

Investing in Innovation

How has the economic downturn affected the ophthalmic market?

BY WILLIAM J. LINK, PhD

Everyone is concerned about the dramatic downturn of the US economy. The financial crisis is affecting all types of businesses, including cataract and refractive surgery practices. A poor economy not only makes it difficult for practitioners to stay afloat, but it may also affect their future profitability by stifling technological innovation. As a venture capitalist who invests heavily in the ophthalmic industry, I am working with my partners at Versant Ventures (Menlo Park and Newport Beach, CA) to assess the potential impact of the current recession on entrepreneurs. If we want to help young companies stay productive in a down economy, we first must examine how inventors, investors, and companies work together to develop new technologies. This article outlines the process of ophthalmic innovation and examines how the current economic climate is affecting the availability of investment capital.

INVESTING IN IDEAS

Versant Ventures provides capital to first-class entrepreneurs who are developing innovative medical technologies. After investing, the firm also helps companies advance their ideas through research and development, clinical testing, regulatory review, and the other challenging steps required to launch new products. The process of bringing innovative medical technologies to market typically takes 5 to 10 years and requires \$50 to \$100 million.

Ophthalmology has long been an attractive market for investors, because it is populated by progressive physicians who are open to adopting new technology. I estimate that, in the past decade, \$8 billion to \$9 billion have been invested to support ophthalmic innovation. Leading ophthalmic companies such as Advanced Medical Optics, Inc. (Santa Ana, CA), Alcon Laboratories, Inc. (Fort Worth, TX), and Bausch & Lomb (Rochester, NY) have invested approxi-

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mately \$7 billion to \$8 billion in their internal research and development programs. Venture capitalists have invested another \$1 billion in early-stage private companies and have made it possible for IntraLase Corp. (now part of Advanced Medical Optics, Inc.), Eyeonics, Inc. (now part of Bausch & Lomb), and AcuFocus, Inc. (Irvine CA), to bring innovative technologies to market. Many other venture-backed private companies have ophthalmic products in the pipeline. Physicians benefit from products developed by established companies as well as successful collaboration between venture capitalists and entrepreneurs, because they can use new technologies to improve their patients' lives and increase the value of their practices.

For the cycle of ophthalmic innovation to continue, the system must reward venture capitalists and companies for their investment in new products. To companies, this means achieving a profit and using the revenue they generate to grow their business. Investors in early-stage companies must wait a little longer to claim their reward—usually 5 to 10 years after their initial financial outlay. They typically gain liquidity when the company in which they have invested goes public (which allows them to sell their stock on the open market) or when the start-up venture is sold to a larger organization. Investors can then use the money they made from previous ventures to fund the development of new innovative technologies.

If all goes well, ophthalmologists will once again embrace the new products, the early-stage companies will once more flourish, and the cycle will continue indefinitely.

LOOKING AHEAD

Given the current state of the economy, it is natural to ask if investors and companies will be able to maintain the constructive cycle described earlier. Ophthalmic subspecialties that depend on discretionary income (ie, LASIK and, to a lesser extent, refractive cataract surgery) are vulnerable during these challenging times. Many practices that rely on these procedures for their income have already seen a drop in their surgical volumes and a reduction in revenues.

Although it is uncertain how long the current crisis will last, many pundits forecast that the economy will stabilize in 2009 and begin to improve in 2010. In the meantime, we can expect venture capitalists to reduce, but not completely suspend, their investment in ophthalmic innovation. I believe that, during this economic crisis, investors will continue to fund projects that advance the

high-value fields of refractive and premium cataract surgery. When the economy recovers and consumers again have discretionary income, practitioners will begin to see an improvement in their surgical volume.

CONCLUSION

I believe that the global economic crisis is temporary. It will have a modest impact on, but will not fundamentally, damage the cycle of ophthalmic innovation. As long as practitioners continue to embrace new technologies and reward companies for bringing products to market, venture capitalists will continue to invest in ophthalmic innovation. ■

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