

RiverVest closes on four deals, exceeds industry benchmarks

RiverVest Venture Partners' hands-on investment strategy netted big returns for its Fund I and II investors in 2011: the sale of two biopharmaceutical and two medical device companies, worth more than \$1 billion.

"RiverVest has really separated itself from the pack," says Boston-based investor John F. Brooke, who manages the Vectis Healthcare & Life Sciences Fund, which is an investor in Fund II.

In its January 2012 payout, Fund II delivered a return on investors' capital exceeding the most recent benchmarks reported by Cambridge Associates, LLC, a leading investment advisory firm. When compared with other healthcare venture capital funds started in 2006, Fund II's Distributions to Paid-In Capital (DPI), a common industry metric, is 63%, while the industry median was 15% and maximum was 55% as of Sept. 30, 2011 (see Figure 1).

"Many people say the life science venture model is broken," says Mark G. Heesen, president of the National Venture Capital Association. "RiverVest has just given us a powerful example of why it's not."

Hands-On Investment Strategy Pays Off

As founding investors in three of the four companies acquired in 2011, RiverVest delivered on its signature approach to creating value: "We strive to build early-stage life science companies to sell within three to five

years, including companies we found," says Jay W. Schmelter, RiverVest managing director and co-founder. "Our strategy includes focusing on a few high potential investments, taking an active role, sometimes as interim management, and leveraging our research, clinical, operational and investment expertise to make them attractive for strategic buyers."

In December, Minneapolis-based Lutonix, Inc., founded by RiverVest Fund II in 2007, was sold to Murray Hill, N.J.-based C.R. Bard, Inc. for \$225 million, with an additional \$100 million to be paid upon FDA approval.

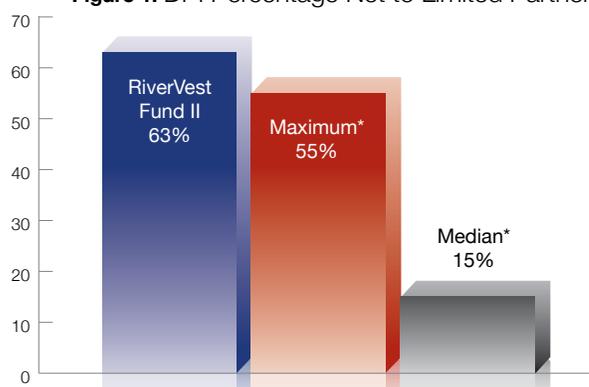
Lutonix, which has developed drug-coated balloon catheters for the treatment of peripheral arterial disease, was led by former RiverVest Managing Director Dennis Wahr, M.D. In 2007, medical device inventor Lixiao Wang, Ph.D. approached Dr. Wahr and RiverVest to help build a company around his patent-pending technology.

"The RiverVest team has a proven track record of analyzing nascent technologies, identifying opportunities to build a company around, and rolling up their sleeves to assist management as they advance the company through key milestones within a relatively short time period," says Dr. Wahr.

Also in December 2011, RiverVest Fund II closed on the sale of San Diego-based Excaliard Pharmaceuticals, Inc. to Pfizer Inc. for an undisclosed amount. Excaliard, which has developed an anti-sense drug for the treatment of skin scarring, was founded by RiverVest in November 2007 and led by former RiverVest Managing Director J. Gordon Foulkes, Ph.D.

Dr. Foulkes worked with Nicholas Dean, Ph.D., former vice president and key researcher at Isis Pharmaceuticals, Inc., to negotiate a license to use Isis' antisense technology to treat fibrotic diseases, including skin scarring. RiverVest Principal Niall O'Donnell, Ph.D., who had

Figure 1: DPI Percentage Net to Limited Partners



* Based on Cambridge Associates 2006 Vintage Year Statistics For U.S. Health Care VC Funds as of 9/30/2011.

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five-years of fibrosis research experience at Johnson & Johnson, helped develop the clinical strategy.

"The successful clinical studies, robust IP and strong virtual-company operations model were validated and rewarded by the Pfizer acquisition," says Dr. O'Donnell.

In August 2011, San Diego-based Mpx Pharmaceuticals, Inc., a clinical-stage biopharmaceutical company (and RiverVest Fund II portfolio company) developing a new cystic fibrosis drug, was purchased by Aptalis Pharma, a privately-held, global specialty pharmaceutical company for an undisclosed amount.

"Mpx took a well known, safe antibiotic and formulated it to treat lung infections in cystic fibrosis patients. It was a clever, low risk approach to tackle a serious disease, with a potential to generate strong clinical data within two years," says Dr. O'Donnell, who was a board observer at Mpx.

Also in August 2011, Salient Surgical Technologies, Inc., (a RiverVest Fund I portfolio

company) headquartered in Portsmouth, N.H., was sold to global medical technology firm Medtronic, Inc. for \$525 million. Salient, which commercialized a technology to help stem bleeding in surgical procedures such as hip and knee replacements, was founded by Schmelter in 1998 with technology spun out of Medtronic.

Joseph Army, president and CEO of Salient, credits Schmelter for his continued leadership as chairman of the board of Salient. "Because of Jay's steady, thoughtful and deliberate approach, we have consistently managed to explore options, tackle problems and ultimately achieve better results," said Army during a 2009 interview.

RiverVest co-founder and managing director, Thomas Melzer, says, "We have strong unrealized portfolios in both Funds. While we are pleased with our progress to date, plenty of hard work lies ahead in wrapping up Fund I and fully capitalizing on our solid start in Fund II."

RiverVest has assets under management of \$188M and has invested in more than 25 life sciences companies.

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RiverVest Venture Partners® is a venture capital firm focused on identifying and shaping early-stage life science companies to create significant shareholder value. With hands-on, high-level expertise and financial resources, RiverVest supports entrepreneurs by helping them achieve near-term objectives that position their companies for exit.

RiverVest News is published twice a year.

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RiverVest invests in two Cleveland-based medical device startups

Cleveland anchors a vibrant health care region comprised of recognized leaders in medical products, therapeutics, services, clinical care, research and commercialization.

"There are four clusters of medical device development in Ohio right now: Orthopedic, Medical Imaging, Cardiovascular and Neurostimulation," says Karen Spilizewski, vice president of both RiverVest and BioEnterprise, a Cleveland-based business formation, recruitment, and acceleration initiative designed to grow health care companies and commercialize bioscience technologies.

In 2011, RiverVest invested in Securus Medical Group, Inc. within the cardiovascular space and Neuros Medical, Inc. within the neurostimulation space.

"Both companies represent technology development in areas where there is a significant unmet need, solving real clinical problems," says Spilizewski. "I think the fact that these companies are Cleveland-based is advantageous because of the particular strengths of this region. Cleveland has tremendous health care assets and resources for these companies to tap into."

Securus Develops Fully Functional Heat-Mapping Prototype

RiverVest and JumpStart, Inc., of Cleveland, Ohio, joined forces as founding investors in the Cleveland-based medical device company Securus Medical Group, Inc.

Securus, which is developing a product that provides real-time temperature mapping within a hollow body cavity, was founded in Boston, but moved to Cleveland in July 2011 after receiving a commitment from RiverVest to invest \$1 million in two tranches of Series A financing.

In addition to the investment from RiverVest, Securus also received \$500,000 in the Series A from JumpStart, a nonprofit organization that assists and invests in Northeast Ohio startups, and a \$350,000 grant from Ohio's Global Cardiovascular Innovation Center in Cleveland.

The first tranche was used to develop a fully functional prototype of the L-View™ Probe, which was successfully applied during initial animal studies in January



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Vice President, RiverVest

2012. Clinicians were able to demonstrate for the first time that a temperature map may be generated inside a hollow body cavity by detecting infrared energy.

"We are working to develop several promising clinical applications that may prevent thermal injury to tissue due to energy from various sources," says Donna Richardson, chief executive officer of Securus. "We are excited about RiverVest's investment and look forward to their guidance in successfully commercializing this technology."

The second tranche of funding will support further optimization of the L-View Probe.

Neuros Medical's Electrical Nerve Block Receives IDE Approval From FDA

Neuros Medical, Inc. received Investigational Device Exemption (IDE) approval from the U.S. Food and Drug Administration in November 2011. This approval allows Neuros to commence a pilot clinical trial to evaluate its Electrical Nerve Block™ technology, which uses high-frequency

stimulation to sensory nerves in the peripheral nervous system to block chronic pain.

The IDE approval builds off Neuros' successful first-in-man feasibility study earlier this year, in which four out of five patients reported significant pain reduction, at times reducing pain scores to zero.

The feasibility study was the first human test of the company's technology and focused on patients with chronic amputation pain, which affects nearly one million patients in the U.S.

"We've been tracking this technology since it was in development at Case Western in 2007," Spilizewski says. "That early, early stage wasn't the right time for RiverVest to invest. But with IDE approval, we felt the timing was right."

In November 2011, RiverVest invested \$250,000 in Neuros' Series A1 financing. Other Series A1 investors include Case Technology Ventures, JumpStart and Glengarry of Cleveland.

MILESTONES

- In March 2012, **Boston Scientific Corporation** (NYSE:BSX) announced its intention to exercise an option to acquire Cameron Health, Inc., based on the Company's application for pre-market approval for its revolutionary subcutaneous ICD. The transaction, with potential upfront, earnout and milestone payments, could be worth \$1.3 billion.
- **IDEV Technologies, Inc.**, which continues to generate strong revenue growth, has received FDA clearance to market a new stent delivery catheter and completed enrollment of its FDA pivotal trial for superficial femoral artery labeling of its novel stent.
- **Centerre Healthcare's** rehabilitation hospitals continue to achieve excellence of care and strong financial results. The Company continues to expand its U.S. footprint, with three additional joint venture hospitals in process and capacity expansions at several of its existing facilities.
- **MacroGenics, Inc.** entered into a collaboration with Servier, Inc. around one of MacroGenics' antibody candidates for the treatment of solid tumors. The deal included a \$20 million upfront payment and the possibility for total payments of up to \$450 million, as well as sharing in research and development costs.

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