Raising Venture Capital
For Brain Health Innovation

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o Forget about the funding “Valley of Death.” It doesn’t really exist.

o The term was coined almost two decades ago in reference to a very specific situation, which no longer applies. Never-the-less, someone brings it up every year....

o 2018 was a record year for life sciences investment in Europe, €28 Billion invested, with many small deals done. (Venture Capital trends in Europe, 24/02/2019, sifted.eu).

o Over €8 Billion of that was in biotech and life sciences. (Healthcare weekly, 10/10/2018)

o 2020 and 2021 were both record years, which also saw neuroscience investments increase rapidly, and mental health dominate the digital health investment category. Some drop off since then, but still.....

o More active VC and Corporate Venture funds in Europe than ever before....
But...... there are legitimate questions as to whether or not there are a sufficient number and diversity of funds in Europe.

Major European “LP” investment criteria tends heavily towards (re)investing in established funds, which means larger funds, but not necessarily “more” funds. *Larger funds tend to do larger deals, rather than more deals.*

Not all US funds will invest in Europe.

And unfortunately, over the past 4 or 5 quarters, ”brain” investment numbers have dropped, and now overall health investment is dropping.

This is partly, but not entirely, cyclical and related to the economy and geo-political concerns and also partly with the post-covid naïve investor disillusionment with returns on biotechnology. These cycles will not last forever. What will the recovery look like? *Boom, or gentle growth?*

That said, raising investment for health in general, and brain innovation in particular, is hard everywhere, harder in Europe, and it is is not going to get any easier over the next 12 months....

So, what do you need to know?
So, how to raise investment?

- First, recognize that most investors are **not** investing in your science. They are interested in your science, and it is fundamental to your business and to your fundraising, but world class science without a good business model and strategy generally will not lead to an investment.

- Investors may be committed to the sector, they may even be passionate about new therapies, technologies and other innovations that can benefit patients and improve healthcare, but their job is to generate a profit for their own investors (to understand how VC funds measure their performance, Google IRR, or internal Internal Rate of Return. It will help you understand how they assess your proposed investment).

- So, they will invest in a business for which there is an unmet or poorly met need, a market demand, and customers (consumers, researchers, hospitals, industry) who are willing to pay for your innovation.

- They will assess the point at which this will be reached, the expected value, and the feasibility, time and capital required to reach that point.
Your Investor Deck Checklist

- Identifying the problem.
- Present your solution, and how it is Novel/Different/Better. What is the USP?
- Data to back these claims. Not too much, but let them know it is there.
- Intellectual property – do you own this innovation? Have the right to commercialize? Barriers to entry for your competitors?
- Validation and reproducibility – there are good reasons investors & industry may be skeptical.
- Market opportunity - is there a market? What size? How much can you address? Road map to bring to market?
- Who is/are the customer(s)? Do they want what you are offering? Are they willing to pay? At what point?
- Team – including advisory board. This can help convince them you can execute the business plan.
- Track record
- What is the expected return and exit strategy? You need a business strategy that helps you navigate from where you are now to where you need to be to reach an exit.
- What are the risks? How are these managed? What is your plan B?
What else?

- How much money are you asking for? Why?
- Why this is the appropriate amount of money, how far it will take you, what this means for the valuation?
- What is the Use of Funds? What will you spend the money on?
- How close does this bring you to the exit?
  - Will you need to raise further rounds?
  - How much?
  - Development timeline & time to exit.
- Does this bring you to an appropriate value inflection point? If not, you will not raise the money.
  - Think about it this way. You are asking for €3m to reach a certain milestone in 18 months, with a pre-money valuation of €5m. So, post-money valuation is $8m. What will the valuation be in 18 months? If it is not $10m at the very least, more likely €13.5m or more, investors may not want to invest.
    - Be realistic. An expected increase in valuation needs to be believable and compelling. Why will the valuation increase?
    - EU vs US: EU investor may be more accepting of incremental rounds. US investors may be more aggressive both about larger rounds and also showing performance, i.e. reaching a large valuation increase. Otherwise this may raise concerns about performance and the capability of the team & leadership. Don’t raise too little to reach the next key inflection point.
- You do not need to be a finance guru, but you do need to understand what milestones you need to reach to hit a significant value inflection point, and plan your financing in alignment with your business plan to achieve this.
Where to start?
You are not just raising money to do more R&D. The money is to build a business with an increasing value, which the investors and shareholders can eventually “exit” from and get a return on investment.

The Delta between where you are, and where you need to be to potentially reach a deal with your customer, informs the required development path, as well as your overall strategy: At what point can you partner or exit? What are the steps to get there? What are the main challenges. How can you prepare for each. How can you test each assumption in your development plan? How long will it take, what will it cost, and what are your financing needs and use of funds?

Your business strategy serves as a road map to how you cross this delta.
Understanding your customers

A simple approach is known as TDS:

{Target Identification}  
+  
{Understanding of Drivers}  
+  
{Solution to Drivers}

= BD Success
Take a step back. Do you know (not just think you know, but know):
  - Who is/are your most likely customer(s)? (Researchers, Startups, Industry, Providers, Payors, Consumers)
  - What their core drivers are? What gets them out of bed in the morning?
  - What types of solutions are they open to/looking for?
  - At what inflection point will a deal be most likely?
  - The development path and data they will want to see?
  - What else is needed to reach a deal?
  - What will it cost to get there? *This is what you need to raise to get to an exit.*

Investors will also ask these questions, and they want serious answers.

A strategic business development strategy to engage with key stakeholders early on to secure insight (before you are looking for a deal) can help you answer these questions and fine tune your business strategy and ensure you do not waste time, effort, resources and opportunity.
- Raising money in Europe? As a start you should know everything about the fund, strategy & investment criteria of:
  - The funds in your country
  - The European funds investing in your technology area
    - Drug development or Brain health. Brain tech, digital health, deeptech, AI, VR, sensors, wearables, implants, hardware, software?
  - The funds investing in your therapeutic area or indications
    - Mental Health, stress, addiction, mental illness, dementia, neurodegenerative diseases, rare neurological disorders, etc.
  - Which of those can/will invest in your technology stage? And your geography?
  - Which invest in round & deal-size you are seeking? Seed or series A? OK, but is your round too large/small?
  - Do they have money to follow on or are they a seed only investor?
  - Do they want to build a team, or do they want a professional team already in place?
  - Is there expertise a fit for you? Can they add more value than just money?
  - What is their track record? Speak to CEOs & Founders of their portfolio companies.

- Know all of this before you contact them.
- The same applies when reaching out internationally – all of the above, plus which US funds invest
  - Not only in Europe, but in your country. And even if they do seed investments, do they do these in Europe?
  - Do they want you to domicile the company in the US? Or do clinical development there? Or base the commercial operations there? Find out, some of these asks can actually be a big positive if approached correctly.

Do your Due Diligence
Out of maybe 100 total funds, there will be:
- Max 25 or 30 which on the face of it may be a good fit and which you should seriously research.
- Likely 10 or fewer which should be prioritized as the most likely fit for your company.
- Get to know everything possible about these, before you meet them.
- Prepare. Invest effort in getting it right.
- VCs invest on average in about 1% to 2% of the companies they review. Take it seriously.
- Think about it. You can probably research the entire European and US biotech investor universe in about the time you spend trying to schedule partnering meetings for one conference or trip to Boston.
  - If you cannot, hire someone who knows how! Hard to recover from a poor initial impression.
  - Note: You will probably need to pay something for this. You pay your interns secretaries, lab assistants, accountants, lawyers....
No Bad Meetings

- *Note, this title is an approach, not a guarantee.*
- Focus on meetings that matter. Quality, not quantity.
- Prepare and do your homework. Request the right meetings, and prep for them.
- Ask questions & learn, *even when the answer is no.*
- Maybe it is just out of scope, but ask. Are at the end of their current fund? Is it stage? Plenty of VCs invest a year or two after first meeting. Why is it not a fit? What could change that?
- At what point might they be interested, if ever? What are their concerns. If they were interested, what is the development path and data they would want to see, and why?
- Who else might be interested? Who would they recommend you talk to? What would they be looking to do if it was their company or project?
- What is the correct development path? Models? Inflection points? What data do they want to see? Why? What are their main concerns, and the biggest challenges they foresee? Where do they lack confidence in your company, technology, strategy, or team? Why, and what might change that?
Listen to the feedback! From VCs and from industry. This is free advice and market feedback. Collect it, reflect on it, integrate it. Are multiple potential partners saying similar things? Take it seriously.

- **Note:** You literally cannot purchase this quality of advice. VCs or Industry BD and Therapeutic area heads we ask for recommendations to early-stage companies consistently recommend speaking with and listening to industry and investors, long before you need them.

Even if all of your potential investors, partners and customers are saying no, or not yet, for similar reasons, this is golden information. Now you know the problem(s), try to identify solutions and the best ways forward. What might be convincing for them? Is there a pivot that could provide a way forward?

- **Note:** When asking for meetings and asking for advice, always do your homework first. Make sure you are asking relevant questions and not wasting anyone’s time.

Finally, prioritize your approach. No throwing pasta at the wall to see if it sticks. Research, prepare, get support if needed. Go the right meetings to meet the right investors.
THANK YOU

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