

Baby Boomers Help Drive Emerging Life Sciences Trends

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AVM Interview with Ilya Nykin, managing director, Prolog Ventures

The day may come when the functional food aisle competes for space with the organic section in your local grocery store. In this particular aisle you might find applesauce that settles the stomach or a granola bar that suppresses, or stimulates, the appetite.

Products like these imaginary ones already exist. [Dreamerz](#), a sleep inducing chocolate drink, is one such product at the forefront of an emerging area in the life sciences industry that aims to serve up health, beauty and wellness products.

In June, Dreamerz received a \$10 million Series B funding from Phisic Ventures, Dean Foods Company and Fonterra Co-operative Group and original investors. [LightFull Foods](#), another San Francisco company, has raised \$7.1 million in funding. The company's low calorie smoothies create an impression of satiety.

The life sciences sector, which combines biotechnology and medical devices, saw \$1.9 billion in investments in 175 deals in the third quarter of 2007, according to a recent MoneyTree Report from PricewaterhouseCoopers. In the first quarter, life sciences accounted for 36 percent of the quarter's investments, an all time-high, according to MoneyTree's first quarter report.

The baby boomers' voracious appetite for products that will help them live longer, better (and better-looking), healthier years is increasing the number of investments in products like functional foods.

Not only that, but tremendous returns for some wellness products has led some investors to believe that there is room in a portfolio for a product that doesn't take years to develop, require tough regulatory oversight and expensive clinical trials to develop. Coke bought [Glacéau](#), the company behind Vitaminwater, for \$4.2 billion in May.

AVM interviewed [Ilya Nykin](#), managing director of [Prolog Ventures](#), a life sciences fund that invests in traditional healthcare ventures and emerging areas such as nutrition, wellness, and plant science. The St. Louis-based firm has invested in health and wellness since 2001. We asked Nykin what factors are driving the emerging trends, why functional foods have to taste great and why investing in lifestyle and wellness products diversifies a life sciences portfolio.

AVM: The emerging areas of nutrition, health and wellness, and plant science have not historically been areas of high VC investment. Why is this changing now and is it solely the affect of the baby boomers, their deep pockets and wish to stay young? What are

the other factors that are pushing VC dollars into this sector?

IN: What you just said, is one key factor. But more broadly it has to do with a much greater and growing desire on the part of the consumer to eat healthy food and live healthy lives and live in a healthy environment.

This trend is only growing more and more powerful. When there is this degree of demand from consumers it is not a surprise that there is a growing market of products in this area.

There is a second underlying factor. In the traditional sectors you have a very strict regulatory regime. When you develop drugs or medical devices you have to spend tens of millions of dollars, you have to do a great deal of development work, conduct costly clinical trials, assemble large expensive teams to satisfy the requirements that exist to bring products like this to the market You may spend tens of millions of dollars, hundreds of millions of dollars, and many years before you know if you have got anything. But your rewards, historically are quite high. It's just one of those high risk and high reward situations.

AVM: How is the difference between developing wellness products and creating medical devices and pharmaceuticals serving to make the former more attractive to investors?

IN: In the emerging areas ... by and large the regulatory environment is more benign and the product development cycle is not a particular risky one ... with personal care products, with functional foods, etc., there is rarely a real question as to whether the product can be developed. Most likely it can. The real risk lies, is absorbed not there but after the product launches in the marketplace and that has to do with marketing and distribution and execution on the business side of things.

Even before you ask yourself which risk and reward you would rather assume, the important thing is that they are very different. If you look at it from the standpoint of diversifying a life science portfolio, it is a very good counter balance to the traditional situation.

AVM: What are the key new and emerging wellness trends?

IN: There is a great deal of interest in functional foods areas. There are growing number of venture funds that operate in that area, both new ones that are being created and existing funds that are looking in that area. There is a lot of interest from large consumer good package companies, who both invest in some of these small companies directly, and also sometimes get indirect but broader exposure by investing in venture capital firms. But it is not limited to nutrition just for example, there is a great deal of interest in other areas of this broad health and wellness trend, having to do with skin care, oral care, eye care, on a consumer side.

AVM: What are functional foods and what is the market?

IN: Functional foods, are foods that deliver functional benefits beyond the innate nutritional content of the foods and it's a broad category. There are medical foods that might have some specific benefit or are supplements, the industry is broad. We are particularly excited about what we see in functional foods, although we have invested in medical foods as well.

Food categories are huge, those markets are very large. Consumers that see benefits of this sort in foods are loyal, are prepared to pay high price for it, so those categories of foods are more interesting. There are huge consumer packaged goods companies operating that are quite interesting in this space. Just recently, Nestle and Fonterra just invested in one of our companies called Attune Foods, and Dreamerz got an investment from Dean Foods Company and Fonterra. So there is a great deal of activity and the markets are huge. The attractiveness of it is significant.

AVM: What core criteria must a functional foods company meet for Prolog to Invest?

IN: With food you have to remember it has to taste great, or else nobody is going to consume it no matter what the benefits. We have a core criteria we have when we invest in these sectors and that is one of them, it has to taste great.

First we are a life science fund. We want the product to have a scientific foundation. It has to be based on some scientific facts that should be either proven, or subject to be proven, by appropriately conducted tests and studies. It should deliver clear and tangible benefits that are derived from this scientific foundation, it should have some intellectual property, it may be in the form of patents or licenses, or in the form of know-how or trade secrets, but whatever it is, there ought to be some kind of barrier to the competitive pressures. And for the foods, they also have to taste great.

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