



# Who's Still Active Among the Early-Stage Biotech VCs?

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Imagine for a moment you're a hotshot biomedical scientist at a university. You have invented a technology in your lab that you think has potential to make a big difference for the world of medicine. Despite all the accolades you might be getting in *Nature*, you are savvy enough to know you still have a pretty raw concept. Your idea needs someone who can build a business around it, and invest a lot of time, money, and talent to prove it's the real thing.

Who would you call?

There aren't that many people who you can call anymore, and the number is shrinking. This question has been gnawing at me for a while, as I've sought to understand the historic contraction that's occurring in the biotech venture capital business, and what effect it will have on the biotech industry's ability to turn bright ideas into valuable new healthcare products.

Much has been written about the venture financing stats, which aren't pretty. About \$780 million of venture capital went to life sciences companies in the first quarter of 2012, a breathtaking 43 percent drop from the prior quarter, according to the MoneyTree Report from PricewaterhouseCoopers and the National Venture Capital Association, based on data from Thomson Reuters. What's even more disturbing is that the vast majority of that money went to existing companies with products in late-stage development, not to startups. Despite some fascinating advances in the basic science of genomics, microRNA, drug delivery, diagnostics, vaccines and more, the amount of money for first-time company financings fell by 60 percent in the first quarter to \$120 million. Only 21 companies in the U.S. got their critical first financing in the initial three

months of this year—in a country where Ernst & Young counts 1,870 public and private biotech companies.

Less money is going into the industry, and this isn't a one-time quarterly blip, it's a long-term trend. The VC industry has already contracted dramatically, as there were 1,022 active firms during the tech bubble year of 2000, and just 462 active firms were left in 2010, according to the National Venture Capital Association. The NVCA definition of "active" includes firms who invested at least \$5 million into companies in the past year. But the number of active firms is still declining, because many firms raised their last funds before the financial crisis of 2008. Most of that pre-2008 money has been invested already in companies, and the VCs can't go back to hit up their friends at pensions, endowments, and foundations for more money, at least until they can generate better returns. With slim odds of taking their portfolio companies public or striking a big acquisition by a Big Pharma company, the biotech VC industry has literally been withering on the vine the past four years.

Maybe because I'm a startup guy myself, I'm more interested in finding out who still can do interesting things in biotech rather than spending too much time wallowing in pessimism about the new "**zombie**" VC funds. So I've attempted to put together a list of which biotech VC firms are still truly active in the early-stage investment game. It's not quite as easy a question to ask as it looks, since I needed to come up with my own satisfactory definition of "active." But after chatting with a handful of VCs who make their living in this arena—Risa Stack of Kleiner Perkins Caufield & Byers, Alexis Borys of Third Rock Ventures, and **Bruce Booth** of Atlas Venture—I've come up with the following criteria. "Active" for the purpose of this exercise, includes VC firms that made investments in at least four early-stage life sciences companies (biotech and medical devices), and invested at least \$12 million in the sector during the 12-month period that ended March 31, 2012. The data below comes from the National Venture Capital Association, which uses information from Thomson Reuters.

VC Firm	# of ES Bio Co Investments	Sum of Equity Invested
Domain Associates	16	\$68.4m
Third Rock Ventures	16	\$68.1m
NEA	15	\$154.1m
Polaris Venture Partners	13	\$39.9m
ARCH Venture Partners	11	\$41m

Flagship Ventures	11	\$26.2m
Versant Ventures	10	\$73.6m
HealthCare Ventures	10	\$21.1m
Kleiner Perkins	8	\$50.6m
Morgenthaler Ventures	8	\$29m
Canaan Partners	7	\$32.5m
InterWest Partners	7	\$29.3m
Venrock Associates	7	\$27.6m
MPM Capital	7	\$22m
Novartis Venture Funds	7	\$15.2m
OrbiMed Advisors	6	\$37.3m
The Column Group	6	\$35.2m
TPG Growth	6	\$27.8m
Novo A/S	6	\$22.6m
ATV	6	\$18.2m
Aisling Capital	5	\$27.6m
Adams Street Partners	5	\$25.3m
Essex Woodlands	5	\$24m
Frazier Healthcare	5	\$23.2m
Bessemer Venture	5	\$18.3m
Latterell Venture	5	\$15m
Sofinnova Ventures	5	\$13.1m
Atlas Venture	4	\$30.8m
5AM Ventures	4	\$22.6m
Excel Venture	4	\$18.7m
SR One	4	\$18.4m
Lilly Ventures	4	\$12.1m

Source: NVCA, Thomson Reuters

A few caveats are in order. There are several “undisclosed firms” who show up in the rankings, which I cut out of this chart. The Thomson Reuters data may not accurately capture everything that’s considered “early stage,” because it defines that group of companies as ones who have “a product or service in testing or pilot production. In some cases, the product may be commercially available. May or may not be generating revenues. Usually in business less than three years.” There are also firms on this list who are dialing back activity like **The Column Group**—and there’s at least one instance of a merger in the works, between Morgenthaler Ventures and Advanced Technology

Ventures' life sciences units. Plus, the data set has some holes. Atlas's Booth, for one, says his firm has invested in at least 14 startups since January of 2010. For some reason, the Thomson Reuters data only shows Atlas making six early-stage biotech investments in that period, and just four in the past 12 months.

You can draw your own conclusions on what makes an early-stage investor "active." As you can see from the table, there are 32 firms that met the criteria I used in this analysis. But if you narrow it down to firms that invested in 10 or more new companies in the last year—which isn't unreasonable given that an individual VC firm partner can typically handle 1-2 new company investments per year—then the list gets really short, with just eight firms being what you might call "super-active."

There are a couple of ways of looking at this trend, positive and negative. Either this represents healthy culling of the herd, or it could starve the biotech innovation community of the capital it needs to thrive. Alexis Borisy, a partner at Third Rock Ventures in Boston, takes the glass-half-full approach.

"The industry was overbuilt," Borisy says. "There was too much capital and too many ideas that should not have been funded that got funded. That's not a good way to get returns and be successful as an industry. Given the lack of returns, the VC industry has been winnowed back. But at the same time, you do need a certain amount of firms around for the ecosystem to be healthy. It's good now, but if it were winnowed further, then you might have a problem."

As Borisy correctly notes, it's always hard in the moment to say whether there's enough venture money to support all the good ideas. That's because it takes several years of work and 20/20 hindsight to say for sure whether an idea was good in the first place.

Stack, a partner at Kleiner Perkins, says she's convinced that the winnowing of the biotech VC business has made it much harder for compelling ideas to get funded. Many aren't getting cash at all. But despite the trend away from early stage, and toward late-stage investing, Kleiner Perkins plans to put some of its new \$525 million life sciences fund to work in the longest-term, highest-risk, highest-reward category. And she says Kleiner Perkins still has enough VC firms it can syndicate with to spread around the risk enough so everybody is comfortable with what they're getting into.

"Kleiner has always been focused on building businesses," Stack says. "That's pretty much the history of Kleiner. The vision is for building great businesses that are going to affect the healthcare sector, change the way healthcare is practiced. We've always been an early-stage focused firm. We still think there are great opportunities in early-stage life sciences."

The good news is that many of these "active" early-stage VCs appear to be in decent financial shape for at least a few more years. Many of these firms—**Third Rock, Kleiner Perkins, Atlas, SV Life Sciences, Sofinnova Ventures, Venrock, Polaris Venture Partners, Domain Associates, Canaan Partners**, and **5AM Ventures**—have all been able to scrape together new funds in the extremely tough post-2008 financial crisis period.

The big question for life sciences entrepreneurs this year will be whether enough of their brethren will be able to join them on the list of successful fundraisers. If they do, they should be in the pole position to keep financing biotech startups with potential to make an impact 10 or 20 years down the road. But if a lot more firms fade away, then we could end up having a generation of biomedical scientists who won't ever have the opportunity to turn one of their ideas into a growing biotech enterprise. And that would be a shame for science, for the economy, and for patients.