

DOWJONES

HEALTH CARE EDITION

Venture Capital Analyst

TRACKING INNOVATION AND THE MONEY BEHIND IT » JULY 2006 | VOLUME X | ISSUE 7

Battelle Ventures Starts Its First Virtual Co.

By Jonathan Matsey

Battelle Ventures, like many venture firms of late, is setting out on the virtual path. The firm has the added advantage of the resources of its mothership, the Battelle Memorial Institute string of laboratories, to make the strategy of running portfolio companies virtually a success.

In a recent example, Battelle Ventures put \$2.5 million this June behind **Endovalve Inc.**, a cardiac device company built around technology developed at the University of Pennsylvania. **Innovation Valley Partners**, Knoxville, Tenn., an affiliate fund of Battelle Ventures, also contributed to the round.

Robert Wilkins, entrepreneur-in-residence at the venture firm, said Endovalve will operate in virtual mode and will use contract researcher Foster-Miller Inc. for its development.

The company will be the first of several medical start-ups that will be able to operate on lean budgets by plugging into Battelle Memorial's expertise, according to General Partner Tracy Warren. "This is our first fully virtual company, though we've got two more on deck," she said. "At a very early stage, you have to find ways to make money – capital efficiency is critical."

The firm's future virtual companies should be far enough along in development to have proof-of-concept, Warren said, declining to provide further details.

Other life sciences investors embracing the virtual model to run their portfolio companies include **Avalon Ventures**, **CHL Medical Partners** and **Partners Venture Capital**.

To keep Endovalve's burn rate down, Battelle Ventures, of Princeton, N.J., tapped the Institute, for executive help. Todd Tomba, who heads the medical device division of Battelle Memorial, will work part-time as vice president of research and development. Wilkins will serve as the company's chief executive on a part-time basis.

The strategy extends Battelle Memorial Institute's reach in technology development. The Institute founded Battelle Ventures in 2003 to extract investment opportunities from its more than 40 research facilities in the U.S. and Europe. Among them: Oak Ridge National Laboratory in Tennessee and Pacific Northwest National Laboratory in Richland, Wash., both of which perform extensive research in genomics.

Battelle's network of laboratories also is responsible for research in such areas as agriculture, the environment, manufacturing and military technology. The technology used to

develop the first Xerox copier is among its many achievements.

Battelle committed \$150 million to Battelle Ventures and quickly paired up with the management team of **Early Stage Enterprises**, a small venture capital firm that had been based in Skillman, N.J. Battelle Ventures' team includes Mort Collins, Jim Millar, Kef Kasdin, Ron Hahn, Tracy Warren and Ralph Taylor-Smith.

Since founding, Battelle Ventures expanded its strategy to sponsor spin-outs from other universities. Endovalve is case in point.

Wilkins said that Endovalve was introduced to Battelle Ventures through Nascent Enterprises LLC, a medical device advisory firm, which also has a small stake in the company.

Endovalve secured an exclusive worldwide patent from the University of Pennsylvania and has access to the founder Howard Herrmann, a professor at UPenn, as a part-time consultant, although he will remain in a full-time capacity at the school. In addition, Endovalve has the ability to access further related technology he develops at the school. The university does not have a stake in Endovalve.

Launched last fall, Endovalve is developing a device to treat mitral valve regurgitation, a condition where the valve does not close properly and blood backs up into the heart. Currently, patients with serious complications often have open-heart surgery, a procedure that Endovalve's device, a percutaneous catheter, will enable doctors to avoid.

The entire June round should hold the company over until it begins animal studies in 2008. Warren said that Endovalve will look for a second round sometime in mid-2007 and, with some proof-of-concept by then, will hope to tap other VC firms.

Wilkins said that Endovalve would likely be purchased, rather than be built into a full initial-public-offering-ready company. "Ultimately this company will end up being acquired by one of the major cardiovascular device companies," he said. "There's no intention of building a sales and marketing staff."

But Warren said that her firm was prepared to invest fully in subsequent rounds, for as long as needed, to not dilute its position. She said that the firm typically lays out \$10 million to \$12 million for the lifetime of a company and is prepared to put that much into Endovalve, if necessary.

While Warren said that Battelle Ventures would not make many deals at such an early stage, she said it was important to do so if the IP seemed promising enough. ●