Accelerate LI Seeds First Batch of Biotech, Cleantech Startups

Ben Fidler **6/5/14**

After a few years of organizing and bringing together local VC firms, picking an investment philosophy, and sifting through pitches from hopeful startups, Accelerate Long Island has selected its first companies to seed.

Accelerate LI, the broad, non-profit initiative to commercialize research out of Long Island's research institutions, and its strategic funding partner, the Long Island Emerging Technologies Fund (LIETF), are investing a total of $500,000 into five local startups. Each of the five startups, which are either life sciences or cleantech companies, are getting $100,000 in seed money apiece—$50,000 in grant money from Accelerate LI, and $50,000 in financing from the LIETF—to develop their businesses. The five companies—Goddard Labs, Green Sulfcrete, PolyNova, SynchroPET, and Traverse Biosciences—are the first to win backing from Accelerate LI since the initiative came together in 2011.

"It's a good group," says Accelerate LI executive director Mark Lesko. "It's nice to have the first five done."

From left: Ted Claiborne (PolyNova), Mark Lesko (Accelerate LI), Joe Scaduto (Traverse), Marc Alessi (SynchroPET), and Bill Biamonte (Green Sulfcrete)

Each is getting the $100,000 up front. The non-profit organization isn't getting any equity in return, though the cash it provides turns to debt should any of the startups either leave New York, go bankrupt, or go public, according to Lesko. The LIETF, however, a private fund backed by Long Island VC firms Topspin Partners and Jove Equity Partners, will each get convertible debt in the nascent companies that would turn into small equity stakes (less than 5 percent) upon a follow-on investment, like a Series A round.

Indeed, the cash is meant to provide a stepping-stone for these companies—$100,000, of course, is a nominal amount for a life sciences startup. But Lesko says that each investment was meant to be

"impactful" enough that it would clearly get each startup to a milestone—like taking steps to protect intellectual property or running a key experiment—to boost its value and attract bigger investments. SynchroPET co-founder Marc Alessi, for instance, says that the cash is helping him close out a larger seed round. Goddard Labs is buying a key piece of equipment that will enable it to do more testing.

"We want to help them graduate to the angel investment level," Lesko says.

Accelerate LI was formed three years ago by the presidents of several of Long Island's big research institutions, including Cold Spring Harbor Laboratory, Brookhaven National Laboratory, Stony Brook University, as well as other participants invested in the local startup scene. The idea was to put together a broad, non-profit, regionally-focused organization that could turn the research coming out of the area into commercial products, and help spur the development of a startup ecosystem—in both biotech and tech—on Long Island.

The state of New York awarded Accelerate LI a $500,000 grant to get started, and a few other local VC firms—Canrock Ventures and Jove—started the LIETF, agreeing to plunk down $750,000 in private cash. Canrock has since bowed out and been replaced by Topspin Partners because the potential deals coming in were largely life sciences companies, which aren't the investment focus of Canrock, according to Lesko. Accelerate LI still aims to use the remaining cash from the $1.25 million to invest in another five startups, and it's investment philosophy—which was originally more tech-centric—is now a focus on life science and clean energy technologies, "with a bias towards tech transfer out of the research institutions on Long Island," Lesko says.

"On Long Island there's really no funding source at the proof of concept/seed stage [for life science companies]," he says. "Frankly, very few angels will consider those types of investments because there's this perception that the timelines are so long that you won't achieve a return on your investment for 10 or 12 years."

The organization's mission is broad: it's not just trying to fill these gaps and seed fund startups, but help establish an entrepreneurial community in Long Island. It helps bring in seasoned executives (entrepreneurs-in-residence) and business school students to mentor young entrepreneurs and work on business plans so they're ready to pitch their companies to the seed funds. It holds meetings and events gathering local entrepreneurs and CEOs to exchange ideas. Alessi says, for instance, that the organization has helped bring together "various silos in [the local] innovation ecosystem."

"The experience has been very positive, even when negotiating the terms of the LIETF matching funds was appropriately tough," says Traverse founder Joe Scaduto. "Interactions with Accelerate LI and LIETF forced us to seriously consider critical business issues, including market focus, product development strategy, and intellectual property…[and] gaining access to professionals with relevant experience has been invaluable."

The Long Island biotech community took a big hit last year when it lost its anchor, OSI Pharmaceuticals, the creator of lung drug erlotinib (Tarceva) last year. Astellas Pharma—which acquired the company for $4 billion in 2010—announced plans to shut it down in May 2013. OSI employed 100 at its facility, was the anchor tenant in the Broad Hollow Bioscience Park, a complex on the Farmingdale State College campus that gives prospective startup biotechs a place to conduct experiments, and was a draw for local biotech entrepreneurs.

Still, Lesko views that as a positive for the startup community. OSI occupied the entired Broad Hollow space. Now, startups "scrunched" into tight incubator space at, say, Cold Spring Harbor can move into the facilities OSI scientists were using.

"OSI psychologically had an impact on the region," Lesko says, "[but it shutting down] actually loosens the logjam."

With the first five companies now funded, and the other five potentially on the way, Lesko is today starting the process of raising a "larger, proof of concept fund." He's hoping to amass a new fund by the end of the year, with the help of the state, that could theoretically provide anywhere from $250,000 to $500,000 to each Accelerate LI startup, rather than just $100,000 apiece—something of a $2.5 million to $5 million fund in total.

"As an ecosystem we need to do it in steps," Lesko says. "This region is just capital starved when it comes to early-stage capital for life sciences companies in particular, so I'm kind of making that case to everybody that'll listen to me."

In all, 35 companies have gotten to the point of pitching the Accelerate LI and LIETF seed funds hoping for cash. Here are some details on the first five that have made it through and gotten seed dollars:

Goddard Labs—Housed at one of Stony Brook's incubators, and developing a technology that tests for bacteria in fresh produce, according to CEO Noel Goddard. The technology "literally harvests the bacteria from the produce samples" and prepares them for further testing. Goddard says that molecular diagnostic testing is being increasingly used in the healthcare industry, but the sample preparation isn't efficient, and its pricey. Goddard wants to create a quick, low-cost alternative that enables farmers and distributors to routinely do molecular testing. Goddard will buy a Dupont BAX instrument to help optimize its sample prep technology with the seed money.

Green Sulfcrete—licensed a patented technology from Brookhaven National Laboratory that turns sulfur from oil and gas refineries and fly ash from waste plants to what co-founder Bill Biamonte calls a "superior strength, low carbon, waterless cement"—an alternative to Portland Cement (the most common type of cement), which Biamonte says is responsible for 5 percent of worldwide greenhouse gas emissions. Biamonte says that while the technology for making sulphur polymer cement has existed for decades, the production costs were too high to go beyond "niche" applications. Green Sulfcrete's process can do so at a "commercially competitive price," he says. The company has already won a $150,000 Phase 1 grant from the National Science Foundation.

PolyNova—Making heart valves for catheter implantation out of polymer-based biomaterials, rather than preserved animal tissue (the current standard). The technology comes from funded research at Stony Brook. Co-founder Ted Claiborne says that PolyNova's heart values can be molded into a unique shape to aid blood flow, and should be more durable than those made from animal tissue. With the cash, PolyNova is securing and diversifying its intellectual property, preparing a grant application, setting up operations, and trying to lock down more angel and VC investments.

SynchroPET—developing a positron emission tomography (PET) scanner technology licensed out of Brookhaven National Laboratory that Alessi says is "smaller and cheaper" than the competition—researchers and pharmaceutical companies could use it to perform a PET scan on an awake animal. The tech is also MRI-compatible, meaning it can be inserted into an MRI machine to do simultaneous MRI and PET scanning. With the cash, SynchroPET is now close to closing out its seed round, and is using the cash to attract additional investments. It's hired an engineering team and is building its first commercial products, according to Alessi.

Traverse Biosciences—holds an exclusive option to license a library of drug candidates from Stony Brook to treat chronic inflammatory diseases in humans and companion animals, like dogs. Scaduto says the company has chosen to initially focus its lead drug candidate on the prevention of canine periodontal disease. "We envision our product to be the first FDA-approved, once-daily chewable prescription medication to address this condition," he says. Traverse hopes to hit certain technical milestones like scaling up manufacturing of its drug prospect, and seeing early safety and efficacy signals in a dog model of periodontal disease. It also hopes to add to its management team.