Three questions to...

... Dr. Henrik Luessen
Founder & Managing Director
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Topic: Getting Financed – Identifying the right model.

Question #1: What are the relevant financing models for biotech start-ups?

Dr. Henrik Luessen: In principle, there are three major approaches, namely a) equity financing, b) dept financing and c) project or product-based financing, whereby the latter leads to a share in the revenue from a specific product such as royalties.

For a newly founded company in the life sciences the usual way to receive funding, besides grants, is to provide equity in return. This type of financing is associated with a high level of risk as the investor may lose part or all of his investment if the company fails. Therefore, the investor(s) usually perform a thorough evaluation of the company to assess IP, the market potential and risks the company may face. Equity investment is officially not time-limited (see question below). The investor receives the return following an exit, where the equity is either handed over to a new owner, or can be traded on a public market following an IPO.

Less usual for life science companies bearing long investment cycles is dept financing through a loan. A loan must be repaid with interests at a certain time point and has several disadvantages to equity capital. First, the company accumulates dept that is not compensated by revenue, which can later lead to insolvency when the loan term expires and will often lead to the situation that grants are not accessible any longer during such loan periods. This also includes convertible loans or crowdfunding money that is not converted into equity. I have seen one example of a life science business that, despite close market reach, got denied funding by institutional investors, unless they had cleared out the dept.

Project- or product-based financing, e.g. through royalty funds, is not accessible for start-ups unless the product is highly de-risked and in the stage of registrational trials, or an attractive license deal has already been concluded.

Question #2: When to approach business angels & family offices and when is the right time for institutional investors?

Dr. Henrik Luessen: It may sound like a strange advice, but I would highly recommend to avoid institutional venture investor money for as long as possible. First, a start-up business has merely an idea with some supporting observations. To reach a meaningful value inflection point upon validation of your product proposition, you would receive capital that takes a majority of the company's equity, and the founding team would lose essentially all control at a very early stage. If you have the choice, you can use money from friends and family to help you reach a certain tipping point without losing control of your business. Business angels and family offices are the next choice, provided that they understand your business and believe in the inherent USP's of your product. If your technology or product is sufficiently low-risked and has gained a reasonable body of value, it is time to approach institutional investors who could also be corporate investors.

Another subject on institutional risk investors is, that they represent a fund that is fed by other investors (e.g. individual investors, fund-in-fund investors). This fund will require an exit prior to the expiry date of the fund, which is usually 10 years. Thus, if the fund life cycle is already far advanced, your time to exit will have shortened accordingly. An alternative is to receive funding through an evergreen fund, that has exit expectations but no strict expiration date.

Question #3: How long does it usually take to secure financing, and when is the best time to seek it?

Dr. Henrik Luessen: Depending on the company's business and capital needs, raising funds can take quite some time. As a rule of thumb, a financing round is like a human pregnancy and takes about 9 months from initiation to closing of the round.

The founding team should consider a certain period of pitching, which can take up a significant amount of time. After entering the confidential stage, the investor will usually move into data room diligence, followed by several Q&A rounds. In the later stage the investor also wants to meet the key members of the management team. After a successful diligence, the company receives a term sheet from the lead investor, on the basis of which the interested follow-up investors must be syndicated. As soon as the signed term sheet is in place, the participation agreements need to be drafted and negotiated.

To avoid extensive dilution, the best time to raise funding should be timely before a key turning point to defend a sufficient pre-money valuation. Always keep your financial headroom in mind. Do not wait until the last moment to seek capital - when you are under pressure you are losing your negotiating position. Always consider, that after successfully completing a financing round, management should already start raising capital for the next round, conduct investor relations and make yourself visible through e.g. press releases.

About Dr. Henrik Luessen:

- Ph.D. in Pharmaceutics & Biopharmaceutics from the Leiden Center for Drug Research in 1996.
- Co-Founder of several biotech companies, like DendroPharm GmbH, Atriva Therapeutics GmbH, ICA Aesthetic Navigation GmbH, among others.
- Henrik concluded more than 250 IP-related, transactional and licensing deals.
- In several biotech companies he was appointed as Chief Business Officer (CBO) to grow their business. As an example: He served as CBO at OctoPlus NV until its initial public offering in 2006. He was involved in the successful preparation of the IPO of Promethera BioSciences as their CBO at Tokyo Stock Exchange, that was not consummated at the end as the anticipated listing date was in the corona period. He also was involved in the M&A transactions of Symbiotec GmbH, Nanomi BV and Activaro GmbH. He served in the Boards of Xenikos BV and Baliopharm.
- Current positions:
  > Managing Director at Tytonis B.V., Alkmaar, the Netherlands
  > CBO at eleva GmbH, Freiburg im Breisgau, Germany
  > Managing Director at ICA Aesthetic Navigation GmbH

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About tytonis BV

Tytonis BV is an advisory firm operating from the Netherlands and has served more than 80 companies worldwide in their strategic positioning, supporting the spectrum from company inception up to the exit of the company. This includes the business planning, product & portfolio strategy, valuation, licensing, financing up to merger or public listing support. The company is part of an independent expert network that cover further fields of support, such as legal support, intellectual properties, communication strategy, project management and valuation support.

Its Managing Director, Henrik Luessen, is often hired from an emerging life science company as a temporary part-time C-level executive in order to support a customer business in a strategic sensible transition period.