Investment Strategies for Medical Diagnostics

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Northstar Ventures: Who We Are

Northstar Ventures

- Founded in 2004
- Team of 6 investment managers
- Early stage investor – Start-ups and SMEs
- Investing in North East companies with global potential
- 2nd most active early stage investor (UK & Ireland) in 2016

Where Northstar sits in the market

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- At pre-seed we typically invest £20k-£50k for initial proof of market.
  - Work with accelerators, incubators and Universities as well as network to provide support
  - Potential for ‘follow-on’ dependent on progress and agreed milestones
  - We either invest via an Advanced Subscription Agreement ‘ASA’ or Convertible Loan.

- At Seed we typically invest £200k - £500k in first round,
  - Encourage ‘syndicate’ approach so round size £200k - £2m
  - We have ability to invest up to £2m ourselves per company;
  - Intention to hold 15%-30% after Seed round

- Innovation Focussed
  - Business model
  - Technology - Intellectual Property/Patents

Funding characteristics of diagnostic companies

- Technology Rich

- Key landmarks en-route to a product
  - Test development and validation
  - Regulatory Approvals
  - Manufacturing
  - Market Introduction
- Each stage requires cash but no revenue until product actually on sale

Funding sources for pre-revenue businesses are limited. Primarily:

- Grants / Development contracts
- Equity Investment (venture capital)

Sources of early stage venture investment

- Friends and family
- Business angels (individuals or funds) – generally tax driven (EIS/SEIS)
- Regional venture funds e.g. JEREMIE 2; £145m Fund for NELEP area.
- Institutional funds

What is Venture Capital?

- Investment by a third party into equity in your business in the expectation of a return of multiples of the original amount invested (think 10x)

- Investors accept a very high level of risk to achieve this return and are fully aware that 8/10 businesses won't make it.

    - The rough stats on building a unicorn are 10,000:1 (of companies getting investment)

- Early stage VCs are prepared to invest
    - Pre-product
    - Pre-revenue

  (i.e. at a point where traditional sources of finance won't touch it)

Advantages / Disadvantages of Venture Capital

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Advantages

- Cash when it is unlikely to be available elsewhere
- Equity so it does not have to be repaid
- Should come with more than just money
  - Advice/support, Networks, Governance
- Perfect for capital intensive, R&D heavy businesses

Disadvantages

- You are selling part of your business (not giving away!!)
- The investor will have a disproportionate influence in comparison to the size of their holding
- No easy exit route if relationship doesn’t work – pick the right one.
- Not right for Service based businesses that can trade from day 1

The 5 key questions a VC will ask themselves

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1. Does the proposition have legs (metaphorically speaking)?
2. Is it too early?
3. Is it too late?
4. Size of opportunity (TAM and SAM)
5. Does the team have the ambition, skill and appetite to deliver or can they be helped to do so.

The Investment Journey

- Building a business almost invariably takes more time and more money than originally expected
- This means multiple rounds of investment
- Each round needs to get the business to a new stage of development, hopefully this means rounds are at progressively higher valuations.

For a diagnostics business starting from a concept an ideal journey might be as follows

Pre seed → Se → Serie → Series B

Expect first revenues at Series A with Series B round for expansion and value generation
Each round will be bigger than the last but expect to sell similar proportion of equity.

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The Investment Journey 2

- Investors are looking to realise their capital which means they need a mechanism by which to sell their shares.
  - The company can float creating a liquid market where shares are freely traded
  - The company can be sold to a third party
  - A new investor can be brought in to buy out the original shareholders and invest further in the business
- Typically the process from start to finish takes from 5 – 10 years

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- Company incorporated in 2005 to commercialise discoveries around MCM5 as a cancer diagnostic
- Series of angel rounds enabled the company to demonstrate a urine test to reliably detect bladder cancer (at least equivalent to Cystoscopy).
- We invested first in 2012 to support first clinical trial (c£500k) alongside angels and Esperante Ventures
- Second round on the back of good trial results (£2m) bringing in new investor Longwall.
- Kit developed into commercial form (this was a major task). Prostate cancer trials commenced.
- Third round (£2m) to launch kit in Nov 2017
- Currently completing trials on bladder recurrence and expect to launch prostate test in 2018. Further indications under development.
- Looking for exit in 2019/20

Thank you. Any questions?

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