STAT REPORTS

RANKING BIOTECH'S TOP VENTURE CAPITAL FIRMS

2024 Edition

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Introduction: The biotech venture capital landscape

How do you define success when it comes to investing in drug companies?

Some would suggest that you tally the number of medicines that those companies bring to patients. An investment firm that can trace its dollars to dozens of new treatments that change or save lives has clearly achieved more than a firm with only a handful on its list, right? Others will suggest ranking how many startups a VC firm invests in each year. Finding deals, particularly with high-profile entrepreneurs or headline-worthy missions, is of a certain value. But there is one surefire mandate that all venture capitalists have: to take the money given to them by third parties, invest it, and ultimately deliver a profit. That's what this report will dig into.

"If a fund does make money for its investors, then it has the luxury to pursue other objectives. My team is driven to develop great medicines. We want to know that our efforts made some difference in this world. We are thrilled when we invent a molecule, form a company, or even help an existing company redirect its efforts towards a better indication based on our TechAtlas maps ... those things are all more than just moving money around, which is important to do well but kind of feels soulless. But we only get to do all that as long as we generate a return for our [investors]," RA Capital Managing Partner Peter Kolchinsky told STAT.

There are more than 200 venture capital firms in the United States that have invested in at least one biotech company. Venture capital firms invest in very early-stage biotechs that may have done little preclinical testing and may not even have landed on any specific drug candidates. They seek out high-risk, high-reward opportunities — sure, there's little evidence that the company will succeed, but, ideally, the upfront investment is relatively small and the potential payout makes it worthwhile. Some biotechs will get grants or money from family and friends before approaching a venture capital firm. More and more often, biotech VCs actually create and incubate startups themselves.

Venture capital firms come in all shapes and sizes: Some, like Khosla Ventures, invest in a wide array of industries and manage billions of dollars. Others stick to health care companies, as is the case with OrbiMed and Third Rock Ventures. Each firm has its own preferences, such as disease areas or how advanced a company must be for consideration. Even within a particular firm, the strategy may shift over time. These shifts don't happen in a vacuum. Ultimately, venture capitalists invest in companies and products they believe the market will want — and will spend large amounts of money to buy.

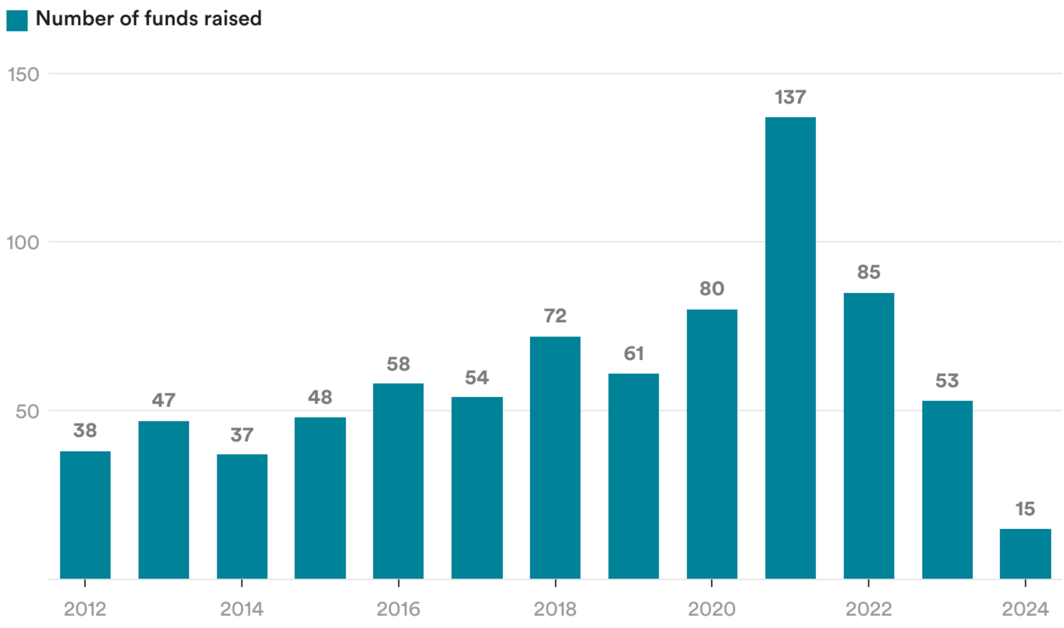
Venture capital firms face their own economic pressures. When interest rates rise or stock market indices like the XBI drop, as they did a couple of years ago, it can hamper firms' ability to raise capital. These downturns have not only historically spelled trouble for startups, but for investment firms as well. In the years after the 2000 "dot com" or genomics bubble burst, eight of the top 10 life sciences investors ultimately went out of business, according to a review by Atlas Venture.

The types of organizations that venture capitalists raise money from, including university endowments, pension funds, and family offices, have been reluctant to put more money into venture capital until they get proceeds back from their previous investments. And they won't get their money back until the startups reach what is called an "exit opportunity" —

generally an event that brings in a significant amount of money, like being acquired by a large pharmaceutical company or going public. That has started to pick up over the last year, bringing rays of hope to investors across the country.

Global VC Fundraising Activity in Life Sciences (2012-YTD)

As of 6/30/2024



Some venture capitalists have slogged through the recent market downturn and managed to raise funds. Life science VCs had raised just 53 funds in 2023 — the lowest figure in nearly a decade, according to PitchBook. So far, firms have raised 15 funds in 2024, putting them on pace for another low fundraising year.

But experts don't think this boom-and-bust cycle will decimate biotech VCs the same way the 2000s downturn did. There was a very different mix of limited partners investing in biotech at the start of the millennium, Atlas Venture partner Bruce Booth previously told STAT. The group is now more accustomed to the sharp ebbs and flows of venture capital.

But how have these firms done financially? Well, most VC firms are secretive about their performance. Most won't share exact information on how much money they put into a startup, or how investments fared in the end. This report will shine light on some of those secrets.

Allison DeAngelis, Biotech startups and venture capital reporter

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With an award-winning newsroom, STAT gives you indispensable insights and exclusive stories on the technologies, personalities, power brokers, and political forces driving massive changes in the life science industry — and a revolution in human health. More information can be found at statnews.com.

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