

What investors look for in start-ups?



IB Skills Conference – Manchester
Basil Omar – CHAIN Biotech



Before Edward headed off to
Brazil,
I asked him

“What do you think investors look for in start-ups?”

It's simple!

***Exciting businesses offering a big
ROI with managed risk profile***

***..... It's all about making money
for investors!***



- **Good idea that solves a real problem or changes the economics**
 - Resonates (in scope)
 - Disruptive (change the way we do things)
- **Ambitious & scalable business**
 - Product/market focused
 - Product pipeline ... but start with one (focus)
 - Generate large revenues
- **Differentiated & protectable**
 - Novel & innovative (patentable)
 - Unique capability
- **Credible plan to manage/share risks (assuming you know what they are!)**
 - Experienced management team
 - Early revenue generation (non-dilutive funding)
 - Proof of concept data (evidence it works) – minimum product
 - Speed to market (capital/equity efficiency)
 - Customer engagement/validation (at early stage)



That's ok



But what would a real academic say?

OUTSIDE – IMPACTS*

***Opportunity, Uncertainty, Team,
Strategy, Investment, Deal, Exit.***

* Steven Kaplan

University of Chicago Graduate School of Business

OUTSIDE – IMPACTS



Opportunity, Uncertainty, Team, Strategy, Investment, Deal, Exit.

(O) Opportunity: *Is this a positive present value opportunity? (Does it have IMPACTS?)*

– **(Idea)** *What is the idea / industry?*

Explain the idea / opportunity clearly and succinctly

– **(Market)** *Is the target market large enough to support substantial growth / valuation?*

How large is the overall market?

How large is the market segment you are targeting?

Provide solid support for your analysis.

Are there additional opportunities?

– **(Present Value)** *Why does the opportunity generate a positive present value? What is unique?*

Why will you make money?

How will you make money?

– **(Acceptance)** *Will customers in that market accept / buy this new product / service?*

– **(Competition)** *Why won't the value be competed away?*

– **(Time)** *Why is this a good time to enter?*

– **(Speed)** *How quickly can this be implemented?*

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- (U) **Uncertainties: What are major uncertainties?**
 - Market size?
 - Customer acceptance?
 - Customer approach/supply-chain?
 - Competition?
 - Efficacy?
 - Safety?
 - Regulatory?
 - Environmental?
 - True time to market? / time to revenue? / time to profitability?

How will you address / mitigate each of these uncertainties / risks?

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- (T) Team.
- Can management team implement opportunity?
 - How does previous experience relate to opportunity?
 - How “hungry” is the management team?
- If management pieces are missing:
 - What pieces are missing?
 - What type of person will you look for to fill them?
 - How will you find that person?

For VCs, a good team and a good opportunity are absolute necessities

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- (S) **Strategy**
 - Is business strategy consistent with delivery of the opportunity and maximizing ROI?
- (I) **Investment Requirements**
 - Cash flow requirements
- (D) **Deal**
 - Does deal structure provide appropriate incentives?
 - Is the deal priced attractively?
 - Do key individuals have incentives to do deal?
 - Do key individuals have incentives to make deal work?
 - Does deal structure provide / ensure appropriate governance?
 - Does deal structure help manage the uncertainties?
- (E) **Exit**
 - Can investors exit the deal? How?

That's enough of the theory!