

Jean Deleage

A hands-off philosophy based on investing in people has served Jean Deleage well over almost 35 years of venture capital investing in the life sciences. He reflects on biotech investment trends.

From his initial experience watching the creation of Genentech to having his own life sciences venture capital (VC) company, Jean Deleage has enjoyed a good life as a biotech investor. Deleage began his VC career in 1971 in Paris, when he became involved in a task force looking at innovation in France. “We determined that we needed venture capital,” he explains, and at the time, the only place venture capital had established itself was the United States. With little financial experience, Deleage started Sofinnova at the end of 1971, as a small fund for US investment, operating in France.

In 1976 Deleage moved to the United States, and a year later met Bob Swanson, who was then forming Genentech. “He was a young guy, poor like me, and we decided to share offices,” he recalls. An electrical engineer by training, Deleage had no idea what genetic engineering was about. “I couldn’t even spell DNA,” he says. He obviously learned—and quickly. Three years later Deleage formed Burr, Egan, Deleage & Co., a venture firm with investments in information technology, communications and healthcare/biotech. In 1996 he cofounded a successor firm, Alta Partners, which invests in early-stage healthcare and information technology companies, and in a separate set of funds, late-stage life sciences opportunities.

Far from being one-dimensional, Deleage has been able to pursue other interests because of his success. He was recently named treasurer of the San Francisco Conservatory of Music, where he has been on the board since 1990. Deleage also began collecting contemporary Russian art at that time, as the Communist system broke down and artists began to migrate to the West.

Deleage’s worldliness infuses his approach to people and investments. “Jean gives tremendous latitude to the partners and people he works with,” says Ed Hurwitz, a partner at Alta. “He’s nonassuming, a great listener and doesn’t need to say much to get his points across.” This is in contrast to investors who come into the business “with a tendency to want to fix other people’s problems and invest in themselves,” Hurwitz adds. Deleage will seek out people and resources to give technical comfort, but doesn’t need to personally understand the details. “I’m not a micromanager,” Deleage agrees.

Indeed, his strength is a focus on the human dynamic that will make a transaction work, according to Hurwitz. “This is a very experienced man who’s seen everything,” he says. “A lot of diligence is through understanding people’s backgrounds, histories and personal goals. Jean reads a lot into that.” A casual manner also helps Deleage—and Alta generally—syndicate with many other venture capitalists: the firm is not part of any of the VC ‘cliques’ that repeatedly invest together. “Jean’s deliberately comfortable with Alta being a strong, medium-sized firm. It allows us to maintain a collaborative nature,” Hurwitz points out.

Alta’s BioPharma funds were one of the very first VC initiatives to fund later-stage companies. Deleage invested in the already public French biotech Flamel Technologies in 2000, a time when Europe was not yet on anyone’s radar screen. (Three years’ later Alta sold its shares, and by then the stock had risen from \$2 to \$33 per share.) Alta was also an early believer in the in-licensing model: a year after Flamel, it invested in Eyetech Pharmaceuticals, which subsequently became one of the initial successes of the initial public offering (IPO) class of 2003–2004. Eyetech had in-licensed a product close to clinical stage (the vascular endothelial

growth factor inhibitor Macugen (pegaptanib), for treating wet macular degeneration in the eye, acquired from biotech company Foster City, California-based anti-infective biotech Gilead Sciences), and Eyetech was able to value Macugen mainly because of its founders’ expertise in the development of drugs to treat diseases of the eye.

Hurwitz commends Deleage as a risk taker and for being ahead of the curve. A year-and-a-half ago Deleage complained that the typical venture capitalist process of staying in touch with thought leaders, finding the next star in molecular biology and funding that person’s ideas was “a lazy approach” to company building. “Instead of going to UCSF to find the next Michael Bishop,” he said then, “we go to the hospital across the street and build companies around clinical programs.”

Yet although that was the philosophy behind the creation of Alta’s late-stage fund, it’s also true that the risk/reward ratio for a clinical-stage company may not be lower, because of the high dollar amounts that are spent quickly on the most costly part of development—late-stage trials. The trend toward in-licensing single clinical assets as the basis for forming a company has sopped up the lion’s share of investment dollars, and may now be waning, partly because of the limited current opportunity for investors to exit via an IPO. “We may have to cross the street again, to begin to start molecular biology companies,” Deleage agrees.

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Alta

That could mean a return to investing in earlier-stage technology, he says, perhaps in the next two years. But “it would be foolish to do too much of it now,” he contends. “We still have the Genentech model. Now we also have the Eyetech model. By 2010 we’ll have several business models that work. Technology will be there, but it won’t be the dominant model.”

A handful of venture capitalists are more aggressive. “I’m not convinced that, risk-adjusted over 50 companies in a portfolio, that the product-by-product model is the only one for biotech,” contends Noubar Afeyan of Flagship Ventures. “The amounts raised in drug development may be higher, but why not raise \$8 million now if you can [after further financing] sell at \$120 million?”

In the end, Deleage is a pragmatist, but with spirit. “Pharma is pharma,” he is quick to point out. “They are not really interested in innovation.” Thus, important, potentially significant areas of research such as cell and gene therapy don’t get support. “You have to do what pharma wants, and that means pills,” he says with disappointment if not disillusionment. On the other hand, “it pays to listen to your optimistic side, to be a believer.”

Mark Ratner, Boston