

# Medical Growth Fund launched in Ohio backs emerging companies

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For about the past seven years, the Cleveland region has been working diligently to build its medical device and bioscience industry and help emerging such companies achieve success. Now, wealthy entrepreneurs in the region are ready to help the next generation of healthcare companies reach their full potential.

That was the idea behind a new Medical Growth Fund that has been launched in Cleveland to support emerging businesses in the medical device, healthcare IT, and healthcare services industries, according to Baiju Shah, president/CEO of BioEnterprise (Cleveland), a nonprofit organization aimed at growing healthcare companies and commercializing bioscience technologies in the region.

"We've had quite a bit of success in helping companies get launched that have hit their exit points," Shah told Medical Device Daily. "That enabled us to start thinking about, how do we then support that next generation of businesses that are emerging?"

The focus of the new \$5 million investment fund will be revenue or near revenue-stage opportunities. "What the fund is looking to invest in is companies that are very close to revenue or are already generating revenue," Shah said.

Like all other investment funds, Shah said entrepreneurs will be invited to approach the new fund with their proposals and will then be evaluated to see if they meet set criteria. The fund will provide an initial investment of up to \$500,000 in selected companies.

The Medical Growth Fund, however, will operate as sort of a hybrid between a venture capital firm and an angel fund, Shah said. Individuals engaged in this fund had "substantial success" with their own companies, he explained, therefore the "... level of investment that might come from not only the fund but individual side-car investments are going to look more like a venture fund than an angel fund."

While the financial climate over the past year has made it a difficult time for entrepreneurs to raise capital, Shah says the paradox for BioEnterprise and its partners is that it started talking about this new fund prior to last September's events. Given the circumstances, he said, one would think these investors would hesitate to participate in the new fund, yet instead the exact opposite happened. "As the financial markets worsened these individuals trusted themselves and their judgments much more than their advisors ... they had a stronger [desire] to participate in this investment vehicle compared to what they had in the past," Shah said.

The portfolio companies of the new Medical Growth Fund will not only benefit from financial investments, but each company will also get a "champion" entrepreneur to actively advise the company. Shah said the individuals participating in the new fund the same ones who he said have

had "substantial success" with their own companies will bring "strategic value" and the benefit of their "Rolodex" contacts to these new entrepreneurship.

"They intend to personally participate [in these companies] as boards of directors and leverage their network for the benefit of the entrepreneurs that they back," Shah said.

The new fund will syndicate with others just like a traditional venture fund would, Shah said. He added that there is a preference for deals in the Cleveland area but that is not a requirement for eligibility. He said the investors just want to make sure that they will have an opportunity to be "heavily engaged" in the companies that they back in order to offer their expertise.

"I think it's a major milestone for the Cleveland area," Shah said. "We're happy to be joining the likes of the Minneapolis' and the Research Triangles' ..."

Recently BioEnterprise released its annual Midwest Health Care Venture Investment Report showing that Midwest healthcare startups reported \$402 million in total investments across 81 companies in the first half of 2009. The numbers are down 9% compared to the levels of investment seen in the first half of 2008 and significantly lower than 2007's record-setting pace. Shah noted at that time that while healthcare venture investments in the region are down from last year, the region's companies are faring better than their national peers (Medical Device Daily, Aug. 3, 2009). Venture investments nationally are down by more than 50% compared to last year and are at levels not seen since 1996 according to recent data from the National Venture Capital Association. According to the BioEnterprise report, Minnesota led the way in financings, attracting \$118 million across 12 healthcare ventures while Ohio and Michigan followed, attracting \$87 million and \$65 million respectively.