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### **Ann Arbor, Detroit Reputation Rises For Quality Health Care Deals**

CLEVELAND – The Ann Arbor, Detroit region's reputation as a source of quality health care investment deals improved in 2006, a new study by BioEnterprise indicates. The study also ranks the Midwest highly for medical device opportunities, average for health care services and software, and weak for biopharmaceuticals.

Among investors active in biopharmaceutical investments, Minneapolis and Cleveland continue to be ranked highest. Those regions were followed by Indianapolis and Ann Arbor/Detroit. St. Louis's reputation declined substantially from 2005 results.

Among investors active in health care service and software investments, Minneapolis, Pittsburgh and Cleveland ranked highest. St. Louis, Wisconsin and Ann Arbor/Detroit followed.

Overall, Minneapolis, Cleveland and Pittsburgh continue to enjoy the highest reputations for health care deals among venture investors. Minneapolis, Cleveland, Ann Arbor/Detroit and Kentucky showed considerable reputation gains; Chicago's reputation declined, compared with the 2005 survey.

Fifty-four active U.S. health care technology investors responded to the survey. Among the survey findings:

Investors are actively sourcing deals and investing across the Midwest: Nearly 60 percent of respondents looked at a minimum of 25 Midwest opportunities in the last year, and nearly 10 percent of respondents invested in four or more Midwest health care deals over the same period.

Compared to national deals, investors rated the Midwest highly for medical device opportunities (52 percent of respondents called it 'strong' or 'very strong'), average for health care services and software (56 percent rated it as 'average'), and weak for biopharmaceuticals (58 percent rated it as 'weak'). As one respondent noted, "There is a strong network of experienced management and technical expertise, especially in medical devices.... The lack of biopharmaceutical management talent continues to be a hindrance to biopharmaceutical investing in the Midwest."

Compared to national deals, investors said Midwest deals perform 'as well' (78 percent of respondents) or 'better' (10 percent) than opportunities elsewhere. Investors see promise in Midwest deals because of the strong technology pools from Midwest research institutions, and the management and entrepreneurial networks growing to support them. Coupled with the limited number of Midwest health care venture investors, strong deals and reasonable venture pricing create a promising environment.

A comparison of deal quality rankings of 2006 to 2005 (Scale of 10 very strong, 1 very weak) indicate:

Minneapolis/St. Paul: 9.25 - 8.65

Cleveland: 6.83 - 5.70

Pittsburgh: 5.71 - 5.33

St. Louis: 5.50 - 5.08

Wisconsin: 5.06 - 4.51

Ann Arbor/Detroit: 5.06 - 4.37

Indianapolis: 4.55 - 4.24

Chicago: 4.03 - 4.74

Cincinnati: 3.23 - 3.14

Kansas City: 2.27 \*

Columbus: 2.19 \*

Kentucky: 2.03 - 1.31

\*Not included in 2005 survey

Most respondents – 56 percent – have seen deal flow increases over the past five years, and 83 percent would like to expand their deal flow in the Midwest, the survey found. Those results were nearly identical to the 2005 survey.

“Venture capitalists backed up their enthusiasm for Midwest deals with their dollars in 2006,” said Baiju R. Shah, president of BioEnterprise. “Through the third quarter, Midwest health care startups have reported a 36 percent increase over the like period in 2005, outpacing the sector’s growth rate nationwide.

“The regions attracting the most investment are those rated highest by investors,” Shah said. “Clearly, investors are finding good opportunities in the Midwest, especially in medical devices.”

Historically, the Midwest has had relatively few biopharmaceutical investment opportunities and that is reflected in the survey with most respondents describing that sector as weak. However, 45 percent of the dollars invested in the Midwest this year are in biopharmaceutical companies, up from 35 percent in 2005.

“Perhaps perceptions will take time to catch up to activity,” Shah said. A note about the survey: BioEnterprise contacted via e-mail representatives from the leading health care venture capital firms for this survey. Respondents completed the survey online. The respondents represented a wide cross-section of venture firms. Seventy-seven percent of respondents made more than half of their investments in health care. Eightyseven percent of the respondents invest in at least 1 Midwest health care venture each year, and 80 percent identified themselves as knowledgeable about Midwest health care opportunities.

A full presentation of the survey results can be viewed at [BioEnterprise.Com](http://BioEnterprise.Com)

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