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VC deals in area biotech grind to halt

Value of investments in D.C. metro falls to \$40M in 2Q

Baltimore Business Journal - by [Sue Schultz](#) Staff

Baltimore Business Journal -- At the University of Maryland, Baltimore BioPark, one of the city's newest life science research centers, getting biotechnology companies interested in the space isn't a problem.

Rather, when it comes to closing a lease deal, a handful of biotechs -- at least three from Baltimore -- have told UMB they are waiting to take new space until they land needed venture funding. However, those investment deals are fewer and farther between in Baltimore and the rest of the Washington, D.C. region, according to a report that says the number and value of venture deals for biotechs in the area fell by half during the second quarter of this year.

Venture capital investment in the biotech sector for the Washington, D.C., region -- which includes Maryland, Northern Virginia and Washington -- dipped to second quarter, according to the report released July 19 by the National Venture Capital Association and PricewaterhouseCoopers. That compares with 11 deals for \$84.2 million for the same period in 2007.

"It's taking longer than they would like" to woo venture capitalists, Jim Hughes, vice president of research and development for UMB, said of the biopark's prospective tenants. "It's been a challenge to raise money."

Venture capitalists say a sluggish economy, slower federal approvals for drugs and medical products and even the popularity of investments in clean energy technologies could be siphoning some dollars from life sciences, which, according to the report, includes drug discovery and medical devices companies.

Some fear less venture money for startup and emerging biotech companies could be a stumbling block in Maryland's quest to be knighted the next biotech hot spot. As venture capital firms grow more cautious in a tight economy, new jobs and growth in the state's \$29 billion biotech industry are at risk, industry observers say, as are large biotech research park developments in Baltimore. In addition to the UMB BioPark, a new research center is in the works near Johns Hopkins Hospital in East Baltimore.

Meanwhile, Maryland has proposed investing \$1.1 billion by 2020 in state programs and incentives to grow the industry. State and regional economic development leaders say Maryland's proposed investment is the financial bait needed to lure venture capital to the region and will be a lifesaver for companies waiting for an infusion of venture cash.

"Investments are down, but we still want investors to come to our state," said Larry Mahan, senior strategic advisor for biosciences with the Maryland Department of Business and Economic Development (DBED). "Now is the time to fuel the demand for state incentives for the biotech industry."

The drop in venture capital investments in metro Washington's biotech companies follows a nationwide decline in venture capital investments in the life science sector. Venture capital investments throughout the country fell 14 percent in the second quarter to \$1.9 billion, compared with \$2.2 billion invested in the first quarter, according to the national venture association's report.

Maryland had 43 venture deals in the life science sector in 2006 for about \$286 million, according to PricewaterhouseCoopers. The deal flow dipped to 32 deals for roughly \$149 million in 2007. Baltimore-born Amplimmune and Alba Therapeutics raked in a portion of those investments.

"Rather than a go-go time for biotech, it's a more cautious time," said Dana Callow, managing general partner for Boston Millennia Partners, a venture capital firm that invests in health care information technology and life sciences.

Decision-making on deals has slowed, he said, as investors take more time to consider risks and returns linked to investments. In the biotech sector, the Food and Drug Administration approval of drugs and products also is taking longer.

Some Maryland biotech executives say the pace of investments is a concern.

"For small companies and startups, the money isn't there," said Arkesh Mehta, CEO of Germantown-based Chikujee Therapeutics. Mehta should know; he is looking for \$3 million in venture capital.

Mehta said some venture capitalists have told him that if he wants to lure their funds he should move his company to San Diego or Ohio to be closer to the firms' partners. He said he isn't considering a move.

The metro Washington region has leaned heavily on early-stage biotech companies coming out of research institutions like Johns Hopkins University and UMB. But some investors are putting more money into later-stage technology that is more ripe for commercialization and a lucrative return on investment.

As the deal flow moves from younger to older companies, local biotech observers say VC investments in this region's companies could slip further. In response, the region needs to

develop more later-stage companies to attract top biotech executives who can spin off new technology and startup companies, said Aris Melissaratos, senior adviser of enterprise development for Johns Hopkins University and former DBED secretary.