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Venture funds favoring firms in life sciences

By Porus P. Cooper
INQUIRER STAFF WRITER

Looking out of his office window in a Malvern corporate park, Paul L. Hallenbeck said it was the kind of neighborhood he had in mind last year as he pondered where to locate his new cancer-drug company, Neotropix Inc.

Biotechnology company Gentara Corp. sits on one side and another, Cephalon Inc., soon will locate on the other, said Hallenbeck, a former top researcher at a Gaithersburg, Md., division of pharmaceutical firm Novartis AG.

The Philadelphia region's multitude of life-sciences companies provides a supportive environment for a newcomer like Neotropix, Hallenbeck said.

But what clinched his move to the Philadelphia region was a \$2.5 million investment by a group of venture-capital companies led by Quaker BioVentures Inc. of Philadelphia. The amount is the first installment of a \$10 million commitment by the group, with Quaker pledging about half of it.

Because Neotropix moved into Pennsylvania, it also qualified for some state-backed money that Quaker manages, said P. Sherrill Neff, a managing director at Quaker.

Neotropix was one of 12 local recipients of venture investments during the last three

months of 2004, according to the quarterly MoneyTree survey by PricewaterhouseCoopers, Thomson Venture Economics and the National Venture Capital Association.

Eight of the 12 companies funded are in the life-sciences sector, developing drugs or medical devices, and they shared \$85 million of the \$96.9 million invested in young technology companies during the last quarter.

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More than \$321 million of the \$440 million in area venture investments — 73 percent — during all of last year went to life-sciences companies, a proportion far greater than the 27 percent invested nationally.

The region's vitality in life-sciences investing was an exclamation point in a year during which total venture investments in life sciences, software and other young technology companies fell just short of the \$441 million recorded in 2003.

"It looks like we have returned to more or less normal

trends" in venture investing, said Neff, who is also chairman of the Greater Philadelphia Venture Group, a trade association.

Investments in the last two years have bounced back from a five-year low of \$297 million in 2002, when venture capital was scared away by the collapse of the Internet stock bubble.

The amounts invested in each of the last two years resemble those of 1997 and 1998, just before the Internet mania pushed up venture activity here to a high of \$2.3 billion in 2000.

Nationally, last year, venture investments rose for the first time in three years — to a total of \$20.9 billion.

Officials at the National Venture Capital Association said the amount was buoyed by a jump in later-stage funding.

Like homeowners who fix up their kitchens just before listing their houses for sale, venture investors use late-stage funding to make companies in their portfolios more attractive to potential buyers.

These investors typically depend on initial public offerings of stock or acquisitions by other companies to lock in their profits, and the climate for both has markedly improved.

The Philadelphia area did see a lot of interest in early-stage companies, said Bill Molloie, who heads the venture practice at the accounting firm PricewaterhouseCoopers in Philadelphia.

Locally, about \$76 million was invested last year in early-stage and seed-money deals, down from \$121 million in 2003. But Molloie said it was more compelling that the number of such deals funded last year — 28 — was higher than the 27 funded in 2003 or the 26 deals in 2002.

Nationally, there were 841 early-stage deals last year, an increase from 770 in 2003.

For Molloie and other industry experts, the growing number of early-stage deals is a sign of confidence among venture firms because they are replenishing their portfolios with fledgling technology companies that could take years to yield a profit, if they do at all.

At Quaker, Neff is confident he has a winner in Neotropix.

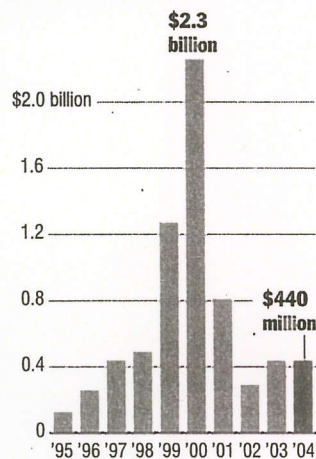
Hallenbeck, 45, is "a stellar scientist" who has brought strong patents from Novartis, Neff said. Besides licensing its technology to Neotropix, Novartis also has given it sophisticated laboratory equipment in return for a small equity stake.

The company is developing a therapy that would use a virus called the Seneca Valley Virus to attack and destroy certain fast-growing cancer cells without harming normal cells.

Neotropix "is far ahead for a start-up company," Hallenbeck said. Driving him in part is the knowledge that "there is a lot of cancer in my own and my wife's family," he said. He expects clinical trials to begin early next year.

Decade of Venture Investment

The amount of venture capital attracted by Philadelphia-area companies has plateaued at a substantially lower level than that of the technology bubble years of 1999-2001.



SOURCES: PricewaterhouseCoopers; Thomson Venture Economics; National Venture Capital Association MoneyTree Survey

MIKE PLACENTRA / Inquirer Staff Artist



Paul Hallenbeck, who brought Neotropix to Malvern.