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FINDING THE RIGHT VC FOR YOUR COMPANY

Tips from Successful Entrepreneurs

Transforming a great idea into a successful company takes money. If you're an entrepreneur, chances are that the first funds you'll cobble together will come from you, your family, your friends and perhaps an angel investor. But at some point, taking your startup company to the next, crucial, level is likely to require an infusion of funds only a venture capital resource can provide. How do you go about finding the right VC for your particular company? Connecticut Innovations asked four experienced entrepreneurs with successful fundraising track records to offer their advice. Here are the pointers they offered:

Start with Smart Targeting

"Every firm has a sweet spot they're looking for in terms of their favorite kinds of deals," says Harry Penner Jr., executive chairman and co-founder of New Haven Pharmaceuticals. "You can save yourself from kissing a lot of frogs that turn out not to be princes if you do some homework before you start knocking on doors." Do your research. Christopher McLeod, president and CEO of AxioMx Inc., suggests exploring which VCs have invested in other companies in your industry. Check out VCs' portfolios online to see if they've invested in companies similar to yours. And make sure they're actually working on deals in your time frame, says Bryant Guffey, CEO of ZetrOZ Inc. "As a person looking

for money, you don't want to spend too much time on people who aren't actively investing, although they can be helpful in connecting you to people who are."

Tap into your networks. "If you have angel investors, ask them who they're familiar with and network out from there," says McLeod. If a VC firm you pitch to doesn't think they're a good match for your company, ask that firm to recommend other VCs that might be interested. Go to venture fund conferences and talk to participants.

When choosing VCs to approach, consider the dollar amount you're looking for, says Eleanor Tandler, CEO of NovaTract Surgical Inc. Because of the nature of her company's new device, for example, she knew she should target VCs looking to make smaller deals and could eliminate large, institutional venture capital. "I didn't need to raise a lot of money. For me, the right investors were ones that would invest \$1 million or \$3 million, not \$10 million."

Look for People Potential

Focus on VCs that can connect you to other key people. "Ideally, the VC is active and has relationships in the general space your idea is in, so that you can get introduced to potential customers and suppliers who could help you build your business," says Chris McLeod. Bryant Guffey agrees. It's not about just the funding a VC can offer, he says, "but what contacts they bring to the table." McLeod adds that the right VC can

often help in employee recruiting, as well, “especially if you’re in a specialized field and need technical expertise.”

Seek Long-term Investors

McLeod recommends thinking beyond a VC’s immediate financing ability. “When you start looking for venture capital, you want someone you can be with for a longer period of time and that can help support you as you need additional capital,” he says. “You’re looking for someone who can create the most value with you over time.”

Consider Industry Knowledge

Eleanor Tandler advises that it’s important to choose a VC that understands your company’s space. “They have to have some appreciation for what you’re doing,” she says. “You don’t want investors who don’t understand your business and then try to tell you what you need to do out of context.”

Value Open Minds

Your product or service may not fit easily into established models in your industry. You have to keep looking until you find exactly the right investor for a particularly innovative idea. That’s how Bryant Guffey teamed up with Connecticut Innovations. ZetrOZ’s idea was to use a

traditional medical device in a new way. Most VCs, Guffey found, were looking for a typical medical device for surgery or drug administration. “The great thing about CI was that they were willing to look at something outside the box,” Guffey says. “They took a leap of faith in us, and that inspired other investors.”

Assess the Relationship

Harry Penner stresses that when choosing a VC you need to think about the individuals you’d be working with. “You want a good working relationship. I tell people, whether it’s a corporate partner or a VC firm, once you take the money, you’re married.” Bryant Guffey echoes this point. “You need to think of it as a relationship and invest the time to make sure you’re comfortable with who your partner will be,” he says. “You need to make sure there’s an alignment of interest and horizon, in terms of the expectations of how the company’s development would fit with the VC’s fund objectives.” Penner notes, “You need investors who are committed to what you’re trying to do and are fully bought into your business plan and the team.”

Build a Better Board

In some cases, VCs, especially lead investors, will have a seat on your company’s board. Assembling an effective board requires a fine balance. Board members may vary in their perspectives, but should share a

fundamental philosophy. "You don't want groupthink or to have everyone cut from the same mold, but you do want to avoid potential conflicts," says Chris McLeod. Ideally, he says, the board should include people who bring a variety of skills, experiences and expertise. Consider the strengths you already have on the board, then look for others with unique attributes to round out the team.

Bryant Guffey notes that, while he and his team didn't want to bring on people who had all different views on which way the company should go, they did want enough variety to have "a healthy exchange of ideas."

Some investors may have "observer status" on a company's board. Technically, this means they don't vote on key issues. But Harry Penner offers some advice on the subject. "Sometimes you might find that the dynamics between board member investors and observer investors is such that observers can end up having as much clout as some board member investors," he says. "Be careful not to put too much emphasis on the difference between board members and observers in how you deal with people."

Make a Compelling Case

Once you've got the ideal VC in your sights, of course, your challenge is convincing them to invest in your company. When your big moment arrives, says Eleanor Tandler, "You can't underestimate the impact of having a succinct story with a value proposition and a strong business

plan.” While VC firms may include people with backgrounds in engineering, software development or other disciplines who might be interested in the intricacies of your product, she says, “VCs’ decisions are always business decisions. Wowing them with your science isn’t going to do it. The value proposition is the most important—above and beyond anything else.”

A final piece of advice Bryant Guffey offers is, “Don’t give up. You’re going to get a lot of no’s before you get a yes.”

NOTE: Special thanks go to several individuals who were interviewed for this article and whose insights are incorporated herein. They are:

Bryant Guffey, *Co-Founder and Chief Executive Officer, ZetrOZ Inc.*

Bryant co-founded ZetrOZ in 2009 while pursuing an MBA at Cornell University. Before Cornell and ZetrOZ, Bryant was a lead design engineer at General Dynamics, a multi-billion-dollar defense contractor. [ZetrOZ](#) is utilizing next-generation ultrasound technology to create a new wave of convenient treatments for today’s most common pain conditions.

Christopher McLeod, *Co-founder, President and Chief Executive Officer, AxioMx Inc.*

Chris is the former president and chief executive officer of 454 Life Sciences, where he led the commercialization of its high-throughput DNA sequencing systems and managed the company’s integration with Roche Diagnostics following its acquisition. Previously, he served as executive vice president of CuraGen, negotiating strategic drug development partnerships. Prior to joining CuraGen, Chris was chief executive officer of Havas Interactive (formerly Cendant Software), a leading international computer game and software developer. He serves on the boards of and is an investor in numerous startups. [AxioMx](#) is a leader in recombinant antibody technologies.

Harry Penner Jr., *Co-Founder and Executive Chairman, New Haven Pharmaceuticals Inc.*

Harry previously founded and co-founded six other biotechnology companies, including Rib-X Pharmaceuticals and Marinus Pharmaceuticals.

He is also chairman of Affinimark Technologies and Prevention Pharmaceuticals. From 1993 to 2001, he was president, chief executive officer and vice chairman of Neurogen Corporation. Previously, he served as executive vice president of Novo Nordisk A/S and president of Novo Nordisk of North America Inc. [New Haven Pharmaceuticals](#) is a specialty pharmaceuticals company developing proprietary prescription pharmaceuticals that utilize currently marketed drugs or generally recognized as safe active pharmaceutical ingredients for use in therapeutic applications that represent significant market opportunities.

Eleanor Tandler, *Founder and Chief Executive Officer, NovaTract Surgical Inc.*

Before founding NovaTract Surgical, Ellie was the director of venture development at UConn R&D Corporation, where she worked to create new business startups based on innovative technologies developed by University of Connecticut faculty and staff. While in that role, she served as interim CEO of New Ortho Polymers, a UConn startup focused on developing new orthodontic appliances using high-performance polymers. Prior to that, she spent five years as a venture capital investor with Radius Ventures, an early-stage venture capital firm focused on health and life sciences, based in New York City, with approximately \$230 million under management. [NovaTract Surgical](#) is a venture-backed startup company founded to develop innovative laparoscopic medical devices for surgeons to take minimally invasive surgery to the next level of ease and simplicity.