

Preqin Research Report - Sept 2009

Private Equity Life Science Funds (1)

Life science, also known as bioscience, comprises of several branches of science, including biology, medicine and ecology. This comprehensive scientific division is emerging as a burgeoning private equity sector with a variety of funds hitting the market looking to invest in firms that are developing ideas in biotechnology, pharmaceuticals and biomedical technologies.

This research report contains key facts and statistics to help you understand more about this growing investment sector.

Aggregate Capital Raised

Fig. 1 shows the aggregate capital raised by all private equity funds involved with life sciences from 2007 to 2009 year-to-date. Preqin terms non-pure life science funds as those which look to invest in the life science sector in addition to other unrelated industries as part of a wider, more generalist strategy. Preqin terms pure life science funds as those funds concentrated exclusively on life science investments. Fig. 1 reveals that private equity funds focused either partially or exclusively on life science raised almost \$17 billion in 2007 and in excess of \$28 billion in 2008. The aggregate capital commitments for 2009 to date have been markedly smaller however, with market conditions clearly affecting fund managers' ability to attract capital for their vehicles.

Fundraising History

Fig. 2 explores the fundraising history of pure life science funds from 2007 to present. The graph confirms that, until the global economic crisis took hold, life science funds consistently raised over \$3 billion each six months. H2 2008 was the first half-year to experience a severe drop in fundraising, with only six funds managing a final close in this period, securing \$600 million in aggregate commitments. The first half of 2009 saw the life science private equity sector mount a modest recovery, posting over \$2 billion from eight funds.

Fundraising by Region

Examining pure life science private equity fundraising by regional focus exposes the dominance of US focused funds in this sector. US focused life science private equity funds have attracted far more aggregate capital than their global counterparts for each of the past three years, securing more than \$4 billion in 2007, \$2.4 billion in 2008 and nearly \$2.5 billion in 2009. European focused pure life science funds have also had an impact on global fundraising, drawing around \$1.6 billion in aggregate capital in 2007 and 2008. Fundraising in 2009 year-to-date has proved more of a challenge, with only \$70 million having been committed to life science funds closed so far this year. Pure life science fundraising in Asia and Rest of World is still in its infancy, with \$620 million raised in 2007, and \$80 million to date in 2009. No pure life science funds focused on the region closed in 2008.

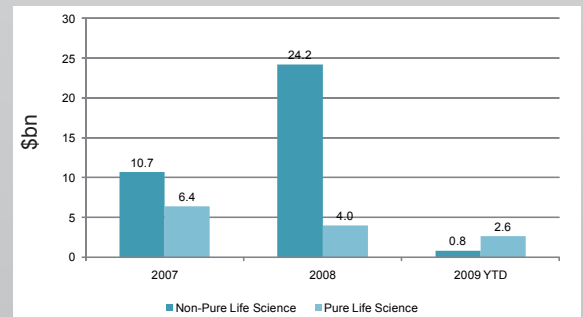
Fundraising by Fund Type

The pure life science private equity fundraising market is almost wholly comprised of venture vehicles, with only one buyout fund, one co-investment fund and four funds of funds securing \$482 million between them since 2007. Of the venture fund types, most capital is raised by general venture funds, without a specific stage focus. Fig. 4 shows the breakdown of venture fundraising for pure life science funds, revealing early stage funds to be the second most prominent fund type after generalist venture vehicles. Data from 2009 year-to-date shows two late stage funds closed with \$100 million in aggregate commitments.

Venture Fundraising

Fig. 6 depicts how life science venture fundraising has compared with the whole private equity venture market from 2007 to the present day. The graph shows that in 2007 pure life science venture funds raised 9% of the entire aggregate capital secured by all venture funds. This decreased slightly to 7% in 2008, but then doubled to 14% for 2009 year-

Fig. 1:
Aggregate Capital Raised by Life Science Funds 2007-2009 YTD



“...The pure life science private equity fundraising market is almost wholly comprised of venture vehicles...”

Fig. 2:
Pure Life Science Funds Achieving a Final Close: 2007-2009 YTD

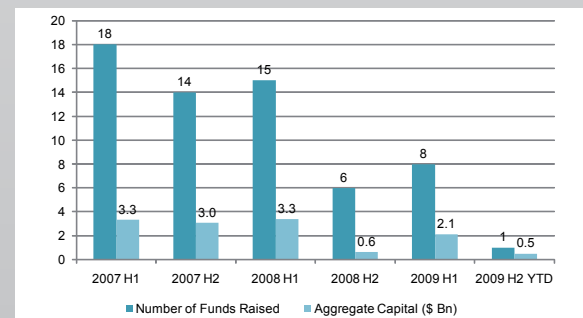


Fig. 3:
Aggregate Commitments of Pure Life Sciences Funds by Regional Focus: 2007-2009 YTD

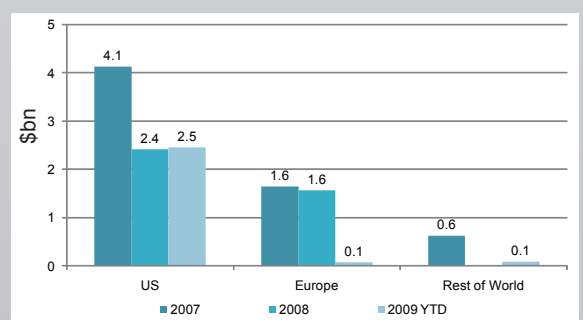
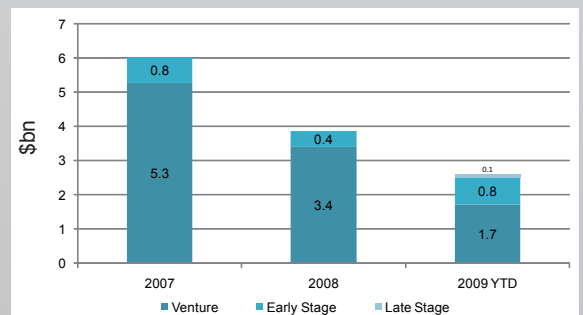


Fig. 5:
Top Five Pure Life Science Funds Closed to Date in 2009

Firm	Fund	Fund Type	Target Amount (Mn)	GP Location
Essex Woodlands Health Ventures VIII	Essex Woodlands Health Ventures VIII	Venture	900 USD	US
Aisling Capital III	Aisling Capital	Venture	650 USD	US
Domain Partners VIII	Domain Associates	Early Stage	500 USD	US
Lilly Ventures	Lilly BioVentures	Early Stage	200 USD	US
AM Pappas Life Science Ventures IV	Pappas Ventures	Venture	102 USD	US

Fig. 4:
Aggregate Capital Raised by Pure Life Sciences Venture Fund Types: 2007-2009 YTD



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to-date. If we include non-pure life science venture funds to compare with the overall venture market then the proportion is even more favourable, measuring 16% in both 2007 and 2008, and climbing to 19% for 2009 year-to-date.

Largest Funds

Fig. 8 shows the 10 largest pure life science funds to have reached a final close. The table is dominated by US-based firms, with only one non-US representative, which is the UK-based Abingworth Management with its 2007 vintage Abingworth Bioventures V. As the life science sector is led by venture funds it is perhaps not surprising that no pure life science funds have achieved a final close with more than USD 1 billion in committed capital. Essex Woodlands Health Ventures VIII is the largest life science private equity fund to close to-date, raising \$900 million.

Investor Focus

Private equity funds investing in the life science sector attract a broad range of institutional investor types. Preqin's Investor Intelligence database shows that funds of funds have traditionally been the most prominent type of investor in (pure and non-pure) life science funds, representing approximately 18% of overall commitments made to vehicles targeting opportunities in the life science sector, and 44% of commitments made to pure life science funds achieving a final close in the period 2007-2009.

In addition to fund of funds vehicles, a variety of other investor types are committing to life science funds. Endowment plans, family offices and

Fig. 6:
Life Science Share of Venture Capital Market

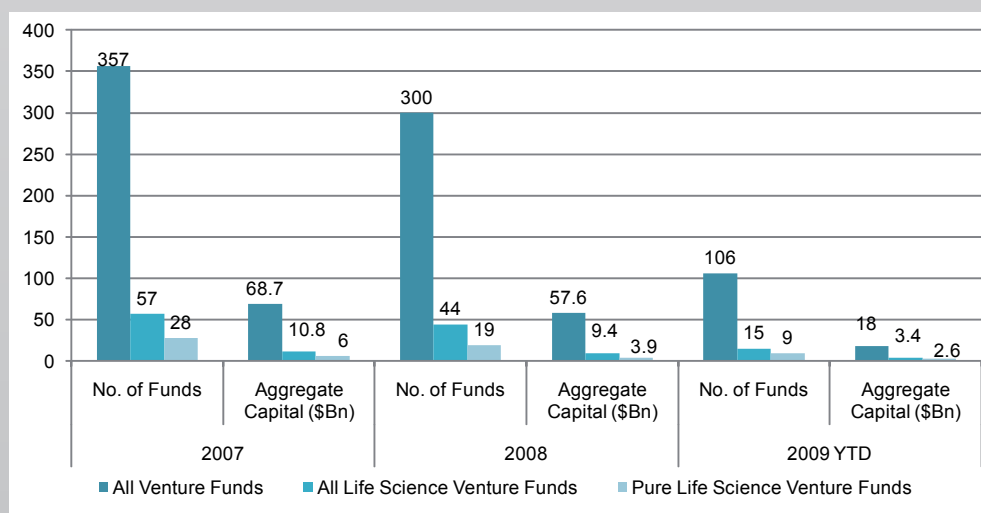


Fig. 7:
Breakdown of Type of Investors (Excluding Funds of Funds) with a Known Appetite for Life Science Funds

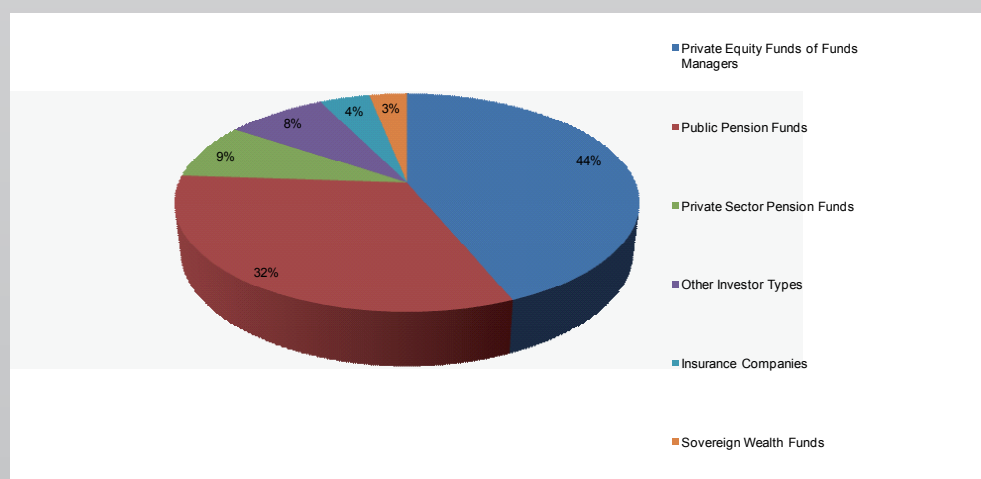


Fig. 8:
Top 10 Pure Life Science Funds Closed to Date

Fund	Manager	Type	Vintage	Size (Mn)	GP Location
Essex Woodlands Health Ventures VIII	Essex Woodlands Health Ventures	Venture	2009	900 USD	US
Clarus Ventures II	Clarus Ventures	Venture	2008	660 USD	US
Aisling Capital III	Aisling Capital	Venture	2009	650 USD	US
Essex Woodlands Health Ventures VII	Essex Woodlands Health Ventures	Venture	2006	600 USD	US
Frazier Healthcare VI	Frazier Healthcare Ventures	Venture	2008	600 USD	US
Abingworth Bioventures V	Abingworth Management	Venture	2007	300 GBP	UK
SV Life Sciences Fund IV	SV Life Sciences	Venture	2007	572 USD	US
Aisling Capital II	Aisling Capital	Venture	2006	550 USD	US
MPM BioVentures IV	MPM Capital	Venture	2007	550 USD	US
Bay City Capital Fund V	Bay City Capital	Venture	2007	500 USD	US



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Fig. 9:
Sample Investors in Recently Closed Life Science Funds

Investor	Investor Location	Sample Life Sciences Fund Investments
National Pensions Reserve Fund	Ireland	Abingworth Bioventures V Co-Invest Growth Equity Fund, Frazier Healthcare VI
National Technology Enterprises Company	Kuwait	Burrill Life Sciences Capital Fund III, Wellington Partners III Life Science Fund
European Investment Fund	Luxembourg	Gilde Healthcare II, SHS Fonds III, Wellington Partners III Life Science Fund
Skandia	Sweden	Healthcap V, MPM BioVentures IV
Barclays Bank UK Retirement Fund	UK	Abingworth Bioventures V, Healthcap V
Pharmaceutical Product Development	US	AM Pappas Life Science Ventures IV, Bay City Capital Fund V
Adams Street Partners	US	Abingworth Bioventures V, Abingworth Bioventures V Co-Invest Growth Equity Fund, Essex Woodlands Health Ventures VIII
Utah Capital Investment Corporation	US	Clarus Ventures II, Frazier Healthcare VI, SV Life Sciences Fund IV
Dow Chemical Company Pension Fund	US	MPM BioVentures IV, Quaker BioVentures II
California Public Employees' Retirement System (CalPERS)	US	Aisling Capital III, Skyline Ventures V, SV Life Sciences Fund IV, Third Rock Ventures
North Carolina Department of State Treasurer	US	Hatteras Venture Partners III, Quaker BioVentures II, Synergy Life Science Partners
Michigan Department of Treasury	US	Clarus Ventures II, Essex Woodlands Health Ventures VIII, Flagship Ventures Fund 2007

foundations, private sector pension funds, other private equity firms and, in particular, public pension funds have all committed to pure and non-pure life science funds in significant numbers in the past.

The Future

While this report shows a general decline in private equity fundraising for life science funds over the past few years, we expect fundraising to grow modestly as the world economy recovers from its slump and more investors channel their capital back to this sector. There exists a healthy stock of funds on the road, with 31 pure life science funds still in market targeting aggregate capital of over \$5 billion.

Data Source

All of the information used within this report was taken from Preqin's online products: Fund Manager Profiles and Investor Intelligence.

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