Pittsburgh Life Sciences Greenhouse seeing quick returns with health care information technology

October 22, 2014 12:00 AM

Larry Roberts/Post-Gazette

John Manzetti

By Deborah M. Todd / Pittsburgh Post-Gazette

Between the University of Pittsburgh's international presence as a world-class medical school and Carnegie Mellon University's reputation as a center for technological innovation, rebranding the city as a biotechnology hub seems like a no-brainer.

But for all the talk of a regional technology boom grounded in eds and meds — education and medicine — there hasn't been a huge surge in cash flow to back up that notion.

Nationally, venture capital and angel investment in life science companies — biotechnology and medical devices — took a 35 percent dip in dollars attracted and a 6 percent cut in the number of deals made between the second and third quarter of this year, according to a report from New York-based PricewaterhouseCoopers LLP and the Arlington, Va.-based National Venture Capital Association.

In Pittsburgh, where $242.8 million in tech investments for this year has already surpassed the $130.4 million invested last year, investors have put only a little more than $46 million into life sciences companies, according to the venture capital association.

And while the region has certainly seen its fair share of tech investments in recent years — with 249 companies receiving a cut of approximately $1.6 billion between 2009 and 2013, according to an annual report by South Side-based state investment program Innovation Works — only 25 percent of those companies were part of the life sciences sector.

"Life sciences are risky," said John Manzetti, president of South Side life science investment firm and incubator Pittsburgh Life Sciences Greenhouse. "You have the FDA, the regulatory path. You have issues that [investors] don't get. They'd rather go invest in something else than go into an area they don't understand."

Obstacles aside, Mr. Manzetti said the greenhouse is leveraging the strengths of its portfolio companies and is targeting investors most interested in life science businesses. That targeted sell resulted in Mr. Manzetti helping to create an $8 million venture capital fund that recently saw its first return last month.

The organization's Executive-in-Residence program, which hires C-level life sciences executives to lead portfolio companies and to connect them to interested venture capital firms and angel investors, also has helped to turn the organization's health care information technology (HIT) sector into its fastest-growing segment, thanks largely to an ability to make a quick profit.

“When I started, we had no companies in HIT. It wasn't growing. This was eight years ago,” said Mr. Manzetti.

“We hired an executive in residence with HIT experience and we got 10 investments in about 18 months. Now we've got 20 for more than $2 million of our money, plus probably another $20 million of other people’s money.”

Mr. Manzetti said steering investors who are seeking quick returns toward the organization’s healthcare information technology companies is a way to keep smaller dollar amounts flowing their way when big deals are still clearing regulatory hurdles.

“The time to market’s faster,” he said, even if the payoffs may be smaller. He said companies such as referral management site TreatSpace and electronic medical records company Blender House are ripe opportunities for investors seeking a quick turnaround.

“The returns aren't as if you’d invest $100 and get $1,000,” Mr. Manzetti said. “Those are the types of returns you see with a pharmaceutical company ... but you wouldn't see that kind of return with an IT or HIT company. You’d see maybe two to five times your money back.

”You might get $200 or $500, but you’ll get it faster. It might only take two to three years versus seven to 10 years with certain devices,” he said.

Despite the steady stream of health care information technology investments, Mr. Manzetti said the life sciences greenhouse recognizes that its bread and butter remains with ambitious life science companies that will likely hit regulatory hurdles before going to market.

But considering that medical device companies received more investment dollars than any sector in the region between 2009 and 2013 — despite accounting for significantly fewer deals — Mr. Manzetti said investors can come to the organization for big, slow money or for leaner, faster returns.

“It becomes a little easier sell when you explain to somebody, ’I’m not going to probably get you this home run you’re looking for but I’ve got a bunch of good companies that are going to be successful. You’re going to hit a lot of singles and doubles.’”

Deborah M. Todd: dtodd@post-gazette.com or 412-263-1652.
Twitter: @deborahtodd.