

VentureWire

MediQuest Therapeutics Takes Streamlined Route To VC Liquidity

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MediQuest Therapeutics Inc. is taking what it hopes will be a streamlined approach to providing liquidity for its venture backers: licensing out its portfolio of drug candidates and distributing the proceeds.

Phased exit strategies such as this one are growing more common as venture firms search for ways to make returns at a time when taking a company public or selling it whole is difficult. Last year, for example, venture backers of Actimis Pharmaceuticals Inc. agreed to a structured merger with Boehringer Ingelheim GmbH. The deal called for Boehringer to buy shares in the company as Actimis' lead asthma drug reached milestones.

In its case, MediQuest decided that selling its portfolio and distributing the upfront payments, milestones and royalties would provide the most timely exit for its investors. The company, which formed in 1994 and raised its initial venture capital in 2006, hopes to complete the licensing transactions in six to nine months, said Chief Executive Frederick J. Dechow. Company backers include Integra Ventures, Janus, Masa Life Science Ventures, Novo A/S and individuals.

MediQuest, whose most advanced drug, Vascana, is in Phase III trials for the autoimmune condition Raynaud's disease, has engaged information- and process-management company Numoda Corp. to help it run its clinical studies more efficiently. In addition, Numoda Capital Innovations, a venture arm of Numoda Corp. formed late last year, is taking part in a Series B financing that MediQuest is raising.

MediQuest in May said it had raised \$23 million toward the round. Dechow declined to disclose the amount Numoda has added or to discuss other specifics. Additional new investors may also come into the Series B, he said.

MediQuest filed a New Drug Application for Vascana in April 2008, but in November, it said the Food and Drug Administration would not approve the medicine in its present form. About a month ago, it launched a new, confirmatory Phase III to answer the agency's questions. The trial will enroll about 100 patients, Dechow said.

Numoda Corp. will help MediQuest run the confirmatory Phase III effectively by integrating the systems, people and processes of the study so that trial data are available immediately as they are generated, said CEO Mary Schaheen. This enables a company to quickly pick up on problems and correct them promptly. In the case of MediQuest, it can help ensure that only the right types of patients are enrolled, she said.

In addition to investing in Numoda Corp. clients, Numoda Capital also works with these companies to help them find strategic partners. The group aims to connect MediQuest with pharmaceutical companies interested in licensing Vascana and other pipeline drugs, which include treatments for nail psoriasis and onychomycosis that have completed Phase II trials, and a preclinical treatment for actinic keratosis.

The work that Numoda Corp. does for Numoda portfolio companies helps give potential strategic partners confidence that clinical studies are being run effectively, which speeds their due diligence, according to Schaheen.

To boost its ability to help companies make these kinds of deals, Numoda Capital recently hired a managing director with investment banking as well as venture capital experience. Before joining Numoda Capital in mid-April, Terrance McGovern held senior investment banking positions with CIBC World Markets, Duff & Phelps Corp. and BMO Capital Markets Corp. He also founded and served as managing partner of Crystal Cove Capital, where he was involved in venture capital and merchant banking.

McGovern's experience working with pharmaceutical companies should also be useful to Numoda Capital while it is raising its first fund. The group, which intends to raise \$150 million for Numoda Capital Innovations LP, is talking mostly with strategic investors, McGovern said. Investing in the fund would enable these corporations to scan Numoda Capital's deal flow and

gain insight into new drugs in development. Drug manufacturers are also expressing interest in using Numoda Corp. technologies and services to develop therapeutics in specific areas, McGovern said.

The Numoda Capital fund has not yet had a closing, so the firm is investing capital from Numoda Corp. Limited partners in the Numoda Capital fund will include Numoda Corp. and affiliate Numoda Technologies Inc., according to Schaheen.

Numoda Capital is also talking with large and small drugmakers about acquiring therapeutics from them and forming virtual companies around individual products, McGovern said. Numoda Capital would then raise the money to develop these products through clinical trials with a goal of eventually licensing them out, McGovern said. The firm has also had discussions with investment banks and other health care venture investors about collaborating to execute these kinds of spinout transactions, he said.

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