

What Do Early Stage Investors Look for Startups

Chart Venture Partners, L.P.

Introduction

Tech Transfer World is Changing at Accelerating Pace

- **Companies are generally more risk averse and are in-licensing at a later stage. In particular, pharma has turned to biotech companies for in-licensing and is doing less with universities.**
- **Increased demonstration of technical feasibility is fast becoming a prerequisite for the bigger licensing deals.**
- **University inventions are by nature early stage, and are usually not validated by industry standards.**
- **Bridging this “Proof of Principle” gap is essential to our continued success.**
- **Lastly, there are many more fully functional university technology transfer offices competing to some degree for the more routine technology deals and early stage VC money.**

Introduction

Unproven ideas have little opportunity to advance beyond their theoretical stages

- **Research universities by nature of their mandate are primarily focused on conducting basic research.**
- **Investors must try to contain their risk – particularly when technology is involved. One of the most vexing problems in technology transfer is sourcing the companies and early stage investors willing to risk their time and money taking ideas from the university's laboratory.**
- **Proof of concept activities are not traditionally considered work of an academic nature. There is little incentive to motivate researchers to achieve proof of concept, especially if the work involved is not publishable.**

Introduction

The Innovation Gap

- **There is clearly a ‘disconnect’ between academia and marketplace.**
- **The difficulty of bridging this gap is driving the need for very early stage, or seed, funding that provides internal financial support to perform the experiments and trials, develop the compounds or write the software code.**

Start a Pre-Seed Fund Proof of Concept Fund

Universities are the Best Source for Pre-Seed Capital to Prove the Concept

- Proof of concept helps to explain the idea and convince people it is real. It turns skeptics into believers.
- The extra effort to prove the concept (i.e. develop the prototype or find lead compounds) prior to licensing the technology has an enormous leverage effect on the kinds of licensors, and the terms the University negotiates.
- A strong licensor has a far higher probability of reaching the marketplace with a product, and the extra points in the negotiated royalty rate become extremely significant.
- It is in everyone's interests to limit the risk as much as possible at the start. In exchange for removing some of the technical risk, the University creates and captures increased economic value, thereby maximizing return.
- Proof of concept enables inventors to raise more capital at the seed stage from tier one investors with deep pockets, experience and contacts in the given field. In turn, being able to raise a large initial round of funding means the spinout team can focus on developing the technology for market instead of immediately beginning to worry about raising more capital.

What do Pre-Seed Investors Look For?

An Executive Summary Should Include the Following:

- What are the unmet needs that the invention intends to fulfill?
- Is there room for improvement?
- How great is the potential of the relevant markets?
- What routes are there to enter the markets?
- Can the product gain access to any of these distribution channels/routes to market?
- What are the competitors doing in this field?
- Could someone else do the same thing or generate some equivalent invention, obviating the need for the patent?

What do Early Stage Investors Look For?

Ask yourself, would you leave the university to join this Spinout?

- Is this a disruptive technology, likely to be adopted in near term?
- Does this meet current investor criteria – business model, management, alignment of interests?
- Is there significant faculty and grad student commitment?
- Is there a celebrity scientist? (this greatly improves chances of success)
- Is the business plan complete, do economics make sense?
- Does the technology have advantages vis-à-vis competitive platforms for product development?
- Are the patents, or patent applications, defensible- is there clear space around the IP?
- Are potential customers and world-class management excited about the technology at this stage?
- Do market distribution channels exist?
- Is the development timeline reasonable and fundable?
- Is follow-on \$, at a higher valuation, available once the company's milestones are reached?

Rationale for a University to Sponsor a Pre-Seed Fund*

- Improve the probability of companies founded with university technology getting funded by institutional investors. More horses in the race means more license fees and more equity positions. Series A” investors, a large universe, invest in companies, not technologies. Most (but not all) start-ups need a seed round and some seasoning (including properly protected intellectual property, a rudimentary business plan, and a manager) to attract attention from Series A investors.
- Quicken time to market of the most successful technologies. Making the patent life productive by an additional 1-2 years can boost the economics meaningfully, particularly on license income.
- Improve service to faculty. Improve ability to recruit entrepreneurially inclined faculty.
- Reduce dependence on the informal market of friends, family and angels.

* Please email mccooe@chartventure.com for the white paper on this subject.

Background Information on Chart Ventures

- Chart Venture Partners Fund I is a *uniquely positioned* technology venture capital fund focused on early stage companies with billion dollar *commercial and security market* opportunities
- The Fund has a *strategic relationship with the Department of Defense (DoD)* to advance breakthrough technologies via an *exclusive* partnership with InSitech, the partnership intermediary for the U.S. Army's Armament Research Development & Engineering Center (ARDEC)
- The Fund *works closely with university, government and corporate R&D labs across the country* to spin-out transformational dual-use technologies
- In addition to the early stage focus, the Fund has later stage capability due to available *limited partner participation* via co-investment