

**ARE BIOTECH INVESTMENTS DIFFERENT ?
THE PERSPECTIVE OF THE VENTURE CAPITALIST**

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ABSTRACT

This paper examines whether venture capitalists (VCists) perceive biotech as riskier compared to other technology-based investments. Moreover, the pre-investment activities of the VCist with respect to biotech proposals are studied and compared to those of other-technology based proposals. Because VCists consider biotech as riskier they use more screening and due diligence. Management is considered as an important factor in the screening and due diligence process, mainly by later stage investors. Early and later stage investors further mention market and IP strategy and financial elements as important. There is only weak evidence that VCists require higher hurdle rates. Furthermore, VCists, do not use more comprehensive contract formation as predicted by agency theory. Our results are in line with incomplete contract theory, which predicts that, because of uncertainty, the contracting parties will not be able to include all contingencies in the contract.

1. INTRODUCTION

In perfect financial markets, all projects that create value will find sufficient and adequate financing. Real world financial markets, however, are not perfect. In the presence of market imperfections, investors may ration capital and positive net present value projects may be denied financing, or only be able to obtain certain types of funding (Guiso, 1998). This is especially true for high-tech companies, given the high information asymmetries. Biotech¹ companies, as a special type of high tech companies, may find it even harder to attract sufficient and adequate financing. First, biotech is perceived as one of the riskiest industries in the modern economy (Senker, 1998). The failure rates of biotechnological companies, especially medical biotech, are very high: only one out of 5000 compounds that emerge from discovery and preclinical testing makes it to the market (Evans & Varaiya, 2003). Uncertainty about the commercial viability, but also about the regulatory approval of new products and technologies hampers the search for financing. Second, large information asymmetries between entrepreneurs and investors exist due to the complexity of technology and product development. This may lead to agency problems, such as goal incongruence, adverse selection and moral hazard (Eisenhardt, 1989). Third, the long and complex process of product development and the unusually high cash burn rates necessitate large, long-horizon investments (Bastin et al., 2003). Finally, biotech companies often lack collateral as they do not often invest in tangible assets, but invest in R&D projects (Evans & Varaiya, 2003).

Venture capital (VC) is considered to be an important source of funding for high tech companies. However, even highly specialised financial intermediaries, such as VCists, may have a bias against technology-based companies (Murray & Lott, 1995 and Lockett et al.,

2002). The purpose of our study is to examine how VCists deal with the typical characteristics of biotech companies and how this affects their investment decision. The biotech sector is chosen because financing of biotech companies is thought to be even more difficult, compared to other technology-based companies. Hence, it is an interesting setting to test hypotheses about the supply of financing under extreme circumstances. Differences in the VCist's investment process between technology and non-technology proposals have already been documented for the UK (Murray & Lott, 1995 and Lockett et al., 2002). So far, little research has been done on the impact of project characteristics on pre-investment activities of Continental European VCists. As shown by Manigart et al. (2000), however, results that apply to UK VCists cannot always be generalised to other countries.

Our results indicate that VCists perceive biotech as riskier than other technology-based companies. VCists use more thorough screening and evaluation procedures to reduce the higher risk or uncertainty. Management is not the only important factor in the investment decision of VCists for biotech companies: investors also stress the importance of market and IP strategy as well as financial considerations. Management appears to be more important for later stage investors, however. Important differences exist between the VCist's perception of risk and that of the entrepreneur. VCists are further confronted with major difficulties in valuing biotech investments. VCists do not consider the standard valuation methods as appropriate. Higher perceived risks and differences in risk perception do not result in more stringent contract clauses. This indicates that agency theory may not fully explain the relationship between the VCist and the entrepreneur. The predictions of incomplete contract theory are more in line with our results. Finally, our results show that price is the most

important reason for not reaching an investment agreement. This does not come as surprise given the differences in risk perception and the lack of a standard valuation method.

The remainder of the paper is structured as follows. The second section describes the literature on the pre-investment cycle of the VCist and discusses our research questions. The research method and data are described in section three. Section four presents the research findings. Finally, section five concludes and offers directions for further research.

2. SURVEY OF THE LITERATURE AND RESEARCH QUESTIONS

Murray & Lott (1995) and Lockett et al. (2002) found that VCists have a bias against technology-based investment proposals. As a special type of new technology ventures, there are reasons to believe that biotech companies may find it even harder to get funding. We study whether VCists consider biotech proposals to be riskier compared to other technology-based investment opportunities and if so, how this affects their pre-investment process and hence their decision to invest.

Biotech is considered as one of the riskiest industries in the modern economy (Senker, 1998). First, biotech companies have a high failure probability, especially in the medical biotech sector. Second, these companies require large amounts of financing over a long time period for investments in R&D. Finally, complex regulations and the importance of intellectual property (IP) further add to their riskiness (Bastin et al., 2003).

VCists have different mechanisms to reduce risk or uncertainty at different points in time over the VCist's investment cycle (Brierly, 2001). Figure 1 summarises the pre-investment activities typically undertaken by VCists and the mechanisms at their disposal to reduce risk or uncertainty. First, VCists can reduce adverse selection problems through intensive screening and evaluation before the funds are provided (Manigart & Sapienza 1999; Lerner 1995). Second, they can impose higher hurdle rates and thus impose stricter selection rules, which might, however, increase the risk of adverse selection. Third, VCists can require more and more detailed contract specifications (Brierly, 2001). Furthermore, a balanced financing contract, can reduce goal incongruence between entrepreneurs and investors (Sahlman, 1990; Trester, 1998) for example by using preferred or convertible stock (Gompers, 1998).

Incentives can be aligned through remuneration and bonding strategies (Brierly, 2001). Finally, closer monitoring after the investment can be used to address moral hazard problems and to reduce risk (Cable & Shane 1997; Lerner 1995; Gompers 1995). Post investment activities are not the subject of this paper and monitoring will therefore not be discussed further.

The VCist's pre-investment activities usually start with a rough screening to examine whether the investment proposal meets the fund's investment criteria and generic criteria (Fried & Hisrich, 1994). This allows VC managers to more efficiently allocate their scarce time (Gifford, 1997) and to reduce the in-depth due diligence to a manageable number of deals. Proposals that pass through the screening process are examined in more detail during the due diligence process. There is no consensus in the literature with respect to which criterion has the crucial role in the decision of VCists. On the one hand, MacMillan et al. (1985, pp. 119) argue that "There is no question that irrespective of the horse (product), horse race (market), or odds (financial criteria), it is the jockey (entrepreneur) who fundamentally determines whether the venture capitalist will place a bet at all." On the other hand, Fried & Hisrich (1994) argue that not only the entrepreneur, but also concept and return potential play a crucial role in the screening and evaluation process.

A valuation is essential to determine the required ownership percentage of the VCist given his investment in the company. Manigart et al. (2000) show that the discounted cash flow method and multiples are the most used valuation methods. As biotech investments are considered to be riskier than other technology-based investments, financial theory predicts

that on average the first should offer a higher return than the latter in order to stay economically attractive (Bodie et al., 2002).

Two theoretical frameworks can be used to explain contracting in a biotech setting. First, agency theory predicts that to reduce the higher risk or uncertainty, biotech requires more complete contracts (Van Osnabrugge, 2000). However, according to the incomplete contracting theory a high degree of uncertainty means not all contingencies can be foreseen in the contract. Incomplete contract theory suggests that incomplete contracts will be negotiated and more attention will be paid to active involvement in the investment (Van Osnabrugge, 2000).

The research question in this paper is: Do VCists consider biotech investments as riskier than other-technology-based investments? If so, which pre-investment mechanisms do they use to reduce risk and uncertainty and how does the pre-investment cycle for biotech investments differ from other technology-based investments? This results in the main research question of this paper:

Does the pre-investment process of venture capitalists differ for biotech companies, in comparison with other technology-based companies?

The pre-investment cycle of the VCist with respect to biotech proposals is examined. Differences with other technology-based proposals are identified. Three stages in the pre-investment cycle are studied:

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- *Screening and due diligence*: Do biotech investments require more screening and due diligence? Which factors play a crucial role in the screening and evaluation process?
- *Valuation*: Do VCists use higher hurdle rates for biotech investments? Which valuation methods do they use in general? Is there a difference in the valuation process for biotech investments?
- *Contracting*: Do VCists write more elaborate contracts in the case of biotech or are contracts incomplete? What are the most important reasons for not reaching an investment agreement in biotech?

3. RESEARCH METHOD AND DATA

The research questions are tested on a sample of 14 Belgian VC funds, who acknowledge that they are willing to invest in the biotech segment, out of a total population of approximately 25 Belgian VCists interested in biotech. To identify all potential investors in biotech we used different Belgian publications, trade directories and snowball sampling. Hard data was collected through questionnaires and semi structured interviews were used for the collection of qualitative data. Both questionnaire and interview guide are pre-tested by a sector specialist. Combining both data collection methods is relevant, as studies that only use mail questionnaires may fail to obtain the full essence of the VCist's investment cycle (Wright & Robbie, 1998).

First, interviews were scheduled with managing partners and senior investment managers. The interviewee was asked to prepare the questionnaire before the interview. In order to reduce interviewer effects, an interview guideline was used to ask additional questions. All interviews were transcribed verbatim.

As shown in figure 2A the sample covers investors in all investment stages, ranging from seed financing specialists to crossover funds (pre-IPO financing). Figure 2B gives an overview of the investor types in our sample: independent, public, bank and academic VCists and a strategic investor.

The sample includes funds that invested as little as €500.000 of their capital under management in biotech to one fund that invested €194 million.

4. RESEARCH FINDINGS

4.1. Risk and risk perception

The survey of literature revealed that biotech is considered as one of the riskiest sectors in our modern economy. We investigate whether specialised financial intermediaries such as VCists also perceive biotech as riskier. Table 1 shows that VCists believe biotech companies require significantly larger amounts of financing, take a longer time to generate positive cash flows and have a higher variability of returns. This implies the VCist perceive biotech as riskier than other technology-based companies.

VCists were asked what they considered as the most important risks when investing in biotech. Table 2 shows the main risks identified by the interviewees. Technological failure and financial risks are mentioned most often. Technological failure concerns unsuccessful research projects. Financial risks are mainly associated with the high cash burn rates of biotech companies. Competition is also an important risk factor: biotech is prone to competition from substitutes. Although patents may protect biotech IP, in practice it is often a more difficult issue. Several interviewees mentioned their concern about big pharmaceutical companies not respecting patents. This often leads to a situation where nothing can be done, but to start a court battle which most independent biotech start-ups cannot afford. The entrepreneurial management team is also mentioned as an important risk factor. Especially their lack of business skills is worrying. The long time horizon of biotech investments creates uncertainty about the exit that a VCist will realise among other things. One VCist mentioned that whereas potential exit routes are often determined before investing in ICT, this is not possible in biotech.

A further question is whether the risk perception of the VCist is in line with the risk perception of the entrepreneur. As shown in table 3, all VCists believe that there are important differences in risk perception: they all agree that entrepreneurs underestimate the risk. A potential explanation may be that VCists have more experience and are more rational, while entrepreneurs are emotionally bounded to the project.

In general important differences exist in risk perception between entrepreneurs and VCists. Table 4 shows whether these differences are more important for biotech proposals. An important part of the sample perceives the difference in risk perception as stronger for biotech. Another important part of the sample indicates that differences in risk perception exist in all sectors without mentioning that they are stronger in biotech.

4.2. Pre-investment process

We will now start with a description of the pre-investment process of biotech investments and indicate differences with other technology-based proposals. Deals are first screened without extensive review. If the deals passes through the screening phase, a more extensive due diligence takes place. Table 5 (A. Screening and evaluation) shows that VCists use a more extensive screening and evaluation process to reduce the higher risks inherent to biotech.

The business plan plays a central role in the evaluation. VCists are asked what they perceive as the most important requirements of a biotech business plan. Table 6 indicates that VCists do not only stress the importance of the entrepreneurs or management, but also of IP and market strategy and financial considerations. Market strategy includes a well-developed business model and vision about the future of the company. IP strategy involves a suitable IP

portfolio and financial elements include the financial plan and realism of the assumptions included. Moreover, a good biotech business plan should meet a number of criteria. First, a good executive summary is mentioned as a necessity for a business plan to survive the screening stage. This executive summary should consist of a clear description of what the product is, what it does, what the market is etc. Second, the complete business plan should be easy to read. As one interviewee mentioned: “a business plan is not a scientific paper.”

Table 7 shows the most important shortcomings of biotech business plans according to VCists. Here, the entrepreneurial management team is important. Especially later stage investors stress the importance of the entrepreneurial management team. This might indicate that for early stage investor a complete and experienced management team is not the main criterion. A possible explanation is that because the development cycle is long for biotech companies, the focus in the first stages of development, may be more on the scientific progress. As the company develops, a more business oriented management team may become essential. It is interesting to note that whereas a good IP strategy is an important requirement, it is not considered as an important shortcoming. Table 7 also shows that inexperienced management does not seem to be able to deliver a good market strategy and a sound financial plan with realistic hypotheses. Biotech entrepreneurs should pay more attention especially to indirect competition, the business model and the financial plan.

We further ask whether VCists focus on different aspects when valuing a biotech business plan compared to a technology-based business plan. Ten out of twelve interviewees indicate that there is a different focus. Most of these interviewees mention IP strategy receives more attention for biotech proposals.

The next step in the pre-investment process is valuation. Table 5 (B.1. Valuation) shows that there is weak evidence that VCists use higher hurdle rates as a means to handle the high risk.

Table 9 shows the valuation methods that VCists use in general to value companies. Comparable companies and discounted cash flow (DCF) methods used most often. This corresponds to previous findings for Belgium and Holland by Manigart et al. (2000).

When asked for differences in the valuation process between biotech and other technology-based investments, VCists mention that for biotech proposals discounted cash flows (DCF) and multiples are used less often. Investors argue that these valuation methods do not provide clear results for biotech. More weight is given to qualitative data. This may not come as a surprise given the long time to generate positive cash flows. These results are confirmed in table 5 (B.2. Valuation), which shows VCists believe it is harder to value biotech companies. It is interesting to note that, not one VCist mentioned option theory, which offers a potential interesting theoretical development in respect of the valuation of venture capital investments according to Wright & Robbie (1998).

Our results clearly suggest that biotech is riskier than other technology. Financial theory would predict that on average one would require a higher return on biotech compared to other tech. As table 5 (B.3. Valuation) indicates, however, VCists do not believe biotech investments offer higher investment returns. We also examined whether differences in return perception exist between the VCist and the entrepreneur. Half of our sample indicates that entrepreneurs have no idea of either the return potential of the project or the required return by VCists. Two VCists stress the importance of experience: young scientists often have no

idea about return, but with experienced management, return perception is more aligned. Finally, three investors believe entrepreneurs are aware of the return VCists expect. Two of them are later stage investors, so that experience of management might have an impact here.

Table 5 (C. Contraction) shows that VCists do not require more comprehensive contracts as would be predicted from agency theory. This might indicate that agency theory does not fully explain the VCist-entrepreneur relationship. Incomplete contract theory, which predicts that incomplete contracts will be negotiated and closer monitoring will take place after the investment, seems to do quite well in explaining our results. Agency problems in biotech companies may not be higher compared to other technology-based investments. Therefore, more emphasis may be put on reducing uncertainty, which may be very large for both the entrepreneur and VCist.

As table 13 indicates, there seems to exist one major problem: VCists and entrepreneurs often are not able to agree on price. This does not come as a surprise taking into account the previous findings. First, biotech is a high-risk sector. Second, there are important differences in risk perception. Finally, VCists do not have a standard valuation tools at hand to value biotech.

6. DISCUSSION AND CONCLUSIONS

Previous research has shown that VCists use different criteria for technology-based projects compared to non-technology-based projects. Our results have shown that within the high technology sector, biotech is perceived as different. Biotech is perceived as riskier by VCists. VCists mention technological failure, financial risk, competition, management and insufficient IP protection as the most important risk factors. VCists also report important differences in risk perception with the entrepreneur. According to VCists, entrepreneurs underestimate the risks of their project. This problem, if not similar, is stronger for biotech.

During the pre-investment cycle differences are reported with respect to screening and due diligence, valuation and contracting. During the more extensive screening and due diligence process, VCists pay attention to market and IP strategy and financial considerations next to the management team. Management is considered as an important shortcoming, mainly by later stage investors. A well-developed IP portfolio, an important requirement, which receives more attention for biotech compared to other tech, is not considered as a problem in most biotech businesses.

In general, VCists mostly use multiples and the DCF method to value companies. For biotech companies, however, these valuation methods are used less frequently. These methods give no clear direction for biotech proposals and as a result, more weight is given to qualitative data. There is no strong evidence that VCists use higher hurdle rates as a mechanism to manage the higher risk inherent to biotech proposals

VCists do not require more elaborate or stringent contracts. This can be explained by the incomplete contract theory: under high uncertainty, the parties in a contract will not be able to include all contingencies. It might be an indication that agency risk is not necessarily higher in biotech, but that uncertainty for both the entrepreneur and VCist plays a more dominant role.

Price is often mentioned as the reason for unbridgeable differences during contract negotiation. This may not come as a surprise given the differences in risk perception between VCist and entrepreneur and the lack of a standard valuation tool for valuing biotech.

An important shortcoming of this study is the small sample size. Therefore, we are currently increasing the sample size. Second, foreign VCists, interested in Belgian biotech are not taken into account. Finally, the present study focuses only on the supply side; a study of the demand side is planned in the second phase of our research.

Our results are especially important for entrepreneurs. We have described the most important criteria that VCists take into account when evaluating biotech investment proposals. We have shown that VCists are on average satisfied with the scientific realisations of Belgian biotech entrepreneurs. However, they indicate important weaknesses with respect to insight in the market and financial planning. Moreover, entrepreneurs often underestimate the risks inherent to their proposals. Our findings are important for policy makers as well. The biotech sector is considered to be a very promising and important sector. However, financing difficulties may hamper the favourable development of the sector. Venture capital may play an important role in reducing these difficulties. Therefore, governments all over the world are

setting up programs to promote this type of financing. However, so far little is known on how and whether VCists are able to deal with the particularities of the sector. Finally, our results are important for the VC industry. VC companies are thought to fulfil a valuable role in the economy. A good insight into their working methods and management is therefore important and might enhance their performance in the selection and follow-up of promising entrepreneurial ventures.

NOTES

¹ Following segments are considered as biotech within the current paper: Bio-pharmaceutical and bio-medical (drug discovery, drug development, medical devices...), services and technology platforms (Bio-informatics, HTS, CRO, CMO...), bio-agro-alimentary and bio-environmental.

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Figure 1: A venture capitalist's pre-investment activities and mechanisms to reduce risk (based upon Wright & Robbie, 1998; Fried & Hisrich, 1994; Tyebjee & Bruno, 1984 and Brierley, 2001).

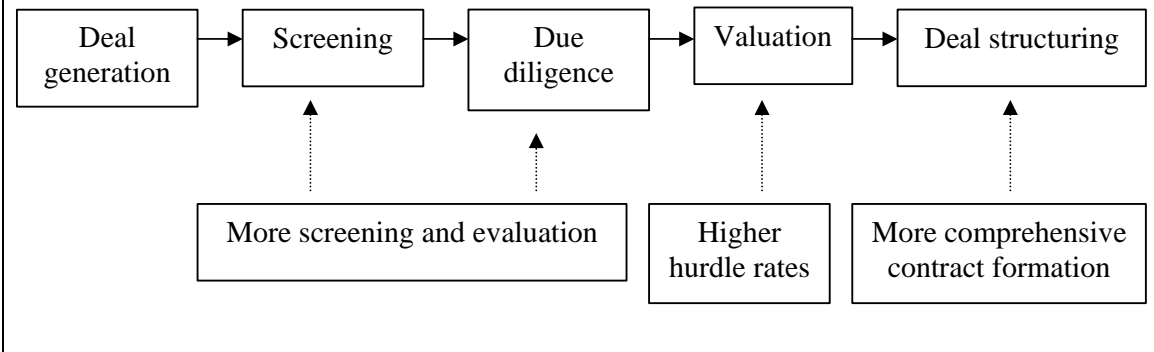
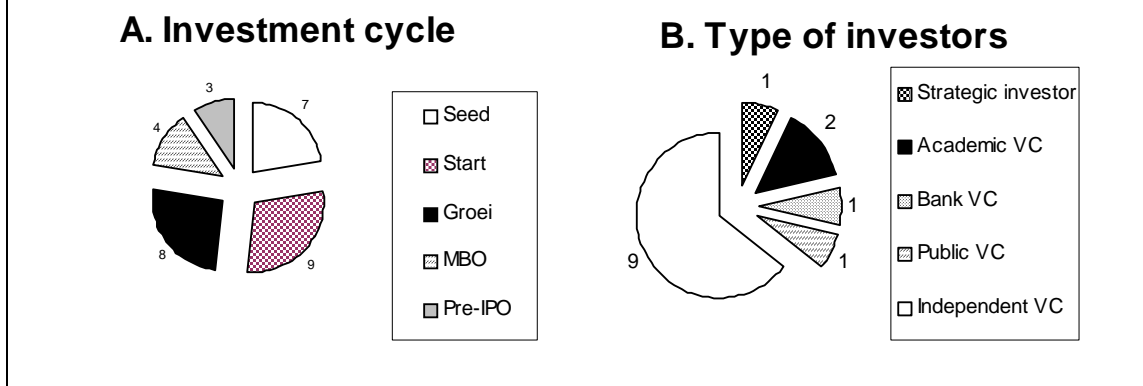


Figure 2: Overview of sample over investment stages and type of investor.



Note: Certain VC funds focus on one stage, while other however provide financing over several stages. This explains why the number of VCists in the figure is higher than 14.

Table 1: Risks of biotech investments according to VCists

Comparing to other technology-based investments, biotech investments...	N	Mean	Median	Wilcoxon's Rank Sum Test (p-value)
Require larger amounts of financing.	11	4.818	5	0.001
Take a longer time to generate positive cash flows.	11	4.727	5	0.001
Have higher variability of returns.	11	4	4	0.012

Notes:

- Based on 1-5 scale where 1 = strongly disagree, 3 = neither agree nor disagree and 5 = strongly agree.
- H0: mean = 3 and H1: mean > 3.
- When comparing biotech proposals with other technology-based proposals, the sample size often decreases as some interviewees were biotech specialists and had no opinion on other technology-based proposals.

Table 2: Most important risk factors when investing in biotech as perceived by VCists.

<i>Risk factors</i>	<i>N</i>	<i>Statements by interviewees</i>
Technological failure	9	-Unsuccessful research project -The technology does not work -The difficulty to go from concept to product
Financial	9	-Company runs out of funding -Company more capital intensive than expected -Company is not able to attract sufficient financing -Withdrawal of syndicate member
Competition	6	-Leap frogging -Maintain technological lead
Management	5	-Not enough business expertise -A lack of vision, leadership and gut to take decisions -No business approach
IP	4	-Risk of patent breach -Big pharmaceutical companies do not always respect patents of small biotech companies
Exit	3	-Exit -Longer time line (uncertainty about economic environment within for example 5 years)
Market failure	2	-Finding no buyers for product/technology
Regulatory hold up	1	

Table 3: Differences in risk perception between the entrepreneur and VCist.

<i>Difference?</i>	<i>N</i>	<i>Statements by interviewees</i>
Yes	14	-Entrepreneurs underestimate the risks -Entrepreneurs often see no risk or much less risk -Experience VCist plays a role here -Scientists often underestimate the hurdles they have to overcome. With professional managers, risks are more aligned. -VCist is far more sceptic -VCist is much less emotionally bounded with the project -Entrepreneurs underestimate risks in their enthusiasm
No	0	

Table 4: Differences in risk perception between biotech entrepreneur and VCist.

	<i>N</i>	<i>Answers by interviewees</i>
More severe	6	-Time and size of the investment play again an important role -There is no real difference between the risk perception of ICT managers or biotech managers, but we consider biotech as riskier -Differences in risk perception exist in all sectors, but because of the specific characteristics of biotech, the gap is larger
Similar	6	-Differences in risk perception exist in all sectors -There is no difference between biotech and other tech
Less severe	1	-Entrepreneurs in biotech are more realistic
No opinion	1	

Table 5: Mechanisms VCists may use to reduce risk or uncertainty.

	Comparing to other technology-based investments, biotech investments...	N	Mean	Median	Wilcoxon's Rank Sum Test (p-value)
	<i>A. Screening and evaluation</i>				
1.	Require more evaluation and screening before investing.	11	4.091	4	0.004
	<i>B. Valuation</i>				
1.	Require the use of higher hurdle rates to discount future cash flows.	10	3.7	4	0.056
2.	Pose greater valuation difficulties.	11	4	4	0.004
3.	Provide greater investment returns.	11	3.182	3	0.25
	<i>C. Contracting</i>				
1.	Require more and more detailed contract specifications.	11	3.364	3	0.157
2.	Require more alignment of management through appropriate remuneration and bonding strategies.	10	3.43	3	0.219
3.	Require the use of more preferred and/or convertible stock.	11	3.182	3	0.375
4.	Require closer monitoring and governance.	10	3.8	4	0.0235

Notes:

- Based on 1-5 scale where 1 = strongly disagree, 3 = neither agree nor disagree and 5 = strongly agree.
- H0: mean = 3 and H1: mean > 3.
- When comparing biotech proposals with other technology-based proposals, the sample size often decreases as some interviewees were biotech specialists and had no opinion on other technology-based proposals.

Table 6: Most important requirements of a biotech business plan

<i>Most important requirements</i>	<i>N</i>	<i>Statements by interviewees</i>
<i>Content</i>		
Market strategy	7	-Clear focus, coherent business model -Uniqueness of the concept -Vision with respect to market and products -Realistic hypotheses about how to influence the market
Financial elements	7	-A financial plan were the cost side is thoroughly worked out -Guarantees that cash will be sufficient to reach milestone -Financials: projected balance sheet, P&L account, cash flow statement -Realistic funding hypotheses
IP strategy	5	-IP Portfolio -Vision with respect to protection of business -Sufficient attention for IP
Management	5	-Management background (CVs) -A good combination between scientists and managers -Experience of management
<i>Characteristics</i>		
Executive summary	3	-A good executive summary
Clear	3	-Plain description of technology -Clear-cut
Reliable	1	-The whole business plan should be reliable

Table 7: Most important shortcomings of a biotech business plan.

<i>Most important shortcomings</i>	<i>N</i>	<i>Statements by interviewees</i>
Market strategy	7	-No insight in market, market potential -Underestimated indirect competition -Business model is not examined -Not enough attention for value creation path -No attention for marketing strategy
Management	6	-It is always an issue to attract good business managers in start up opportunities -Management team not strong enough -Inexperienced management: too many scientists
Financial considerations	4	-Financial plan: a lot of factors are not included -Scientists pay no attention to financial plan -Unrealistic costs incorporated in business plan -Amount of required capital underestimated
Timeline	2	-Unrealistic timeline
Exit	2	-Exit not clear -No developed exit story
IP strategy	1	-Technology too weak, for example with respect to patents
Clear	2	-A business plan is no scientific paper -Not to the point

Table 8: Valuation methods used by VCists.

<i>Valuation method</i>	<i>N</i>	<i>Answers by interviewees</i>
Comparable companies	9	-Multiples -Recent transaction price for comparable firms/products
Discounted future earnings	8	-DCF -Variations on DCF -DCF on adjusted numbers
Market based	2	-Value of licence negotiated for patent today -Value received by selling patent today instead of incorporating it into the company
VC method	2	-Discounted P/E model -VC method
Historic cost	2	
Other	3	-Mere guesswork -Valuation is outsourced to financial investors

Note: investors may use more than one valuation method.

Table 9: Reasons why terms and conditions of a biotech investment could not be agreed

<i>Reasons why terms and conditions of an investment could not be agreed:</i>	<i>N</i>
Could not agree on price	9
Could not agree on anti-dilution terms	4
Could not agree on shareholder's rights in case of liquidation	3
Could not agree on shareholder structure	3
Could not agree on founder vesting	3
Could not agree on salaries of management	3
Could not agree on exit strategy	2
Could not agree on the composition of the Board of Directors	2
Other	8

Notes:

- Based on responses of 12 investors who failed to agree terms and conditions with an entrepreneur on at least one occasion in the previous three years. Classification largely based upon Mason & Harrison (2002). Two investors did not complete the question needed to complete this table.
- The category other is based upon answers ticked only once and additional factors mentioned by the interviewees under the category other (and also mentioned only once).