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VOICE OF THE DEAL ECONOMY

Diagnosis: Investment opportunity

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Whether or not the long-standing stereotype of burgers, French fries and pizza as staples of the American diet is really true, one result of an unhealthy diet is an undeniable fact: Diabetes is a worsening epidemic in the United States.

More than 23 million people, or 10% of the U.S. population, have diabetes, an estimated 5.7 million remain undiagnosed and 57 million have pre-diabetes, meaning they are candidates to get the disease, the American Diabetes Association reports. The economic cost of diabetes last year was an estimated \$174 billion, with one in five healthcare dollars spent caring for a diagnosed diabetic, the group says.

None of this has been lost on venture capitalists. Since 2000, they have invested more than \$3.7 billion on diabetes-related startups, according to the National Venture Capital Association. Roughly \$1.5 billion of that capital has been invested in the past three years.

"This disease will break the bank of national healthcare," predicts David Van Avermaete, CEO of **VeraLight Inc.**, which makes a noninvasive diabetes-screening system.

Four-year-old VeraLight received \$20 million in a third round of funding in June from New York's **Psilos Group** and Northern California-based **CMEA Ventures**, along with numerous other investors. The Albuquerque, N.M., company has raised \$42.5 million overall. Its technology, in clinical trials, uses fluorescent light beamed onto the skin to determine who has type 2 diabetes and who is at risk for the disease. The device requires no drawn blood and does not require patients to fast before the one-minute test.

"There's really a dramatic need for a test that can identify people with diabetes much earlier," says David Collier, managing director at CMEA, which has invested \$8 million in the startup thus far. "VeraLight fits an unmet need."

Van Avermaete says VeraLight hopes to launch its product on the market late next year and hit breakeven two years post-launch, when he expects to see some interest in his company. "Somebody will look at it and say, 'This can turn into a

\$100 million business,' " he says, adding logical buyers may be **Johnson & Johnson, Bayer AG, Abbott Laboratories Inc. or Roche Holding AG.**

VeraLight is just one of many companies hoping for that lucrative exit. **Tethys Bioscience Inc.** is developing tests that use protein and other blood-borne biological markers to identify people at high risk for preventable diseases. Its first predictive test helps deliver an accurate assessment of an individual's risk of developing type 2 diabetes within five years. The test is performed on routinely collected blood samples. Mickey Urdea, the company's co-founder, chairman and CEO, says the test will enable medical professionals to help modify risks before irreversible damage occurs.

Tethys has received \$54 million to date in three rounds from several prominent VC investors, including **Intel Capital, Kleiner Perkins Caufield & Byers** and **MDV-Mohr Davidow Ventures**. Urdea says he expects the company to be profitable around 2011 and to go for another venture round before then. In September, Tethys used some of its capital to acquire Lipomics Technologies Inc., a West Sacramento, Calif., provider of metabolic assessments for drug research, clinical diagnostics and personalized medicine.

Metabolex Inc. of Hayward, Calif., has three diabetes drugs in clinical trials, including an insulin sensitizer that helps make the body's insulin more effective. It raised \$117 million, including \$32 million it generated last year from **MPM BioEquities, AllianceBernstein LP** and others.

"It wasn't very difficult to attract investors," says Harold Van Wart, the company's president and CEO, adding that the market is huge and Metabolex has drug candidates that answer unmet needs.

Numerous large acquisitions have occurred in the sector. In September, Japanese drugmaker **Shionogi & Co. Ltd.** bought diabetes drugmaker Sciele Pharma Inc. for \$1.4 billion in cash. Big pharma **GlaxoSmithKline plc** in April agreed to buy clinical-stage biotech Sirtris Pharmaceuticals Inc. for \$720 million in cash. Publicly traded Sirtris makes a diabetes drug that is in early clinical trials. As demand continues for the development of diabetes drugs, diagnostic devices and technologies that help people control weight and lower their risk of contracting the disease, so will the appetite for VC dollars in this lucrative and expanding market.

Unless there's a drastic change in how people eat, more deals will likely occur in the sector, and VCs will continue to invest in diabetes-focused drugs, diagnostic devices and technology startups as the number of diabetics and people with pre-diabetes continues to increase worldwide.