

How to Attract Investment & Partners

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Part of the Allergan webinar series: *Planning for Research Success*

Brian Underdown delivered a webinar in Allergan's Planning for Research Success series on February 4, 2016, exploring how to use a business case to successfully attract investment and/or partners to sustain a research undertaking. His key messages and a hyperlinked index to his presentation follow.

FINDING PARTNERS AND INVESTORS

Use a targeted approach to finding partners.

Look at businesses whose area of interest coincides with your work. Don't bother with those not in your area. Look at what companies are saying on their websites about where they are going. Don't contact them unless you understand what they are looking for, and what your capital needs are. And don't just partner with anyone who has money—look for partners who can add value.

Get the interest of a potential partner. Ideally, identify someone who can provide you with a “warm” introduction. With pharmaceutical companies, contact the company's Canadian scout. If you don't get a reply, find a colleague who knows the scout—someone who has worked with the company—and ask for an introduction. Or approach the key opinion leaders (KOPs) within your network; many sit on the advisory committees of companies. Tell them about your idea and ask if it would get traction. If they think it would, ask them who they could introduce you to. When attending conferences, go to the showroom and visit their booth; look for a technical person to talk to. Don't begin the conversation by saying “Hey, I've got this idea.” Instead, ask: “If someone had a solution for this problem, would it be of interest to you?” If they say “No,” walk on.

Find a champion for your work within the organization that you have targeted as a partner. This champion can be located at any level in the organization—don't ignore any level where you can get traction.

If your project doesn't get traction with a potential partner company, go to someone else—don't take no for an answer...at least, not initially. If a negative answer comes up identically three times, go back to the drawing board.

Before partnering, you need proof-of-concept data, a business plan and a pitch-deck. Do not write your pitch as you would a grant application. In your pitch, lay out the problem clearly and explain why your solution is unique. Describe the technology simply and explain why it will work. If you have proof of concept, which you generally need these days, show a “killer” experiment or two. Don't inundate the investor with many experiments; they will always ask for more if they're interested. From your business plan, show what your financing needs are, how you're going to use the money that you are asking for, over what time frame, and describe the management plan: Who is going to be in the company? What role will you play?

Know your market. The therapeutic market for asthma is \$6M—but rarely will a therapeutic address the whole market. Know what *your* market is—what patient population you are targeting. If it's a service business, the business plan should include three-year financials; in Lumira Capital, we discount that plan by a year. Never has a service business that has come to us hit their revenue with the first plan. We get them to re-work it from the bottom up, and even then you might underestimate the sales cycle, for example.

Show that what you have to offer has an advantage—better, faster or cheaper.

Generally, *better* is the best. However, sometimes better is not the best for the market—it has to fit with those in the business of selling into the market, if you have to partner with them. You have to assess whether it works for sellers.

Faster is also good, particularly if you are interested in a point-of-care device—but not always. If you reduce the time of one step in a process by 80%, but you reduce the overall time it takes to get a result by only 10%, it is a harder sell.

Cheaper can be interesting—but only if it reduces the final cost of the product. An invention that reduces the cost of a step in a process and that works better than what is currently being used, but that only represents 10% of the total cost, is probably not worth a partner's time to adopt it—especially in a high-margin business.

When you assess your competition, consider the overall market context. Don't just look at your specific product. Larger companies that sell devices and instruments to the healthcare system often “bundle” their products. They can prevent a small newcomer company from gaining market traction by offering a discount on all the products in their bundle, including whatever yours might be. The net economic benefit to the buyer becomes greater because it is spread out over a larger number of products.

Decide whether you want to form a company, or license with an existing company. To form a company you need financial and human capital, and to carry the risks. Also, be mindful that if you are not part of the company, your shares will become less valuable over time. Licensing with an existing company is often the logical route; it allows you to remain an academic, to transfer the risks to

the licensee, and to receive a royalty which is a non-dilutive benefit. Of the four main areas of risk (technological, financial, competitive, regulatory), companies are generally willing to take risks in one or two, but not all four.

Don't try to build a business by yourself.

Talk to people. Don't be afraid or hold your ideas close to your chest. Think about who might be able to help you. Embrace advice; triangulate it. Find people who have done it before and build a team of advisors around you. Don't try to do it alone.

Don't overlook foundations as potential partners. In the past, foundations tended to give grants only for research but increasingly they are investing in companies. Companies typically are closer to translation, which is what foundations often want—although some take a longer view. A famous example is the Cystic Fibrosis Foundation in the US, which invested in a company that developed a blockbuster treatment. This trend, of foundations investing in equity rather than just giving grants, will continue and deepen.

Be aware that finding partners for diagnostics has its own challenges. Novel diagnostics or diagnostic platforms are only of interest to some investors. The vast majority of venture investments—maybe 70% of the deals—are done in novel therapeutics. With diagnostics, you never know whether your platform is going to be a gangbuster and displace the others. If you pair it with an existing diagnostic, it will be easier to interest a partner.

As well, no matter how good a point-of-care diagnostic test you might develop, it must be as simple and cheap to perform as a blood draw, and a non-specialized person must be able to do it. The target standard for a point-of-care diagnostic is: you have to be able to do it in 20 minutes. If it takes an hour, it is probably not good enough to attract investment.

If you want to launch a diagnostic product for which a government will be the payer, but there is a restriction on the issuance of licences in the jurisdiction in question, no matter how good the diagnostic, you will have to find a partner with a licence to get your solution to patients.

Be prepared to change course. You can be sure that your business plan will change. Once you get a partner to show interest, the journey is just beginning. You must continually refine your plan, especially with regard to: your niche in the market; the tasks that will create value along the way; and preparing a financial and operational “Plan B” in the event of initial failure.

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