

Midwest Health Care Venture Survey Results

November 2006

Background

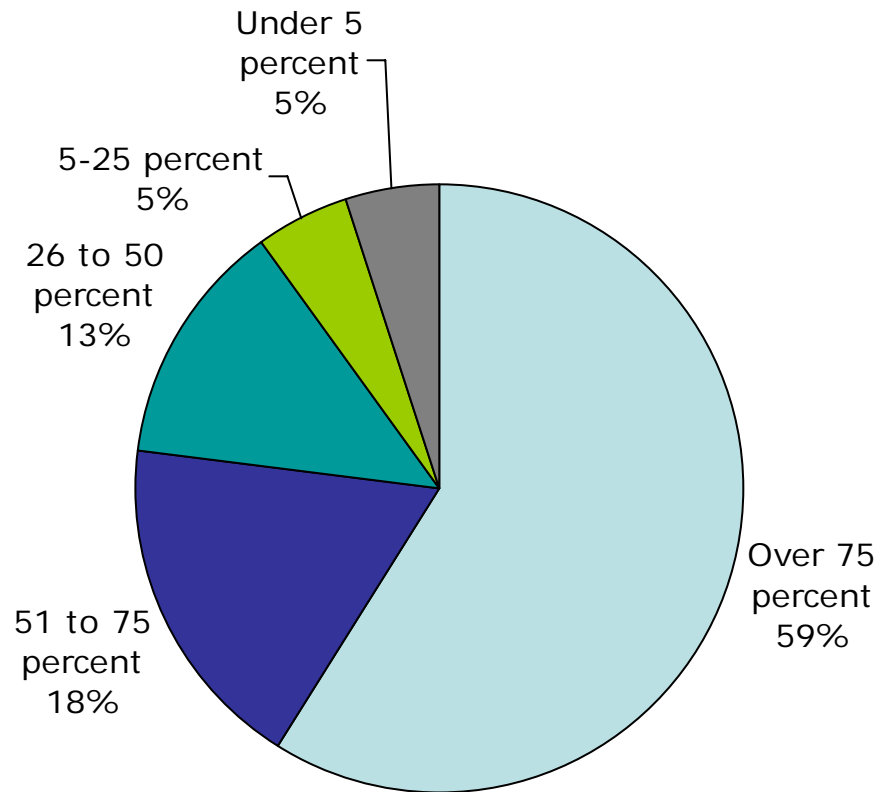
- Developed to assess and track national venture capital impressions of Midwest health care investment opportunities
- Survey conducted Oct 30-Nov 13, 2006 by e-mail
- Non-scientific survey method used
- Second annual survey

Overview of Respondents

- 54 national respondents to survey
- Respondents are very active health care investors
 - For 90%, more than a quarter of fund investments will be in health care (for 77%, over half of all investments)
- Respondents are active in Midwest
 - 72% of respondents have primary office in Midwest
 - 87% invest in at least 1 Midwest health care deal each year, and 59% see more than 25 opportunities from region each year
 - 80% are knowledgeable about Midwest health care opportunities
- Respondents are from a range of fund sizes

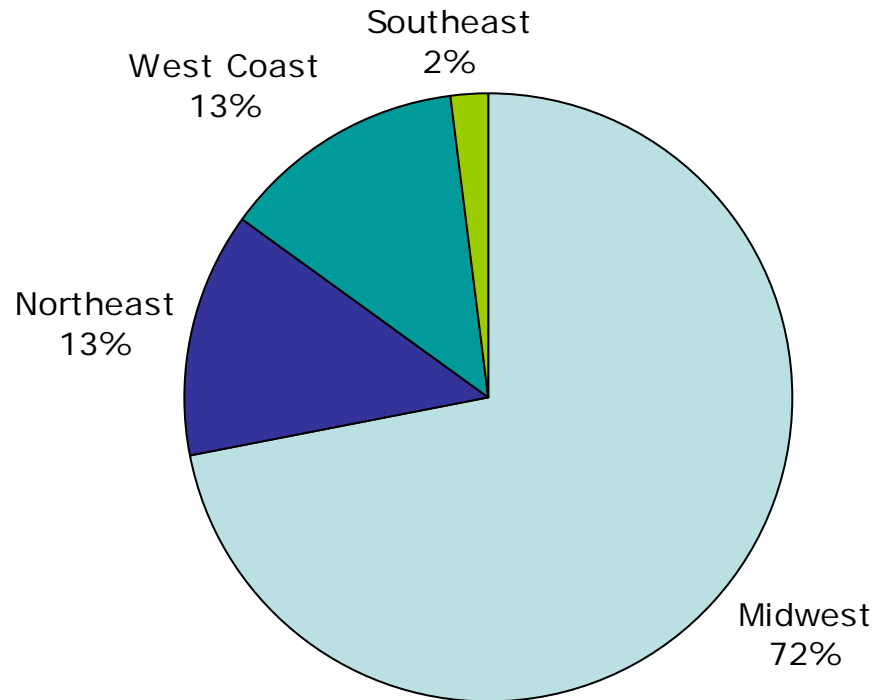
Most Respondents are Investing Significant Portions of their Funds in Health Care

What Percentage of your Investments will be in Health Care and Biosciences?



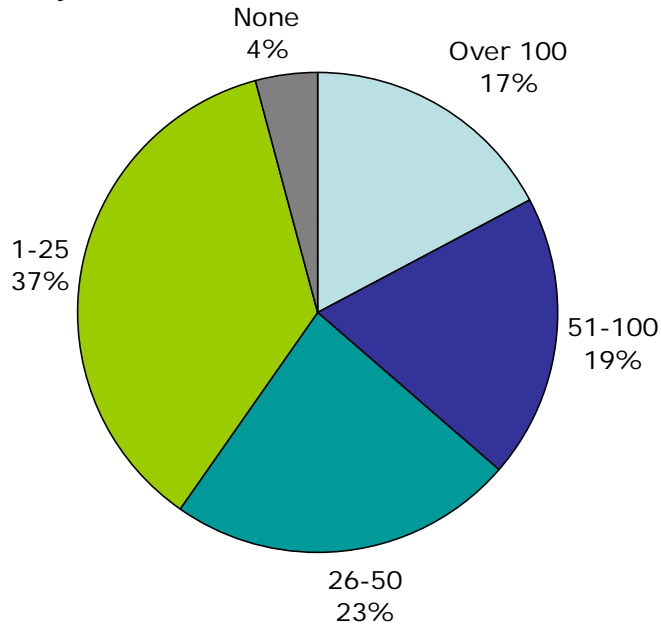
Respondents Spanned Country, though Greatest Segment are from Midwest

Where is your Fund's Primary Office Located?

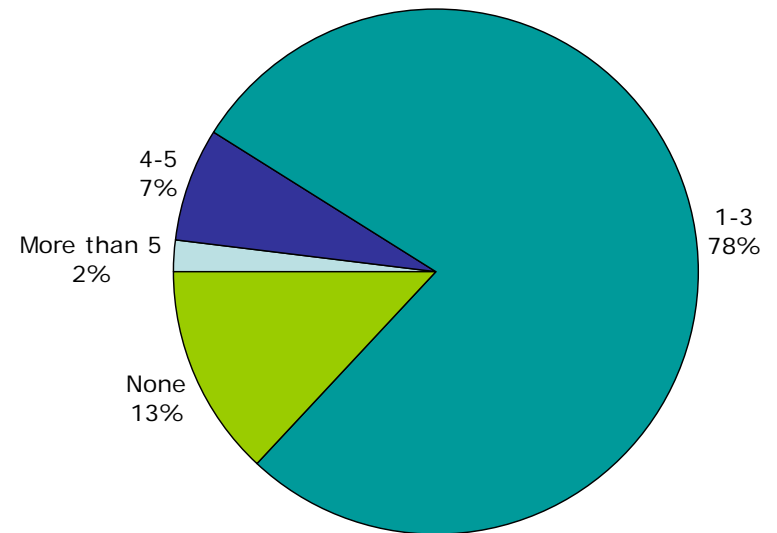


Respondents are Active in Seeing and Investing in Midwest Deals

How Many Midwest Health Care Deals Do You Look at Each Year?

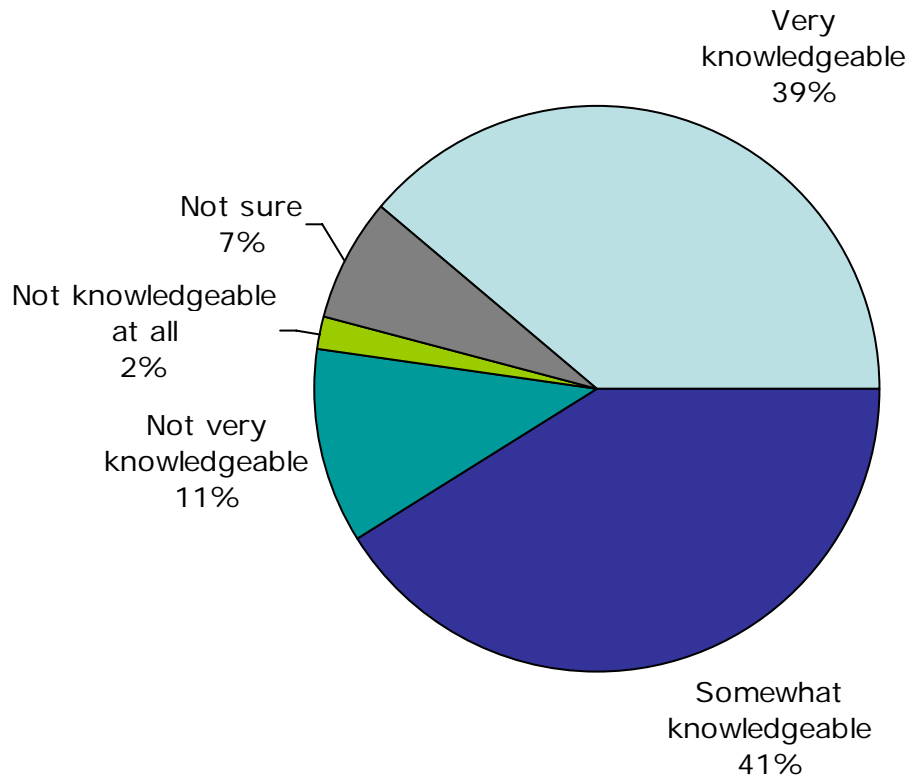


How Many Midwest Health Care Deals Do You Invest in Each Year?



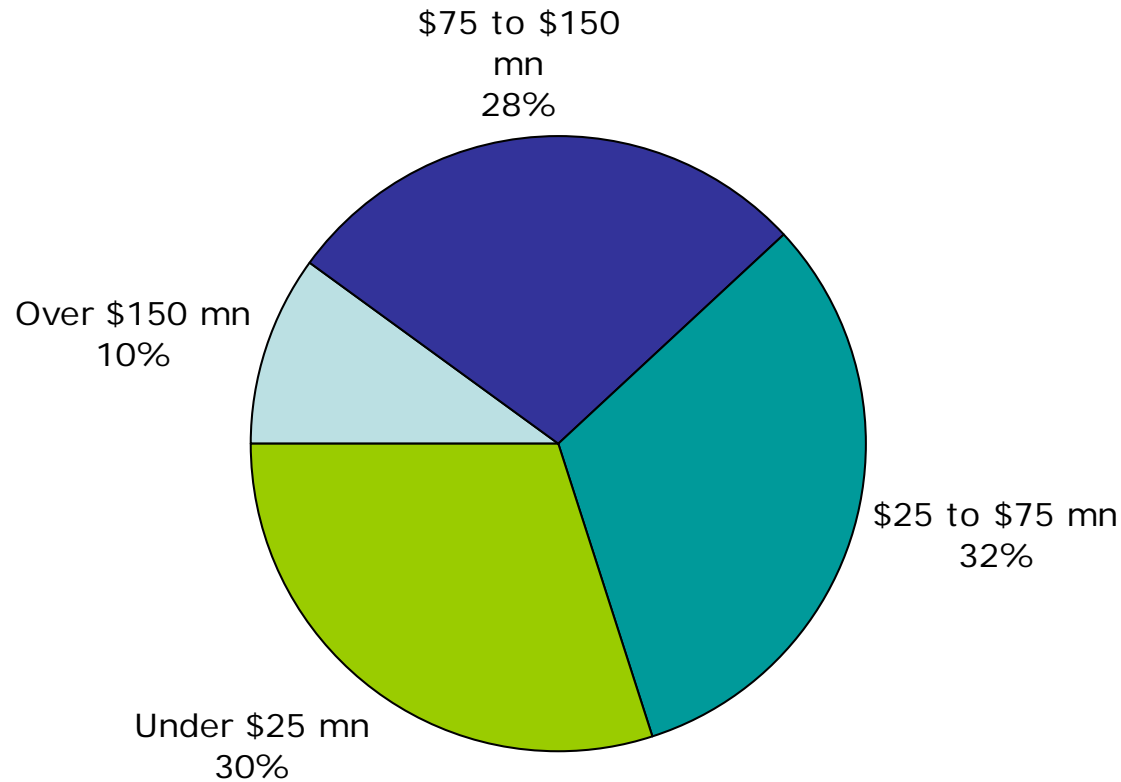
Respondents Are Knowledgeable About Midwest Health Care Opportunities

How Would You Rate Your Knowledge of Midwest Health Care Opportunities?



Even Distribution of Respondents by Size of Current Investment Fund

What is the Size of Your Current Fund?



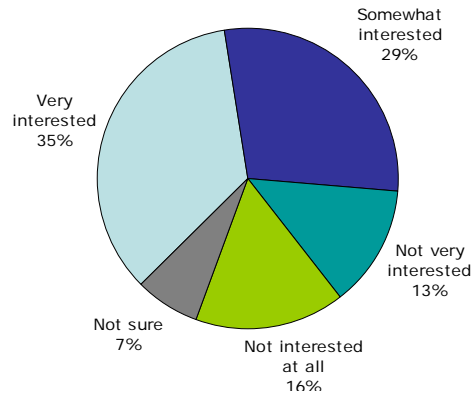
Investment Interests

- Investment interests strongly favor medical device followed by biopharmaceuticals and health care services; limited interest in health care software
- In similar fashion, plan to allocate greatest percentage of health care funds to medical device deals and then biopharmaceuticals
- Not surprisingly, will focus investments in on start-ups and existing firms, not buyouts/recaps

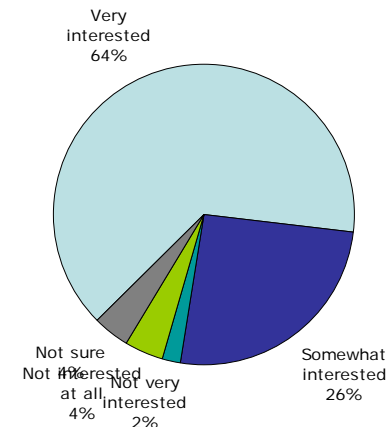
Highest Interest in Medical Devices and Biopharmaceuticals

What sectors are you interested in?

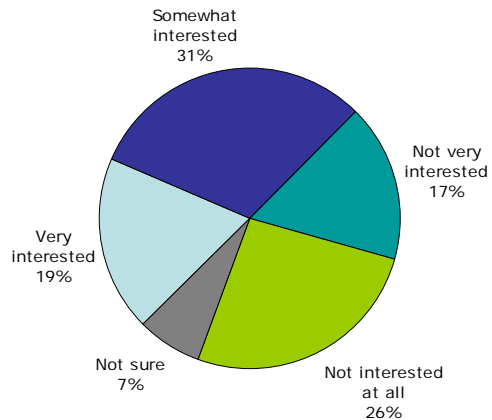
Biopharmaceuticals



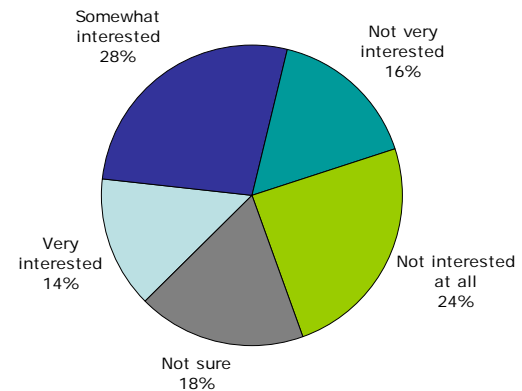
Medical Devices



Health Care Services

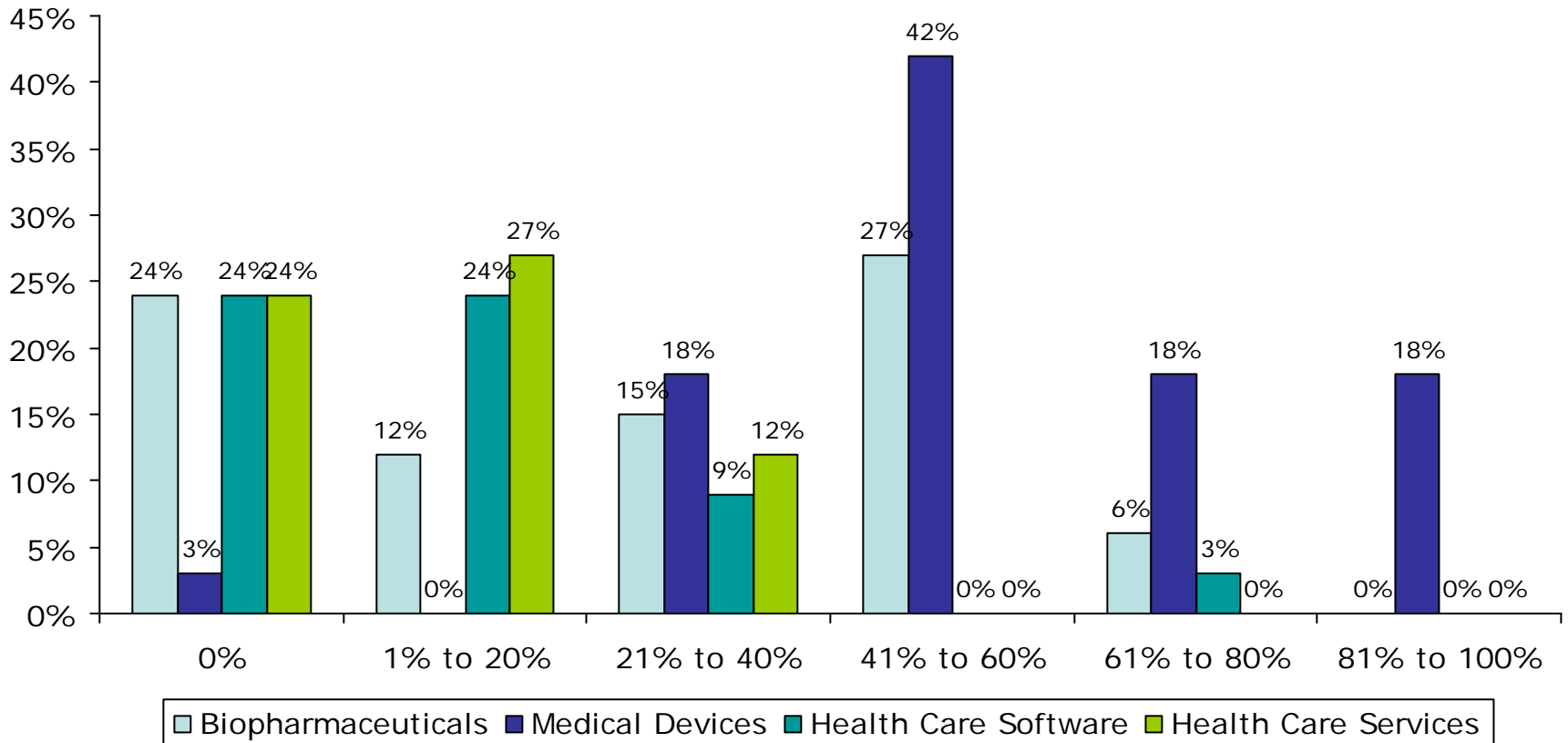


Health Care Software



Medical Device Opportunities Dominate Investment Interests

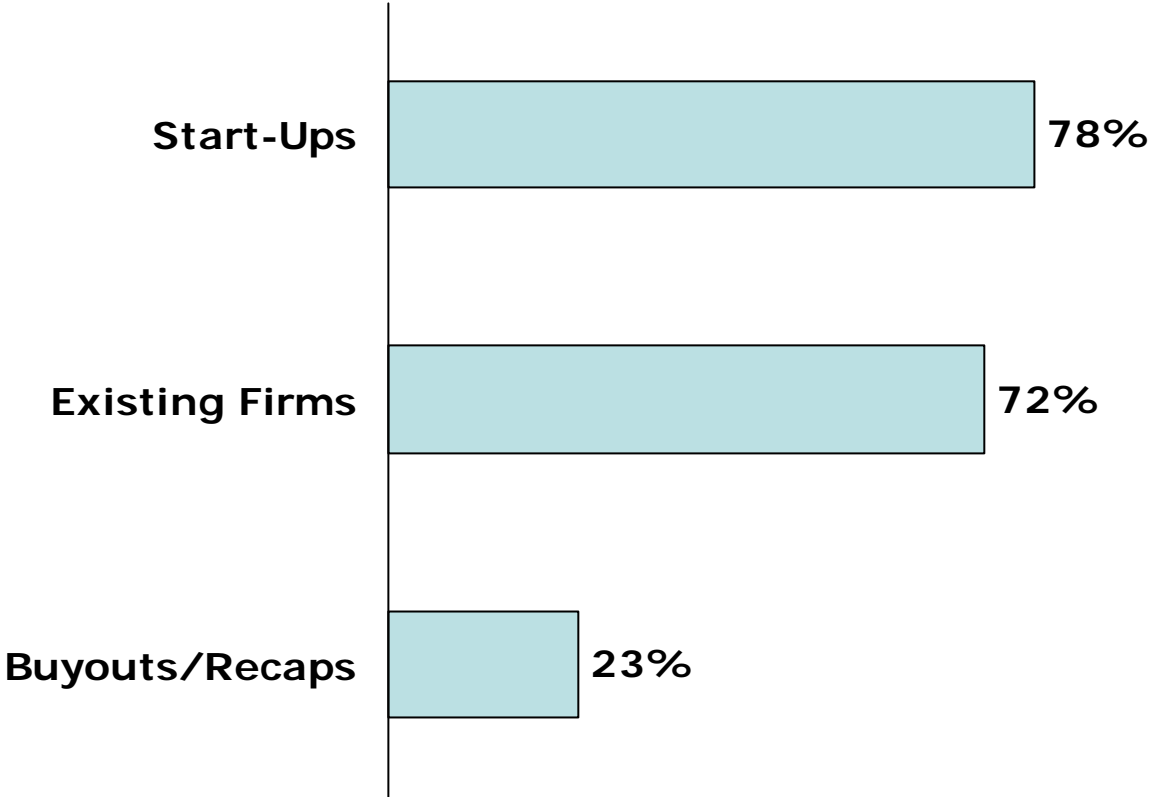
Within your Health Care and Bioscience Investments, Estimate the Approximate Percentage of Investments by Sector



Start-ups and Existing Firms are Favored for Investment

In What Stage of Company Development Will Your Fund Make an Investment?

Respondents could choose more than one response

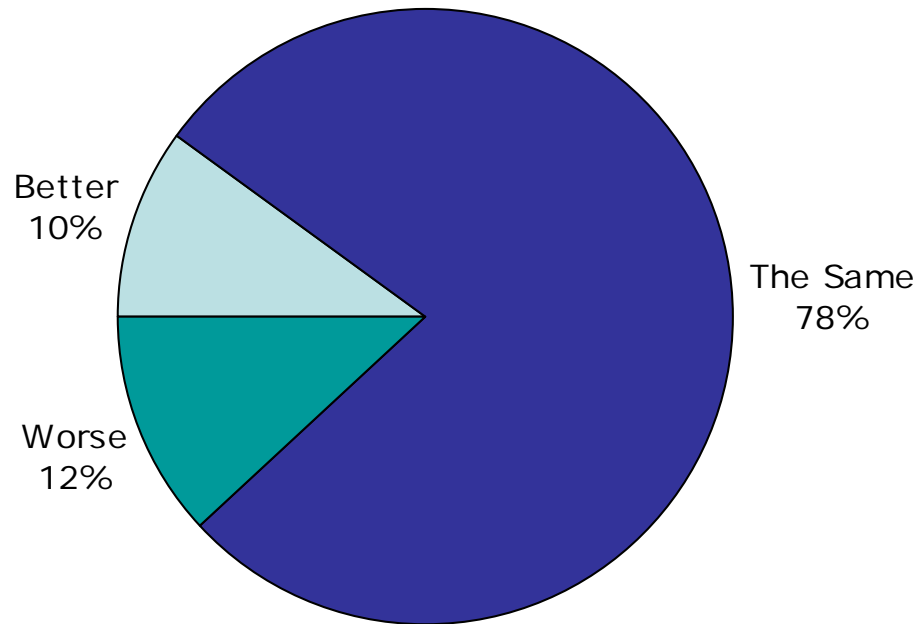


Impressions of Midwest Deals

- Vast majority (78%) rated Midwest investments as performing at the same level as those in other regions; 10% rated Midwest deals as better
- 82% believe that the quality of Midwest opportunities are promising
 - Respondents commented on the Midwest' strong technologies and institutions, improving management and entrepreneurial support, and lower "competition" which allows for attractive valuations and terms
 - The few that disagreed noted that there still is a challenge to assembling management and technical teams in the Midwest, and that biotech opportunities from region were too early-stage
- Regarding the quality of Midwest opportunities:
 - Medical devices rated the highest with 52% rating these deal flow as strong or very strong
 - Health care services and IT rated average as compared to national deals (56% rated it as such)
 - Biopharmaceuticals considered weak by 56% of respondents

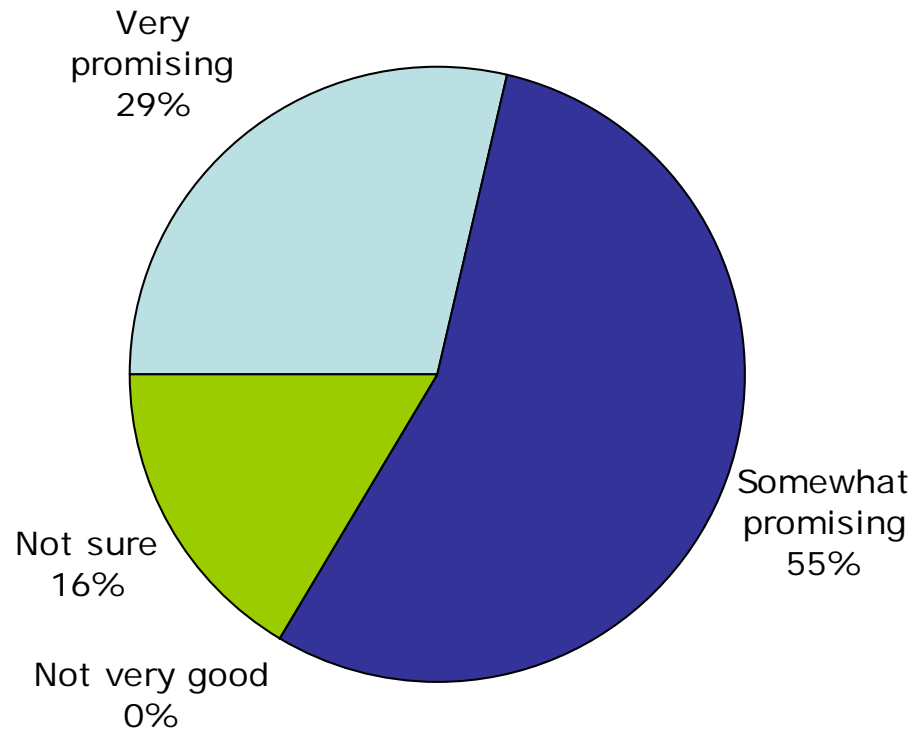
Midwest Investments Perform As Well As Other Regions

How Would You Rate the Performance of Your Midwest Investments
Compared to Your Health Care Investments in other Regions?



Midwest Deal Flow Rated as Promising

How Would You Rate the Quality of Midwest Health Care Investment Opportunities?



Why are Midwest Deals Promising?

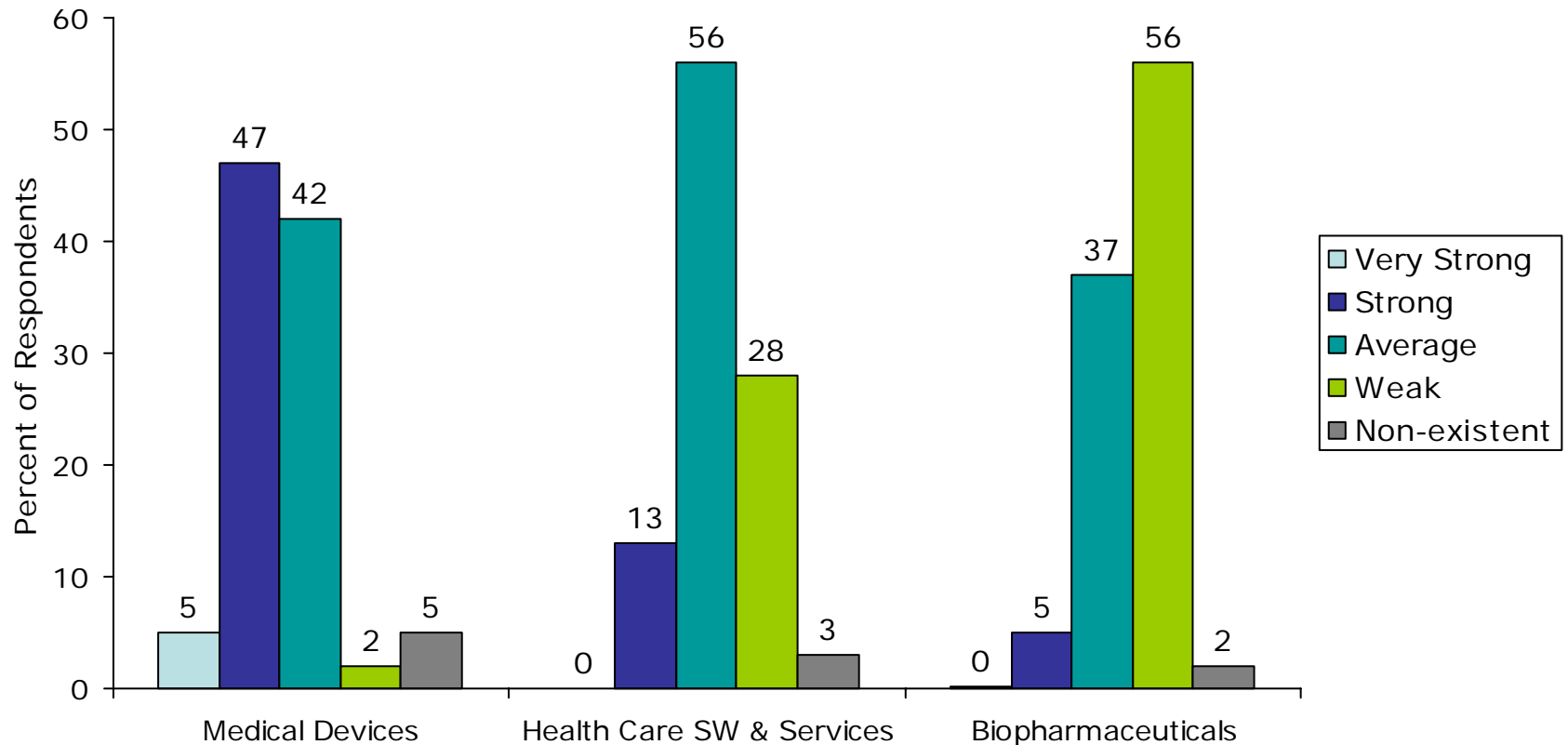
- **Good deal flow, reasonably valued, and undertapped**
 - We get good deal flow, and high quality.
 - Quality of opportunity, reasonable pricing.
 - Deal terms are investor friendly
 - Deals coming out of the Midwest appear to be catching up to the coasts in respect to management and diligence.
 - Significant unexploited opportunities.
 - The Midwest is underserved in the VC community and therefore competition for deals is less heated. Also, when it comes to devices the Midwest, in particular Minneapolis/St. Paul, has the entrepreneurial community to support early stage development. The research institutions and healthcare providers in the Midwest are also very prominent and well funded and provide a steady source of early stage opportunities.
- **Strong technology pools and institutions with improving management, esp. in devices**
 - There is a strong network of experienced management and technical expertise, particularly in the area of medical devices. This is not the case with biopharmaceuticals yet. The lack of experienced biopharmaceutical management talent continues to be a hindrance to biopharmaceutical investing in the Midwest, but there are indications this is improving.
 - There is a lot of great research taking place at a number of research institutions. The infrastructure to help the resulting start-up companies is being developed in a number of Midwest cities.
 - There is real potential through CWRU, Cleveland Clinic and UH
 - Strong, established industry along the I-65 'healthcare highway' generates experienced management teams for startups and enables them with relationships that lead to business, especially in healthcare services.
 - Interesting technologies in search of top flight management teams.
 - There appears to be a wealth of good technology being developed in the Area
 - Given our medtech orientation, Minneapolis is a strong market in technology, people, start-ups etc.
 - Good quality technologies
 - There is promise, but need successes to attract more money and expertise. There is much talent, but they need to understand their limitations.
 - Good device plays
 - There seems to be more money to invest to assist these companies/ideas with more on the way with a focus to improving the entrepreneurial community.

Why are the Midwest deals of low quality?

- **Challenge to find talent**
 - Difficult to get the talented management and researchers
 - Management. Lack of talent pool to fill critical positions.
 - Lack of entrepreneurial support and entrepreneurs. Companies are generally farther along in the development cycle.
- **Nascent technologies**
 - Too few investable opportunities. Too much early/seed on the drug side
 - Just the product, nothing regional

Medical Device Deal Flow Rated Strongest, Followed by Health Care IT & Services; Biopharmaceuticals Noted as Very Weak

Impressions of Deal Flow by Sector

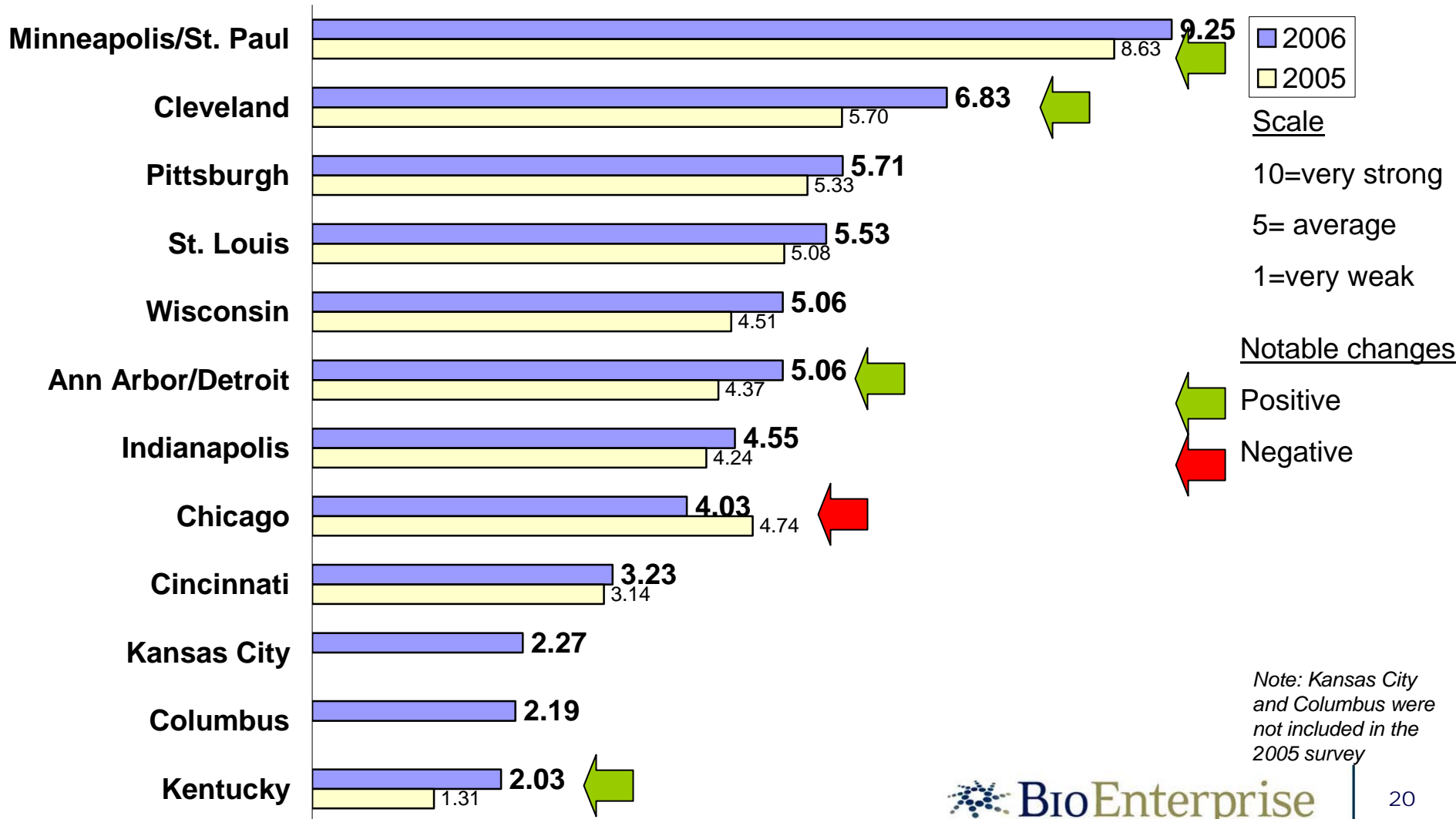


Regional Rankings

- Overall, Minneapolis, Cleveland, and Pittsburgh continue to have the highest reputations among regions in the Midwest for health care deals
 - There have been notable gains in reputation for Minneapolis, Cleveland, and Ann Arbor/Detroit
 - Chicago's was rated more negatively this year
- Venture capital investments in 2005 and 2006 have largely followed the rankings
- For specific health care sectors, investors largely ranked the regions in the same as the overall rankings with notable improvements for regions across a variety of areas

Overall, Minneapolis, Cleveland, and Pittsburgh continue to be ranked highest among regions

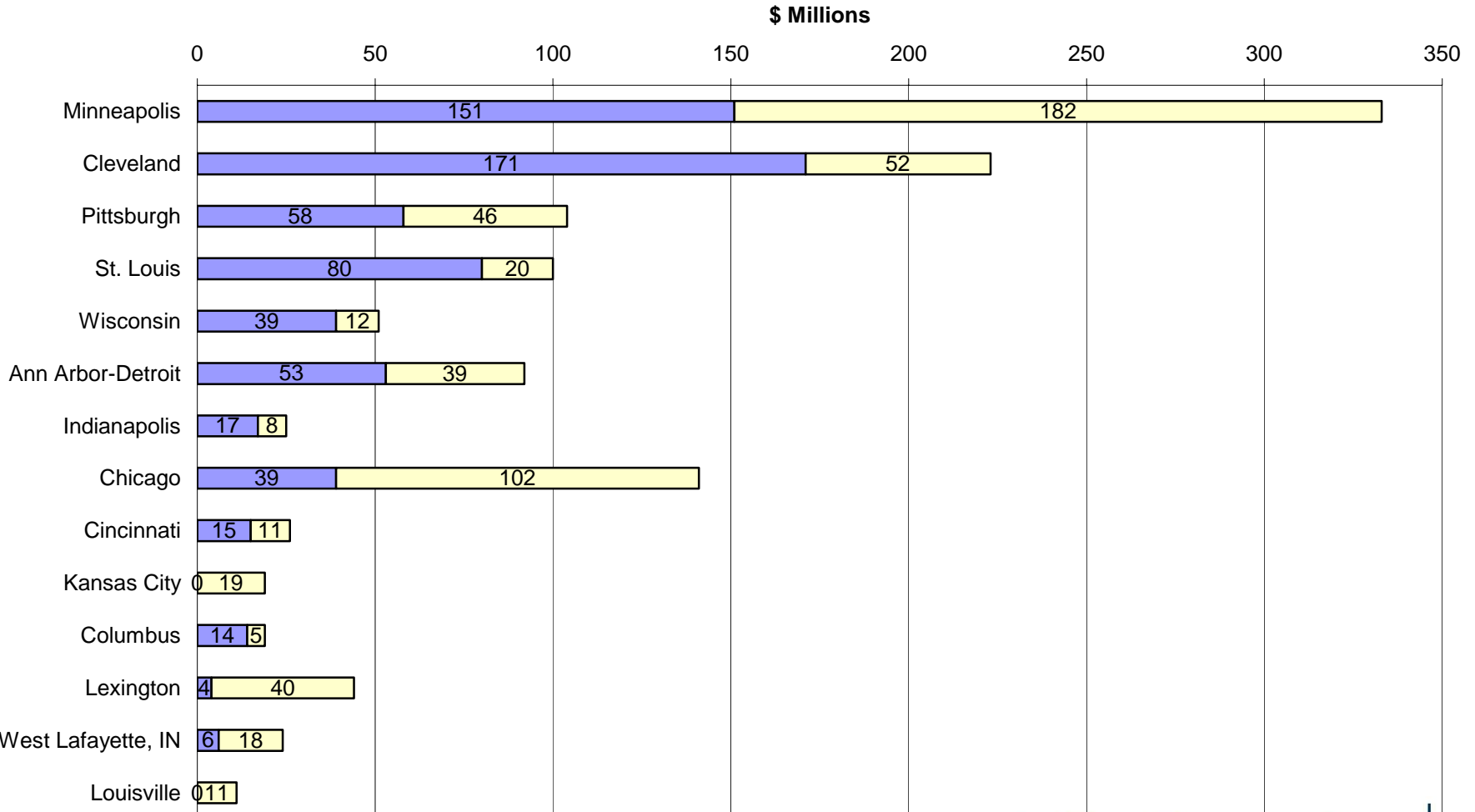
Overall Ranking of Midwest Regions



Not surprisingly, the venture dollars received since 2005 reflect this

Venture Equity Investments by Midwest Region
2005 and 2006 Through Q3

Regions by reputation rank

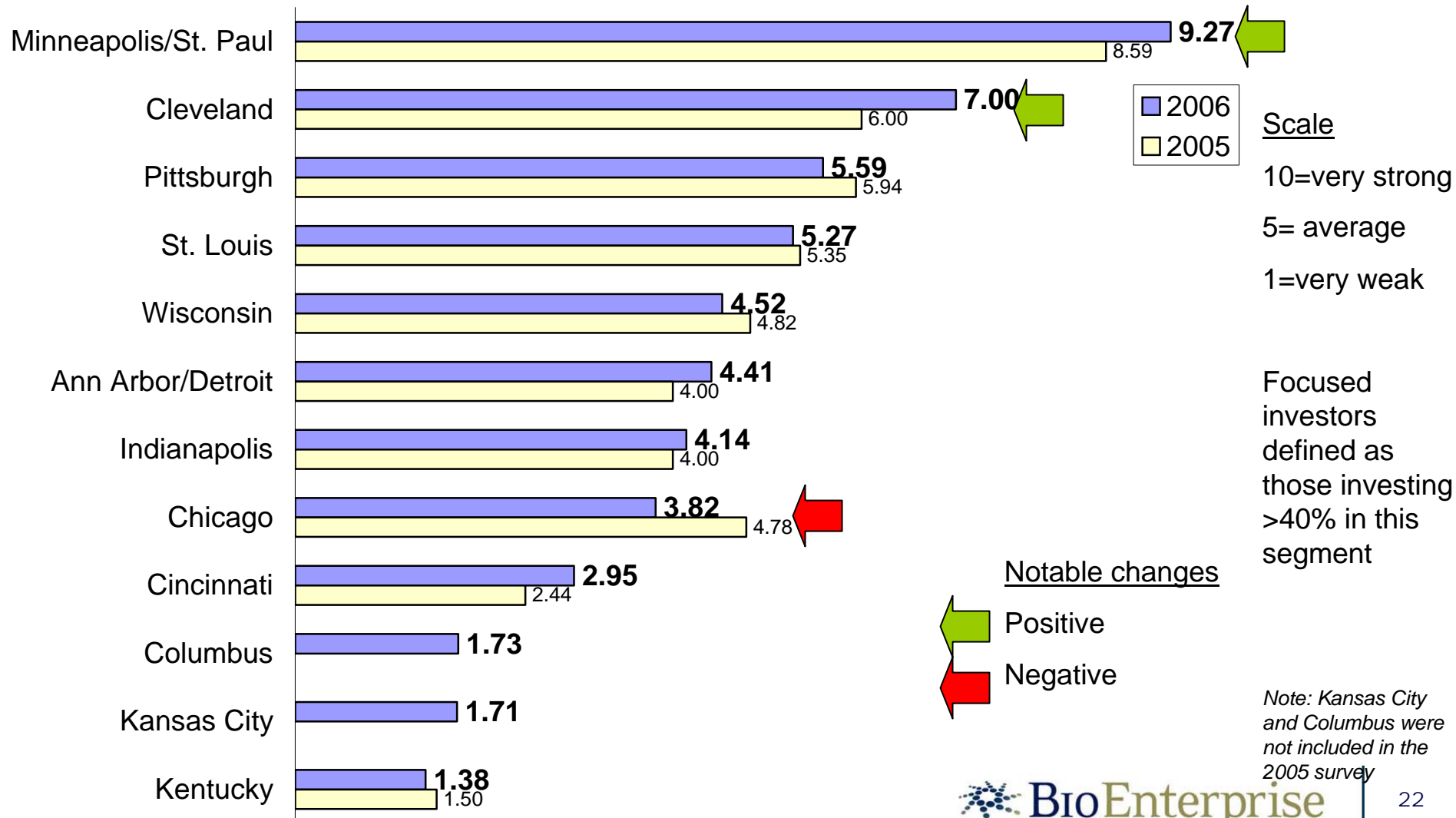


Source: BioEnterprise Midwest Health Care Venture Report, Q2 2005; Venture Capital News

■ 2005 ■ 2006 Through Q3

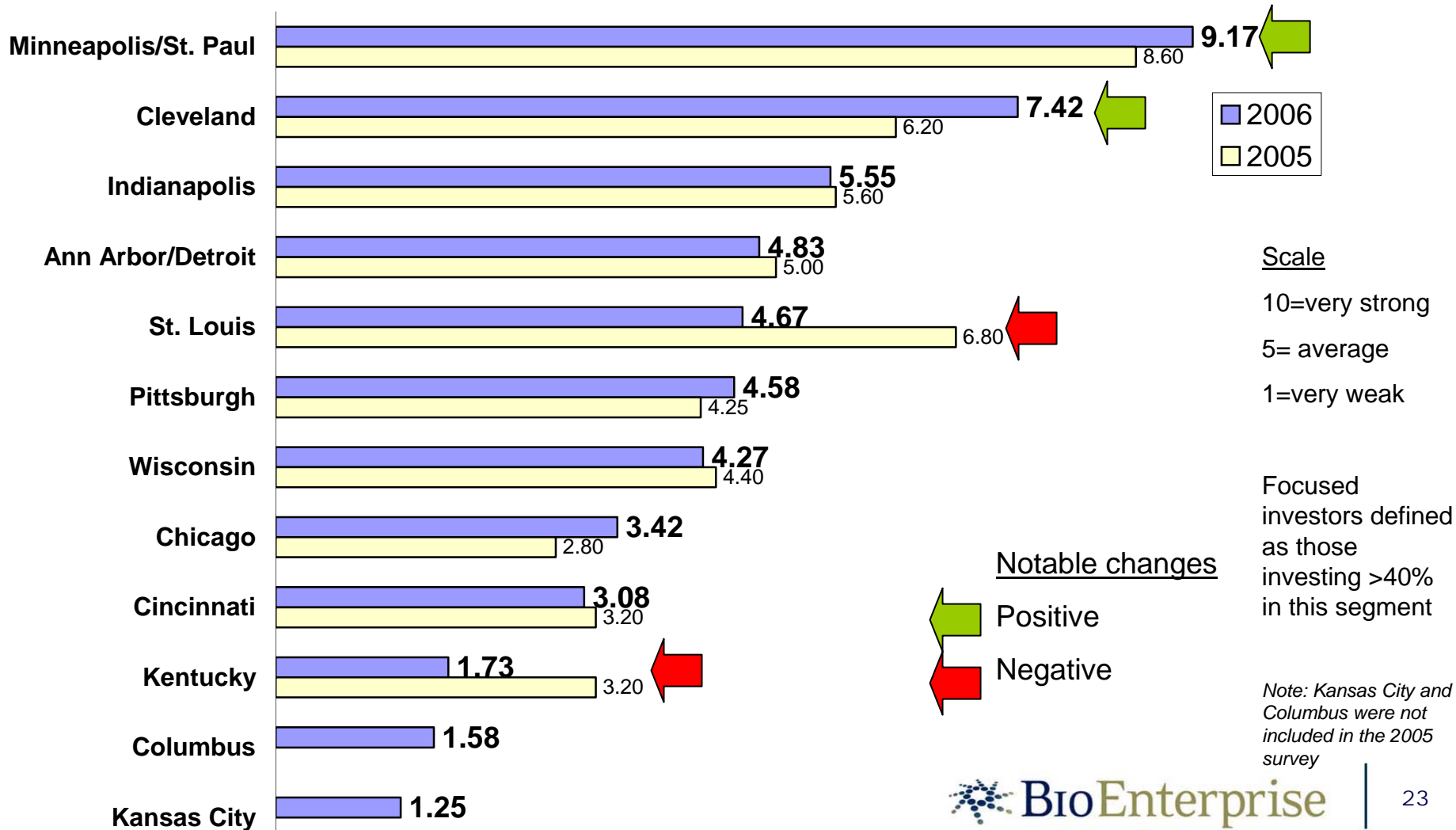
The overall rankings remain roughly similar among medical device focused investors (n=26)

Ranking of Midwest Regions for Medical Devices



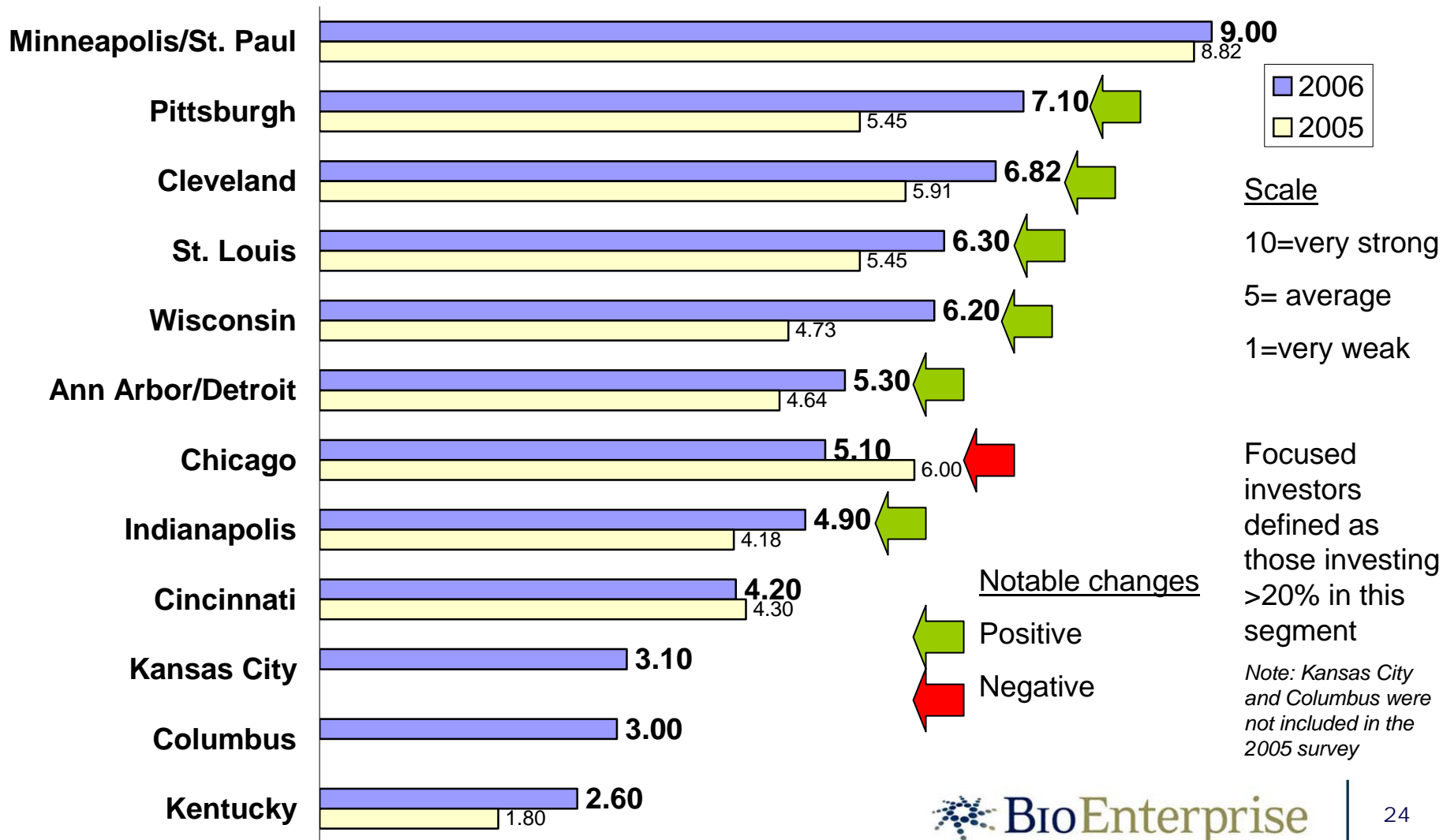
Among biopharma focused investors (n=12), Indianapolis and Ann Arbor rate more highly; St. Louis' reputation dropped in this year's survey

Ranking of Midwest Regions for Biopharmaceuticals



Among health care service and software investors (n=11), Pittsburgh and Wisconsin rate highly; Chicago's reputation decreased

Ranking of Midwest Regions for Health Care Software & Services

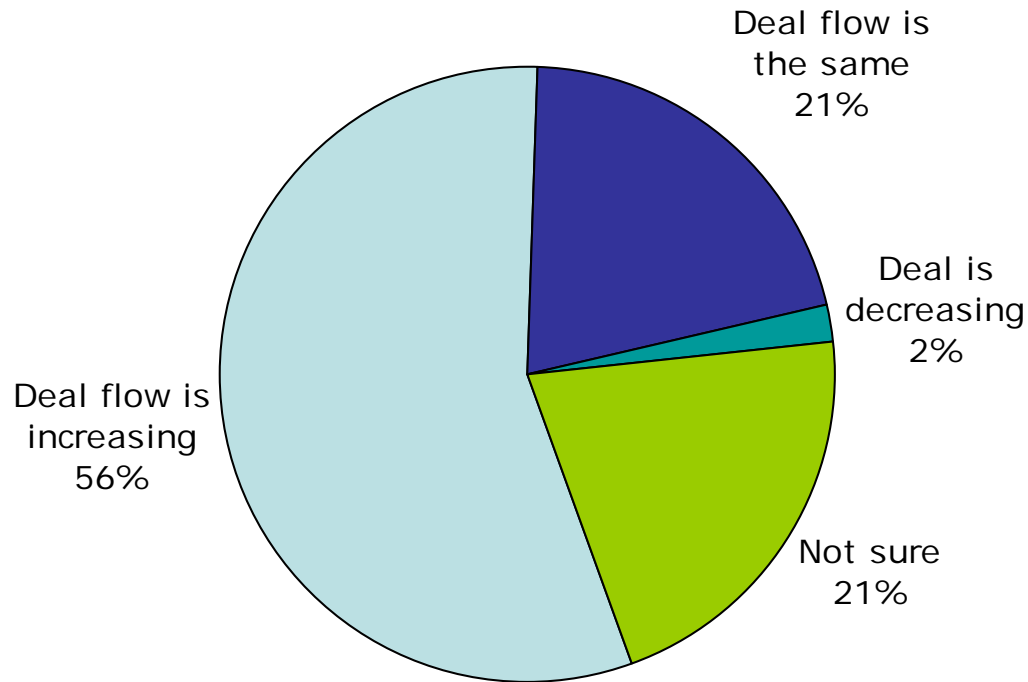


Accessing Deals

- Most respondents see overall deal flow as having increased over the last 5 years (56%)
- Almost all (83%) would like to expand their firm's deal flow in the Midwest
- Firms are accessing opportunities through known entrepreneurs, Midwest venture firms, research institutions, and business accelerators
- Respondents were familiar with BioEnterprise (90%) and had favorable impressions of the quality of its deals (41% above average)

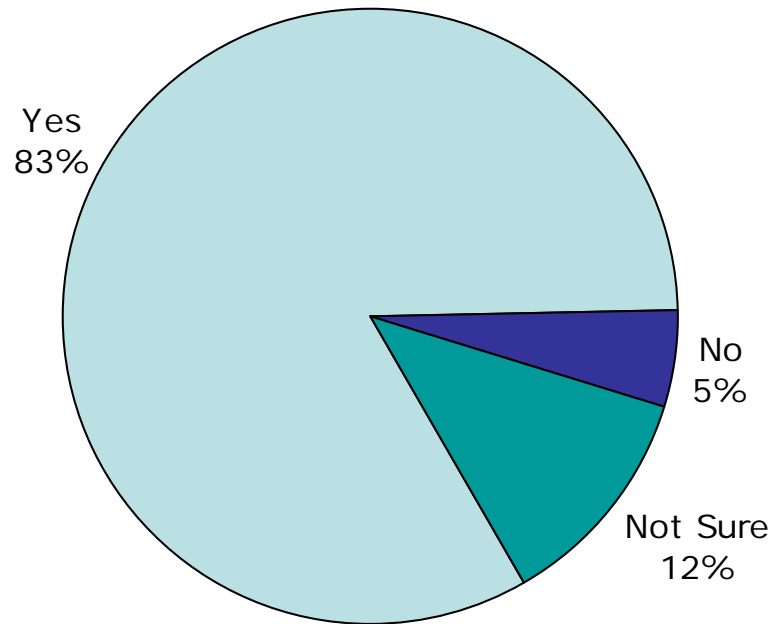
Most See the Deal Flow in the Midwest as Having Increased

Over the Past Five Years, How have Your Impressions of Midwest Deal Flow Changed?



Funds Want to See More Deals from the Midwest

Are you Interested in Expanding your Deal Flow from the Midwest?

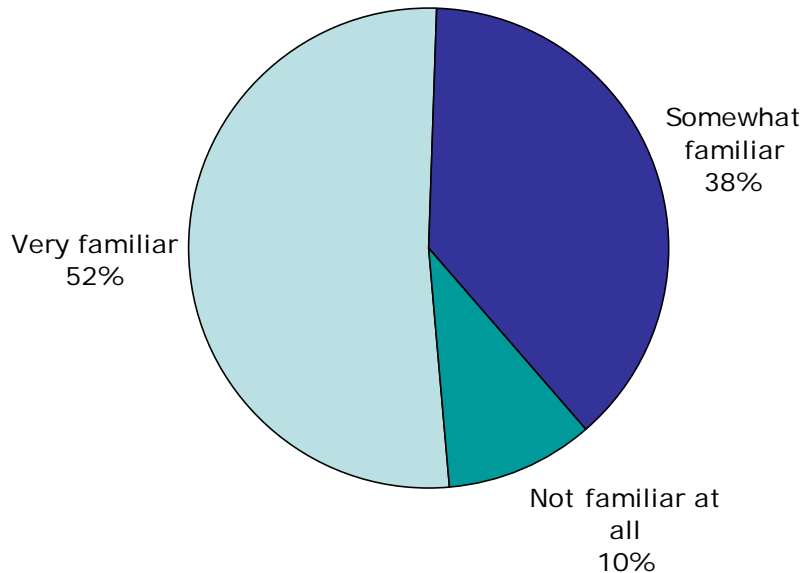


Approaches to Access Quality Deal Flow from the Midwest

Source	Number Cited (out of 44)
• Known Entrepreneurs	34
• Midwest Venture Firms	30
• Research Institutions	30
• Business Incubators/Accelerators	29
• Other Investment Firms	19
• Intermediaries (Brokers/Bankers)	18

Respondents were familiar with BioEnterprise and had favorable impressions of its deals

How Familiar are you with BioEnterprise?



If you are Very or Somewhat Familiar, How Would You Rate the Quality of Companies BioEnterprise Represents?

