

**The Life Science
Executive's
FUNDRAISING
MANIFESTO**

**BEST PRACTICES FOR IDENTIFYING CAPITAL
IN THE BIOTECH AND MEDTECH ARENAS**

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**LIFE SCIENCE
NATION**

Connecting Products, Services & Capital

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Knowing Who and What You Are, and Where You Fit

“Pivoting” is a word that’s thrown around a lot by the business press—most often in the software space, where it’s used to refer to the practice of rapidly updating a new product in response to customer feedback. This practice has given rise to an entire school of thought on how to make a start-up company succeed. These days, defining who you are, what exactly you are offering, and where you fit in the marketplace and pitching your product to potential investors is not a linear process. Instead, outside feedback is critical in helping you to pivot your message and even sometimes your identity so that the process of reaching the marketplace becomes a feedback loop.

If you’re seeking to understand more about entrepreneurship in the life science arena, you can quickly become immersed in the dialogue that is out there on the Internet, ranging from the rich and provocative commentary found on steveblank.com to Life Science Nation (LSN) weekly newsletter content to articles in the Harvard and Stanford business publications. In this chapter, I will try to distill some of that commentary and provide some practical input on the process of creating your identity by pivoting in response to outside feedback.

There is one thing you have to understand before you get started: fundraising is as complex and difficult a process as science itself, and just

as with experiments in the lab, the success-to-failure ratio is high. Here is a very general rule of thumb: if you contact 200 to 300 investors that are generally a decent fit and then perform a diligent follow-up, you may create a dialogue with 40 to 60 of them. In the end, 8 to 12 investors may build a relationship with you, and 1 or 2 may actually allocate to you. It will never be easy. You're probably not going to get a deal on the first phone call, or even at the first meeting, so you shouldn't make that your goal. LSN research has found that with a strong global target list (GTL), outbound fundraisers may be able to set up meetings with up to 20% of the investors they contact—a hit rate that any sales executive would envy—but getting to the table is only the first step on the path to receiving investment. However, what every meeting offers you is an opportunity to test the effectiveness of your message before a live audience.

Given how many years of development it takes to get a life science product into the marketplace, investors offer your first real-world testing opportunity. Many of them will be more experienced than you are regarding your market segment, regulatory issues, or the ins and outs of reimbursement; more than that, as you've come to them for money, they will have to put themselves in the role of a customer in your market and make a cold, hard assessment of the potential value of your product. The investor therefore provides you with a chance at getting valuable customer feedback that in other industries serves as fuel for pivoting.

If you do reach a deal from the first meeting, that's wonderful—but it should be regarded as a happy accident. It's far more likely that you'll be speaking to a dozen or more potential investors before you find someone who wants to back you. But each time you deliver your pitch to an investor, you're engaging in a valuable learning opportunity. Above all, pivoting is the art of not wasting those opportunities.

You Can't Adapt the Message Without a Real Audience

The truth is that you can't learn how effective your message is until you go out there and deliver it to as many investors as possible. Financial advisors and business consultants can give you valuable input, but the true assessment comes from those asked to stake real money on your success.

Agonizing over every detail of your messaging before going out there to talk to potential investors is a waste of your time. Instead, you need to accept that you don't have all the information yet; you need to book some meetings with investors, put on the best presentation you can, and listen carefully to the responses you receive.

Tailor your pitch for each type of investor and tweak the presentation after each meeting to incorporate what you just learned. So, for example, if you've given your tailored presentation to an angel investor with experience in the medical industry and the investor wasn't wowed, ask why not! Don't be shy, and don't chalk it up to an off day or a clumsy handshake. You have to accept that the investor made a rational decision not to back you. Ask what you're lacking, substantively, that might have changed that decision. Be prepared to accept that you're making mistakes, and then fix those mistakes.

Adapting your message might be as simple as tailoring your presentation better. Did the investor tell you that your product was too scientifically complex to risk money on? That's probably a signal that you need message adaptation; you were speaking in a language that the investor didn't understand, when instead you should have been connecting on his or her own level by discussing how soon the product could reach market or how your product is going to out-compete rival solutions. Or perhaps the investor will tell you that you seem overconfident regarding the opportunity and are failing to consider the obstacles x, y, and z that the investor is already aware of due to past experience. You can then add your responses to these challenges to your messaging and turn this weakness into a strength.

Such cosmetic changes are relatively easy to contemplate. But if you're repeatedly encountering poor results even after you've received plenty of feedback and updated your messaging, you may need to consider the need for a more serious pivot to your company's direction.

Major changes of direction are more common in the life sciences than you might think. Due to the complexity of human biology, it's rare for any product to affect only one working part of the whole body. You are probably aware of multiple potential applications for your product; perhaps one of the avenues you didn't originally consider would be an easier regulatory

market, a larger opportunity, or less competition than you've encountered on your current path. We have all heard the stories of developing for x and solving problem y. For example, a cardiac researcher developed a novel drug delivery device to treat myocardial infarction; during the development process, he realized that the best market opportunity for the product was in treating Achilles tendon injuries! These situations are not as uncommon as you may think.

There's no shortage of examples of life science companies that were forced to deviate from their original plan to reach market. You might be developing a drug discovery platform but then find that there's more potential in developing the molecules or biologics that you identify than in selling the platform itself. Or you might be planning to market your diagnostic device directly to physicians and then realize you could get more market share by selling to hospitals instead. Healthcare is what's called a multi-sided market; regulators, large pharma companies, hospitals, care providers, HMOs, and patients are all involved in the adoption of your product and in the eventual generation of revenue, and you may very well need to rethink your approach to any one of these market segments.

You should also bear in mind that the investor is betting on the strength of not only the product but also the management team. Is your team well-rounded? Maybe the investor expressed worries about your lack of industry experience; in that case, you can consider finding an industry veteran to serve as your team's advisor.

Examine Your Business Model

According to one well-known guide, *Business Model Generation* by Alexander Osterwalder, a business model comprises nine components:

- Value proposition—the product that you're developing and its potential value to an investor
- Customer segments—selected from within the multi-sided health-care market
- Channels—the distribution methods through which the product will reach the customers

- Customer relationships—how you find customers and keep them
- Key partners—may include material suppliers, CROs, and academic facilities, and will certainly include your investors
- Key activities—include clinical trials and regulatory filings
- Key resources—often include intellectual property and key research facilities and collaborators
- Costs—which define the length of your runway
- Revenue streams—in which reimbursement is a vital consideration

For a start-up in any industry, the initial business model, no matter how clear and well conceptualized, is in fact only a rough sketch—you don't yet *know* if your model going to work, and you have to accept that parts of it might not survive your company's first encounters with the real world. For example, you might have realized by reading this book that you need to change your model of how to build relationships with investors. That's a pivot to your model in itself. But if your search for funds is getting you nowhere, it's worth considering every part of the business model. Are you failing to explain part of the model to investors, or does the model itself need an overhaul? In order to have a positive effect, change has to be substantial and meaningful. If you pivot as you move along, you can incorporate what you have learned.

Know Your Space

When you deliver your pitch to investors, many of them will be paying close attention to how much awareness you have of the market for your product. Negotiating the existing marketplace is a vastly complex endeavor, and entrepreneurs who are new to the industry may have a lot to learn in this regard.

Investors, particularly generalist fund managers who might be more accustomed to investing in other areas of technology, will want you to show a good grasp of “customer-market fit.” You have to know who your patients are, who's providing them with medical care, what products they're using at the present, and how the current solution generates revenue (which may be

a reimbursement quagmire). You have to show how your product will represent a better solution for these patients and their care providers than what they have at present. You have to know the size of this market and how much revenue your product is capable of generating. Additionally, you have to be aware of the regulatory paths for products like yours and what you'll have to do to get the regulator's approval.

It's been proven that the best technology in the world won't save you if you don't understand the market. Highly effective new drugs and diagnostics have been driven out of the marketplace because their developers failed to solve the reimbursement problem. Innovative medical devices have failed because the developers didn't account for competition; it can be hard to build market share for a new type of catheter, for example, because hospitals have so many existing catheters to choose from.

It's been said that the sales process is first about listening to customers and understanding what they need and then demonstrating that your product will serve that need. Investors will need to be shown that you're engaging with that process even in the early stages of development and are aware of all the market risks you're asking them to face alongside you.

On the upside, learning about your market isn't going to cost your company a great deal, and in healthcare, there are often a wealth of resources to aid you. Charitable foundations can be very useful partners for an emerging company; many offer small grants or venture philanthropy financing to companies performing early stage research in their disease area of concern, but these groups are more than just investors. They're also experts on both the science and the industry of their indication, and many offer access to a patient registry for use in clinical trials. Building a relationship with a foundation can therefore be of huge benefit to you, even if they're not able to offer funding to your company.

Embrace Chaos

This process of finding the right message and the right business model might seem chaotic. In a sense, it's *meant* to be chaotic. Adopting a pivot mentality means accepting that you don't know everything about your product's journey to the marketplace and being prepared to adapt as you go. For a start-up, your business plan should always be a work in progress.

Indeed, in this book we've given you a road map of the transformed life science investor landscape, but this too is a work in progress. Undoubtedly this landscape will continue to change in the future, and your fundraising campaigns will have to keep up with new investor trends. As you undertake further fundraising rounds, you'll be constantly learning about new investors in the life science space.

And in addition to learning from chaos and difficulties, you can also learn from your successes and serendipity. If you get a positive response from an investor, you should always ask to be put in touch with their network of co-investors, those who have invested alongside them in companies like yours in the past. Each of those investors may provide you with further opportunities to adapt.

It's Never Too Early

Scientists often tell us that they don't want to leave the lab just yet. They need to do more research before starting a fundraising campaign; they need to finalize their development plan and get every detail right in order to make the most compelling pitch to investors that those investors have ever heard. Or perhaps they need to get more personal referrals to investors from their professional network before they're willing to pick up the phone.

This attitude will only hold you back. It's a form of perfectionism, which is fear based and leads to an assumption that outside feedback, whether positive or negative, is the final judgment of a start-up's worth, rather than an instrumental tool to be utilized in creating a successful company. It won't serve you in the real world.

You have to accept that fundraising and relationship building are slow processes. It normally takes 9 to 12 months or more to complete a financing round; many companies have failed simply because the scientists kept the company holed up in the lab until they ran out of runway, not realizing how long it would take to raise the funds necessary to complete their research. It's never too soon to start building your investor network.

You should think ahead of time. Perhaps you're raising money to cover a phase I trial and you've made a call to a private equity firm, only to find out that while they are very interested in your technology, they don't want

to invest until you've finished phase II. Keep them in the loop! Inform them of your research successes as they occur, and when you've reached a stage where you match their criteria, maybe they'll want to lead your next financing round. By keeping up a relationship, you'll actually increase your chances of this happening, since people in general are always more inclined to contribute to individuals and companies they "know."

And it's never too early to learn about your market and about who's presently investing there. Finding those investors who are a good fit for your company will help you far more than getting referrals to investors who may not be interested in your technology at all.

Pivoting Doesn't Mean Throwing Your Work Away

So you've been talking to investors for a few weeks, and maybe you've realized that part of your original vision has to change. Perhaps you've learned that your regulation pathway is onerous and now you're planning to apply for a CE mark rather than FDA approval. Or you've discovered that there's a suitable indication area for your product that provides a stronger market opportunity than the one you were originally pursuing. This can be particularly tough for a researcher who has focused his or her entire career on a particular indication; pivoting to target a new one might feel like abandoning your dreams.

It's important to remember that you're not abandoning your prior work, merely rethinking it. That original opportunity you looked into hasn't gone *away*; it's just not the best path to market. Everything you've learned about your original vision still has value, and changing your model doesn't detract from that. Investors will indeed be glad to know that there are several potential market opportunities for your product and that you have an avenue to create extra value for them down the line by engaging with multiple markets.

You can't be too attached to your original plan. One thing we hear a lot from investors is that they want to back savvy entrepreneurs who display the industry know-how needed to get their product to market, not hyper-focused lab researchers who may have unlocked an amazing discovery but don't seem to have a realistic idea of the discovery's real-world value or

path to market. The best life science entrepreneurs work in a truly interdisciplinary fashion; they have an awareness of their product's range of potential applications along with the business smarts to make it happen. Your new knowledge and ideas will add to your existing knowledge and ideas, not displace them, and now you'll find you have all the resources required to create a strong message for your company.

Parsing Technology

One way of parsing the life science landscape is on the basis of technology. Life science start-ups can be divided into three broad categories: those that offer disruptive technology, those focusing on significant breakthroughs or “leapfrog” technology, and those offering iterative technology (see Figure 5.1). Each category comes with its own benefits and shortcomings and has the capacity to attract the right investors. However, there is a hierarchy when it comes to investor interest, so you'll need to understand where your company's products fit on this scale in order to position yourself best and find the right investor audience for your company.

PARSING TECHNOLOGY

Truly disruptive with access to capital, resources, etc.



Disruptive Technologies
Very few in the marketplace

Great technologies that require a targeted, outbound approach to raising capital.



Breakthrough Technologies
Hundreds in the marketplace

This constitutes the majority of emerging life science companies



Iterative Technologies
Thousands in the marketplace

FIGURE 5.1: *Understanding the technology landscape in the life sciences*

Life science companies with “disruptive” technologies have the potential to change the world in a big way. The word “disruptive” is often overused in the life science industry, so I’d like to take a moment to explain exactly what it means. Disruptive technologies are those that literally disrupt the industry by driving an advancement that completely changes the marketplace within one or several indications. This is the rare technology that is groundbreaking on a huge scale; a cure for diabetes or an AIDS vaccine would be examples of these kinds of developments. These companies represent billion dollar opportunities and are typically quickly identified and shepherded to the top-tier venture capitalists. There are very few start-ups who fall into this category.

The companies with “breakthrough” technology represent significant solutions for major medical needs. These can be viewed as “leapfrog technologies” that change treatment paradigms or improve outcomes in a big way. These are not necessarily disruptive, but they are undoubtedly valuable innovations that impact patients substantially. These breakthrough companies might number in the hundreds, and they are tasked with marketing themselves to the right investors, because the shrinking venture capital (VC) population isn’t necessarily accessible to them and may not be the best fit for them. The breakthrough companies in particular need to learn about the new categories of investors that are filling the void left by the venture capitalists.

The companies offering “iterative” technologies are those creating “next generation” innovations. These are better, faster, cheaper, or otherwise improved versions of existing technologies. These products are easy to understand because the previous version exists, so investors can easily grasp their value. However, these companies number in the thousands, and therefore getting on investor radar screens presents a challenge for them. Still, there are many investors out there who are highly interested in these more cost-efficient, less risky technologies. Therefore, an iterative technology company has to really dig deep to find the right investor fit and launch a cogent, targeted campaign to reach those investors.

When you’re framing your message to investors, make sure you’re clear with yourself about who you are, what your company is offering, and the type of investors to whom you are reaching out.

Pivoting Is About Measuring Results, Not Activities

So you've sent some emails, made some calls, had some meetings, and experienced some great opportunities to see how well your messaging is working and adapt where necessary. But how do you know if all this effort is getting you closer to receiving an investment?

At this stage, your notes become vital. You have to dive in there and figure out which pivots were effective and which of them went nowhere (see Figure 5.2). You're probably working very hard—making dozens of phone calls, sending hundreds of emails, producing a really cool-looking investor deck—but if you don't measure your results, you can't ever know if all this activity is meaningful.

Have your voice mails garnered zero callbacks? If so, perhaps you should experiment with a more concise voice mail pitch that packs all the relevant information about your company into a short message. Is the new pitch working? Are you getting callbacks now or are you still hearing dead air? Similarly, if your emails generate a lot of clicks through to your website but few positive responses, perhaps an update to your website would turn all that email activity into results.

By keeping a close eye on the metrics for all your outreach attempts—from the number of clicks each email generates to the number of meetings

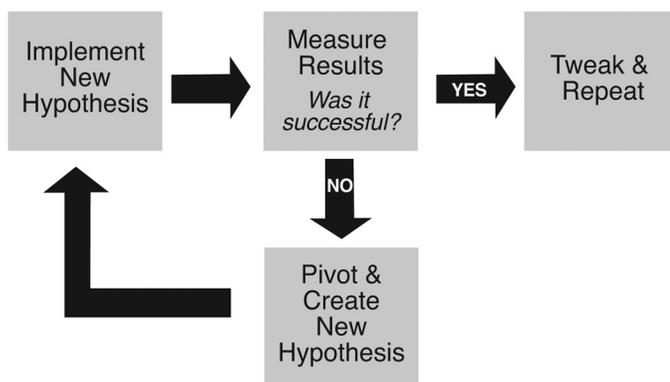


FIGURE 5.2: *The decision tree for pivoting your business*

each method of contact generates—you can home in on the most effective strategies for your company and quickly drop new messaging strategies if they aren't working. Similarly, you can keep more subjective notes on how positively investors are responding to each part of your presentation and retain the slides that seem to work and change the ones that don't.

The purpose of tracking results is to use them to pivot, and pivot some more, until you have an investor in front of you passing a term sheet into your hand. That's the ultimate sign that you have the message right.