



Venture investment sets record in county

Health care startups got most funds, survey shows

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Venture capital investment in San Diego County surged to a record high during the first three months of 2007, driven by a wave of health care funding that was strong nationwide.

Nationwide, venture funding was up 11 percent from last year, even though it did not show the focused strength of San Diego's deals in life science companies.

Venture investors pumped \$686.3 million into 44 companies in the San Diego region, based on data compiled by Thomson Financial for PriceWaterhouseCoopers and the National Venture Capital Association.

The figure topped San Diego's previous high of \$629.5 million, set in the third quarter of 2000, when the dot-com bubble was still expanding.

The first-quarter figure was more than double the \$321.1 million that venture capital firms invested in San Diego during the same quarter last year, and was 74 percent higher than in the quarter ended Dec. 31.

Another survey showed that 88 percent of San Diego's first-quarter venture funding went to health care startups, a category that includes medical devices, biopharmaceuticals, health care services and medical software.

"Anyone who looks at these metrics would say there's something going on in San Diego, and it's not just a blip on the screen," said Ian Wisenberg, chief financial officer for Biocom, a regional industry group.

Funding for one company alone – San Diego medical technology startup CardioNet – amounted to at least \$110 million during the quarter.

Nationwide, the Thomson Financial survey reported \$7.1 billion in venture capital was invested in 778 companies nationwide, an 11 percent increase compared with the first quarter of 2006.

Funding for biotechnology startups ranked as the single biggest sector in the United States, with \$1.5 billion going to 102 deals during the quarter. Venture investments in medical device companies increased 60 percent over the fourth quarter of 2006, with nearly \$1.1 billion going to 96 deals.

The strong nationwide showing prompted Darrell Pinto of Thomson Financial to predict, "this will be a breakout year for venture capital."

Venture capital funding is regarded as an economic indicator because it measures the financial support for new technologies under development by startup companies.

A rival survey, by Ernst & Young and VentureOne, a research firm owned by Dow Jones & Co., showed a record \$2.8 billion investment in U.S. health care startups in its tally. The survey reported a total of \$6.96 billion in venture capital funding nationwide. That was 8 percent higher than the same quarter in 2006 and marked a continuation of a strengthening trend in venture funding nationwide.

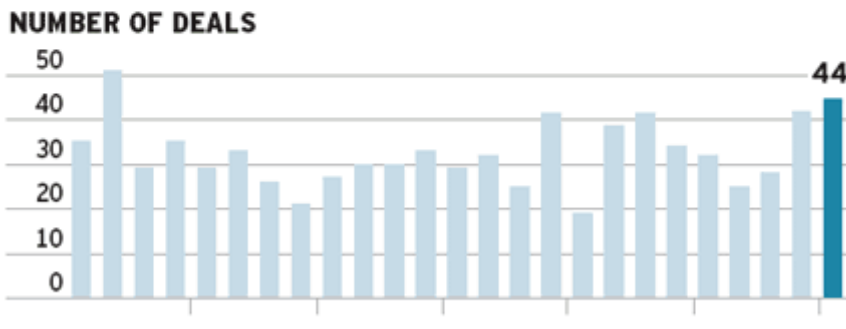
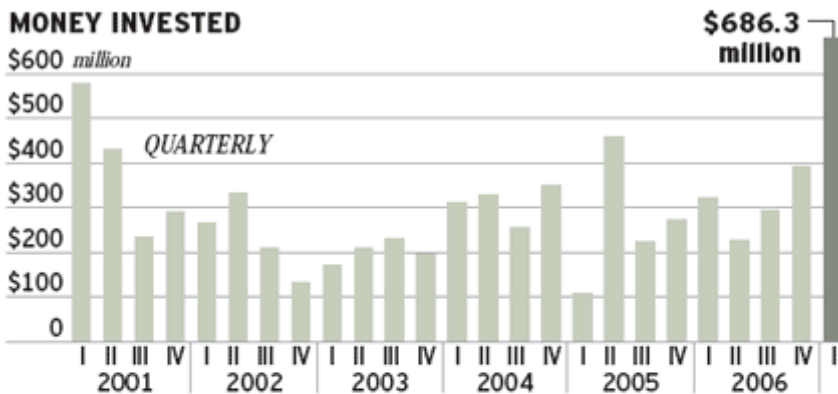
The VentureOne data showed \$606 million was invested in 29 deals in San Diego County during the first quarter. That was the highest level in six years, but short of the record of \$669.4 million set in the third quarter of 2000, said Mike Schoenfeld, Ernst & Young's venture capital advisory group leader.

Results vary between the two surveys because of methodologies used to collect information. Some venture capital firms providing the data also are aligned with one camp or the other.

Of the \$606 million counted by VentureOne, \$533.2 million – or 88 percent – was invested in health-care-oriented startups and just \$43.6 million invested in San Diego startups that specialize in

Venture capital in San Diego County

Investment in life sciences startups drove new venture capital to a record level in the first quarter of this year.



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

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information technology.

VentureOne reported that San Diego-based CardioNet, which has developed heart monitoring technology, got \$113 million in a deal that ranked as the third-largest nationwide. In five other deals, San Diego startups got \$35 million or more.

“I wouldn’t read a whole lot into one quarter,” cautioned Drew Senyei of Enterprise Partners, San Diego’s largest venture firm. “There has been some shift toward life sciences, but it’s not a tidal wave.”

What is clear, Senyei added, is that investments in later-stage health care firms have become much more attractive, especially once the startup gets through tests designed to show the safety and efficacy of drugs under development.

While the venture investment trends charted by the surveys have gone up and down over the past few years, Biocom's Wisenberg said, "What we're seeing now in San Diego is a very clear path."

In San Diego, Wisenberg said, many biotech entrepreneurs are going through their second and third companies, "and there's a comfort level because investors can see the path forward."

Robert J. More of Domain Associates, a venture firm that specializes in the life sciences, expressed a similar view.

"The people who were vice presidents under (industry leaders) Cam Garner and David Hale have been starting their own companies," More said. "I think people just follow the opportunities and follow the entrepreneurs. I don't think venture capitalists dictate where the money goes; I think entrepreneurs do."

Ernst & Young's Schoenfeld noted that startup companies in Los Angeles, Orange and San Diego counties got \$1.1 billion in venture investments, a 23 percent increase over the same quarter last year.

It was the third quarter in a row that Southern California saw more capital investment than New England, and it was the first time since 2000 that investment in the region has topped \$1 billion in a single quarter.

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