



## Tips to Navigate the Health Science Investor

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**Re: Investor Advice - Part 2 from RESI Boston Conference & Digital Medicine Connect at BioPharm America September 13,14,15 2016 Combined Conference Insights**

### **Investor Advice**

CEOs must be able to present concisely and clearly, but be obsessed with details and think about plan B.

You should know what creates value and understand that investors are always attempting to de-risk. They will want to know that your ask is enough to get you to the next data point that will de-risk and create value. On the one hand, VC's think companies often ask for too little money, on the other, you should raise just enough to get to the next inflection point.

The market will decide the valuation.

The CEO must come across as someone who knows what they are getting into and know what they don't know. Investors want to see that management is comfortable with the startup culture. They don't want scientists that have nominally left academia. Sometimes ex-pharma management do not understand what they are getting into, as they are used to support around them.

When structuring a deal, management must balance many conflicting demands. Preferred shares are considered a better way to structure, but it is costly. Convertible notes have a lower transaction cost, but often lead to cross purposes and use can be detrimental to entrepreneur as the dilution can be quite high. Convertibles should have a cap. When VCs get warrant coverage, it makes it difficult for subsequent rounds of funding.

NDA's expire, trade secrets need protection. R&D tools are trade secrets, don't disclose them to the world. Don't disclose how you got there. Have agreement with consultants and employees as to who owns the IP. Universities want IP assignment, CRO's don't.

The three most important points to get across quickly is (1) describe the problem (2) present your solution and (3) spell out your ask (how much money you are raising). It helps if you engage someone to help you frame that. They want to hear a realistic message in five minutes. Your time is better spent making them remember you. One idea to achieve that is to make one claim and back it up with data.

Begin and end the slide deck with a summary (5-7 points). What is the problem you are solving, what is your solution, what is the size of the market (i.e. number of patients and reasonable pricing assumptions, not actual market size), describe your team and the amount you are raising.

In general, your presentation should answer the question “but how do you know it is going to work” “what is the entrepreneurial advantage”. What is it that will make you successful vs everyone else?

DO NOT GIVE UP. VC’s will see 200 companies to invest in a handful, so expect to get a lot of no’s before someone says yes. If you don’t get a no, follow up 6 months later to update on progress.

### **Issues in the Diagnostic Industry**

It is currently difficult to raise money in the area. There are too many companies are chasing too little money.

Currently, a company spends about \$100 million prior to an IPO. The pre-money value at the IPO is in the range of \$200-300 million. This gives investors a 1-2x bump at best at IPO, not a very good return. M&A is a better exit than the public markets right now.

Investors are not enthused when a PMA will be needed to get to market as the average company now spends \$80 million to get through the FDA. A product must make a large and fundamental difference in care and save money to make it worthwhile to develop.

Through a 510k, approvals in diagnostics, can be inexpensive. The problem however is that it is costly to build the market and get reimbursement.

Investors want you to demonstrate that it makes the patients or physicians life easier, or saves money in the end or sends the patient to treatment earlier thus leads to better outcomes.

The market place has changed; physicians now need to justify tests.