GLOBES
Israel's Business Arena

Novartis Venture Funds hopes to invest in Israel in 2013

Managing director Florent Gros tells "Globes" that Israeli drug development start ups make two mistakes.

An $800 million budget has made Novartis Venture Funds the largest fund of a pharmaceutical company and positions the fund as one of the biggest funds in the pharmaceutical and medical devices industry. When venture capital investment in Israel's life sciences is limited, it is encouraging to know that Novartis Venture Funds managing director Florent Gros visited Israel a few weeks ago to attend the Go4Europe conference of Catalyst Investments LPand Cuckierman & Co. Investment House Ltd.

Gros told "Globes", "I hope that by 2013, we will invest in Israel." Novartis Venture Funds has not invested in Israel before. "We are Swiss. We're not slow, but we are very thorough," he says. "And I know most Israeli companies in the field."

Novartis Venture Funds is an independent unit which is wholly owned by Novartis AG (NYSE:NVS; LSE: NOV; SWX: NOVZ). Gros says that the firm does not make strategic investments for Novartis, but tries to earn its own profits, and it is not really part of Novartis. Novartis has always held large stakes in companies, but it has rarely acquired them outright in recent years.

"We don’t know, and we don’t want to know, about Novartis's strategy. There is a Chinese wall between Novartis and us, or shall we say, an Israeli wall," says Gros. This policy makes it possible for Novartis Venture Funds to invest in medical devices companies, even though Novartis, as a pharmaceutical company, has no medical devices activity.

Novartis Venture Funds usually makes one seed investment a year, amounting to 10% of total annual investments. 40% of investments go to preclinical products and 50% to clinical stage products. This is good news for Israeli companies seeking early-stage financing, but there is a catch.

"Israelis are characterized by a culture of impressive innovation and entrepreneurship, but they make two mistakes," says Gros. "The first is to take shortcuts, because of a lack of money. For example, they begin a Phase I clinical trial without knowing how the Phase III trial (the final stage before marketing) will look, and without knowing what pharma companies are seeking studies in that field. As a consequence, the results of the clinical trial are liable to be meaningless. A clinical trial with clear statistical results does not always excite pharma companies. Or you include unsuitable patients in the trial, blurring the results."

"Another mistake is to target indications that involve a huge trial, the kind that venture capital funds are unwilling to finance and pharma companies won't begin until a Phase III trial."

"Globes": What fields won't you finance?

Gros: "Except in rare cases, diseases of the central nervous system (neurological and psychiatric disorders), diabetes, and cardiology. This leaves immunology because there is no appetite now for acquisitions in this field by drug companies."

So what will you invest in?

"Orphan drugs, cancer, autoimmune diseases, infectious diseases, and diagnostics. We're considering stem cells. We're not sure about production costs and the regulatory environment. Pharma companies are no longer enthusiastic about these products."
So where will drugs for the big diseases come from?

"Either there won't be new drugs in these fields, or the pharma companies will finance them themselves. There's a possibility that funds will finance a product as an orphan drug, and a pharma company will expand the indication to that product.

"In addition, the authorities will have to respond and make their requirements for clinical trials more flexible. We've seen this before for graft versus host disease, for example. The number of patients required for trials in this field was reduced from 1,500 to 300-500, which made all the difference."
Will you invest in public companies?

"We won't invest in a public company, but we have no objections against floating a company we've invested in, or acquiring a public company and taking it private, if we can get a bargain."

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