



A pair of biotech VCs take aim at raising SA's status

Paul Castella packed up his family and his biotech startup roughly 14 years ago and moved them more than 1,700 miles from San Francisco to San Antonio.

Castella, a London native who has also lived in New York and Brussels, left the venture capital-rich Bay Area to plant roots in this unlikely South Texas city for a simple reason unrelated to corporate tax structure, cost of living or workforce availability.

He did so, he said, "because this is where the science was.

"Castella's startup, Xenotope Diagnostics, was built around technology licensed from the University of Texas Health Science Center at San Antonio.

As it turned out, this was where the science was, but not the money. Castella, like others, expressed frustration regarding the availability of investment capital at the time.

Fortunately however, moving to be near the science also brought Castella close to Alan Dean, who was leading commercialization efforts at the Health Science Center as director of the Office of Technology Ventures. Together they would take on the lack of capital for biotech head on.

In 2008, they founded Targeted Technology, a San Antonio-based venture capital fund focused on life sciences. The idea was to get proactive in backing startups that could help San Antonio achieve critical mass in biotech.

"Companies need funding," Dean said. "You can sit around in San Antonio and wait for that money to come from somewhere else. But that's not going to happen very often."

So far, Targeted Technology has raised more than \$56 million and invested in about 17 companies, including 10 with headquarters in San Antonio. It has also invested in companies that have since moved to the Alamo City.

While Castella and Dean have quietly become key players in San Antonio's push to become a legitimate biotech hub, one of Targeted Technology's recent investments made such global noise that their collective impact is more palpable than ever.

Cytocentrics — a Rostock, Germany-based medical technology company that is receiving a hefty investment from Targeted Technology's second fund — plans to move its headquarters to San Antonio. And while Alamo City officials believe the move will lead to creating hundreds of bioscience jobs, Cytocentrics CEO James Garvin says with certainty that none of it would have happened without Targeted Technology's co-founders. "This really has to do with Paul Castella and Alan Dean," Garvin said. "They really put their arm around us and encouraged us to come. They said this would be the right place to be."

Creating critical mass

About a year ago, Targeted Technology led the Series A funding round for Lexington, Kentucky-based medical tech company Bluegrass Vascular Technologies Inc. That company has since moved to San Antonio — partly because of the funding and partly because of Targeted Technology's ability to recruit Gabrielle Niederauer to lead it.

Meanwhile, StemBioSys Inc., a San Antonio-based company working to commercialize its stem-cell technology, has also benefited from Targeted Technology funding.

“Capital is an essential element for any startup company, and Targeted Technology has provided access to that capital,” StemBioSys President and CEO Bob Hutchens said.

Castella and Dean are thinking about creating another fund that could funnel more critical investment dollars into other companies.

“I expect there will be a third fund,” Dean said. “I believe it will be more than \$100 million.”

While Dean is no longer at the Health Science Center, the institution continues to benefit from his and Castella’s efforts.

“The Health Science Center’s primary asset for commercialization is health care technology, but only if that technology can be properly developed into a sustainable and marketable product,” said John Gebhard, senior executive director for the institution’s Office of Technology Commercialization.

“Targeted Technology’s fiscal and management resources are able to propel the Health Science Center’s technologies more efficiently than the university could do on its own.”

Castella said San Antonio needs to continue to build its assets in bioscience.

“We want to bring in more companies and people,” he said.

Targeted Technology has kept some of the key talent for itself, luring industry heavyweights such as Cathy Burzik and Gary Frashier, among others. Burzik previously was president and CEO of Kinetic Concepts Inc., while Frashier has founded several life science companies.

But it is Dean, Castella said, who has played a pivotal role by helping identify new investment opportunities.

“The main source of the deal flow for the company has been [Dean’s] relationships,” Castella said.

Leap of faith

Targeted Technology has faced its own funding challenges.

The biggest obstacle in launching it, Castella said, was getting more institutional investment, particularly because some institutions that might have been involved had “probably used up their dry powder on an earlier effort.”

Nevertheless, Targeted Technology has found its groove. And Dean said more companies will likely benefit from the kind of capital infusion Targeted Technology has provided other ventures.

“We haven’t changed our enthusiasm. The fire in our bellies has not diminished one bit,” said Dean, who splits his time between San Antonio and Birmingham, Alabama, where Targeted Technology has invested in a pair of companies.

And Dean believes that San Antonio “absolutely” can compete with bioscience hotbeds such as San Francisco in the long term.

His optimism is tied in large part to his confidence in Castella.

“I knew Paul was brilliant,” Dean said. “But he has exceeded even my expectations.”

For Castella's part, he has been surprised by San Antonio's biotech aptitude.

"When I was young, if you had given me a map of the world and told me to put a pin in it where I thought I would end up, I wouldn't have chosen South Texas," Castella said. "But that was out of ignorance."

At the same time, Castella and Dean are aware that Targeted Technology has helped make San Antonio a better breeding ground for biotech.

"We have had an important impact, I believe," Dean said. "We have helped a number of companies."

And they've been able to make a difference even if they didn't fully grasp where they were going when they started.

"It's not like we had a great master plan," Castella said. "It came out of the experience of trying to raise capital in San Antonio. That was holding things back. So we fixed it."

Focusing Their Aim

To date, Targeted Technology has established two funds and focused its investments on companies pursuing ground-breaking and disruptive technologies that can improve the practice of medicine and patient outcomes.

The company's emphasis is on medical devices, life science tools, biotech, diagnostics and specialty pharmaceuticals.

Fund I

Year closed: 2009

Amount raised: \$12 million

Fund II

Year closed: 2014

Amount raised: \$42.6 million

Source: <http://www.bizjournals.com/sanantonio/print-edition/2015/07/10/a-pair-of-biotech-vcs-take-aim-at-raising-sa-s.html>

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