

2010 Missouri Technology Expo
October 7, 2010

UNDERSTANDING VENTURE CAPITAL BUSINESS MODEL AND WHAT WE ARE LOOKING FOR

P R O L O G

VENTURE CAPITAL FOR LIFE SCIENCES

SCIENCE-BASED CONSUMER-CENTRIC INVESTMENTS
PREVENTION | DETECTION | TREATMENT



VC BUSINESS MODEL

To understand how VCs operate you must know three things

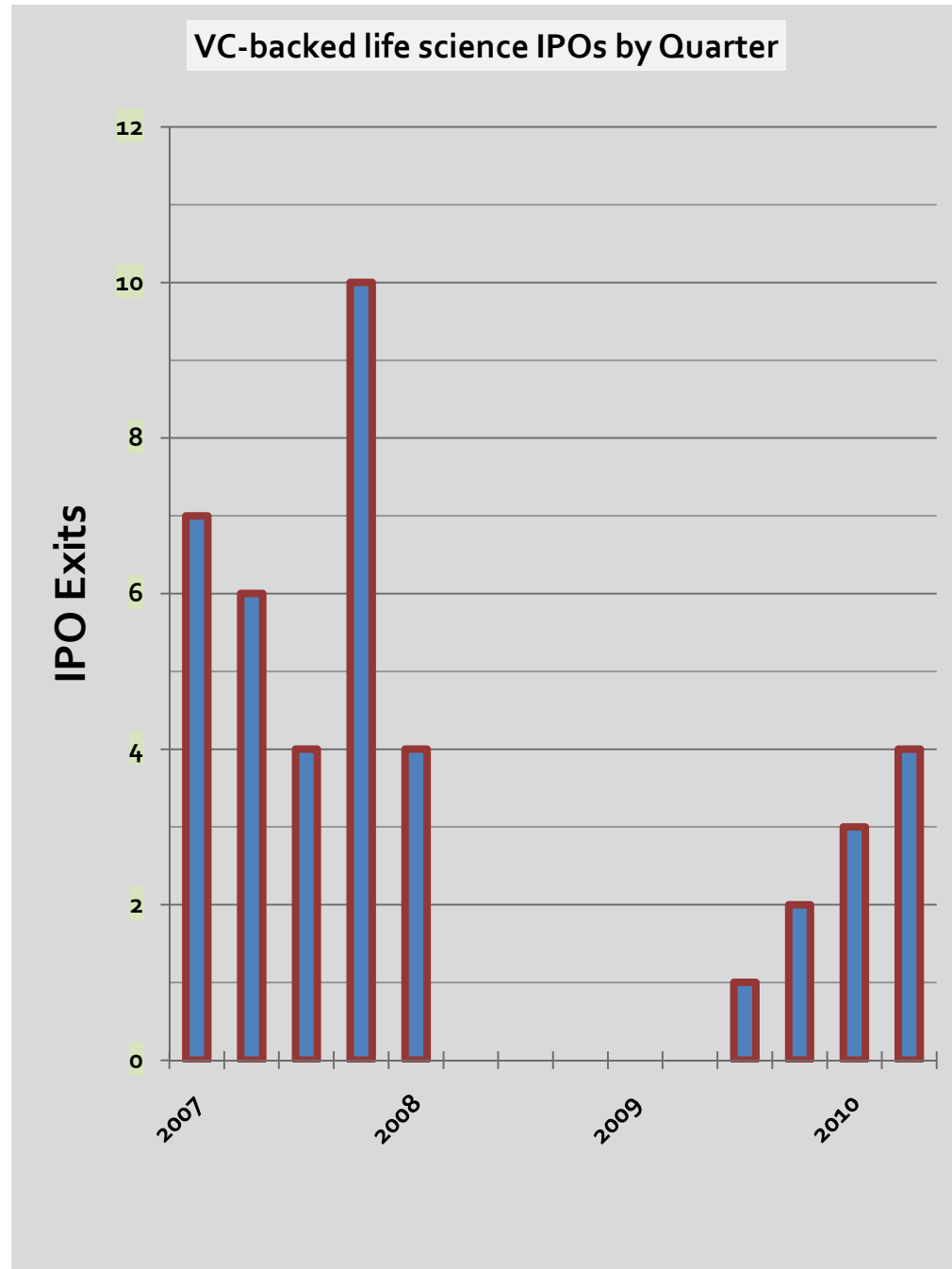
- 10 year limited partnership
 - Return capital to limited partners
 - Divide profits 80/20
- High risk, high return model
 - Out of 10 investments
 - 3 will not return investment
 - 4 will break even or return less than 2X
 - 3 must return >5X
 - Every investment must have a 5X potential
- Few technologies/companies 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

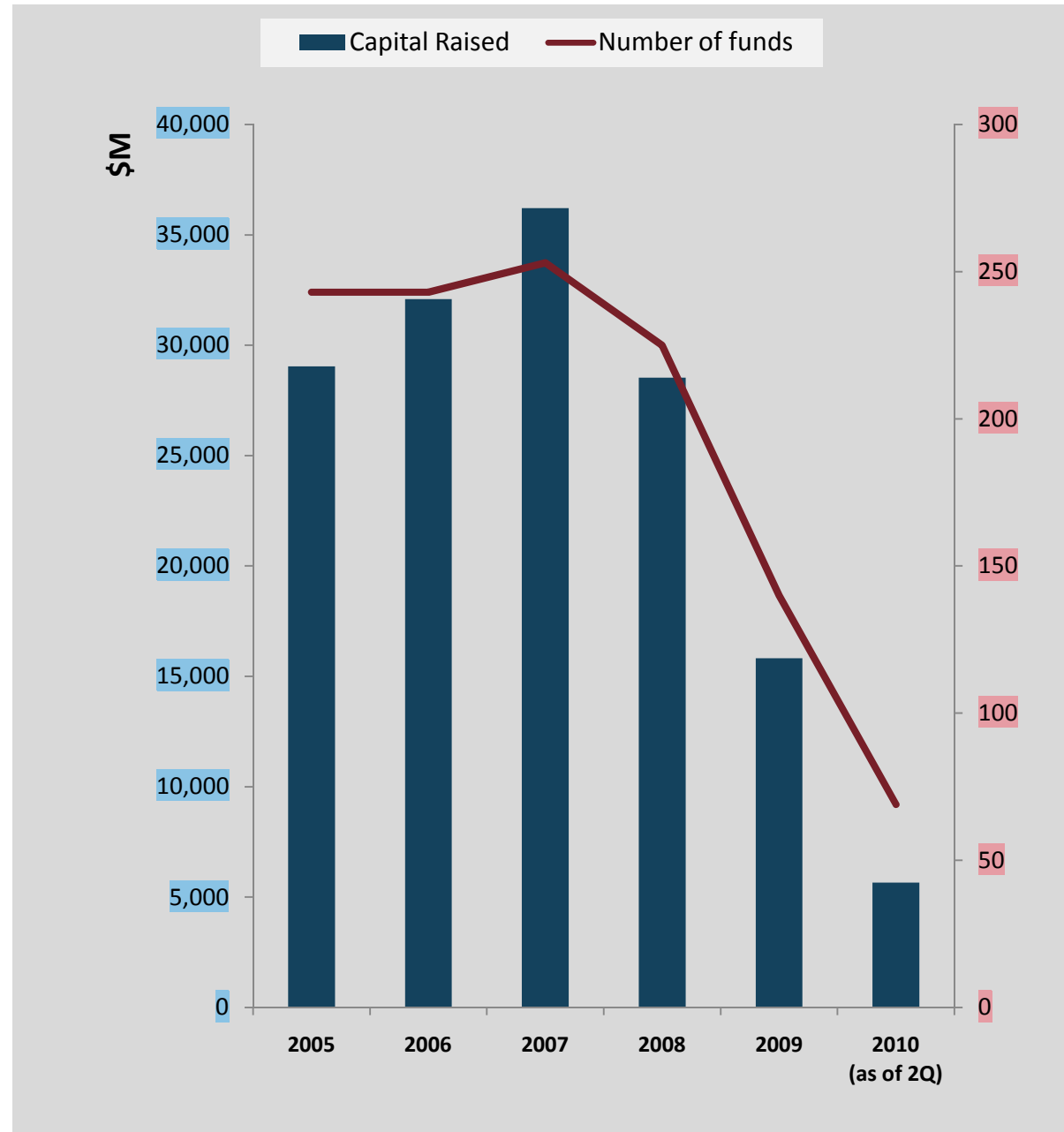
Buyers are risk averse



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

Funding
process can
take 6 to 9
months

Syndication
time limiting
step

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

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