INSIDE FI WITH NEWLINE GROUP FINANCIAL INSTITUTIONS/CRIME

ISSUE NO. 1 | JUNE 2022 | **VENTURE CAPITAL**

As with many financial markets, 2021 was a real boom year for Venture Capital (VC). Fuelled by a roaring post-Covid recovery, continuing low interest rates and the resulting yield-hungry investors searching for bumper returns, 2021 was a record-setting year for the VC sector as a whole.

In the United States alone, VC-backed companies raised USD 329.6 billion in 2021, almost doubling the previous record of USD 166.6 billion. This was echoed by other metrics such as deal count, IPOs and private exits, which were either approaching or exceeding previous record highs.

One thing among these stellar numbers that is interesting to note is that the number of deals closed did not keep pace with the capital raised, suggesting strong upward pricing pressure and increasingly lofty valuations.

Alongside these striking headline numbers, there are two key trends whose progress in the next 12 months will be interesting. These are: i) the continued involvement of non-traditional investors in the longer term; and ii) some interesting movements in the Biotechnology and Life Sciences sector.

TRADITIONAL VS. NON-TRADITIONAL INVESTORS

In 2021, there was a marked increase in the participation of non-traditional VC investors such as family offices, private equity firms and sovereign wealth funds. So-called non-traditional investors participated in 6,483 deals in 2021 vs. 3,948 in 2020.

This industry-specific trend is an interesting one and is perhaps key to how the next few years pan out in the VC sector. This growth in participation and deal leadership from non-traditional investors is not new and has been steadily increasing over the past 10 years, but really moved up a gear in 2020-2021. The long-term nature of the trend suggests it may be here to stay as these participants continue to build out their expertise in the sector. It will, however, it will be interesting to see if this is a high-water mark for this trend and where it goes from here.

Naturally, the added competition to participate in deals will only have one effect on valuations. It will be interesting to see if: i) more traditional investors (such as insurance companies, pension funds, university endowments, etc.) stage a fight back and reclaim their territory by outbidding the relative newcomers; and ii) if the non-traditional investors stay the course if there are a few bumps in the road.

It may superficially seem likely that the non-traditional investors who have become more broadly involved in the sector will bolt when the going gets tough. Given how long the current position has been built over and the increased lead activity, it would appear that a large chunk is here to stay. However, newer participants who were late to the party may also be the first to leave.

ROCKY START TO 2022 FOR LIFE SCIENCES

Naturally, when we speak about venture capital we are talking about a diverse sector and each niche has its own nuances. There have been warning signs in the Life Sciences and Biotechnology sector that suggest that 2022 may not be plain sailing.

Companies in this sector have got off to a bad start in 2022. 83% of recently-listed biotech and pharma stocks are now trading below their IPO price. 2021 was a challenging year for IPOs more broadly, but this is an especially poor run.

The Nasdaq Biotechnology Index fell by approximately 22.47% for the year so far, while the S&P 500 index is down 18.6% in the same period. This trend has resulted in much less money flowing into the sector in private markets creating serious issues for companies in search of their next funding round.

The blame has been put on so-called ‘tourist investors’ in the life sciences sector, which is broadly used as a pejorative term to describe retail investors and more generalist funds putting their money in to a specialist sector. Following a rocky patch, newer money has parted the scene and available funding has dried up. This uncertainty among newer investors is partly driven by regulatory changes affecting this sector in particular, which has unnerved some investors.

These separate-but-related trends are two of the most intriguing for 2022, and it will be interesting to see how the investor mix develops, and if the difficult start for Life Sciences spills over to other sectors. Rising inflation and the potential accompanying rise in interest rates could have an adverse effect on companies with lofty valuations and be a key driver to accelerate the two trends discussed above. Will the so-called tourist investors be packing their bags in a hurry after a blazing row with their partner or will they be so in love with their tropical paradise that they set up home?

We will continue to watch these trends unfold. Far from being a ‘tourist’ in the sector, Newline Group continues to seek growth in this book and business and prides itself on underwriting for the long-term and providing stable insurance capacity to its clients. Newline Group is a recognised leader in the Financial Institutions/Crime market. Our highly experienced underwriting teams work closely with clients, tailoring policies to their individual needs. We have the knowledge and experience to meet the challenging demands of insureds, both large and small, offering solid security and tailored coverage. Backed by our strong financial ratings and unmatched underwriting and claims expertise, our policies offer a broad range of cover.

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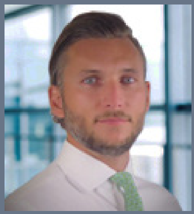

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