

Bio Rising

Venture Firms Rediscover Biotech

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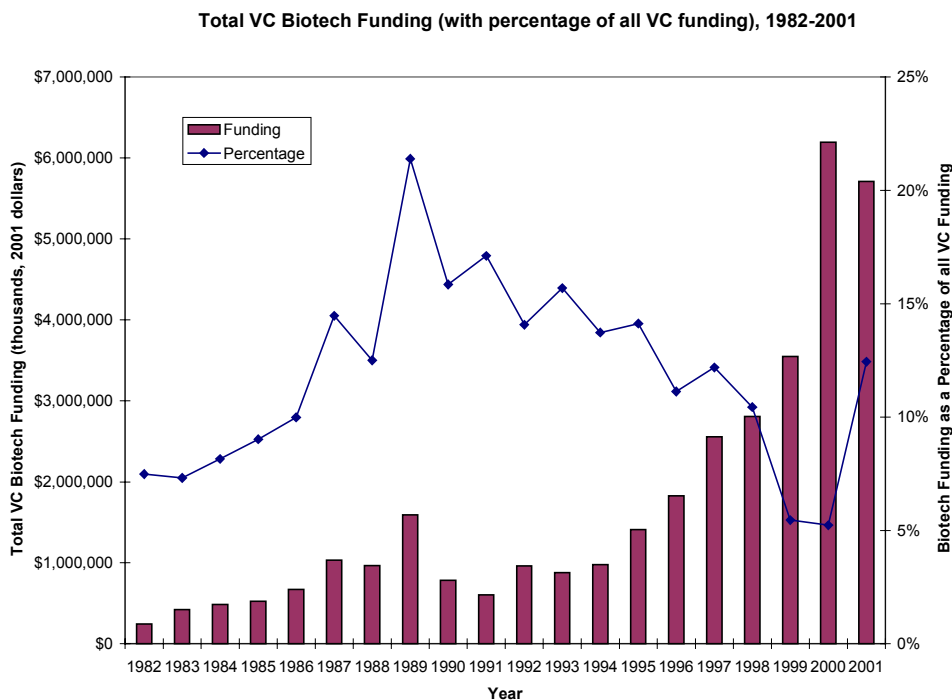
September 2002

Bio Rising: Venture Firms Rediscover Biotech

By Lena Andrews and Jerry Paytas, Ph.D.

Venture capital investment in the biotechnology sector has grown a great deal over the past decade. Between 1991 and 2001, total venture capital funding of biotechnology companies in the United States increased by 842%. Between 1995 and 2000, funding increased by an average of 37% per year. In 2000, total biotechnology funding peaked at \$6 billion. A 7.8% decline in 2001 was far less severe than the 61.2% decline in total venture investment in the nation in 2001.

Figure 1



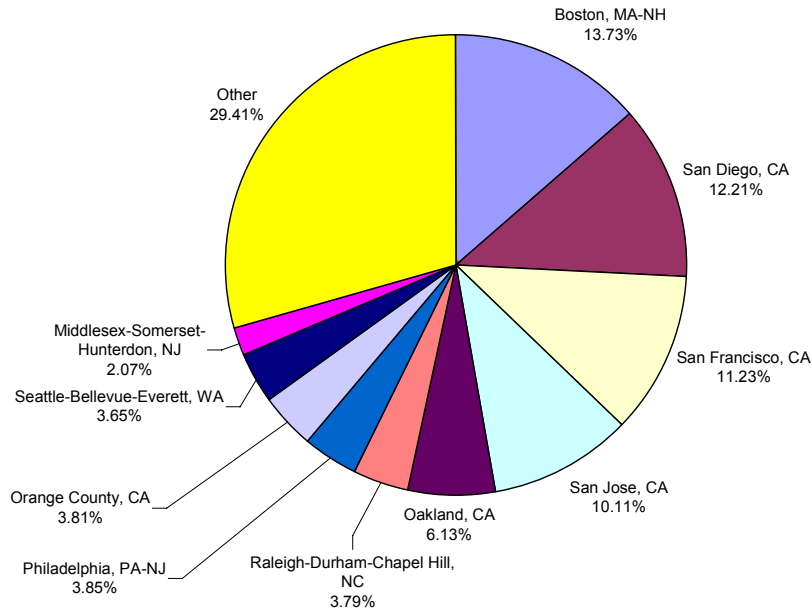
Source: Venture Economics

Where the deals are....

Biotechnology companies receiving venture funding were concentrated in five regions. These regions accounted for 53.4% percent of total biotech funding between 1991 and 2001. Of the five, Boston had the largest share at 13.7% of total US bioventure VC; San Diego had the second largest share, 12.2%. San Diego has started to erode Boston's lead in venture funding as it edged out Boston with 13.6% of the venture investment for 2001 compared to 13.3% for its East Coast rival. Forty-six percent of all biotech venture funding in 1991-2001 went to companies in California. Of the top ten MSAs receiving biotechnology venture funding in the last decade, only Philadelphia, Raleigh-Durham-Chapel Hill, and Middlesex-Somerset-Hunterdon are not located on coasts.

Figure 2

Biotech Companies Receiving VC Funding by Region, 1991-2001



Source: *Venture Economics*

Other people's money...

Venture capital firms making biotechnology investments were located in a small number of regions. The most active venture firms¹ over the past two decades are located in San Francisco, New York, Boston, Trenton, Stamford-Norwalk, San Jose, Baltimore, and Chicago. Many of the regions with very active biotech investors are exporters of biotech capital, while many of the top markets have a relatively small community of investors.

<i>Most Active Bio Investors</i>	<i>Top Markets for Bio Investment</i>
1. San Francisco	1. Boston
2. <i>New York</i>	2. San Diego
3. Boston	3. San Francisco
4. <i>Trenton</i>	4. San Jose
5. <i>Stamford-Norwalk</i>	5. Oakland
6. San Jose	6. Raleigh-Durham-Chapel Hill
7. <i>Baltimore</i>	7. Philadelphia
8. <i>Chicago</i>	8. Orange County
<i>Italics indicate venture "exporters"</i>	Bold indicates venture "importers"

In fact, most venture capital flowed between MSAs. Of the 1,739 biotechnology companies in the U.S. that received venture funding between 1982 and 2001, only 191, or 11.0%, did not receive any venture funding from outside of the MSA. This confirms earlier findings by Florida and Smith (1993) of high degrees of capital mobility within venture capital markets.ⁱⁱ

Table 1: Sources of Biotech Venture Capital Funding, 1982-2001

<i>Source of Funding</i> ⁱⁱⁱ	<i>Number of Biotech Companies</i>	<i>Percentage</i>
Entirely Local (same MSA)	191	11.0%
Mix of Local and Nonlocal	496	28.5%
Entirely Nonlocal	1052	60.5%

Source: *VentureEconomics, Analysis by the Center for Economic Development.*

Other Venture Capital Reports from the CED:

[Technology in Pittsburgh: Trends in Biotechnology Investment](#)

[Venture Capital Floods Pittsburgh](#)

[Recent Venture Capital Trends in Pittsburgh](#)

[Venture Capital Disbursements by Region](#)

[Venture Capital in the United States](#)

Other Reports on the Biotechnology Sector from the CED

[A Biotechnology Action Plan for Southwestern PA](#)

ⁱ Calculated using total number of deals by firm MSA, 1982-present.

ⁱⁱ Florida, Richard and Smith, Donald. 1993. Venture Capital Formation, Investment and Regional Industrialization. *Annals of the Association of American Geographers*, 83, 3:434-451.

ⁱⁱⁱ This data does not include investments in companies by undisclosed firms or firms for which MSA data was not available (20% of the original data set).