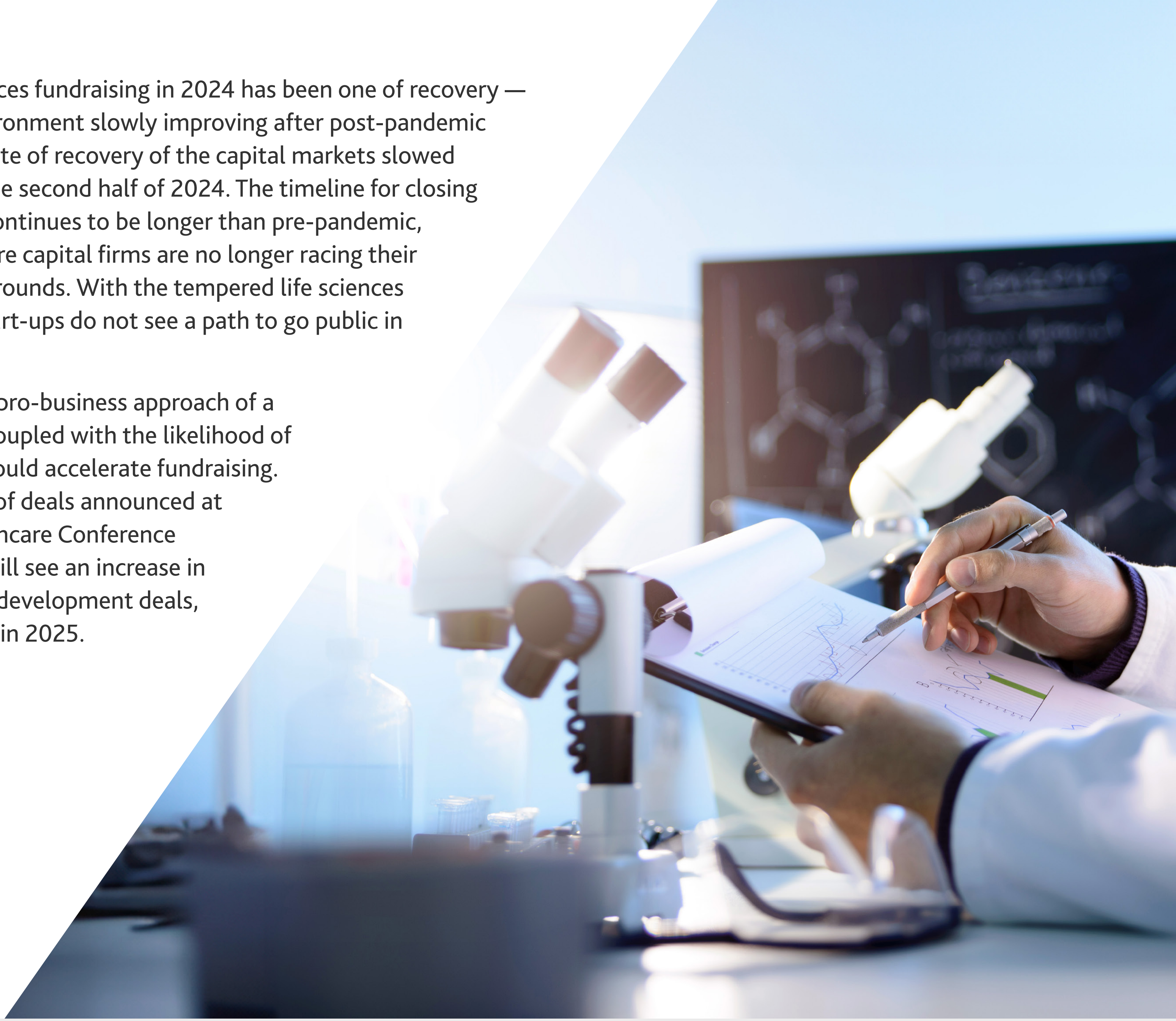
Fundraising Considerations for Life Sciences Therapeutic Companies

HOW LIFE SCIENCES COMPANIES CAN ATTRACT FUNDING HEADING INTO 2025

BDO

The story of life sciences fundraising in 2024 has been one of recovery — with the funding environment slowly improving after post-pandemic lows. However, the rate of recovery of the capital markets slowed down somewhat in the second half of 2024. The timeline for closing a fundraising round continues to be longer than pre-pandemic, in part because venture capital firms are no longer racing their competitors to close rounds. With the tempered life sciences IPO market, many start-ups do not see a path to go public in the near future.

Looking to 2025, the pro-business approach of a new administration coupled with the likelihood of continued rate cuts could accelerate fundraising. The size and number of deals announced at the J.P. Morgan Healthcare Conference could indicate if we will see an increase in fundraising, business development deals, IPOs, and M&A deals in 2025.



The Current State of the Funding Environment

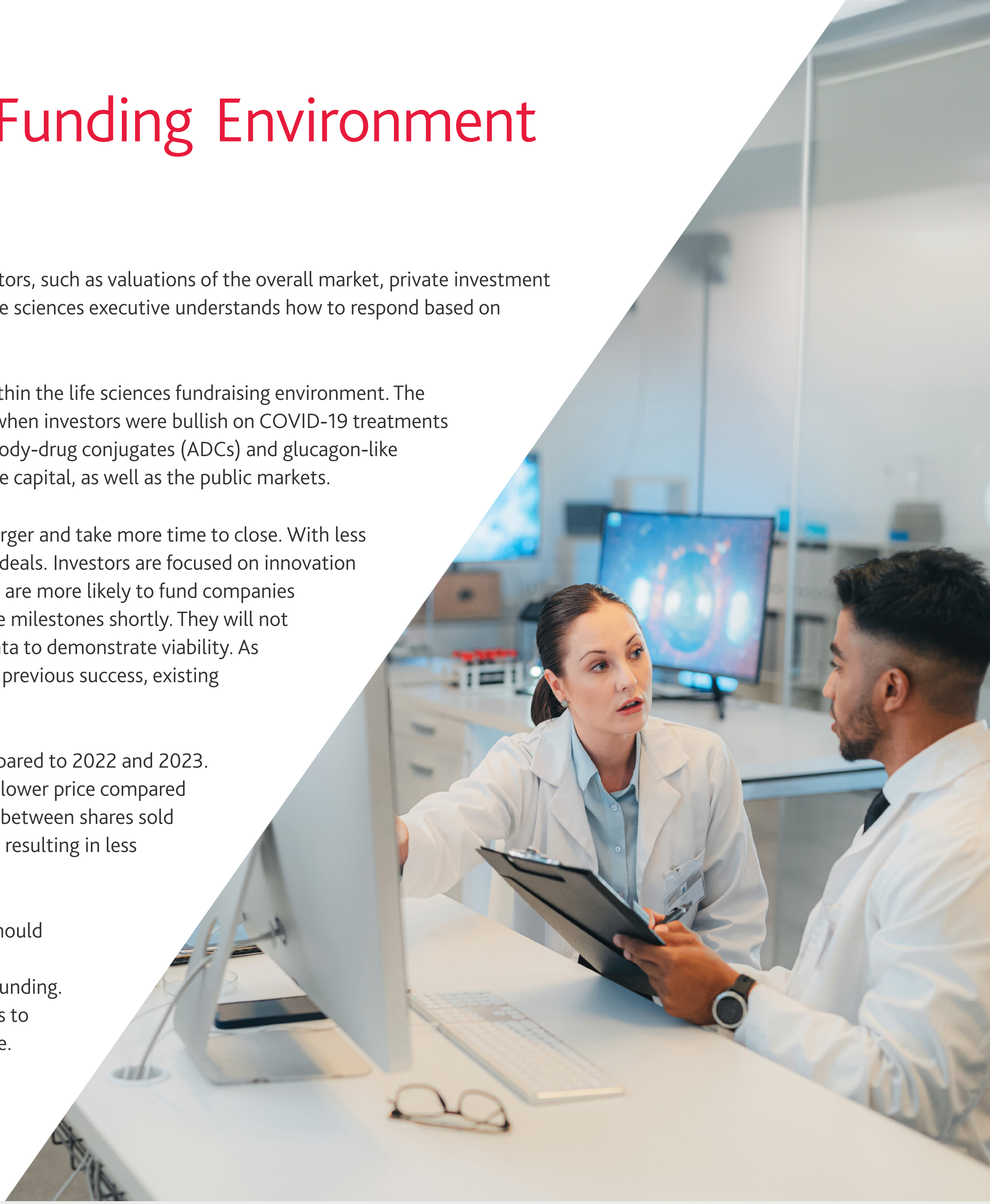
The funding environment for life sciences is typically driven by a variety of factors, such as valuations of the overall market, private investment competition, or sentiment towards a specific investment type. A successful life sciences executive understands how to respond based on varying conditions.

In late 2024, venture capital funding is returning, signalizing a stabilization within the life sciences fundraising environment. The sector is far removed from the abundance of capital seen during 2020-2021, when investors were bullish on COVID-19 treatments and interest rates were low. However, specific therapeutic areas such as antibody-drug conjugates (ADCs) and glucagon-like peptide-1 receptor agonists (GLP-1s) are receiving strong interest from venture capital, as well as the public markets.

While 2024 has seen fewer investment deals overall, those deals tend to be larger and take more time to close. With less competition from other venture firms, investors do not feel pressured to rush deals. Investors are focused on innovation but are cautious with their dollars. As investors become more discerning, they are more likely to fund companies that are in the best position to advance a candidate and therefore hit fundable milestones shortly. They will not be wooed by companies that make bold claims, but do not have the strong data to demonstrate viability. As such, they will significantly favor companies with strong management teams, previous success, existing relationships, strong science, and clinical data.

Additionally, the life sciences industry is now seeing fewer down rounds, compared to 2022 and 2023. This means fewer companies are diluting their valuation by selling shares at a lower price compared to a previous round. When down rounds do occur now, the difference in price between shares sold in the down round and shares sold in the previous round is frequently smaller, resulting in less valuation dilution.

Given that the fundraising timeline has lengthened, life sciences companies should consider pursuing bridge capital. Bridge capital can provide a lifeline, allowing companies to satisfy crucial cash flow needs until they can secure long-term funding. This fundraising environment provides a good opportunity for business leaders to discuss with current investors how to make the most of their investment value. For example, bridge financing from current investors may allow the company to drive to a higher valuation, inflection point, or better market conditions.



Looking Ahead to 2025

There are several factors that indicate the life sciences fundraising environment could continue to rebound in 2025. For one, now that the election has been decided, the industry can look forward to more certainty. The Trump administration will likely take a pro-business stance in many policy areas. Tax cuts could free up more cash for investments, partnerships, and acquisitions by large life sciences companies. While a more business-friendly Federal Trade Commission (FTC) could allow more mergers and acquisitions.

Of course, there are still unknowns. For example, what will Trump's approach to drug pricing be? The campaign did not articulate a position on drug price negotiation, according to health research organization KFF, although has expressed some support for legislative action on drug pricing in the past. If confirmed, it is unclear what positions Robert F. Kennedy Jr. will take as head of the Department of Health and Human Services (HHS), as he has previously expressed skepticism of the pharmaceutical industry. Finally, before the announcement that the consumer price index rose by 0.2% in October, many expected the Federal Reserve to continue to cut rates once again in December. While that may still be the case, it is also possible that the Federal Reserve holds on cutting rates again until they see further evidence that inflation is under control.

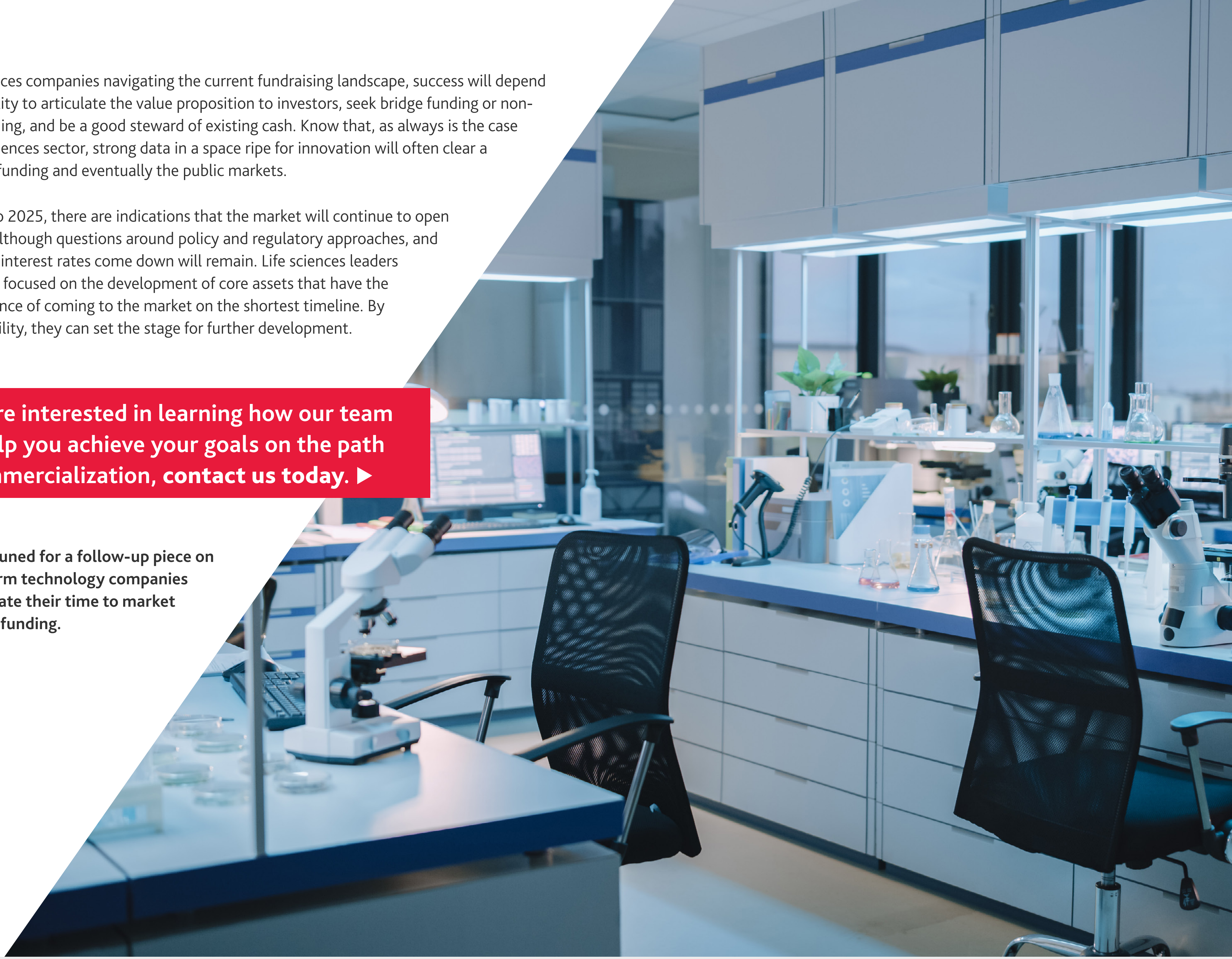
In early 2025, the [J.P. Morgan Healthcare Conference] will be a key indicator of where the life sciences industry will head in 2025. If many deals are announced at that conference, it will indicate a competitive environment and more companies will move to close deals. This will increase demand for some life sciences companies and drive valuations. Finally, regardless of the macroeconomic and political conditions, many large life sciences companies will look to make acquisitions in 2025 to refill revenue streams, as many patents on blockbuster drugs are due to expire this decade. Many large life sciences companies have the cash to spend, with the largest companies on the Nasdaq Biotech Index having almost $3 billion in cash and equivalents in 2023, according to BDO's latest Biotech Brief.

For life sciences companies navigating the current fundraising landscape, success will depend on one's ability to articulate the value proposition to investors, seek bridge funding or non-dilutive funding, and be a good steward of existing cash. Know that, as always is the case in the life sciences sector, strong data in a space ripe for innovation will often clear a pathway to funding and eventually the public markets.

Heading into 2025, there are indications that the market will continue to open up further, although questions around policy and regulatory approaches, and how quickly interest rates come down will remain. Life sciences leaders need to stay focused on the development of core assets that have the greatest chance of coming to the market on the shortest timeline. By proving viability, they can set the stage for further development.

If you're interested in learning how our team can help you achieve your goals on the path to commercialization, contact us today. ▶

Also, stay tuned for a follow-up piece on how platform technology companies can accelerate their time to market and unlock funding.



People who know Life Sciences, know BDO.

www.bdo.com/**life-sciences**