HEALTHCARE
VENTURE
PHILANTHROPY
SUMMIT

Venture Philanthropy in the Healthcare Marketplace

HIGHLIGHTS FROM THE
HEALTHCARE VENTURE PHILANTHROPY SUMMIT,
MAY 2013

On May 23, 2013, leaders from more than two dozen healthcare philanthropy organizations met in Boston, MA to compare current approaches to venture philanthropy. Hosted by Broadview Ventures, participants included representatives from:

Thiel Foundation Breakout Labs

Juvenile Diabetes Research Foundation

National Multiple Sclerosis Society

Partners Innovation Fund

American Heart Association Science & Technology Accelerator

American Heart Association

Leukemia & Lymphoma Society

Autism Speaks

One Mind for Research

Vascular Cures

Type 1 Diabetes Exchange

Helmsley Charitable Trust

Flybridge Capital Partners

Cambridge Associates

MacAndrews & Forbes

Partners HealthCare

FasterCures

Helmsley Charitable Trust T1D Program

Cure Alzheimer's Fund

Boston University Technology Development Office

HLM Venture Partners

Pappas Ventures

Christopher & Dana Reeve Foundation

A Call to be Catalysts and Coordinators in the Healthcare Product Marketplace

As venture philanthropy emerges as a field in its own right, there is no hiding the share of controversy it brings with it. Philanthropists, executives, boards of directors, patients and the public at large remain hesitant and, at times, confused about how to marry philanthropic, non-profit intent with commercial, for-profit methods. But for participants in the Healthcare Venture Philanthropy Summit (HVPS) the common call to arms is clear "Get products to patients…faster."

As discussed throughout the day, it is an understatement that the training and incentives in our healthcare and pharmaceutical development systems don't always align to the benefit of the patient. Summit participants ask, who better than healthcare philanthropies to advocate that the patient remain front and center of product development? Venture philanthropy is one among many mission-consistent methods to influence this market in favor of the patient. Improving—or saving—patient lives remains the bottom line.

By sharing their current strategies and activities, Summit participants inspired a list of ways in which a healthcare philanthropy can help make new products available and accessible. Some are venture philanthropy roles—expanding non-dilutive funding or making commercial investments to encourage product development. But an organization's influence is certainly not limited to its financial capital. Other roles put an organization's non-financial, but equally valuable, assets in play: broad and potentially unifying perspective of their disease area, deep market and therapeutic expertise, abundant patient connections, and established credibility.

To consider how healthcare philanthropies can or should expand their influence in the product marketplace, participants suggest asking:

- What's the root problem that keeps products from patients in this disease area: Basic science? Commercialization? Cycle time? Regulatory hurdles? Affordability? Financial?
- In what ways is healthcare philanthropy willing and able to play to chip away at that problem?

HEALTHCARE PHILANTHROPIES *CAN* IMPACT THE MARKET

CLOSE THE FINANCIAL GAP ON TRANSLATIONAL RESEARCH ▶

At the Summit's opening Chris Colecchi, Broadview Ventures' Managing Director, characterized the ever-dwindling resources available to move early stage scientific research to commercialization. Venture capitalists are risk averse. NIH is retracting. Big Pharma is refocused on marketing and commercialization, as the productivity of R&D declines. This widening translational gap threatens to strand promising products and cures. As Michael Greeley of Flybridge Partners said, "'Valley of Death' doesn't begin to do justice to the capital gap." Despite the gap's size, Chris Colecchi asserted, "Venture philanthropy can disrupt the status quo with fewer dollars than people think. Modest amounts of money can fund early stage research in that translational space."

Example

The Thiel Foundation's Breakout Labs is establishing a $20M revolving fund, spurring scientific innovation through $350K awards. The recipients are those projects that fall outside the purview of traditional funding, be it because they are developing platform technologies, still need a proof of concept, or are not in the government interest. As described by Lindy Fishburne, Executive Director, Breakout Labs, aims to help take "unbelievable, radical basic research to the translational stage."
(http://www.breakoutlabs.org/home.html)

INSPIRE NEW MONEY ▶

By creating new models for funding, venture philanthropy gives donors the chance to invest in promising ideas from multiple sources: across a portfolio of investments ranging from academic labs to established biotech and medical device companies—enlarging the sphere of influence of their dollars. In addition to applying existing money in new ways, these models may inspire new donors or increased donations, as they focus more directly on product outcomes.

Example

Fondation Leducq created Broadview Ventures to accelerate the translation of scientific discoveries, in the areas of heart disease and stroke, into products that will positively impact patients' lives. The *Fondation* continues to fund basic research through non-dilutive grants while at the same time putting "new money" into play, via equity investments from Broadview, to leverage the venture philanthropy model.

LEND YOUR HALO TO EARLY COMMERCIALIZATION ▶

In addition to their own capital investments, healthcare philanthropies can use their stamp of approval to attract additional investors. With established reputations, internal expertise in the disease's product and regulatory environment, and patient interest as their core mission, a philanthropy's positive assessment can help start-up ventures get attention from venture capitalists, Big Pharma or other funders more easily than on their own.

Example

The American Heart Association's Science & Technology Accelerator aims to identify truly transformational technologies and help them to attract co-investors. Ross Tonkens, Director, Science and Technology Accelerator Division at American Heart Association, explains, "We will help them get across the valley of death, attracting private equity early on by the AHA brand and the credibility of the selections we make."

ENGAGE ALL THE WAY THROUGH PATIENT ACCESS ▶

As one panelist summed up, "A therapy is no good if the patient can't afford it." The topic of affordability—and the specter of recent bad publicity for some foundations—raised as many questions as answers. If a foundation is financially engaged at all in the creation of the product, are they also responsible to play a role in pricing? Once a product "gets caught" by Pharma—emerging vernacular from the Summit used to describe downstream investment, partnering, or acquisition—does the foundation have to stay engaged to protect the patients' interests?

Example

Dick Insel, Chief Scientific Officer, Research, of the Juvenile Diabetes Research Foundation, shared that in the early days of continuous glucose monitors, the FDA had approved three different monitors, but not a single company would reimburse for their use. The JDRF sponsored a $10M, multiple site trial, which ultimately demonstrated that the monitors were more than a convenience. They improved blood sugar control. "Three months after the New England Journal of Medicine published initial results, the reimbursers came on. This prepared the whole future."

HEALTHCARE PHILANTHROPIES *CAN* IMPACT THE MARKET

CLEAR THE REGULATORY HURDLE ▶

In addition to consulting with early stage companies on the FDA approval process, healthcare philanthropies can also help alleviate the backups and bottlenecks inherent to the FDA process. Participants suggest that healthcare philanthropies can extend the FDA's capacity, writing draft guidance, making connections to external resources and patients, and exerting political will to depoliticize the FDA or fight for greater budget.

Example

According to Lou DeGennaro, Chief Mission Officer, The Leukemia & Lymphoma Society executed a five-year education program to help the FDA establish progression-free survival as the new, legitimate yardstick for treatments of multiple myeloma. This, in turn, allowed multiple new therapies to come through to market.

OFFER EXPERT ASSESSMENT… AND A DOSE OF MARKET REALITY ▶

People often characterize the challenge of bridging the translational gap as a financial decision. But an equal challenge is the project selection decision: How do we recognize promising projects out of the explosion of new scientific information? How do we know which concepts have the legs to make it to market? "Ninety percent of the time, the information is too incomplete to make the decision appropriately," said one panelist.

From their unique vantage, healthcare philanthropies can lend, in the words of one VP investor, "…very capable people evaluating proposals and giving invaluable feedback. If it doesn't have legs, deny funding or work with an applicant to get up to speed." This role, said one panelist, can translate to "a cold shower on hot ideas," but helps investors find the needle in the haystack (or the needle find its way out of the haystack). Another panelist warned that philanthropies can struggle with this role, but it's a critical dose of reality, "It feels like you're telling them their baby is ugly. But when 1 in 360 products will get FDA approval…don't take it personally. The data say this isn't going to make it."

Example

The National Multiple Sclerosis Society facilitates networks with opinion leaders, physicians, and scientists, helping the early stage companies in which they invest determine exactly what to do. As Tim Coetzee, Executive Director, Fast Forward, described, "We play a far more active, directive role with companies than we would have anticipated, pointing out specific efficiencies to address, what they need to be successful in front of the FDA, outcome measures that can make or break them, etc." Tim points out that their investment model is based on 60 years of MS research. "It's not like we don't know anything about the disease," as it sometimes feels in traditional arms-length research funding.

BUILD INFRASTRUCTURE THAT DECREASES CYCLE TIME ▶

Perhaps the least quantified and understood impact a healthcare philanthropy can make is on the cost to launch a clinical trial. Their access to patients could cut significantly the cost of recruiting patients through registries, biobanks, enrollment efforts, IRB or contract centralization and more. As Michael Greeley of Flybridge Capital said, "That value is not entirely understood by my VC community…but could easily be the difference in one round of funding."

Example

The T1D Exchange, founded through a grant from The Leona M and Harry B Helmsley Charitable Trust, consists of an integrated network of more than 65 clinics across the U.S., a clinic registry of 26,000 patients, a biorepository, and Glu, an online community of people touched by type 1 diabetes. As described by Dana Ball, CEO at T1D Exchange, the Exchange, "…mitigated the IRB problem. By centralizing an IRB for all clinical work, we can operationalize clinical studies incredibly fast."

CAPITAL IS CAPITAL...OR IS IT?

Summit participants weighed in on how philanthropic capital should be deployed and defended its appropriate role on the healthcare product market.

Challenge 1:

Non-profits shouldn't generate profits or seek return on investment of donor dollars.

Retort:

One participant has always found the debate over whether non-profit organizations should make investments to be off the mark, saying, "All money is capital. Even a traditional grant…it's still an investment." The question should be about whether any monies—whether distributed through traditional or innovative means—are used responsibly to advance the cause of the organization.

Said one panelist, "We have an agenda: getting products to patients in the marketplace. If that means working with companies, making strategic investments, then that's what we're going to do."

Another panelist's organization shifted from traditional grants to investment in commercial development because, "We have a fiduciary responsibility to not only seed the field, but to harvest the field. Seeding alone won't put bread on the table."

Challenge 2:

Venture philanthropy is cannibalizing resources from basic science and research.

Retort:

"This is not a zero sum game," asserted one participant. Venture philanthropy opens new and attractive opportunities for donors who would otherwise remain uninspired by traditional "name on a building" giving.

Moreover, he went on, it is not undercutting the role the National Institutes of Health or other funding sources play. Venture philanthropy dollars do more than infuse the market with capital. As one participant described, those dollars are "supporting an investigator by optimizing and leveraging every dollar raised." Do other dollars on the market—be it from NIH, traditional foundation grants, or venture capitalists—offer operational support? solid advisory boards? longer term engagement?

As venture capital, the pharmaceutical industry, and government reduce and redefine their investments, each funding body has a role to play on the market. There are sizeable gaps to be filled, without the risk of detrimental overlap. As one panelist quipped about venture philanthropies, "If the food chain was working well, we wouldn't need'em. But there's a gap. We need'em."

WHAT'S IN A NAME: CALL IT ANYTHING BUT "VENTURE PHILANTHROPY"

The term "venture philanthropy" provoked nearly universal distaste among participants, even those who still use it. "It raises unnecessary barriers," said one leader. Board members and other constituents often shut down to the very nature of venture capital and its focus on financial return, stating, "We just don't do that." Participants also rejected another common term, "social investing," because it suggests you use the same methods, but—even worse—don't expect as good a return as venture capitalists. The fatal flaw is that these terms highlight the method—and a controversial one at that—rather than the true goal: spurring innovation. Many participants are using new terminology to more accurately label their varied activities:

- Entrepreneurial Philanthropy
- Catalytic Philanthropy
- Impact Investing

As one participant said, these terms signal a more fundamental shift that, "This is not your grandfather's charity."

WHAT TO MEASURE & WHAT TO WATCH

As Summit participants know only too well, the length of time and expense to create an approved product or discover a cure can be immeasurable. So, gauging interim success is challenging… and most metrics are insufficient. As one panelist shared, "The end goal is reaching the patient with an effective product…that's what it's all about. ROI and the rest (of the metrics) are surrogates."

Panelists and audience members chalked up most of their failed investments to a lack of:

- Evidence: The data, the data, the data
- Commercial expertise: A balance of business and scientific skills
- Focus: Clear articulation of the priorities and plan
- Governance: Ongoing management both operationally and financially

And, lastly:

- Cooperation from Mother Nature

The meeting conversations generated examples of what active venture philanthropists watch for and measure.

Even the most stellar project and management team cannot force the science to pan out. To prepare for that possibility, panelists encouraged investors to:

Be objective:

Objectivity can be particularly hard in the cause-driven, philanthropic world. As one panelist described, "A certain affinity develops between the philanthropist and the person with the burning idea. Philanthropists must remain clear-eyed…no matter how wonderful the team, they may fail."

Take an active role:

There's no silver bullet…it comes down to consistent and timely communications. Make sure the incentive structure and relationship encourages the investigators to tell all—even when their research is no longer benefitting your patient.

Kill fast:

One panelist stated, "Venture philanthropists have to be brutally Darwinian," a role that isn't always consistent or comfortable. "We're used to being the white hats. When we're killing programs, we're the black hats."

WHAT TO LOOK FOR AND WATCH IN MANAGEMENT TEAMS

Active venture philanthropy investors find ways to assess each management team's willingness and ability to:

- Raise capital, including follow-on funding
- Get things done, i.e., "clock speed"
- Attract talent, i.e., "pied piper effect"
- Match funding
- Get to the FDA early

Another heads up from experienced investors: don't waste time focusing on early valuation of the target company. Several panelists dismissed its importance, stating, "We're strategic investors; we're not looking to make money." And, pragmatically, "We could sit around all day," without coming up with a reasonable or useful number.

HOW TO MEASURE INVESTMENT PROGRESS AND SUCCESS

Short-term

- Meet scientific milestones (and pay only when achieved)
- Achieve ROI at key milestones (e.g., 1x upon approval, 2–3x after that, small royalty off net sales)
- Attract co-investors and/or follow-on capital (e.g., third-party deal flow, next round funding, acquisition, licensing, etc.)

Long-term

- Build the portfolio to designated levels, e.g., invest $20M in 12–15 companies over five years
- Achieve an evergreen fund, where sufficient returns maintain the portfolio and credibility, e.g., 50% of the original investment
- Improve cycle time, e.g., reducing time to set up clinical trials via clinical care networks, enrollment, centralized IRB's, etc.
- Improve outcomes for patients, e.g., the American Heart Association's goal to decrease death by heart attack and stroke by 20%

A CALL FOR COMMUNITY

During the Healthcare Venture Philanthropy Summit, the group discussed the potential for continued conversations. One popular suggestion was to reconvene prior to the Partnering for Cures event in November.

The Summit generated a long list of potential goals for any ongoing community (see below). It's clear there's plenty more to discuss and improve. Engaging with each other again—and enlisting more peers in the effort—may help.

GET MORE PEOPLE IN THE VENTURE PHILANTHROPY GAME

Illuminate the idea of venture philanthropy with a healthcare product focus.

- Help each constituent group—the public, patients, donors, boards—understand the venture philanthropy discipline
- Articulate venture philanthropy's fit in the marketplace, and smooth out the handoffs on the product development continuum
- Articulate the translational research gap and ways that venture philanthropy can help healthcare philanthropies fill it
- Explore how venture philanthropy can change the incentives behind science and data, in order to open more pathways to cures
- Explore how philanthropies can reduce cycle time in product development

Overcome objections to venture philanthropy.

- Advocate for venture philanthropy as a responsible sustainability strategy for foundations and non-profits
- Shift conversation away from profit vs. non-profit standards or tax status to a patient and product focus
- Explore the perceived conflict between revenue and non-profit/mission-driven organizations
- Articulate the hurdles—and break the barriers—to more healthcare foundations, non-profits, and patient advocacy groups taking on this work
- Make it ok for mission-driven and non-profit organizations to generate return
- Counter the "we just don't do that" reluctance for healthcare philanthropies to enter the game
- Answer, "Who else is doing it?"
- Convince philanthropists to fund and manage a portfolio vs. supporting a single project
- Alleviate the fear factor

IMPROVE HOW WE PLAY IT

Improve and expand our venture philanthropy practices.

- Connect with others doing the same work
- Explain ROI and its surrogates
- Understand (and explain to Boards) the appropriate measures of social and financial return
- Inspire creativity and new dimensions to this work
- Learn from non-healthcare/non-disease sectors
- Avoid replication of failures

Create new models for cooperation that make all the work go faster.

- Expand the number of "catchers," later-stage funders for successful early-stage development companies
- Smooth the handoff/cooperative relationship potential between venture philanthropy and venture capital
- Lead by example: Explore and advocate for non-silo'd solutions to the translational research funding gap and overall system speed
- Connect more venture philanthropies in the ecosystem
- Create new kinds of syndicates for non-dilutive funding taking on early stage risk
- Predefine who's going to take the baton next
- Mobilize more money: Catalyze more activity in more indications
- Generate a list of valuable non-financial, non-tangible assets healthcare philanthropies can contribute

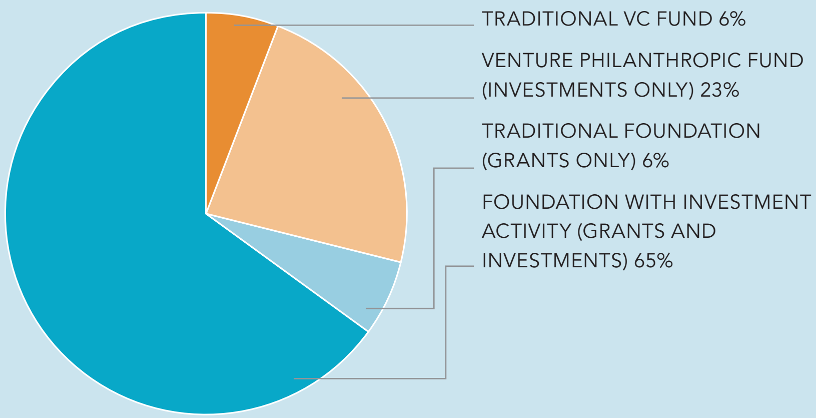
Broadview Ventures wishes to thank Tom Koulopoulos and Delphi Group for facilitating the Healthcare Venture Philanthropy Summit.

SURVEY RESULTS

In 2011 and 2012 the European Venture Philanthropy Association conducted a survey of the EU philanthropic landscape, surveying 61 philanthropies across the EU regarding their investment practices, targets, and metrics. The results of these surveys can be found here: http://evpa.eu.com/knowledge-centre/publications/evpa-publications/

On May 23rd 2013, Broadview Ventures conducted a similar survey of the HVPS attendees to get a better grasp of the philanthropic financing landscape in the life sciences in the US. A total of 17 organizations completed the survey; the results are presented in aggregate below.

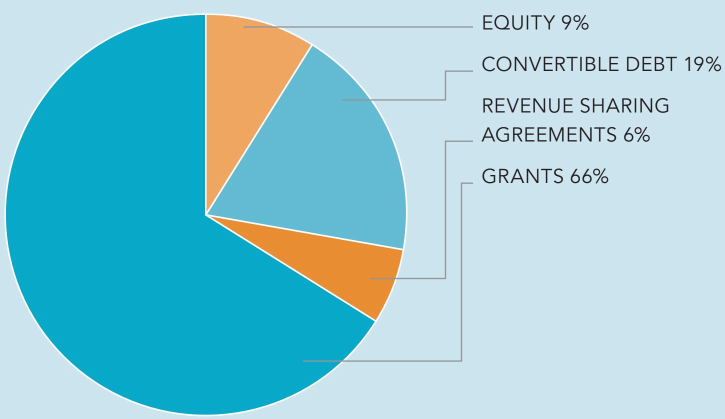
How would you best characterize your organization or fund?



▶ *Most organizations have gone beyond granting, using a range of investment vehicles to get money to recipients*

In aggregate,
>$7 Billion have been deployed by the attendees of the HVPS to date

What financial instruments do you use to make capital contributions?

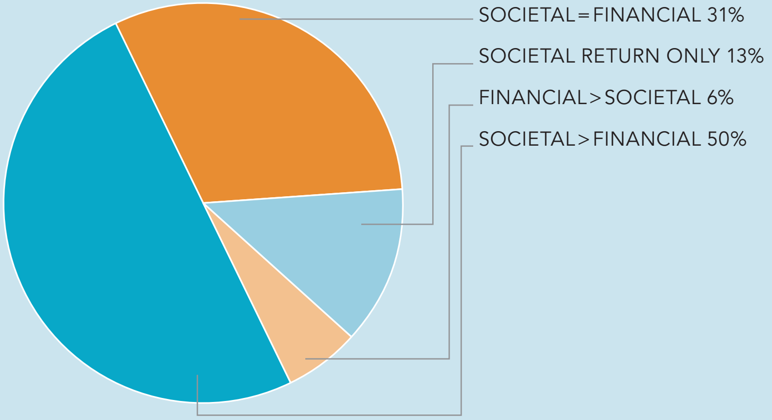


▶ *Although most organizations use both grants and investments to deploy funds, the $7B deployed to date has been allocated primarily through grants*

The EU shows a very similar distribution, with 72% of all philanthropic capital deployed through grants

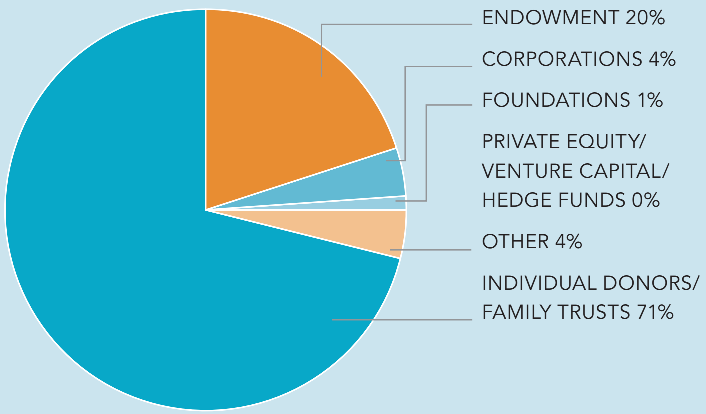
"'Valley of Death' doesn't begin to do justice to the capital gap."
Michael Greeley of Flybridge Partners

What type(s) of returns does your fund primarily focus on?



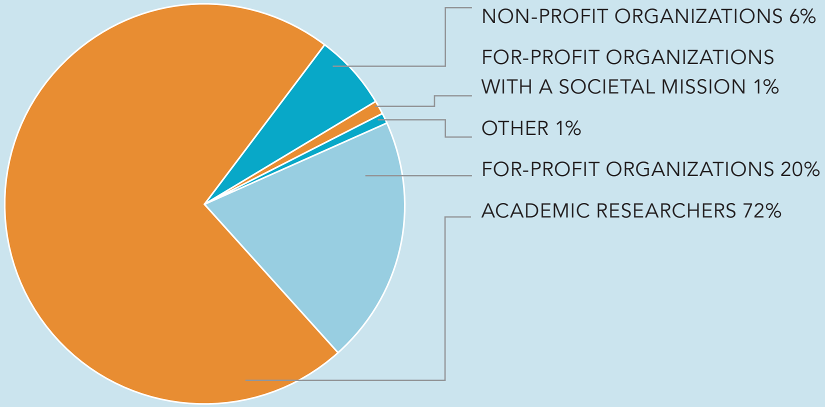
Strikingly similar to the EU, of the organizations surveyed 31% consider societal return of equal importance to financial return and 63% prioritize societal returns above all else

What sources of capital does your fund rely on?



Sources of capital in US healthcare philanthropy are quite different from the EU where 40% of capital comes from Endowments and 23% from PE/VC and Hedge Funds

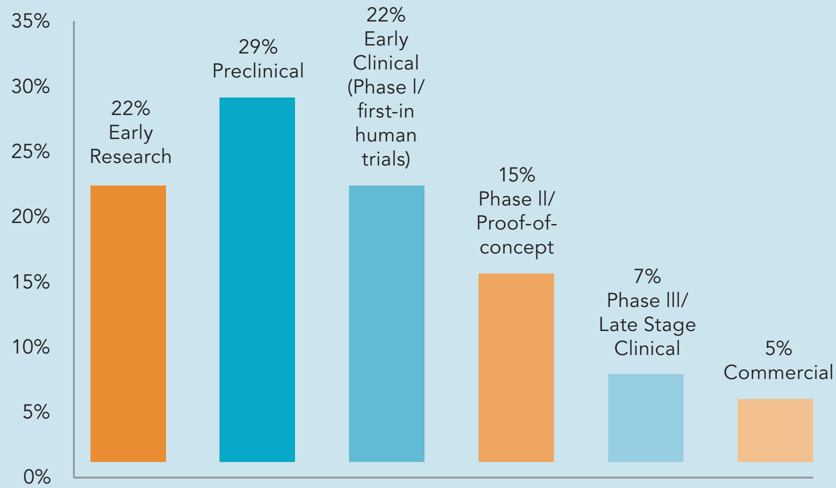
What are your primary investment or capital distribution targets?



Of the $7B deployed to date, over $5B has gone directly to academic researchers—testament to a longstanding focus on basic research across a wide range of therapeutic areas

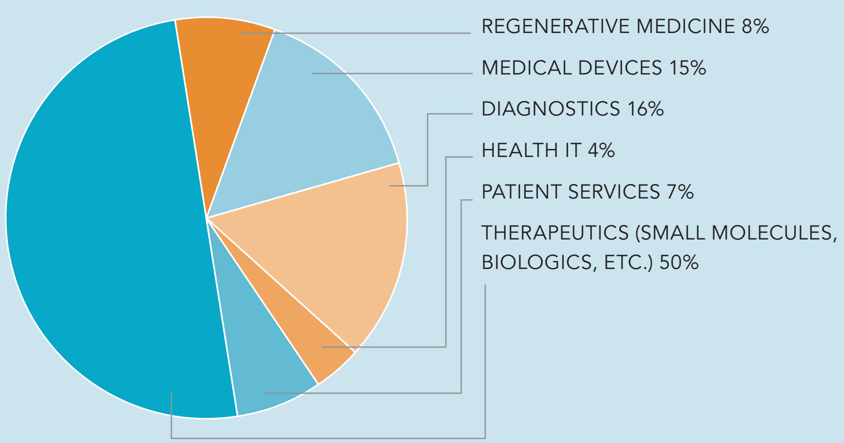
SURVEY RESULTS

If investing in a for-profit organization, at what stage do you typically invest?



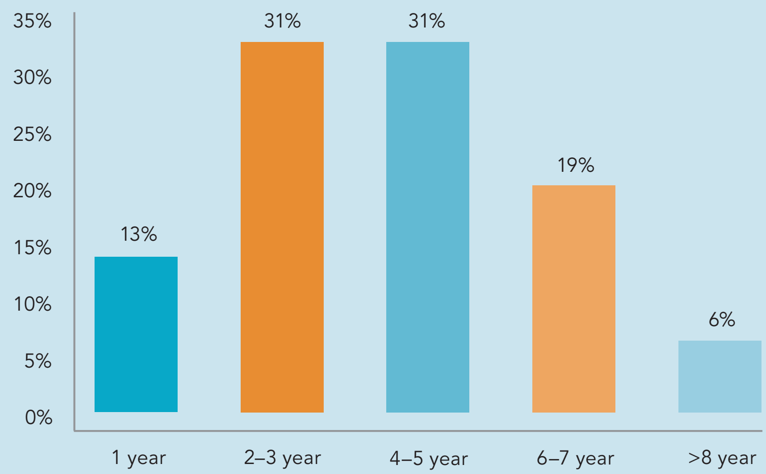
Of dollars deployed outside the academic setting, venture philanthropic organizations are focusing their contributions on the preclinical stage of development—a key unmet need in the funding landscape

What sectors within healthcare do you invest in?



The therapeutic focus of venture philanthropic organizations counterbalances the VC community's focus on devices, and increasingly, mobile health and health IT platforms

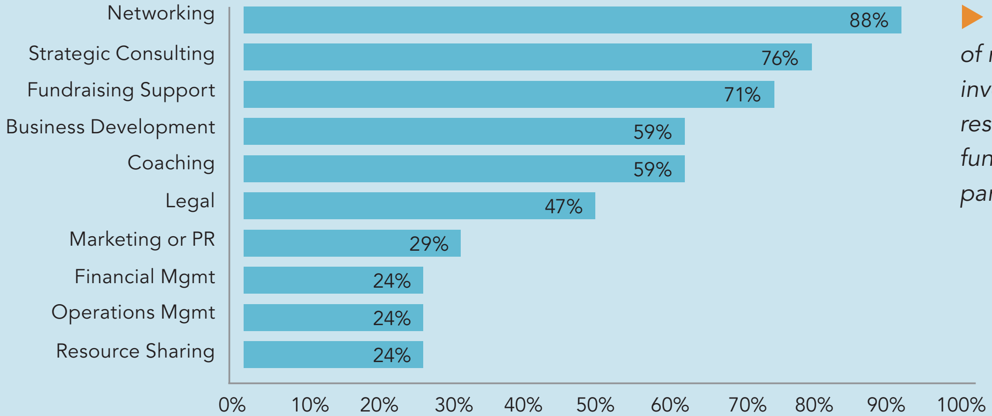
What is the average targeted duration of your investment in the organizations you invest in/grant to?



The willingness to take on 4+ year projects indicates a significant shift away from a traditional granting mindset, in which traditional foundations focused on 1–2 year grants

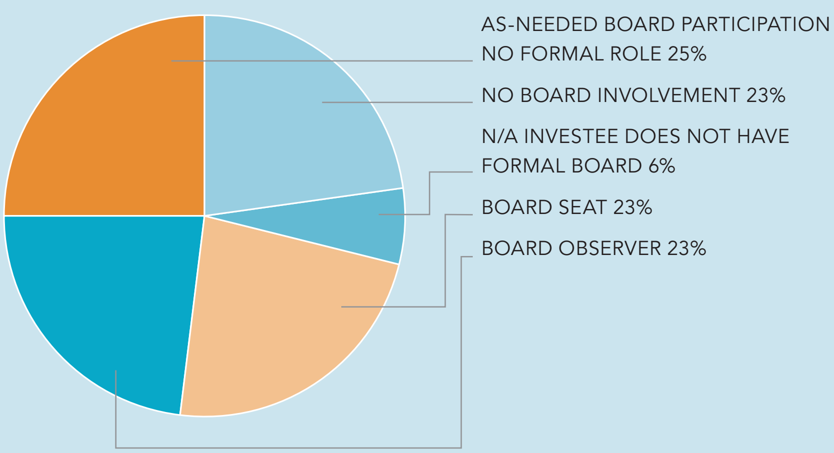
"Venture philanthropy can disrupt the status quo with fewer dollars than people think. Modest amounts of money can fund early stage research in that translational space."
Chris Colecchi, Broadview Ventures' Managing Director

What type of non-financial support do you provide to your investment/grant recipients? (As % of all responders)



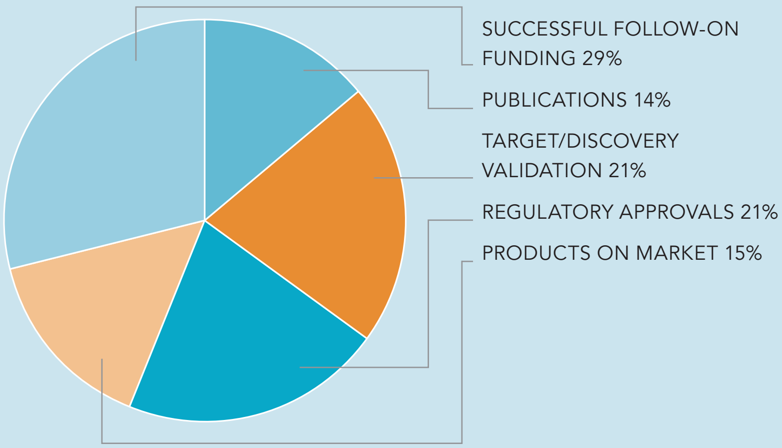
Networking is at the top of the list of non-financial support provided to investees—this may take the form of resources, introductions to follow-on funders, collaborators and strategic partners

What is your level of board participation across your investees?



Philanthropic groups are becoming increasingly hands-on, with over 70% having some degree of Board of Directors involvement

What metrics do you use to track your investees progress?



Successful follow-on funding is the metric of choice among venture philanthropies, with business related endpoints, including regulatory approvals and products on market of equally high importance

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