Venture capital and investment

Malaysian Technology Development Corp.

http://www.mtdc.com.my

MTDC, Malaysia

To date, the Malaysian Technology Development Corporation (MTDC) has invested more than M$350 million (US$ 96.5 million)[1] in both local and foreign high-tech companies. Many of these companies have been successfully listed on Bursa Malaysia.

Over the years, MTDC had established six private equity funds: Malaysian Technology Venture One Sdn Bhd (M$35 million), Malaysian Technology Venture Two Sdn Bhd (M$ 53 million), Malaysian Technology Venture Two (Agriculture) (M$17 million), Malaysian Technology Venture Three Sdn Bhd (M$75 million), Sumber Modal Satu Berhad (M$ 10 million) and East Malaysia Growth Corporation Sdn Bhd (M$12 million).

In 2004, the government created and allocated M$1 billion for the purpose of investment in projects not related yo information and communication technologies. This fund is managed solely by MTDC, in the light of its track record and experience in the industry.

MTDC had launched the country's first biotechnology venture capital fund – known as Malaysian Life Sciences Capital Fund (MLSCF) – at the end of 2005. MLSCF is co-managed with MTDC's strategic partner, Burill & Co., a life sciences merchant bank based in San Francisco, the United States.

Investment approach

MTDC invests in early, developing as well as late-stage technology-based businesses as a way to manage risks. To further diversify risks, it limits its exposure to around 30 per cent equity stake in any investments. This strategy benefits both MTDC and its investee companies, who can still drive their companies in their own creative ways. The investment horizon of MTDC is limited up to five years. Exit strategies include pre-IPO sale, management buy-out and saleback to project promoters.

Investment criteria

MTDC's investment criteria focuses on the following:

- Non-ICT sector – focusing on life sciences sector
- Strategic technologies
- High investment return
- Clear and defined business vision
- Credible management team

Investment process

MTDC strives to respond promptly and efficiently to all investment opportunities within its approved boundaries.

[1] Current exchange rate US$1 = M$3.62

The process kicks off upon receiving a business executive summary from potential partners. Once in place, a six-phase process that will take on an average of 8-12 weeks period will be set in motion. This process proceeds as follows:

Screening phase

The Investment Team is responsible for seeking out opportunities and evaluates investment proposals received from potential partners. In cases where applications in the form of business executive summaries are received, the Investment Team will assess the projects suitability, relevance and the overall business case. A meeting with the potential partner will then be conducted. Based on the outcome of the meeting, the potential partner would be required to submit a comprehensive business plan for further analysis.

Evaluation phase

The proposal received is then evaluated for its feasibility and its eventual value that can be created through the investment. The business case will be analysed in detail and the potential partners required to provide additional details about the project, if need be. This is a very critical phase as the project's risk-return assessment is made during this period, and the outcome could result in either further consideration or rejection. The process can be facilitated with the co-operation of a potential partner, who maintains complete transparency and is forthcoming in providing information and responses to all questions from the Investment Team.

Approval phase

Once the Investment Team reckons the opportunity of a worthy partnership, a proposal paper will be prepared and presented to the various approval committees of MTDC. These include the Management Investment Committee, Investment Committee and MTDC's Board of Directors (BOD).

Due diligence phase

Following the approval from BOD, the legal and financial due-diligence of the potential partner will be conducted. Once completed, both parties will negotiate on the development of Term Sheet. The Term Sheet will form the basis of all legal agreements to be entered into with the potential partner.

Investment

The funds will only be deployed after the shareholder's agreement is signed by both parties and after all other conditions and precedents are met.❐

A fast pitch for investors

How to prepare it

http://blog.gcase.org

Robert W. Price, Executive Director, Global Entrepreneurship Institute, United States of America

What makes fund-raising so hard is not only understanding this process but also, at the same time, putting your deal into a package that can be quickly and efficiently communicated and shared. Venture capitalists, especially those that focus on financing early stage ventures, get carpet-bombed with packages outlining business concepts at various stages of development.

Facing such an information glut, venture capitalists have been conditioned to consume data at only two speeds. One is very slow, used when they are reviewing and editing investment agreements and the financials of deals before them. The other is very fast, as they become highly skilled at quickly sifting through slush piles of business plans and scanning thousands of e-mails.

Therefore, your potential investor is likely to make an instant judgment call just on the strength of the first few words you speak at a networking event, or the first few lines in your "Executive Summary". There are some venture capitalists who consider the strength of the contents by looking only at the "Subject Box" of entrepreneurs' e-mails!

So how do you get around this communication problem? How do you get what you want said before the right person, at the right time, and in the right way? First you must "disambiguate" what you are attempting to communicate. Disambiguate, a word that the Pentagon actually created, means to simplify and clarify.

Perfecting your fast pitch

It is this simple: first moments matter the most. The whole point of your fast pitch is to get investors interested enough in you to get their business cards and to agree to meet with you at a later date; or at least to get them to refer you to someone else who might be interested in your deal. Mr. Jason Salfen, at MIT's Sloan School of Management Entrepreneurship Centre, puts it succinctly: "You don't need to reel them in, it is just getting that initial hook."

Investors know that the way you will engage your initial customer base is through a fast pitch. It is the same for attracting strategic partners and even recruiting new executives. This means that, in general, the investors know that entrepreneurs best suited for funding can usually articulate their venture's value proposition within a sentence or two. If it is more complicated than that to explain, it is probably not ready to be funded. So, once you have your fast pitch down, be ready to catch the fruit as you shake the tree.

Fast pitch checklist

1. **Who we are:** What stage are you at in the food chain? Describe internal capabilities that no one else has. Were you founded by a serial entrepreneur, a domain expert, a mad-scientist who is best in the field, or do you have a team led by a branded-CEO? Profile your external team's capabilities.
2. **What we got:** Describe your opportunity, market need/ pain and solution. Specifically describe your traction in your market space. For example, letters of intent from marquee customers or recurring revenues.
3. **Where we are going:** Overview your growth benchmarks/milestones, discuss what is next in the product pipeline, and describe where you see the sweet spot for your customers lie.
4. **What we need:** Do not offer specific financial needs, especially in a public forum, but be prepared to answer privately these questions, "How much is needed to launch this thing off?" and "How will you use the proceeds?"
5. **Why now:** Get investors interested in following up with you immediately after you meet them. State what has changed in the world, like the inflection point, that opens up the window to your particular opportunity.
6. **What we offer:** Describe a basic understanding of how you will provide a return on investors' money.
7. **Case studies and references:** It is very important to cite an example, preferably with a marquee customer, how you solved a particular pain. Also have a viable list of references, personal and for the venture, to add credibility to your deal.❒