

# What's Up In Private Markets?

*The IPO window has been mostly closed, but there is a huge amount of capital available in private markets; does this rhyme with how the tech unicorns of the aughts came about?*

Two trends converged in private markets over the past 12 months, the result of which was a year in which total rounds were down year-over-year, and a backlog of 125 companies waiting to come public has formed.

First, public market appetite for new issues in the late 2010s and 2020 enabled life science venture capital (VC) and crossover funds to generate great returns on which they raised large sums of capital<sup>4</sup>.

One implication has been that private valuations and amounts raised in individual deals have increased substantially in 2021 and 2022 – most notably in Series A companies. Put differently: in aggregate, starting in 2021 and continuing in 2022, Series A companies have been better financed and at higher valuations than at any time in the prior decade.

Second, public market appetite for life sciences new issues reversed course in 2021 and 2022. Companies that recently came public saw poor returns, creating both weaker valuation comps for subsequent IPOs and decreased investor interest in financing subsequent IPOs.

Thus, with private companies well-financed and with substantial access to capital in private markets, and with weak demand in public markets and at substantially lower valuations, many private companies elected either to i) not raise additional capital, or ii) raise additional capital with insiders, so as to support existing valuation marks while waiting for public markets to thaw. To give you a sense of scale, Leerink estimates that there are 125 private companies who have completed crossover rounds since 2020 but remain private – ostensibly waiting for markets or circumstances to press them to act differently.

It remains to be seen whether public markets will return to a state that can support this many IPOs and at valuations that the private investors have deemed appropriate or whether there will need to be a resetting of expectations in private markets. Alternatively, the setup described sounds interestingly familiar to the tech unicorn phenomenon that arose in the aughts.

<sup>1</sup>Driehaus analysis. Data sourced from Pitchbook.

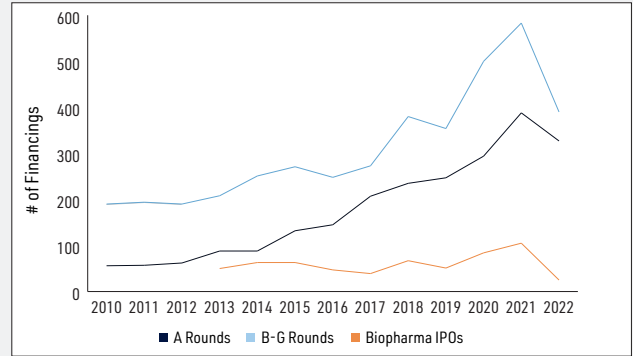
<sup>2</sup>Driehaus analysis. Data sourced from Pitchbook.

<sup>3</sup>Driehaus analysis. Sourced from Dealogic, StreetAccount, Mergermarket, Pitchbook. Published in Bannister, Jack "Biotech Ho-Ho-Hoping for a Better 2023," December 22, 2022. Crossover round defined as private financing including at least 3 traditional public-side investors.

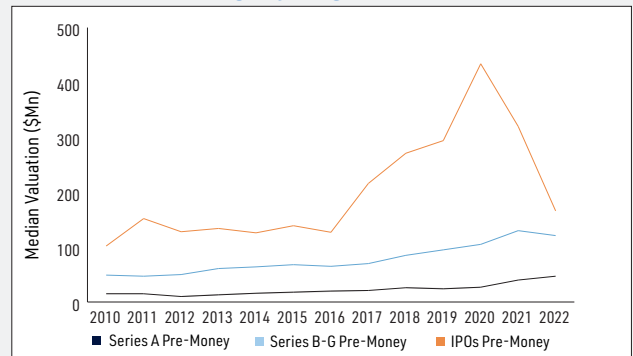
<sup>4</sup>By one estimate more than \$40 billion dollars in capital was raised by life science venture capital firms in 2020-2021.

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Number of Life Science Company Financings by Stage, 2010-2022<sup>1</sup>



Valuations of Life Science Company Financings by Stage, 2010-2022<sup>2</sup>



Building Backlog of Biopharma IPOs, 2020-2022<sup>3</sup>

