

Interview: Peter Van Der Velden, Managing General Partner, Lumira Capital, Canada



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The funding of Canada's biotech industry has changed drastically in recent years. Peter Van Der Velden of Lumira Capital discusses those changes and how his venture capital business is adapting to this evolving environment.

Lumira has been involved with numerous acquisitions over the years. Could you highlight a couple of milestone achievements?

In its last fund, Lumira was one of the key funders in a company called Pharmasset, which was bought by Gilead in 2012 for \$11 billion. That was the largest price paid for a pre-revenue company out of the venture capital ecosystem. On the device side, MAKO Surgical IPO'ed in 2007 and was the best performing medical technology IPO from 2007 to 2012. Lumira is particularly proud of similar companies that have done extremely well in the markets in which they compete. As a firm, Lumira is also proud of the transition process it went through and we are very appreciative of the support we received from our limited partners during that transition period. The fact that Lumira raised two new funds last year in a difficult market, totaling \$154 million in new capital, with some of the best investors in the country and a leading corporate, Merck, is a testament to Lumira's abilities.

Some suggest that Quebec is noticeably better for biotech than Ontario, but does each have particularly noteworthy characteristics, or is there a clear dominator?

I think there are actually three major markets in Canada. British Columbia has had a very good track record, particularly for the innovation side. Looking at the number of successful companies that have been built in BC, many of them use technology from Simon Fraser University and the University of BC. The province does have a first-class track record. The other two major markets are Ontario and Quebec. I do think that Quebec has proven to be a more successful market and that is probably a function of a couple of things including more infrastructure support and local capital. I think there is a bit more of a culture in the Quebec market for life science based companies. Many big pharmaceutical companies have their R&D operations in Quebec, which means there are scientists and infrastructure there to support that. Ontario is a very strong market as well, but we have not as of yet seen the creation of a big sustainable platform company. Despite that, I think we have seen a consistent number of wins and I think Ontario is strengthening. MaRS Innovation is a great hub and universities here are really starting to think about how to commercialize innovation differently and become more flexible. I think that is an important part about making the ecosystem work, as well as ensuring funds like Lumira have capital locally. You have to have all the pieces of the puzzle in which to build great companies.

VCs are far more selective now than they were before the economic recession. What do you see as the strategic importance of the finance industry in Canadian biotech?

This is true, but I do not think that it is just about being selective; there is simply a lot less capital, particularly in life sciences and healthcare. Funds invested in healthcare have actually done quite well and have actually outperformed the ITC space through much of the past 10 years. The challenge is that big venture-backed companies in ITC are far more well known than those in healthcare. ITC companies, such as social networking sites, create a lot of buzz. Lumira's companies, like MAKO and Pharmasset, just go out and succeed. This is part of the challenge; unfortunately, funders sometimes get drawn to where the noise is, which is less acute in our business. This is a big challenge. There is a big compression in terms of capital available. As a function of that, you have fewer sources of capital available in the market, in addition to the fact that every firm has its own expertise, which typically ties to what the partners understand, areas they know how to invest in, and businesses where they have the experience and relationships that allow them to be value-added partners. Fewer firms mean more gaps in the market and more compression. It therefore becomes harder for companies that do not fit someone's investment theme to get capital. Lots of money and generalists in the market make it easier for entrepreneurs to get capital, although this sometimes actually leads to worse outcomes, so there are always tradeoffs

Last year saw a \$40 million in commitments by Merck to Lumira Capital II and the Merck Lumira Biosciences Fund. What did Lumira and Merck have to offer to each other?

Merck made a conscious decision to look at partnering with five VCs globally, three in North America, one in Asia and one in Europe to augment their own R&D processes by focusing on fundamental innovation. It was another way for them to get access and another way to build those companies outside of their own internal efforts. Merck is a huge company with huge R&D investments, so this was just one leg in a very big strategy. When Merck wanted to do something related to Canada, Lumira clearly had a very strong footprint here, with partners in Montreal and Toronto. They concluded that Lumira acted and performed the way they wanted, and had built some companies that they really liked, like Pharmasset. Lumira was clearly investing in companies on their radar, so it was a good fit. For Lumira, Merck is a tremendous resource because they are a tremendous potential due diligence resource, offering perspectives and insights from fundamental science right through to manufacturing. In addition these early interactions with a “big pharma” company helps to ensure that our investee companies know what they need to look like to be a good partner or acquisition target for a pharmaceutical company down the road. Merck does not have any special rights to acquire companies or license products, so Lumira is building companies objectively and Merck has good visibility as to how the firm does that.

Why is Lumira Capital the partner of choice?

Lumira’s partners have been in the industry for a long time, and have many relationships and a track record of success. I think Lumira is also very deep in skill sets in the areas in which it invests. Lumira is not a generalist firm. In areas like biologics, Lumira has three partners here who have worked at the lab bench in the biologics area. We therefore understand that business extremely well and can clearly add value. Additionally, because of Lumira’s heritage as part of the MDS Group, which at one point had a large clinical development program, the firm is very thoughtful about clinical trial design. Lumira is very good at working with partners to ensure that clinical trial design truly works and is designed to answer the questions the firm asks, and at the same time it is powered and structured so as to be compelling at the time of an acquisition. Lumira is also really value-added on the business development side in terms of partnering. Finally, every employee has been an operator and has worked at a pharmaceutical company, run a small company or built a tech company. Lumira is empathetic with entrepreneurs in terms of being on the other side of the equation. We know what it is like to roll up your sleeves in order to build a successful company.

What is your strategic vision for the next five years?

Lumira is in the business of building big companies, but ultimately it is impossible to predict if these companies will remain stand-alone entities or be acquired. If you look at Lumira's last portfolio of 15 success stories, eight of them were acquired and seven have gone through a NASDAQ-IPO process. I hope that Lumira's portfolio really reflects the success in the core themes we are building on today and that the Fund also reflects the strength and diversity of the opportunities in the Canadian market. The firm chooses best-in-class, and is not regionally constrained. I am happy that I can say there are best in class companies here and we are really happy to put Lumira's fund capital into those companies. In five years, I hope that some of those companies are really delivering and that the firm is in a position to have raised another fund on the strength of that success and to be doing more of what we are doing today. Success, and not just financial success, but rather the opportunity to help build companies whose products can truly change people's lives is what drives VCs like us. Data for a wide variety of sources including the CVCA shows that venture capital companies really do grow faster and better. I hope that the companies Lumira builds translate into innovative medicines, reduced healthcare costs, higher-value jobs for people and a demonstration of the ability to leverage the outstanding science that exists within Canadian universities. I hope that we help to shift the Canadian economy a little, from the resource side more to the innovation side. That is what venture capital is about: building high-value jobs around high-value companies to create real wealth for people. If Lumira does its job well, it helps fund people's retirements. That is a nice ecosystem.

Companies in which you invest are acquired by big international companies. Is there a possibility for them to be acquired by Canadian companies?

As examples, Paladin Labs and Valeant have become enormous through a series of acquisitions. I absolutely think that there is an opportunity to leverage some of those businesses that are becoming platform companies and allow them to acquire and grow. Some in the industry are talking about funding just assets as opposed to funding companies. Lumira still believes in the company model. At the end of the day, entrepreneurs make a huge difference. The firm can cite numerous times when something has gone wrong or when an opportunity came up where, had it not been for that CEO or his team being engaged and thinking it through, we would not have achieved a positive outcome. When we set our ambition, we hope to build the next great stand-alone Canadian pharma company. We have to be objective about how we ultimately get there and be it an IPO or sale, we have to be open to all possibilities.

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