

BIOREGION NEWS

Tracking Biotech Cluster Development



As Markets Tanked, Midwest Life-Sci Shops Closed Record VC Financing Deals in Q3

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How did a flyover section of the US set record private-equity deals in the face of an overarching national financial crisis that left scores of banks, analysts, and all kinds of investors numb with terror?

During the third quarter, as the US credit and equities markets were seizing, life-sciences and other healthcare companies across the Midwest collected record-high levels of venture capital, a new report by the Cleveland business development consultancy BioEnterprise has concluded.

Biotech, pharmaceutical, medical device, and other healthcare companies in the region received a combined \$455 million in VC financing during the quarter that ended Sept. 30, surpassing the previous record quarter of \$418 million collected during the second quarter of 2007, according to the *BioEnterprise Midwest Health Care Venture Investment Report*.

Most of the data released from this year's report, however, consisted of cumulative figures for the first nine months of 2008, versus the three-month period ended Sept. 30, 2007.

The Midwest region comprises 12 states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. During the first nine months of 2008, a total 113 health-care start-ups based in this region have attracted nearly \$900 million in venture investment — down from the billion-dollars plus awarded during the same period in 2007, when 104 companies won financing.

Minnesota led all Midwestern states in health care investment during the quarter with \$289.9 million invested in 20 companies, up 36.3 percent from the \$212.7 million in 10 companies recorded during the third quarter of 2007.

The next highest, Ohio, racked up \$178 million in 37 companies, though its take was nearly 32 percent lower than the \$261.2 million in 35 companies it collected in the year-ago period.

Pacing Ohio was its Cleveland sector, which racked up \$152.4 million in 26 deals during their first nine months of 2008, down 28 percent from the \$212 million invested in 22 deals during the same period one year earlier [See chart].

"It was a very surprising fall quarter," Bajju Shah, president and CEO of BioEnterprise, told *BioRegion News*. "I think [the Midwest] is still being discovered. There is no shortage of programs that have been fueling the translation of this technology and talent into companies. From a national investment perspective, it's still seen as underinvested, rather than over-invested. That's still very attractive from an investment perspective," Shah said in an interview in Dublin, Ohio, during the annual conference of the Buckeye State's life sciences industry group BioOhio.

Another explanation for the results, Shah said, was the continued attractiveness to investors of health-related companies — especially medical device concerns, investment in which accounted for 52 percent, or \$462 million, of the total VC awarded this year.

Biotech and pharmaceutical businesses collected \$272 million, or 30 percent, of total venture capital funding, followed by healthcare software and service companies with \$163 million, or 18 percent.

While Minnesota continues to benefit from its large and historic concentration of medical device makers drawn by life-sci anchors such as the Mayo Clinic, Shah said Ohio's strong showing reflected the effect of state spending on tech commercialization in the six years since the state launched its Third Frontier program.

"You can see the inflection point in investment capital that starts occurring in Ohio in the 2004 timeframe, some two years after the Third frontier started. You look at the Third Frontier, and it's one of the few programs nationally that invests in all stages. There are investments in translational research, in seed capital, in venture capital, and then in company growth and expansion."

Other states, he said, have focused on one or a few of these stages — such as Florida, which showered about \$1 billion on attraction efforts for a half-dozen nonprofit research institutes during this decade.

“The strategy that Ohio has pursued of this comprehensive approach has made a huge difference, and has helped us even with the large-company recruitments,” Shah said — such as when Amylin Pharmaceuticals announced plans late in 2005 for a production facility in West Chester, Ohio; and when Charles River Laboratories agreed to expand its preclinical manufacturing plant in Spencerville, Ohio, a project that added 80 jobs to a workforce of 204 employees, in return for nearly \$1.4 million in state and local economic incentives [[BRN, Dec. 10, 2007](#)].

Midwest Health Care Venture Investment (By State)						
State	Q1-Q3 2008		Q1-Q3 2007		Q1-Q3 2006	
	\$ Millions	# of Cos.	\$ Millions	# of Cos.	\$ Millions	# of Cos.
Illinois	78.2	7	100.5	4	101.6	11
Indiana	69.1	5	129.3	8	25.6	8
Iowa	4.0	1	—	—	—	0
Kansas	15.4	5	—	—	—	0
Kentucky	17.9	4	31.6	4	51.4	4
Michigan	90.0	10	64.9	5	38.9	5
Minnesota	289.9	20	212.7	17	181.8	18
Missouri	25.8	6	69.6	7	39.2	9
Ohio	178.0	37	261.2	35	67.8	19
Western Pennsylvania	101.1	12	91.2	15	46.4	19
West Virginia	—	—	—	—	—	0
Wisconsin	27.5	6	39.7	9	11.5	5
Total	896.7	113	1,000.4	104	563.6	98

Midwest Health Care Venture Investment (By Region)						
Region	Q1-Q3 2008		Q1-Q3 2007		Q1-Q3 2006	
	\$ Millions	# of Cos.	\$ Millions	# of Cos.	\$ Millions	# of Cos.
Chicago	78.2	7	100.5	4	101.6	11
Indianapolis	69.1	5	107.3	6	7.9	6
West Lafayette, IN	—	—	22.0	2	17.7	2
Iowa	4.0	1	—	—	—	—
Lexington, KY	4.5	1	0.9	1	40.0	1
Louisville, KY	13.4	3	5.7	2	11.4	3
Detroit-Ann Arbor	74.0	8	64.9	5	38.9	4
SW Michigan	16.0	2	—	—	N/A	1
Minneapolis	289.9	20	212.7	17	181.8	18
St. Louis	25.8	6	57.6	7	20.2	8
Kansas City	15.4	5	12.0	1	19.0	1

Cincinnati	19.2	2	61.0*	7	10.6	3
Cleveland	152.4	26	212.0	22	51.9	16
Columbus	6.4	9	13.2	7	5.3	10
Pittsburgh	101.1	12	91.2	15	46.4	19
West Virginia	—	—	—	0	—	0
Wisconsin	27.5	6	39.7	9	11.5	5
Total	896.7	113	1,000.4	104	563.6	98

* Includes a deal from Kentucky that is still in the Cincinnati metro region.

Sources: Compiled by BioEnterprise from Venture Wire, Private Equity Week, Wall Street Journal, Venture Source, SEC Filings, company press releases, www.biospace.com, and Midwest bioscience organizations and institutions.

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