3 Ways To Gain Exposure To Venture Capital In Tech And Healthcare

Description

Another day, another start-up making headlines about its transformational technology set to disrupt a traditional sector or scientific breakthrough changing the treatment standard for a horrible disease. Sounds great! Where do I invest? Unfortunately, you can't.

Let's face it. Most of us everyday investors don't have access to venture capital funds. These funds fueling the growth of fledgling companies are reserved for endowments, pension plans, and high-net-worth accredited investors. Is it possible for ordinary investors to gain exposure to this high-risk, high reward arena? Yes, but indirectly.

1. Alexandria Real Estate Equities: REIT and VC

The most active venture investor based on volume of deals is **Alexandria Real Estate Equities** (NYSE: ARE). This is not your typical Real Estate Investment Trust or REIT. It was formed to develop lab and office space for pharmaceutical and biotech companies in major hubs like Boston, San Francisco, San Diego, and New York. Currently, it leases more than 37.1 million square feet of office and lab space.

Tech and non-healthcare tenants include familiar names: **Uber** (NYSE: UBER), **Facebook** (NASDAQ: FB), Stripe, the U.S. government, as well as New York University and Massachusetts Institute of Technology. Alexandria started a venture arm to support the biotech and tech ecosystem in its focus cities. While most of its portfolio companies are not yet tenants, it is currying favor for those growing ventures to one day graduate into one of its buildings. As of June 30, Alexandria invested $734.4 million in these ventures which carry a value of $1.1 billion. Alexandria has taken its venture activities one step further by forming incubators called LaunchLabs in three cities: New York City, Cambridge, MA, and Research Triangle, NC.

Alexandria's core business is solid, delivering $733 million in revenue, a 13.6% increase in revenue over the same period in 2018. This translated into $224 million in net income in the first half of 2019. With a P/E ratio of 43, it is slightly higher than the U.S. S&P Broad Market Index at 37 and nearly double the S&P 500's P/E ratio of 22.

This is one of the rare instances you can own a hybrid stock that gives exposure to the earliest incubation of new high-tech companies combined with a robust, cash-generating real estate business sustaining an annual dividend of $4 per share.

2. Hercules Capital: Lending capital to innovation

Alternatively, you can look to the business development company **Hercules Capital** (NYSE: HTGC), a specialty lender providing venture debt, loans, and growth capital to both private and public companies.

Because it makes loans to risky, often non-revenue producing companies, the effective loan yields are quite lucrative, averaging 14.3% in Q2 2019. Often the financing structures include warrants, a form of long-term equity option, which allows for upside participation beyond the standard loan plus interest. Hercules held warrants in 125 companies as of its last annual report.

Like REITs, a business development company must distribute at least 90% of its income to its shareholders to avoid paying income tax. Hercules' dividend yields 9.5% based on its current stock price. The stock has been generally stable for the past year meaning its attractive dividend makes it a worthwhile investment, not its stock growth. However, if the IPO and follow-on investment market slows down, some of Hercules's portfolio companies may be unable to pay back or refinance their loans, so investors should be aware of this risk.

3. SVB Financial: Capital for Silicon Valley and beyond

A third way to indirectly join the ranks of the VC world is to invest in **SVB Financial** (NASDAQ: SIVB), the parent company of Silicon Valley Bank. SVB provides several verticals from traditional banking and brokerage for individuals to venture lending for companies to equity lines and loans to private equity and VC firms.

SVB's core business is fundamentally the same as a traditional bank. Interestingly, private equity and VC make up half of SVB's $29.4 billion loan portfolio. SVB bought Leerink Partners, a specialist healthcare investment bank, earlier this year for $280 million in cash. That acquisition juiced revenues by 40% in the first half of the year and will likely continue to grow. This is one to monitor for revenue growth, particularly from the new investment banking arm. The current P/E is just over 10, a discount compared to the S&P 500's P/E of 22 or the S&P Financials' P/E of 13. The stock has been choppy this year, and it doesn't pay a dividend, unlike Alexandria or Hercules, to reward investors if the stock goes sideways.

Alexandria, Hercules, and SVB play a critical role in the ecosystem helping new high tech and cutting edge healthcare companies grow and scale. These companies may not yield VC-type returns, but the combination of stock appreciation and dividends can generate meaningful gains for the everyday investor.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Syndicated

TICKERS GLOBAL

1. NASDAQ:META (Meta Platforms Inc.)
2. NASDAQ:SIVB (SVB Financial)
3. NYSE:ARE (Alexandria Real Estate Equities, Inc.)
4. NYSE:HTGC (Hercules Capital, Inc.)
5. NYSE:UBER (Uber Technologies, Inc.)

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