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ROUND TABLE EVENT

Foundations & Unconventional Fund-raising

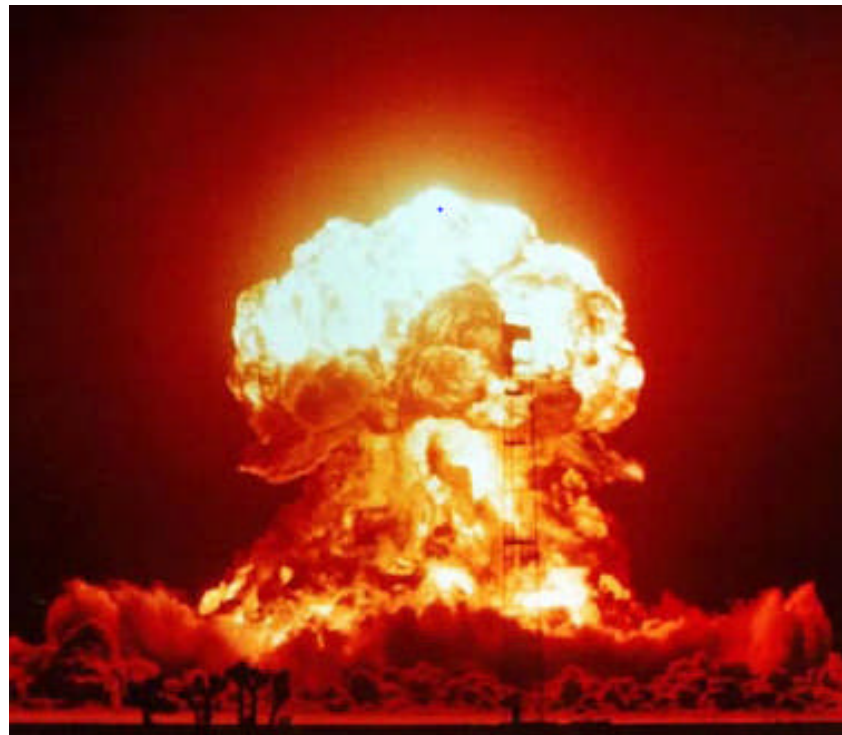
January 13, 2010

Boot-Strapping for Survival

Rand Henke



Bootstrapping for survival and growth in today's investment environment!



Bootstrapping

Today's investment climate

- Less capital in play (new deals are <50% of prior years)
- Higher capital reserves for existing portfolio
- New deals are later stage and “derisked”
- VC feeding on down-round opportunities
- Much lower valuations, much higher cost of capital

Will Rogers, who opined in the early 30s that he wasn't as much concerned about the return on his money as the return of his money.”

Bootstrapping

Traditional Venture Capital Seeks:

- **BIG WINS**
- **BIG Value Propositions**
- **BIG Head Starts**
- Very **BIG** Addressable Markets
- **Known** Highly Qualified People
- **Strong** Customer Validation

Bootstrapping

Traditional Angel & Angel Group Investors are:

- Focused on capital conservation
- Requiring dilution protection
- Seeking deals that will require less capital
- Focused on deals with less risk
 - Easy to understand and strong value propositions
 - Products ready or already in the market
 - Clear path to market acceptance and penetration

Bootstrapping

So.....

- What if you can't raise as much as you'd like?
- What if you're not fundable at all?
- How do you survive and grow your business?
- What is *Entrepreneurship* really?
- Can we afford the time and resources we allocated to seeking traditional investment?

Bootstrapping

Are we total dependent on, or “addicted” to traditional investment mechanisms for our early-stage companies?

Is there an alternative ?

“Bootstrapping”

Bootstrapping

What does Bootstrapping mean?

- Focus on building fundamental business value
- Accept longer timelines for growth
- Financial belt tightening
- Leverage relationships
- Sell “early” products and services
- Focus on profitability
- Focus on likely strategic acquirers

Bootstrapping

What does Bootstrapping mean?

- Make a realistic assessment of your product, market, management, etc.
- Protect the home front.
- Don't count on outside capital.
- ***Operate as if you are never going to obtain outside capital.***

Bootstrapping

Lighthouse Biosciences, Inc. Approach

- No seed or institutional funding
- Initial support from local sources:
 - Excell Partners
 - High Tech Rochester
 - University of Rochester
- Self funding
 - No pay roll – 5 employees
 - We write personal checks

Bootstrapping

Lighthouse Biosciences, Inc. Approach

- “Bar Tab” with willing vendors (Legal, CPA)
- SAB members willing to defer compensation
- Consultants retained on success based contracts- no up front cash
- Technology advanced via university collaborative relationships - federal funding
- SBIR Grants

Bootstrapping

Lighthouse Biosciences, Inc. Approach

- Seeking strategic partner relationships
 - Service “demonstration” contracts
 - Option payments
 - Development funding
 - Equity funding
 - Sublicense fees (by field of application)
 - Service and Supply agreements -SALES

Bootstrapping

Lighthouse Biosciences, Inc. Approach

- Positioned with “Affinity” angel investors
 - Believe in the team
 - Believe in the “cause” and need for a solution
 - Believe in the community and the knowledge economy – “More than Philanthropy”
 - Know the business
 - Value of the convertible note
- Seek institutional funding when odds are in your favor

Bootstrapping

Adarza BioSystems, Inc. Approach

- Very Similar to Lighthouse, No Seed Funding
- Focus on SBIRs
 - 3 awards: \$2.4 M, line of site to >\$5 M
 - Use SBA/SBIR/NIH Leverage
 - Foresight Technologies
 - Dawn Breakers
 - Commercialization Assistance Program Grant
 - Pipeline Partners- link to strategic partners
 - Phase IIB

Bootstrapping

Adarza BioSystems, Inc. Approach

- Drive to “EVS” (Early Visible Success)
 - Focus on early product sales and service contracts
 - Sold prototype to research collaborators
 - Provide high value services: custom assays
 - Teach clinical labs how to use our assays & device (get them to validate- no cost) then sell them device and support service
 - Get research collaborators to add our assay/device to their grants- sell device and service contracts

- Seek Confluence of Interest and Mutual Benefit -

Bootstrapping

Adarza BioSystems, Inc. Approach

- EVS Benefits
 - Yields end-user input, case studies, technical publications and testimonials
 - Generates validation
 - Creates first adaptor customers
 - Generates early sales revenues
 - Attracts strategic partners and Investors

A Positive Note

Various Asset Class 10 & 20 Year Performance (Thru 12/31/2009)

Asset Type	10 Yr.	20 Yr.
Angel Investing	32.90%	21.40%
Gold	14.45%	5.14%
Inflation	2.31%	2.54%
Real Estate	2.03%	3.53%
DJIA	-0.85%	6.78%
S & P	-2.64%	5.67%
NASDAQ	-5.58%	8.32%

Sources: The Wiltbank Angel Report, Scott Shane, "Fools Gold: The Truth Behind Angel Investing In America", Kauffman Index of entrepreneurial Activity; www.onlygold.com, US Census, Federal Housing Finance Authority (FHFA), www.usinflationcalculator.com

Bootstrapping

Bootstrapping in Practice: Save a Bundle

- Minimize fixed overhead
- Don't buy anything new that you can pick up used on eBay or CraigsList or at a thrift store
- Avoid fixed costs, pay as much as you can out of sales (Choose variable costs over fixed costs wherever possible)
- Get “freebies”
- Share shamelessly: someone else's office, trade show booth, copier
- Work “virtually”, but if you have to rent space, “pack them in!”

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Bootstrapping

Bootstrapping in Practice: Outsourcing

- Your Dream reveals your “core.” Know what this is, and with everything else:
- Outsource relentlessly:
 - Sales
 - Marketing
 - Finance
 - Production
 - Licensing (what makes a good license? A bad one?)
 - Servers and hosting

Bootstrapping

Corporate Venture Takes Center Stage

By [Ellen Foster Licking](#), [Start-Up 5/2009](#)

Executive Summary

Start-Up -- **Corporate venture groups are poised to become one of the main sources of funding for early-stage biotechs thanks to the current economic climate.** Even if corporate venture groups invest at the same levels as previous years, some industry veterans believe they could play a role in up to half of the early-stage financings this year, largely because the traditional sources of financing--the public market and venture capital groups flush with cash--have disappeared. And the new vigor of corporate venture offers big benefits to both small biotechs and Big Pharma.