

China Healthcare

Good year ahead; takeaways from expert call on US biotech financing

Industry Overview

In 2023, we saw signs of recovery for the biotech financing space in the overseas private market. To have an updated view on the biotech financing environment in the US, we hosted an expert call with Mr. Bell, Managing Director of B3 BioVentures, and venture partner with CSB and Beyond Next Ventures, to discuss trends seen in the biotech financing environment in the US and provide with us an outlook.

US biotech financing: to return to normal rather than drop

Trends in biotech funding. Mr. Bell observed that biotech funding in 4Q23 was slightly lower compared with 3Q23. However, he believes it is more of a return to normal rather than a drop, as 2020 and 2021 were bubbly years, and the current biotech funding is nearly flat with that during the pre-pandemic times. In addition, he believes the correction in the biotech funding is a net-positive for biotechs, as he saw that 2020 and 2021 were too exuberant, making biotech companies go public too early than they should have, and thus the correction would benefit the industry. **On hot areas,** Mr. Bell observed that Neuro and AI are taking a lot of attention and less interest among the platform companies. In addition, small molecules and pure biologics (except ADC) are less popular, according to Mr. Bell. **On potential catalysts** for the biotech funding environment improvement, he sees liquidity events, such as IPO window opening again and increase in M&A, to be the catalysts. Regarding the impact from the **high interest rate environment**, he believes the early stage VC funds are relatively immune to the near-term effects of rates, but private equity and LPs are likely more impacted.

Outlook: good year ahead; geopolitical risks still exist

For the biotech financing outlook for 2024, Mr. Bell thinks it would be a good year in many cases: 1) the valuations reset would be good for investors; 2) the market would consolidate, as a bunch of companies that did big rounds of fund-raising would continue to advance, while more and more firms would struggle in terms of financing; 3) the Fed has hinted at lowering the rate and private equity will hopefully be swinging; and 4) the biotech IPO window would open up again. Among subsectors, Mr. Bell expects cell and gene therapies, and ADC to continue to be the hot areas. On the already hot AI healthcare space, he believes it is likely entering the edge of a bubble. However, he added that he is still looking for AI companies with proprietary data sets and reasonable computing power to lead. The expert added that he is positive on areas with short learning cycles within the AI space, e.g., healthcare delivery and patient stratification, where it is easier to treat the algorithm and AI could really be disruptive. Last but not least, on geopolitical risks, Mr. Bell sees a trend of nearshoring or onshoring of supply chains generally, which may have a significant impact to CMO, CDMO, and CROs, and he believes the trend would continue.

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ADC: Antibody drug conjugate

AI: Artificial intelligence

CMO: contract manufacturing organization

CDMO: contract development and manufacturing organization

CROs: contract development and manufacturing organization

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