Three VCs See New Opportunities as Changes Roil Venture Industry

By: Bruce V. Bigelow

http://www.xconomy.com/san-diego/2013/01/24/three-vcs-see-new-opportunities-as-changes-roil-venture-industry/#h[]

January 24, 2013

There are a lot of dismal stats in a wrap-up of 2012 venture capital activity from the National Venture Capital Association that is making the rounds. As we've reported, total VC investments declined nationwide last year by 10 percent from 2011. The number of active U.S. firms is less than half the 1,035 counted in 2000. The 135 first-funding deals for life sciences startups in 2012 was less than half the 274 deals counted in 2006.

Yet Josh Green of Menlo Park, CA-based Mohr Davidow Ventures nevertheless says he has an "incredibly positive" outlook for venture investing in the year to come.

In fact, after summarizing some disheartening trends of 2012, Green told a San Diego audience yesterday he's "very enthused" and he sees "a lot more opportunities" for entrepreneurs to start new companies. Even during the J.P. Morgan Healthcare conference in San Francisco earlier this month, Green says he saw excitement and "a level of interest in life science investments that I haven't seen for years."

So what's going on?

"Everything is changing; the venture model itself is changing," Green said at a meeting of the San Diego Venture Group that drew close to 330 people. "I really encourage you to drop the classic paradigms that we all were guided by for the last 30 years. I would hate to see somebody in this room not innovate because of concerns that they don't fit that model. This is the greatest period of change, in terms of how the model works."

Sofinnova Ventures' David Kabakoff agreed, at least to a certain extent. Kabakoff, a longtime life sciences executive in San Diego, said he's seeing lots of new tactics in life sciences fundings. One approach is a substantial, one-time, Series A venture deal to fund development of a late-stage drug that has been spun out of a Big Pharma company like Pfizer. Big pharmaceutical companies also seem more willing to strike partnerships with VCs and angel investors, Kabakoff said.

Kabakoff also noted that the FDA approved 39 new drugs in 2012, the most in 16 years. (The FDA said it had approved 35 novel drugs during the federal fiscal year that ends in September.)

"There are some signs, including the number of drugs approved last year, that breakthrough products do have a path to get to market in reasonable time frames," Kabakoff said.

Jason Mendelson, a managing director of the Foundry Group in Boulder, CO, said fundamental changes are reshaping the industry.

While venture funding peaked in 2000, when VCs invested $105 billion nationwide (compared with $26.5 billion in 2012), Mendelson said the plunging cost of technology has made a $500,000 investment in an IT startup equivalent to a $5 million investment a decade ago.

“Less money is necessary to get to value on these startups,” Mendelson said, “so opportunities are expanding, not contracting, even though the venture model as a whole is contracting.”

As a result, Mendelson flatly rejects talk of “a Series B crunch” among tech startups. What’s happening instead, Mendelson said, is that venture firms are bankrolling a wide array of new ideas because the initial round doesn’t cost much and it’s easy to pull the plug. “If you’re not succesful,” he said, “you don’t get funded later.”