

# Life Science Leader

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SEPTEMBER 2021

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## VCs Breathe New Life Into Life Sciences Industrials

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*Life sciences “industrials” – companies that supply key materials, services, and technology platforms for biopharma developers – traditionally start as bootstrap enterprises. Until recently, they have primarily relied on seed money from angels, family, various other small-scale investors, grant money, and early income to fund their entry and subsequent growth. But the industrials or supplier sector of this industry, in a significant change from the past, is now receiving an extra financial boost from VC funding.*

**W**hy should their biopharma customers care? That is a key question in this story. Daniella Kranjac, an experienced venture capitalist and founding partner of Dynamk Capital, starts with the basics.

“The life sciences industrials are the fundamental core of all the components – technologies, tools, and services – that biopharma relies on in discovery, drug development, or manufacturing,” she says. “They are markedly different from therapeutics or medical device companies that go through clinical trials and regulatory reviews. They are insulated from those burdens, so they don’t have the same level of capital intensity.”

But biopharma’s critical reliance on the industrials/supplier sector has never ensured financial security for the companies in that sector. Perhaps the suppliers could use a little more capital intensity. Underfunded companies can become fragile, and fragile companies sometimes fail or falter in delivery. Many who have careers in drug or device development will wince when recalling their worst supply interruptions, perhaps, in some cases, because a supplier had simply disappeared or gone out of business.

In fact, according to Kranjac, in the first half of 2021, investments in life sciences industrials reached more than

\$6.2 billion compared to \$6.7 billion for all of 2020. “Invested capital is on pace to nearly double this year if the trajectory continues.”

### PLATFORM EMERGENCE

The lion’s share of attention to the life sciences industrials sector always has gone to contract manufacturing, clinical research, or combinations thereof, but the new VC funding of suppliers also coincides with emerging technology platforms. Those include cell and gene therapies, new production approaches, and AI and machine learning or automation for manufacturing and drug discovery. “Industrials investors are interested in the entire supply chain for anything going into a GMP facility or GMP operations – bioreactors, chromatography, purification – the whole gamut, upstream or downstream,” says Kranjac. “We are also keenly interested in services, not only from a CRO perspective, as with organ on a chip, or anything that supports clinical trials, but also with CDMO services and what they provide to companies. So, our investments essentially cover the whole continuum of discovery, development, and manufacturing.”

Kranjac raises a recent example of how suppliers of new technologies have helped biopharma accomplish historic firsts – Pfizer’s COVID vaccine: “Without acquiring new technologies, could Pfizer have brought to market a new vaccine in less than a year? Probably not. But the untold story is Pfizer had leveraged



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new disposable processing platforms for producing the COVID vaccine, and the same goes for Novavax and Moderna. They were leveraging the state of the art in production technologies.” She adds that many platform companies are advancing their own assets and simultaneously working in tandem with partners to advance mutual assets, including therapeutics.

Pfizer, notably, recognizes the importance of new platforms development in the industrials sector by directly supporting initiatives in venture funding. Pfizer is a key investor in Dynamik’s new Life Science Industrials Fund, for example. “That is because Pfizer sees the critical nature of the components, tools, technology, and related services from this sector and how they [the industrials] bring competitive advantage,” says Kranjac. “Pfizer and other biopharma companies want to encourage innovation in life sciences industrials because they know it will ultimately enable them to deliver novel approaches, such as cell and gene therapies, at more accessible pricing to the market.”

#### MODEST ROUNDS, STEADY RETURNS

Biopharma startups also depend on VC funding, so they might wonder whether the industrials sector now presents competition for the same funding source. Kranjac doesn’t think so, because the new funds are financed separately and for wholly different reasons, all working in the biopharmas’ favor. Also, the scale of funding, as reflected in typical series rounds, is so much lower on the supplier side. A typical range for Series A rounds for suppliers is currently \$5 million to \$20 million.

“Therapeutics companies have to fund discovery and pre-clinicals, then perhaps Phases 1, 2, 3, so there are different values and milestones associated with those companies,” Kranjac says. “Life sciences industrials don’t follow that same pathway, but there is a similar sort of structure in milestones and product development and launch. Increasingly there’s more funding available for life sciences industrials. In the past, those companies would have been likely to bootstrap, due to the lack of funding. But today, there are more funders who understand the potential for life sciences industrials, and leading life sciences acquirers and strategics are posting

growth rates higher than most therapeutics companies. So, there is much more money available to founders as a result.”

Kranjac has seen an increase in the value and frequency of industrials series rounds, which only a few years ago would have averaged \$3 million to \$6 million apiece. “We also observed some smaller rounds in the past year, and a lot of that likely had to do with COVID dynamics. Entrepreneurs knew they might be hard-pressed to meet investors face to face. They might not be able to do the road shows and get the same traction. Also, if they were doing something related to COVID, they could face tough deadlines they might not make. But they could readily raise money from their existing insider investors, so the small rounds got a little smaller because many companies did bridge rounds.

Despite those parallels, the perspectives of investors in biopharmas versus industrials vary greatly, says Kranjac. “When you’re building a portfolio for therapeutics investments, you expect to invest in 15 or 20 companies, but the lion’s share of the returns will come from only one or two companies. But life sciences industrials have a much more consistent return, albeit not the 25-times scale of returns a therapeutics-developing biotech can enjoy.”

#### THE BENEFITS TO PFIZER

Instead of competing with the interests of biopharmas, funding of life sciences industrials appears to support those interests. From the stimulus of available capital, the supplier sector achieves greater stability. Barbara Dalton is managing general partner at Pfizer Ventures. She describes the benefits to Pfizer as it ensures VC investment in suppliers, including those with technology platforms and new modalities such as gene therapy and RNA-based approaches.

Pfizer depends on the supplier sector for much more than early-stage discovery and clinical science, according to Dalton: “Behind every successful drug is a tremendous amount of manufacturing science, industrial technology, analytics, and logistics — and the life sciences industrials are essential ‘picks and shovels’ for delivering new medicines.”

Suppliers not only help companies meet market demand but also give access to advanced technologies. “For biopharma to produce the best products at a scale necessary to meet market demands, innovation in life sciences industrials must keep pace with innovation in drug discovery and development,” says Dalton. “For instance, the recent delivery of the Pfizer-BioNTech COVID-19 vaccine — which leverages an mRNA platform, a relatively new therapeutic modality — brought manufacturing challenges distinct from the challenges of manufacturing traditional solid oral doses or biologics. Our investment in funds for life sciences industrials is a force-multiplier for us, expanding our network in this critical industrial-tools space and driving the innovation required to keep us at the forefront of pharmaceutical manufacturing.”

Pfizer is among many industry players here. From new VC funds to industry accelerators and incubators, the life sciences industry is finding ways to stimulate and stabilize the supplier sector. **L**