

Life Sciences Startups Landing Grants
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With venture capital funding all but dried up for many life sciences startups, some have turned to agencies that specialize in navigating complex government databases and matching businesses with sometimes lucrative grants.

Government money has traditionally served as a kind of starting point for many academics and early stage researchers hoping to see their ideas through the clinic, but as traditional private funding sources dissipate, biotechs are increasingly turning to the federal government for support.

"Large-scale funding opportunities are available today more than at any other time in the past," said Ram May-Ron, vice president of Boston-based life sciences consultancy FreeMind.

Agencies such as FreeMind, which gained valuable knowledge of how to secure government contracts during the dot-com boom, have increasingly been pairing local startups with government agencies such as the National Institutes of Health and the U.S. departments of Energy and Defense.

Last year alone, FreeMind's clients secured \$300 million from government entities involved in biomedical research.

Payment For Services

Many, like FreeMind, charge an upfront fee and take a portion of the grant awarded, which varies depending on the size of the grant. May-Ron estimates that most pay \$8,000 to \$25,000 upfront.

For businesses seeking million-dollar opportunities, the investment could pay off.

The NIH, the nation's single largest financial backer of biomedical research, saw its budget double to \$29.5 billion in fiscal year 2008, following four years of flat growth.

A small-business grants division under the NIH umbrella also received a boost, giving many startups without venture backing a chance to secure Small Business Innovation Research loans. A portion of those loans is targeted at the so-called "valley of death," the crucial point in biomedical research where promising ideas can die before reaching the

clinic. First-time funding awards typically average \$195,333 in California, according to the NIH.

Additionally, the nation's \$787 billion stimulus package set aside \$8.2 billion to support the kind of scientific research that can be accomplished in two years or less.

Good News

"There are great misperceptions in the industry as it relates to government funding," May-Ron said. "It used to be mostly academic, now it's not so. It used to be mostly small projects, now it's not so."

That's welcome news for San Diego's biotech startups, many of which have struggled to find funding in an economy that has kept numerous venture capital firms from investing in risky, early stage research.

"Companies are just not able to access the funds anymore that they could," said Ian Wisenberg, managing partner of San Diego-based BioGlobal Consulting Group.

Keith Murphy, CEO of local regenerative tissue company Organovo, said he sees government grants "as a way to push yourself along."

It won an SBIR grant this year for an undisclosed amount that it will use for testing its core technology, a "bioprinter" used for creating blood vessels from a patient's own cells in coronary bypass surgery.

"We had successfully raised angel funding over the past year as well, but it was important for investors to get government funding that doesn't dilute our funding," he said.

A New Model

Duane Roth, who heads local high-tech and life sciences trade group Connect, says that while funding models have changed, government opportunities are nothing new. San Diego's defense industry formed mostly around Department of Defense research grants, he says.

"We have, over the last 25 years, relied almost exclusively on the venture model," Roth said.

But, he says, those days are numbered, and many biotechs are left adjusting to unfamiliar territory. Some have hired professional writers to submit grant applications.

"It's not something most entrepreneurs and their employees are familiar with doing," Roth said. "We'll get there again."

Wisenberg says he's not so sure that government money will ever supplant private equity, but sees the funding as a valuable resource for getting many startups through rough patches.

"Unfortunately, because of that, it becomes less accessible because of the mere numbers of companies that are looking after that," he said.

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