

START-UP



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Roberts Mitani: An Alternative Strategy For Life Science Investing

When one first meets Bruce Roberts and Hideki Mitani, managing directors of their eponymous global private equity and financial/strategic advisory firm based in New York and Tokyo, neither strikes you as particularly contrarian in nature. Both Roberts, a thoughtful, Harvard-trained former corporate lawyer and successful businessman, and Mitani, an energetic former investment banker with 29 years of experience including stints at Goldman Sachs and Sumitomo Bank, would evidently have been quite at home in their previous corporate environments. But once you begin discussing with them the current state of life science investing, you then understand their passionate belief in the need for a change in how both traditional investment banks and private investors approach this market and why the two joined forces to create an organization designed to offer life science companies and investors an alternative approach to doing business.

At a time when bankers and investors are driven by quarter-to-quarter results and always on the look-out for the next deal, Roberts Mitani is driven by a different philosophy. "Our firm is built on developing long-term relationships with clients, not on the short-term, transactional approach that governs much of investing today," Bruce Roberts explains. Indeed, while Roberts Mitani truly has a global reach, the company's relationship-oriented corporate philosophy has strong Asian roots, owing largely to Hideki Mitani's Japanese background.

After many years of traditional investment banking work both in the US and Japan, Mitani says he got frustrated with the way business was being done on Wall Street. "Most bankers were not willing to work with a company to help it grow over the long-term; they took a very short-term perspective and focused on fees," he explains. In 1992, Mitani decided to start his own firm in the US, a process for which he would need a lawyer, and he called on Roberts.

Mitani met Roberts in 1988, when the latter, a law student at the time, had invited Mitani to speak at Harvard. Mitani was then supervising the Japan desk in Goldman Sachs' real estate department at a time when there was much concern regarding Japanese investors acquiring extensive real estate holdings in New York City and throughout the US. Mitani brought a team of bankers to Harvard to explain why the US economy wouldn't suffer as a result of these Japanese investments. "We hit it off immediately," Roberts recalls, "but there was no way of knowing then how close we would become."

The two stayed in touch and Roberts went on to practice corporate law in New York City, while also working with his family's skin care business, from which he derived his interest in life sciences, although he was also influenced by his father's background as a physician and surgeon. Roberts' parents developed a line of dermatology and cosmetics products that grew into a family business, Flori Roberts Inc., the lead product of which today resides within L'Oreal. In the process of working on the growth and sale of that company, Roberts realized he wanted to build his own business.

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Roberts' legal work on behalf of Mitani's new venture quickly grew into negotiations for the two to join forces. In 1993, they formed Roberts Mitani. "We're all kind of amused to realize that this is one of the longer lasting partnerships on Wall Street at this point," Roberts notes. There are actually two entities under the Roberts Mitani umbrella: Roberts Mitani, LLC, a licensed broker-dealer and member firm of the National Association of Securities Dealers, which engages in privately placing equity and debt securities, corporate finance and M&A; and Roberts Mitani Advisors, a separate firm that provides a range of advisory services including strategic business development (joint ventures/alliances, licensing, and distribution), divestitures and restructurings, and principal investment (private equity, venture capital and asset management).

Life sciences have always been an important part of the firm's focus, although not the only area in which it does business. Roberts Mitani is also actively involved in the consumer/retail and industrial sectors. "In terms of the number of clients, life sciences constitute a large percentage of our business," Roberts says.

Within life sciences, the firm has been especially active in medical devices, a particular interest of Roberts, having concluded its most recent deal in early May when the arthritis device company **BioniCare Medical Technologies Inc.** closed its \$15 million Series C financing round. A follow-on closing with additional institutional investors is now oversubscribed for \$10-15 million. The investor group was led by New Science Ventures and included Allen & Co. and Nippon Sigmax Co., a Japanese investor. BioniCare has received FDA clearance for and has begun selling its *BIO-1000* system for treating osteoarthritis of the knee and rheumatoid arthritis of the hand.

Roberts Mitani's role as the investment banker in the BioniCare financing illustrates the firm's global reach. "Through our advisory work with BioniCare, we were able to integrate both US and overseas investors to concurrently help the company transition to the institutional world and help them structure strategic relationships and investments that will add value," Roberts explains.

Another example of the success, in the device sector, of Roberts Mitani's relationship-building philosophy is the firm's work with **Micrus Corp.**, a neurovascular company developing devices for treating hemorrhagic stroke. In 2000, Micrus was experiencing financial difficulties after it had to re-engineer its delivery system. "Micrus came to us in the early stages of a turnaround, and our mandate was to identify a new set of investors, both US and non-US, that would be willing to look at the new opportunity Micrus presented in light of its impressive recent product development work and to thus obtain a value for the company that didn't penalize it because of its past problems," Roberts says. Ultimately, Roberts Mitani put together a \$21 million financing round that included US, Swiss, German, and Japanese investors, that "was done at a valuation that the company wanted," he says. (At the time this article was going to press, Micrus was in registration for its IPO.)

The Micrus-Roberts Mitani connection came out of the firm's relationship with Micrus' chairman, Michael Henson, a veteran device entrepreneur and head of the MedFocus Fund, a medical device start-up accelerator. That relationship has also contributed to the progress of another long-term device client of Roberts Mitani: **Devax Inc.**, a bifurcated stent company based in Irvine, CA. (See "Stents Branch Out and Return to Their Start-Up Roots," *IN VIVO*, December 2002.) Devax was looking for financing at the peak of the IT boom, when few investors were even considering device opportunities. The company's relationship with Roberts Mitani turned out to extend beyond just financing. In addition to helping the stent company obtain funding, Roberts Mitani helped Devax establish a strategic partnership with Singapore-based **Biosensors International Pte. Ltd.** (an affiliate of **Sun Biomedical Ltd.**) that enabled Devax to begin working on a drug-coated bifurcated stent. Most recently, Roberts Mitani advised a fund participating in the syndicate for Devax's Series C financing in the spring of 2004, which was over-subscribed by US, Swiss, and German investors, and Bruce Roberts currently serves on Devax's board of directors.

"Building long-term relationships with clients allows us to be creative; for example, we can work on smaller transactions if that's what the client needs, because we receive warrants for our participation, and, unlike other banks, we know we'll be sticking around to witness the benefits of that kind of deal," Roberts explains. Those relationships extend to larger entities as well. The firm recently established an investment company that they own jointly with Toyota Tsusho, the trading company of Toyota Group.

In addition to its device work in areas like drug-eluting bifurcated stents and neurovascular coils for stroke, Roberts points to the convergence of drugs and devices as an increasing area of opportunity for life science investors. Indeed, Roberts Mitani is currently working with **Travanti Pharma Inc.**, a company developing advanced transdermal drug delivery technologies.

Roberts Mitani's life sciences work also encompasses the biopharma-ceutical sector. Jeffrey Oh, a partner who has worked extensively with South Korean biopharma companies, including Seoul-based LG Chem, says, "We have put together some of the earliest and largest licensing deals between Korean pharmaceutical and chemical companies and big pharmaceutical firms worldwide." Working on behalf of LG Chem, Roberts Mitani has helped license a protease inhibitor to Agouron Pharmaceuticals (now part of **Pfizer Inc.**), a quinolone compound to SmithKline Beecham (now **GlaxoSmithKline PLC**) and an oral thrombin inhibitor to Warner Lambert (now part of Pfizer). The firm works regularly with public and private biotechnology companies seeking to access capital and strategic partners globally.

Bruce Roberts and Hideki Mitani recognize that maintaining the firm's client-focused, long-term oriented approach is a challenge in today's financial environment, but it is a philosophy to which the founders remain committed. Indeed, they believe that this approach offers them competitive advantages that they can leverage on behalf of corporate and institutional investors. For example, Roberts sees the firm's relationship with Toyota serving as a template for what he and his partners can achieve with medical device and biopharma companies. "If there are companies and groups that want to deploy capital in the life sciences and are looking to work with what essentially is an out-sourced corporate venture capitalist, that's an opportunity that suits our firm very well because of our focus on tailoring our services to clients' needs," he says. ●