

Midwest Health Care Venture Survey Results

September 2005

Background

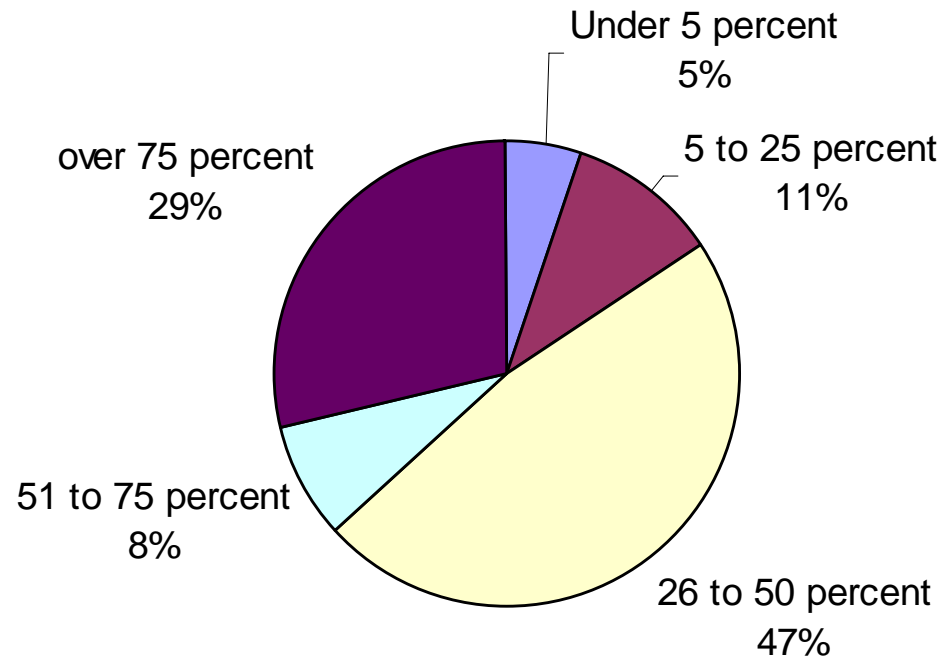
- Developed to assess national impressions of Midwest health care investment opportunities and geographies
- Survey conducted July 26-Aug 5, 2005 by e-mail
- Non-scientific survey method used
- Plan to conduct survey annually to better understand how impressions of the Midwest health care investment market change over time

Overview of Respondents

- 47 national respondents to survey
- Respondents are active health care investors
 - For 84%, more than a quarter of fund investments will be in health care (for 37%, over half of all investments)
 - 75% of respondents have more than 2 professionals in fund focused on health care
- Respondents are active in Midwest
 - 66% of respondents have primary office in Midwest
 - 75% invest in at least 1 Midwest health care deal each year, and 65% see more than 25 opportunities from region each year
 - 78% are knowledgeable about Midwest health care opportunities
- Range of fund sizes, most are active as they are in the early stages of fund life

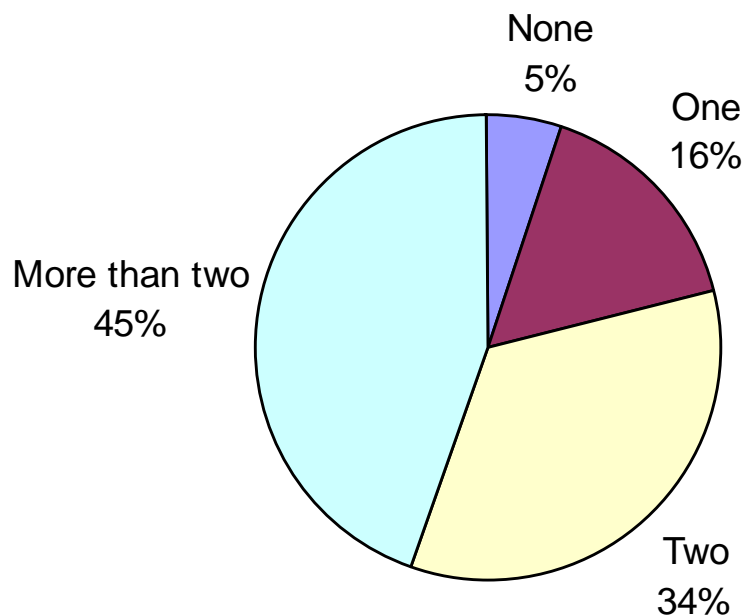
Most Respondents are Investing Significant Portions of their Funds in Health Care

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



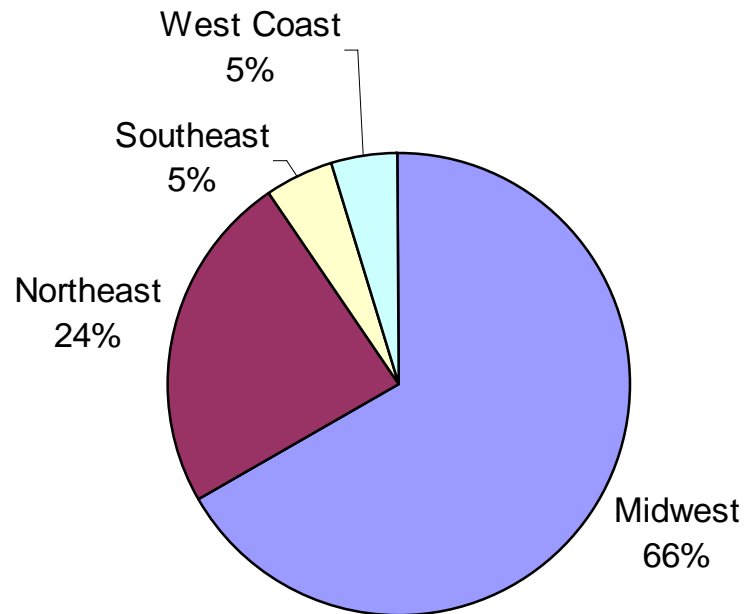
Most Respondents have Significant Resources Focused on Health Care and Biosciences

How Many Partners in your Fund are Involved in Health Care Investing?



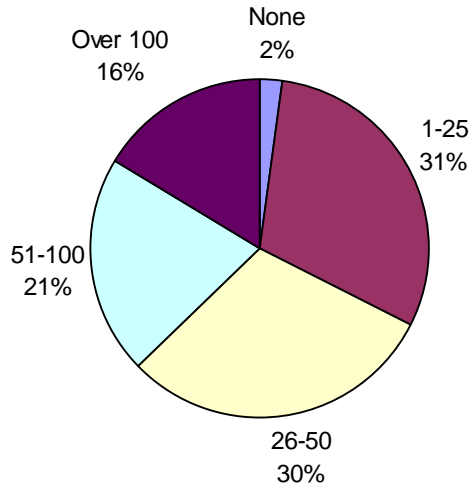
Respondents Spanned Country, though Greatest Segment are from Midwest

Where is your Fund's Primary Office Located?

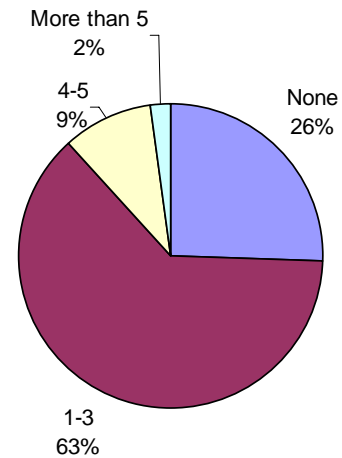


Respondents are Already Active in Midwest Deal Flow

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

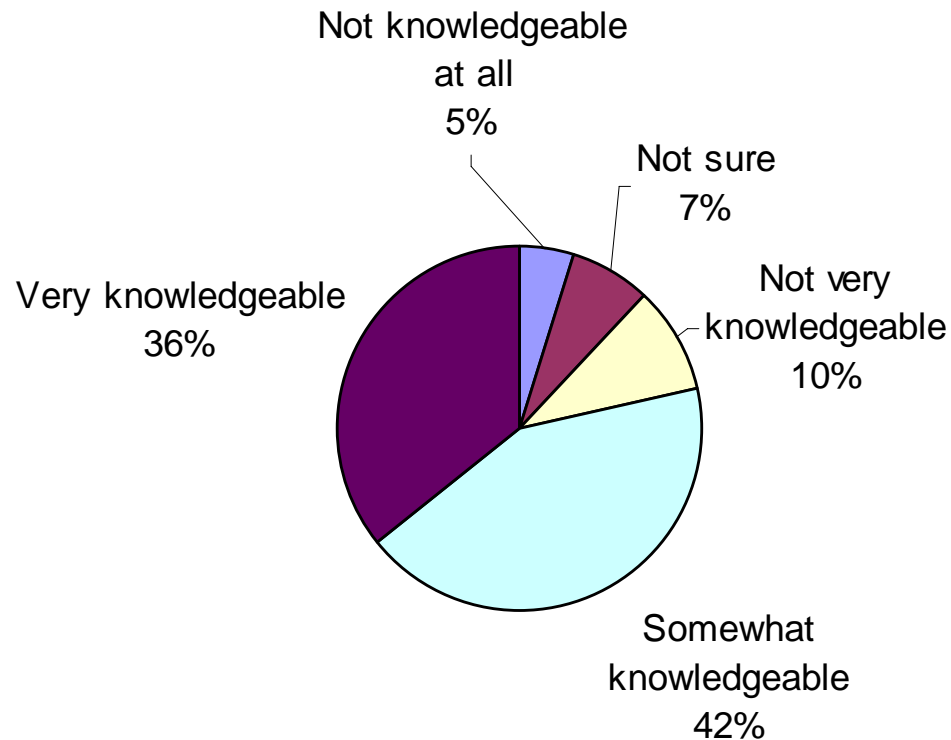


How Many Midwest Health Care Deals Do You Invest in Each Year?



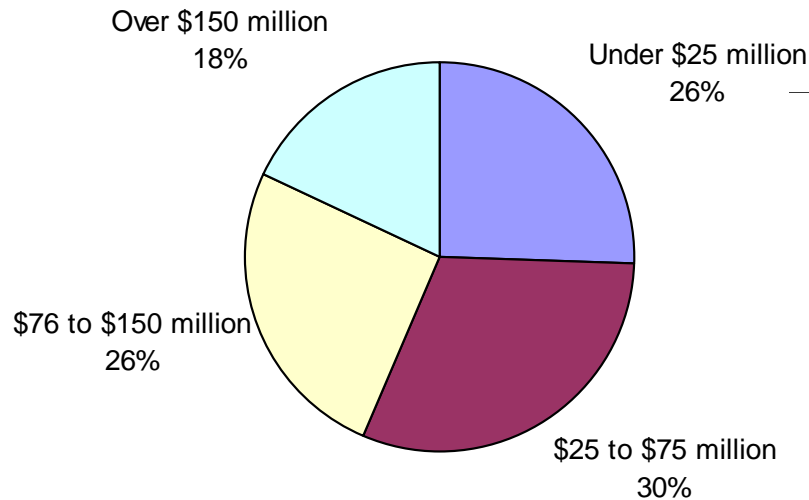
Respondents Knowledgeable About Midwest Health Care Opportunities

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

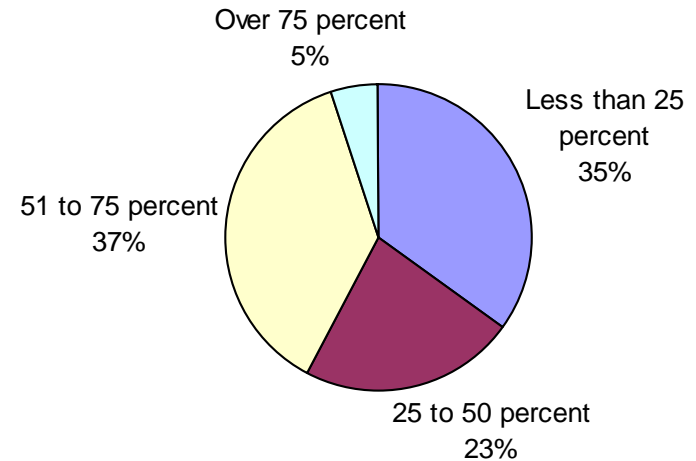


Even Distribution of Respondents by Fund Size; Most are Early in Investment Cycle

What is the Size of Your Current Fund?



What Percent of Your Fund is Invested?



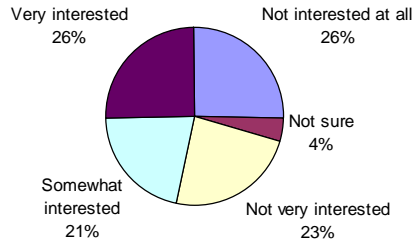
Investment Interests

- Investment interests favor medical device, followed by health care services, then health care IT, and finally, biopharmaceuticals
- Plan to allocate greatest percentage of funds to medical devices; the other segments will garner probably equivalent amounts
- Not surprisingly, will focus investments in Series A & B rounds and on start-ups/existing firms, not recaps

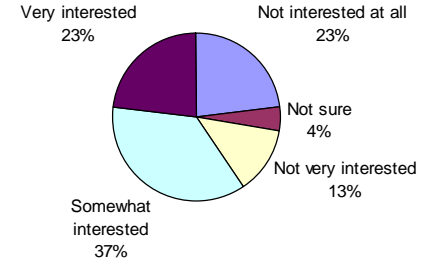
Highest Interest in Medical Devices and Health Care Services

What sectors are you interested in?

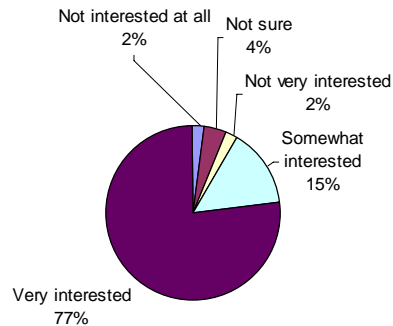
Biopharmaceuticals



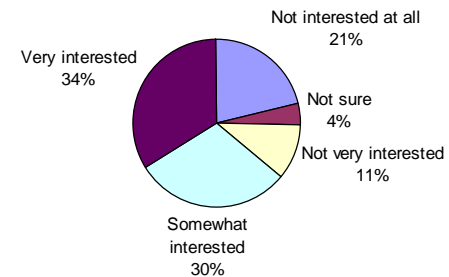
Health Care Software



Medical Devices

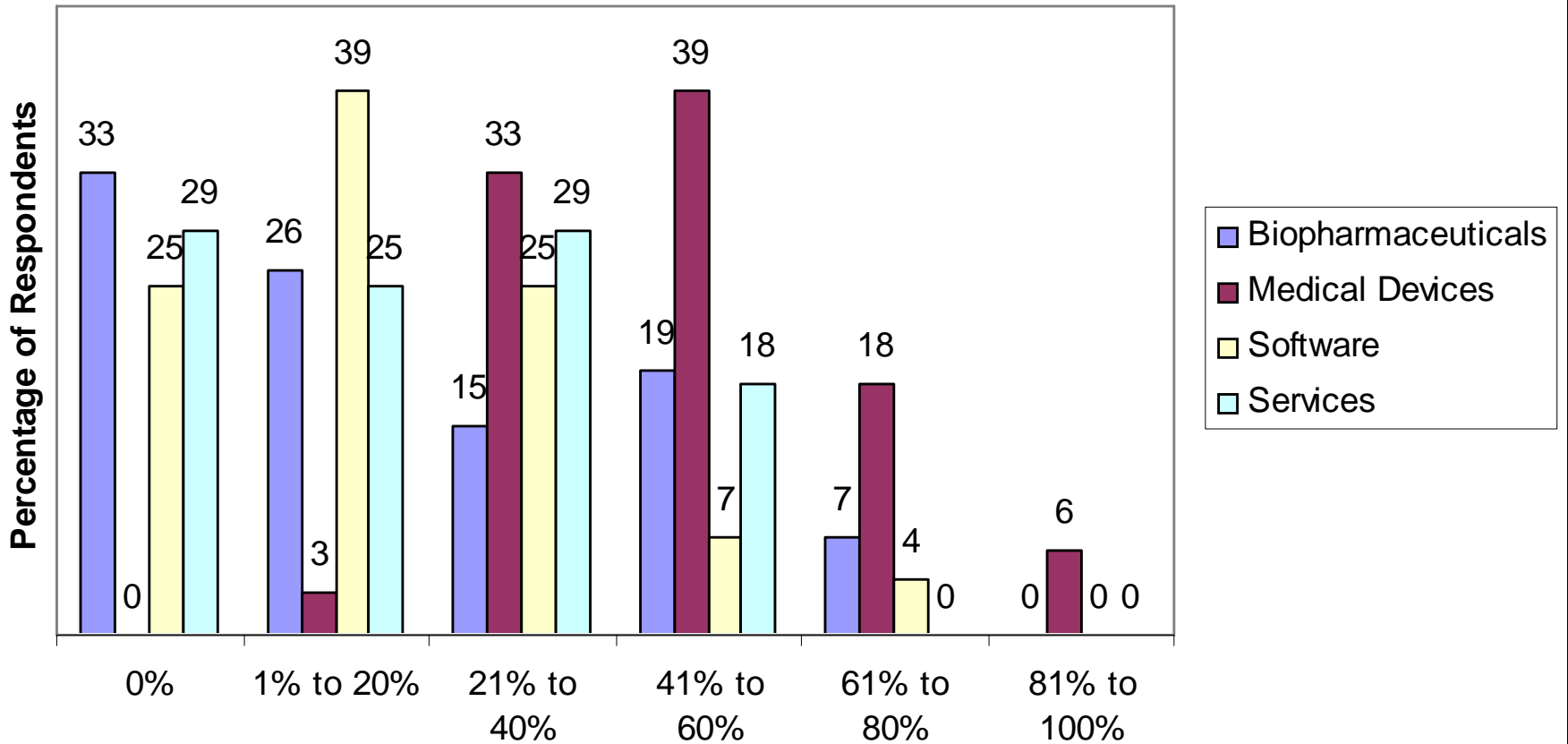


Health Care Services



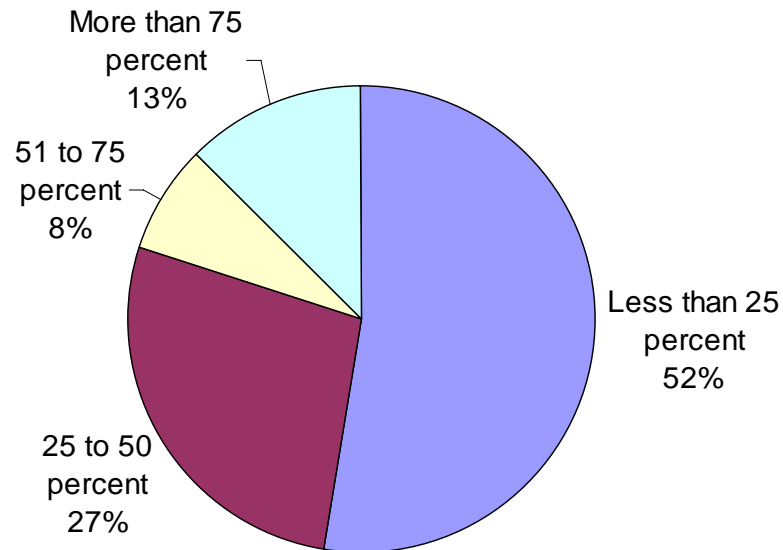
Medical Device Opportunities Dominate Investment Interests

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

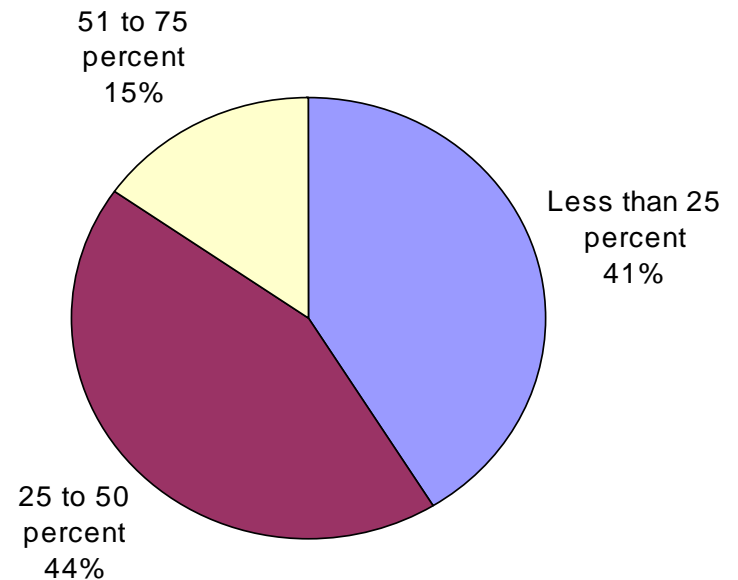


Series B Investments Outnumber Series A & Seed

What Percentage of Your Current Fund is Invested in Seed or Series A Securities?

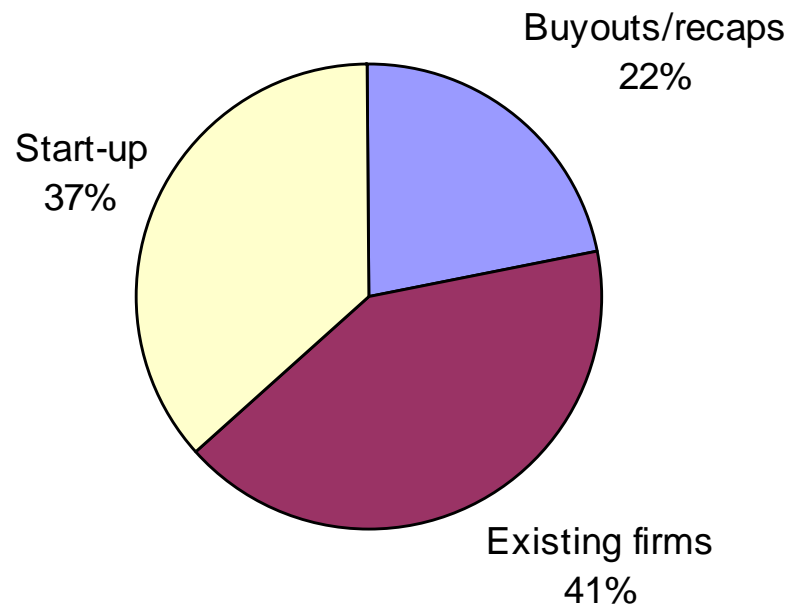


What Percentage of your Current Fund is Invested in Series B Securities?



Start-ups and Existing Firms are Favored for Investment

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

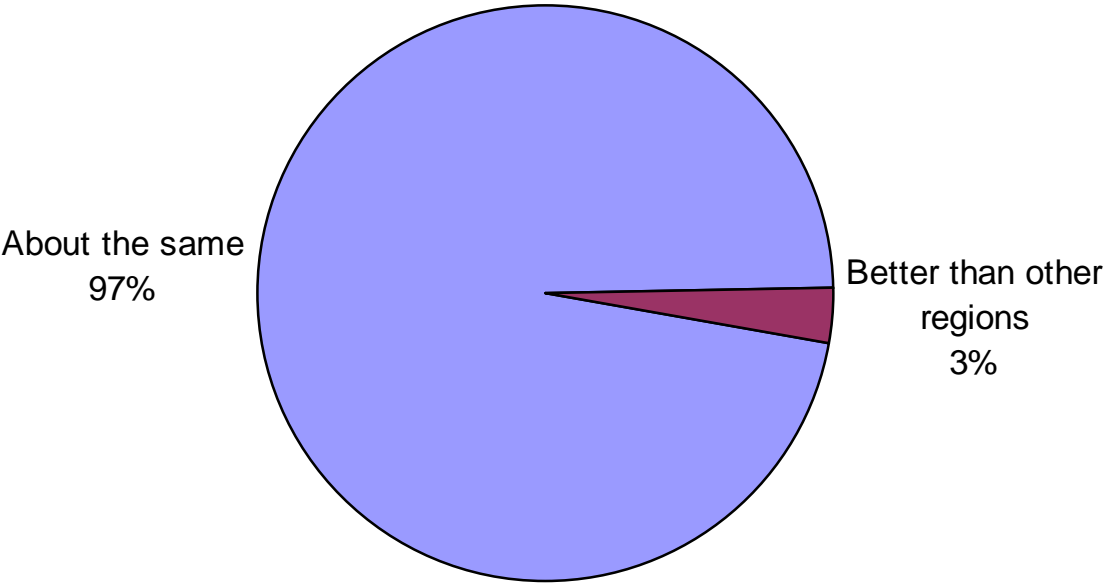


Impressions of Midwest Deals

- Almost all (97%) rated Midwest investments as performing at the same level as those in other regions
- 86% believe that the quality of Midwest opportunities are promising.
 - Respondents commented on the Midwest' high quality of science, improving management teams, and lower "competition" which allows for attractive valuations
 - The few that disagreed noted that entrepreneurial management teams were difficult to find or re-locate to the Midwest
- Regarding the quality of Midwest opportunities:
 - Medical devices rated the highest with 49% rating these deal flow as strong or very strong
 - Health care services and IT rated average as compared to national deals (68% rated it as such)
 - Biopharmaceuticals considered weak by 59% and non-existent by another 8% of respondents

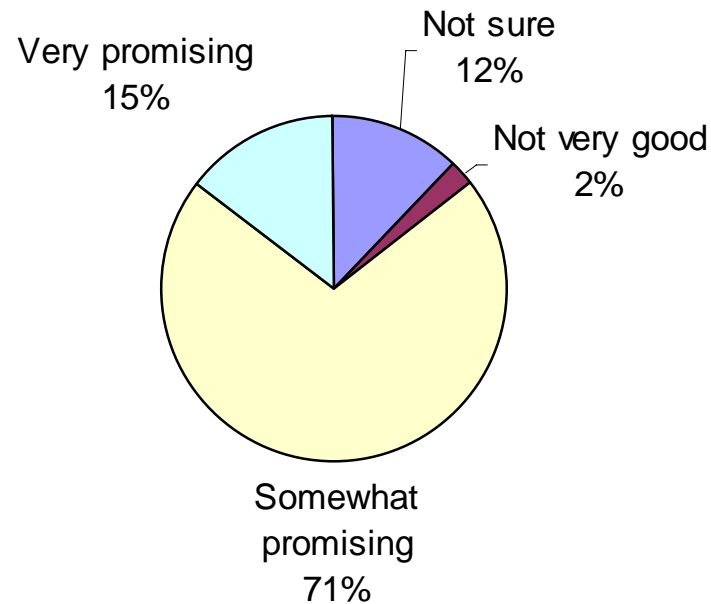
Midwest Investments Perform As Well As Other Regions

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?



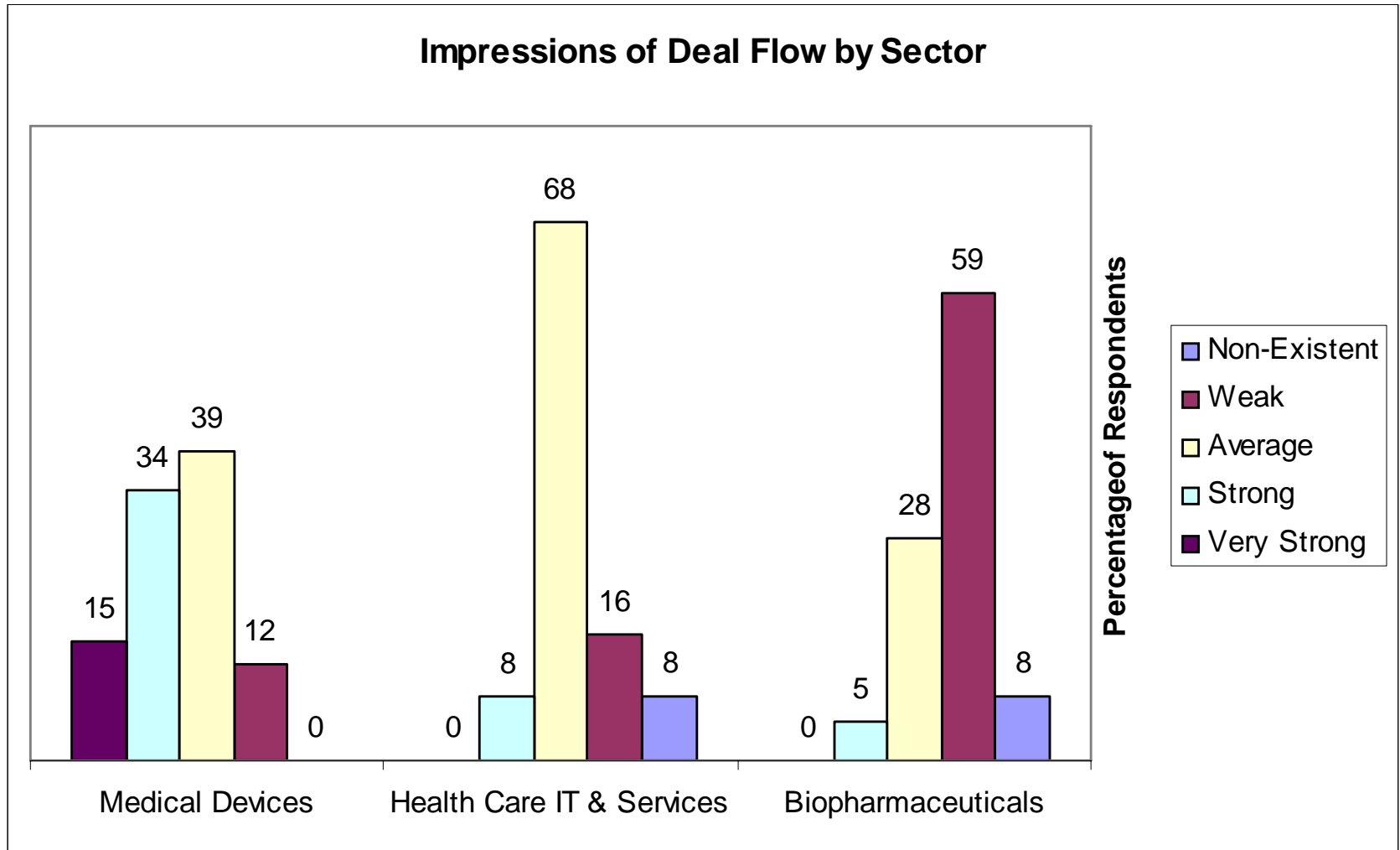
Why are Midwest Deals Promising?

- Attractive valuations; not picked-over or redundant/fadish as with many coastal deals.
- Good science, good clinical centers, that are relatively underexposed. Challenges of finding experienced, entrepreneurial, life science management candidates remains a pacing item.
- High quality of science, improving quality of management teams, better syndicates able to be formed
- Tend to be less deal competition.
- There is stellar research and pockets of managerial talent. When you can align the two you have a 'promising' investment opportunity and the capital will follow. The critical mass of managerial talent and commercializable research products/technology is building in the Midwest.
- Midwest is a mixed bag as there are terrific medical device companies, a great pool of management talent and a solid entrepreneurial mindset in some locations (Minneapolis, for example). Other locations are not as ripe for a late stage fund as they are lacking in an abundance of opportunities and only have a few, or they are primarily all early-stage in nature. This is fine for early stage investors but lacks entrepreneurial infrastructure and abundance of management talent. Coming along well though!
- The Midwest seems to have its act together in terms of understanding the realities of the medical device markets.

Why are the Midwest deals of low quality?

- Entrepreneurial business side management teams seem lacking; hard to get to mgt to relocate to the region; hard to get cheap flights to the area for diligence trips
- Few in number and tend to be less fundable

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

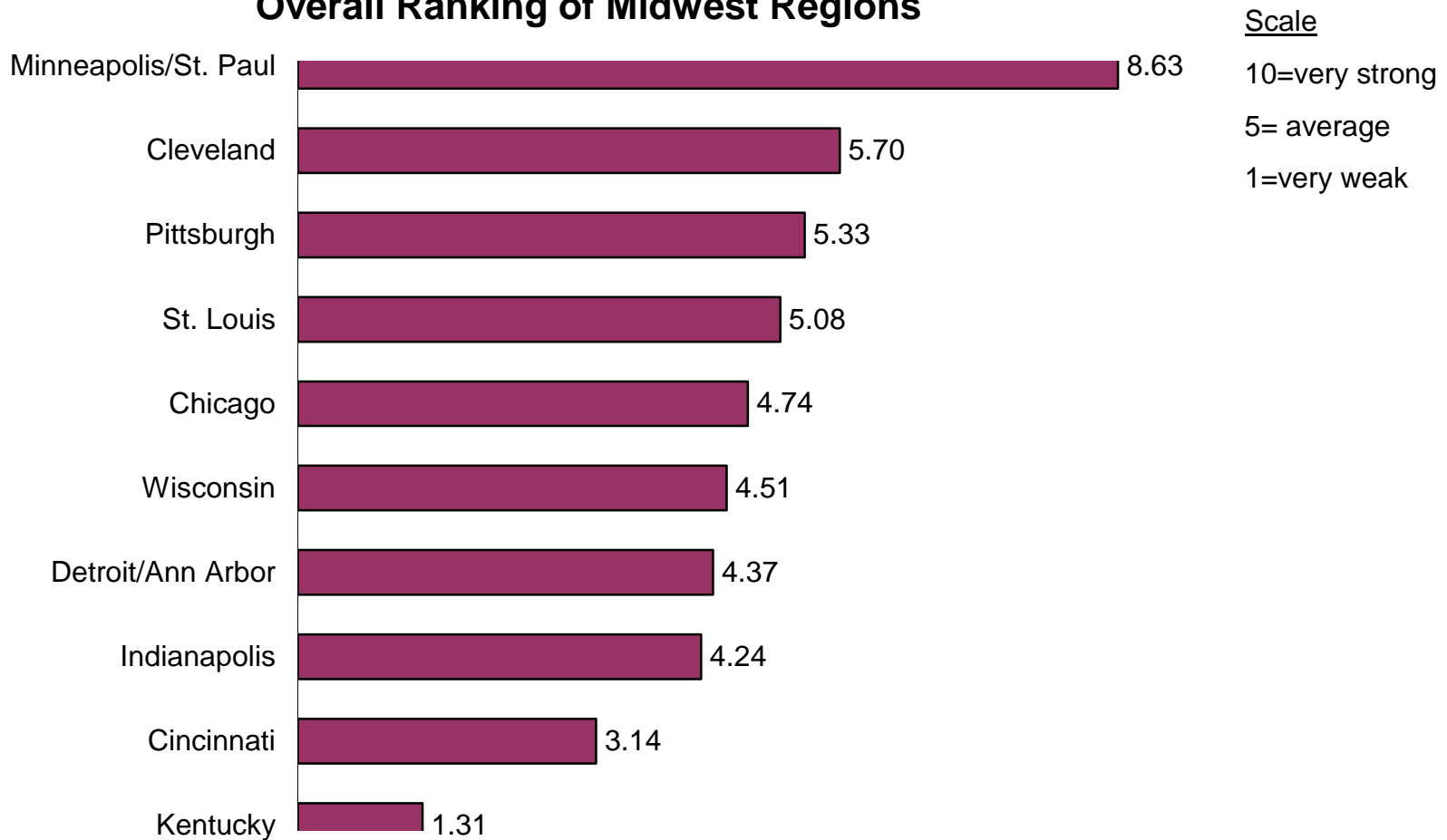


Regional Rankings

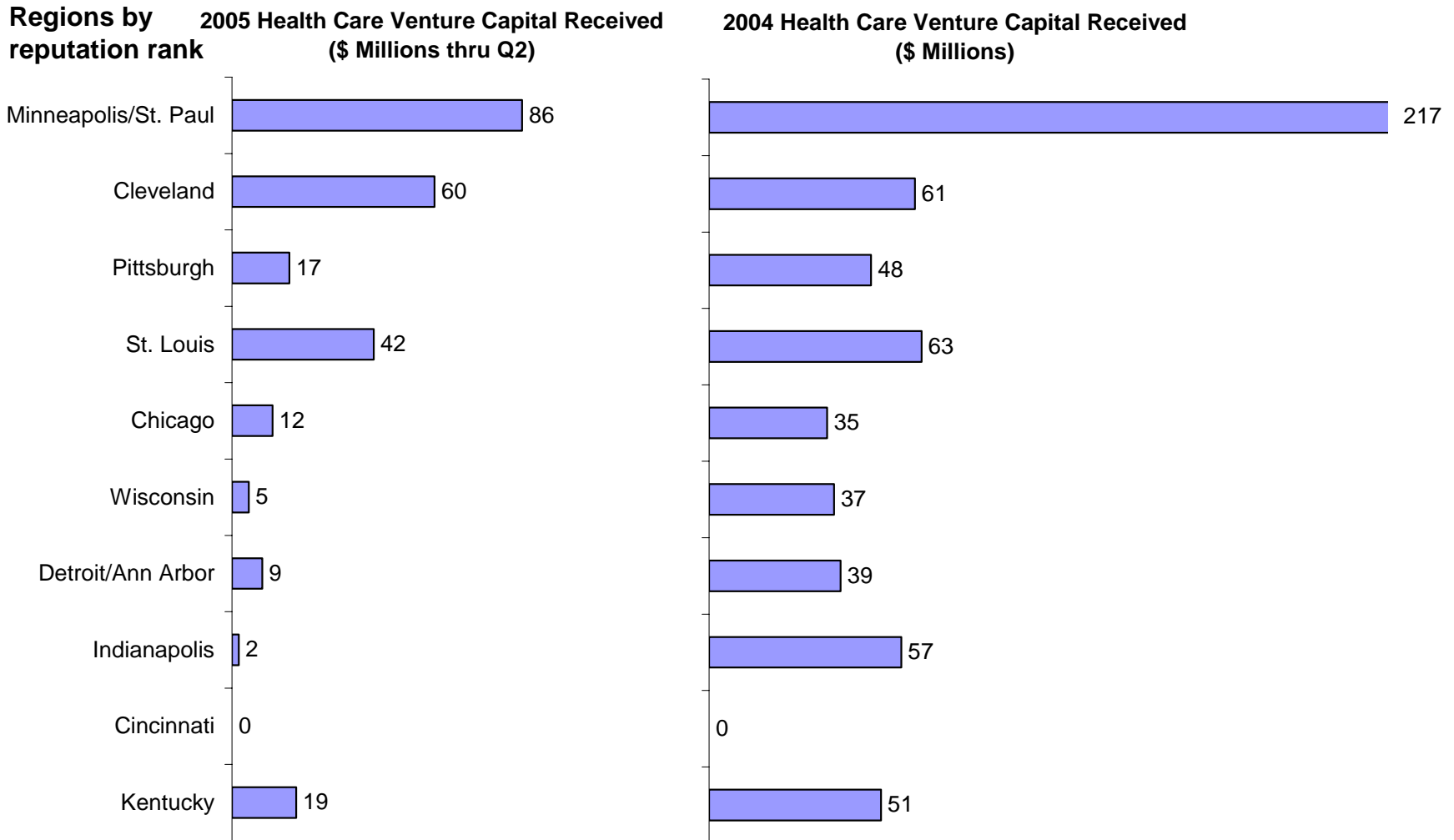
- Overall, Minneapolis, Cleveland, and Pittsburgh have the highest reputations among regions in the Midwest for health care deals
- Venture capital investments in 2004-2005 have largely followed the rankings
- By investors that specialize in specific health care sectors, the rankings remain largely the same though:
 - Among health care services and software focused investors, again Minneapolis and Cleveland rank highly; Chicago's rank increases to second in the Midwest
 - Among biopharma focused investors, Minneapolis and Cleveland continue to rank highly; St. Louis and Indianapolis have stronger reputations while Chicago drops to the bottom of the rankings

Overall, Minneapolis, Cleveland, and Pittsburgh are ranked highest among regions

Overall Ranking of Midwest Regions

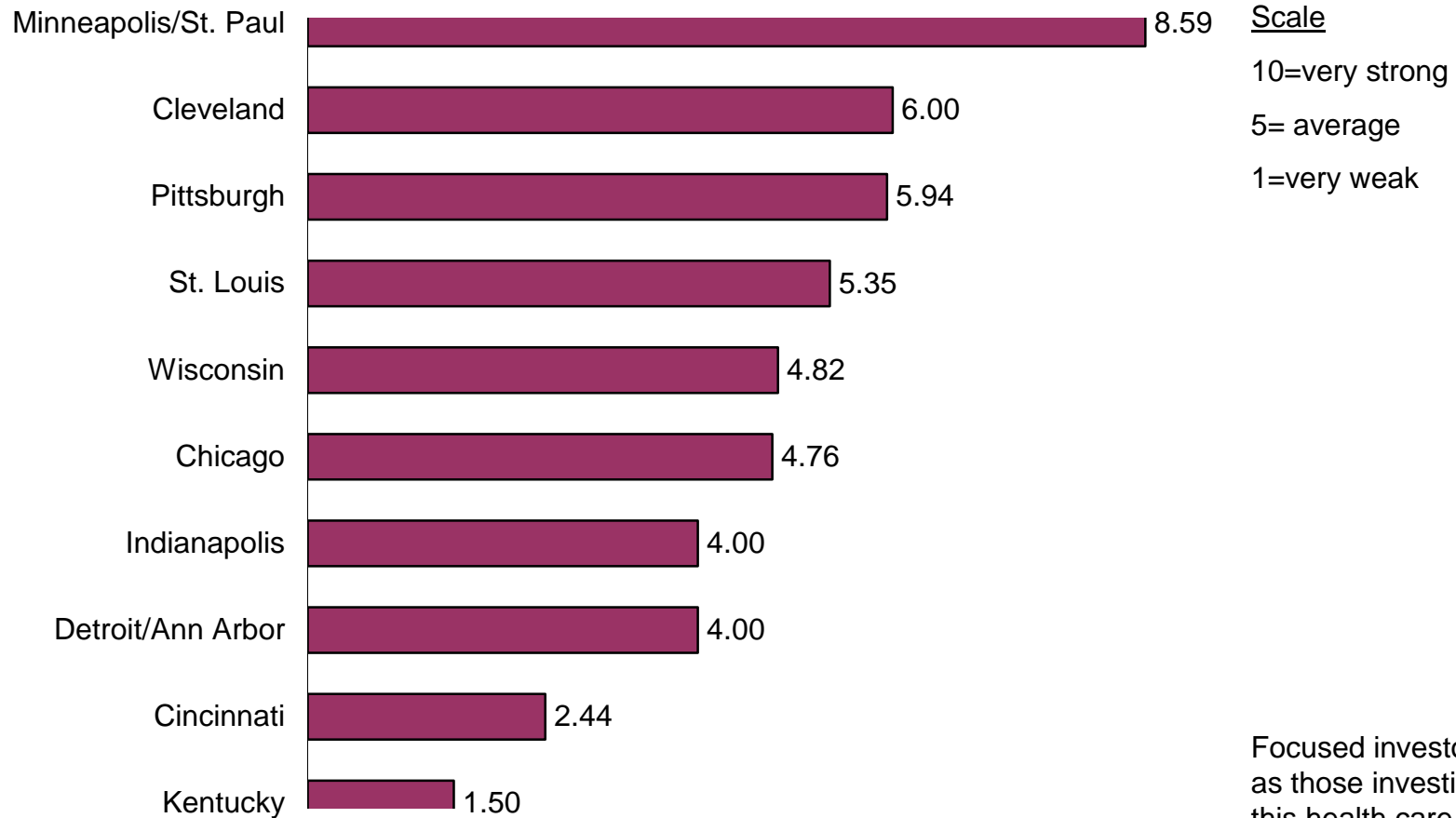


Not surprisingly, the venture dollars received over the last 18 months reflect this



The overall rankings remain roughly similar among medical device focused investors (n=18)

Ranking of Midwest Regions for Medical Devices



Focused investors defined as those investing >50% in this health care segment

Among health care service and software focused investors (n=11), the rankings are similar except that Chicago's reputation increases significantly

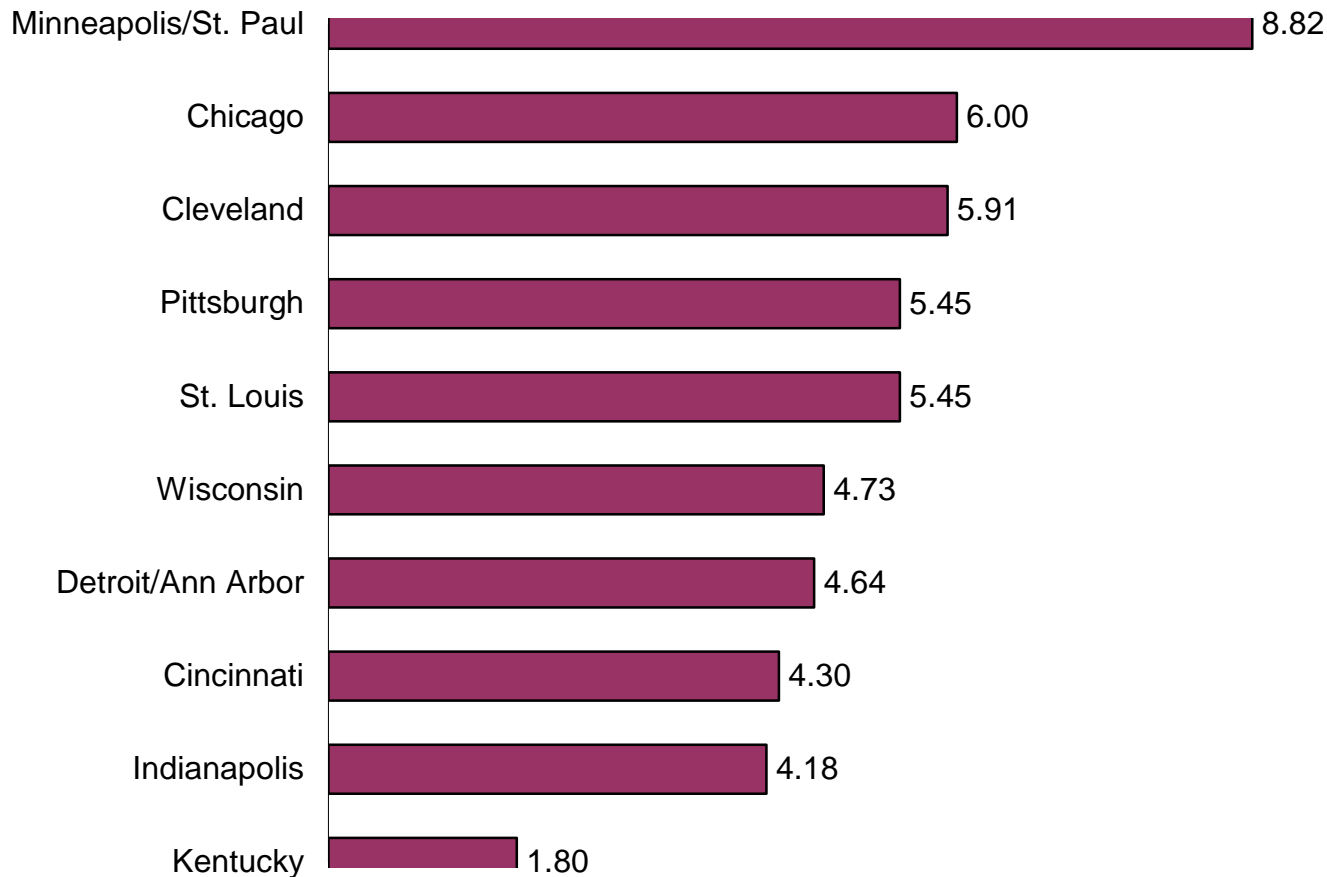
Ranking of Midwest Regions for Health Care Services and Software

Scale

10=very strong

5= average

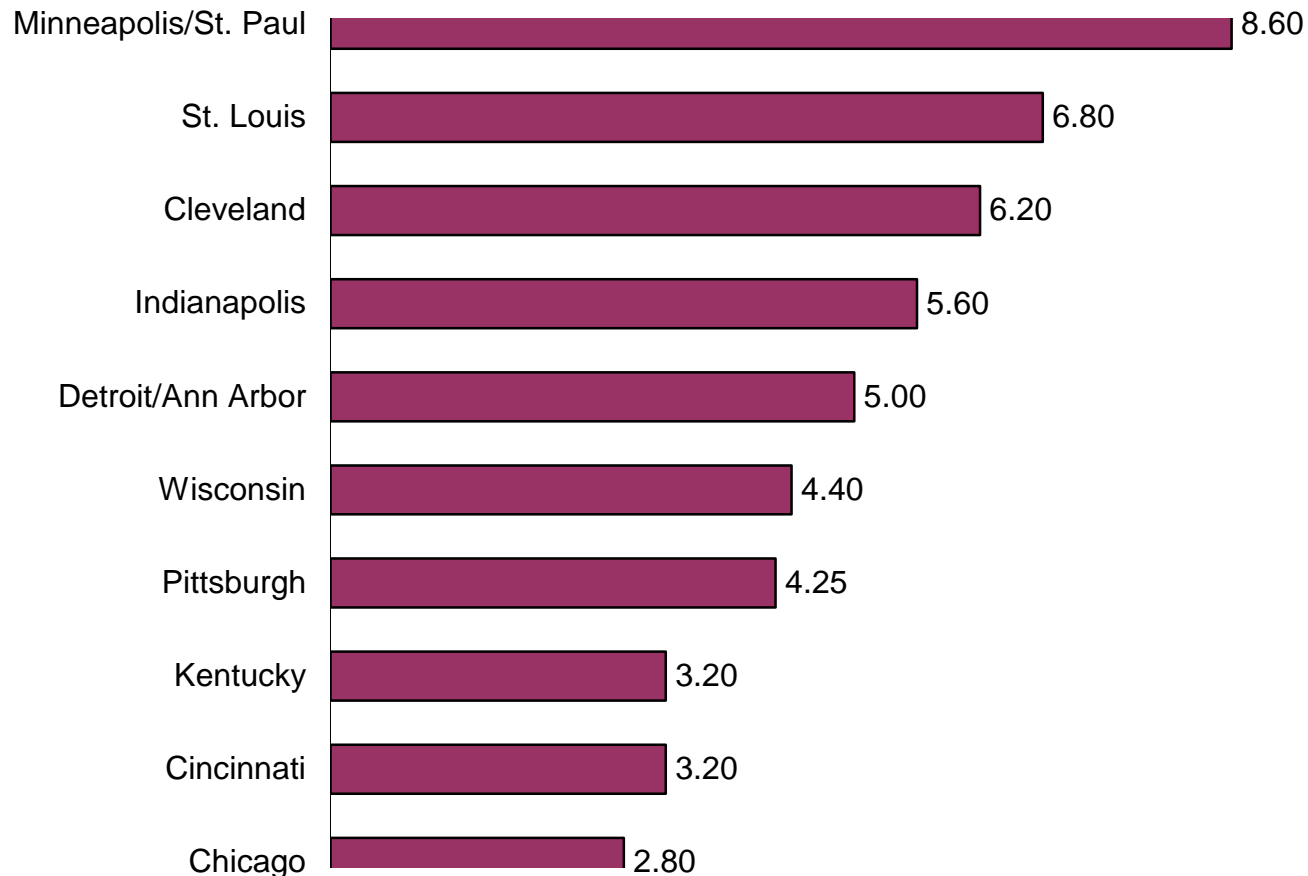
1=very weak



Focused investors defined as those investing >50% in this health care segment

Among biopharma focused investors (n=6), St. Louis and Indianapolis have stronger reputations while Chicago drops to the bottom of the ranking

Ranking of Midwest Regions for Biopharmaceuticals



Scale

10=very strong

5= average

1=very weak

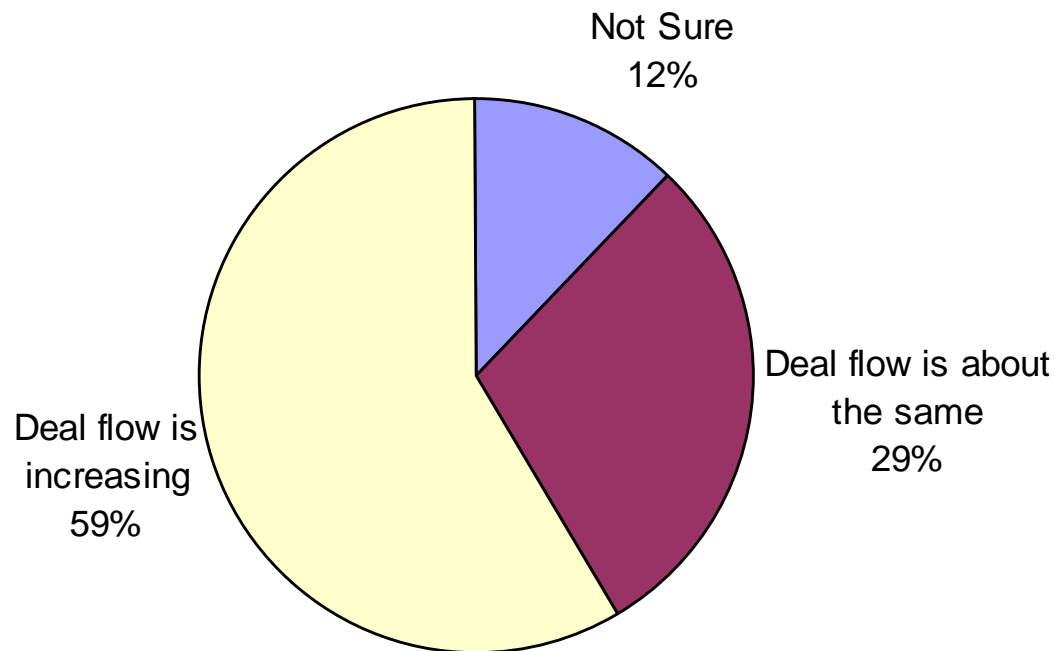
Focused investors defined as those investing >50% in this health care segment

Accessing Deals

- Most respondents see overall deal flow as having increased over the last 5 years (59%)
- Almost all (89%) would like to expand their firm's deal flow in the Midwest
- Firms are accessing opportunities through other investment firms, brokers, known entrepreneurs, and incubators, and to a lesser extent, through research institutions
- They are not finding opportunities via conferences
- Respondents were familiar with BioEnterprise (80%) and had favorable impressions of the quality of its deals (43% above average)

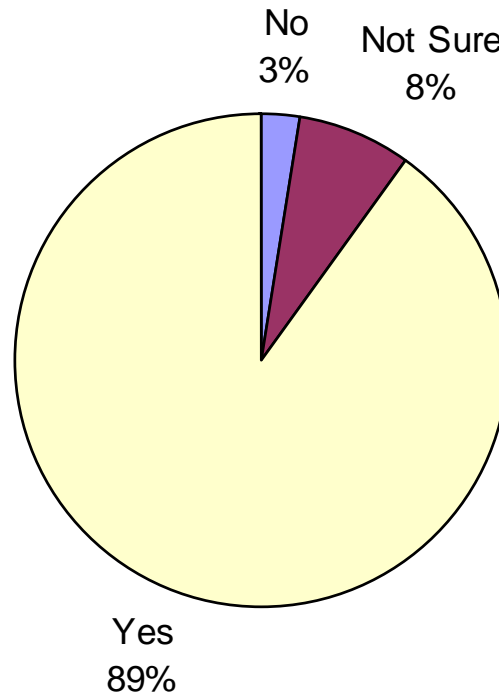
Most See the Deal Flow in the Midwest as Having Increased

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?

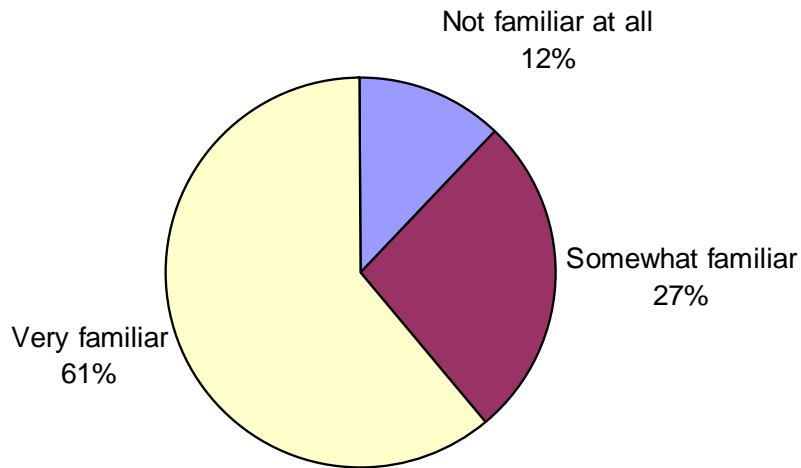


Approaches to Access Quality Deal Flow from the Midwest

Source	Number Cited (out of 47)
• Midwest Venture Firms	36
• Known Entrepreneurs	33
• Intermediaries (Brokers/Bankers)	28
• Business Incubators/Accelerators	27
• Other Investment Firms	24
• Research Institutions	21
• Limited Partners	3
• Conferences	1

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?

