

HandyLab Sale To Becton Dickinson Bolsters Early Investors' Faith, Coffers

By Jonathan Matsey

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After nine years of shepherding molecular diagnostics company HandyLab Inc. from the university and through four rounds of financing, two early investors said the agreement to sell the company to Becton Dickinson and Co. has validated their belief in early-stage investing.

"The seed financing helped spin the company out of the University of Michigan, and their first office space was in EDF's offices," said Mary Campbell, managing director at Ann Arbor, Mich.-based EDF Ventures.

While the Midwest is rich in technology, EDF has had to host several of its nascent companies over the years, as the region lacks the start-up infrastructure better found on the coasts. But nearly a decade after beginning to nurture the company, Campbell said her firm was able to hold up the deal as an example to its portfolio.

"We held our annual meeting this morning, and this was the first thing we announced," Campbell said. "It really sets a high bar for our other CEOs."

Becton Dickinson, a medical device, instrumentation and reagent company, has not disclosed the acquisition price for the deal, which is slated to close by March 2010. BD had an existing reagent partnership with HandyLab.

Campbell said the offer from BD was unsolicited.

Tom Kinnear, managing director of Wolverine Venture Fund, another investor in HandyLab's first round, credited Chief Executive Jeff Williams, who was hired in 2004, for helping the company establish its focus.

"Initially the founding scientists were working on DNA decomposition of bacteria," Kinnear said. "But then, and this was Jeff's wisdom, they decided to focus their technology on clinical labs in hospitals, allowing them to do much of their advanced diagnostics in-house."

EDF's Campbell said that market has been successful for the company, which now sells a line of nucleic acid extraction and microfluidic instruments and reagents for molecular diagnostics, allowing hospitals to do tests that used to be outsourced to outside laboratories. "Patients want faster information, and hospitals want to lower costs," she said.

Wolverine Venture Fund, which is largely managed by MBA students at the University of Michigan, launched in 1999 with \$2.5 million from the school's endowment. The firm has made roughly 20 investments since its inception, and Kinnear said HandyLab is its second highly successful exit - generating between six and seven times cash-on-cash.

The first successful exit, he said, was the 2004 initial public offering of laser surgery technology maker IntraLase Inc., which sold 6.6 million shares at \$13 apiece.

For a student-run firm, Kinnear said, the success is a little awkward, since the fund's managers now are not the ones who had the foresight to make the initial investment in a then-unproven start-up. "The students here wearing the T-shirts and waving the flag are not the ones here in 2000," he said. "But what I tell them is what you do now will give glory or heartburn to students down the road."

Thanks to those earlier students, Kinnear said the exits will bolster the amount of money on hand in their evergreen fund, which he said will be \$5.5 million following the closure of the HandyLab deal.

For a more traditional fund like EDF, the exit bolsters the firm's shift away from a mixed investment strategy into a life science focus. The firm delayed fund-raising on its first life science-only fund last year. "We took the wisdom of many firms and decided that 2009 was not a good time to go fund-raising," Campbell said.

Instead, the firm recently closed the \$15 million EDF Ventures III Healthcare Opportunity Fund LP, a side fund to its \$55 million third life science and IT fund from 2004, which was dedicated to making follow-on investments in a select list of companies. "Since we invest early-stage, we have larger than average pro rata commitments to our companies," he said of the justification for the opportunity fund.

Campbell said the firm may re-launch the fourth fund in 2010.

HandyLab had raised a total of about \$46 million from investors, most recently a \$19.2 million Series D in August 2008 from Arboretum Ventures, Ardesta, Dow Ventures, DuPont Ventures, EDF, Lurie Investments, SBV Venture Partners and Wolverine.