Business Interface Groups (BIG)
Business Showcase + LifeScience: Drugs, Bugs & Devices

Event details:

Panel Discussion:	**"What's Hot And What's Not For 2007"**
Location:	Cooley Godward LLP 3175 Hanover Street, Palo Alto, CA 94304
Date:	Thursday, January 18
Time:	7:00–8:30 pm

Moderator:

Frank F. Rahmani

Frank Rahmani is a partner in the Cooley Godward Kronish Business department, and works to represent emerging growth companies in a wide range of industries including medical devices and life sciences.

Panel:

Camille Samuels Pearson, Versant Ventures

Camille specializes in biotechnology investing at Versant, which has $1.1 billion under management. Her work is divided three ways: 10% healthcare, 45% medical devices, and 45% biotech. Versant may invest up to $17 million in the life of a company, but aims for less.

Richard Ferrari, De Novo Ventures

Richard was the co-founder and CEO of CardioThoracic Systems, a company he led to an initial public offering in 1996. Begun in March 2000, De Novo is already on their third fund dealing with medical devices and biotech—everything but the service industry side. They are stage-agnostic and investment-agnostic when choosing companies.

Karen M. Boezi, Thomas, McNerney & Partners

Karen is a co-founder of Thomas, McNerney & Partners and has over 15 years of experience investing in healthcare companies. Their investment view is stage-agnostic for both medical and life science investing with a focus on therapeutic products, putting as much as $15–20 million in the life of a company. There are 3 offices, including one in San Francisco.

Lou Bock, Scale Venture Partners

Lou helps biopharmaceutical, device and platform technology companies build strong management teams and maximize the value of every round of capital. Spun out of Bank of America Venture Partners, SVP is solely independent with a $430 million fund, which includes some drug development companies.

Where we are: 2006 wrap-up

Moderator Frank Rahmani began with a brief presentation about the overall investment climate in the past several years and looking forward to 2007. He showed that overall investment is up since the dotcom bust where investment fell from $94.8 billion in 2000 to just $36.4 billion in 2001. Investment has been steady for the past 3 years and looks to continue that way in the foreseeable future. A breakdown of where the money is going shows that, on average, about one-third of overall investment dollars have been going to healthcare companies. Divided further by category, 62% goes to biopharmaceuticals, 2% to healthcare services, 32% medical devices, and 4% medical IS (data from 3rd Quarter 2006). When looking at IPOs, there was a marked up tick in 2006 that may be the result of a backlog that will move into 2007. Trends also show that companies are older—on average healthcare and biopharm companies reach 5–6 years before being acquired.

A look ahead to 2007: Trends and Predictions

With 25–30% of investment already going to biotech and medical devices, the question was posed whether one would see a change in 2007 for total investment or within categories. The panel largely agreed that there would be more of the same, perhaps a small overall up tick. Only Karen Boezi was more firm, predicting a couple of percentage points increase because of healthcare funds' superior performance vs. IT. Richard Ferrari noted that one problem has been short-term investors. "I don't like hedge fund guys mucking around in my world," he said, noting that unrealistically high valuations are bad for the company in the long run. Lou Bock added that while management should always be compensated well, and it may be hard to turn down so much money upfront, such over-valuations are what caused the 2000 dotcom bust.

How do biotech funds actually do? The panel agreed that it really depends on the year, and that it isn't fair to look short-term on such investments. Biotech and medical device funds aim to bring huge returns over the long run rather than small short-term gains. In Karen Boezi's view, the funds look to gain 3 times the investment, but that could take 10 years. This is also because there is so much not under the control of VCs. The panel emphasized the "staggering" unpredictability of the FDA and long-term concerns over what insurers and hospitals will do as far as reimbursement. What is "necessary" and "reasonable" medical care is tenuous and likely to be redefined several times over the years, which affects which technologies and treatments will have a market. Interestingly, shifting political power between President Bush and the Democrats was downplayed. While prices could be driven down by Democrats, Karen Boezi noted that universal coverage, if ever attained, would theoretically increase the volume of patients.

As the discussion turned to what's "hot" for 2007, panel members all remarked that any good VC is looking for what *will be* hot down the line, not what is currently touted today. If something is doing well today—2nd generation antibiotics was given as an example—associated systems will be big later on, including delivery and application around that. Diagnostics, things that "let doctors see something they couldn't see before" was mentioned positively. Repurposing, looking for new uses for drugs which have already been tested, was also highlighted because it bypasses many necessary FDA studies. Lou Bock added that it's not about "sexy science, it's innovative science" that draws investment. The panel also noted that they expect the IPO data to be positive for 2007 given the "nice backlog" currently present. As for mergers and acquisitions, some sectors are more robust than others, orthopedics for example.

On the subject of competition, the panel agreed that valuations are certainly going up, but that VCs are, as always, looking for the best in class. They are still looking for large investments because the time involved with early-stage "napkin" deals and sitting on their respective boards is time-consuming. Camille Samuels Pearson suggested that companies that need money today and have future needs for capital should seek VCs. But if a startup needs just $500,000 over the life of the company, it should court an angel investor instead.

Questions from the audience

Several of the audience questions aimed to understand the VC perspective on foreign startups and working in foreign markets. Overall, the panel agreed that for the short term they are all US-focused. This is largely because of the difficulty in managing the enormous geographic, regulatory, and cultural barriers when moving beyond borders. The talent pool and the market is also still largely US-focused, although that is changing. More favorable laws in India for repurposing drugs, more pre-clinical trials in China, startups in Israel, and excellent universities in Canada all show promise. As Lou Bock put it, currently "we can't predict the US FDA," so trying to do so in another country is going to be that much more difficult.

The audience was also asked about many future technologies: stem cells, bio-generics, personalized medicine, and software. As a whole the panel called interest in embryonic stem cells "huge" but, as with the other mentioned technologies, current interest does not equate to investment. Finding a business model is also an issue. As Camille put it, everyone is looking but no one has yet had the "chutzpah" to pursue it. As for software and healthcare IT, past experience has shown it's too difficult to sell software to physicians and hospitals, no matter the apparent use.