



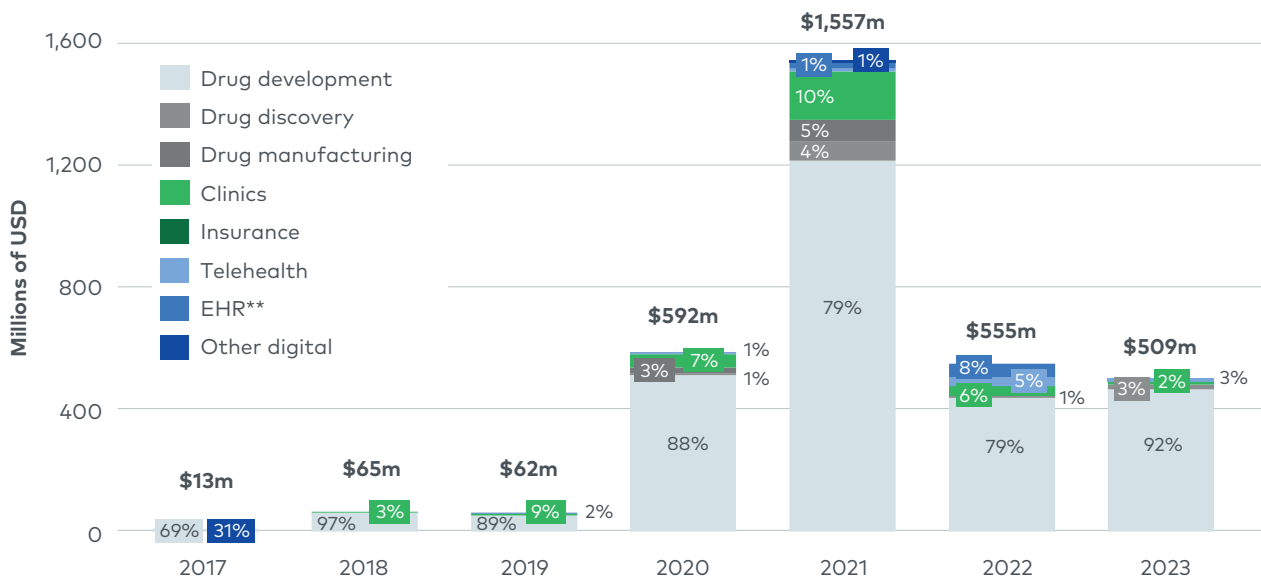
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Exploring the Psychedelics Landscape: Looking Ahead to Funding in 2024

In early 2023, L.E.K. Consulting published an *Executive Insights* on the **outlook for the psychedelics sector** which proved to be prescient: 2023 was a resilient year for psychedelics despite a challenging funding environment. The year saw almost \$500 million invested across the sector (see Figure 1), relatively on par with that of 2020 and 2022, even as the broader biotech sector continued to struggle, especially in the public markets.

Figure 1
Investment in psychedelics sector by company type (2017-23)

Investment in psychedelics companies,* by sector 2017-23, N=204



Notes: Includes private placements, Series A/B/C rounds, seed funding, grants, public offerings, acquisitions, grants and initial public offerings
EHR=Electronic Health Record
Source: Crunchbase; company websites; Cortellis; Mergermarkets; Neuly; Psychedelic Invest; Psychedelic Finance; L.E.K. research and analysis

2023 brought notable financing activity building on the impressive lead-up from 2020 to 2022, which saw record investments exceeding a total of \$2.5 billion into the psychedelics sector and initial public offerings by atai Life Sciences and GH Research (see Figure 2). For example, Compass Pathways⁸, backed by atai, completed a \$285 million private placement led by specialist healthcare investors TCGX and Aisling Capital, with follow-on investments from existing investors such as Vivo Capital, RA Capital and Surveyor Capital, among others¹. According to Compass, the financing will provide a cash runway into late 2025 as it seeks to move its psilocybin programme to commercialisation by 2027.

Figure 2
Lead investor profile of private investment rounds (\$50m+) in psychedelics (2020-24)

Company	Round	Size	Lead investor				
			Venture capital	Private Equity/ LBO	Hedge funds/ Crossover	Pharma/ Biotech	Family offices/ foundations
 Compass	Private placement	\$285m			●		
 atai	Series D	\$157m			●		
 GH Research	Series B	\$125m			●		●
 lykos	Series A	\$100m	●				●
 Beckley Psytech	Series B	\$80m	●				
 delix	Series A	\$70m	●		●		
 Lusaris	Series A	\$60m			●		
 Mindset Pharma	Acquisition	\$59m				●	

Source: Company filings; Mergermarkets; Cortellis; L.E.K. research and analysis

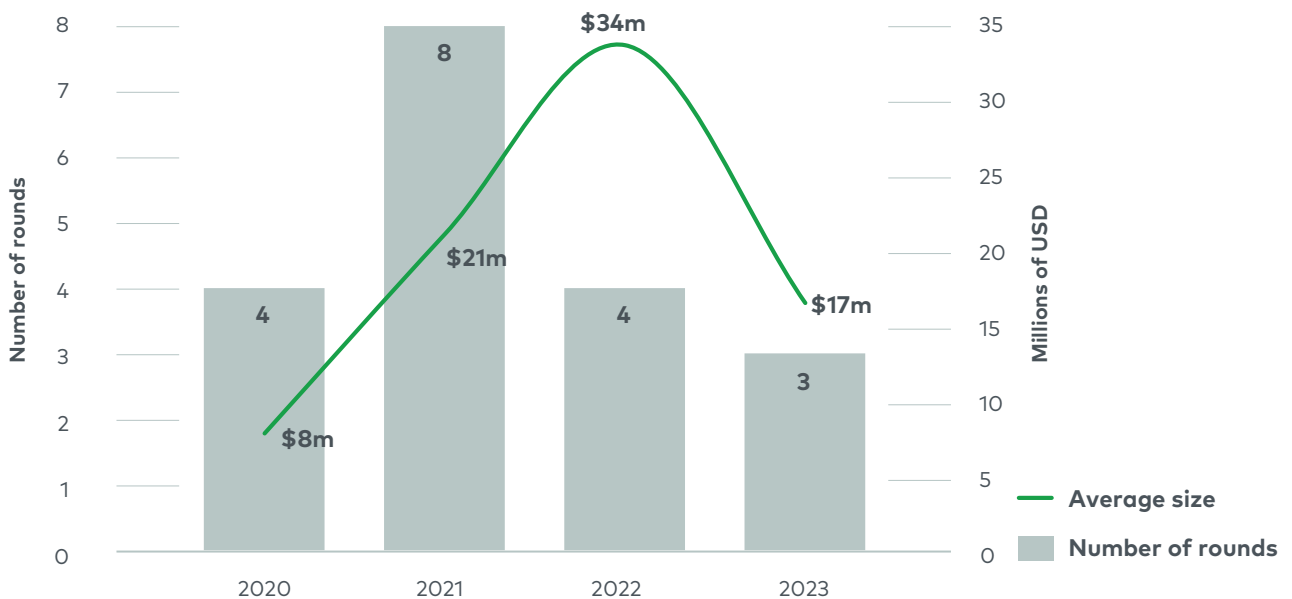
In 2023, larger scale (\$50 million+) private investments to the psychedelics space continued to be driven by crossover and venture capital funds, which has been the trend within the sector. Otsuka became the first pharmaceutical company to acquire a psychedelics research programme inorganically as it seeks to strengthen its pipeline in neuropsychiatry. The \$59 million acquisition of Mindset is the largest of its kind to date and signals growing industry interest in psychedelics².

2023 was also differentiated from previous years in that larger investments were focused on later-stage development. Despite this, earlier-stage psychedelics companies continued to attract investments, albeit at smaller ticket sizes than that of previous years (see Figure 3). A notable example is Transcend Therapeutics' \$40 million Series A round led by Alpha Wave Global and Integrated Investment Partners³. The company intends to launch multiple Phase 2 trials for its pipeline of second-generation psychedelics for neuropsychiatric diseases. Moving upstream, discovery continues to be supported by funding for non-profits and academic institutions. Particularly, Harvard University announced a \$16 million endowment for the launch of a new interdisciplinary programme with the University of California, Berkeley, focusing on psychedelics research, while the US Congress passed a spending bill with \$10 million appropriated for psychedelics research^{4,5}.

Figure 3

Average size of Series A fundraising round (2020-23)

Average number of series A fundraising round and average size 2020-23



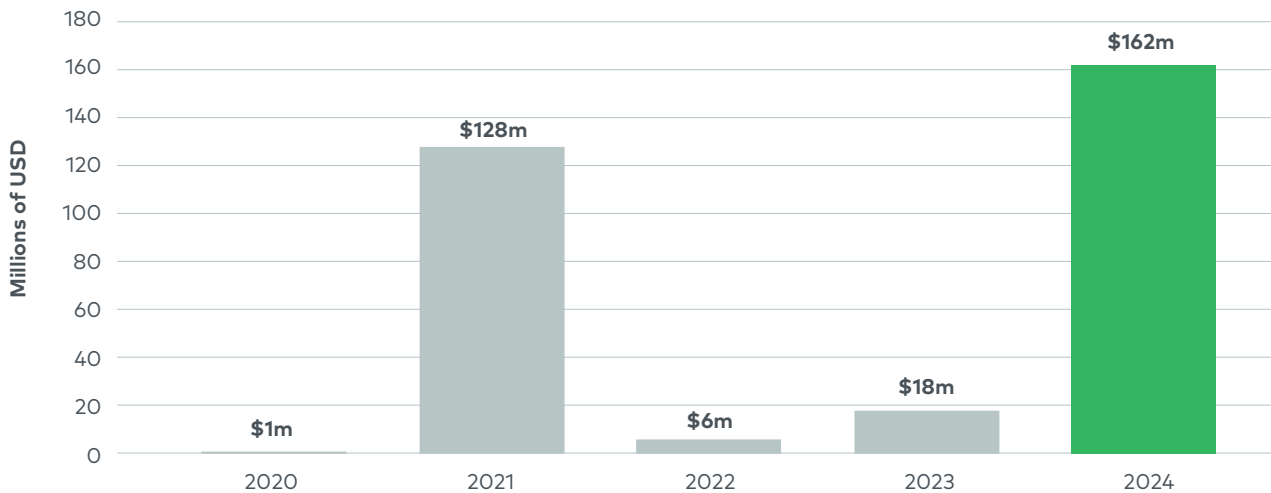
Source: Crunchbase; company websites; Mergermarkets; Neuly; L.E.K. research and analysis

The beginning of 2024 has seen bright spots of dealmaking, with substantial investments into the sector, such as California-based Lykos Therapeutics (previously MAPS) that raised \$100 million from investors on a backdrop of positive results from two Phase 3 studies and a New Drug Application to the US Food and Drug Administration (FDA) for an investigational MDMA-assisted therapy for persons suffering from post-traumatic stress disorder⁶. Also notable is atai's \$50 million investment in Beckley Psytech, a UK-based company focused on transforming short-duration psychedelics into clinical treatments⁷.

These investments may represent a pivotal moment in the ongoing consolidation within the psychedelics industry. Beyond the consolidation of pipelines, there is increasing integration at the intersection of therapeutics and providers (e.g. Lykos integrating psychedelic drugs and psychotherapy), which aligned with our 2023 prediction.

Figure 4
Historic January financing activity in psychedelics

Investment in psychedelics companies in January 2020-24, N=22



Source: Crunchbase; company websites; Mergermarkets; Neuly; L.E.K. research and analysis

It is still early days; however, January's investment haul of \$162 million (see Figure 4), larger than that of the four preceding years (2020-23) combined, may be a bellwether for a robust year in psychedelics funding. There are growing signs that capital market activity may increase in 2024. A key question in the coming months is the extent to which regulatory outcomes (e.g. the FDA's decision on Lykos' MDMA-assisted therapy) will match investor expectations and continue to drive momentum and excitement in the sector.

To find out more, contact **Adrienne Rivlin**, Partner.

Endnotes

- 1 Compass Pathways, "Compass Pathways announces up to \$285 million private placement financing joined by leading healthcare investors." <https://compasspathways.com/compass-pathways-announces-up-to-285-million-private-placement-financing-joined-by-leading-healthcare-investors-2/>.
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- 3 PR Newswire, "Transcend Therapeutics, a mental health-focused biotechnology company, announces Series A funding round of \$40 million led by Alpha Wave Global and Integrated Investment Partners." <https://www.prnewswire.com/news-releases/transcend-therapeutics-a-mental-health-focused-biotechnology-company-announces-series-a-funding-round-of-40-million-led-by-alpha-wave-global-and-integrated-investment-partners-301754356.html>.
- 4 Harvard Gazette, "Harvard launches new Study of Psychedelics in Society and Culture." <https://news.harvard.edu/gazette/story/newsplus/harvard-launches-new-study-of-psychedelics-in-society-and-culture/#:~:text=%E2%80%9CHarvard%20is%20uniquely%20poised%20to,research%20support%20across%20the%20University>.
- 5 Bradley, "Defending Psychedelics: Congress Includes Psychedelic Provisions in Defense Authorization Act." <https://www.bradley.com/insights/publications/2024/01/defending-psychedelics-congress-includes-psychedelic-provisions-in-defense-authorization-act>.
- 6 Axios, "MAPS \$100 M Series A Psychedelic Therapy MDMA Lykos." <https://www.axios.com/pro/health-tech-deals/2024/01/05/maps-100-m-series-a-psychedelic-therapy-mdma-lykos>.
- 7 ATAI Life Sciences, "ATAI Life Sciences announces strategic investment in Beckley Psytech." <https://ir.atai.life/news-releases/news-release-details/atai-life-sciences-announces-strategic-investment-beckley>.
- 8 ATAI Life Sciences, "ATAI Life Sciences increases its ownership position in COMPASS Pathways." <https://atai.life/2021/11/29/atai-life-sciences-increases-its-ownership-position-in-compass-pathways/>.

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