

OrbiMed Aims Big, Holds Steady Closes a \$550 Million Fund

VENTURE CAPITAL

Amid stormy venture seas, OrbiMed Advisors is as stable as it gets. The life-science-only New York firm just closed a \$550 million fund, a tick more than its previous general fund and raised mostly from previous backers. OrbiMed's general partners say they'll make no radical departures from their previous formula despite the upheaval brought on by the recession and the federal health care reform saga.

OrbiMed's news comes at a time when many limited partners are questioning whether to trust their cash to venture capitalists. Only three other firms with an exclusive or significant life-science focus have announced new funds of OrbiMed's size or greater during the recession: New Enterprise Associates, Essex Woodlands Health Ventures, and Aisling Capital.

"Many LPs are taking a wait and see approach," says Ryan Mueller, managing director in the Boston office of Monument Group, which acts as a placement agent for venture funds. "The dollars are still there but the number of managers getting it is shrinking. The 2009 numbers are evidence of that." In 2009, fundraising by US venture firms of all stripes fell 55% to \$13 billion across 120 funds, down from \$28.7 billion collected by 204 funds in 2008, according to Dow Jones LP Source. It was the slowest year for the sector since 2003. One stark example: as of February 12, heavyweight MPM Capital's latest Bioventures fund had raised just \$140 million, only one-fourth of its predecessor.

Flush with cash, OrbiMed is pressing ahead with little deviation from its past blueprint. Its Caduceus IV fund will be "fairly

similar" to III, general partner Jonathan Silverstein tells *START-UP*, acknowledging that it has yet to make its first investment. Its allocation mix will be approximately 60% biopharmaceuticals, 25% devices and the rest in diagnostics. OrbiMed considers itself stage-agnostic. It will mirror previous funds and put 20% to 30% of the new fund into public companies, where LPs currently feel they have a faster path to liquidity. (The firm's recent PIPE exits include the flu treatment maker BioCryst Pharmaceuticals Inc. and Genzyme Corp.'s Bioenvision Inc.) The IPO market remains unforgiving, but companies already public have been far more successful raising follow-on dollars – although the large totals for 2009 are skewed by three supersized offerings from Human Genome Sciences Inc., Dendreon Corp., and Vertex Pharmaceuticals Inc. (See "Biopharma Trends: Nowhere To Go But Up," *IN VIVO*, January 2010.)

The only reliable exit for private-side money of late has been through trade sales, but even there investors have had to bow to the leverage of pharma buyers who demand risk-sharing earn-out deals. Of 11 sales of private biotechs last year with investor exits, 9 were structured with earn-outs (See "Biotech Backers Are Learning to Live with Exit-By-Earnout," *this issue* and "2009's Private Biotech Acquisi-

tions Are a Tale of Two Step-Ups," *START-UP*, January 2010.) OrbiMed general partner Carl Gordon says it's a reality his firm can live with as long as there's a "healthy up-front." His rule of thumb is at least 70% of the total cash needs to be paid out immediately. (Its exit from Southern California antibody firm Agensys Inc., sold to Astellas Pharma Inc. in 2007, barely passed the threshold. The up-front was \$387 million with \$150 million in earn-outs.)

With Caduceus IV, OrbiMed will also continue to source early-stage companies – about 20% of its mix traditionally – and invest small increments that usually fall off the radar screens of larger funds. Overall, Gordon and Silverstein say the fund will place between 25 and 30 investments in drug, device and diagnostic companies, with a small handful of those scalable up to \$50 or \$60 million over several rounds. "We'll still try to do those smaller deals and lock up those early-stage investment opportunities," Silverstein says.

Silverstein, a former biotech investment banker with Sumitomo, admits that LPs prefer smaller funds: "It's easier to turn \$100 million into \$300 million than \$500 million into \$1.5 billion."

But OrbiMed was able to lean on its relationships; 80% of the new fund was raised from returning investors, a level that Monu-

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ment Group's Mueller says is at "the very high end" of industry norms. "A higher ratio of existings is what general partners should be focused on," says Mueller.

OrbiMed says it can combine size with early-stage focus by boosting its head count to scout and manage smaller investments. The firm, which was founded in 1989 and jumped into venture capital four years later, has 49 employees and "is going up from there" this year, Silverstein says.

On the device side, where OrbiMed plans to allocate 25% of the fund, its companies will have to navigate regulatory shifts. The Food and Drug Administration is raising the bar for the regulatory pathway called pre-market approval, or PMA, and forcing costs of late-stage trials upward. (See

"Tighter FDA Review Squeezing Device VCs," *IN VIVO*, December 2009). OrbiMed says its larger fund gives it an advantage in the new regulatory scheme. "In a capital constrained market, you want a larger fund to do things others can't do, perhaps fund that PMA trial," says Silverstein.

OrbiMed has two other funds in the works. The first is in Israel, where the government is launching a biotech fund with as much as 350 million shekels (\$94 million) and looking for venture managers to contribute their own capital. OrbiMed has put five people on the ground in Israel to compete for the government money, with results of the competition released at the end of March. The second is a dedicated royalty and structured finance fund, fol-

lowing in the footsteps of firms such as Paul Capital, Royalty Pharma, and Cowen Healthcare Royalty Partners. Silverstein declined to discuss specifics such as the fund's target size. Cowen's fund launched in mid-2008, before the financial meltdown, with more than \$500 million committed.

Add to the mix OrbiMed's new Asia fund that targets China and India – it announced its first Indian investment in December – and the firm has a lot of plates spinning. For venture capitalists, it's nice these days to be able to afford plates, let alone keep them in motion.

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— ALEX LASH