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Venture Capital in Biotech

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Joe discusses the recent lack of investment in biotech. He explains that after the biotech bubble in 2000, VCs have been hesitant in investing in biotech companies, and this has led to a slowdown in innovation in the industry.

Transcript

You had touched on some of the larger biotech and pharma going out of the basic research and then going into acquiring mode. I was wondering since those little companies that are being acquired are venture capital funded, are the venture capitals taking in unreasonable risks in investing in biotech if biotech itself isn't willing to do this? Well, it's really interesting to see what's going on in start ups and new company formation. So around late 90s, it became clear that we were going to sequence the human genome and investors believe that that would revolutionize drug discovering development in commercialization, And in fact, it will and may already have done that but it hasn't made anyone a lot of money. But in 2000, we had our own 'bubble' in the biotechnology industry, around the genomic sciences. Where literally anyone with an annual report with the picture of someone with a DNA sequence in a white coat could go out and raise $50 or $100 million to revolutionize drug discovery based on sequencing the human genome. And that bubble burst and people lost a lot of money. So after about mid 2000 or since mid 2000, it's been really, really difficult to start innovative new companies. The reason is venture capital investors usually don't start companies because they like starting company or they want to start interesting company. They start companies because they need a return on their investment and they need an exit strategy. That exit strategy and that return has historically come through initial public offerings, but the public market since mid 2000 have basically ignored the small cap to start up biotech technology companies and initial public offerings have been incredibly rare and the few that had gone on have not been largely successful.

So the venture capital investors instead of starting entrepreneurial companies, companies pursuing drug discovering interesting science, are now doing two things. Number one, they're not starting new companies at all. They're saving their money to invest and to keep the existing companies and their portfolios going until at some point they can go public and they can get out of their investment. The companies they have started have been really what we call devcos or development companies. So, they're taking existing products that have been reformulated for new uses, products that have been abandoned by big pharmaceutical companies either because they were being developed for indications where they failed and someone thought there would be another indication, or they were being developed for an indication that was viewed as being too small and therefore not attractive. So about the only company, new company that can get venture funding now, is a company that has a story that along the lines of a product in Phase 3 clinical trials where we can get to the market quickly and either become profitable or to be acquired by or to be the subject of the successful public offering. So, I actually worry a lot about this and as a company, whose business model depends on innovation, I really worry that since middle of 2000, there's been very little venture investment or new company formation around companies that are trying to do innovative science and really reach for new cures for serious diseases. We have a small venture fund that Genentech in our group that we manage and which we created just to invest in some of the smaller entrepreneurial companies to help them get started with the thought that if they're successful, maybe they'll be willing to partner with us at some point in the future. So, I worry about the potential innovation gap because of the limited number of new companies that had been started and the kinds of companies that have been started.