

qutbluebox
Commercialisation Workshop

*What does a venture capital investor
look for?*

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Core Assumptions

- ◆ If you are approaching a VC investor then you, as researchers would have
 - Research outcomes with significant commercial potential
 - ◆ Preferably past proof of concept
 - Have exhausted internal sources of funds
 - ◆ University/government grant funds, personal and family and friends funds
 - Have a business proposition that will deliver significant returns
 - ◆ Needs to suit a corporate structure (not license)
 - Have a team in place which includes commercial business experience
 - ◆ Building a commercial company is a team based sport, not an individual event

More assumptions

- ◆ Willingness to
 - learn and acknowledge you don't know what you don't know
 - commit time to a commercial venture with potential to move to the company
 - Undertake risk
- ◆ Passion, drive and perseverance
- ◆ An entrepreneurial nature
- ◆ You will not have
 - A research project that doesn't have a commercial market
 - An ego (if you want to survive unscathed!)

Today we will cover

- ◆ How to be ready to approach a VC investor
- ◆ The process once pitched to a VC
- ◆ Post pitch activities – due diligence
- ◆ Decisions and timeframes
- ◆ Post investment

Entrepreneurial support network available to QUT

- qutbluebox, CIP, Contracts Office
- Queensland Government programs focused on early stage commercialisation
 - ilab Incubator Pty Ltd – office space and equipment, business advisors, deep mentoring programs, seminars, networking events
 - Australian Institute for Commercialisation – offers Ideas2Market, commercialisation bootcamps, consultancy services
 - teQstart Pty Ltd – provides funding as an equity investment (matching funding requirement)
 - DTRDI, Venture Capital Unit - Mentoring for Growth, Mentoring for Investment etc
 - Various grant programs, but none at this stage in this area
- Federal Government funding programs
 - COMET grants, Commercial Ready grants (matching funding requirement)

Who are the VC's in Australia?

- CMCapital
- Queensland BioCapital Fund
- inQbator Pty Ltd – now IQ Funds
- Uniseed Pty Ltd
- Southern Cross Venture Partners
- A&B Funds
- Start-Up Australia
- CleanTech Ventures
- Brandon Capital Medical Research Fund
- Starfish Ventures
- GBS Ventures
- SciVentures
- Angels and angel groups

◆ How do VCs invest? (general)

- Amounts \$500,000+
- In the market sector they have experience in
- Equity investment (rarely debt)
- Majority (controlling) shareholder
- Powerful terms and conditions including significant rights
- Want returns
- Generally lower risk

- ◆ **Equity investment – Shareholders Agreement**

- ◆ **What do VC investors look for in an investment?**
 - Beyond proof of concept development
 - Often pre-revenue (but individuals have different perspectives)
 - Activities planned (or in place) to consolidate commercial potential
 - Need to demonstrate
 - ◆ Business potential, competitive position, management capabilities, market application, time to market, business model, channels to market etc
 - Needs to be appropriate for venture style investment (corporate structure)
 - Other Qualitative and subjective benefits

Investment Analysis will include :

- ◆ Technology & Competitive Edge
 - Detailed understanding of IP position –with expert opinions – include freedom to operate
- ◆ Target market, valuation of that market – how much can the company reasonably address
- ◆ Business model and plan to grow activities and achieve revenues
- ◆ Strategy to build shareholder value – and consequently company value
- ◆ Exit (ie the liquidity point for investors) – how and when
- ◆ Risks & Risk Management Strategies
- ◆ Company structure, shareholders and management
- ◆ What is going to be done with the money?
- ◆ Financial analysis
- ◆ Valuation

◆ Valuation - Key Points

– There is no one size fits all

◆ Identify **what** and the source

◆ Determine the **purpose**

◆ Determine the period in **time**

◆ Determine key **benefits**

◆ Determine the key **risks**

– 3 basic approaches

◆ Comparable market approaches

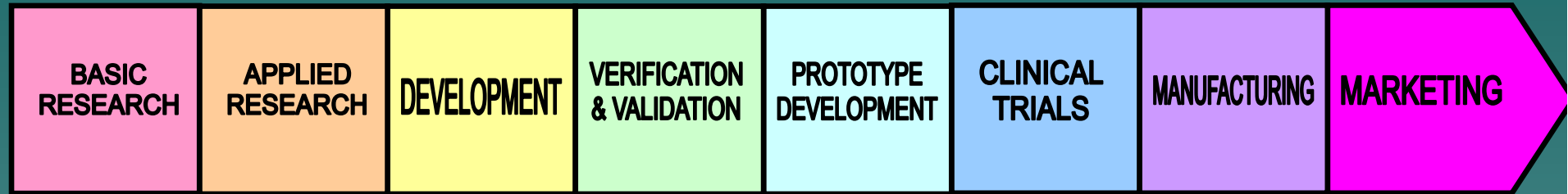
◆ Future income approaches

◆ Cost approach (**ONLY** for accounting and tax purposes)

– What someone is prepared to pay for it

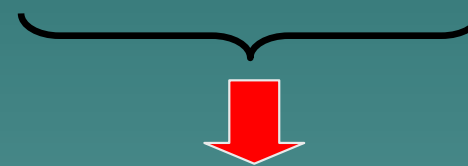
– Valuation at different points in the development path

Staged and Iterative Process



Early Commercialisation

- Lower value
- Higher risk
- Early income/investment
 - Fund development
 - Fund further R&D
 - Fund IP protection
- Technology needs to be proven
- Long time to returns



Late Commercialisation

- Higher value added
- Lower risk
- Late Revenue streams
 - Funds clinical trials
- Technology proven
- Higher potential returns and royalties
- Shorter time to returns
- Increased uptake of technology

Negotiation process

- ◆ Potential deals via several channels
- ◆ General Pitch approach
- ◆ Request for more detailed information
- ◆ Pre-screen analysis and initial due diligence – will usually allocate to an in-house analyst
- ◆ Further screening analysis + discussion
- ◆ Range of meetings and requests for information
- ◆ Term sheet includes terms and conditions
- ◆ Various approval processes (can take 6+ months)
- ◆ Post acceptance of term sheet legal documentation prepared (another 3 months)
- ◆ Cash starts flowing after signature

◆ Aim of Venture Capital funds

- To make money for their shareholders and the management team, so they can raise their next fund
- 10 year closed end funds of \$100M+

So before you even think about approaching a VC

- ◆ You need to be 100% confident that
 - you have a commercial opportunity that is worth the effort
 - ◆ The IP is well identified and protected (in fact that it can be protected and you have freedom to operate) – KEY ASSET
 - ◆ has clear ownership defined and rights to commercialise free (ie unencumbered)
 - ◆ The business proposal pitched will be based on the commercialisation of that IP and those rights will be “assigned” to the investment entity
 - ◆ There is an accessible and large global market problem that can be addressed by the core IP
 - ◆ The IP can be developed into a product that can be “monetised”
 - ◆ Advantage to have a potential pipeline of products – provides an ability to build a sustainable business

Qualities of a good product opportunity

- ◆ Value Proposition – compelling reason to buy
- ◆ Intellectual Property – competitive position (barriers to entry available)
- ◆ Market – large, growing and renewable
- ◆ Growth for company
- ◆ Business & Pricing Model – critical to have strong and trustful business relationships
- ◆ People – skills and credibility in the industry
- ◆ Exit for financial investors

Four Product Tests

- ◆ Fitness for purpose test
- ◆ Scale-up test
- ◆ Marketing, sales and channel to market test
- ◆ Return on investment test

◆ *Reference: Professor Danny Samson, School of Enterprise, University of Melbourne*

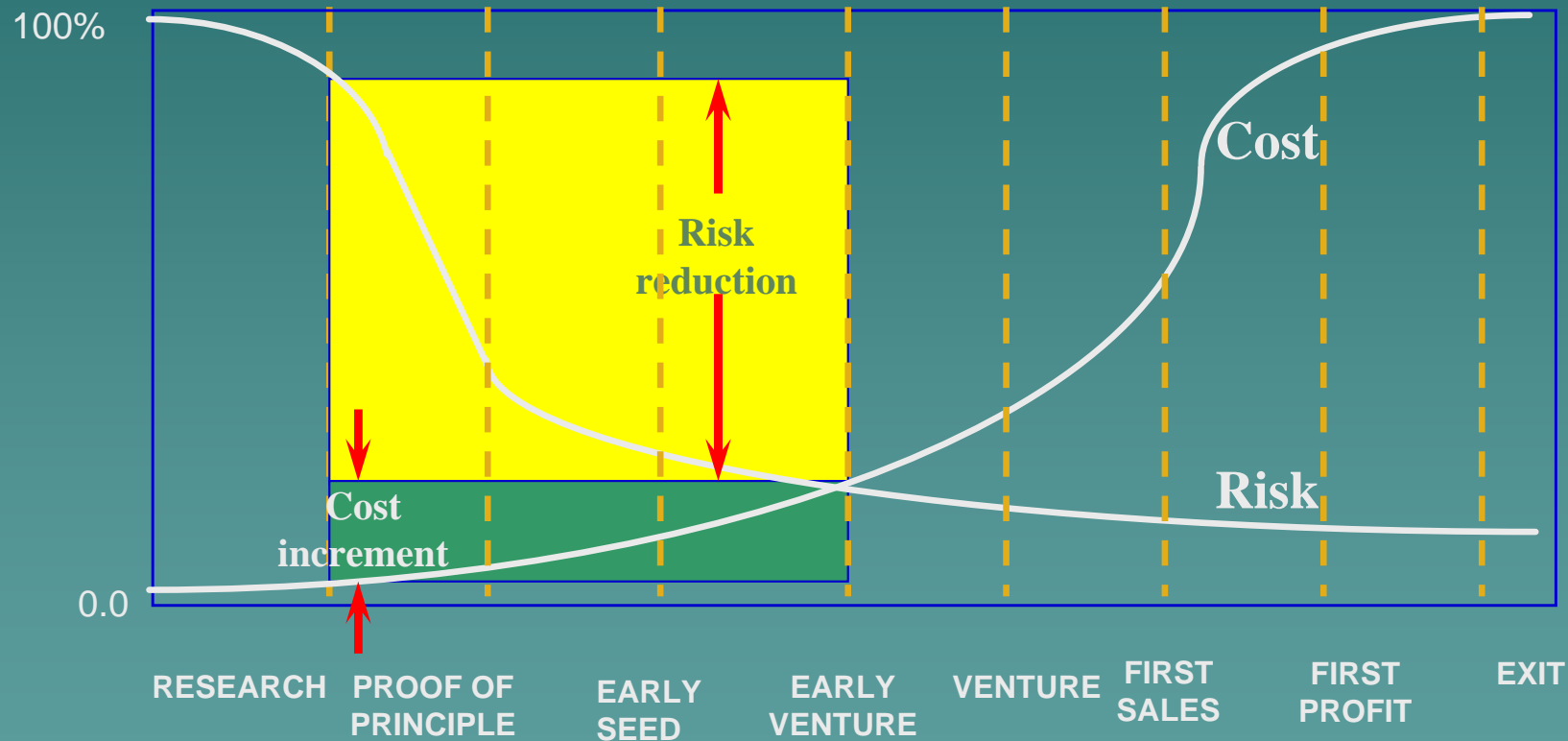
Remember the 80:20 rule

Key challenges

- ◆ Challenge of time
- ◆ Challenge of managing an R&D based business
- ◆ Challenge of risk

**Reference: Professor Danny Samson, School of Enterprise, University of Melbourne*

Understanding when to approach a VC



Seven “deadly” sins

- ◆ Being too ‘in love’ with the idea
- ◆ Assuming the need to ‘do it all’
- ◆ Not doing a full analysis of competitor’s offerings
- ◆ Under-estimating the challenges of scale-up
- ◆ Under-financing
- ◆ Under-managing the people issues
- ◆ Not listening to criticism

◆ **Reference: Professor Danny Samson, School of Enterprise, University of Melbourne*

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◆ So what happens after a VC invests?

- Fixed timeframes (or money stops)
- Commercial imperatives with fixed runway for delivery
- Cost reductions
- Corporate governance and legal matters
- Managing diverse stakeholders

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