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Sofinnova And J&J Offer Tips For Startups Seeking Financial Backing

by David Wild

Last year saw a drop in series A rounds. To increase the chances of fundraising success, new companies should engage earlier and align with potential financial backers.

The number of venture capital-backed series A rounds dropped 17% from 2022 to 2023, but successful fundraises netted more cash. According to a panel of VC and pharma representatives at BIO-Europe Spring, rather than being demoralized by the trend, founders should see an opportunity to refine their growth strategy and work closely with potential backers.

“What we're seeing here is a case of haves and have nots,” said Daniel Chancellor, thought leadership and consulting director, Citeline, who moderated the session in Barcelona.

According to Biomedtracker and Evaluate data, global VC-based biotech series A rounds dropped from 162 in 2022 to 98 in 2023, accounting for 29% of VC biopharma investments last year. The previous year, these accounted for 35% of all VC biopharma investments.

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However, all is not doom and gloom and more money was given to companies in successful series A rounds; roughly 45% of series A rounds in 2023 raised US $50m or more, compared to roughly 38% that achieved the same in 2022. (Also see "*The Biopharma A List: Taking The Pulse Of Newco Creation*" - In Vivo, 19 Feb, 2024.)

Despite the broader trend of fewer new company investments, Matthieu Coutet, partner at Sofinnova Partners, said his firm had not slowed down their investments in new companies. Rather, they have always been – and continue to be – very selective in their investment strategy.

"When we pursue a company in the seed stage, we ensure they will be able to be financed in a series A," he told meeting attendees. Part of making that determination is seeing that the company has made progress towards its development goals, while another element is corralling a syndicate of investors willing to share the ongoing risk.

But companies that do not have substantive progress to show yet should not be deterred from approaching Sofinnova, Coutet insisted. In fact, developing "an early-stage relationship is the key for future investments."

> *"Too early for us to invest doesn't mean too early for you to engage." - Lilian Alcaraz, J&J*

Early engagement allows an investor to acquaint themselves with the startup's technology, to do due diligence, and it is also an opportunity to provide feedback to the startup. That input can improve the company's trajectory and help it generate convincing proof-of-concept data.

"We have a lot of examples in our portfolio when we have said no at some points, but we keep discussing with the researchers, with the CEO, and at some later point we see that the team was able to deliver and reach a milestone, and then we invest at a later stage," he noted. "Maybe it's a 'no' at one point, but it won't necessarily be a 'no' forever."

Like Coutet, Lilian Alcaraz, vice president, early innovation partnering at Johnson & Johnson emphasized the importance of approaching big pharma early, even if it may be premature to make an investment.

"Too early for us to invest doesn't mean too early for you to engage," he said. "As you go through your plan, as you describe your innovation and what you want to do, we can provide you with advice and make connections and introductions in the VC community. And if we think what you're working on has got transformational potential, we will want to stay close and put in equity investment at some point, or collaborate or do a substantial deal."

Startups Are The Substrate For External Pharma Innovation

For many big pharmas, startups are "the main substrate for external innovation," Alcaraz added. While J&J did lower the number of new company investments they made last year, this reflected not a paucity of finances, but a return to placing safer bets on companies with compelling scientific innovations and strong commercial potential.

“We put more money in fewer startups to ensure we can take those with the greatest innovation and commercial potential all the way to the finish line,” he said.

One difference between a company like J&J and an investment firm like Sofinnova is that they look for companies with technologies that fit their existing therapeutic areas of focus. One key, therefore, is to “do your homework before you talk to any pharma.”

“Make sure that what you’re pitching is likely to be of interest to them,” Alcaraz advised.

Modalities J&J is looking for include cell and gene therapy, antibody drug conjugates, targeted protein degradation agents, bispecifics, molecular glues, gene editing tools and *in vivo* cell programming, Alcaraz added. On 14 March, the company co-led, along with RV Invest, a €30m ($32.6m) series A round in Swedish biotech Asgard Therapeutics, which specializes in *in vivo* direct cell reprogramming for cancer immunotherapy. (Also see "*Finance Watch: Mega-Rounds Around The World As VCs Spread The Wealth*" - Scrip, 18 Mar, 2024.)

Sofinnova’s innovation interests broadly include companies that address high unmet needs, such as neurodegenerative diseases, as well as oncology and inflammation.

“We try to follow what pharma is telling us, because in the end, we work with them at a later stage for financial collaborations or acquisitions,” said Coutet.