

6 December 2021

## **FUND PROPOSAL: *COMMERCIALISING AUSTRALIAN HEALTHCARE TECHNOLOGIES***

The proposed ***Commercialising New Ideas – Healthcare Fund*** (“CNI-H” or the “Fund”) is a novel concept intended to support the work of the Medical Research Future Fund (MRFF) and complement the activities of the Medical Research Commercialisation Fund (MRCF). The Fund will provide financing and global commercialisation expertise to support Australian technology and information innovations in medicine and healthcare, particularly those that are developed outside an academic environment, or promising Australian projects that (for whatever reason) do not qualify for NHMRC or MRCF support.

The Fund will address the gap that currently exists between 100% government-funded activities (for example, projects supported by the NHMRC and other grant agencies) and 100% privately-funded efforts. Currently, companies seeking to further develop and commercialise Australian healthcare innovations struggle with this transition, particularly in achieving the scale and scope necessary to succeed globally.

The Fund will combine the support of the Commonwealth, the financial strength of our world-leading superannuation funds, as well as the expertise of Australia’s growing biomedical industry, to accelerate the implementation and commercialisation of new approaches to healthcare that are invented and developed in Australia (or that can be developed here). This effort will have numerous benefits for our economy, building our innovation ecosystem, preventing the “brain-drain” of talent and ideas, creating high-value jobs (including in manufacturing of high-value components) and building new industries in which Australia can maintain a competitive advantage (due in part to new business models enabled by mobile and digital technologies).

The proposed Fund would also advance other policy priorities (including those in aged care, education and rural health) by mobilising the capital and ingenuity of the private sector to further these important policy goals.

***Bioscience Managers*** (BSM), an international healthcare venture capital firm based in Melbourne, is already a trusted partner of Government, having managed Government and private investment capital for many years. Effective global commercialisation can only be achieved via international collaborations. BSM has the experience, expertise, global networks and relationships with sources of private capital to create and manage the Fund to support the international commercialisation of novel Australian medical technologies, and guide them to success.

BSM is proposing a co-investment by the Commonwealth of \$150-200 million into a \$250-300 million Australian Venture Capital Limited Partnership (VCLP) (or similar structure) with standard terms and conditions, to be matched 1:1 with private capital sourced primarily from Australian superannuation funds.

During the first phase of the Covid-19 pandemic in 2020, Australians found themselves at the end of long, competitive - and offshore - supply chains. Reliance on single solutions, sole suppliers and coordinated international logistics systems was shown to be at high risk of disruption by external shocks. The Covid-19 pandemic has re-taught us the painful lesson that development and commercialisation of Australian technologies – in Australia – can make our healthcare system more affordable, accessible and resilient.

In May 2021 (at the height of the Covid-19 Pandemic), the Prime Minister announced that the Commonwealth was ‘moving quickly’ to establish onshore mRNA production capability for Covid-19 and other vaccines. The proposed Fund aligns with the direction of the Prime Minister’s stated positions regarding health security and building domestic capacity that enhances resilience, adds high-value jobs and grows a stronger economy.

Private sector expertise and finance is essential if the outcomes of our energetic medical research sector are to reach the next stage – contributing to the economic health of Australia, not just the health of Australians. The *Commercialising New Ideas – Healthcare Fund* will mobilise private capital to support both objectives by helping Australian firms to win global regulatory approvals and commercialise in global markets, while retaining a greater share of “value added” in Australia.

## **BACKGROUND: GOVERNMENT-FUNDED, EARLY-STAGE RESEARCH OUTCOMES IN HEALTHCARE REQUIRE SUPPORT FOR COMMERCIALISATION**

Recent years have seen an explosion of Australian research outcomes into new approaches to treating disease, supporting disability and managing aged care. Often these new approaches integrate information with “traditional” medical products, improving quality of care while reducing cost. However, these promising projects then often languish (and sometimes fail) due to a relative lack of global commercialisation funding and expertise in Australia. Sadly, this state of affairs has long handicapped Australian biomedical innovation.

Importantly, many of these new ideas address “pain points” in the Australian healthcare context that also have obvious and immediate application in global markets (for example, software systems that increase efficiency of healthcare services in nursing homes for the disabled or elderly, or improved drug delivery of life-saving but bitter oral medicines to paediatric patients).

In recent years, fundraising for Australian venture capital has been relatively strong, but the vast majority of venture capital raised (and funds deployed) has been in information technology, financial services and business services.<sup>1</sup> Venture investment for healthcare remains anemic. Unfortunately, reliable data are hard to find, but BSM estimates that circa \$150-200 million was deployed in Australian healthcare venture companies in 2020 versus \$1.8 - 2.0 billion in Australian information technology and non-healthcare companies.

At the same time, government stakeholders of the healthcare system continually struggle to meet high and increasing community expectations for quality and availability of care, whilst controlling costs for taxpayers and patients. BSM believes that Australia – and patients all around the world – would benefit from more rapid commercialisation of exciting new Australian healthcare R&D advances, as are occurring in many areas, for example in vaccine technology, cell therapy and digital health (that is, the integration of novel sensor and information technology in healthcare), to mention just a few.

---

<sup>1</sup> <https://home.kpmg/au/en/home/media/press-releases/2021/02/record-year-for-australian-startups-venture-pulse-survey-2-feb-2021.html>

The COVID pandemic also underlined the importance of identifying new approaches to healthcare and getting these ideas to market quickly. The limited resources of government are correctly focused on research rather than commercialisation and addressing global opportunities. The Federal Government's \$20B Medical Research Future Fund (MRFF) has financed several programs administered by the MedTech and Pharma Growth Centre (MTPConnect – a Department of Industry, Science, Energy and Resources industry growth centre). Dr Rebecca Tunstall, Senior Director of Stakeholder Engagement, MTP Connect in March 2021 said "We need to be supporting the commercialisation of the excellent research that's coming out of medical research institutes and universities."<sup>2</sup>

Additionally, due to the governance requirements of the MRFF, research and companies outside of the higher education sector often fail to meet criteria for government support. The \$600 million Medical Research Commercialisation Fund (MRCF) also does important work, but this is more in translation and early commercialisation, and again resources are focused on opportunities within the higher education sector.

BSM is aware of a number of attractive opportunities developed in Australia by Australian inventors and entrepreneurs – but outside the higher education sector – for example advanced sensor technologies that improve outcomes of labour and delivery (i.e. in childbirth) and software systems that enhance quality of care in nursing homes. Because of the relative lack of support for commercialisation, these exciting opportunities often struggle to reach the next stage of development and commercialisation.

## **CASE STUDY: *FINANCING GAP FOR COMMERCIALISATION***

**Saluda Medical**, based in Artarmon NSW, was founded based on technology developed at CSIRO's Data 61 (formerly NICTA) to treat chronic back pain, a major medical problem and a significant contributor to health system costs. The Saluda team – now numbering over 200 people – has worked over the past 12 years to develop this revolutionary Australian technology that dramatically improves outcomes for patients suffering from chronic low back pain. BSM was an early supporter of Saluda and has invested over \$11 million from two funds, including BSM's BTF fund.

Saluda is now poised to receive FDA approval for its lead product and anticipates launching commercially in the US in mid-2022. To fund manufacturing scale-up and commercial launch, the company expects to raise \$120-150 million in its next financing. Given the relative lack of funds for commercialisation of Australian technologies, Saluda has had to look to other regions to access this critical next stage of capital. It is expected this new financing will come from "first tier" US later-stage venture investors, who will share a significant proportion of the value created by Australian research and Australian ingenuity.

This is just the most recent example of overseas investors reaping the gains of Australia innovation. Australian commercialisation funding is now required to slow the "expatriation" of value created by Australia's investment in medical research.

## **CHALLENGE: *ENGAGING AUSTRALIA'S SUPERANNUATION INDUSTRY***

A long-standing issue for Australian venture capital managers – particularly those investing in healthcare – is securing investment from Australian superannuation funds, either directly or through managed investment vehicles. As super funds have grown, they need to deploy larger sums of capital. An investment of (say) \$50 million is too small for these funds to consider, as their minimum "ticket size" is \$250 - 500 million. In addition, many of these funds have investment criteria that cap their participation at 5 - 10% of a fund. This combination of constraints drives these superannuation funds to invest in large (\$10 -20 billion), usually US

---

<sup>2</sup> Sinclair, Jenny (2021) "Medical research 'needs more commercialisation support'" *Research Professional News* (23 March) accessed at <https://www.researchprofessionalnews.com/rr-news-australia-industry-2021-3-medical-research-needs-more-commercialisation-support/>

or European private equity funds. In a very real sense, Australia's superannuation investors are creating jobs in the US and Europe, rather than here at home.

These constraints have been exacerbated by sensitivity on the part of super funds regarding the relatively high management fees required in the venture business. There are a handful of super funds that recognise the potential for superior returns and other long term benefits including portfolio diversification and ESG (environmental, social and governance) returns that healthcare venture capital provides. However the vast majority of super funds still opt to invest in areas such as infrastructure, where large sums of capital can be deployed swiftly. Encouraging investments of \$50 - 100 million into healthcare venture capital funds continues to be challenging.

BSM believes that the Government has the ability to unlock this critical capital through leadership in the proposed Fund. The BTF Program demonstrated that with government leadership and engagement, meaningful commitments from super funds into Australian biomedical technologies can be elicited.

However, BSM's experience raising its BTF fund was that the preferential returns offered to super funds was only marginally attractive to them. Accordingly, BSM proposes the Fund include a form of balanced risk sharing (perhaps involving a layered adjustment the event of losses). Such an approach, which would only be activated under special circumstances, should not detract from the expectation of significant positive returns that have been consistently achieved by BSM.

## **FUND STRUCTURE AND GOVERNANCE**

The proposed Fund would be a public-private partnership designed to mobilise growth capital for commercialisation of Australian medical innovations with the potential to improve healthcare – both in Australia and internationally – and create jobs in Australia.

The Fund would be an Australian Venture Capital Limited Partnership (VCLP) "stapled" to an Australian Unit Trust, with standard terms and conditions. Commonwealth investment would be matched 1:1 with private capital sourced from Australian superannuation funds and other sources of capital. The Fund would make later stage (Series B +) investments in Australian public and private companies. The fund's governance system would incorporate learnings from the successful IIF and BTF programs.

BSM's lead investor has informally expressed interest in providing the matching funds.

## **ABOUT BIOSCIENCE MANAGERS**

BSM is an international healthcare venture capital firm based in Melbourne with a long history of investing in Australia. BSM identifies, finances and helps commercialise innovative science and technology with the potential to transform healthcare. Recent examples include Avita Medical, which markets "spray on skin" for treatment of severe burns, and Canary Medical, which has developed the first "smart" total knee implant.

BSM has deep experience investing in biotech drugs, medical devices and diagnostics and is regarded as a global leader in investing in novel areas in healthcare, particularly digital therapeutics.

BSM has completed over 170 investments and 40 IPOs/reversals in North America, Europe and the Asia-Pacific region in all sectors of healthcare. BSM invests in private and public healthcare companies with technological and market advantages, where we are confident that our engagement with management will deliver commercial success and excellent returns for investors. BSM's track record of success is strong: we have consistently delivered annualised net IRR >20% (up to 40%) for completed funds that we have managed.

BSM was founded in 2003 by Jeremy Curnock Cook, the former head of the Biosciences Unit of Rothschild Asset Management. BioScience Managers Pty Ltd is a Corporate Authorised Representative of Phillip Asset Management Limited, part of the PhillipCapital Group, and operates under its Australian Financial Services License. PhillipCapital has offices in 17 countries around the world, giving BSM access to valuable “on the ground” knowledge and local business networks. PhillipCapital has over US \$35 billion in assets under management.

## **DATA SECURITY AND PRIVACY**

The significant growth in the use of digital technologies and information in the areas of personal health and health solutions requires well-designed strategies and systems to address issues of privacy and cyber security. BSM is acutely aware of these concerns and of the Australian Government’s investment in this area. We support the Australian Cyber Security Centre’s “Essential Eight” mitigation strategies and the Information Privacy Principles detailed in the Privacy Act (1988). As manager of the Fund, BSM will work with the investee companies to ensure individual data and personal information held by each company will remain safe and secure, and comply with Australian Government regulation. This approach is already in place in the relevant existing investments in BSM’s portfolio.

## **CONTACT**

Jeremy Curnock Cook, Managing Partner

BioScience Managers

[jicc@biosciencemanagers.com](mailto:jicc@biosciencemanagers.com)

EA: Shiralee Slattery [sas@biosciencemanagers.com](mailto:sas@biosciencemanagers.com)

Victoria Durrans, Partner

BioScience Managers

Phone: +61 (0) 434 376-508

[vcd@biosciencemanagers.com](mailto:vcd@biosciencemanagers.com)