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Looking for big ideas

Shalon Ventures has developed a new investment model which focuses on risk removal.

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[Shalon Ventures](#) a venture launched by the brothers Dari and Teddy Shalon, has developed an innovative model for supporting companies. First launched six years ago in Silicon Valley and having opened its Israel office six months ago, Shalon is neither an incubator nor venture capital fund, but could perhaps best be described as an investment fund.

The Shalon brothers' goal is to speed up projects. One of the problems that the pharmaceutical and medical device industries often face is the difficulty in raising the vast amounts of capital required to launch projects and pursue the long and tortuous process of product development and clinical trials. The Shalon brothers have developed a new model whose main goal, according to Dari Shalon, is "risk removal."

Born in Jerusalem, Dari and Teddy Shalon moved as children to the US together with their parents. Dari studied at MIT, and later completed his doctorate at Stanford University. He invented a DNA chip technology, and formed a company named Synteni, which was based on his doctoral research. The company later received funding from US early stage venture capital fund Kleiner, Perkins, Caufield & Byers, following which it began selling products to leading pharmaceutical companies. In 1999 Synteni was acquired by Incyte Corporation (Nasdaq: INCY), which specializes in small-molecule oral drugs for the treatment of cancer, HIV and Type 2 Diabetes.

Teddy Shalon founded his first company at the age of 22. One of the companies he founded, Ivy Technologies, was subsequently acquired by Nestle. He also founded his own incubator. In 2000, the Shalon brothers moved into the business world when they co-founded Shalon Ventures together with Amir Barzilay, who founded his first company in 1986, after which he founded and managed seven companies operating in a diverse range of fields, from software to medical device development.

Among Shalon's successes to date, are Systemi, which as mentioned earlier, developed DNA sensors, and which was acquired by Incyte, just five years after it was founded. Another Shalon company is Biopolymerix, which co-developed a silver-based antimicrobial coating for medical applications together with Prof. Sam Sawan, a material science professor of chemistry at the University of Massachusetts. Biopolymerix was subsequently acquired by Biocompatibles International.

During the last two years, Shalon formed three new companies in collaboration with leading doctors and scientists in the US: OsteoGenix, which has developed drugs for bone repair and bone growth; AirXpanders, which is developing a tissue expansion platform for use in reconstructive surgery and burn treatment, and iWhisper, which is developing an innovative device for overweight people.

Globes: What is it that makes your activity special?

Dari Shalon: "Our idea is to work in collaboration with researchers and doctors. They know the field and the problems. Our role is to remove the risks. We move a project forward to the stage where an external investor can invest at a lower risk."

Any venture capital fund would make the same declaration.

"We are our own worst enemy. We are very particular as to the projects we choose, and in doing so we effectively terminate others. We don't want to set up a commercial entity that cannot succeed. The goal is to check upfront, before the big investments come in, whether the idea has a chance and whether there is a demand for it. We have the resources to bring companies to the clinical trials stage. We work with doctors who become partners and we examine the ideas together with the aim of ascertaining if, and how they can be developed into a concept with commercial value."

Which fields do you operate in?

"We operate in two key fields: medical devices and new indications for generic and ethically-branded drugs, which are already on the market, and which could have new uses. It often happens that drugs already on the market are found to be effective in the treatment of diseases that no one thought of previously. We can help companies make the conversion."

Please give us an example.

"A researcher from Texas came to us after he had conducted some research into a commonly used cardiology drug. He found that it had an effect on bone unification. We jointly founded a company to develop a new generic formula for the drug that would make it suitable for orthopedic use. Generic drugs do not have a problem with rights as opposed to drugs which are still ethically-branded. In such cases, we will, of course, work together with the owners of the rights to

the drugs. Our added value takes effect from the initial concept stage through to company formation - the researcher from Texas spent two years trying to find investors without success. We team up with doctors or researchers at the pre-patent stage, when the initial idea has just been developed. It should also be noted here that drugs which are being re-designated for new indications are subject to a fast-track regulatory process."

Shalon's other field of activity is medical devices. "We look for trends in the medical world, the problems that will surface five years hence," says Amir Barzilay. "For example, we found that during a heart scan, doctors examine patients' lungs and discover small growths. If those growths are removed in time, the chances of recovery will be higher. If they are not removed, the percentage of deaths within five years is high. There is currently no effective non-invasive method for removing such growths, and this is an idea that we're working on."

According to Shalon's founders, 90% of the projects they work on do not reach fruition. "This is a figure that we can live with," says Dari Shalon. "We look for a good idea with an annual market of at least \$200 million, otherwise it's not worthwhile. Once we have ascertained that the idea is worthwhile, we begin working on the technology, and not vice versa as is customary in incubators or venture capital funds. Johnson & Johnson (NYSE: JNJ) carried out a survey which found that of the 15 most successful products in the medical world, the ones that made the most money were those developed by doctors. The other successes were due to conversions of technologies used in other fields, such as, for example, the military sector. We approach doctors that present us with problems to which we will come up with a solution at a later stage. Either way, we do not invent technologies, but use existing knowledge to find creative solutions to problems. We integrate technologies."

How many ventures do you work on simultaneously?

"We're currently looking at 25 projects in the US and Israel, of which 10 will reach the paper stage. We don't take any project forward to the practical stage until we're certain that it is ten times better than existing solutions on the market. We set a high benchmark because we know that once a project is underway, the reality erodes its advantages, as work progresses. At present, we're involved in five projects in Israel."

What is it that makes you more efficient?

"We offer easy access to all the requisite elements, such as patent editors, scientists and others, for moving the project forward. We don't have to wait for service providers. In addition, we have a network of contacts as well a network of experts who can work with us."

And what do you offer researchers?

"Partnerships. Doctors who work with us are not required to take risks, but instead they can try out their ideas while keeping their jobs. We will check out the idea and find a solution to the problem, and they can be involved in any venture that may develop as a result."

What are you looking for in Israel?

"We believe that we have a very good chance of finding inquisitive and innovative doctors over here. We target the younger generation of doctors and researchers who want to innovate and make breakthroughs. We do not ask them for business plans or market research. All we ask is that they provide us with a problem to which we will find a solution together."

What happens if they already have a solution?

"We've had a few cases like this, so we examined the issue together and redrafted the solution. We don't think in terms of deals or buying or selling. Our work is based on long-term relationships with our partners. We'll be here for many years."

Will you work with local venture capital funds?

"We'd be happy to collaborate with Israeli funds. We can look at ideas for them and select projects worth investing in. So far, we have never wound up companies that we launched, since we know whether we're on the right track by the time an idea is developing into company. Those ideas that don't develop further, stay with us, and this is where we can offer added value, by holding on to ideas and knowledge that can perhaps be used at later stages, or in other projects."

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