

# **The investment decision of Swiss venture capital investors in Life Sciences start-up companies: the approach of two different classes of investors**

Bachelor Thesis

in

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# **Executive Summary**

## **Subject matter and objective**

Innovation and economic growth are important factors that are taken into account in the policy of any country. Young start-up companies have the potential to contribute substantially to the development of both factors, but often, due to the uncertainty of their success, it is hard for them to get the capital necessary to perform their business. In this situation the figure of venture capital investors plays an important role, since they, after a careful screening, select the most deserving early-stage companies with the greatest potential for success and invest in their equity capital, becoming co-owners of the company. Thereby they agree to take the high risk involved with the start-up company's success, but at the same time they expect high returns.

The Swiss venture capital market, although it is still relatively young compared to that of other countries such as the U.S., already includes a variety of investors that through this common investment approach often pursue very different goals. However, for the achievement of the purpose of each of them the common central problem is the choice of which company to fund.

This Bachelor thesis aims to ascertain whether the different purposes of different types of venture capital investors are reflected in the choice of the investments to be realized, or more concretely, whether their different purposes are reflected in their investment evaluations and in the reasons that eventually lead them to a positive funding decision.

## **Method**

In order to answer this question, this study considers two types of venture capital investors both based in Switzerland: on the one hand a venture capital private fund focused on the bio- and medical technology sectors, XXX SA, and on the other hand Agire, a publicly funded foundation, whose aim is to promote innovation and entrepreneurship within Canton Ticino, that recently decided to finance a medical technology company. Since during the last decade the field of life sciences has emerged as the most appealing target for venture capital investments, the

consideration of two investors active in this field reflects this current trend and also highlights the fact that the interest shown towards life sciences is spread among different types of venture capital investors.

In order to compare their investment evaluation processes and decisions, two recent investments (one for each investor) were chosen, following criteria that would permit a sensible comparison. Then, on the basis of the investment memoranda, parts of the portfolio companies' business plans, other various documentation and several interviews with the managing directors of both XXX SA and the Agire Foundation, the investment evaluations and the main reasons that eventually led to their positive funding decision were analysed and finally compared.

## **Results**

From the analysis of the investment evaluation processes and decisions of the two investors one can conclude that they share a considerable basis of common evaluation criteria: a thorough analysis of the company's team for its experience and competence, the validity and uniqueness of the product, the attractiveness of the selected market, the competition, the viability of the project, and intellectual property protection. Nevertheless, their different purposes clearly shape their investment evaluation processes. On the one hand XXX SA, as a profit-oriented investor, gave much more relevance to the financial valuation and projection of the portfolio company than the Agire Foundation did, while Agire on the other hand considered elements (*e.g.* the economic impact on the territory of Ticino) that were specifically connected with its purpose. The difference pointed out in the importance assigned to the financial valuation was consistent with literature (Blatter (2010)) that states that for not profit-oriented investors financial gain projections are often considered as a secondary issue, rather in relation with a sustainable investment efficacy.

Also with regard to the main reasons that led the two investors to a positive funding decision, both similarities and differences can be noted. For both, the attractiveness of the selected market, the breakthrough potential of the product as well as the competence and experience of the team members were essential. As to the differences, according to the investment evaluations, XXX SA considered the achievable return on investment as being an essential requisite, while Agire gave little or no importance to it. Furthermore, another important factor for XXX SA was

that the investment was found to be fitting with the optimal portfolio composition determined in its investment strategy, which aims to reach a determined balance between risk and return, while Agire seemed to make no reasoning about its portfolio composition and diversification.

On its part the Foundation considered its portfolio company to be able to have a positive impact on the territory of Ticino in terms of employment, taxable revenues and contacts with local industries and academic institutions, factors closely related to its purposes.