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Beauty Attracts Some Venture-Capital Beholders

 By **RHONDA L. RUNDLE**
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Consider it another beauty myth shattered.

Venture capitalists have tended to shy away from investing in the vanity niche -- wrinkle-erasing or flab-zapping concoctions and devices -- a field better known for hype than scientific innovation. But with people spending more of their disposable income on beautifying themselves, investors are starting to express more interest in products like these.


The success of the antiwrinkle drug Botox, which hit \$1 billion in sales last year, has fueled much of this interest. At the same time, cosmetic lasers and other skin-treatment devices are gaining popularity in doctors' offices, shopping malls and holiday resorts. As a result, the so-called cosmetic-medicine market, though still small, is starting to attract traditional technology and life-sciences investors.

An array of venture-capital firms ranging from giant Kleiner Perkins Caufield & Byers to influential firms such as Polaris Venture Partners poured a total of about \$130 million into cosmetic medicine last year, up from about \$41 million in 2005, according to the National Venture Capital Association, though that figure is rough because the business is relatively new and still fragmented.

Body contouring, skin tightening and facial rejuvenation are among the most promising fields. Other ideas include laser hair-removal devices for home use and tattoo inks that can be removed with a single treatment. Wrinkle-erasing facial fillers such as **Medicis Pharmaceutical Corp.**'s Restylane and **Allergan Inc.**'s Juvéderm are already a hot market but one that is crowded with many new competitors.

One reason that investors are intrigued by cosmetic medicine is that products and devices must pass a regulatory process at the Food and Drug Administration. This hurdle makes it tougher for

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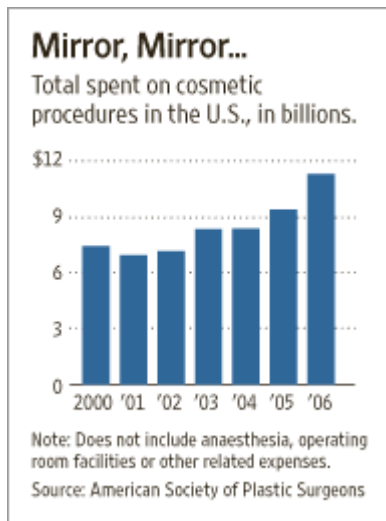
Top: AP; Right: UltraShape Ltd; Left: Freedom 2

Very Personal Investing: Some investors are lured by long-lasting antiwrinkle facial injections to rival the market leader Restylane (top) or biodegradable, removable tattoo ink (above) and fat-zapping technology such as UltraShape (right).

rivals to sell knockoffs. (It's also costly, one reason companies need venture-capital funding.)

The FDA process for products like these is typically more rigorous and time-consuming than for skin creams, makeup and other cosmetics sold by retailers in drug and department stores.

Another lure for investors: Consumers are willing to shell out big bucks for treatments. Wrinkle-erasing shots and skin regimens must be regularly repeated to maintain the effect -- generating recurring payments for doctors and product sellers.



The aesthetics business is at the forefront of a sweeping health-care trend that investors are striving to figure out. "We fundamentally believe that health care is going to be increasingly shaped by the consumer patient, and there's no better way to learn about that than in the aesthetics industry," says Jim Glasheen of Technology Partners, a venture-capital firm in Palo Alto, Calif., that was one of the early players in the field.

Trolling for investment ideas, he schmoozes with skin doctors and plastic surgeons at meetings such as the Cosmetic Bootcamp -- a gathering of about 200 doctors and manufacturers of everything from laser skin-treatment devices to basic doctor-office furniture -- that was held in June in Aspen, Colo. One of the biggest events this year: a brainstorming session between doctors and venture-capital investors.

One of the risks in this business, Mr. Glasheen says, is "pop and flop." That's when a product creates a buzz that quickly passes when it doesn't live up to its billing.

A couple of years ago, Contour Threads, a type of surgical thread generally used to sew up wounds, was touted on "Oprah" and other television shows as a "lunchtime face-lift." The threads had minuscule hooks on them that, when placed beneath the skin, could be used to tug at sagging areas of the face. But patients complained that the facelift effect didn't last, or that the threads were embarrassingly visible under the skin.

The product is no longer used for purely cosmetic purposes like these. "The decision wasn't based on efficacy. We felt the real opportunity is in the wound-closure market," said an official at **Angiotech Pharmaceuticals** Inc. of Vancouver, British Columbia, which acquired the company that made the threads last year.

Nevertheless, the search for quick and painless beautification procedures marches on. Many people who would never have plastic surgery will spend thousands of dollars for cellulite treatments or fat-busting shots.

Bulge Battle

That's what's driving interest in companies like LipoSonix Inc. in Seattle and UltraShape Ltd. of Yokneam, Israel, both of which are developing a kind of ultrasound technology for smoothing buttocks and other bulges.

Polaris, based in Waltham, Mass., invested about \$16 million in UltraShape in March 2006 after

one of its partners spotted the technology in Israel. The UltraShape instrument uses "focused" ultrasound energy to destroy fat below the skin.

"What intrigued us is that the procedure, unlike traditional liposuction, doesn't require anesthesia," says Brian Chee, a Polaris partner and UltraShape director. The company is selling machines in Europe and is talking to the FDA about U.S. marketing approval, he says.

Kythera Biopharmaceuticals Inc. is testing a compound that is injected under the skin to dissolve fatty deposits, particularly under the chin. A few years ago, the four founders pooled about \$650,000 of their own money and obtained funds from Versant Ventures to acquire rights to the compound from the University of California at Los Angeles. Patients are enrolling now for human tests in Australia and the United Kingdom.

"We've had no trouble raising money," says Keith Leonard, a former Amgen Inc. executive and now chief executive of Kythera, based in Woodland Hills, Calif.

Skin in the Game

The Kleiner Perkins firm, an early venture-capital backer of **Genentech Inc.** and **Amazon.com Inc.**, jumped into the business about 18 months ago with an investment in Aesthera Corp., a Pleasanton, Calif., seller of a light-based treatment for acne and other skin conditions. The company's device uses a vacuum-suctioning technology to bring a patient's oil glands closer to the skin's surface for exposure to light therapy.

Technology Partners, among others, has invested in SpectraGenics, a Pleasanton, Calif., start-up that sells a hair-removal product in Japan under the name i-epi. The hand-held device, which uses laser energy to target unwanted hair without harming surrounding skin, sells for about \$1,200.

SpectraGenics is hoping to sell its device to U.S. consumers, too. In December, Palomar Medical Technologies Inc., of Burlington, Mass., became the first company to receive FDA approval for a home-use hair-removal device. Palomar is working with **Procter & Gamble Co.**'s Gillette unit to commercialize the device.

A resurgence in demand for silicone breast implants is another trend drawing investors' attention. Several investors have collectively put \$85 million into Sientra Inc., a Santa Barbara, Calif., start-up headed by Hani Zeini, who helped to build Inamed Corp., a leading breast-implant maker acquired by **Allergan**.

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