

*Ebb & Flow I***Devices target drug space**

**By Stacy Lawrence
Senior Writer**

Morgenthaler Ventures' strategy of targeting ill-served major therapeutic markets with medical device alternatives paid off last month, with the sale of hypertension device play **Ardian Inc.** to **Medtronic Inc.** (NYSE:MDT) for \$800 million plus commercial milestones.

"For us, the multiple is in the mid-teens up front and, if we hit all the milestone targets, it would be mid-20s," Morgenthaler partner Hank Plain told Ebb & Flow. "If we were to hit the company's internal projections, the deal could be worth as much as \$1.3 billion in total."

Milestones are equal to the annual increase in product revenue through the end of Medtronic's FY15. For example, if in the second fiscal year revenue is \$200 million and in the third fiscal year it is \$300 million, investors would receive a \$100 million milestone.

A total of \$66 million in venture capital was invested in Ardian. Before the acquisition, Medtronic led a \$47 million venture round for Ardian in 2009 and held 11% of the company.

Ardian's only product is the Symplicity Catheter System to treat uncontrolled hypertension. The system uses controlled, low-power radiofrequency energy to deactivate the renal nerves. Hyperactivation of the renal nerves contributes to the pathophysiology of hypertension.

Symplicity has CE Mark approval in Europe and a TGA listing in Australia. The company hopes to start a clinical trial in the U.S. early next year, with a PMA submission in 2012 and a potential launch in 2013.

Morgenthaler grows medical device portfolio companies either through entrepreneurs-in-residence or via two incubators: The Foundry and ForSight Labs. Ardian was founded in 2003 at The Foundry.

"We like opportunities where we can develop a therapeutic device that's going after a multi-billion dollar drug market and targets the limitations of therapeutics — either their lack of efficacy, adverse events or compliance issues," noted Plain.

"This is the first of our devices in billion-dollar drug markets to fully exit," he said.

Plain cited obesity play **Satiety Inc.** and ophthalmic company **Transcend Medical Inc.** as other examples of the strategy. Satiety is testing the catheter-based TOGA transoral gastroplasty system, which creates stomach restriction to treat obesity. Transcend is developing the Transcend CyPass System, which is a tube inserted into the eye to relieve ocular pressure in glaucoma.

New advent

Advent Venture Partners has constructed its first dedicated life sciences fund designed to match the requirements

of LPs.

The U.K. firm opted to structure the new fund as a life science fund, General Partner Shahzad Malik told Ebb & Flow, because LPs "would rather do their sector allocation themselves than have GPs do that."

Malik said the £75 million (\$120 million) fund is aiming to return 2.5X net to investors within a brief five years, even though it is focused on early stage, innovator companies.

The fund will be invested in therapeutics, enabling technology, medtech and diagnostics plays. Malik expects the first investment in 1Q11.

Since 2005, Advent has more than returned invested capital to its LPs, he said.

In order to cut losses early, Advent has "gotten better at walking away," he noted. "Good companies aren't always good investments and you've got to

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Malik said the firm typically keeps portfolio company staffing below 15, but that doesn't mean it is drip-feeding. Advent provides "more than enough money up front to a company to prove it can de-risk and then we give it a lot more," he said.

Malik also asserted VCs can sell early if the technology is innovative. "Pharma will pay sooner rather than later; we can generate returns for companies that are sold for \$150 million or less," he said.

The fund will be invested roughly 70% in Europe and 30% in the U.S.

Malik suggested Europe presents an arbitrage opportunity, because VCs can invest at relatively lower prices because there's less capital chasing deals, while at exit, companies will ultimately sell for the same price "whether it's in Cambridge, Massachusetts or Cambridge, England."

Among Advent portfolio companies that have been acquired are respiratory disease play **RespiVert Ltd.**, which **Johnson & Johnson** (NYSE:JNJ) bought for an undisclosed amount in June; vaccine company **PowderMed Ltd.**, which **Pfizer Inc.** (NYSE:PFE) acquired for an undisclosed amount in 2006; and obesity play **Thiakis Ltd.**, which **Wyeth** (NYSE:WYE) bought for £20 million (\$30.1 million) in cash plus up to £80 million (\$120.3 million) in milestones in 2008.

Although it's focused on M&A, Advent still targets what Malik called "offensive IPOs" that generate strong investor demand. He noted two portfolio companies, gene therapy play **Amsterdam Molecular Therapeutics Holding N.V.** (Euronext:AMT) and radiopharmaceutical company **Algeta ASA** (OSE:ALGETA) both went public at prices that could have provided an exit in the 2X-3X range.

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**Shahzad Malik,
Advent Venture Partners**