

Forget technology: biomed are Silicon Valley's hottest investment

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Silicon Valley is famous as a breeding ground for the likes of Hewlett-Packard, Intel and Google but nowadays venture capitalists are investing more millions in local biomedical start-ups than they are in technology ones.

This part of northern California now claims to be the largest biomedical cluster in the US and at a time when jobs are falling away from the technology giants. Hewlett-Packard for instance has shed 30,000 employees over the last five years while the biomedical community added 6,000 workers in 2007 and now employs more than 90,000.

And what's more, according to Matt Gardner, CEO of BayBio, a trade association representing the area's life sciences companies, those businesses create as many as four jobs in the community for every one created internally. Because they need laboratories, they spend more on real estate and construction and they also spend more on research consumables. Hi-tech generally, he says, has a multiplier of between two and three jobs.

BayBio reckons there are now more than 900 biomedical companies in the region and a new one starts up every 10 to 14 days.

The latest statistics from the MoneyTree Report, a scorecard of venture capital investing compiled by PriceWaterhouseCoopers, showed that in 2007, for the first time, companies in the life sciences sector received the most money.

A total of 26% of the \$10.07m (£5m) that venture capitalists poured into Silicon Valley companies went to the sector. Software companies, the traditional leader of VC largesse, came second with 21%. Life sciences' share has risen from 18% in 2002 while software's has fallen from 28% that year. In dollar terms life sciences has grown from \$1.3bn in 2002 to \$2.6bn last year. Software's share has remained roughly static rising from \$2bn in 2002 to \$2.1bn last year.

Across the whole of the US, the life sciences sector (biotechnology and medical device industries together) set an all-time record for venture capital investing in 2007 with \$9.1bn in 862 deals, compared to \$7.6bn going into 786 deals in 2006. Nationally life sciences was again the number one sector and accounted for 31% of all venture capital invested.

The world's aging population is a key reason why investment is growing, according to Tracy Lefteroff, PWC global managing partner, venture capital practice. People in the US and people in most major industrialised nations are about to become heavy users of health care. "New

products, drugs and other things will be needed to keep people healthy and extend their lifetimes. That demand creates the opportunity for new products and new companies to be formed and funded by venture capitalists," she said.

Those products will include advances in small molecule drugs, robotic surgeries and genome sequencing for consumers, according to James Tananbaum, a managing director at Silicon Valley-based venture capital company, Prospect Venture Partners.

Prospect is one the nation's leading investors in biomedical companies and it made six investments in the fourth quarter of last year, including one of the biggest \$20m to Cogentus Pharmaceuticals, a company that is working to combine drugs already on the market into one medicine to reduce side effects.

Tananbaum manages more than \$1bn in investments, much of it with Silicon Valley companies. In the life sciences arena, Silicon Valley achieved critical mass in infrastructure terms a few years ago and that will lead to a steady supply of new companies for years to come.

With jobs dropping in the tech field the rank and file are finding jobs in life sciences but it is still rare for a CEO to switch industries. An exception is Cliff Reid at Complete Genomics, whose background is in data management technologies.

Prospect Ventures has invested in Complete Genomics, which is in a race with several companies to sell genome sequencing to consumers for a few hundred dollars. It was only in 2000 that a genome was first sequenced and the cost was \$100m.

Knowing one's genome sequence can show a person that a change of diet can stave off a heart attack, said Tananbaum. "On the flip side the sequencing could reveal you are going to get Alzheimer's and you may not want to know that."

Today it still costs around \$1m to do the sequencing but that price is rapidly coming down and Tananbaum believes that consumers will pay to have the knowledge to keep disease at bay.

If Complete Genomics does deliver on its promise it will join the, at present, 408 products approved by the Federal Drug Administration, that were developed in Silicon Valley and environs. There are another 492 more in phase two or phase three trials and it is this kind of commercial success that BayBio's Mr Gardner says keeps venture capitalists pouring money into companies in the area.

"The track record of commercial success is so strong that venture capitalists are willing to continue to back those management teams time after time when they are ready to start another company," he said.

And those companies will keep providing much needed jobs. He expects today's 90,000 figure to double over the next decade.