



Report Indicates Midwest Biotechs Buck Nationwide Decline in Q1 VC Financing

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Venture financing for Midwestern biopharma and medical device startups rose 14 percent during the first quarter compared with a year earlier, according to figures released Monday by the Cleveland business acceleration group BioEnterprise.

BioEnterprise's *Midwest Health Care Venture Investment Report* showed a total 47 companies raising a combined \$155.6 million during the first quarter of 2009, compared with 14 companies winning \$133.5 million in the year-ago period.

The growth appears counter to a nationwide decline in biotech and medical device VC financing that several firms have reported in the past month. The quarterly MoneyTree Survey, for example, reported a decline of 47 percent in Q1 VC financing nationwide, while numbers from Dow Jones VentureSource indicate a 21 percent falloff in biopharma VC investment and a 51 percent drop in medical device investment.

A BioEnterprise official expressed caution about the positive results, however, noting that a handful of eight-figure deals in the Midwest during the quarter helped skew the results in the region's favor.

According to BioEnterprise, 22 Midwestern medical device companies raised a combined \$43 million during the first quarter, down 31 percent from the \$62.4 million raised by six med device makers in Q1 '08. But that decline was more than made up for by the 19 biotechs that raised a total \$83 million during the first three months of 2009, up 59 percent from \$52.3 million racked up by six biotech companies a year earlier.

The report also listed five providers of information technology solutions and services obtaining \$21.2 million in VC funding during Q1 '09, down just 2.5 percent from the \$21.75 collected by three in Q1 '08; as well as a nutraceutical company specializing in caffeine-enhanced water, which raised \$500,000 in angel financing.

The uptick in numbers of biotech and med device companies reflects some success by Midwestern states in public and private efforts to commercialize technologies originating in university or institutional labs within their borders, then match those startups with early-stage sources of funding — not only from VCs, but from angels and professionally managed investor funds as well.

"The Midwest is continuing to play catch-up with the [West] Coast in terms of the spectrum of financing that's available," Baiju Shah, president and CEO of BioEnterprise, told *BioRegion News* on April 27, the day BioEnterprise released its Q1 figures. "On the Coast, you'll have very, very well-developed angel funding infrastructure, whether it's formal funds or individuals who are known as go-to individuals. We are still developing that entire network here in the Midwest, but more and

more it is getting put in place as states stay focused on growing the biomedical environment."

"I think it has been stimulated by all the various state programs that popped up, really, only in the Midwest and in Texas so far, to fund translational research, company formation, and seed capital initiatives. Those programs have done an incredible job of growing the number of financing sources for early-stage healthcare entrepreneurs, and I think that's what you're seeing in the data," Shah said.

"It's not just mature startups gathering more dollars."

State by State

But mature companies still have a key presence in the Midwest since they account for the largest amounts of the VC dollars awarded in Q1. Among Midwestern states measured by BioEnterprise, Missouri edged out Minnesota for the most healthcare venture capital raised during the first quarter of 2009, with \$49.8 million in two deals for the Show Me State, compared with \$47.2 million in four deals for the Great Lakes State.

In Missouri, Kansas City-based biopharmaceutical company Proteon Therapeutics won \$38 million in series C financing, while St. Louis-based Divergence won \$11.8 million in later-stage, third-round capital. BioEnterprise does not include in its "healthcare" definition agricultural biotech startups like those that have grown in recent years in the St. Louis region.

Pacing Minnesota's deals was the \$30 million in later-stage, sixth-round financing won by Atritech of Plymouth, Minn., a maker of minimally invasive devices designed to prevent atrial fibrillation-related stroke. Atritech was followed by \$15 million in later-stage third-round funding by healthcare cost management firm Red Brick Health.

The Midwest's top VC deals also reflect the significant role played by out-of-town VCs in completing deals. While St. Louis-based Vectis Life Sciences was among investors in Proteon, Shah noted that the other participating venture firms were based outside the Midwest: MPM Capital has offices in Boston and San Francisco, while Prism VentureWorks has offices in Needham, Mass., and Venice, Calif.; Skylive Ventures is in Palo Alto, Calif.; Intersouth Partners is based in Durham, NC; and TVM Capital has offices in Munich, Germany, as well as Boston.

The bicoastal firms tend to handle Midwestern deals from their East Coast offices: "You're seeing a lot of interest from East Coast investors, less so on the West Coast. It's the same time zone for a chunk of the Midwest, it's only an hour behind for the remainder. And it's a very easy commute from the East Coast to our geography," Shah said.

During the year-ago quarter, Minnesota showed two deals totaling \$22.7 million, according to BioEnterprise, while Missouri showed no activity — and both states trailed Q1 '08 leader Ohio, which had \$51.8 million invested in five companies.

This Q1, Ohio's VC financing dropped 67.5 percent to \$16.8 million — but its number of deals more than tripled, to 17. Shah credited Ohio's Third Frontier program, under which the state has committed \$1.6 billion through 2012 toward research and tech-commercialization efforts. Ohio Lt. Gov. Lee Fisher told *BRN* last fall that Buckeye State officials will seek voter approval for a renewal or expansion of Third Frontier in 2011 or 2012 [*BRN*, Oct. 27, 2008], though details remain to be decided and announced.

Third Frontier, Shah said, has been especially helpful in drawing more deals to the Cleveland region, where BioEnterprise is based. The Cleveland area accounted for eight of the 16 deals, and over 85 percent of the capital (\$14.4 million) won by Ohio life-sci and healthcare services startups

during Q1 '09.

"Without the Third Frontier and everything the Third Frontier has done, from incenting new capital funds to form here, to setting up seed capital sources, to funding translational research institutes, there's no way that Cleveland or Ohio could be putting up the numbers that we've put up over the past couple of years," Shah said.

Ohio was one of two areas that showed year-to-year increases in the numbers of startups financed, but year-to-year declines in funding raised. The other was the Pittsburgh region, whose financing fell from \$10 million to \$3.8 million, even as the number of companies rocketed to 13 in the just-completed first quarter, compared with a single company in the same period last year.

In two states, Kentucky and Wisconsin, both the volume of financing and number of startups obtaining capital fell year-to-year. But Minnesota and five other states — Illinois, Indiana, Iowa, Kansas, and Missouri — recorded year-to-year gains in both VC financing and number of companies financed. A seventh state, Michigan, saw two deals in the first quarters of 2009 and 2008.

"That's the challenge for the folks in the Midwest — creating enough deal volume to make it worth an investor's time to travel here, to start to learn the landscape, to learn the resources, and actually invest in deals," Shah said.

Bucking a Trend?

Despite that showing, Shah cautioned it was too early to say whether the Midwest was faring better than the nation as a whole when it comes to biotech and med device VC investment: "I think if I saw this occur again in the second quarter, then I'd have a little bit more confidence in making some sort of assertion."

He added that several eight-figure deals — such as those of Atritech and Red Brick Health — helped skew the first quarter's results.

The figures appear to contradict findings by one national tracker of the venture capital market released earlier this month. The quarterly MoneyTree Survey showed a 25 percent year-to-year dip, from \$42.3 million to \$31.7 million, in VC financing in biotech financing in six Midwestern states — Illinois, Kansas, Michigan, Minnesota, Missouri, and Wisconsin.

But med device investment declined more sharply, according to MoneyTree, with the six Midwestern states attracting a total \$49.4 million in six deals during Q1 '09, down about 40 percent from the \$81.8 million raised in Q1 '08.

Nationally, MoneyTree showed \$576.8 million invested in 81 biotech and pharma companies during the first quarter of 2009, down about 47 percent from \$1.08 billion in 132 companies in 1Q '08. MoneyTree also showed a 61 percent year-to-year drop in nationwide med device VC, from almost \$1.07 billion in 102 companies in the first three months of 2008, to \$412.4 million in 53 companies in this year's first quarter [[BRN, April 24](#)].

MoneyTree is produced by PricewaterhouseCoopers and the National Venture Capital Association, using data from Thomson Reuters.

Shah said the discrepancy between the figures from BioEnterprise and MoneyTree likely reflects a combination of BioEnterprise reaching out to more sources for VC data this year compared to last, broadening the group's array of VC market beyond the sources used by the national VC market trackers. BioEnterprise lists Dow Jones VentureSource as one of its several Q1 data sources, which

also include Venture Wire, Private Equity Week, the *Wall Street Journal*, filings with the US Securities and Exchange Commission, company press releases, the web site BioSpace, and "Midwest bioscience organizations and institutions."

Dow Jones VentureSource showed a 21 percent falloff in biopharma VC investment nationwide, to \$723.1 million in 56 deals for the first three months of 2009 from \$918.4 million in 69 deals in the year-ago period; and a 51 percent plunge in capital streaming into medical device businesses, from \$972.3 million in 74 deals during the first three months of 2008 to \$476.9 million in 42 deals in Q1 '09.

Industry-specific regional Q1 '09 breakdowns of the DJVS results, including biopharma and medical devices, did not include Midwestern regions. DJVS has released overall region-by-region data showing total VC investment in the Bay Area falling 57 percent, to \$1.14 billion in 139 deals, followed by New England with \$594 million in 61 deals, down 16 percent from a year earlier.

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