Funding Biotechnology Ventures

by Professor Wilton Chau

MBA program – the Chinese University of Hong Kong, Council Member of the Hong Kong Biotechnology Organization, Vice Chairman of the Hong Kong Business Angel Network, and Chairman of QLeap Venture Limited.
Although a lot of publicity and public awareness was created when a life-science subsidiary of a major property company was listed in 1997, the venture capital community in Hong Kong seldom emphasizes biotechnology investments. Biotech ventures usually do not appear on the radar screen of venture capitalists because most of the venture capital funds in Hong Kong have an average life-span of five to six years. This means that many local venture funds lack the capacity to invest in biotechnology ventures that may easily take up to ten years to develop. As venture capital provides a crucial source of funds for technology venture development during the early stage of the venture, biotechnology entrepreneurs need to think carefully about their funding plan to ensure sufficient funds are available for their ventures before presenting their cases to venture capitalists.

Biotechnology entrepreneurs usually start their ventures in a university, or have a partnership with a university. This is a good strategy to start with, as universities can provide vital equipment that is too expensive to be purchased by a young venture. They also provide high quality scientists which would otherwise be extremely costly to recruit. These scientists are usually unwilling to be hired by a small company with limited resources. Additionally, university affiliated scientists can access various funding programs which are allocated by the research grant committee of their universities. Moreover, when you partner with a university, it is always easier for you to apply for government funding such as the Small Enterprise Research Assistance Program (SERAP) and patent grants under the Commission for Innovation and Technology (ITC).

Entrepreneurs should attempt to enter the incubation program under the Hong Kong Science and Technology Park Corporation (HKSTP), which provides rent-free wet-lab-cum-office facilities, free consultancy, training subsidies as well as other benefits and in kind/subsidies to help its incubatees. It is roughly estimated that a biotechnology venture can get support for as much as HK$ 10 million from both ITC and HKSTP if it plays its part well. Although the HK$ 10 million is not sufficient for most biotech ventures, the fact that the amount of work needed for this funding approval is relatively small, a qualified research team producing a 20 page power point presentation, means that entrepreneurs should not neglect these funding sources in their funding plan.

In general, founders need to finance the seed capital required by their new ventures. This could mean entrepreneurs using their own savings to finance the early stages, such as formatting the idea, writing a business plan that includes an R&D plan, a commercialization (production
is extremely helpful in the commercialization process of a new product, and has proven to be vital to young entrepreneurs in avoiding making fatal mistakes during the process. Getting angel investment is also less tedious than getting venture capital investment, as angels tend to do less intensive due diligence and have less stringent requirements for legal documentation. However, entrepreneurs should know how to present their projects and establish rapport with angel investors.

In Hong Kong, there are several angel networks that entrepreneurs can tap into for funding. The largest is probably the one sponsored by the HKSTP and is called the Hong Kong Business Angel Network Limited (HKBAN). HKBAN is a non-profit organization, which was previously an informal network organized by HKSTP and major higher educational institutions such as the Chinese University of Hong Kong, the Hong Kong University of Science & Technology, the Hong Kong Polytechnic University and the University of Hong Kong. Angels in HKBAN hold investment meetings every 2 to 3 months and the four top rated projects will be presented to angels in each meeting. These four projects are chosen by the Screening Committee of HKBAN from the projects submitted by the institutions mentioned above and other ‘qualified’ sources, such as the Hong Kong Venture Capital & Private Equity Association and the Entrepreneurs Network. The size of the investments from angels ranges from HK$ 3 million to 10 million, with an average of HK$ 5 million per project.

In total, prior to obtaining any venture capital funding, a biotechnology venture could raise HK$ 5 million from themselves and their relatives and friends, another HK$ 5 to 10 million from angels, as well as approximately HK$ 10 million from governmental entities. This adds up to an amount of HK$20 million to 25 million. Even receiving support from a university in the area of R&D, it is not easy, although still possible, for an entrepreneur to develop a prototype of their product, preferably at the stage of trial marketing. In this respect, it will be easier to get VC funding for a project in the diagnostic equipment area than for a human drug development project.

### About the Author

**Prof. Chau** has 25-years of extensive experience in regional venture capital and direct investment. He is the Managing Partner of QLeap Venture Fund, an investment fund mainly for early-stage technology ventures in Asia. Currently, he leads a consultancy team from the Chinese University of Hong Kong ("CUHK") providing business model and fundraising advisory services to the technology ventures under the Incu-Tech Program of the Hong Kong Science & Technology Park. In addition, he serves as the Vice-Chairman of the Hong Kong Business Angel Network, an Investment Committee Member of SHC Capital (Singapore) and a board/committee member of several companies. In CUHK, he is an adjunct professor in the Department of Finance teaching two courses: "Venture Capital & Private Equity" and "New Venture Business Project -Fundraising for Entrepreneurial Venturing", in the MBA program. He is also an Executive Board Member of the Centre for Business Innovation & Globalization and a Postdoctoral Fellow of the Centre for Entrepreneurship at the University. In addition to his professional qualification as a chartered certified accountant, Prof. Chau has a Bachelors degree in applied mathematics, a law degree and a Masters and Doctorate degree in business administration.