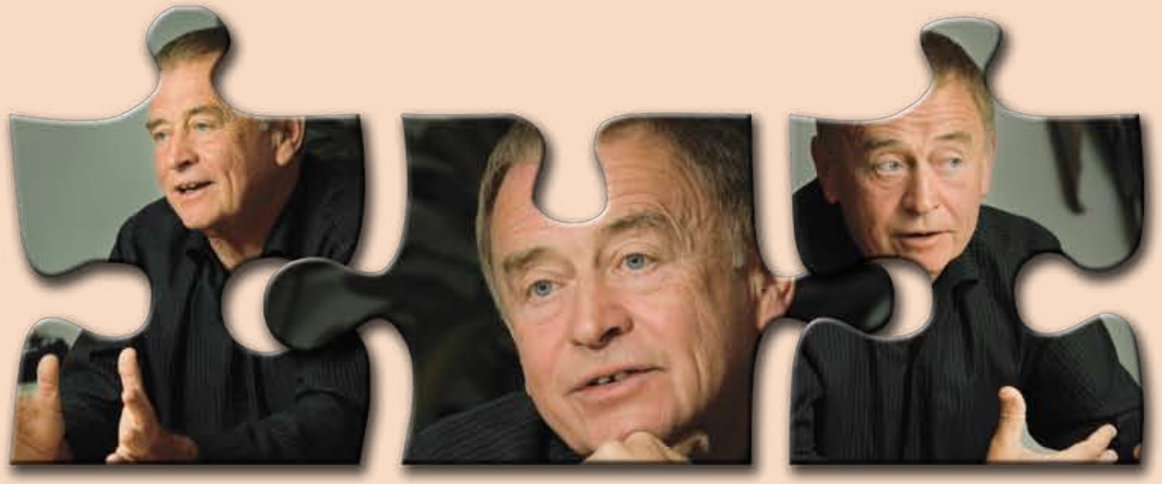
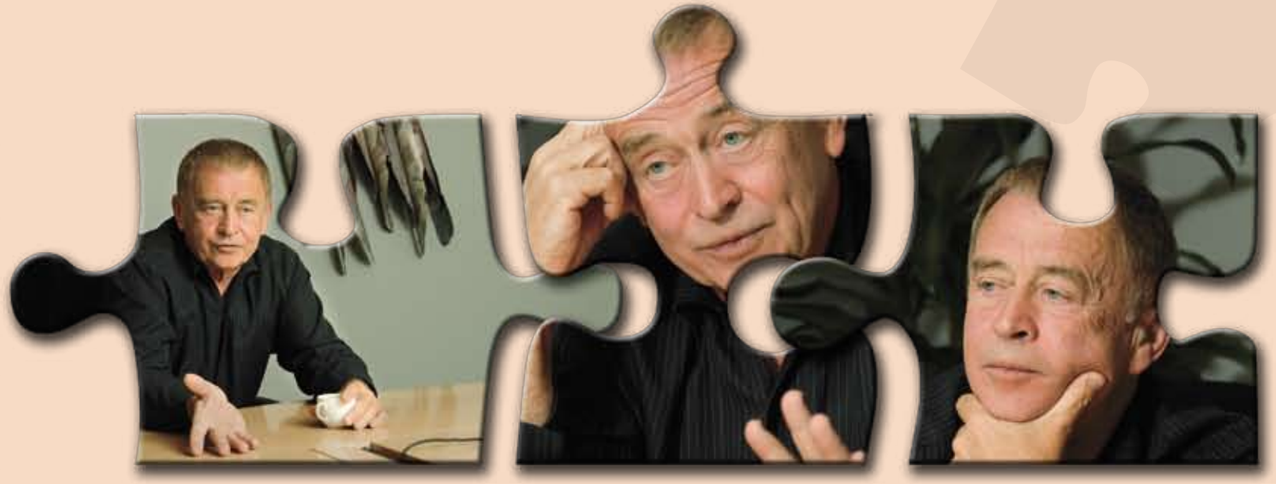
Putting It Together

Fred Craves: Investment Partner, Managing Director, and Founder of Bay City Capital and member of the Gladstone Advisory Council





One of the skills needed in creating a successful organization is the ability to recognize what you have and the vision to put it together.

Fred Craves has that knack. A recognized force in the industry, he founded several early biotech companies, including Codon and Creative Biomolecules, and became a financier and key strategist in the development of many others. Now, as a member of the Gladstone Advisory Council, he is applying his skills and expertise to help Gladstone achieve its goals.

Like many of biotech's early leaders, Fred began his career as a scientist. He earned a BS in biology from Georgetown University and a PhD in pharmacology and toxicology from UCSF.

Having relocated from Michigan to UCSF after finishing a tour in the U.S. Army Medical Corps, Fred had a tough time finding a job. "I had intended to stay in academic medicine," he explained. "But at the time there weren't a lot of positions available as an assistant professor, and I really liked living in the Bay Area. So I decided to take a position at Syntex, the only pharma company here at the time."

He never made it to Syntex. Instead, he was recruited by friends to Waters, a chromatography company. During that time, instrument companies were seeking scientists who were published using their equipment. While Fred was translating his scientific experience to marketing and product strategy, another interruption in the form of the acquisition of Waters by Millipore occurred just 2 months later. "That was my first M&A (mergers and acquisitions) experience," he joked.

A visionary even then, Dr. Craves and his Waters colleagues saw a huge opportunity for Millipore to become a biotechnology company. "They had all the essential pieces," he said. Fred and his cohorts formed a task force within Millipore to make a case. But in the end, Millipore chose not to go in that direction. And Dr. Craves and many of his colleagues left to make history as biotech company founders.

Dr. Craves started Creative Biomolecules and then Codon, which was later acquired by Schering AG and became Berlex Biosciences in the U.S. Fred stayed with Berlex, running its U.S. operations and commuting to the East Coast and Berlin (Schering headquarters) for 3 years. The experience gave Fred important operational experience, and a new interest in creating and investing in companies.

In 1993, Fred formed an investment firm and began serving on several boards, including those of Microprobe, Incyte, and NeoRx. "I was working with them as more than a director—getting deals done, serving as a management consultant at a time when directors were allowed to do that."

In early 1994, Fred teamed up with Steve Burrill to form Burrill & Craves to "institutionalize what I'd been doing in '93."

"We helped companies get deals done with big pharma and to raise money with venture and institutional investors," Fred said.

Eventually, the firm took on assignments from pharmaceutical companies to divest assets. For example, they sold WR Grace's AgriCetus division in two pieces to Monsanto and Powderject, netting $150 million and $200 million, respectively, from assets that had not been viewed as material to WR Grace.

Through that experience, Dr. Craves decided "it's interesting to be an agent, but a lot more fun to be a principal." So in 1996, he set out to raise a fund.

Bay City Capital began in 1997 with initial funding from the Pritzker family operating as an investor and M&A consultant. Early in its existence, the group functioned as a true merchant bank and, with the fourth fund, became a solely venture investment group, attracting other partners and investors.

"Each of our funds has been successively larger, the first with $128 million and the most recent raising $500 million. You really can't do that without the people and experience," he said. The current team has been with Bay City Capital for 8 years.

Some of Bay City Capital's bigger wins have been Medarex, Chemdex, and the sale of a unique lifecycle marketing company, Reliant, to GlaxoSmithKline in November 2007 for $1.65 billion.

With an extraordinary wealth of technology, operational and strategic experience, not to mention the ability to create and enhance value, it's not surprising that Fred was recruited to the Gladstone Advisory Council early on. "Gladstone was embedded in the UCSF community," he said. And Gladstone investigators have been involved with many of Dr. Crave's companies over the years.

"Gladstone is relatively small," he said. "But you look at the quality of the people and it's truly impressive. The quality of publications and grants is extremely high. Clearly, it's a place that attracts the best and the brightest."

Fred added, "so much of the credit goes to Holly (Smith) and Bob (Mahley); they've been a phenomenal team. The commitments they have made to this organization have been very special."

Research in infectious disease and HIV has been particularly notable to Fred. "And in stem cell research, the work is groundbreaking. We're really at the forefront."

With all that Gladstone has accomplished, however, the challenge for Fred is echoed by most of the Advisory Council members. "While scientific awareness is there, public awareness is not. I want the people of San Francisco and beyond to know how really special Gladstone is."

Contributions from private donors and other sources to support Gladstone's research are increasingly important as public funding continues to decline. Fred believes that Gladstone has a great opportunity to partner its wealth of research with the pharma/biotech industries.

"The translational research aspect at Gladstone is particularly appealing," Dr. Craves said. "There are more opportunities, like Merck. Pharma is reinventing itself and reaching out more to research organizations like Gladstone."

Hopefully these relationships will lead to breakthroughs in curing major diseases. As Fred acknowledges, "in spite of all of the investment and technological advances, we have a lot of things to treat symptoms, but we have yet to cure anything." Although it is an exciting time for progress in medical research, we are reminded that there is still a lot of work to do.