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Device Valuations Strong In 1Q Financings

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Medical device companies, benefiting from a strong IPO market and strong late-stage interest, commanded high prices in first quarter financings, according to a survey by data tracker VentureOne.

Medical device companies closing on financings in the first quarter averaged $34.4 million for their median pre-money valuations, a considerable jump from the 2005 year-end average of $21.7 million, an increase of 58.4%. This is the second consecutive strong start for device companies, which commanded valuations of $35.5 million in the first quarter of last year.

"The apparent increase in the median valuation of recent financings in the medical device space seems to correlate with the increased number of later-stage deals," said Carl Goldfischer, managing director for Bay City Capital. "In the first quarter of 2006, we saw quite a few medical device companies close financings that were Series C or later. These companies typically command a higher pre-money value because by this time they have usually passed critical proof-of-concept milestones."

These numbers also reflect the impact of the public markets. One For example, Northstar Neuroscience Inc.'s public offering last month showed, the public markets are becoming receptive to even pre-revenue medical device companies. This will continue to give leverage to medical device CEOs raising later-stage rounds.

Biopharmaceutical companies, meanwhile, reported a drop in valuations, likely due to that sector's weak showing on the IPO markets. Companies reporting first quarter financings reported valuations of $15 million in 2006, a drop from $19.4 million in the first quarter of last year. The year-end average for 2005 was also $19.4 million.

"The public market investors are sensitive to where their next return is going to come from," said Robin Bellas, general partner at Morgenthaler Ventures. "Biotech is hopes and promises, and when those hopes get dashed, they look elsewhere to put their money." By example, he cites last year's suspension of Biogen Idec Inc.'s multiple sclerosis drug Tysabri following safety evaluations as putting a damper on biopharmaceuticals.

By comparison, the overall valuation numbers across all industries increased 20.3% to $18.4 million from $15.3 million a year earlier. They also increased 22.3% from the 2005 year-end number of $15 million.

Not only are late-stage deals inherently larger than deals in younger companies, their valuations also grew faster than early-stage deals in the first quarter of 2006. First-stage round valuations for all industries, including health care, dropped from $6.5 million to $5.9 million from the first quarter of 2005 to 2006, a decrease of 8.5%. By contrast, second-stage valuations for all industries increased from $12.3 million to $20 million, an increase of 62.1% and later-stage valuations for all industries jumped from $29.9 million to $37 million, an increase of 23.8%.

With valuations creeping ever upward for life science companies, it is a valid question if there are comparisons to draw with the IT sector in the 1990s. Bellas, for one, is not concerned that there is a bubble brewing. "If you look at total capital invested, it's up, but not by much," he said.

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