

Decision making process of CVCs uncovered

Written by Johan Nylander

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What makes pharmaceutical giants, like AstraZeneca or Johnson & Johnson, want to buy a smaller player and what factors are they looking at? Two researchers at the Karolinska Institute in Stockholm have studied which parameters corporate venture capitalists (CVCs) consider when evaluating a start-up.

CVCs -- a subgroup of traditional venture capital firms that are funded by big corporations -- have become increasingly common at big pharmaceuticals.

"CVCs mostly focus on the product or project fit to their strategic need of the mother company. This is the main difference from independent venture capital firms," the report's authors, Karolinska Institute graduate students Farhang Modaresi and Paerhati Aibibula, told The Swedish Wire via e-mail.

One of the most important factors that CVCs look at is managerial competence. They want to see a clear management structure, attainable goals and a settled plan. As one of the report's interviewees said: "If I have a competent manager, I can handle everything."

But what makes a skilled manager? The researchers concluded that a good manager should be experienced in the life-science industry – particularly product development. In fact, finding qualified people -- especially in management -- is the most crucial factor for investors.

A second important factor for CVCs is the scientific area that the companies operate in.

"Big biotech and pharmaceuticals have their own R&D and they help their CVCs to evaluate the start-ups' research and product," the researchers said. "Again, CVCs look for targets to fit their mother company's strategic needs."

Innovation is also considered crucial. Many CVCs say they only invest in really novel compounds rather than "me too" drugs.

The report's analysis was based on quantitative data obtained from more than 300 companies that have had investment, and qualitative interviews with seven CVCs.

Among start-ups that fail to attract investment, the most common mistakes include being

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passive and focusing too much on science and technology development.

“Contacting investors is one of the most crucial factors for attracting investors,” Modaresi and Aibibula explained.

Three recommendations for start-up managers:

1. Proactive networking: Investors need to evaluate the characteristics and personality of key managers, to establish if they could work together,
2. Improve and document your management: As a start-up you need to show managerial competency. You can acquire these skills by hiring experienced managers.
3. Prepare your pitch: Start-ups should study and analyze CVCs before they submit their investment proposal. Preparing a “good pitch” before meeting investors is vital.

Source: QUALITATIVE RESEARCH IN INVESTMENT CRITERIAS OF COREPATE VENTURE CAPITAL (CVC) IN LIFE-SCIENCE INDUSTRY, by Farhang Modaresi and Paerhati Aibibula.

Quick facts

- Swedish life-science industry represents around 20% of Sweden's net exports, which is equal to 40 billion kronor.
- Life-science industry employed some 32.000 people in 2009 in Sweden.
- About 60% of employment in life-science industry is at companies in Stockholm, Uppsala and Södermanland

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