

Biotech deals rising

Investments increased year over year for biotech as well as medical devices. The average deal size for early stage medical device investments was the highest since 1995. However, life sciences investments underperformed total venture capital investments and are now at the lowest proportion of total investments since 2001.

May 2014



US venture capital funding for the life sciences sector, which includes biotechnology and medical devices, increased in value during the first quarter of 2014, according to the MoneyTree™ Report from PricewaterhouseCoopers LLP (PwC) and the National Venture Capital Association (NVCA), based on data provided by Thomson Reuters. Venture capitalists invested \$1.7 billion in 173 life sciences deals during the quarter, compared with \$1.4 billion in 173 deals during the same period of 2013, resulting in an increase of 15% year over year in dollar value, but the same number of overall deals. However, compared with the fourth quarter of 2013, there was a drop of 10% in dollar value and 28% in deal volume.

US venture funding among all industries increased 57% in value and 4% in number of deals from the first quarter of 2013 to 2014. Venture investors funneled \$9.5 billion into 951 deals during the first quarter of 2014.

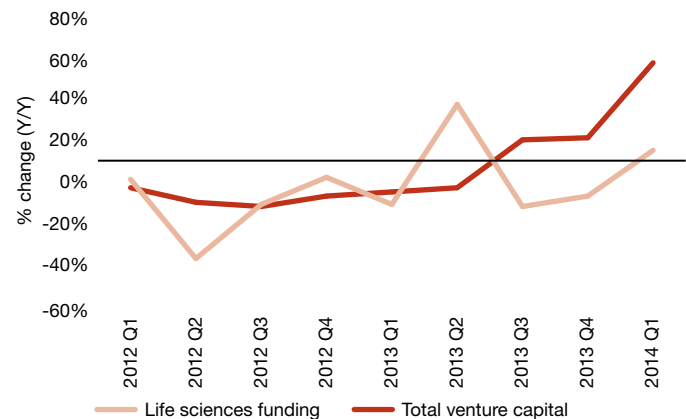
Life sciences venture capital investment

Life sciences venture capital investments increased by 15% during the first quarter of 2014, compared with the first quarter of 2013. In contrast, total venture funding jumped by 57%. This is the third consecutive quarter that the growth in total venture capital investment has significantly outstripped life sciences investments. The life sciences share of total venture capital investments was 17%—the lowest proportion since 2001.

Biotechnology raised \$1.06 billion in 112 deals during the first quarter, an increase of 22% in deal value and 13% in deal volume, compared with the first quarter of last year.

The medical device industry finished 5% up in dollars, but deal volume decreased by 18% for the first quarter of 2014, capturing \$588 million in 61 deals.

Figure 1: Life sciences funding compared with total venture funding 2012–Q1 2014



Life sciences funding by quarter

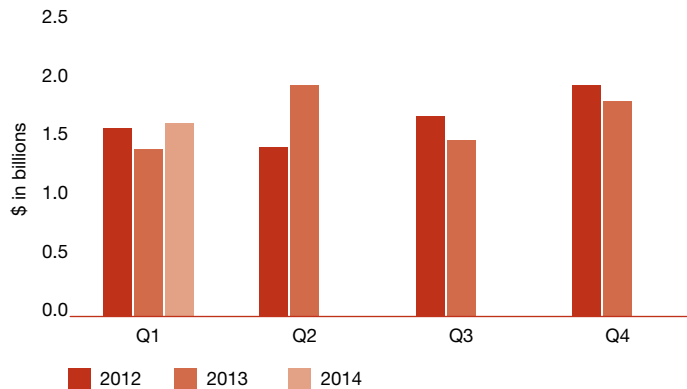
Life sciences investments rose to \$1.7 billion in the first quarter of 2014, an increase of 15% compared with the same quarter in 2013, during which time \$1.4 billion was invested.

On a year-over-year basis, biotechnology investment was up by 22% in dollars, and the medical device industry increased 5%.

Quarter-over-quarter investment dropped 23% for biotechnology, although it increased by 28% for medical devices.

“Life Sciences companies attracted \$1.7 billion in the first quarter of 2014, with biotechnology companies attracting \$1.1 billion. This is the strongest start for the year for both life sciences and biotechnology, since the first quarter of 2008. A strong IPO market has contributed to increased venture capital investments.”—Greg Vlahos, Life Sciences Partner at PwC.

Figure 2: Life sciences funding trends by quarter 2012–Q1 2014



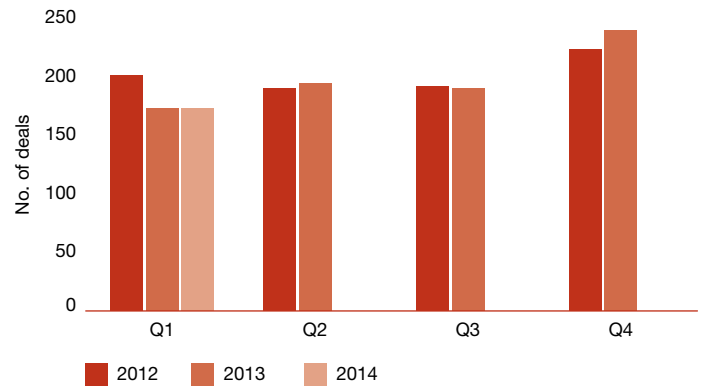
Life sciences deal volume by quarter

The 173 life sciences deals for the first quarter of 2014 were flat year over year but declined by 28% quarter over quarter.

During the first quarter of 2014, the biotechnology industry logged 112 deals, compared with 99 during the first quarter of 2013 and 142 during the fourth quarter of 2013.

The medical device industry completed 61 deals during the first quarter of 2014, down from 74 during the first quarter of 2013 and 97 during the fourth quarter of 2013. This is the lowest level of deal activity for medical devices since 2004.

Figure 3: Life sciences deal volume by quarter 2012–Q1 2014



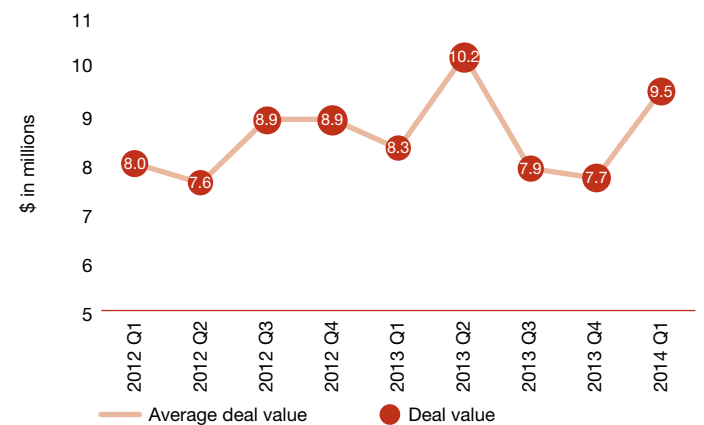
Life sciences average deal size by quarter

The average life sciences deal size of \$9.5 million for the first quarter of 2014 rose 15% year over year and 24% quarter over quarter.

In the first quarter of 2014, there were no deals from the life sciences sector in the top 10 deals for the quarter.

The average deal size for medical devices was \$9.6 million—the highest since the third quarter of 2008.

Figure 4: Life sciences average deal size by quarter 2012–Q1 2014



Funding for biotechnology and medical devices

Biotechnology captured 64% of total life sciences investment during the first quarter of 2014. This share is a decline from the 75% for the previous quarter, but higher than the 61% for the first quarter of 2013.

Figure 5: Life sciences investment split for the first quarter of 2014

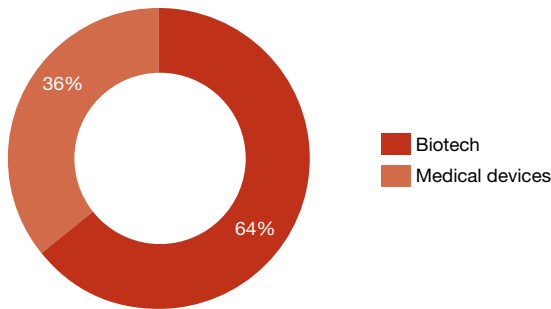
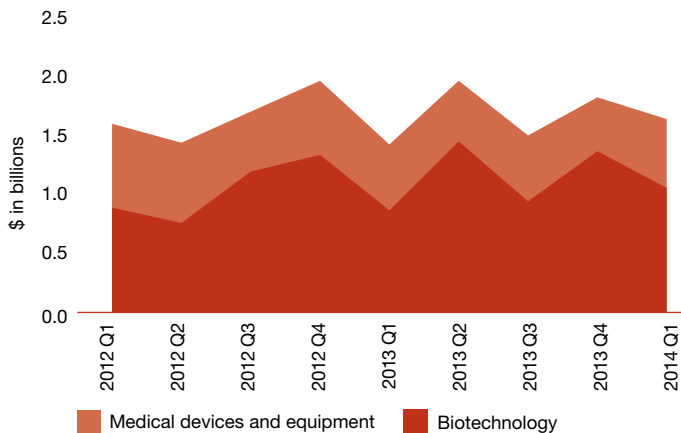


Figure 6: Biotechnology and medical devices funding trends 2012–Q1 2014



Biotechnology funding by subsegments

At \$900 million for the first quarter of 2014, the biotech-human subsegment captured the largest share of biotechnology funding. Biotech-human subsegment funding increased 26% compared with first quarter of 2013 but dipped 24% from the fourth quarter of 2013.

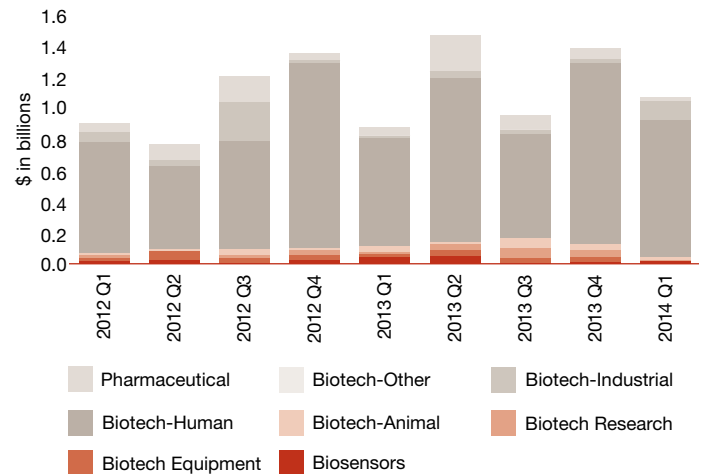
When compared with the first quarter of 2013, two subsegments rose during the first quarter of 2014:

- Biotech human, +26% to \$876 million
- Biotech industrial, +1,036% to \$120 million

Biotechnology subsectors that received less funding in the first quarter of 2014, compared with the first quarter of 2013, were:

- Biosensors, -64% to \$15 million
- Biotech equipment, -90% to 2 million
- Biotech research, -25% to \$7 million
- Biotech animal, -60% to \$16 million
- Pharmaceutical, -54% to 26 million

Figure 7: Biotechnology funding by subsegments 2012–Q1 2014



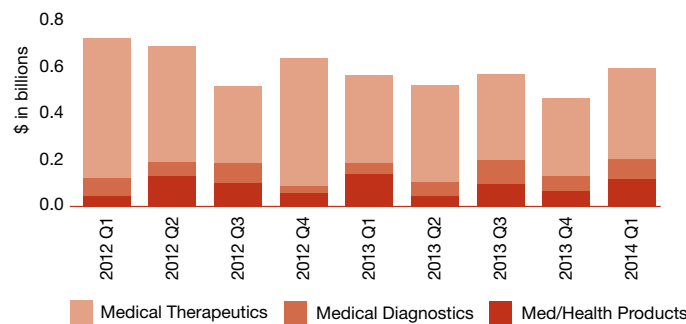
Medical device funding by subsegments

During the first quarter of 2014, the medical therapeutics subsegment attracted the most funding for the medical device industry, at \$387 million. The amount represented an increase of 2% from the first quarter of 2013.

Funding for one medical device subsegment decreased, and funding for two increased during the first quarter of 2014, when compared with the same quarter of 2013.

- Medical diagnostics, +90% to \$86 million
- Medical therapeutics, +2% to \$387 million
- Medical/health products, -17% to \$116 million

Figure 8: Medical devices and equipment funding by subsegments 2012–Q1 2014



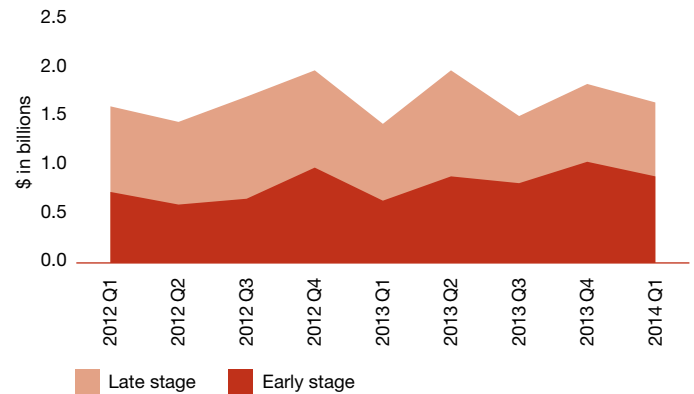
Life sciences funding by stages

Early stage life sciences funding, at \$891 million in 96 deals, accounted for 54% of total life sciences funding for the first quarter of 2014. Early stage funding increased 38% year over year but decreased 14% quarter over quarter.

Late stage funding, at \$760 million in 77 deals, accounted for 46% of life sciences investment during the first quarter of 2014. Late stage funding fell 4% year over year and 5% quarter-over-quarter.

According to Greg Vlahos, Life Sciences Partner at PwC, “Early stage funding for life sciences and biotech companies in the first quarter of this year was the strongest first quarter since 1995. This reflects the increasing risk appetite among the venture capital community after the recession and portends well for life sciences investments for the rest of the year.”

Figure 9: Life sciences funding by stages 2012–Q1 2014



Biotechnology funding by stages

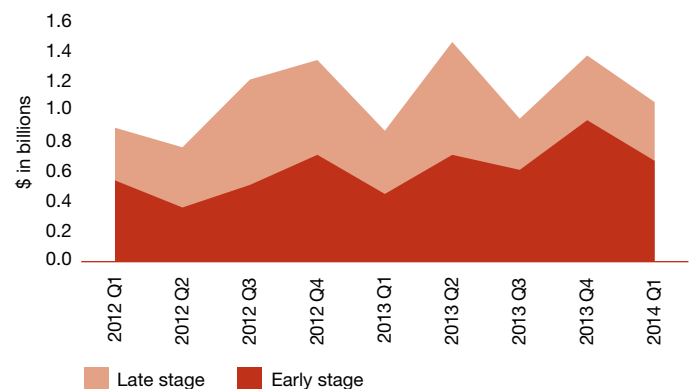
During the first quarter of 2014, early stage biotechnology funding rose 50% to \$675 million in 71 deals, compared with \$450 million in 59 deals for the same period of 2013.

Late stage funding for biotechnology dipped 8%, from \$421 million in 40 deals during the first quarter of 2013 to \$387 million in 41 deals during the first quarter of 2014.

On a quarter-over-quarter basis, biotechnology funding declined for both stages. Early stage funding declined 29% and late stage by 10%.

Average deal size was \$9.5 million for early stage biotech transactions and \$9.4 million for late stage deals.

Figure 10: Biotechnology funding by stages 2012–Q1 2014



Medical device funding by stages

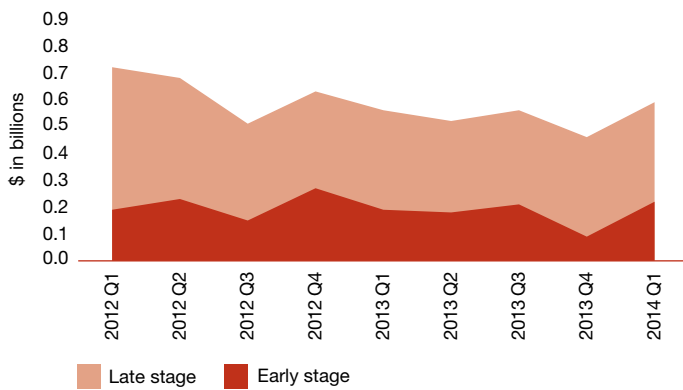
During the first quarter of 2014, early stage medical device funding increased 11% to \$216 million in 25 deals, compared with \$194 million in 29 deals for the same period of 2013.

Late stage funding for medical devices increased by 1%, from \$369 million in 45 deals during the first quarter of 2013 to \$372 million in 36 deals during the first quarter of 2014.

Medical device funding also increased on a quarter-over-quarter basis. Early stage funding jumped 131%; late stage rose 1%.

Average deal size for early stage medical device transactions in the first quarter of 2014 was the highest ever at \$8.6 million. The average deal size was \$10.3 million for late stage deals.

Figure 11: Medical device funding by stages 2012–Q1 2014



First-time funding compared with follow-on funding

Compared with the same quarter a year ago, first-time funding for the life sciences sector jumped 108% to \$258 million, and the number of deals rose 57% to 36.

However, quarter-over-quarter, the life sciences sector experienced a decline of 38% in first-time funding dollars and of 32% in deal volume.

The life sciences sector received follow-on funding of \$1.4 billion in the first quarter of 2014, an increase of 6% compared with the same quarter the previous year and a decline of 2% compared with the last quarter of 2013.

For the first quarter of 2014, the number of deals in follow-on funding was 137, a decline of 9% compared with the same quarter the previous year and 26% compared with the previous quarter.

Figure 12: Life sciences follow-on compared with initial investments 2012–Q1 2014

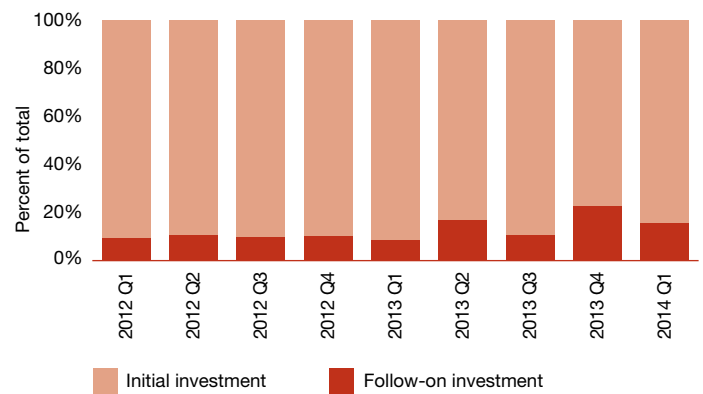


Table 1: 2014 life sciences first quarter growth factors (Y/Y growth)

	% change in deal volume	% change in avg deal size	% change in investments
First-time	+57%	+33%	+108%
Follow-on	-9%	+16%	+6%

Regional funding trends

The San Francisco Bay area,¹ Boston, New York Metro, San Diego Metro, and Orange County received the most life sciences venture capital dollars during the first quarter of 2014.

The leader, San Francisco Bay area, received \$479 million, with \$277 million going to biotechnology and the remaining \$201 million going to medical devices.

The San Francisco Bay area closed 47 deals during the first quarter of 2014, with an average size of \$10.2 million.

Figure 13: Top five metropolitan regions, first quarter 2014

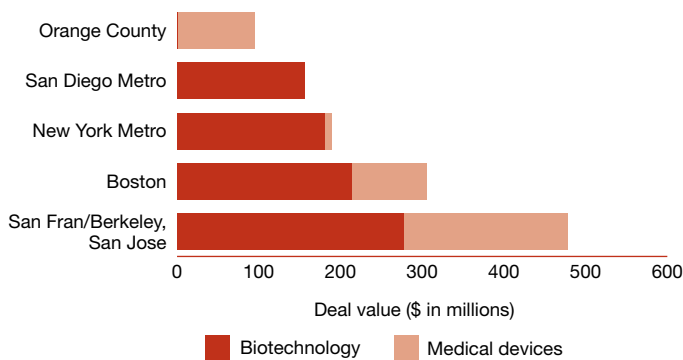
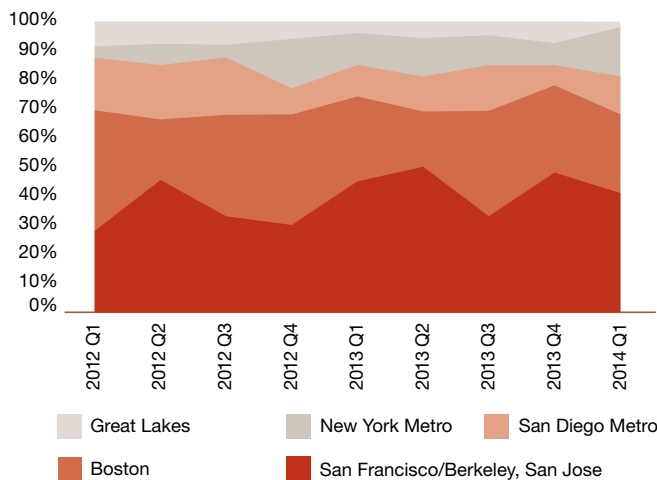


Figure 14: Life sciences funding trends in top five regions, 2012–Q1 2014



Venture capital outlook

In the first quarter of 2014, venture capitalists invested \$9.5 billion, which represents the highest quarterly total since the second quarter of 2001.

However, life sciences venture funding is facing intense competition for venture capital, compared with other sectors. The life sciences share of total venture funding in the quarter decreased to 17% from 24% in the first quarter of 2013 and a peak of 32% in 2009. As often discussed, the reason for this is the movement of VC dollars away from sectors with longer investment duration and higher capital requirements, like biotechnology and medical devices, into shorter-duration and capital-light industries, like software. The majority of the venture capital dollars were invested in the technology sector, which accounted for 64% of the total investment during the quarter.

The first quarter of 2014 was the strongest first quarter ever for early stage funding for both life sciences and biotech. Together with the strong funding for the technology sectors—investments for technology sectors was at the highest level since 2001—this robust first quarter performance for life sciences indicates a positive outlook for the rest of the year. Life sciences venture investments for 2014 are expected to be the strongest since the recession.

“Investments in the software sector continue to remain healthy as investors look for companies with disruptive technology that challenges the norm,” says Mark McCaffrey, global software leader and technology partner at PwC. “These companies are attracting significant funding from venture capitalists and non-traditional investors alike as their business models continue to provide real value across all sectors and get access to global markets. Clearly, the heightened interest is driving healthy valuations, which could meet with some volatility. However, barring any significant macroeconomic event, we expect a strong level of investing to continue as these models meet customer needs and deliver value to the stakeholders.”

“To be sure, the spring thaw of the exit markets is providing some firms with new life, but overall capital remains constrained for most venture capital firms,” said Bobby Franklin, President and CEO of NVCA.

¹ San Francisco Bay area includes SF/Berkeley and San Jose.

About PwC's Pharmaceutical and Life Sciences Industry group

PwC's Pharmaceutical and Life Sciences Industry group (www.pwc.com/us/pharma and www.pwc.com/us/medtech) is dedicated to delivering effective solutions to the complex strategic, operational, and financial challenges facing pharmaceutical, biotechnology, and medical device companies. We provide industry-focused assurance, tax, and advisory services to build public trust and enhance value for our clients and their stakeholders. More than 184,000 people in 157 countries across our network of firms share their thinking, experience, and solutions to develop fresh perspectives and practical advice.

Contacts

Greg Vlahos, Life Sciences Partner

+1 (408) 817 5029

greg.n.vlahos@us.pwc.com

Attila Karacsony, Director

+1 (973) 236 5640

attila.karacsony@us.pwc.com

www.pwc.com/us/pharma

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