

## St. Louis Eyes Cleveland Consultancy to Assist in Rejuvenating 'BioBelt' Cluster

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By [Alex Philippidis](#)

**A Cleveland business** development consultancy is helping St. Louis life sciences incubator leaders and venture capitalists determine whether its model for life sciences business development and technology commercialization will help the Gateway City region kickstart growth within the "BioBelt."

The consultancy, BioEnterprise, has spent the last six years nurturing emerging Cleveland-area medical device, biotechnology, and health care services firms by linking them to business formation, recruitment, and acceleration services designed to stoke growth — a model that has catapulted the city into one of the Midwest's leaders in attracting venture capital.

That model for business development has drawn interest from Midwestern regions well beyond Cleveland. This week, the heads of two St. Louis incubators will visit Cleveland and meet with BioEnterprise to discuss its model and the potential for developing something similar in and around the Gateway City. The goal would be to grow the St. Louis region's decade-old life sciences cluster, or "BioBelt."

"St. Louis is a region that has risen to a new plateau, but they're not able to take it to the next level," Baiju Shah, president of BioEnterprise, said in a July 15 interview at the New York City offices of *BRW* and its publisher, GenomeWeb.

Victoria Gonzalez, the president and CEO of the Nidus Center for Scientific Enterprise in St. Louis, and one of the people meeting with Shah, told *BRW* last week that the visit to Cleveland is part of a five-year strategic planning effort she launched shortly after taking the helm of Nidus in April. Gonzalez succeeded Robert Calcaterra, who retired earlier this year after 10 years as the incubator's first president and CEO [[BRW, Dec. 3, 2007](#)] and has since launched a venture capital fund with a partner.

"We've done quite a bit over the last eight years in developing a life sciences hub and entities that are focused in that area. Our next step now is for us to really collectively pull a regional strategy together. And I would say that the BioEnterprise is probably one example of something that we'll be looking at," Gonzalez said.

Gonzalez said that this review is a community effort being carried out with other leaders of St. Louis' life sciences community. One outcome will be to carry on Nidus' role as an incubator, she added. Nidus is home to a dozen tenant startups filling about 85 percent of its 41,000-square-foot building, within the Monsanto Company world headquarters campus in the St. Louis suburb of Creve Coeur.

BioEnterprise is participating in Nidus' strategic planning meetings, which began in June and are set to end in November, Shah said.

Shah said Gonzalez and Nidus' board have also been considering expanding its activities beyond drawing and retaining tenants to its space. Under such a scenario, "Nidus becomes more than an incubator, it becomes more like a regional accelerator, kind of like BioEnterprise."

Under such a scenario, Shah said, Nidus could either carry on its incubation work itself, or spin it off to another entity.

Before he retired, Calcaterra set in motion plans for Nidus to relocate the incubator to a smaller space within a new \$36.1 million, 118,000-square-foot life-sciences building now under construction across the street from its current facility, on the campus of the Donald Danforth Plant Science Center, an anchor of the BioBelt, by developer Wexford Science + Technology of Hanover, Md. But a lease to that effect was never signed.

"What we have created over the last eight years, it is important to continue to build on, and the incubator role will continue. That's an important aspect of life science startups and plant sciences and ag[ricultural biotechnology]. I will tell you one of the things we are doing is looking at how we can expand, and are there gaps that we need to be filling in the community, in addition to the incubator," Gonzalez said.

Among other leaders involved in the effort is Marcia Mellitz, president and CEO of the Center for Emerging Technologies, or CET, in St. Louis. Mellitz told *BRW* she will travel with Gonzalez to Cleveland and meet with

Shaw at BioEnterprise “to find out a little bit more about what they’re doing, and how they’re doing it, that sort of thing.”

Mellitz added that there had been no talk to date about a role for BioEnterprise itself in St. Louis.

“In this industry that we’re in, we do a lot of sharing information, because different people try different things, and some things work, and some things don’t. But we want to learn what works,” she said.

According to its web site, CET houses 15 startup tenants within its existing 92,000 square feet of space in two buildings. CET is now working to raise public and private funds to build a third building, which would contain 60,000 square feet, of which 36,000 square feet would house laboratories, and cost \$28.5 million to build.

The third building would rise on space CET has purchased from the Center of Research, Technology and Entrepreneurial Exchange, or Cortex. In March, the Missouri Development Finance Board approved \$5 million in tax credits toward CET’s third building, plus another \$10 million toward a Cortex plan to develop 1 million square feet of new life sciences space within its 246-acre district, in the midtown section of St. Louis, just west of the city’s downtown. The space would comprise several buildings to be developed over the next five years, then leased to businesses and academic and research institutions.

Gonzalez and Mellitz both praised BioEnterprise for its success in building relationships with St. Louis-area venture capitalists, foundations, and other sources of capital for startup life sciences businesses.

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The St. Louis region, Gonzalez said, has reached the point of critical mass where financing is concerned, albeit at a smaller size than the top-tier bio clusters of the Boston and San Francisco regions. She cited the presence of an angel capital network and several VC firms, including Ascension Health Ventures, Prolog Ventures, RiverVest Venture Partners, Santé Health Ventures, and Triathlon Medical Ventures.

Last December, RiverVest opened a Cleveland office within BioEnterprises’s offices. The part-time office — overseen by a vice president who divided her time between RiverVest and BioEnterprise — enables the firm to pursue funding opportunities with startups spinning out of Cleveland Clinic and Case Western Reserve University.

“We were interested in accessing the deal flow there. Also, having a presence can facilitate raising capital in that region. For those two reasons, we did establish the office,” Thomas Melzer, a managing director with RiverVest, told *BRN*. “Our strategy at RiverVest is to invest nationally, but take advantage of the fact that we’re located in the central part of the country, which has great research institutions and is not really as well served by the venture capital industry as the coasts are.”

According to BioEnterprise’s *2007 Venture Capital Report*, released last February and available [here](#), the Cleveland region finished last year by drawing a total \$318 million in venture investment, more than double the \$157 million recorded in 2006, and above the \$260 million racked up in 2005.

During the first quarter of this year — the latest quarter for which it has released [results](#) — BioEnterprise showed the Cleveland region with the largest portion of venture activity among 16 Midwestern regions, with \$34.75 million in three deals. However, in Q1’07, Cleveland showed much stronger numbers, \$83.5 million in 12 deals. Only four regions showed year-to-year gains: Louisville, Ky.; Cincinnati; Detroit-Ann Arbor, Mich.; and Wisconsin.

St. Louis, by contrast, recorded no VC activity in BioEnterprise’s Q1’08 report, compared with \$16.8 million in three deals in the year-ago quarter. The region fared better in the new Dow Jones VentureSource survey for the second quarter, released July 19; it showed St. Louis racking up \$9.75 million in two medical device deals, compared with no medical device deals and \$13.7 million in biopharma deals for all of 2007.

St. Louis should see even more investment activity over the next few years. Two investment firms — Stifel, Nicolaus & Co. and Brooke Private Equity Associates — are organizing the raising of capital for a new \$175 million second Vectis Life Sciences Fund, with the goal of more than doubling the investment activity of Vectis’ first \$81 million fund, launched in 2005.

"Could we use more money? Always. And I think that's true across the United States ... But relative to where we were seven years ago, we've come a tremendous way. We have a pretty significant capacity from a capital standpoint," Gonzalez said.

One remaining challenge for St. Louis, as elsewhere, she said, was developing more sources of seed funding for early-stagers. One effort toward addressing that market need is the \$20 million Life Science Pre-Seed Fund, launched earlier this year by Calcaterra and partner Randy Weiss. The fund says its initial size will allow it to fund about a dozen very early stage life-science companies in Missouri and nearby states.

It's a challenge similar to that faced by BioEnterprise when it began drawing venture financing to Cleveland six years ago. Shah, then a McKinsey & Co. executive, was exploring with clients Case Western and Cleveland Clinic about how to boost the region's life sciences activity.

Their attention turned to Yale University's technology transfer effort, where Jon Soderstrom had overseen the spinout of 25 companies that raised a total \$1.1 billion in capital between 1996 and 2001, during his first five years as managing director for Yale's office of cooperative research, which manages university-created intellectual assets.

"As we got to understand Jon, we asked what stood out that was different about his model that was different from everybody else's. He goes, 'I go out and talk to the money. My team spends a good chunk of their time interfacing with venture capital. We understand exactly what they want. And then we help them find it in our closet, which is our research,'" Shah recalled.

It's a contrast to the matchmaking of entrepreneurs and technologies traditionally practiced by tech transfer offices, reflecting the fact that New Haven lacks the concentration of tech entrepreneurs seen in top-tier bio clusters — a circumstance Yale has tackled by tapping into its large alumni database. Shah acknowledged the Yale approach "can take a long time, but what it yields is companies that have been designed by venture capitalists, and usually funded by those same VCs."

So in July 2002, Case Western and Cleveland Clinic joined University Hospitals and Summa Health System to establish BioEnterprise, with a stronger life sciences presence in Cleveland and the rest of Northeast Ohio as their goal.

Since then, Shah told *BRN*, the initiative has created, recruited, or accelerated more than 80 companies that have drawn more than \$760 million in beyond-seed "follow-on" funding.

"Part of our strength is that we're not a state organization, and we're not an industry association. We've got resources that are different, and we're not tied to demands that the state would put on us, and a broad membership would put on us," Shah said.

BioEnterprise also credits its efforts with generating more than \$85 million in revenues for university technology offices, and facilitating more than 250 technology transfer deals concluded with industry partners. The initiative, by its count, has evaluated over 900 company opportunities and 1,500 invention disclosures.

Over time, BioEnterprise has remained focused on growing Cleveland startups, but has additionally sought to develop ties to VC firms, foundations, and other sources of capital throughout the Midwest.

"They go to various places where there's a concentration of venture capital firms, and call on those firms, and learn about what their interests are. And then, in a systematic fashion, they show them opportunities that fit the criteria that were described to them at these meetings. That's how we first got to know Baiju, when he visited St. Louis about two or three years ago," RiverVest's Melzer recalled.

BioEnterprise has also worked with the Pittsburgh Life Sciences Greenhouse — one of three Pennsylvania state-funded startup centers funded through part of the state's tobacco settlement money — to promote regional life-sci development, through a "Tech Belt" uniting Cleveland and Pittsburgh, which has had its own recent success nurturing bio startups [*BRN, March 17*]. Together, the two cities have almost 800 companies and have drawn about \$1 billion in research funding and \$350 million in VC money.

Melzer said the St. Louis region's focus on drug development and plant biotechnology poses different challenges from the ones successfully faced by BioEnterprise in and around Cleveland. That region's life sciences sector has been anchored on medical device makers seeking to tap into the market posed by Cleveland Clinic's cardiovascular research effort, and the research efforts of other institutions.

"They basically need warehouse-type space, so it's a little easier for them to get set up in space, whereas in St. Louis, there's much more biopharmaceutical activity, relatively speaking, and not a lot of device activity. Those sorts of companies need wet-lab space. So the organizations we have here — which are not identical to BioEnterprise, but are similar in function — have tended to be incubators focused on establishing wet lab space, and they also provide advice as well," Melzer said.

"In the BioEnterprise model, they really haven't been intent on providing space. They have some space where they can let companies get established and incubate. But their focus and their dollars have gone much more into people," Melzer added. "It's actually a very smart idea to put dollars into people, as opposed to bricks and mortar."

Those people include the teams of specialists in biotech, medical devices, healthcare-software, and healthcare-services work with entrepreneurs in helping their companies grow: "My teams spend probably about 40 percent of their time not pitching deals, as much as just listening," Shah said.

That and other BioEnterprise activity has caught the eye of the St. Louis incubator heads.

"We like what [BioEnterprise] is doing," Gonzalez said. "They've done a great job of engaging people, and it's a good model. The bottom line is, to be successful as a company, you have to be able to access capital. The best way to be able to do that is to find out where the capital is, and what they're looking for, and make sure you have those kinds of deals."

Mellitz agreed, saying that within the Cleveland region, "[BioEnterprise] is doing a good job there."

St. Louis is one of several Midwestern areas where BioEnterprise has built relationships with VCs and other capital sources, in hopes of growing life-sci activity, Shah said.