



VC / Early Stage Funding

Presentation by Dr Daniel Roach

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Attributes of an Entrepreneur

- Actively uses resources such as expertise of others to accomplish goals
- Tolerates ambiguity and uncertainty
- Takes initiative and seeks personal responsibility
- Moderate risk taking
- Has own script, doesn't do things the same way
- Concerns for feedback of performance
- Persistence in problem solving

Successful Entrepreneurs



- ProActive
 - Use initiative
 - Use assertiveness
- Achievement Orientated
 - Systematic planning
 - Efficiency orientated
 - Sees and acts on opportunities
 - Monitors
- Lucky
 - Timing is key

Successful Entrepreneurs



- Good at Data Acquisition and Presentation
 - Listening
 - Writing
 - Presenting
- Integrity
- Commitment to Others
 - Works to a contract
 - Recognises the importance of business relationships

Introduction to Avlar

*... creating value through active investment in early stage
biotechnology and healthcare companies ...*

The Funds



Cambridge Quantum Funds

- established 1990, healthcare portfolio managed by Avlar since 1999
- 10 year £2.4m fund (now fully invested)
- 16 portfolio companies (5 healthcare companies)

Avlar Fund I

- established March 1999
- 10 year £20.7m fund (now fully invested or committed)
- 11 portfolio companies

Avlar Fund II

- 10 year £43m fund investing in early stage and seed biotechnology
- established July 2001
- 10 portfolio companies (to date)

Avlar invested £26m, total invested £112m, gearing 4.3

The Funds - Investors

Avlar Fund I

• 3i	£5.0m
• European Investment Fund	£5.0m
• Coller Capital	£5.0m
• Others	£1.7m
• Avlar management*	£1.5m
• B Haigh	£1.0m
• BTG	£0.5m
• Cambridge University	£0.5m
• Other Individuals	£0.5m
• TOTAL	£20.70m

Avlar Fund II

• European Investment Fund	£13.6m
• Lloyds TSB DC	£10.0m
• Coller Capital	£5.0m
• Access Capital Partners	£5.0m
• Avlar management*	£2.1m
• Yamanouchi Venture Capital	£2.0m
• Temasek	£4.0m
• Others	£0.3m
• Cambridge University	£0.5m
• BTG	£0.5m
• TOTAL	£43.0m

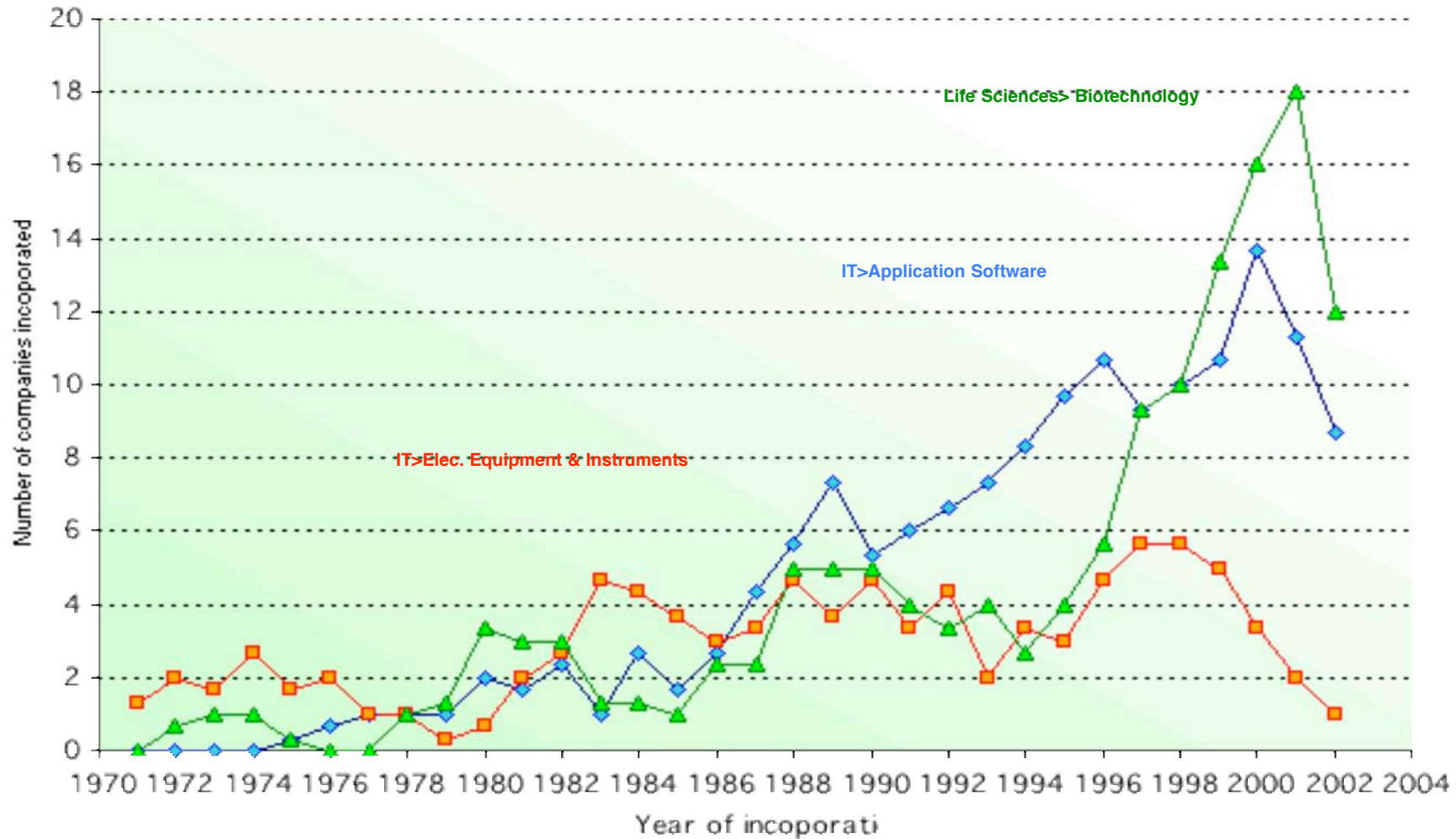
* ATM, Alan Goodman, Daniel Roach

The Global Picture in 2003



• Total Investment Available	\$71 trillion (\$71,000 billion)
• Total Private Equity Invested	\$115 billion
• Buy Outs	\$73 billion
• Expansion Stages	\$21 billion
• UK (no. 2 in world)	\$16 billion
• UK Venture Capital (no. 1 in Europe)	\$2.6 billion
• UK early Stage (~ 6.0%)	\$156 million
• UK Biotechnology (50%)	\$75 million

Key Sector Formation Over Time



The Team



- More than 80 years' experience in the biotech and healthcare business
- UK leaders in creating of biotech companies since 1983
- Expert managers of start-ups
- Extensive experience of:
 - Fund raising in excess of £300m raised as Executive Directors
 - Commercial and scientific management
 - IPOs, mergers and acquisitions
- Extensive scientific and business network → deal flow

The Team



ALAN SMITH - CPFA

(Non-Executive Chairman)

Senior management experience, including Group Finance Director of Anglian Water Authority, Anglian Water plc, Group Managing Director of Anglian Water. He is Chairman of Acambis plc



ALAN GOODMAN - FCMA, IMC

(Chief Executive)

Leading serial entrepreneur. Over the last 20 years he has founded or co-founded many biotechnology and healthcare companies. Currently Executive Chairman of CeNeS Pharmaceuticals plc.



DANIEL ROACH - BSc, PhD, IMC

(Investment Director)

20+ years of consulting and senior management experience in biotechnology companies from start up to full listing



CATHERINE PRESCOTT - BSc, DPhil **(Science Director)**

Extensive consulting and operational experience in research and strategic scientific and commercial development within the biotechnology and pharmaceutical sector



HUW JONES – MA, ACA

(Finance Director)

Qualified Chartered Accountant. Worked in corporate finance in life sciences with PwC, also FD of healthcare business

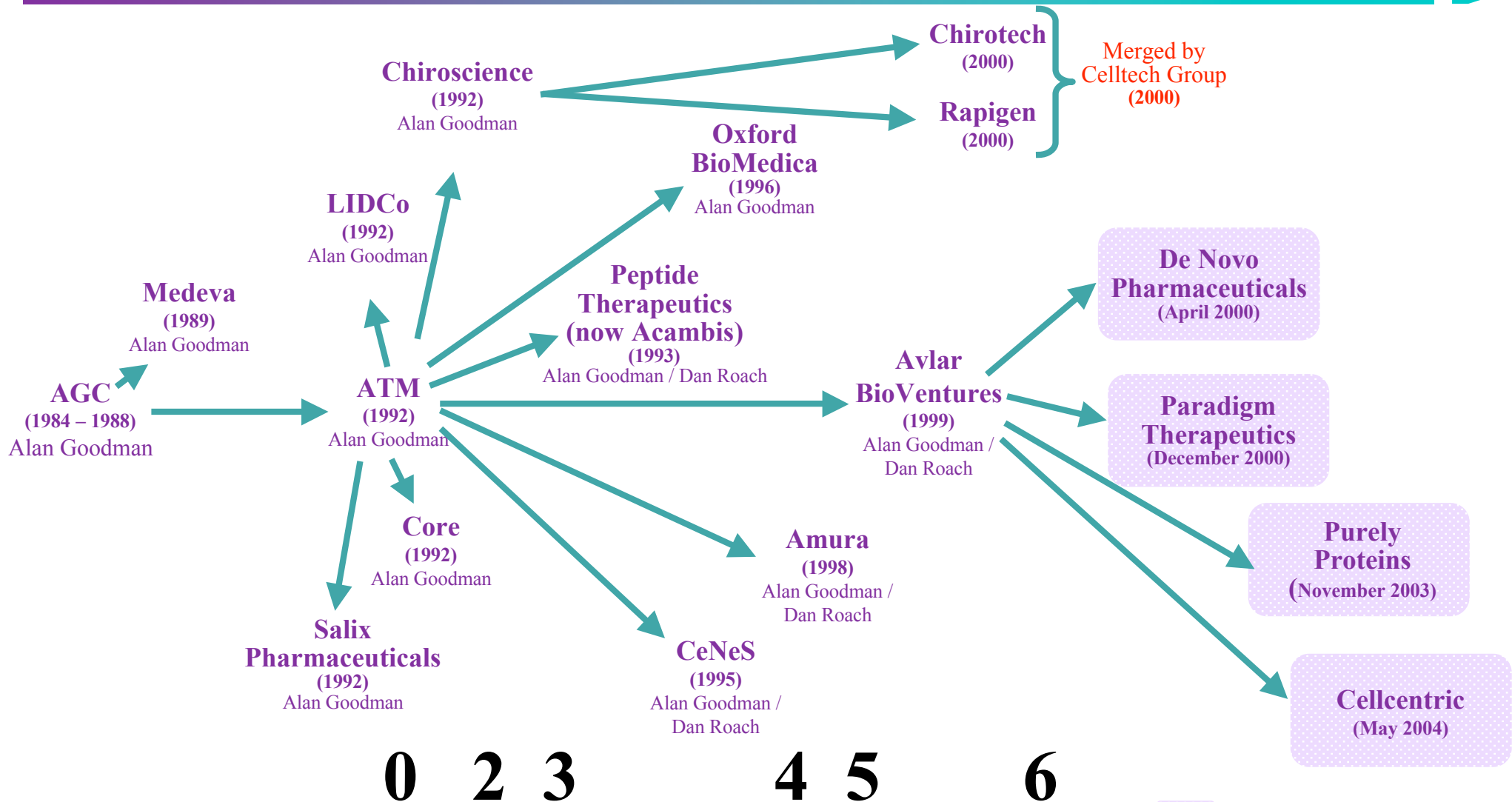


DAVID NEEDHAM – PhD

(Non-Executive Director)

Was a Partner at Alta Berkeley. Led or managed over 25 high technology investments. He holds a PhD in High Speed Aerodynamics from Imperial College London.

Leaders in Biotechnology



= out of Cambridge University

Cambridge Cluster

Avlar's Cambridge base gives it a powerful advantage

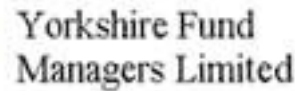
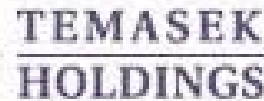
- Home to half of the UK's top 15 LSE quoted biotech companies
- Home to 25% of Europe's top 50 publicly quoted companies
- £1bn of VC funds available from companies located in the region
- 29 publicly quoted biotech companies
 - 17 UK, 8 US, 2 Canadian, and 2 European (excluding pharma co's)
- 25,000 people employed in life sciences
- Amgen, Genzyme, Gilead Sciences, all have operations in the region
- GSK, MSD have major research establishments in the region

Source: www.erbi.co.uk

Location Location Location

Co-investors

- Avlar invests with other leading risk capital providers
 - we seek to invest early and lead subsequent funding rounds
 - co-investors include ... venture capitalists:



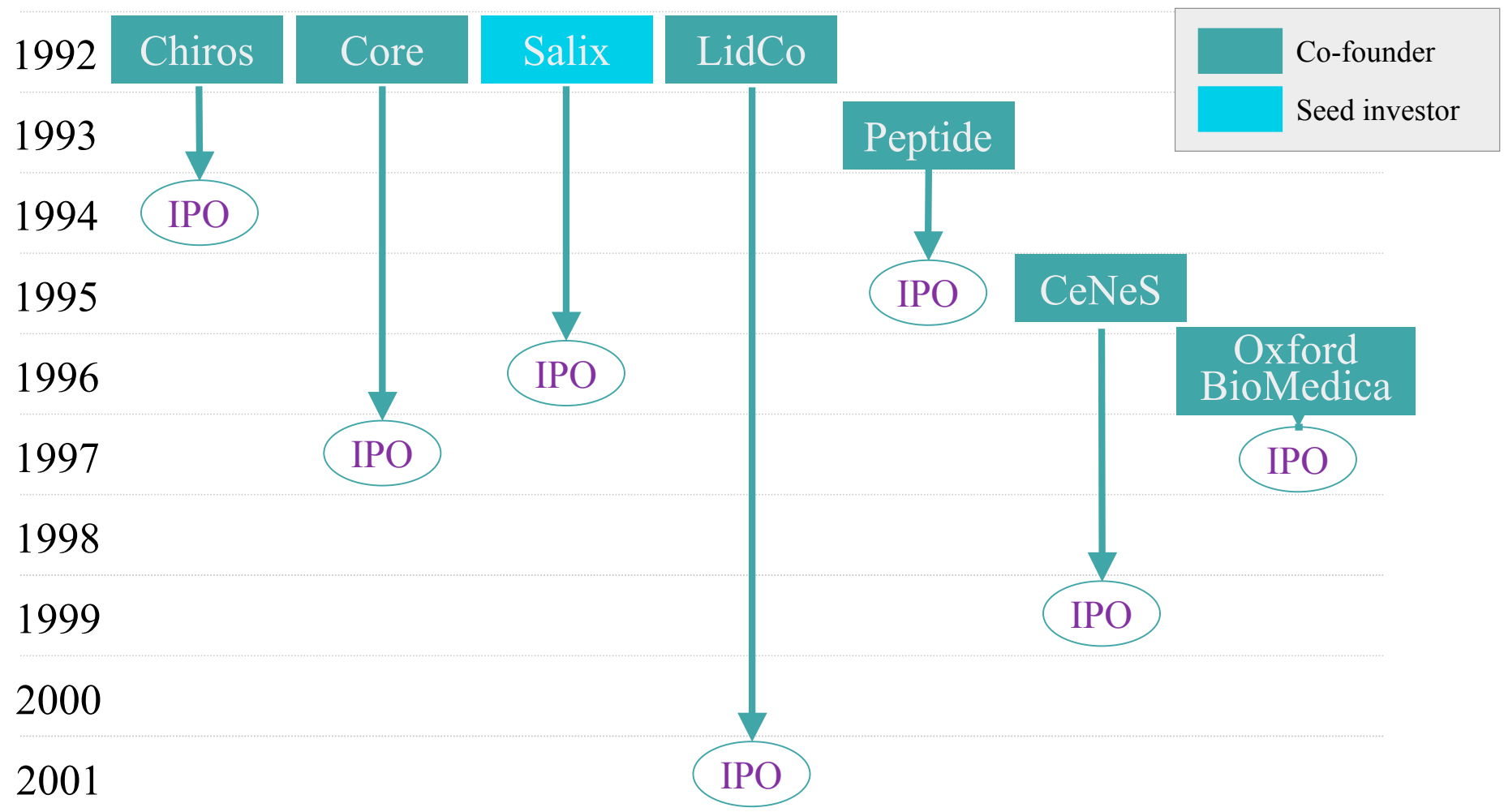
... and corporate venturists:



*Track Record
and
Market Outlook*



Goodman, Roach, Track Record and Exits



Became: *ChiroScience*
Celltech

CeNeS

Acambis

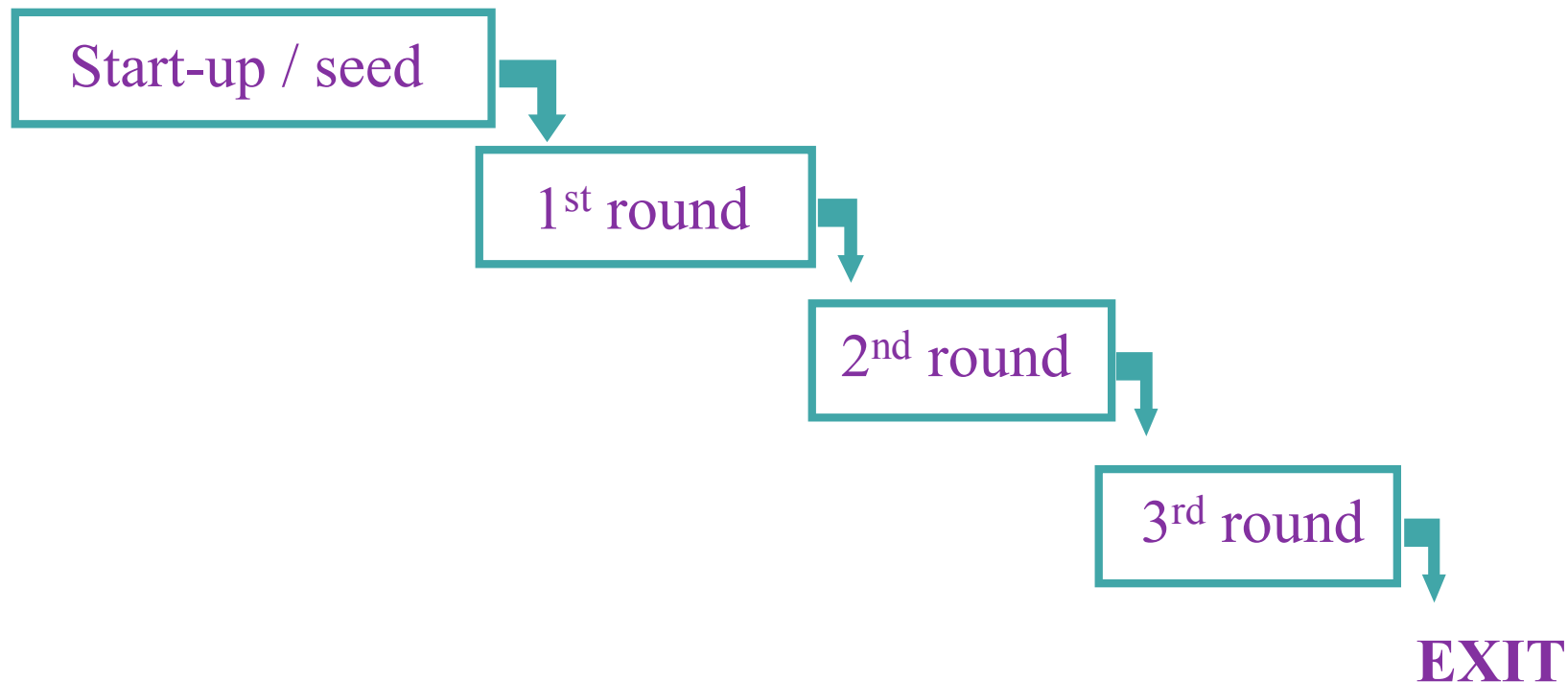
In the 1990's we had:



- New public markets for high-tech and small-caps
- A flood of venture capital backed deals floating
- Massive institutional investment into the life-science sector

The Good Old Days

Before the e-bubble, the typical v.c. funding profile was:



And the result was:

- New markets prove to be inefficient
- Lock-ups and no liquidity = no exit
- Casino-style investing
- Few winners to drive the market
- Too many failures
- Realisation that biotech is really long-term
- Loss of public market confidence in the sector

New Century

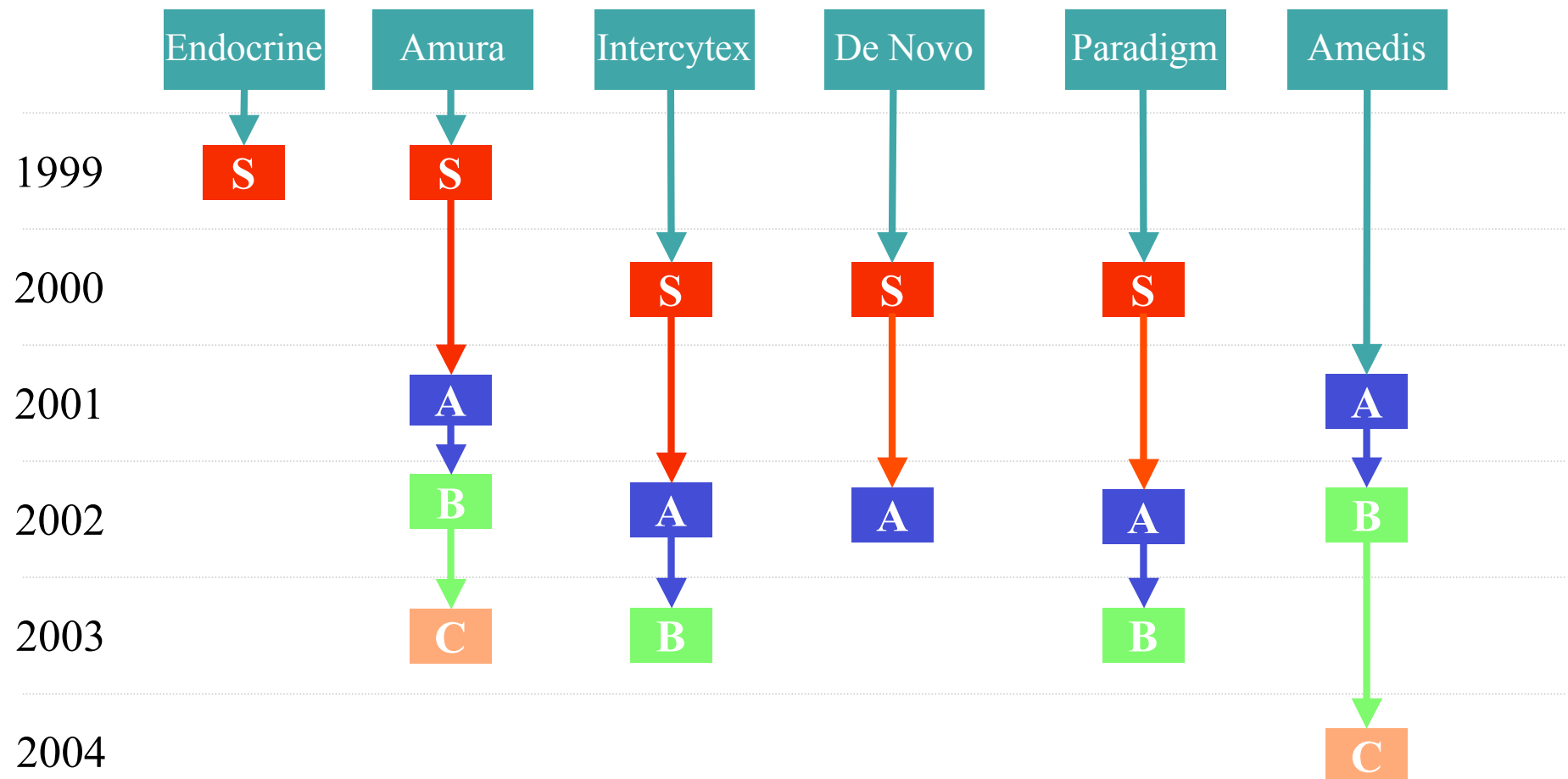
- Public markets are virtually closed
- Dependence on venture capital for survival, but v.c. funds are :
 - Focused on their own portfolios
 - Conserving capital for survival
 - Life-sciences is on life-support
 - Pre-occupation on down-side protection
 - Good deals can raise funds, but at give-away prices

Where We Are Now



- The 3rd round can still be the launch platform for the exit process
- Funding should be creative to:
 - Underpin a realistic exit strategy
 - Validate and protect the technology
 - Achieve actual or near-term product sales
 - Exploit meaningful alliances and consolidation
 - Keep exit options open
 - IPO's are still possible, but plan for M&A exits

Avlar Fund I (Ongoing Investments)

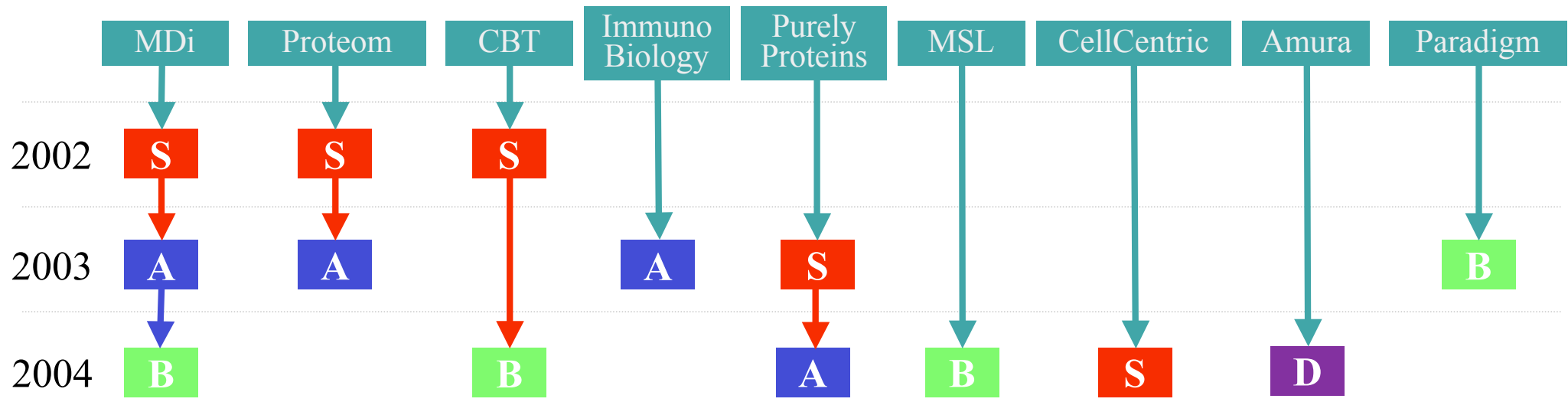


Avlar invested £17m, total invested £83m, gearing 4.9

Avlar Fund II (Ongoing Investments)



S Seed investment **A** Series A **B** Series B **C** Series C **D** Series D



Avlar invested £9m, total invested £29m, gearing 3.2

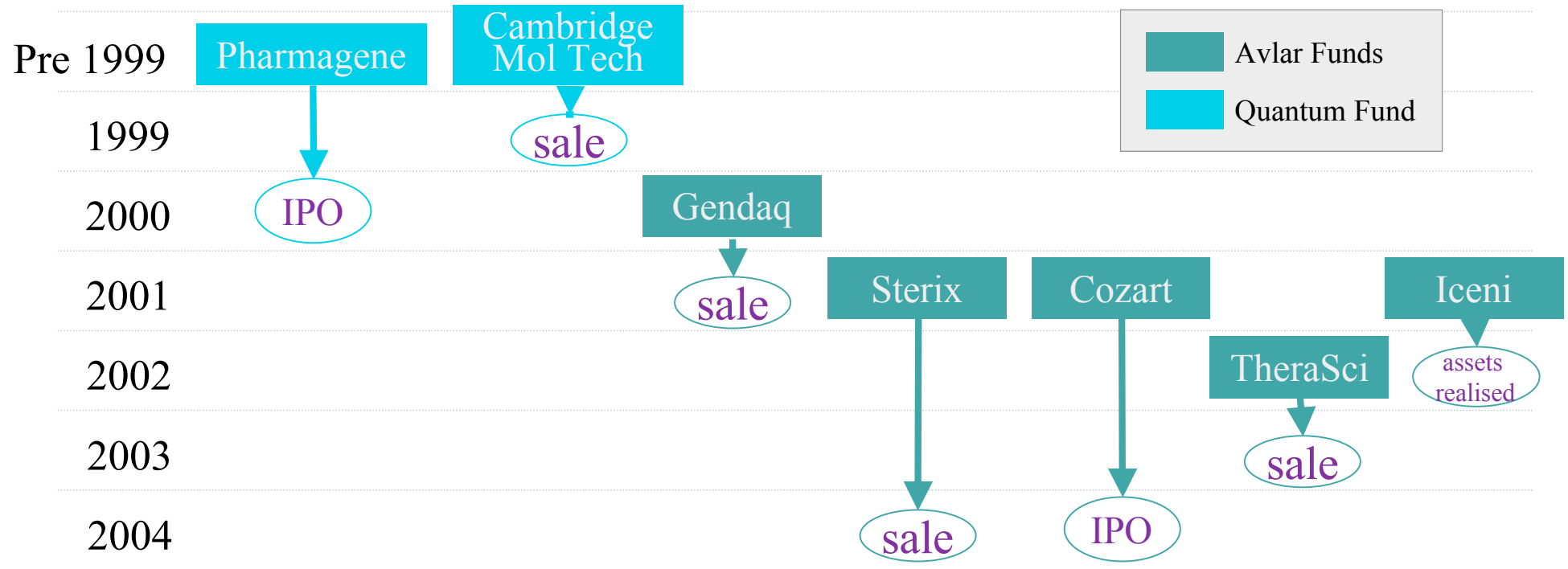
Market Outlook



Current outlook for biotech is improving

- Early stage (seed/Series A)
 - few VCs participating ← Avlar's opportunity!
- Follow on (Series B and C)
 - high activity in the US
 - low activity in UK and Europe (but picking up)
 - deals taking time to close
- Exits:
 - IPOs: US is open (though prices soft), UK and Europe re-opening. Late stage and trading companies favoured. Secondary offerings also increasing (particularly in US)
 - Trade sales: UK activity increasing (eg Celltech/UCB)

Quantum, Avlar Track Record and Exits



Acquiror:

Whatman

Sangamo

Ipsen

CeNeS

2 IPOs, 4 sales and 1 realisation (2 to private, 2 to public companies)

Case Study



Cozart Bioscience



- Point-of-care diagnostics for drugs of abuse
- Founders with established track record in immunodiagnostics and product development
- Targeting the emerging international market in law enforcement and forensic science



Cozart

- Founded 1993, self-financed by the founders
- 1996 UK Smart award
- 1999 First product-Cozart RapiScan launched
- 2001 Avlar invests in 1st v.c. round, Cozart wins UK Home Office contract
- 2002 FDA approval for Cozart RapiScan
- 2003 Avlar makes a loan investment, RapiScan used by Italian Police for roadside testing
- 2004 Cozart starts 3rd round fund raising



- With product sales of £4 million
- A rapidly growing international market
- Strong IP
- New product pipeline
- Additional finance needed for expansion
- Venture capital funds interested, but want a low-price deal



COZART

Cozart

- Strategy switched to an AIM market listing
- Avlar committed its loan to the offering
- IPO in July 2004 raised £5.3m on a £27m post-money market capitalisation
- Shares currently trading at a £40m market cap.
- Avlar now holds shares at 3x cost in a highly promising fast growth public company



What return do VC's want

COMPOUND INTEREST											
Rate	2%	4%	6%	8%	10%	15%	20%	25%	30%	35%	40%
Year 2	1.01	1.08	1.12	1.17	1.21	1.32	1.44	1.56	1.69	1.82	1.96
3	1.06	1.12	1.19	1.26	1.33	1.52	1.73	1.95	2.20	2.46	2.74
4	1.08	1.17	1.26	1.36	1.46	1.75	2.07	2.44	2.86	3.32	3.84
5	1.10	1.22	1.34	1.47	1.61	2.01	2.49	3.05	3.71	4.48	5.38
7.5	1.16	1.34	1.55	1.78	2.04	2.85	3.93	5.33	7.15	9.50	12.47
10	1.22	1.48	1.79	2.16	2.59	4.0	6.2	9.3	13.8	20.1	28.9

Information courtesy Coller Capital

COMPOUND INTEREST											
Rate	2%	4%	6%	8%	10%	15%	20%	25%	30%	35%	40%
Year 15	1.35	1.80	2.40	3.17	4.18	8.1	15.4	28.4	51.2	90.2	155.6
20	1.49	2.19	3.21	4.66	6.73	16.4	38.3	86.7	190.0	404.3	836.7
25	1.64	2.67	4.29	6.85	10.83	32.9	95.4	264.7	705.6	1,812	4,500
30	1.81	3.24	5.74	10.06	17.45	66.2	237.4	807.8	2,620	8,129	24,201

Information courtesy Coller Capital

What returns do VC's want

IRR												
Multiple	1.25x	1.5x	1.75x	2x	2.5x	3x	3.5x	4x	5x	6x	8x	10x
Year 2	12	22	32	41	58	73	87	100	124	145	183	216
3	8	14	21	26	36	44	52	59	71	82	100	115
4	6	11	15	19	26	32	37	41	50	57	68	78
5	5	8	12	15	20	25	28	32	38	43	52	58
6	4	7	10	12	16	20	23	26	31	35	41	47
7	3	6	8	10	14	17	20	22	26	29	35	39
8	3	5	7	9	12	15	17	19	22	25	30	33
9	3	5	6	8	11	13	15	17	20	22	26	29
10	2	4	6	7	10	12	13	15	17	20	23	26

Information courtesy Coller Capital

Conclusion

- Remember you are in this to make money for your investors, not just to survive
- Focus on the exit strategy from day 1
- Create a transition from a vulnerable v.c. dependent state to a more secure route to the final exit – **Yes Please**

The Best Book

- “The Magic of Thinking Big..” David J Schwarz 1959
ISBN 0-7225-0943
- “Man belongs where man wants to go.”
Dr Von Braun, a missile expert, p92
- “There are many ways in which a good **job** can be done – as many ways, in fact as there are men to whom the task **is given**”
- “Big thinkers trains themselves to see not just what is, but what can be”
- **ACTION CURES FEAR**