

# INVESTORVIEW



## Proactively Bridging The Early Stage Funding Gap Sinclair Dunlop, Managing Partner at Epidarex Capital

Sinclair Dunlop, Managing Partner at transatlantic venture capital firm Epidarex Capital, talks to Biotech and Money about the life science sub-sectors with unrealised potential, provides his top tips for early-stage life science companies looking for investment, and outlines the firm's ambitions to scale up in order to provide further support to young companies in under-ventured markets.

Venture capital firm Epidarex Capital invests in early-stage life science companies, including university spin-outs, with a particular focus on under-ventured markets in Europe and the US. The firm has a presence on both sides of the Atlantic, with offices in Edinburgh, Scotland, and in Bethesda, Maryland.

In 2014, Biotech and Money spoke to Sinclair Dunlop, Managing Partner, about his ambitions for the fund. There have been some significant developments for the fund and its portfolio since that time. In recent months, this has included the exit of portfolio company Confluence Life Sciences following its acquisition by Aclaris Therapeutics in August 2017, the extension of portfolio company Topas Therapeutics' Series A financing to €18 million in November 2017, and the IPO of portfolio company Apellis Pharmaceuticals, which listed on the NASDAQ in November 2017 following a \$60 million Series E financing in August 2017. Meanwhile, three leading industry executives were appointed to Epidarex's advisory board in October 2017: Dr William Sellers, William Burns, and Dr Frank Armstrong.

Biotech and Money caught up with Dunlop in November 2017 to learn more about the firm's development to date and its plans for the future, its efforts to catalyse the investment community to fill the funding gap for early-stage life science companies, as well as the sub-sectors and geographical markets where Dunlop sees the most potential.

Please could you provide a brief overview of Epidarex, and an update on where the fund is at since your previous interview with Biotech and Money in 2014?

We are one of the most active early-stage life science venture funds on both sides of the Atlantic. We work closely, but not exclusively, with many of the top research universities in the US, particularly in areas like the mid-Atlantic. We are very active across all parts of the UK, but we see particular potential in the north of England and Scotland.

Since we last spoke, our model has been to continue to build our successful transatlantic portfolio of 15 companies, the majority of which are university spin-outs and where Epidarex led the investment.

We continue to be a very hands-on, company-building model. We work particularly closely with top researchers at various universities, and we are deeply involved with the technology transfer and out-licencing process. These university partnerships are centrally important to successful company creation.

How have you seen the investment landscape change over the last few years?

The market is relatively buoyant, perhaps more buoyant than it was four years ago, but there is still a high degree of variation. In some therapeutic areas, for example in immuno-oncology, there has been a boom. But both geographically and in terms of sub-sectors, there is quite a lot of variation; some sub-sectors are doing much better than others. The Epidarex team sees several sub-sectors with unrealised potential, and where some investors have not been as active in the last four years. This creates some real opportunities.

There are also some very big differences geographically. The IP flow coming out of many of the top research universities in Scotland and the north of England is not attracting as much scalable risk capital, the like of which we provide, as some of the opportunities within the so-called Golden Triangle [of Cambridge, London and Oxford]. We are very upbeat about the north in particular.

You mentioned that some sub-sectors in particular have unrealised potential, would you be able to expand on that?

There are two types. The first type is where novel discovery and scientific innovation is moving ever faster and deeper. Even in areas like immuno-oncology where there has been quite a lot of investor activity, we have now seen the second, third, and fourth innovation waves of immuno-oncology, which are also throwing up some very interesting opportunities.

Then there are opportunities that currently receive less investor interest including,

for example, innovative diagnostics and next-generation imaging technologies.

We have a very exciting portfolio investment in Edinburgh, a company named Edinburgh Molecular Imaging. This company is in the optical molecular imaging space, which we think is a very exciting area and in which there hasn't been that much investor activity until very recently. We're now seeing significant industry investment and partnering activity in molecular imaging and related innovations.

So many of our investments are, I would say, slightly ahead of the curve. We're definitely going in earlier, identifying the rising star academics and researchers at many universities.

We are very proactive in helping shape those opportunities, and often work closely with our university partners pre-spin-out; in other words, we are happy to do quite a lot of work to help shape the opportunity before we begin the spin-out process.

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We also think immune tolerance is a very interesting area. Epidarex co-founded a portfolio company named Topas Therapeutics, a German company developing novel therapeutics for immune-mediated and autoimmune disease, harnessing some of the natural mechanisms found in the liver that

promote immune tolerance to blood borne antigens.

Topas is another example of very exciting research in an area that we think is novel but perhaps hasn't had as much interest from the investment community until recently. It's an illustration of where we hope to add value, for example, by leading on forming a strong syndicate of co-investors, catalysing and scaling-up available capital to fund very exciting, early innovation.

**In the previous interview with Biotech and Money you outlined your hopes of catalysing syndicates of investors to help bridge the funding gap, both internationally and within the UK. Have you seen progress in this area?**

Yes, as mentioned, if you look at Topas, for example, the company has recently further broadened its syndicate of Series A investors up to €18 million. It's a good example of where we've been delighted to bring some blue chip VCs and leading corporate venture funds alongside Epidarex.

We also have at least two portfolio companies in which we led a Series A investment of approximately £5 million and now are looking at Series B follow-on rounds that would be significantly larger - these next rounds are going to be a welcome vindication of our early-stage model. It's here that we see Epidarex playing an important role in filling the early-stage funding gap. Many venture funds prefer not to commit at such an early stage but these, of course, are very welcome partners for Epidarex when they come in to lead the next round.

**Are there any other life science sub-sectors or geographical markets that particularly excite you right now?**

Anti-microbials is an interesting area; there is a massive global health issue there that needs to be addressed by both small and large drug discovery organisations. We are very interested in funding the next generation of drug discovery innovators, particularly in disease-modifying therapies. We're also interested in gene therapy.

We looked closely at the first wave of gene therapy innovation, and we have an exciting legacy portfolio company in Canada from an earlier fund in gene therapy. Some very interesting progress been made in gene therapy recently.

Geographically, we think the north of England and Scotland are particularly interesting. We enjoy close working relationships with almost a dozen universities with world-class centres of research and excellence that offer great opportunities for shaping and seeding the successful translation of early-stage research.

In North America, the mid-Atlantic and south east regions of the US, Texas, and parts of Canada offer world-class research centres that are currently under-ventured. We are actively involved in those markets.

Epidarex's most recent US portfolio investments include companies from Missouri, Kentucky, and Baltimore, Maryland, as well as Boston – these are all fantastic companies. Our Kentucky-based portfolio company Apellis Pharmaceuticals, in which Epidarex was one of the first investors, recently listed on NASDAQ.

Aside from the financial backing, what support does Epidarex offer to companies in its portfolio?

In the pre-investment phase, the Epidarex team spends a lot of time on campus working closely with the technology transfer offices of partner universities. Early dialogue and transparent communication is critically important because in many cases the researchers with whom we work have often not previously commercialised their work. It's a two-way education process where we learn more about the specific nature of their research and, in some cases, our academic partners can hopefully learn from Epidarex as to some of the do's and don'ts of company creation, and ultimately growth strategies and market positioning.

The universities play an important role in that regard as well, but the earlier we begin the dialogue the better, especially if we're discussing the best use of funding from a non-dilutive source. If, for example, an academic has been successful in securing grant funding, we, to the extent possible, welcome the opportunity to provide input on how such funding can be

best deployed in answering key questions most germane to future commercial and patient-driven outcomes.

Epidarex also provides seed funding to what is known as a "go/no-go" decision point. Sometimes it's a simple decision, sometimes it's not that simple. It could be, for example, funding to repeat academic data prior to launching a spin-out process. So, it's very early, very hands-on and highly collaborative.

Trust-based relationships established as early as possible are a very solid basis for company formation. These are lengthy partnerships, around five years on average and sometimes longer, particularly in a therapeutics context. The earlier you can establish alignment around how to prove the innovation is as compelling as all parties hope, the earlier you can deploy a funding strategy. Once you've got clarity on that, you can map out a useful path forward.

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What would your advice be to early-stage life science companies looking for investment?

Begin the dialogue with prospective investors as early as possible. Don't fall into the trap of feeling you need a fully-polished and finalised business plan with a bow tied around it; that's the last thing we need to see. We would much rather have an earlier, and potentially more untidy, discussion because there will be many iterations and much back and forth on the ultimate plan Epidarex would fund.

We would say the same to some of our technology transfer officer partners as well. Allowing us to be involved in dialogue as early as possible is in everyone's interests.

**You recently made some new additions to your advisory board – Dr William Sellers, William Burns, and Dr Frank Armstrong. What will these appointments bring to Epidarex?**

The new additions bring a very valuable mix of both industry company-building and research expertise. Bill Burns brings an invaluable perspective given his decades of company-building and asset-development expertise at the top of a global pharmaceutical player.

Bill Sellers brings incredible industry experience, and his continuing academic and research leadership roles with the Broad Institute at MIT and also Harvard Medical School are particularly relevant to the innovations Epidarex is funding.

And then with Frank Armstrong, you have multiple company-building experiences there, both private start-ups and publicly-listed success stories, very relevant to the portfolio and to where we want to drive our companies in terms of global health impact and competitive financial returns to all stakeholders.

**In August 2017, you saw Confluence Life Science exit from your portfolio through its acquisition by Aclaris Therapeutics. What do you view as a successful exit?**

I think both Confluence and Apellis, with its recent IPO, are very good examples of where Epidarex invests its capital and then supports the growth and development of portfolio companies. For Apellis to have a genuinely global impact on what is the world's leading cause of blindness is just wonderful, and I think that's what motivates everyone on the Epidarex team as much as anything. Of course, it's incumbent upon us to deliver competitive rates of return to our investors, but to be able to do that by funding life-altering therapies with possibly massive patient impact is really rewarding. It's why we are so fortunate to be in this business.

**So, there are exciting times ahead for Epidarex and the portfolio?**

Yes, the growing Epidarex team is very excited about its future. The majority of our portfolio would not exist if it wasn't for early-stage investors like us that are building companies, often from scratch. The patient-driven translation of research can be a difficult journey, it's not for the faint of heart, and the majority of investors don't perhaps have the risk appetite of Epidarex. However, if funds like Epidarex weren't deploying scalable risk capital at an early stage, then less world-class research, particularly in under-ventured locations, would be successfully commercialised.

We now see a pipeline of very attractive new investment opportunities. There is a lot more demand than we can supply from our current fund, which is why we're excited to be raising a larger fund next year.

**What are your long-term goals for Epidarex? And your hopes for the life science landscape more broadly?**

We hope to scale up significantly with our next fund to address the large and unmet funding need at many of the top research universities on both sides of the Atlantic. Across the landscape there aren't currently sufficient investors deploying early-stage risk capital to fill the funding gap. I think if you look again at the north of England and Scotland, as well as the US mid-Atlantic, there is a huge amount of potential waiting to be realised.

For the sector more broadly, I hope there will be a growing appreciation by both policymakers and private investors of the economic and social significance of life sciences. Every week we are seeing captivating breakthroughs in life science research. To ensure these breakthroughs fulfil their potential, there must be greater access to sufficient risk capital. We're not quite there yet, but Epidarex's goal is to be one of the key players in helping to fill that gap.