



VCs: how to deal with them

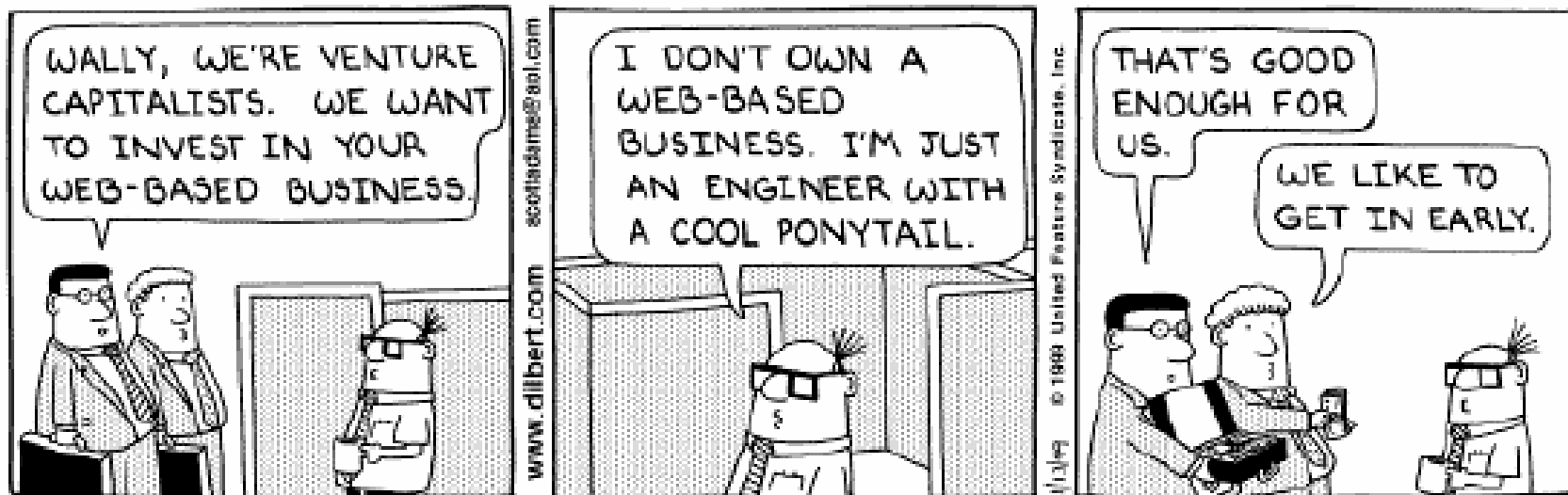
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VCs: how to deal with them

The VC world has changed from ...

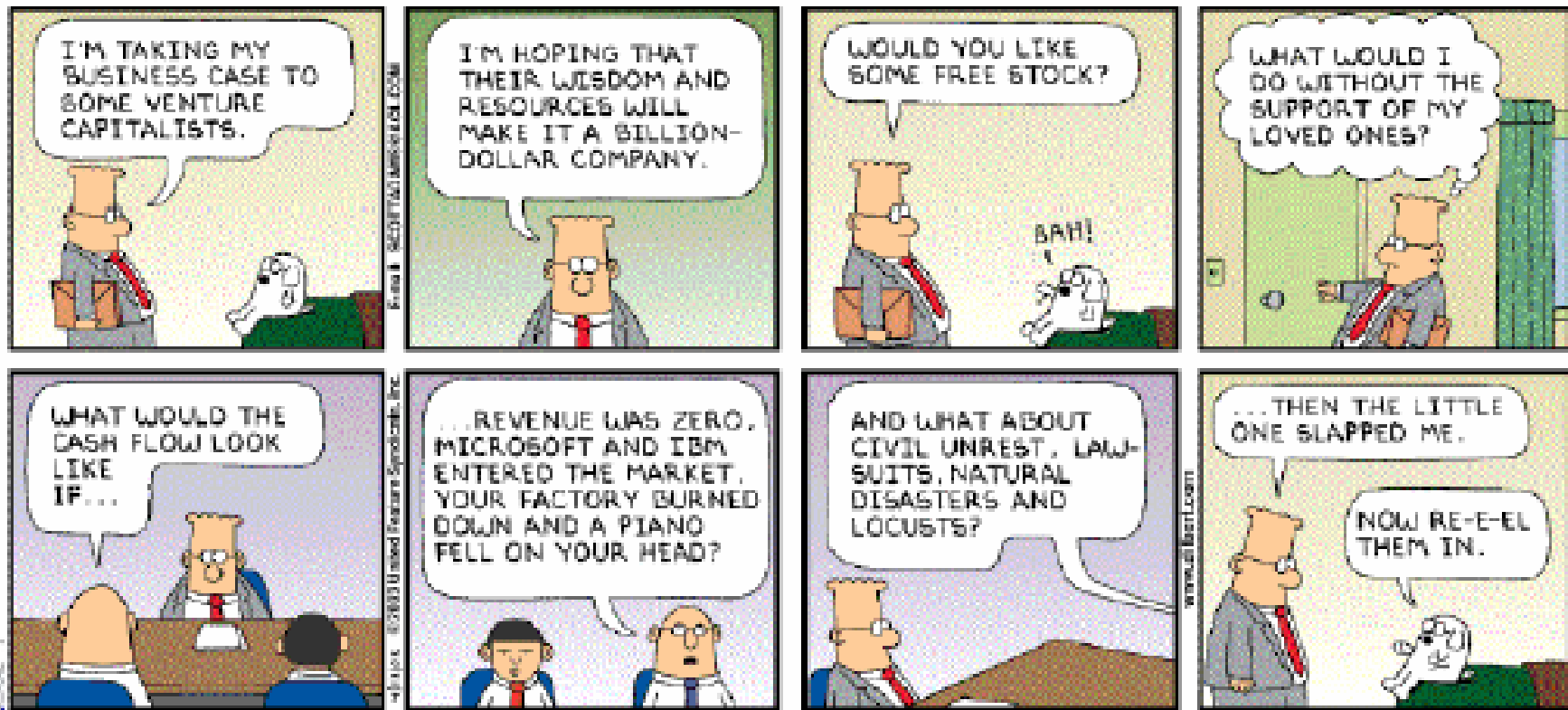


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VCs: how to deal with them

... to



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VCs: how to deal with them

When to ring a VC?

- Not when fundraising and financial visibility is of few months (yes/no);
- When thinking about “starting up” or ...



Early Stage: early Decisions with long Term Impacts

Not all start-up need VCs money

- Amount of money requested;
- Type of Business;
- Ambition & Goals of the company and mngt (i.e. founders).



Equity vs. Debt financing (I)

Equity

- Not to be “repaid”;
- No or “less” need for collaterals;
- Dilutive financing;
- Investors will be “in the company” (SHs and/or BoD).



Equity vs. Debt financing (II)

Debt

- To be repaid & bears interest (impact on BS);
- Request for collaterals;
- Non-Dilutive financing (unless convertible);
- Investors “outside” the company (supposed less operational and strategic impact).



Equity vs. Debt financing (III)

3Fs (friends, family and ... fouls)

- Limited amounts;
- Possibility to attract experienced & successful entrepreneurs;
- Could open (or close) doors to VCs;
- Importance of “smart money”.



Equity Financing Requirements

(... but also true for Debt Financing)

Legal Considerations

Have a Complete set of documents

- Corporate docs: (bylaws, BoD regulations, SA, Cap table ...);
- Investment docs: TS, IA, offers, ...
- Operational docs: HR contracts, ESOP, tax ruling, rental lease, IT, ...
- IP: list & status, freedom to operate & patentability, ...
- Business: plan, license agreements, distributors, ...
- Budget: detailed and realistic, clear assumptions, ...



A Start-up can be created to ...

- To go bankrupt;
 - Last: by providing privately held income and investments;
 - Flip / Trade: by selling its shares / assets to another company for stock or cash;
 - Merge: by complementing activities with a partner;
 - IPO: for the public market;
- > an exit plan has to be clearly defined at start



Clearly defined « task list »

- **Technological Opportunity**
Is this a new product / technology or an add-on
- **Financial Constraints**
Achievement of excellence with limited resources
- **Legal (+) Requirements**
Means hidden enormous work & Act within the imposed regulatory frames (i.e. cGMP, ISO, CE, ...)
- **HR challenges:** i.e. Founder CEO isn't final « successful » CEO
- **Market identification (often isn't multi Bn \$)**
(i.e. capacitors market is not PC, Handheld, Mobile Phones, Multi-resistance drug is not whole antibiotics)
- **Development vs. Research**



What investors are looking for (but do not tell)

- How much can they make
- How and when can they get the money out / back
- Who else is in the deal
- Who is running the company;
Can they translate plans into success?
- Can they find something better elsewhere?



What a VC does like (or request) to see

- Alignment of Cofounders / Mngt;
- Entrepreneurial mindset & skills;
- Communication: say what you do, do what you say;
- Avoid intrinsic arrogance (i.e. we do not have competition), NIH syndrome, ...
- Avoid reluctance to appoint foreign BoD members / mngt;
- Avoid Greediness, unrealistic compensation requirements;
- Avoid not accepting realistic offers.



Choose your VC

- VCs will become your partners and you will spend a lot of time & energy with them > **Choose them carefully;**
- Target equity at exit is not a function of initial equity stake but the reflects of the company strategy;
- Equity at exit depends on:
 - Technology success;
 - Negotiation power;
 - Market;
 - Competition.



VCs are institutional Investors

Implications on:

- Risk / Reward;
- Investment & Liquidity Timelines;
- Deal Structure.



Some Lessons Learnt

- A Game is not won (or lost) until is really over;
- Always think a couple of strokes in advance;
- Common sense is key;
- Grab your luck when you recognize it;
- Endurance, Endurance, Endurance
- Value proposition does not mean distributing SH money to customers
- Timing is key

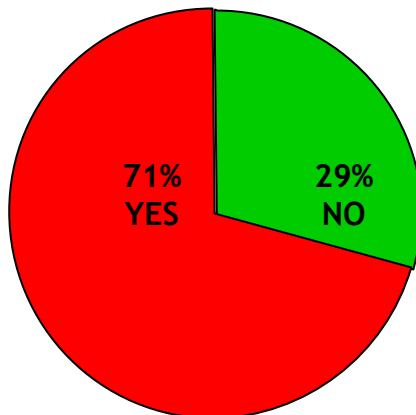


Some Lessons Learnt (II)

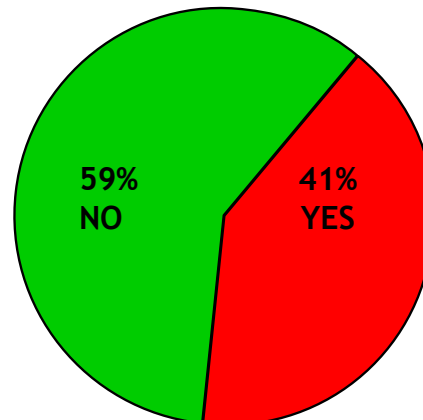
Early stage Investment is a «tricky» business

Down-rounds in VI's Portfolio Companies' histories

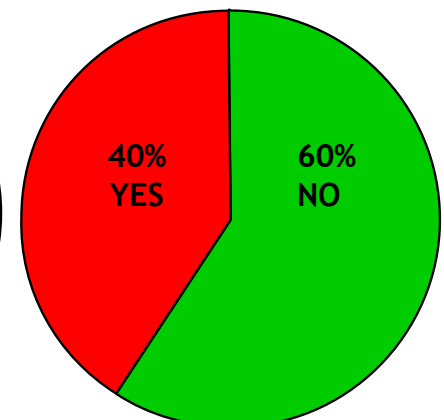
At least one down round
in history of company
 $\Sigma = 17$



Down Round before
or at VI Investment
 $\Sigma = 17$



Down Round since
VI investment
 $\Sigma = 17$



...but down-rounds do not necessarily mean that the overall investment will be bad



Some Lessons Learnt (III)

What comes out clearly of our experience

- Consider fully funded scenarios only;
- Ensure full support of investors and co-investors in rough times;
- Start with very small amounts;
- Be patient;
- Ensure support of larger funds;
- Back mainly big ideas;
- Small ideas have to be “cheap” or avoided...



VI Snapshot

- Tot. 6 FTEs;
- 5 Investment Professionals with hands on experience;
- CHF 101m assets under mngt (10 large corp. Investors, 1 Mngt company);
- IT & LS investment focus in CH;
- Headquarters in Zug.



VI Investment focus

- Life Sciences; Biotech; Medtech: $\approx 50\%$
- IT; Telecom; Software; Materials: $\approx 50\%$
- Seed / Series A rounds: $\approx 90\%$
- Series B: $\approx 10\%$
- Investment / Company: CHF 4 - 6m



VI Life Science Portfolio

Therapeutics



Medical Devices



Technology Platforms



* Athelas sold to Merlion Pharma Pte Ltd, Singapore



Conclusions

- Most successful companies have VCs;
- Most VC backed entrepreneurs goes back to VCs in their next endeavor;
- VCs are Partners, not owners.



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