

General Market Overview

During the quarter, biotech and pharmaceutical indices underperformed relative to general indices with NASDAQ biotechnology ending the quarter at -2%, whereas NASDAQ composite saw a gain of +15%. The bank run and the following collapse of Silicon Valley Bank and Credit Suisse triggered a downturn and a general shaken market despite limited direct exposure of biotech companies and investors.

Investment in biotech is increasingly focused on companies with strong clinical data, differentiated technology, disciplined spending, and realistic valuation expectations. RNA-based discovery engines, gene-editing, and platform technologies with multiple programs have become fashionable, attracting significant investments. HealthCap VIII portfolio company Hemab was one of the few biotech companies that attracted a large investment during the quarter with a USD 135 million Series B raise, well above the USD 68 million average Series B financing level of 2022.

In general, follow-on financings are increasingly driven by catalysts. During the quarter, 76% of US follow-on financings were raised by companies in phase II or later. Overall, US biotech companies raised over USD 4 billion in Q1 2023. This was in line with historical levels but represents a significant drop from the high levels seen in 2020-2022. BioCentury estimates that close to 50% of US NASDAQ-listed biotech companies now have less than 18 months of operating cash reserves.

IPOs remain rare with just five US biotech IPOs recorded so far in 2023, raising a total of just over USD 430 million. Europe's share of global venture financing and IPOs fell in 2022 with European companies accounting for 11% of global private financing, down from 15% in 2021. According to industry insiders, Europe is undervalued for the science it produces, and European financing and growth-stage funding has improved over the past decade.

The largest M&A deal during the quarter was Pfizer's acquisition of Seagen for USD 43 billion at a 33% premium of the market value. This was the first large M&A deal of 2023 and the largest biopharma deal since 2019. Pfizer expects to reach at least USD 10 billion in revenue from Seagen's approved and pipeline drugs, indicating a strong belief in antibody drug conjugates and a further focus shift away from classical small molecule drugs. More M&A activity is expected during the year, with a focus on late-stage assets. At the end of December 2022, the 23 largest drug developers had combined cash reserves of over USD 200 billion waiting to be deployed.