

## VCs bet big on Silicon Valley biotech

May 28 2015, by Heather Somerville, San Jose Mercury News

---

Companies searching for cures for cancer and testing treatments for crippling genetic diseases are capturing the interest of venture capitalists - and their money - more than at any time in the last seven years.

The [biotech](#) boom in Silicon Valley and nationwide has led to enormous VC investments into the industry and a flurry of initial public offerings, more startups promising gene therapy breakthroughs or cures for deadly fungal infections getting off the ground, and more technology to diagnose and treat previously untreatable diseases popping up in hospitals.

"We're moving the science from publications to patients," said Nick Leschly, CEO of Bluebird Bio, a gene therapy firm working to treat severe genetic diseases.

Software may still be king in Silicon Valley, but biotech is a maturing prince. Biotech firms here raised \$573.9 million from investors in the first quarter this year, the third-highest fundraising quarter for the sector in Silicon Valley history and a 103 percent jump from the same quarter a year ago, according to The MoneyTree Report by PricewaterhouseCoopers and the National Venture Capital Association, based on data from Thomson Reuters. The sector now ranks third for venture fundraising - software remains the top industry, raising \$3.3 billion last quarter - up from as low as 11th place during the dot-com boom.

The biotech craze isn't happening only in Silicon Valley; science hubs

such as Boston are also seeing a surge of funding. Nationally, biotech investments surpassed \$1.7 billion in the first quarter, a 66 percent increase over the same period a year ago.

"The appetite is there," said Tom Ciccolella, who leads the U.S. venture capital practice at PwC. "It's not software all day and all night. Biotech has a home (in Silicon Valley) and I think that's proving out."

Companies are showing better results from clinical trials, researchers have a better understanding of the body and how diseases work, the U.S. Food and Drug Administration has sped up the review process of some new drugs, and more companies are coming up with treatments for fatal conditions that are typically quite expensive - making biotech increasingly attractive to VCs.

Institutional investors, including hedge funds and wealth managers, are also piling on, driving up funding rounds and giving biotech companies a healthy nest egg to push the limits of science, experts say.

Institutional investors "are taking over where the venture guys leave off and they are funding with a longer horizon," Leschly said. "The amount of money, attention and willingness from the big kahunas to invest privately and to (launch) IPOs in the biotech area is unprecedented."

Valley-based Allergen Research, which develops treatments for food allergies, raised \$80 million in March, the largest biotech funding round of the quarter. It was followed by Guardant Health, of the Bay Area, which created a way to biopsy cancer using blood samples and raised \$56 million.

"We're amazed by the response we're seeing from investors," said Helmy Eltoukhy, co-founder and CEO of Guardant Health, which was founded in 2012 and has since raised \$100 million. "The funding is allowing us to

scale up to meet the unexpected (patient) demand. We moved into a larger facility, and we could build a larger lab and scale this operation. It's been a much healthier funding environment for biotech and health care companies than I can remember."

Investors are also encouraged by the surge of biotech IPOs - there were 13 such deals raising \$1.3 billion in Silicon Valley last year, compared to seven IPOs raising \$588 million in 2013, according to market intelligence firm Ipreo - and acquisitions, which has convinced VCs that they'll get a healthy return if they throw money into the pot.

And the recent success of Valley-based Gilead Sciences, whose pricey hepatitis C drug Sovaldi helped the company nearly quadruple its profits in one year, and Pharmacyclics, also based in the area, whose newly approved cancer treatment increased company profits by nearly a third, gave investors another boost of confidence.

"That is going to be a very important drug for patients, obviously, but also is a big source of revenue and a very profitable business for Gilead itself," said Jim Healy, a partner at Valley-based Sofinnova Ventures.

But the piping hot biotech sector is bound to cool, warned Casper de Clercq, a partner at Norwest Venture Partners and life sciences expert, and it could be a sign of a bubble in other areas of the tech market.

"Biotech tends to be the area people look to last as a place to make returns," he said. "Then it means everything else is overpriced."

He estimates we're in the third year of a three- or four-year biotech boom: "We're about at the end."

But the funding surge is promising for patients struggling with cancer, [genetic diseases](#) and other fatal conditions because the money will allow

more companies to run larger trials with better results, get FDA approval more quickly and begin selling their drugs to hospitals. Historically, [biotech firms](#) have raised much smaller amounts of money that allowed them to do very limited research and trials, and with very limited and often unsuccessful results, they were unable to get more funding.

"All of these drug companies, they have great promise, but they all have a challenging road ahead," said Mark Goldsmith, CEO of Revolution Medicines, a Bay Area drug company that launched in February and raised \$45 million from Third Rock Ventures last quarter, where Goldsmith is also a partner. "If you're going to make a commitment to launching a company, you might as well realize from the beginning it's going to be a resource-intensive effort. It wouldn't have made sense to start this company with \$5 million and then see what happens."

©2015 San Jose Mercury News (San Jose, Calif.)  
Distributed by Tribune Content Agency, LLC.

Citation: VCs bet big on Silicon Valley biotech (2015, May 28) retrieved 23 April 2024 from <https://phys.org/news/2015-05-vcs-big-silicon-valley-biotech.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.