



Health innovation: the investor's perspective

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EDITORIAL

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You finally have some funding to proceed with another project but in practice knowledge translation into a workable solution is a long way off. The research may be destined to make it into a report or publication but the technology is destined to sit on the shelf. The same questions you have previously asked yourself resurface. Surely *someone* can use this? Surely I could make some money out of it, sell the data/technology to external parties to make a commercial reality out of someone's investment?

Turning academic frustration into commercial reality can be a daunting experience and possibly more so from the relative comfort of a university research position where, at times, research publication is considered king and market need but a knave. However, the stark reality is that *someone* is paying for the research, *someone* is paying for salaries and equipment and hopefully that *someone* has an expectation that a market need is to be filled.

In the interest of full disclosure and as some part of an explanation to my somewhat cynical approach, I am not an academic. My past lecturers would be rolling in their graves and those not quite there yet may actually consider joining their colleagues upon learning of my contribution towards medical innovation. By my own admission, I am a practical person with a short attention span. Personally, I am more at home mustering livestock than being knee deep in technical

jargon but my farming and military background have taught me some invaluable lessons in approaching new business ventures: assess the situation, see where it fits into the big picture, always have contingencies *for everything*, and still expect to be surprised!

I will endeavour to touch on the basics from an investor's point of view when dealing with academics and getting the best outcome for your project. I stress the *your* project because, as lead researcher, *you* are expected to be the subject matter expert and it is up to *you* to disseminate the highly technical nature of your efforts to marginal folks like myself. Then, we all enjoy the outcomes and potential we desire from the project.

The only common theme in developing a project to take to market is that there is no *common*. There will be contradictions, hypocrisy and blatant disregard for theoretical balance. All we can do is to set guidelines and provoke deeper thought about project development. Each project will take on a life of its own and so it should, this is what makes it unique and unique is what gets everyone excited!

Getting started, get a mentor!

Let us assume you now have, or are in the process of developing your unique product, technology or service. Through this publication, intellectual property and financial considerations have been covered so let us assume the project is now looking for funding. This is the daunting bit, taking the first tentative steps toward making the project a commercial reality is by far the most difficult. It is where those closest may easily influence us. Generally, our friends and family are risk adverse with new projects and, unless your colleagues have an in-depth knowledge of your project and project potential, they may not be the best sounding boards.

Ideally you need a business mentor. The mentor does not have to be a professional and it is not necessary that they be involved in your field of expertise or the sector of the



potential business. What is essential is their ability to look at the bigger picture, they either share your vision or at least can provide guidance on its definition.

Before discussion, make sure all relevant protections are in place such as non-disclosure agreements (NDA) and that any intellectual property considerations have been covered. Most provisional or state governments will have an innovation network or mentor group for confidential approach and if they do not have immediate solutions they can certainly steer you in the right direction. Do not be afraid to ask business associates or networks, of which you are part, if anyone has used or would consider being a mentor. If you have been in academia for a period of time, look for someone outside your industry; you are the expert and do not require duplication unless the individual is specifically qualified in taking a similar product to market. Take the opportunity to explore the rest of the business world, learn from others and other industries. The results may surprise you.

The mysterious world of investors

Investors want to make money. If you are lucky and they believe in the product, they might even want to see the project succeed for social good and without an expectation for any financial reward or return for doing so. Investors are the Formula One drivers of the business world. It is all champagne and speeches when they are on top of their game, but flames and helicopter rides when things go horribly wrong. Sadly, the statistics are probably similar: for every podium finisher, there are a few thousand that go back to scrubbing the garage floor.

The expectations of investors depend on their financial commitment and their attitude to risk. They can be loosely categorised so that their roles, equity stakes and expectations will vary depending on the amount of return expected, at what stage they look at investing, the amount they invest and the security or equity they require. Table 1 (original material from the University of Cambridge Ignite Program, adapted for use by the Curtin Ignition Program 2012) describes different sources of finance and the description of the entities that provide it. An accurate description of common terms is also given to investors such as Friends Family and Fools, Angels and Venture Capitalists.

Where do I find investors?

This can be a tricky situation. Word of mouth can provide a reliable starting point if someone you trust has used this strategy and can vouch for the experience. Universities, innovation and incubator groups can attract investors and most countries will have government agencies that can provide assistance and guidance in these areas. If you had success in finding a reliable mentor, their network can also

provide them with a wealth of knowledge. Depending on the project, sector, stage of development, amount to be funded and skills required will influence the type of investor sought (see Table 1).

Do as much research into potential investors as possible. This is part of your *due diligence* where background checks, reputation, past deals (good and bad) and contingency plans are your responsibility. Before approaching an investor it is essential to recognise what investors need to know:

- To understand the business proposition. What is the business and how do you explain it? You need to have a small business plan that describes the product, what unmet need it covers in the market, how the business meets this need and how it generates revenues to provide sustainability and return to investors. This can be covered in a one page, succinct document called the information memorandum.
- Trust in those involved in the development and implementation of the business. The investor will conduct their own due diligence to ensure you have the ability to make the project happen if that is your claim. Be honest. Avoid glazing over issues of concern or trying to hide details, as this will be fatal in a burgeoning relationship.
- Believe that the team can deliver what is stated. If the investor is not going to be working in the business, they must trust that the best interests of their investment is being handled with care.
- Potential or upside. Think big, think global and if worldwide domination seems dull work, find a way to double the money. There is avenue for scope but bring it back to reality quickly. All investors want to hear the upside and have confidence that you see the bigger picture. Some arrogance can be beneficial but it is a very fine line.
- Risks to the business. Do not understate the risks as this erodes trust and confidence. Address risks and provide solutions. If you do not know the answer commit to finding one or ask for advice.

Now you know what the investor needs to know, determine what *you* want. There is a series of questions you need to answer that will give direction to the project. Be clear in your goals. What do you want to achieve from a path to commercialisation? Maybe you want to leave your current position, start and run a business? Does your current employer own the technology/research and,



if so, what are the arrangements for you to use this technology for personal gain?

Negotiating for equity sharing in return for investment will create a need for investors to be confident that you own or have the use of what you say you do. You will need to have supporting documentation from the research institution and ideally a commercial lawyer. Once money begins to exchange hands, investors generally want something in return. Investors may want financial return, a share in the overall business (equity) or require use of the technology or service.

One of the most desirable outcomes for technology or service providers that own intellectual property is to sell part of their technology to a strategic partner for a license fee. The customer pays a set fee per use or per sale and this allows you to retain a portion of equity, possibly remain in your current position and receive an income or return on your investment for the life of the product.

Where do I look for funding?

Before you search for funding you need to have answers to the following questions:

- What is the business proposition?
- What is the business worth?
- How much money do I need?
- How big is the target market?
- When will my investors get a return on investment?
- How much equity am I willing to give up?
- Is my intellectual property protected?
- Who is on my team or what skills do I need to add to the team?
- What are the strengths and weaknesses of my project?

The list looks daunting but during product development you should have covered most of these questions. There is a multitude of plans and documents available that guide your thoughts about defining your product and where you see the potential for the business. Personally, I do not believe in an in-depth business plan for start-ups. There are so many unknown variables until a product has been developed and tested on the market. You can make assumptions at best and it is up to you to justify those assumptions with demonstrable research from the target market.

In a research situation, funding for initial research and development may be sourced directly from the university, grant funding from various government and non-government institutions and, in rare cases, from the personal funds of the developer themselves. Once the university or institutions have achieved research and development outcomes, re-evaluation

of the project usually occurs. This is where commercialisation may be an option. Even though intellectual property rights are covered elsewhere, it is at this stage in the process that a clear indication of equity and intellectual property ownership needs to be clarified (before the project actually starts is the ideal time). The technology or service developed should have the ability to generate profit in order to provide a return to investors and to keep the business sustainable.

Medicine is unique. In order for solutions to be developed, the social benefit can sometimes outweigh the economic rationale of traditional investment models. This places medical innovation in a subjective realm of returns where it is difficult to traditionally justify investment and profitability. However, in no way does this preclude commercial rigour from being applied to the establishment. Continuation of a medical business, in fact and due to the highly ethical nature of such a business, should raise the level of expectation.

If non-traditional returns are a characteristic of your project, inform potential investors beforehand. They will appreciate your honesty. Identification of primary concerns about financial returns will avoid wasted time and allow you to target those more sympathetic to your project. There is a growing trend toward corporate and community social responsibility. This is a relatively new movement and it opens opportunities where there can be mutually beneficial arrangements developed with little or no dilution of equity or return on investment required. There has also been significant development of the crowd funding platform in the past few years. Originally conceived in 2008, such sites as "Kickstarter" rely on community support to fund start-up business with little or no return required. There is no dilution of equity and funds are received as soon as the target is met. This is not for everyone but is certainly a consideration for some projects.¹

Preparing for the pitch

Pitching is generally considered to be standing in front of an intimidating group of people trying to explain why you need their money, being asked all sorts of questions that would make any CEO of a multinational nervous. Pitching terrifies a lot of people and personally I am not a fan. I would prefer to sit down and talk to the people involved and have them explain the project, in comfort why they are passionate about it, where the opportunities lie, what they require and if they have the skills and history to fulfil their commitments.



If you do have to pitch, and you probably will, keep it simple and concise. If you are from a research background, imagine you are talking to your colleagues. If, after the conversation, you feel you grossly undersold the technological explanation then congratulations – you probably nailed it and saved someone like myself from stabbing themselves in the eye to stay awake! If you cannot keep it simple then you might not be the right person to pitch. Get a colleague or co-founder to present and be present to answer any technical questions.

You do not have to be a financial genius, but make sure someone with the necessary skills validates the financial work. This is where most investors will gauge viability. If you feel the need to use props to demonstrate your project, do not rely on complicated setups, minimise the risk of catastrophe, keep it simple and keep presentation slides minimal. Watch *The Dragons' Den* for preparation.²

A good length for a pitch is 10-15 minutes, with 10 minutes for questions. If you have an idea of who may be present, you can customise your pitch to an extent but avoid making it too obvious and do not confuse other potential investors by this tactic.

They want to talk!

Hopefully, through the pitch and discussions you have determined the amount to be invested and a corresponding amount of equity or similar to be exchanged. I would suggest having a commercial lawyer present during negotiations or at least have sound advice in writing from all legal entities. Forward documents to your lawyer and have your mentor in close contact, if not with you, during these final stages. If some doubts surface, talk to people and be comfortable with your decision. You now have a new responsibility, but most of all, you have found people who have confidence in your project and share your vision.

As stated at the start, no two deals the same. Be flexible and learn from each experience. You will find that people are more than happy to lend their experience and are not out to steal your idea. If you are concerned about equity, remember that a little piece of something big is better than no piece at all.

Good luck

<http://www.bbc.co.uk/programmes/b006vq92>

PEER REVIEW

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CONFLICTS OF INTEREST

The authors declare that they have no competing interests.

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2. The Dragons Den [Cited 26/01/2013]. Available from



Table 1: Sources of funding

Source	Description	Return	Stage	\$	Security
Personal Savings	Entrepreneur's own savings/resources best at the early stages when there is just an idea. The entrepreneur retains 100% ownership. Cash advances from credit cards have also been used as a means to access money in the short term – this is not to be recommended!	Unlimited	V. Early	\$1,000 to \$50,000	None
Friends & Family	Provide a potential source of finance and more likely to believe in the entrepreneur with only the germ of an idea than would an unknown potential investor.	0% to 100%+	Early	\$5,000 to \$200,000	Minimal
Grants	Public-sector grants are often available to help with the costs of feasibility	None	Early to Middle	\$500 to \$1 million+	None
Business Angels	Business Angels are individuals who have personal money they wish to invest in new ventures. They are often successful entrepreneurs. They may operate as individual investors, or as part of a network. A good Business Angel will bring more than just money; they will also bring experience of successfully setting-up and growing a new venture, and provide a wide range of contacts and networks. For further information see Western Australia Business Angel Network (www.waai.net.au)	100%+	Early	\$10,000 to \$100,000 (\$500,000 total)	Shares, Board &/or Legals
Venture Capital	Venture capital is a type finance that is focused mainly on funding the expansion of businesses, but specialist funds may also focus on the very early stage of set-up as well ('seed funds'). See Australian Venture Capital Association (www.avcal.com.au)	50%+	(Early) to Middle	(\$100,000) to \$1million+ higher	Shares, Board & Legals & Targets/Floors
Banks (Asset Finance)	Banks will be of most use to business when you can show a track record of sales. They will then be able to help with leasing arrangements, overdraft facilities, loan guarantees, factoring and other commercial	Repayment + Interest (Base rate +2/4%)	Middle to Late	\$1,000 to \$1 million+	100%+
Corporate Venturers	Large businesses may provide a particularly valuable source of funds for growing ventures. 'Corporate venturing' has become a substantial source of investment for new and growing businesses.	Mix of VC & Bank	Middle to Late	\$10,000 to \$1 million+	Shares, Board &/or Legals