

Hot Spaces, Familiar Faces Grab Limited VC Funds in Q1

By Jennifer Boggs
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Industry experts who have been predicting the contraction of the venture capital market look to be proved right, at least if the first quarter venture activity for the biotech sector is any indication.

According to data from BioWorld Snapshots, overall, venture capital is down from a year ago, with firms raising \$844.9 million for the first three months of 2011 vs. \$1.08 billion for the same period in 2010. That's not surprising, given that most venture funds in the life sciences are nearing their decade mark without having pulled in much of a return.

Biotech has "definitely fallen out of favor right now with the limited partners" that make up those funds, acknowledged Stuart Collinson, partner at Forward Ventures in San Diego.

Often, funds reaching their end will opt for late-stage opportunities, which is good news for firms like Omthera Pharmaceuticals Inc., which managed to close a \$33.9 million Series B round in March to push its omega-3 fatty acid candidate Epanova through a new drug application filing and into the potential \$2 billion worldwide market for prescription omega-3 products. (See *BioWorld Today*, March 15, 2011.)

And positive Phase III data continues to drive value and exits, noted Jim Healy, general partner at Sofinnova Ventures, a VC firm that has seen some positive activity for its portfolio firms in the last couple of quarters, despite the bleak overall picture, including a fall 2010 exit for PregLem Holding SA to Gedeon Richter plc, shortly after the privately held Swiss firm reported positive Phase III data for Esmya (ulipristal acetate) in uterine fibroids. So "late-stage data is still driving interest," he told *BioWorld Insight*.

But for firms in the early stages, the venture market has been tough. BioWorld Snapshots data showed that rounds designated seed and Series A financings for the first quarter brought in a total of \$290.5 million, though \$200 million of that came from H3 Biomedicine Inc., a start-up backed by Woodcliff Lake, N.J.-based Eisai Inc. to develop genetically tailored cancer treatments. Subtract H3's seed money from Eisai, and 11 biotechs raised just \$90.5 million for the quarter. (That figure excludes two firms that did not disclose funding amounts.)

Those stats are down from the first quarter of last year, when 12 seed and Series A rounds pulled in \$108 million. And both of those figures look dismal in comparison to the first three months of 2009, which showed 21 seed and

Series A rounds raising \$348 million. (See *BioWorld Insight*, May 3, 2010.)

Yet even early rounds are trending toward firms with late-stage opportunities. "A lot of the [companies] that come to us are either spinouts of large pharma or biotech or they have products" that have been somewhat de-risked, Healy said.

That was true for the bulk of early stage funding during the first quarter, which went to firms with strong connections to established biotechs or platforms. The largest Series A round of the quarter, for instance, went to PanOptica Inc., of Mount Arlington, N.J.-based firm, which disclosed a \$30 million round at the first of the year. PanOptica is developing as its lead product an anti-VEGF compound for wet age-related macular degeneration (AMD), going after the same target as Roche AG's blockbuster Lucentis (ranibizumab), but as a topical eye drop rather than intravitreal injection. And the candidate, PAN-90806, comes from OSI Pharmaceuticals Inc., which was acquired by Astellas Pharma Inc. last year. Former OSI Eyetech president Paul Chaney was one of PanOptica's co-founders. (See *BioWorld Today*, Jan. 4, 2011.)

Civitas Therapeutics Inc., too, benefitted from its association with an established biotech firm. The Chelsea, Mass.-based firm was spun out of Alkermes Inc., to develop its pulmonary delivery technology. Civitas raised \$20 million in January. (See *BioWorld Today*, Jan. 10, 2011.)

A similar trend could be seen in Series B rounds for the quarter. Aerie Pharmaceuticals Inc. raised \$30 million last month to support mid- and late-stage work on AR-12286, its Rho-kinase inhibitor for glaucoma, an ophthalmic indication that, like wet AMD, is expected to grow substantially as the baby boomer generation ages. Meanwhile, Conatus Pharmaceuticals Inc. closed a \$20 million round only months after acquiring Pfizer Inc.'s Idun Pharmaceuticals Inc. subsidiary and its caspase inhibitors for liver disease and cancer. (See *BioWorld Today*, March 8, 2011.)

Going forward in 2011, venture fundraising is likely to get tougher. "Funds will be fewer," Forward Ventures' Collinson told *BioWorld Insight*. "Not absent, but more scarce."

Financings also could become more asset-focused. Not only is that a more capital-efficient strategy, but big pharma firms these days tend to be more interested in purchasing or in-licensing products rather than buying whole companies outright. Companies should focus on assets, Collinson said. It's easier to attract funding "when you believe you can hit an inflection point within a reasonable time." ■