups, but also forces VCs to stay on boards of directors longer, thus restricting opportunities to look for new investments and join the management teams of startups.

But the knowledge that the best returns have historically been achieved by investors who participated in Series A rounds persuades Michael Steinmetz, general partner at MPM Capital (Boston, MA, USA), to keep backing early-stage companies. "We have allocated about a third of our \$900 million fund to support early-stage companies from Series A onwards," says Steinmetz.

Indeed, most venture fund managers recognize the value of investing early. The Schroder's fund has allocated 3% of its new fund for seed capital and 50% for series A and B rounds, says Bingham. And BioScience Managers (London, UK), led by biotech veteran Jeremy Curnock Cook, announced in mid-May that it was to establish, in collaboration with Imperial College London (London, UK), a £50 (\$83.8) million fund to invest in 12 to 15 startup and early-stage opportunities.

Although MPM doesn't do seed financings, it is keeping a close eye on that space by investing in incubators. "We have put money into a business accelerator associated with Leroy Hood's Institute of Systems Biology (Seattle, WA, USA). We, and our fellow investors Versant Ventures (Menlo Park, CA, USA) and Arch Venture Partners (Chicago, IL, USA), have committed \$15 million to the accelerator for investments and infrastructure. We anticipate investing in promising spin-outs from the institute," says Steinmetz.

Experienced investors such as Bingham, Curnock Cook and Steinmetz remain coolheaded during the current lack of capital available on public markets. The biotech industry faced two tough financing environments in the 1990s and emerged stronger than before the downturns began. These VC fund managers are convinced that financing startups now will give them the best returns when the current market turns for the better.

Table 1: Largest venture capital fundraisings since March 2000

Fund	VC	Location	Fund close	Fund size	Fund focus ^b	Stage focus
Apax Europe V	Apax Partners	London, UK	Feb-01	€4 (\$4.7) billion	33% in life sciences	All stages European private companies
BioVentures II	MPM Capital	Boston, MA, USA	Sep-02	\$900 million	80% for biotech	All, including listed companies
Polaris IV	Polaris Venture Partners	Boston, MA, USA	Aug-01	\$900 million	IT, medtech	Early & seed
MVP VII	Morgenthaler Ventures	Menlo Park, CA, USA	Aug-01	\$850 million	Software, communications, healthcare	All, including listed companies
Atlas Venture VI	Atlas Venture	Boston, MA, USA	Dec-02	\$600 million ^a	Healthcare, ITC	All
Oxford Bioscience Partners IV	Oxford Bioscience Partners	Boston, MA, USA	Oct-01	\$455 million	Life science	Seed & early stage
Rho Ventures IV	Rho Ventures	New York, NY, USA	May-01	\$435 million	Healthcare, ITC	Seed through development
Prism Venture Partners IV	Prism Venture Partners	Westwood, MA, USA	Feb-02	\$429 million	Healthcare, ITC	Early technologies
International Life Sciences Fund III	Schroder Ventures Life Sciences	(London, UK)	Jun-03	\$402 million	50% biotech; 50% medtech/healthcare services	3% in seed; 50% series A & B
Versant Capital II	Versant Ventures	Menlo Park, CA, USA	May-01	\$400 million	Healthcare	Early
TVM V Life Science Ventures	TechnoVenture Management	Munich, Germany	Nov-01	€336 (\$397) million	Life science	Early
HealthCap IV	Odlander, Frederikson & Co.	Stockholm, Sweden	Sep-02	SEK 3 (\$0.39) billion	Nordic and West European biotech	All
Sofinnova Capital IV	Sofinnova Partners	Paris, France	Apr-01	€330 (\$390) million	IT, life science	All
HBM BioVentures I	HBM BioVentures	Zurich, Switzerland	Jul-01	CHF 500 (\$383) million	Healthcare	67% on private companies
Arch Venture Fund V	Arch Venture Partners	Chicago, IL, USA	Jul-01	\$380 million	Life science, IT	Seed & early
Lighthouse Capital Partners V	Lighthouse Capital Partners	Menlo Park, CA, USA	May-03	\$366 million	High tech, biotech, medtech	All
Enterprise VI	Enterprise Partners Venture Capital	La Jolla, CA, USA	Jul-01	\$350 million	Healthcare, ITC	Seed & first round
HealthCare Ventures VII	HealthCare Ventures	Princeton, NJ, USA	Nov-02	\$350 million	Healthcare	All
Index Ventures II	Index Ventures	Geneva, Switzerland	Jul-01	\$300 million	European IT and life science	All
Alloy Ventures 2002 Fund	Alloy Ventures	Palo Alto, CA, USA	May-02	\$300 million	IT, life science	Seed & early
Ampersand V	Ampersand Ventures	Wellesley, MA, USA	Feb-02	\$300 million	Specialty materials, life sciences, ITC	All
HealthCare Ventures VI	HealthCare Ventures LLC	Princeton, NJ, USA	Jan-01	\$300 million	Healthcare	All

^aScaled down from \$967 million in restructuring.

^bITC - information technology and communications. Source: BioCentury