

“Do’s and Don’ts” in Venture Funding: A Team Perspective

December 4, 2007

Jon Norris

Education: BS UCR, JD Santa Clara University School of Law

- 1st Career: Litigation Attorney, Pahl & Gosselin
- 2nd Career: Banker - Senior Vice President, Manager of No Cal Life Sciences Group, Comerica Bank. Provided growth capital to venture-backed LS companies.
- 3rd Career: Life Science Venture Business Development for SVB
 - Managing Director, SVB Capital
 - Manage all West Coast Life Science VC Relationships
 - Coordinate life science operations with Bank's Private Equity Group and Commercial Bank
 - Run SVB Venture Exchange Life Science, working with early stage and venture-backed companies to provide equity strategy and targeted introductions to the VC community.

Diana Villegas

- 1st Career: Orthopaedic Surgeon
- 2nd Career: Life Science Executive for venture-backed companies
 - St. Francis Medical Technologies – Director of Clinical and Scientific Affairs
 - Thermage – Medical Director, led clinical initiatives and supported R&D and Sales & Marketing Organizations
- 3rd Career: CEO of soon to be venture-backed company
 - Alpha Orthopaedics – Using non-ablative radiofrequency energy to induce collagen contraction and stimulate wound healing.
 - Diana is in the process of raising Alpha's Series A financing.

Antoun Nabhan

Education: BA University of Chicago, JD Harvard Law School

- 1st Career: Management Consultant, Deloitte Consulting Group
- 2nd Career: Lawyer (Venture Law Group), Entrepreneur (VP of Finance & Business Development, Incellico)
- 3rd Career: VC
 - Principal, Sagamore Bioventures
- 2nd Career Part II: Entrepreneur Again
 - CFO, co-Founder of Presidio Pharmaceuticals
 - Small molecule antiviral discovery
 - Raised \$26M Series B from Panorama, Bay City, Baker Bros
- Not nearly as cool as Avi

Avi Kulkarni

Education: Stanford MBA, Temple University PhD, Bombay University Bachelor of Pharmacy

- 1st Career: Industrial Pharmacist for J&J and American Home Products
 - 7 records of invention, including Extra Strength CoTylenol
- 2nd Career: Management Consultant and Corporate Business Development
 - Booz.Allen and Hamilton and Chiron Corporation
- 3rd Career: Biotech Start-Ups
 - CFO of XDx
 - CEO of Lumen Therapeutics
 - COO of Aviir, Inc (Series B, Personalized Medicine, CV Diagnostics)
 - Has raised over \$80M in multiple deals (seed, Rounds A through D)

1st Call...

What are investors looking for in a Company?

- Team (management/SAB/BOD)
- Hook
 - What is the unfulfilled utility?
 - How can your product satisfy this need?
- Product
 - Technologies and platforms are sexy, but only a product can be truly valued (cash flow calculations)...
- Plan w/ Realistic expectations
 - Cost to build business and get to cash-flow break-even **or value inflection point.**
 - Valuation and cap
- Specific sectors
 - Sectors cycle between hot and cold and VCs have their own history...go with the flow

Many Rounds of Sparring Before the Term Sheet...

Three Big Questions that will be Need to be Answered:

- How real are the data?
 - Published
 - Consistent with theory
 - Multiple sample sets and approaches
- Is the position defensible?
 - Strength of IP position (today or in the future): FTO; BTE
 - Nature and proximity of competition
- What will future cash needs do to early investor positions?
 - Realistic and targeted cash flow models
 - Valuation inflection points
 - Back-up plans

Common Questions Just Before the Term Sheet

Materials that you should be prepared to send at the press of a button

- Business plan (Executive Summary; Full plan; PowerPoint presentation)
- Management bios
- Prior valuation history
- IP and legal opinion
- Technology description & data
- Product pipeline
- Product and Marketing plan(s)
- Revenue vs. spend forecast
- Prior financials (GAAP)
- Operating plan and budget (including 2 year hiring plan)
- Relevant contracts

Term Sheet Negotiations

What can you negotiate and what can you not negotiate?

- Just about everything is negotiable!
 - Valuation
 - Size of raise
 - Stock re-ups
 - Role for founders and management
 - BOD positions (harder to affect this)
 - Timing of close (very hard to effect this)
- One thing is not negotiable:
 - Control

Sources of Financing

What are the alternatives to Sand Hill Road

- Sand Hill Road
- Sand Hill Road
- Sand Hill Road
- NY, Chicago and Boston
- Hedge funds
- Corporate Partners