

The Venture Capital Process

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Alex Buchan- Bio

- Background in Biology
- 1986-90: Stockbroking - UBS
- 1990 – 2004: Business Development in Biotech
 - Archaeus – Spinout from Queen Mary and Westfield developing biotech solutions in environmental field
 - SDI – NASDAQ quoted company developing IA test kit for environmental and agricultural applications
 - Compugen - NASDAQ quoted bioinformatics company
- 2004– present: venture capital
 - NorthStar

Agenda

- Introduction to NorthStar Equity Investors
- What do we look for in an investment opportunity?
- The deal process
- Example capitalisation table and term sheet
- Q&A

Who are NorthStar Equity?

Independent venture capital firm focused on North East based technology propositions

- £113m under management (£15m Proof of Concept Fund, £20m Accelerator Fund Currently investing in NE, £40m Equity Fund in Yorkshire)
- Team of 10, based in Newcastle + 4 in Yorkshire
- invest in technology companies at all stages - from concept to growth

Progress to date

£12.75m Proof of Concept Fund

- 200 projects since Dec 03
- £12.68m invested
- £25m raised in follow on finance

£30m Co-Investment Fund

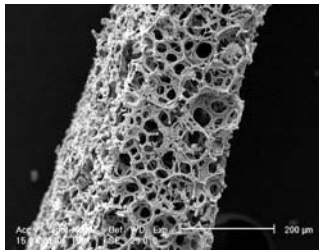
- 41 SMEs funded since July 05 in 81 deals
- £30m invested
- £43m co investment on pari passu deal by deal basis

Case Study - Reinnervate

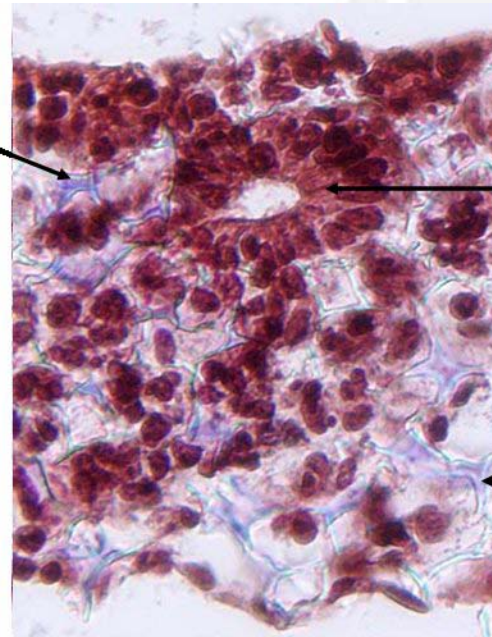


- Durham University spin-out
- Developing 3-D cell growth technology
- Multiple applications in commercial and academic labs

- Northstar invested in 2008, 2009 & 2010
- First products launched April 2010



Scaffold loaded
with Matrigel (blue)



Acinus / gland-like
structure with
central lumen

Scaffold

Drug discovery and development

Proprietary *in silico* methods for discovering new bioactive compounds, de-risking candidates against efficacy and safety, discovering combinations of compounds with specific therapeutic effects, and discovering new indications for existing compounds

- Newcastle University Spin –out
- POC 2004
- Series A 2005
- AIM listing 2007
- >£9m raised to date , drugs now in Phase III

- WHAT DO WE LOOK FOR IN AN INVESTMENT OPPORTUNITY?

Investment Criteria (1)

- Management TEAM
 - TEAM
 - Experience (skills, domain, start-up)
 - No training time
 - Start-up mentality (energy, remuneration)
 - Ambition

Investment Criteria (2)

- MARKET opportunity
 - Market size and stage of development?
 - What is the problem you're solving?
 - Unique?
 - Market led? Evidence of market engagement crucial.
 - Scalable

Investment Criteria (3)

- Other important factors
 - Technology risk?
 - Technical/product strategy?
 - Intellectual property?
 - Competition?
 - Exit potential?
 - Investment structure and terms (incl. valuation)?

Critical Issues to Biotech Startups

- Time needed to build value in company
- Cash needed to take company through to sale
- Investors in Biotech companies need long pockets
 - This is particularly critical to early stage investors and is fundamental to their appraisal of any opportunity

- THE DEAL PROCESS

Deal Process (1): Finding a VC

- There is no transparent VC market
- VCs are all different in terms of their size and stage of investment and their investment strategies change on a regular basis
- But they all want to see every deal – so to the external world they always sound open and inclusive
- An average VC firm will invest in a handful of opportunities per year: 99% of their deals will be 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
 - Remember IP has little value in itself. However strong.
- 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....

- Spamming the BVCA...
- If I only get 1% of the market, I'll....
- Believing you have no competition...
- Taking a “no” too seriously...
- Going down the VC route if you're not willing to sell the business within 5 years...
- Taking too much risk...
- Saying “no” to additional cash...

Any Questions?

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