

Health-care startups buoyed by VC interest

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Diramed CEO Don Caudy has landed \$600,000 in early-stage funding for his company, which is developing a painless glucose test for diabetics.

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It may be a trickle compared to the venture capital flowing elsewhere in the country, but the amount of money going to health-care startups in Ohio is encouraging to entrepreneur Don Caudy.

A new report from Cleveland-based **BioEnterprise Corp.** found investments in such Ohio companies stood at \$67.8 million through the first three quarters of the year. The total was down from \$75 million a year earlier but still represented an improvement from earlier in the decade, when venture capital dried up in much of Ohio, including Columbus.

"For the first time," said Caudy, CEO of Columbus-based **Diramed LLC**, "there is some venture capital in Ohio and the perception there are things worth investing in here."

Diramed, which is developing a painless test that diabetics can use to monitor glucose levels, has raised \$600,000 from angel investors this year. Its funding came from 30 people who live in Central Ohio, said Caudy, a former **Battelle Memorial Institute** executive who helped launch Diramed last December.

Venture capitalists with deeper pockets didn't want to invest in an early-stage company, he said.

"Ohio venture capitalists don't take risks," Caudy said. "If you want risk (capital), you've got to go to the coasts, particularly the West Coast.

"Venture capitalists travel in packs," he said. "They lean on each other for technical background and market knowledge. You need to get to a tipping point of resources so they can feed off each other."

Still figuring it out

BioEnterprise's report shows Ohio health-care startups may be making progress on that front. Nineteen companies were funded in the first nine months of the year, up from seven a year earlier.

Of the 19 companies, seven operate in Central Ohio. They received nearly \$5 million - well below the \$51.9 million invested in the Cleveland area and about half of the \$10.6 million invested in the Cincinnati region.

Overall, 98 health-care startups in eight Midwestern states and western Pennsylvania shared \$564.2 million from investors during the period. A year earlier, 54 companies divvied \$413.6 million in funding.

Most of Ohio's startups in health care are the sort of early-stage businesses that struggle to land funding from venture capitalists, said Christopher Coburn, executive director of the **Cleveland Clinic's** technology commercialization arm. So the companies turn to smaller angel investors, many of whom are new to health care, he said.

"The challenge with angel investors, particularly in our part of the state," Coburn said, "is they haven't made money in health care. They're interested in it and learning to be health-care investors, but there have not been many payouts yet. That's what will energize the (investment) community."

The Cleveland Clinic has spun off 19 health-care companies over the past four years, he said.

Many got their start in a business incubator at the clinic's campus and have received help from the hospital system with patent filings and startup funding.

Coburn, who once worked for Battelle in Columbus, said health-care startups in Central Ohio could benefit from their location because investors here are familiar with technology-driven institutions, including Battelle, Ohio State University, **Chemical Abstracts and Online Computer Library Center**, and the successes of entrepreneurs such as Leslie Wexner, chairman of **Limited Brands Inc.**

"You've got a strong thread and comfort with technology and (entrepreneurial) role models in Central Ohio," he said.

Better atmosphere

Findings in the BioEnterprise report show the climate for health-care startups in the state is improving, said John Lewis, a vice president at **Omeris Inc.**, a nonprofit group in Columbus focused on building the state's bioscience industry.

The environment is getting better, he said, because of the availability of seed money for angel funds from the state's \$1.6 billion Third Frontier program, which is aimed at growing the state's tech sector.

Among those funds is the Columbus-based **Ohio TechAngel Fund LLC**, which provides capital to commercialize innovations in life sciences, information technology and physical sciences. It has had investment rounds ranging from \$150,000 to \$1 million since its launch in 2004.

"We're seeing a steady increase in the amount of angel and venture funding," Lewis said. "Where there used to be a few good ideas, now there are 10 or 20 just here in Columbus at the angel (investment) level."

But he also thinks Central Ohio needs more experienced people with the management savvy to carry those ideas to the commercialization stage.