# Raising venture capital in the biopharma industry

Lev J. Leytes

**Raising venture capital (VC) is both an art and a science. Future entrepreneurs should carefully consider the various issues of VC financing that have a strong impact on the success of their business. In addition to attracting the best venture capital firms, these issues include such subtle but important points as the timing of financing (especially of the first round), external support sources, desirable qualities of a VC firm, amount to be raised, establishing a productive interface between the founders and the venture capitalists, and most importantly the effects of well-executed VC funding on hiring senior executives and scientific leaders.**

**Lev J. Leytes**
Chairman
Generation Capital, LLC
c/o VAI
1190 Bordeaux Drive
Sunnyvale
CA 94089, USA
tel: + 650 325 6520
fax: + 650 325 6539
e-mail: levl@generation-capital.com

▼ Many entrepreneurs are asking themselves: 'what elements of success must my company have to attract venture capital (VC)?.' If you, the reader, are such an entrepreneur, then you should also consider the best strategy and timing to fund your new company and the desirable qualities of your future partners – the venture capitalists (VCs).

## Timing in raising the VC funding

A strong argument can be made for raising serious institutional VC money right after the founders put in some seed capital. The logic is simple: when you have the beginning of a great company, to maximize chances of succeeding in your very risky enterprise you need great team members early on, including great VCs. If you cannot attract such professional VC funding, it might be a sign that some of the key ingredients for a successful company are lacking. If, instead of addressing the problem, you take money from inexperienced angels, you will create a temporary euphoria whilst masking the real problem that could later kill the company. In addition, it might be difficult to raise subsequent money because angels have paid more than professional VCs ever will. Angels also typically will not have the same resources as VCs would to participate in subsequent rounds. In addition, it might be very time consuming for senior management to keep many diverse amateur angel investors well-informed and supportive of the company. It is crucial to identify and address the right problem early on. Try and raise professional VC money as early as possible.

## External support sources

It is essential for an early-stage company to start building an 'A'-quality team, both internally and externally. Often, external teams should be built first. It might be possible to recruit outside advisors or board members who are industry experts, like you and your company, and are willing to use their reputation to support your company. In some cases, it could be the only way for a 'rising star' inexperienced entrepreneur to create enough critical mass for a reputable VC group to even become interested. Of course, without the VCs' money, it is hard to attract the 'A'-quality internal team members. Your external team should consist of advisors, board members, lawyers, accountants and consultants.

### *Angel investors*

Although discussion of angel investors is outside the scope of this article, in some rare cases, they do make sense, although the main goal should always be to bring in professional VCs.

### *Equity versus cash?*

How should you compensate your advisors before the first VC round? Often they will work for a deferred cash compensation until the financing closes (obviously they must believe that it will close!) and/or equity. In setting their compensation, think of the value they add to the company. You might find that some of them will be pivotal to your success. How much is that worth?


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You should choose your advisors carefully and look for several specific characteristics. They should be experts in working with early-stage technology companies like yours. An advisor should be very selective in who they work with, and demonstrate they only want to work with you because they are convinced they can add great value, not because they just need another client. They also have to convince you they are 'A' quality, the best in their class and reputable experts in their speciality. Most importantly, advisors must treat you as a long-term business partner, combining excellent technical skills with good business judgement and playing a proactive leadership role in helping you succeed.

### What are VCs looking for in a company?

VCs look for a few key ingredients: (1) Market opportunity. VCs must be convinced that there is a growing unmet need, large enough for you to reach your revenue objectives without needing to attain a very large market share; (2) Technology. They must see that your technology gives you a clear, sustainable, competitive advantage; and (3) Team. They must have trust that the team is credible, creative, works like a well-oiled mechanism and is extremely driven to succeed.

### What should an entrepreneur look for in a VC?

It makes a lot of sense for an entrepreneur to be discerning about their future partner – the VC. Everybody knows that VCs are very careful about a company they invest in. What is less obvious is that, whilst VCs are spreading their risks and working with many companies, an entrepreneur is typically devoted to only one company at a time. Therefore, it follows that the entrepreneur has a more concentrated risk exposure and should do even more in-depth research than a VC. This does not always happen and it is one of reasons for horror stories about VCs who kill the company they invested in (it happens!). To avoid such situations, you need to be selective in choosing a VC.

You want someone who has experience in the VC field and has been an investor through a complete cycle of a new company. You want to have the VCs that have a 'brand-name' recognition in your industry. These VCs will not only add value beyond their capital contribution, but will also help attract additional high-quality investors for subsequent rounds. Your investors' reputation becomes your company's asset. You need to protect it and you have the right to leverage it. Ideally, you want someone who is as close as possible to your products and market. Their advice will be so much more on target and you will not have to spend an enormous amount of time educating them.

The amount of money you will need from each VC must be consistent with their past practice. It is important to ask for enough money, but not too much. Remember, you will be in a stronger position to raise more money later, when your plans become reality. However, if someone offers you more money than you think you will need, take it. You want to be aware of whether the VCs you are approaching are investing in other companies that are at the same life-cycle stage, not earlier or later. Also, the VC must have the ability and commitment to invest in subsequent rounds. Assume that any time you raise money you will need more. Hopefully, a day will come when this will not be true, but it is a good default mode to operate in. You need investors who are prepared to continue to invest. Incidentally, this is often a problem with angel investors. It creates enormous barriers for subsequent investors, when the ones who have already invested and supposedly know the company well refuse to put new money into the company.

You will be working together with your investors for several years in this company and possibly in the next one, spending a lot of time together therefore interpersonal 'chemistry' is vital. You must be compatible, otherwise all your energy will go towards politicking. A strong preference should be always given to VCs who can play an active role and 'lean on the wheel' with the rest of the team. Such VCs exist and I have been privileged to work with some of them over the years. They add tremendous value, in addition to capital.

### What are investors looking for in an entrepreneur?

You should know how the VCs will evaluate you. They are usually looking for a few personal traits. You must demonstrate that you are an aggressive but realistic goal setter, motivated and driven, crisp communicator, committed to success at any personal cost, trustworthy, able to execute and deliver results, and ideally you should have a track record of success in similar enterprises.

### Entrepreneur: personality traits required

One of the biggest obstacles to success is often the entrepreneur him- or herself. The very same qualities that make one a successful scientist or engineer might bring your company down if they are not augmented by new traits. Assuming you are a scientist or an engineer, what do you need to succeed personally as an entrepreneur?

Before you can embark on any ambitious venture, you must have courage. You will be making key decisions based on incomplete information. You will be operating in a space you have never been to, let alone conquered. Next, you will need a nearly inhuman amount of stamina. You must be prepared to work on a 24/7 schedule. If you cannot commit to this, you are better off continuing to work for someone other than yourself.

Versatility is a crucial trait because you need to be prepared to do whatever it takes: you might be both the chief scientist and the chief bottle washer. You must personally take responsibility for your company's success or failure. Do not expect to blame other people or circumstances.

Being an entrepreneur requires tenacity. You must never give up until you reach your goal. My favorite example is about a child who is trying to learn to walk. How many times should this child fall before giving up and admitting failure? Like the child, you must think not in terms of how many times you try, instead tenaciously keep pushing until you reach your objective. You must also build up confidence based on knowledge. Many people will tell you that what you want to do cannot be done. Listen to who is talking. Are these experts speaking from experience? In many cases they are right, but do not assume this automatically. You need to build your own knowledge base and arrive at your own conclusions, taking into consideration the advice of the experts. To have the tools to succeed, you must have studied marketing, finance and business, at least enough to be conversant with the experts. Depending on where you are today, this could take you several years, but it will be time well spent. As one wise man said: 'smart people learn mostly on others' mistakes'. Business education will help you learn from others. One of the most interesting and practical ways to learn business is to read biographies of the business people you admire.

And finally, you must be committed to personal growth if the company's future success should require it. The company will go only as far as its senior executive team is capable of taking it. If this team is comprised of people who are close-minded or unwilling to step out of their comfort zone and learn, that team becomes a dead weight instead of a rocket engine.

### The vision: is it a product or a company?

The initial good idea of entrepreneurs might not get funded because it is a product idea, not a company idea. There is nothing wrong with a product idea and some VCs will indeed fund them. These product ideas are often licensed or sold to larger companies. However, most VCs are interested in building industry-leading companies. Such a company will require a deep and bold vision of the future. If that is what you want, make sure you have such a large-scale vision and that you have communicated it well to the VCs. How do you build a company that can generate substantial revenues and grow rapidly? How will you build and maintain your competitive advantage over the years?

### The magic of thinking big

It might be more difficult to raise small amounts of money from many amateur investors to build a small company than to raise larger amounts from a few expert professional VCs and building a leading company in your industry. This sounds obvious, yet many try the amateur investors first.

### What about risk?

Do not take risks that might result in devastation for your company or you personally. At the same time, be prepared not to accept failure. Failure is not when you get negative results; failure is when you stop trying to obtain the result you want.

Create a strategy that minimizes risk. There are always ways to accomplish this. One is to raise more money than you think you will need. Have contingency plans in place. It is possible and indeed likely that you will experience temporary setbacks. Make sure they do not become big disasters; anticipate problems and put out sparks before they become large fires.

### Effects Of VC funding on hiring senior executives

Always strive to hire the very best senior executives you can. They will build an 'A'-quality team. 'A' people hire other 'A' people, 'B' people hire 'C' people.

In the end, only the people matter, not markets and not technology. You can always invent or license a new technology, or refocus on new market segments. It is much harder and often impossible in a small company to replace the top executives without wreaking havoc on all involved – employees, customers and investors. Obviously, the company must be well financed by brand-name VCs to induce the top-quality people to join you.

### Conclusion

My final advice is to start off by selecting or inventing a business that has high potential for growth. Build top-quality teams, both internally and externally. Always look for ways to succeed, not excuses for setbacks, and seek to learn and grow personally from your experiences. Focus first on who you become whilst building your company, rather than on what you receive.

Remember that careful planning is essential, even in an unpredictable environment. Whilst plans are not always followed precisely, they are a useful monitoring tool. If you fail to plan, you have planned to fail. Once you have formed your plan, you must act! Execution is the key. Any great idea is a work of fiction and is probably valuable as such. However, it is not a company until a team is created and makes this a reality. And finally, enjoy your road to success!