Venture Capital & Science Companies

Richard Exley
Richard.exley@northstarventures.co.uk
Agenda

• Introduction
• What is Venture Capital
• What is a Science Company?
• What do VC’s look for in an investment opportunity?
• Some examples
• Q&A
Northstar Ventures?

Independent venture capital firm focused on North East based high growth propositions

• £80m under management (of which £40m to invest 2010 to 2014)
• Team of 14, based in Newcastle
• Early stage investor (pre-seed, seed, Series A)
Richard Exley - Bio

- Natural Sciences @ Cambridge
- DPhil @ Oxford
- Res Fellow @ U. Chicago and Planetary Science Research Institute
- 9 yrs Management @ VG Instruments & Fisons plc
- 6 years Head of IP @ U Sheffield
- 11 years in technology VC investment in Leeds & Newcastle
Venture Capital?

• High risk capital, generally invested in shares (equity) and requiring high “rate of return” to compensate

• Returns are dependent on achieving an exit event through trade sale, flotation or secondary purchase

• Business must have high growth potential to consider venture capital as a funding route
Science Company?

• It’s a Company! (Not a research organisation)
• Competitive advantage originated from science base, and some of those scientists involved in team

Generally:
• Longer time to market
• Capital intensive
• Hard IP
• Smaller pool of investors will understand the opportunity and accept the risk.
WHAT DO VC’s LOOK FOR IN AN INVESTMENT OPPORTUNITY?
Investment Criteria (1)

- Management TEAM
  TEAM (VC’s back people, not sectors)
  Experience (skills, domain, start-up)
  No training time
  Start-up mentality (energy, remuneration)
  Ambition
Investment Criteria (2)

- MARKET opportunity
  - What problem are you solving?
  - Market size and stage of development?
  - Scalable?
  - Unique?
Investment Criteria (3)

Other important factors

Technology risk?

Technical/product strategy?

Intellectual property?

Competition?

Exit potential?

Investment structure and terms (incl. valuation)?
THE DEAL PROCESS
Deal Process (1): Finding a VC

- There is no transparent VC market
- VCs are different in terms of size and stage of investment
- Sectors move in and out of fashion in line with economic cycles
- VCs want to see every deal – so externally they sound open and inclusive
- VC firm will invest in a handful of opportunities per year: 99% rejected
- Early stage investing is all about the team, and a VC will rarely invest in people who they either don’t already know or who haven’t been recommended to them

- You need to do your RESEARCH and NETWORKING...
Deal Process (2):
How to approach the VC

Executive Summary

Presentation

Financials (historic & forecasts)

And ideally a Business Plan

These need to be yours!
Deal Process (3):
The investment process

Deal sourcing
Partner discussion
Investment Committee
Term sheet / Capitalisation table
Formal due diligence
Legal documentation
Deal Process (4): Valuation

Too much importance is attached to it vs. raising cash and achieving an exit.

An art not a science – it is a judgement based on:

- The team
- Stage of the company (pre revenue?)
- Level of further funding required
- Market conditions
- Negotiation

*Ultimately, the right valuation has been struck if the entrepreneur feels a bit hard done by, but is still motivated!*
Deal Process (5): How to approach the due diligence process

- Build a working relationship with the VC
- Remain ahead of plan
- Maintain positive newsflow
- Keep the documents in perspective
- Be realistic on timeline
- Have a Plan B
And avoid the following...

• If I only get 1% of the market, I’ll....

• Believing you have no competition...

• Failing to recognise a “no”...

• Going down the VC route if you’re not willing to sell the business ...

• Taking too much risk...

• Saying “no” to additional cash...
Science Company “pitfalls”

- Thinking the risks are technical, not market and people
- Overvaluing IP and historic R/D
- Thinking that you can do things “part time”
Science company examples

Applied Superconductor

molplex
discovery on demand

Curar
Animal Therapeutics

arnia

reinnervate
The REAL 3D Cell Culture Company

e-Therapeutics

DGS

IBEX Innovations
BELIEVE IN IDEAS
Any Questions?

Richard.Exley@northstarventures.co.uk

Maybrook House
27-35 Grainger Street
Newcastle upon Tyne
NE1 5JE

www.northstarventures.co.uk