



# Venture Capital Journal

## Scripps Is Catalyst for Florida's Life Sciences Industry

*By Jonathan E. Cole and Leslie J. Croland, Edwards & Angell*

Florida has long been known for its endless miles of beaches, warm sunny weather, vacation destinations, citrus products and tax advantages for retirees. While many venture capitalists have second homes in Florida, where they enjoy the temperate seasonal climate, the world-class golf courses and excellent fishing opportunities, Florida has not provided the quantity and quality of investment opportunities available in more established regional venture capital markets. If recent initiatives undertaken by the Sunshine State are any indication of the future, the opportunities for risk capital investment within Florida will become more attractive over the next five to 10 years.

In late 2004, the state enticed The Scripps Research Institute (TSRI) to establish its first research facility outside of California by offering Scripps a financing package of more than \$750 million. Also last year, Florida committed more than \$350 million of its pension fund dollars for venture capital investments, including \$75 million for venture capital firms that invest in Florida-based businesses. That followed a move two years ago by the Florida legislature to provide \$30 million to three Florida universities to create university centers of research.

These activities, together with the state's existing and planned infrastructure for the life sciences and other technologies, should cause VCs nationwide to pack more than their golf clubs and fishing rods when they visit Florida.

### **Anchor for Florida's Life Sciences Industry**

TSRI, the largest independent biomedical research institute in the nation, is establishing a second high-tech center of biomedical research in Palm Beach County. This is the richest

economic development package ever offered in the state. Scripps' President, Dr. Richard A. Lerner, cites several reasons for Scripps' decision to locate in Florida. "First, it provides us with the opportunity to do more cutting-edge science than we can do on our crowded La Jolla campus," he says. "Second, the quality of life and community amenities in Palm Beach County will help us recruit world class scientists. And last, the generous incentive provided by the people of Florida and Palm Beach County shows a confidence in our work and our ability to serve as an economic development engine for the region."

When the facility is completed in 2006, Scripps Florida, a division of TSRI, will occupy a 364,000-square-foot, state-of-the-art biomedical research facility that will be built on 100 acres of land provided by Palm Beach County. Scripps Florida scientists will conduct later-stage research on biomedical science, technology development and drug discovery with a view to early commercialization of scientific discoveries. South Florida, with its diverse population,



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offers Scripps the ideal matrix to conduct clinical trials in these areas.

Scripps will use \$310 million of state funds to purchase high-tech equipment and to pay the salaries of its scientists. Under Scripps' contract with the state, it has agreed to employ at least 545 people within seven years and to reinvest up to \$155 million of royalty income generated from licenses on its technology in the state's Biomedical Research Trust Fund. Scripps has also agreed not to build any other facility outside of Florida or California for 12 years.

Palm Beach County is providing Scripps an economic package that includes land, \$137 million for construction of laboratory facilities as well as funds for temporary facilities for Scripps' scientists. In addition, Palm Beach County has estimated that it will invest between \$200 million and \$300 million in infrastructure to support the Scripps' project and the anticipated growth of a "biotechnology community" in nearby areas. To date, more than 30 scientists have been hired and are working at Scripps' temporary facilities at Florida Atlantic University.

Gov. Jeb Bush (who initiated discussions with Scripps), the Florida legislature and the

public officials and business leaders of Palm Beach County are betting that Scripps will accelerate the development of Florida's bioscience industry, serve as a magnet for other research organizations and laboratories, attract top-notch academics and professionals and become a research partner with the universities located throughout the state. Given Scripps' success in La Jolla, this is a good bet.

Many world-renowned scientists populate Scripps' campus in California. This group of talented scientists, together with scientists at the Salk Institute, the University of California at San Diego (UCSD) and Hybritech, a private company founded by two UCSD researchers in the late 1970s, have created one of the nation's leading centers for biotechnology and pharmaceutical businesses. According to recent studies, the San Diego metropolitan area has about 100 biotechnology firms and 300 medical device and related manufacturing companies. Since 1995, the area has attracted more than \$1.5 billion in venture investment in biopharmaceuticals, and investments have been made in more than 170 new companies.

Based in part on Scripps' history in San Diego, an economic analysis released last year by Gov. Bush's office predicts that adding Scripps to the Florida landscape would, within 15 years, create 6,500 high-paying jobs, generate \$1.6 billion in income and boost the state's gross domestic product by \$3.3 billion. When more are attracted to Florida, the Governor's office estimates that 44,000 new jobs could be created. It is also anticipated that Scripps' presence should make it easier for startup and established biotech companies to attract and retain seasoned executives. The limited number of experienced business executives has been one of the impediments to attracting VC dollars to the businesses located in Florida and a reason for the exodus of businesses from the state.

### **University Centers of Excellence**

The state has also recognized that promotion of university and private sector collaborations is essential to the growth of its tech-



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nology industries. In 2003, the state legislature passed the Florida Technology Development Act to support and promote university research with potential to create viable business enterprises. Under this legislation, the state equally distributed \$30 million to the University of Florida's Center of Excellence for Regenerative Health Biotechnology, the University of Central Florida's Photonics Center of Excellence and the Center of Excellence in Biomedical and Marine Biotechnology at Florida Atlantic University (FAU). Scripps has already teamed up with FAU to develop one biotech spin-off, Boca Raton-based Tequesta Marine Biosciences, which develops skin care compounds from algae found in Florida reefs. This collaboration has resulted in the first license of Scripps' technology in the state and is just one of many Scripps/Florida university partnerships that are expected to develop.

David Day, the director of technology transfer at the University of Florida, says, "Scripps will benefit from working with the university scientists conducting a variety of ongoing life sciences related research. And these collaborations will not only benefit Scripps, the universities and the Florida economy, but should also lead to the formation of many Florida-based life sciences companies."

This year, the Florida legislature is expected to consider supplementing the ini-

tial one-time issuance of \$30 million for its Centers of Excellence legislation. Business leaders and representatives of Florida's universities are meeting with state legislators to try to get more funds for this program. Gov. Bush has stated that he would support legislation to provide additional funding for university centers of excellence.

### **Medical Centers and Teaching Hospitals**

Other key components of a vibrant biotech community are medical centers, teaching/research hospitals and related facilities. This infrastructure is either in place or under development throughout the state.

The University of Miami will border Scripps' facility in Palm Beach County in the south. In 2003, the University of Miami had more than \$243 million of outside research and development grants. The university's School of Medicine received about \$170 million, of which the National Institute of Health (NIH) provided about \$95 million. Over the next five years, the University of Miami intends to raise \$700 million to expand its medical school's research and development programs and plans to build an \$18 million, 40,000-square-foot lab to help startup bioscience businesses.

Florida International University, also in the Miami area, recently announced its intention to open the first public school of medicine in South Florida. FIU's new school of medicine is expected to work in cooperation with four major hospitals in South Florida. FIU's department of biomedical engineering also conducts research in such areas as biomechanics, bioinstrumentation, drug delivery and medical physics/nuclear medicine.

The University of Florida is Scripps' potential biotech partner to the north. In 2003, the university received more than \$474 million of outside R&D grants, of which the NIH provided about \$120 million. The university's medical school is affiliated with Shands Hospital, which is part of the university's health science center. This center includes a statewide network of affiliated hospitals. UF also has an incubator with state-of-the-art laboratory facilities housing more than

14 startup biotech companies, some of which received about \$9 million in new investments in the last half of 2004.

### State Pension Fund Support

Many states with substantial venture activity have provided pension fund dollars or other financial support for VC investments. Venture firms look for state participation with them when they provide the risk capital to fund high-growth businesses. Recognizing the need for this participation, Florida last year committed for the first time some of its pension funds to venture funds.

Florida's pension fund is the eighth largest worldwide and the fourth largest in the United States. In 2004, Gov. Bush announced that the state's pension fund would allocate at least \$350 million over the next three to five years for venture investments. The majority of the allotment—to be managed by Paul Capital Partners and Pantheon Ventures Ltd.—will be invested in funds-of-funds, which are not likely to invest in Florida-based businesses. However, \$75 million has been allotted to Grove Street Advisors, which has been charged with placing money with venture firms focused on Florida investments. A portion of this money has been disbursed to H.I.G. Ventures, based in Miami, for its \$300 million life sciences fund. At a conference of local and out-of-state venture firms held last year to introduce Scripps Florida to the VC community, Gov. Bush indicated that a firm would not necessarily need an office in Florida to obtain some of the available funds, and many out-of-state firms are now in discussions with Grove Street Advisors.

### Venture Capital in Florida – Present and Future

Florida's venture funding in 2004 was \$264 million, representing an increase of 15% over 2003, according to the MoneyTree Survey by Pricewaterhouse Coopers, the National Venture Capital Association and Thomson Venture Economics (publisher of VCJ). In the fourth quarter of 2004, 15 deals

worth \$90 million were completed—the best three-month showing in the state since 2002. It appears that this accelerated pace is continuing into 2005.

Venture firms that are seeking potential portfolio companies in Florida often cite the lack of experienced managers, the shortage of early stage institutional investors and the absence of clusters of mature companies as factors against making investments in the state. These factors have contributed to the state's present 16th place ranking for U.S. venture investments.

Additionally, the geographic separation of Florida's business clusters is another challenge for VC investors. Many of the state's biotech, medical device and pharmaceutical companies are based in Miami-Dade, Broward and Palm Beach counties, with many biotech startup clustered in Gainesville and the University of Florida. Tampa has a significant number of software and service businesses. The I-4 corridor, stretching from Tampa through Orlando to Melbourne, has a cluster of firms focusing on military applications, technologies developed by the space industry, photonics and the computer game industry. Jacksonville is known for its financial and health care service businesses. Unless venture capitalists know the gatekeepers and related sources familiar with local conditions, they can spend weeks traveling the 500-mile length of the state looking for good deals.

After the announcement of the state and county financing package offered to Scripps, principals of venture capital firms specializing in life sciences investments have expressed increased interest in Florida-based biotechnology companies. Thomas Dickerson, chairman of Tullis-Dickerson & Co., based in Greenwich, Conn., has spent considerable time in the state analyzing the investment climate. He observes that, "The state is moving in the right direction to create a fertile environment for venture capital investment. We intend to closely monitor the activity in the state and increase our presence there." Alan Taetle, managing director of Noro-

Moseley Partners in Atlanta, Ga., is a veteran in Florida-based investments. Noro-Moseley has invested more than \$50 million in Florida businesses and has six active Florida portfolio companies. Taetle also agrees that Florida is becoming an "increasingly interesting place" for investment opportunities.

Dr. Andrew Firlik, a venture partner with The Sprout Group in New York City, views Florida as an "under-served market" that offers "attractive valuations for investment" compared to other more established venture capital regions. The recent developments in Florida have not gone unnoticed by other out-of-state VC firms, such as Oxford Bioscience Partners of Boston; MDS Capital Corp. of Cambridge, Mass.; Polaris Ventures of Waltham, Mass.; Cardinal Partners of Princeton, N.J.; Intersouth Partners of Durham, N.C.; HealthCare Partners of Atlanta; and MB Ventures of Memphis. Representatives of these firms and others are now paying more attention to life sciences activity in Florida.

### The Field is Ready

Florida has a vision for the future and has committed the resources to support dramatic growth of its life sciences industry. By providing funds to Scripps, financing centers of excellence throughout the state, and releasing pension fund money for venture capital investment, Florida has taken major steps to create an attractive field for risk capital investments in the state.

While work remains to be done, Florida is poised to compete with the established regional venture capital markets within the next decade.

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