

In hot venture capital year, local new biotechs sizzle

Kalypsys deal was biggest in nation during 4th quarter

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Amid a nationwide surge in venture capital funding for health care technologies, two San Diego biotechnology companies ranked among the top 10 deals in the last three months of 2006.

A \$100 million investment in Kalypsys ranked as the single biggest deal nationwide during the fourth quarter, and propelled San Diego to a strong finish for the year, based on separate surveys released yesterday.

Another San Diego biotech, Verus Pharmaceuticals, also placed in the top 10 with a \$55 million deal, based on data released by PricewaterhouseCoopers, the National Venture Capital Association and Thomson Financial.

Those two deals accounted for more than 40 percent of the \$380.2 million invested in San Diego startups during the quarter, a 42 percent increase over the same quarter in 2005, according to the PricewaterhouseCoopers survey.

While venture investments in health care have been strong nationwide, San Diego stands out because the area is maturing, with experienced entrepreneurs starting biotechs, said Joe Panetta of Biocom, San Diego County's life-science trade group.

"There's a demonstrated trust in the leadership and the technologies that makes it possible for VCs to make these kinds of investments," Panetta said.

The same survey found a total of nearly \$1.23 billion in venture capital flowed into San Diego in 2006. That was 16 percent higher than the total for 2005, but short of the \$1.25 billion that venture firms invested in 2004.

Venture capital funding has become an economic indicator because it measures the support for new technologies under development by startup companies. Silicon Valley ranks as the nation's No. 1 hotbed by consistently drawing a third of all venture capital investments nationwide.

A rival survey showed San Diego received about \$468 million in venture investments during the fourth quarter, a 63 percent increase over the fourth quarter of 2005.

The rival survey, which was released by Ernst & Young and Dow Jones VentureOne, showed total investments of \$1.33 billion in San Diego last year, a 30 percent increase over the firm's tally for 2005.

Findings in the rival surveys vary because of different methodologies used to collect information. Some venture capital firms that provide the data also may be aligned with one camp or the other.

The Ernst & Young report said venture investments nationwide totaled \$25.75 billion, which represented an 8 percent increase over 2005.

The venture capital, which flowed into 2,454 deals last year, represented the highest level of activity since dreams of dot-com riches drove investing to a peak in 2001. After the technology bubble burst and hundreds of Internet bets flopped, venture capitalists pulled back sharply through 2002 and 2003.

Ernst & Young reported that 2006 was a record year for investments in medical devices nationwide, both in the number of deals and dollars invested, which grew 20 percent to \$2.63 billion. Biotech and pharmaceutical firms lured nearly twice as much capital, growing 12.5 percent to \$4.72 billion.

PricewaterhouseCoopers reported a comparable U.S. total, \$25.5 billion, which reflected a 12 percent increase over 2005. The growth was driven chiefly by strong interest in Internet startups, alternative energy technologies and health care, the report said.

The two surveys also showed the fourth quarter was the slowest period in 2006. Ernst & Young found that \$5.82 billion was invested in 561 deals nationwide; PricewaterhouseCoopers said \$5.7 billion was invested in 802 deals.

"In the U.S. as a whole, the fourth quarter was a decent quarter, but it definitely was the lowest quarter overall," said Josh Grove, a senior research analyst for Venture One in San Francisco. "In San Diego, it was just the opposite."

San Diego's strong showing reflects the area's attraction for both scientists and businesses interested in drug discovery, said Shehan Dissanayake of Tavistock Life Sciences, an arm of the Tavistock Group, a private investment firm in Orlando, Fla.

Dissanayake led his firm's investment in Kalypsys, which was founded in 2001 to develop drugs for cardiovascular, metabolic diseases, cancers and for the treatment of pain and inflammation. Tavistock has sunk about \$250 million in life science startups in the past three years, including San Diego's CovX Research and Ambryx.

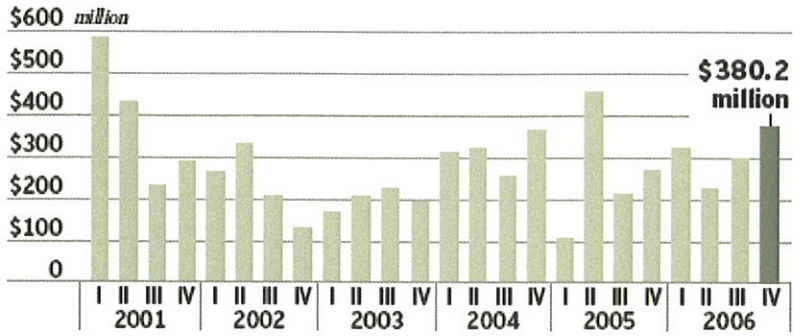
Verus Pharmaceuticals, which has been developing drugs for treating childhood diseases, got \$55 million in a round of venture funding that was led by an undisclosed investor, according to the PricewaterhouseCoopers report.

Robert W. Keith, the company's president and chief operating officer, yesterday declined to discuss the recent financing.

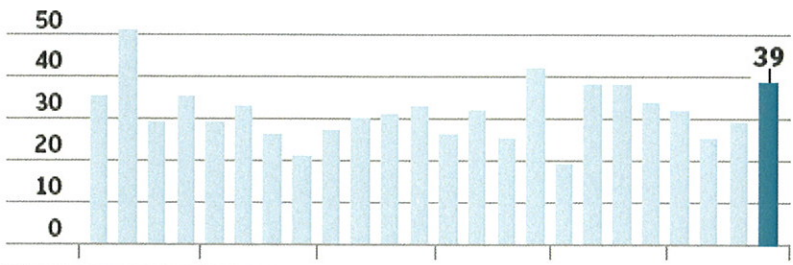
Venture capital in San Diego County

Venture funding in local startups surged in the fourth quarter of 2006.

AMOUNT INVESTED QUARTERLY IN SAN DIEGO COUNTY



NUMBER OF DEALS



SOURCES: MoneyTree Survey by PricewaterhouseCoopers, National Venture Capital Association and Thomson Financial

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