Funding Oases for Biotechs: How Biotechnology Companies at All Stages Can Succeed Through Lean Times

Article By
Nikhil T. Pradhan
Foley & Lardner LLP
Insights/Publications

Related Practices & Jurisdictions
- Biotech, Food, Drug
- Corporate & Business Organizations
- All Federal

Wednesday, July 6, 2022

Recent reporting by the Financial Times shows that valuations and funding for biotech companies has fallen significantly, as “just nine biotech companies have listed in the U.S. this year, raising a total of $1bn ... almost 60 companies did so in the same period last year, tapping investors for $7.4bn.” This represents a 70% decline in the total enterprise value of publicly traded, global biotech companies from February 2021 to May 2022. While this trend is consistent with a broader slowdown in the general IPO market, venture capital funding for biotechs has also slowed - though some of that may be due to an anomalously bullish period in 2021.

These trends underscore a need for biotech companies at various stages of growth...
and product development to pursue and deploy capital more effectively. Below are a few ways companies can solve the problem of investors being more hesitant in the biotech market due to factors such as declining value or companies that have not demonstrated success in drug development, particularly for unmet needs:

1. Expanding the scope of venture capital firms to work with. While it is critical to ensure that firms have the domain expertise and runway to be both strategic and financial partners over the long term, as noted in this article, “new offerings may resume if companies widen their selection of investors to pitch their business to. Instead of having two venture capital [firms], Powell advised for private companies to have “three or four... around the table, [to] pick venture capitals with deep pockets... with knowledge or background of the sector that this company is in... [and with a] great ability to fund the company longer-term even if no new investors show up a year from now, we know that we have got four great investors around the table.”

2. Seeking partnerships with and/or acquisitions by large pharmaceutical companies. Recent examples such as Bristol Meyers Squibb acquiring Turning Point Therapeutics for $4.1 billion and GlaxoSmithKline acquiring Sierra Oncology for $1.9 billion show the key to this strategy is identifying a nexus between the company's product roadmap and potential partners’ unmet needs in their portfolios. By focusing resources on achieving a development milestone directed to that nexus, companies can set themselves up for successful partnerships and/or exits.

3. Strategically using debt financing to pursue specific milestones. As shown by BridgeBio Pharma securing up to $750 million in non-dilutive debt financing, debt financing can be especially beneficial when sized to match specific development milestones. This ensures that future financings can also be scaled to the company's growth without signaling excessive risk to future investors. In other words, the benefits of demonstrating milestone achievements can weigh strongly against the apparent risk of debt financing.

A common theme throughout is focusing the company’s resources on demonstrating a clear achievement of clinical milestones. This can help significantly de-risk the company's outlook based on tangible results that reinforce the promise of the company's drug pipeline. In addition, while it is difficult to predict exactly when the current cycle will rebound to more typical funding levels, setting goals aligned with such a timeline can help demonstrate how the company plans to get to an IPO or other strategic exit. In other words, by communicating a clear business plan that is realistic about timelines, supported by existing clinical achievements and focused on showing how new investment will be used to achieve the next milestone, companies can increase investor confidence and in turn receive better outcomes for financing.

© 2022 Foley & Lardner LLP

National Law Review, Volume XII, Number 187

Source URL: https://www.natlawreview.com/article/funding-oases-biotechs-how-