UNDERSTANDING VENTURE CAPITAL BUSINESS MODEL AND WHAT WE ARE LOOKING FOR
VC BUSINESS MODEL

To understand how VCs operate you must know three things:

1. 10 year limited partnership
   - Return capital to limited partners
   - Divide profits 80/20

2. High risk, high return model
   - Out of 10 investments
     - 3 will not return investment
     - 4 will break even or return less than 2X
     - 3 must return >5X
   - Every investment must have a 5X potential

3. Few technologies/companies have 5X potential
   - Growth will be too slow for 10 year investment period
   - Exits through IPO or M&A very difficult
   - Funding rate of about 1%
IPO pipeline increasing

Life science IPOs resuming
  Will trend continue?

M&A exits improving, but future uncertain

Buyers are risk averse
Amounts raised are lowest levels since 3Q03

Funds with final close in ‘09 took 2+ years to raise capital

38 VC funds raised $1.9B in 2Q10, a decrease of 49% compared to 1Q10
DUE DILIGENCE RISK ASSESSMENT

Management
  technical and business
Technical
  stage of development
IP
  patents issued and applied for
Market
  addressable markets, bottom up analysis
Financial
  How much, how long, how many rounds
Exit comparables
  Close as you can and current

Funding process can take 6 to 9 months
Syndication time limiting step
PROCESS

Carefully prepared and presented materials are very important.

Presentations
- Non confidential summary
- Powerpoint deck for intro
- Full business plan

Process
- Introduction from trusted source
- Executive summary
- Phone presentation
- In-person partnership presentation
Final thoughts

- Prepare, execute and follow up
- Do your due diligence on venture funds
- Talk to portfolio CEOs
- Know fund size, vintage year & portfolio
- Practice, practice practice
- A “no” is an opportunity to improve
- Be a pest and stay alive