

BioCentury

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HOLIDAY NOTICE

BioCentury and *BioCentury Week in Review* will not publish the week of Aug. 31. Both will return the week of Sept. 7 with the 23rd annual Back to School issue.

VERSANT BITES AT THE APPLE

BY STEVE EDELSON, SENIOR EDITOR

[Versant Ventures](#) was to announce on Monday this week that it has selected New York City as the newest leg of its geographic strategy. The firm expects the region will fit the mold of its prior two expansions from the West Coast — significant grant money going to top-tier academic research coupled with a dearth of venture activity.

The New York effort is just getting under way, but the firm's track record suggests it shouldn't take long before investing will be in full swing. The firm became one of the most active U.S.-based biotech VCs in Europe within two years of opening an office in the region and is looking to repeat the feat in Canada.

New York could pose its own challenges. These include a crunch for commercial lab space, which can make it challenging to build infrastructure. In addition, New York is actively reaching out to the venture community.

Regardless, Versant's New York expansion marks what is likely the final step in its transformation from a geographically local fund focused on multiple sectors in the San Francisco Bay Area to a biotech sector-focused fund that is geographically diverse.

"People on the ground are the only way to get first-hand access," said Versant's Brad Bolzon.

AWAY FROM THE BAY

Before establishing an East Coast presence, the San Francisco VC made Europe the first stop in its geographic expansion.

In Europe, Versant has a two-pronged investment strategy. The longer-running approach involves finding assets in academia or pharma and bringing them to the U.S. for company creation. The other entails keeping things local and building companies around a European team with a track record.

Both approaches are benefiting from Europe's multibillion dollar [Innovative Medicines Initiative](#)



“WE’VE NEVER HAD AN EAST COAST PRESENCE AND IT WAS AN OBVIOUS GAP IN OUR COVERAGE.”

CARLO RIZZUTO, VERSANT

(IMD), the public-private partnership that seeks to speed the translation and development of therapeutics.

In both cases, early wins helped convince Versant to push forward.

Versant has had a presence in Europe for about a decade — it formed the EuroVentures Inc. incubator in 2005. This was a year after Bolzon joined the firm from Roche, where he was EVP and global head of business development, licensing and alliances.

“I lived in an airplane, as Roche was aggressive in terms of corporate business development,” he said. From all of the trips, “I recognized there were areas at Roche that we were tapping into that some U.S. pharmas were not.”

Versant’s first investment in Europe was a 2006 series A financing for [Synosia Therapeutics AG](#). The biotech relocated to the Bay Area and proceeded to in-license neurology molecules from several pharma companies including [Novartis AG](#) and Roche.

In 2011, [Biotie Therapies Corp.](#) bought Synosia for €96.9 million (\$131.9 million) in stock. Versant hasn’t disclosed its return on the deal.

Next up was [Flexion Therapeutics Inc.](#), which raised \$55 million in a tranching series A round led by Versant in 2009. In 2010, “we got an asset out of the U.K. when AstraZeneca was shutting down their osteoarthritis group,” said Bolzon. “We then brought it to the Boston area.”

Flexion’s lead compound is FX006, an intra-articular sustained-release steroid that is in Phase III testing for moderate to severe osteoarthritis (OA) pain. Flexion also obtained inflammation assets from other pharma companies.

The company went public in February 2014 at \$13 with a postmoney valuation of \$201.4 million. The stock closed Friday at \$24.39, giving Flexion a market cap of \$524 million.

Versant’s third crack in Europe — [Okairos AG](#) — was different. “This came with a team, and the team had legs,” said Bolzon. “It was a group out of the old Merck organization that had built up their adenoviral vector program in the vaccine space.”

Okairos’ vectors differed from classical ones because they lacked the binding site used by neutralizing antibodies.

CEO Riccardo Cortese oversaw much of the work while he was president and managing director of Istituto di Ricerche di Biologia Molecolare (IRBM), a Rome subsidiary of [Merck & Co. Inc.](#)

Versant co-led Okairos’ €16 million (\$20.5 million) series B round in 2010. In 2013, [GlaxoSmithKline plc](#) bought the biotech for €250 million (\$323 million).

“We had a 125% IRR on the deal,” said Versant’s Tom Woiwode. “That opened the eyes of our historically California-centric firm to the idea of having a global strategy. The only way to do that is to have feet on the ground in the key geographies of interest.”

Versant opened an office in Switzerland in 2012. “Basel was chosen because of the quality of the pharma industry here,” said Versant’s Guido Magni.

The firm has gone on to become one of the most active VCs in Europe (see “Up in Europe,” page 4).

While its first European investments all had roots in pharma, Versant increasingly has been looking to the country’s academic centers for newcos.

“If you’re talking to a hot professor at Stanford or Harvard, guess what, you’re not the only one. In Europe it’s different. We’re usually looking around for co-investors,” said Woiwode.

For example, Versant has seeded Theracon out of the Institut National de la Santé et de la Recherche Médicale. The start-up is focused on dwarfism research emerging from the lab of Elvire Gouze, a senior researcher at INSERM.

“When we were introduced to her, she was on the verge of doing a deal with a pharma company,” noted Woiwode. “We talked with her about being part of a start-up company — she learned and got excited, but it took an education process.”

“We’ve visited several academic centers in Europe where the common feedback is that it was the first time the university was directly interacting with a venture group,” said Magni.

Even companies that Versant backs in Europe are likely to find a public path in the U.S. While Europe “can offer innovation and potential M&A exits, the public markets aren’t as mature as the U.S.,” Magni said. “The

advantage of being a global company is that we can capitalize on European assets and people, and then perhaps move them to the U.S.” as an IPO draws near.

For example, Versant helped Biotie list in the U.S. The company raised \$56 million through the sale of 3.8 million ADSs at \$14.89 in an offering on NASDAQ in June. Concurrently, the company raised €33.1 million (\$36.9 million) in a note deal with participation from existing investors including Vivo Capital, OrbiMed Advisors, Versant and Baupost Group.

Also, portfolio company [GenSight Biologics S.A.](#) is seeking to list its ADSs in an IPO on NASDAQ. GenSight plans to start a Phase III study in 4Q15 of gene therapy GS010 to treat Leber’s hereditary optic neuropathy (LHON).

CANADA TRY

Versant’s next stop was Canada. The common thread with Europe, according to Bolzon, is “a disproportionate amount of discovery and IP versus the amount of venture capital.”

What Canada lacks is a heavy pharma presence. As a result, Versant’s task is to source ideas from academia and create companies from whole cloth.

To mitigate risk, Versant employs build-to-buy deals via an umbrella company called Inception Sciences and an incubator named [Blueline Bioscience](#).

Inception’s first office was in San Diego and its second was in Vancouver. Inception forms newcos around discrete assets and pre-arranges exits with pharma partners.

For example, [Inception 4 Inc.](#) partnered with [Bayer AG](#) in 2013 to conduct early research to develop treatments for ophthalmic disorders. The pharma has an exclusive option to acquire Inception 4 under undisclosed conditions.

Last year, Inception opened an office in Montreal, where Versant’s Jerel Davis expects the first deal to be announced in 4Q15.

While Inception forms companies around specific assets or technologies, Blueline’s mission in Toronto is to form companies around discoveries identified at Canadian universities.

“Toronto is a 4 million-person city and the Princess Margaret Cancer Centre is the one of the largest cancer institutes in the world,” noted Bolzon. The city’s universities and institutes in the city “attract about \$1.5 billion each year in annual grant money from various sources for medical research. That’s about the same as the Bay Area.”

The difference is that while the Bay Area routinely sees more than \$1 billion in biotech venture investments, Ontario has never cracked \$100 million in a single year, according to BioCentury’s BCIQ database.

“We clearly have less competition there,” said Bolzon.

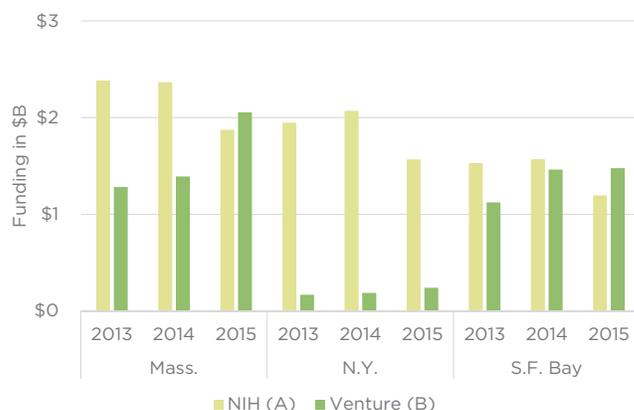
Under a 2013 deal with [Celgene Corp.](#), Versant has lined up potential exits for companies that emerge from Blueline. The bellwether has option rights to purchase Blueline companies in areas of joint interest, such as cancer, hematology and inflammation.

The first company to emerge from Blueline is [Northern Biologics Inc.](#), which has a portfolio of antibodies that are in preclinical development to treat cancer and fibrosis.

LOCATION, LOCATION, LOCATION

In New York state, venture investment is about an order of magnitude less than funding awarded by NIH. In comparison, Massachusetts and the San Francisco Bay Area receive more balanced amounts of venture money and government funding.

NIH data do not include projects funded by the American Recovery and Reinvestment Act of 2009. (A) Data for fiscal years ended Sept. 30, except 2015, for which data are as of Aug. 17; (B) Data based on calendar years, with 2015 funding as of Aug. 21; Sources: BCIQ: BioCentury Online Intelligence, NIH: Research Portfolio Online Reporting Tools (RePORT)



“We found five academics in Toronto who had an antibody capability that others hadn’t figured out,” said Davis. “We built Northern Biologics from scratch.”

In April, Celgene partnered to develop the antibodies with Northern, which received \$30 million up front and is eligible for undisclosed additional payments.

Celgene has an option to in-license products from the collaboration and has the right to buy Northern Biologics when the deal completes in three to four years, depending on achievement of undisclosed milestones.

Versant doesn’t exclusively rely on its Blueline and Inception vehicles for Canadian investments. For example, the firm is planning to invest in [Turnstone Biologics Inc.](#), an oncolytic virus company based on the discoveries of John Bell, Brian Lichty and David Stojdl.

Bell is a professor in the departments of medicine, and biochemistry, microbiology and immunology at the [University of Ottawa](#). Lichty is an associate professor of pathology and molecular medicine at [McMaster University](#). Stojdl is an associate professor in the department of pediatrics at the [University of Ottawa](#).

THE TIME IS NY

The last piece of Versant’s regional strategy was establishing a presence on the East Coast.

“We’ve never had an East Coast presence and it was an obvious gap in our coverage,” said Versant’s Carlo Rizzuto. “Everyone and their mother

would say Boston is the place to go, but what's worked really well for us with our other expansions is to go where there's great science and little venture capital."

New York fit the bill. In 2014, the state received \$2.1 billion in NIH funding for research but, according to BCIQ, only attracted \$188.3 million in biotech venture investments.

By comparison, the Bay Area received \$1.6 billion of NIH money but also pulled in \$1.5 billion in venture dollars last year (see "Location, Location, Location," page 3).

Versant's office in New York is co-located with newly announced Highline Therapeutics.

Like Blueline, Highline's mandate is to be a company creation engine that plucks assets out of academia and forms a management team around them.

Highline and Versant told BioCentury they are already starting a biotech to develop direct inhibitors of the cancer target Ras. The inhibitors are based on technology developed in the lab of Brent Stockwell, a professor in the departments of biological sciences, chemistry and systems biology at [Columbia University](#).

In addition to launching on Monday, Highline was to announce the signing of a letter of intent to award grants to researchers at [Weill Cornell Medical College](#) who are working on novel drug targets. Blueline has a similar grant program for Canadian researchers.

Highline also is in discussions with [New York University's](#) Langone Medical Center for a grant program.

"We want to bring on as many universities as we can," said Bolzon.

Bolzon said he now spends about 50% of his time in New York.

Rizzuto, who moved to New York from Switzerland in August, said the city and Toronto have multiple parallels. "Both are unbelievably concentrated," he said. "You have eight major academic research centers within 10 square miles in New York. That makes it easier to have feet on the ground walking around labs."

The key difference between the two regions, he said, is lab space.

Whereas Toronto has [MaRS Innovation](#), a translational center that commercializes discoveries from 16 academic institutions and hospitals in Ontario, "commercial lab space is at a premium in New York," said Rizzuto. "It's hard to find in the city, although outside the city there is a lot."

New York has taken steps in the past five years to address lab space availability with the opening of the Alexandria Center for Life Science, the Harlem Biospace incubator and BioBAT at the Brooklyn Army Terminal.

The Alexandria Center is a 15-story commercial facility with laboratory and office space located on 3.5 acres of city-owned land in Manhattan between Bellevue Hospital and [New York University](#).

[Eli Lilly and Co.](#) signed up as the anchor tenant in 2010, and [Roche](#) inaugurated its Translational and Clinical Research Center (TCRC) there in October 2013.

The Harlem incubator houses at least 16 start-ups. BioBAT is a 500,000-square-foot facility that has space for lease.

Rizzuto expects the pharma sector in New Jersey will likely serve as the primary talent pool for newcos that Versant backs in New York.

An untested hypothesis, he said, is that "there is a large number of people who grew up and trained in New York and went to biotechs in San Francisco and Boston who would love to come back if given the opportunity."

UP IN EUROPE

Since 2014, Versant Ventures has been one of the most active investors in private European biotechs. The firm has disclosed at least seven investments on the Continent in that time frame, which lags only European-based pharmas and crossover funds. Data exclude venture debt. (A) Totals and averages reflect only rounds where monetary values were disclosed; Source: BCIQ: BioCentury Online Intelligence

Investor	No. of rounds	Total raised in rounds \$M (A)	Avg per round \$M (A)
Novo A/S	14	\$299.8	\$21.4
Novartis AG (NYSE:NVS; SIX:NOVN)	9	\$505.1	\$72.2
Imperial Innovations Group plc (LSE:IVO)	8	\$211.8	\$26.5
Wellington Partners	8	\$126.5	\$15.8
Woodford Investment Management	7	\$669.7	\$95.7
Versant Ventures	7	\$229.2	\$32.7
KfW	7	\$80.1	\$11.4
OrbiMed Advisors	6	\$234.2	\$39.0
LSP	6	\$165.8	\$27.6
SR One	6	\$134.2	\$33.5
HealthCap	6	\$103.7	\$20.7
Syncona Partners	6	\$101.4	\$20.3
Bpifrance	6	\$82.4	\$16.5

Because of New York's initiatives to attract a venture community and the region's relative proximity to VC-laden Boston, Bolzon doesn't expect the dearth of VCs in New York to persist for much longer.

In March, the [New York City Economic Development Corp.](#) said [Flagship Ventures](#) and [Arch Venture Partners](#) will direct investment activities for the Early Stage Life Sciences Funding Initiative, its \$150 million life sciences fund. The fund intends to invest in 15-20 New York City start-ups by 2020.

"There's no question that New York is on the radar of quality investors, and we welcome it," said Rizzuto. "There's no shortage of opportunity here, but there is a shortage of investors who know how to do early investing."

GLOBE TROTTED

Now that Versant has offices on both coasts in the U.S., as well as in Canada and Europe, the firm does not expect additional expansions anytime soon.

"The four regions for biotech are pretty much it for us — it's a good number to balance," said Bolzon.

Versant closed its fifth life science fund at \$305 million in December 2014, ahead of the fund's original \$250 million target.

The goal is to do 20-25 investments in companies across all development stages, with an emphasis on novel therapeutics. 

COMPANIES AND INSTITUTIONS MENTIONED

AstraZeneca plc (LSE:AZN; NYSE:AZN), London, U.K.

Bayer AG (Xetra:BAYN), Leverkusen, Germany

Bellevue Hospital, New York, N.Y.

Biotie Therapies Corp. (HSE:BTHIV; NASDAQ:BITI), Turku, Finland

Celgene Corp. (NASDAQ:CELG), Summit, N.J.

Columbia University, New York, N.Y.

Eli Lilly and Co. (NYSE:LLY), Indianapolis, Ind.

Flexion Therapeutics Inc. (NASDAQ:FLXN), Burlington, Mass.

GenSight Biologics S.A., Paris, France

GlaxoSmithKline plc (LSE:GSK; NYSE:GSK), London, U.K.

Inception 4 Inc., Vancouver, B.C.

Institut National de la Santé et de la Recherche Médicale (INSERM), Paris, France

MaRS Innovation, Toronto, Ontario

McMaster University, Hamilton, Ontario

Merck & Co. Inc. (NYSE:MRK), Kenilworth, N.J.

National Institutes of Health (NIH), Bethesda, Md.

New York City Economic Development Corp., New York, N.Y.

New York University, New York, N.Y.

Northern Biologics Inc., Toronto, Ontario

Novartis AG (NYSE:NVS; SIX:NOVN), Basel, Switzerland

Princess Margaret Cancer Centre, Toronto, Ontario

Roche (SIX:ROG;OTCQX:RHHBY), Basel, Switzerland

Theracon, Nice, France

Turnstone Biologics Inc., Toronto, Ontario

University of Ottawa, Ottawa, Ontario

Versant Ventures, San Francisco, Calif.

Weill Cornell Medical College, New York, N.Y.

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