Health Care Firms Tap LPs For $5.6B In 05, New Funds Can Expect Warm Reception

Last year proved to be a record-setting year for health care and life sciences firms with $5.6 billion being raised from limited partners. (See table page 5.) All indications suggest this year could be just as strong for health care investors interested in raising new funds.

Even with a tepid IPO market for biotechnology companies, limited partners interviewed say health care firms continue to be the steadiest performers in their portfolios, generating modest to strong returns at a time when many technology-exclusive firms still struggle to find exits for their companies.

Limited partners prefer to steer clear of unproven entities with low capital commitments. They'll likely choose to fight for pieces of funds managed by experienced hands, such as those that will be raised by **Alta Partners** and **OrbiMed Advisers** rather than commit to an untested partnership.

Last year, venture firms raising first-time funds drew only about $1.2 billion, or 23%, of the capital committed to health care funds. The number is even less impressive when you consider **Clarus Ventures** and **New Leaf Venture Partners,** spin outs from MPM and Sprout Group, respectively, that accounted for $810 million of that total.

The good news is 41% of the firms that reported closings in 2005 were raising their first funds, but the capital commitments were relatively meager.

A manager of a fund of funds suggested investors must invest extraordinarily carefully when investing in health care funds since most investors limit their commitments to the sector to 30% of their venture portfolios. Technology firms, which garner the remainder of the commitments, continue to raise smaller funds as they ride through these tight times. With tech firms taking on fewer dollars, investors can't take too many chances with their health care allocation, the manager said.

The ceiling could be lifted slightly as several large diversified firms raise new funds. **New Enterprise Associates** is expected to raise as much as $2 billion for its new fund. **Polaris Venture Partners** is expected to be in the market with a follow up to the $900 million fund it raised in 2001.

Limited partners are placing bigger bets on venture firms with large enough funds to make late-stage investments. Fittingly, 45% of the capital committed went to firms managing funds that will be invested in companies requiring late-stage capital. The remaining capital, 35%, went to firms managing multi-stage funds, although most of those dollars likely will go into more mature ventures.

Venture firms selling early-stage strategies accounted for nearly half the closings in 2005, but only one-fifth of the capital committed went to those firms.

By Tom Salemi

Foundry Founders Look Opportunity In The Eye

Through The Foundry, their medical device incubator, **Morgenthaler Ventures** and members of **Split Rock Partners** have launched start-ups targeting fields such as heart failure, migraines, stroke and emphysema.

Now, they've used The Foundry as a model for a new incubator that will create companies in another large market: vision disorders. Split Rock and Morgenthaler teamed up with **Versant Ventures** in October to form the incubator, called **ForSight Labs LLC,** which operates out of The Foundry's Menlo Park offices.

The firms plan to run ForSight to create an average of one new company per year, with each firm contributing start-up funds. After honing a new company's technology and focus in the incubator, the firms would raise a second round for the company—led by an outside investor—and hire a CEO, if they haven't already.

Split Rock, Morgenthaler and Versant teamed up in October to provide $2.4 million in first-round financing for ForSight's first company, which will evaluate four potential vision markets before settling on one to pursue. The new incubator expects to focus on markets that the firms see as poorly served by existing treatments, including glaucoma and age-related macular degeneration.

While ForSight represents the first foray into vision disorders for Morgenthaler and Split Rock, it's not new to Versant Ventures Managing Director William J. Link, who previously was the founder of Chiron Vision, a Chiron Corp. subsidiary that was acquired by Bausch & Lomb Inc. in 1997. He has also invested in numerous vision-disorder device companies, including **Eyeonics Inc.,** Aliso Viejo, Calif., which sells accommodative intraocular lenses, and **Glaukos Corp.,** a Laguna Hills, Calif., developer of a treatment for glaucoma.

Their ability to partner with Link and another expert, Dr. Eugene de Juan Jr., a retinal surgeon and entrepreneur, spurred Morgenthaler and Split Rock to launch ForSight. De Juan, who now divides his time

UPFRONT

between ForSight, where he now serves as CEO, and the University of California, San Francisco, where he is a professor, has worked with numerous life sciences companies, including InnoRx Inc., a drug-delivery company he founded that was acquired by publicly held SurModics Inc. last January.

The firms also decided that the markets for vision disorders and cardiovascular diseases—the main focus of The Foundry—were different enough to warrant creating a separate incubator dedicated to vision.

ForSight is expected to consider several vision disorders, including glaucoma, which affects three million Americans, and the more than 1.5 million people in the U.S. who suffer from the wet form of age-related macular degeneration, the leading cause of severe vision loss and blindness in people over 50.

While the numbers of people with vision problems is a lure, the market is also attractive because of technological innovations that promise to lead to better treatments, said Morgenthaler General Partner Robert C. Bellas Jr. Developments of better polymer and nanotechnologies, he said, could aid the development of solutions for glaucoma and other conditions.

ForSight and other companies targeting these conditions will need to consider developing similarly complex therapies in order to truly improve treatment, de Juan said. In many cases, these products will combine medical devices and drugs. "We're not going to have very many simple medical devices," he said. "Often, they're going to be drug-delivery devices, or devices that are enhanced with drug-eluting coatings and the like."

That means ForSight may find itself collaborating with biotech companies or working with drugs that have come off patent. It also may mean that ForSight's start-ups will have to wade through a more lengthy and complex regulatory process in order to get their products approved. The FDA often requires that drug-device combination products earn the blessing of the agency's drug and device centers, for example.

By Brian Gormley

TPG Hire Will Spearhead Effort Into Asian Ventures

With the addition of Simba Gill to its investment team, **TPG Ventures** expects to establish a beachhead in Asia for life sciences venture investments.

Splitting his time between offices in San Francisco and Hong Kong, Gill will wear two hats at the firm: as entrepreneur-in-residence, he will work to incubate a still undisclosed business; and as a venture partner, he will conduct due diligence to seek out other life sciences opportunities for TPG's $550 million VC fund.

Managing Director Bill McGlashan described Gill as "an executive that's played on a global scale for some time." Most recently, Gill was president of Maxygen Inc., and before that held several management, corporate and marketing positions at Boehringer Mannheim.

"There's been a lot of very interesting innovation and emergence in that part of the world," McGlashan said. He mentioned the outsourcing opportunities that other firms such as **WI Harper** and **Burrill & Co.** are looking to capitalize on with Asia-focused life sciences funds, but also said that early-stage research and drug discovery capabilities are emerging.

TPG does not have plans to raise a new fund specifically focused on Asia, but will make investments under the global mandate of its venture funds, the next of which is rumored to be closing in early 2006.

By John Galante

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