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Amgen's new fund plumps for incubator

Alla Katsnelson[1]
Alla Katsnelson is a news intern for *Nature Biotechnology*

Venture capital interests shift to platform technologies.

On 11 November, Amgen announced the creation of Amgen Ventures, a new $100 million corporate venture fund based in San Diego and aimed primarily at early-stage biotech companies. Just a week later, the fund made its first move, investing $11.8 million (split with Seattle's OVP Venture Partners) into the Seattle-based biotech incubator Accelerator Corporation. This move gives Amgen part ownership of Accelerator's first two companies, VLST and VieVax, which are developing platforms for target discovery and validation, and rapid development of vaccines, respectively.

Accelerator Corp

Accelerator Corporation, a biotech incubator in Seattle, has drawn the first check from Amgen Ventures.

Over the past decade, most major pharmaceutical firms have added a venture arm to their operations to help fill product pipelines, and major biotechs have since followed suit[1]. This most recent crop appears to be looking not just for products ready for licensing, but also for compelling technologies that are too early in development for licensing deals (see Table 1).

And private venture capital (VC) fund managers are also noting a change in the types of companies that they tend to support, with attention drifting away from specialty pharmaceuticals and becoming more in-line with the platform technology firms that are piquing the interest of biotech corporate venture funds.

"Certainly, IPO [initial public offering] markets [this year] have shown much more interest in products, and much less for tools and platform technologies," says Jonathan MacQuitty, president of Abingworth Management in Menlo Park, California. "But some of the more sophisticated investors are getting back into the tools and platforms space." Historically, over a third of Abingworth Management's deals have been in instruments rather than products, he notes.

Five years ago, excitement over the promise of the human genome project fueled an interest in tools that would speed genome-related discoveries. Interest waned when many technologies, such as bioinformatics services for genomic analysis (e.g., DoubleTwist) and databases (e.g., Incyte), failed to pay off, and investors instead began to seek out promising drug compounds in late-stage development. But all signs suggest that the number of clinical products is diminishing, says MacQuitty: "One of these days we're going to open the cupboards and the cupboards will be bare."

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But tools may not generate the level of returns needed to keep venture capitalists interested. Even for widely used technologies such as Affymetrix's microarrays, the multiples for a tool company is between one and four times the revenue, notes Chris Ehrlich, a partner at InterWest, a VC firm in Menlo Park, California. "We haven't yet found a business model [for tools companies] that will bring in venture-like returns" of five or ten times an initial investment. The interest is moving somewhere towards the middle. "Platform companies that actually generate clinical data for products are very much in vogue," Erlisch says.

And there is plenty of VC money available for such investments: venture funding for life sciences is higher than for any other sector, according to data from the National Venture Capital Association. In the third quarter of this year, 141 biotech and medical device companies collectively raised $1.39 billion from venture capital, with corporate funding contributing 5.5% of that commitment.

A corporate venture fund's aims differ from those of traditional VC funds, which can be both a boon and a drawback for early-stage companies. Because their primary interest is scouting for new technology, corporate funds can take a longer-term view on their investment. Brenda Gavin, managing partner of Quaker BioVentures in Philadelphia and past president of GlaxoSmithKline's corporate fund SR One, notes that at SR One, "we'd never invest if we thought we'd lose money, but we did lower the bar a bit" if a technology seemed particularly promising. On the other hand, says Ehrlich, young companies that receive corporate funding early in their development can appear to be a "captive" of their corporate funder when it comes time for them to seek licensing deals.

References

- Ward, M. MedImmune Ventures plump for Iomai. *BioEntrepreneur* 6 February 2003doi:10.1038/bioent718.

Web links

Websites referenced:

- Amgen
- National Venture Capital Association
- Accelerator Corporation

Table 1: Recent corporate VC funds launched by biotech and pharmaceutical companies

Corporate parent	Venture operation	Year founded	Funds available ($ millions)	Fund focus	Recent deals
Amgen	Amgen Ventures	2004	100	Early-stage biotech	Accelerator Corporation
Biogen Idec	New Ventures	2004	65+	Early-stage biotech	Two direct investment deals close to completion at press-time
Sanofi Aventis	Parmavent	2004	€75-100	Products entering clinical development	None yet
Genentech	Genenfund	2002	Undisclosed amount	Early-stage biotech	HistoRx, Cellective Therapeutics, Proacta
Sources: company websites.					