

Finance/Funding

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▼ Private funding heads to startups focused on products

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Venture capitalists are currently funding only those biotechnology startups that have a clear path to profitability.

According to a brief survey of venture capital firms, the criteria for attracting private funding remain fundamentally the same: a combination of good management, solid scientific founders, and an ability to articulate progress towards commercial goals. But in the current economic climate, the bar is being raised higher for startups to obtain venture capital funding.

Peter Barrett, partner at Atlas Ventures (Waltham, MA), says, "You can't come to a venture firm with just an idea or a concept. We typically look to put two years of cash into a company, but they must be able to demonstrate something of value that would entice another round of investors to jump in [after those two years]."

Specifically, venture capitalists are looking for drug discovery firms that have products close to being candidates for clinical trials, and drug development firms whose technologies can affect a broad base of preclinical candidates. Indeed, according to VentureWire (New York), a private-equity tracking firm, 2002 saw a tremendous upswing in US financing deals in drug discovery, development, and delivery technology firms. This contrasts with a downturn in funding for bioinformatics, genomics, and proteomics firms, which had been stronger in previous years (see [Table 1](#)).

Barrett, who co-founded genomics-turned-drug-discovery firm Celera Genomics (Rockville, MD), explains, "The pathway to product value from an early-stage genomics company is quite long. There is a reluctance to fund them because we are seeing enough opportunities further downstream and we would prefer to invest in those." Chris Christoffersen, partner at Morgenthaler Ventures (Boulder, CO), goes further, saying that product companies normally take 10-12 years to make money, and venture capitalists hope to get returns in 3-5 years. "So we look for companies that can 'cheat' and somehow shorten that product development cycle."

In contrast with the situation in the United States, there is less venture capital available to biotechnology firms in Europe. Chris Evans, chairman and founder of venture capital firm Merlin Biosciences (London), says that there is ~\$8 billion in private money targeted to biotechnology and healthcare firms in the United States, so a good-quality startup should



Venture capitalists hope to get returns on their investments in 3-5 years. © Dennis Meyler/Corbis

have no trouble raising money there providing it accepts a realistic valuation. But European venture capitalists have already got portfolios stuffed with young startup companies and they have not raised as much money, which is why Evans says that he is more interested in mid-sized firms. "When the markets do come back, you will likely need a company with at least three or four drugs in phase 1 and phase 2, so that means whatever you've done privately you will have had to have done it for 4-7 years, which is quite a bit of incubation time and money," says Evans. "For all those reasons, I would think that there will be less of an interest in creating or backing tiny startups [in Europe in 2003]."

But, Evans still acknowledges, "when the markets are in a downturn, science in young firms and universities continues to make progress, and there is really good stuff percolating to the surface now, and people will be very tempted to finance it." A view reiterated by Christoffersen and Barrett: 2003 will definitely see plenty more startups worldwide.

Table 1: Investment in private US biotechnology firms in 2001 and 2002.

Subsector	2001		2002	
	Deals	Amount (\$ millions)	Deals	Amount (\$ millions)
Drug discovery and development	125	1,791.43	176	2,427.63
Bioinformatics, genomics, and proteomics	49	730.4	25	256.7
Biotech tools	33	430.95	34	282.68
Drug delivery	7	57.78	16	204.55
Agbiotech	6	43.75	8	46.65
Total	220	3,054.31	259	3,218.21

Source: VentureWire.

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