

State of Venture Capital—Western, PA
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- Nationally VC investment declined from 2009 to 2008 from \$28B to \$17B and 30% in terms of the number of investments.
- During the same timeframe Pittsburgh VC investments declined 40% in dollars invested and realized a 25% decline in the number of VC investments.
- Philly witnessed a 43% decline in VC investment and a 29% decline in the number of investments.
- Nationally during 2009 \$17.6B was invested by VCs with PA receiving 2% or \$397M (including \$86M invested in the Pittsburgh region). In 2005, 2006, & 2007 PA received 3% of all venture capital investment---clearly moving in the wrong direction.
- Taking a deeper look at the Pittsburgh region: VC investment has fallen from \$178M-2007, \$149M-2008 and \$86M-2009.
- Angel investors are representing a higher % of the total dollars invested going from 6% of the \$177M invested to 15% of the \$86M invested in 2009. Deals like Along, Cardio robotics, Clearcount and Thermal Therapeutics relied almost entirely in there early rounds of financing.
- It's great that angels like the Blue Tree Angel Group under Catherine Mott's stewardship have stepped in and provided the early seed and start-up capital needed for these companies. But in my experience investing in medical device and drug development companies \$50+ million is needed for a typical device company to get to cash flow break-even and well in excess of \$100+ million (sometimes \$300M as evidenced by Knopp Neurosciences \$345M partnership with Biogen) is needed to get a drug development through clinical trials and FDA approval.
- Angels don't have the deep pockets to continue moving many of these companies along and don't have the VC syndicate capabilities to assemble strong investor group.

- Our deal flow at Birchmere Ventures has been very strong over the past few years and we are approaching 50% of our log in life sciences companies (receiving ~650 deals per year from the Mid-Atlantic region). PA has built a great infrastructure with the Greenhouses and Be Franklin's to support these organizations---identifying promising technology, forming companies, mentoring founders & entrepreneurs, providing seed capital and connect them with investor group & Wall Street----but we need more institutional capital in the region to take these fledging companies to the next level. We need to get entrepreneurs off the fundraising trail and focusing on running & growing their businesses.
- Are things improving---according to the recent PWC MoneyTree report dated July 16,2010 they are. In the 1st half of 2010 VC investments totaled \$11.4B/1646 deals, representing a 49% increase in dollars invested and a 23% increase in the # of deals over the 1st 6 months of 2009. The strongest areas of investment highlighted were clean technology and life sciences.
- In Western PA VC investment for the 6 months ended 6/30/2010 totaled \$101M into 30 companies compared to \$86M for the entire 2009 and \$31M in the 1st half of 2009. But you need to look at the numbers comprising these totals. The majority of the \$101M is being invested in later stage or expansion stage deals---like Precision Therapeutics (\$35M Bain led Series D), Netronome Systems (\$23M), Foundation Radiology (\$5M), Landslide (\$8M), Modcloth (\$20M). Only 3% or \$3.5M was invested in Seed or Early Stage. This is were the financing GAP resides. The more mature companies with revenues or FDA approval are getting funded by VCs. But the Series A rounds are not being done by VCs. Pete Decomo Renal story.
- Do you think entrepreneurs are having a difficult time raising money, talk to the VC's themselves. YTD 6/30/2010 VCs raised \$5.6B on track to raise \$11B in 2010---It's the worse fundraising environment since 2003!! Just look back a few years VCs raised a lot more capital: 2005--\$29B, 2006--\$32B, 2007--\$36B, 2008--\$28B and 2009--\$16B.
- Locally, the VC firms that focus on the region---like Birchmere Ventures and Draper Triangle are almost fully invested. Pete DeComo and I have been trying to raise CVP for a one and one-half---a very difficult time as institutional investors are over-allocated to the alternative asset class.
- There's a good thing going on in the Venture industry---the VC business is contracting. You had all these funds started before the dot-com bubble and now their 10 years are up and the performance has been terrible returning over the past decade a whopping 2% internal rate of return. LPs that invest in VCs are trying to sort out the VC landscape---who to invest in and who not to invest in. What's the right allocation to VC?

- We believe from a VC perspective that it's not only Marcellous Shale we are sitting on that's a gold mine, but we are sitting on world class technology in our state and the region and we need capital to commercialize the most promising.
Stats:
- PA receives 6% of all NIH (National Institute of Health and NSF (National Science Foundation) dollars for investment in our universities for R&D. Pitt ranks #4 in NIH and #10 in NSF, Penn ranks #?? MA receives 8% of NIH/NSF dollars and CA receives 14% of NIH/NSF dollars. If you compare to VC dollars invested, PA receives 2%, MA receives 11% and CA receives 50% of VC investment.
- We need to do a better job of commercializing our technology and I think we could accomplish by securing more venture capital for the region and educating more of our researchers and students to become more risk takers.
- Conclusion: on a national basis capital availability is improving, but for early stage companies its still and will be for quite some time a difficult fundraising environment for early stage life sciences companies.