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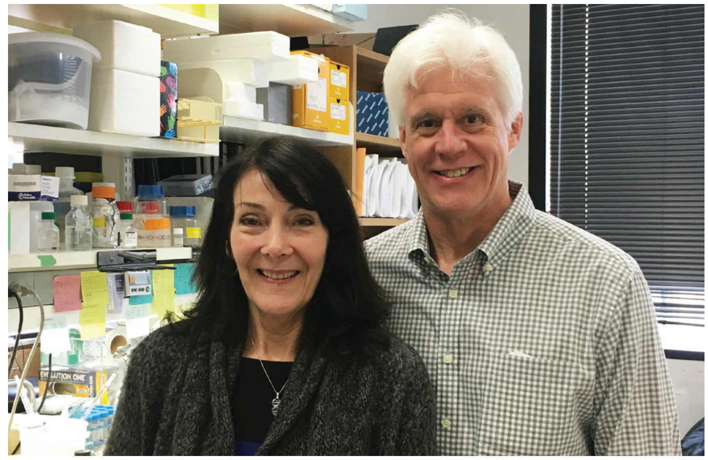
In Quest for Cures, Medical Nonprofits Seek to Wield Their Own Venture Funding Power

Advocates for disease research diving into fundraising in bid to wield more influence inside the startup ecosystem



CureDuchenne Chief Executive Debra Miller and Exonics Therapeutics Inc. founder Eric Olson. Photo: Joanne Forster

By Brian Gormley
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Nonprofit groups that advocate for disease research are diving more deeply into venture capital in an effort to wield greater influence inside the startup ecosystem.

Startups for many years have gathered capital through grants from nonprofits, and sometimes by raising equity from them. In a new twist, several nonprofit groups are launching or expanding investment programs by raising dedicated venture-capital funds of their own.

The American Cancer Society and Multiple Myeloma Research Foundation both recently have established venture funds. CureDuchenne, a group focused on the rare disease Duchenne muscular dystrophy, is planning to raise a fund. JDRF, which targets Type 1 diabetes, in 2016 launched its own venture fund.

By strengthening their investment programs, nonprofits aim to rally more startups to their cause and stand out in a capital-rich market that gives entrepreneurs more financing options than ever.

“The kind of education and support these groups can bring is pretty powerful,” said Armon Sharei, chief executive of SQZ Biotechnologies Co., a developer of cellular therapies backed by JDRF’s venture arm and other investors. “Their investment was catalytic in getting us to look at Type 1 diabetes.”

Nonprofits have a long history of supporting biotechnology companies.

Formed in 2003, CureDuchenne made a grant in 2010 to Sarepta Therapeutics Inc. The funds helped Sarepta develop Exondys 51, which in 2016 became the first drug approved for Duchenne muscular dystrophy, which causes muscle deterioration and weakness.

Newport Beach, Calif.-based CureDuchenne also has made equity investments in startups, originally raising capital from donors on a deal-by-deal basis. In 2014, it secured about $6 million from the sale of Prosensa Holding NV to BioMarin Pharmaceutical Inc. and used the proceeds to launch CureDuchenne Ventures.

CureDuchenne Ventures has since invested that pool and plowed its profits into more deals. Its investments include Bamboo Therapeutics Inc., which Pfizer Inc. acquired in 2016, and gene-editing startup Exonics Therapeutics Inc.

“We’ve had a good track record,” said CureDuchenne founder and CEO Debra Miller.

Now CureDuchenne is in talks with potential financial partners to raise up to $30 million for its venture fund, Ms. Miller said. More capital would better enable the group to support companies pursuing Duchenne treatments, she said, adding that because individual drugs only treat a subset of patients, research needs to expand to provide the range of treatments that will be needed to help the full population of patients.

“We need more shots on goal,” she said.

Conventional venture firms diversify investments and avoid devoting too much of their portfolio to a particular rare or less-common disease, said Richard Hamermesh, the faculty co-chair of the Harvard Business School Kraft Precision Medicine Accelerator, which seeks solutions to the business challenges of precision medicine.

That leads to frustration for people with conditions such as ovarian cancer that aren’t as common as other some other diseases.

“If you are diagnosed with one of those cancers, and it’s a less-common condition, you very quickly end up [angry] that not more is being done,” Mr. Hamermesh said.

By contrast, nonprofit investors have a singular focus and can finance a range of approaches to fighting one disease. A new, $50 million fund that the Multiple Myeloma Research Foundation disclosed in April doesn’t need to be as diverse as most venture firms’ portfolio, said Kathy Giusti, founder of the Norwalk, Conn.-based foundation. She also is the faculty co-chairwoman of the Precision Medicine Accelerator, which helped inform the development of the vehicle as a donor-funded initiative that will reinvest its returns in myeloma research.

When New York-based JDRF formed its venture arm, the JDRF T1D Fund, venture capitalists weren’t investing much in treatments for Type 1 diabetes, said Sean Doherty, chairman of the fund. Investors may lack interest in the disease, he said, in part because of a perception patients can cure their condition by taking insulin.

On the contrary, he said, Type 1 diabetes can have dangerous complications and billions of dollars will be needed to conquer it.

“Philanthropy on its own will not cure [this] disease,” said Mr. Doherty, whose fund has about $80 million committed from donors.

Watertown, Mass.-based SQZ Biotech has focused most of its research on cancer, but a 2017 investment from the T1D Fund helped catalyze its decision to also use its technology to develop a cellular therapy that could cause the immune system to tolerate insulin-making cells rather than attack them, Dr. Sharei said.

Similarly, Cambridge, Mass.-based ImmusanT Inc. in September tapped the T1D Fund to revive an effort to develop a vaccine treatment for Type 1 diabetes that had previously stalled as the startup devoted its venture funding to its lead program in celiac disease.

“It’s given life to the program,” said ImmusanT CEO Leslie Williams.

Cancer-focused startups don’t lack for funding, but bringing a new treatment or diagnostic to market can be a lengthy process. BrightEdge, a newly launched fund from the American Cancer Society, aims to help companies compress the time to value-creation with the help of the society’s expertise and name recognition, said Bob Crutchfield, its managing director.

BrightEdge launched with $25 million from the society. Now it intends to raise up to $125 million more from donors. Although it seeks good financial returns, it invests with the society’s mission in mind, Mr. Crutchfield said, adding, “We bring a balance to the market that complements what the for-profit capital markets are doing.”

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