

Arboretum Ventures Beats Target, Wraps Up \$140M Third Fund

By [Brian Gormley](#), *Dow Jones VentureWire*

Arboretum Ventures, which has sold a string of companies to big medical players recently, said it has shot past the \$125 million target it set for its third fund to close the partnership at \$140 million.

The firm, an early-stage health-care investor, closed Arboretum Ventures III LP on Aug. 29 after about eight months of fund-raising, drawing seven major new investors to go along with all limited partners from its \$73 million second fund, according to Managing Director Jan Garfinkle.

The firm's investors are undisclosed, but Garfinkle said they include two state pension funds, three major foundations, two funds of funds and about a half-dozen family offices. She declined to discuss terms but said they haven't changed much since fund two.

Arboretum, based in Ann Arbor, Mich., saw Becton Dickinson & Co. acquire research-instrument company Accuri Cytometers Inc. in March and diagnostics business HandyLab Inc. in 2009. Meanwhile, medical-device maker VasoNova Inc. was acquired by Teleflex Inc. in January, and Johnson & Johnson bought HealthMedia Inc., a provider of online health coaching, in 2008.

In addition, St. Jude Medical Inc. invested \$60 million in cardiac-device maker CardioMEMS Inc. in September of last year and gained an exclusive option to buy the company for \$375 million more.

Arboretum, which backed 13 companies with fund two, expects to invest in 15 or 16 with this fund, Garfinkle said. With venture capital scarce, the firm raised a larger fund so it could support companies with syndicates of three or four firms instead of four or five, she said.

Arboretum also plans to cut its regulatory risk by investing a little less in medical devices and diagnostics. Historically it devoted 75% of its deals to those markets and the rest to other areas, such as health-care IT or life science research tools. This time it will make 60% of its investments in device and diagnostics companies, Garfinkle said.

Since it seeks capital-efficient companies, the partners shy away from drug-makers, which often require significant funding. By backing efficient companies, it aims to ensure that it can make good returns on exits of \$100 million to \$300 million, according to Garfinkle.

"We want to make sure the model works in the range where most of the acquisitions occur," she said.

Arboretum invests nationally but puts particular emphasis on the Midwest, where it sees good dealflow but little competition. Valuations and the cost of advancing a company are lower there, and the firm has been able to attract investors from the coasts to its companies.

In 2007, for example, it teamed up with Milwaukee-based Baird Venture Partners to lead a Series B round for Accuri Cytometers, an Ann Arbor-based flow cytometer company. Massachusetts investors Flagship Ventures and Fidelity Biosciences led a Series C round in 2008.

Though typically an early-round investor, Arboretum considers companies at various stages. Investing from its new fund, which had a first closing of about \$75 million in January, the firm led a Series C round in March for Sonitus Medical Inc. that will fund the launch of a treatment for single-sided deafness.

The firm also has invested the new fund in Wellfount Corp., an Indiana-based pharmacy-services provider that seeks to reduce costs and improve patient safety in long-term care facilities.

In addition to Garfinkle, the Arboretum team includes Managing Director Tim Petersen, Principal Paul McCreadie, Venture Partners George Dunbar and Brian Duncan, Associate Robert Cesaro, and Thomas Kinnear, a strategic limited partner.

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