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# Survival Of The Fittest? Investment Downturn May Weed Out Redundancies In New Companies

by Alaric DeArment

The difficult investment environment has made it harder to build newcos, but panelists at the Galien Forum talked about how that might help limit some of the me-too companies that proliferate when financing is easier.

The start of the decade may have seen an overabundance of biopharma companies all pursuing the same targets, but the current downturn in biopharma investing could be weeding out some of those redundancies, according to speakers at the recent Galien Forum. And although artificial intelligence and machine learning (AI/ML) have grown in importance for drug discovery and development, some question whether this is an area where many redundant companies are forming.

The difficult investment environment for biopharma has been a significant concern this year as macroeconomic factors like inflation and recession concerns have had downstream effects on the industry. (Also see "[Five Key Points From Cell & Gene Meeting On The Mesa](#)" - Scrip, 13 Oct, 2023.) As a result, everyone from start-ups to public companies to venture capital firms have been trying to figure out how to survive until cash starts flowing more easily again. (Also see "[Biopharma Investors, Companies Learning To Adjust To Financial Market Realities](#)" - Scrip, 27 Jun, 2023.)

But a side effect of the easy money at the start of the 2020s was that it resulted in many companies jumping on therapeutic bandwagons, and the current climate could be causing a correction.

"There had been an overexuberance in biotech in the 2020-2021 period that led to starting too many companies chasing the same idea," Generate Bio CEO Mike Nally said during a panel on company creation. "The world doesn't need a sixth-in-class medicine, and that was very, very

prevalent for a long period of time.”

On the sidelines of the forum, Nally cited PD-1 checkpoint inhibitors as an example.

“At some point, patients are getting the care they need, and unless we’re finding distinctly better answers, you don’t need 200 of a drug,” he told *Scrip*. “You saw that over and over again: Any hot target, historically you see somewhere between two and four, sometimes more chase a target – you’re increasingly started seeing five, six, seven, eight, nine companies chasing the same exact idea.”

“And at some point, there’s a lot of duplicative work going on that’s much better deployed toward novel landscapes,” he added.

During a closing panel discussion among CEOs of established companies like Pfizer Inc., Eli Lilly and Company and Seagen Inc., Seagen’s David Epstein echoed that view.

“I do think back to the venture side, we probably went a little bit overboard,” he said. “We probably didn’t need 100-plus anti-PD-1s in development. We probably didn’t need 85 different gene therapy companies or cell therapy companies.”

But Nally suggested during the morning panel that a silver lining to the current downturn might be that the companies that are finding funding prove to be more lasting, versus the “gold rush” that had been taking place. He drew a comparison to the tech industry and how many of the most successful players came into being during the 2007-2008 financial crisis, and predicted a similar trend in biopharma over the next few years, with a “survival of the fittest” situation.

“If you just look at the history of industries, some of the greatest companies are always born in these sort of downturns,” he said.

### **Uncertainty Around AI/ML Hype**

One of the biggest fields of innovation in recent years has been around artificial intelligence and machine learning (AI/ML). And while panelists and others at the Galien Forum agreed that AI/ML has become an indispensable tool for the biopharma industry, there was also concern about it becoming hyped.

“There’s a lot of vaporware in AI/ML,” things that have been conceptualized but

### **Key Takeaways**

- Panelists at the Galien Forum talked about building biopharma companies in a difficult investment environment.
- Generate Bio CEO Mike Nally posited that a beneficial side effect of the downturn

not yet delivered, Nally said. “A lot of companies have now rebranded themselves to be AI/ML companies, and they’re not, and so I think that actually does a disservice to those that are actually trying to do it with real rigor.”

Nally’s firm, Generate Bio, grew out of Flagship Pioneering and is one of a growing number of companies using AI/ML in the pursuit of drug discovery

and development. The company generated its first target in August 2022, a mutation-resistant and highly conserved, but difficult to target region of the SARS-CoV-2 virus called the S2 domain, and it has an S2-targeting monoclonal antibody, GB-0669, in the clinic. The company raised \$273m in a series C venture capital round in September. (Also see "[AI-Fueled Generate Maps Out Path To Clinic Over Next 24 Months](#)" - Scrip, 14 Sep, 2023.)

might be fewer companies chasing the same drug targets or duplicative efforts.

- There is some concern about hype around AI/ML, which panelist Adam Koppel compared to genomics at the turn of the millennium.

Fellow panelist and Bain Capital Life Sciences partner Adam Koppel drew a comparison to earlier hype around genomics, saying that around the turn of the millennium, “if you were a company and you had the word ‘genomics’ in your strategy, you got funded.”

With exception to some companies like Illumina, he said, he couldn’t think of any that succeeded just because they were genomics companies. But at the same time, when one looks at the top-selling 20 drugs, all of them needed the tools of genomics to be discovered and developed.

“So I think back then, genomics was an incredibly powerful tool – every company had to use it – but it was more a ticket to play than it was an investment thesis or strategy for a company to kind of build itself around,” he said. “I think similarly now about AI.”

*[Editor’s note: The wrong version of this story was initially published. We regret the inconvenience.]*