When Carolyn Green left the University of Pittsburgh in 2006 to help start Logical Therapeutics Inc., her development team planned carefully, crafted a strong funding story, and hit the road in search of investors. And the fledgling venture soon landed $30 million in venture capital from a San Francisco-based investor syndicate.

Indeed, it’s an entrepreneur’s dream, but as Green quickly acknowledges, don’t think even for a moment that this funding success came easily, based only on the strength of a potential cure for obesity in type 2 diabetics.

“It was very sexy – great work, beautiful science,” says Green of the anti-obesity technology developed at Pitt which became part of the early foundation of Logical Therapeutics. “But raising money is really, really hard work. Venture capitalists get hundreds of business plans, and most of them end up in their circular files.”

Green certainly would understand the challenges of raising capital for a new life-sciences start-up firm. She had spent more than five years as director of the University’s Office of Enterprise Development,
assisting Pitt Innovators in their pursuit of commercialization. At one point, she and Mitchell Fink, former chair of the Department of Critical Care Medicine and associate vice chancellor for translational research and commercialization, came across a promising anti-obesity hormone therapy for type 2 diabetics that had been developed by Allan Zhao, associate professor in the Department of Cell Biology and Physiology.

Zhao wanted to remain a faculty member, but Green saw a commercial opportunity and chose to pursue it by forming a new company and then licensing Zhao’s technology from the University.

So Green left the University and became executive vice president and chief operating officer of the start-up. She and the rest of the start-up’s executive team developed an extensive business plan, licensed some additional therapeutic technologies from outside the University, and began an arduous, pain-staking fund-raising journey to support their entrepreneurial endeavor.

Here are five lessons that Green learned along the way to fund-raising success:

1. Expect to invest lots of your own time and some money up front – “We had 80- to 90-hour weeks and lots of weekends,” Green says of the time she and the start-up team spent developing a viable business plan that would effectively garner attention from the venture capital community. As for the money spent out of pocket by the pair prior to securing the outside funding, she adds, “If you spent nothing out of your own wallet, do you really believe in what you’re doing?”

2. Develop a great ‘story’ for your company – Your business plan must address not only the innovation, including safety, efficacy, patent status and potential regulatory hurdles, but also whether a real market exists for it, whether it can persist in that market space, your advantages over the competition, and who the competitors are, among other considerations. Investors also will want to know if the management team is “up to snuff.”

“We killed them with data,” Green says, laughing. “But don’t pummel them with scientific facts.”

Even more challenging, perhaps, is the notion that your story needs to be packaged succinctly and simply enough to present orally in eight to 12 minutes and in a business plan that reaches no more than 30 pages, with a one-page executive summary.

“If you can’t get it all on one page, then you’re not done yet,” she says.

In short, Green and the team positioned their start-up as a drug development company that would need a stable of drug candidates (including the anti-obesity therapeutic) to move forward. Their goal: to turn those drug candidates into products that are safe and effective, increase their value several-fold, and then allow for some liquidity event by licensing the developed drugs to large pharmaceutical companies.

Once you’ve developed your story, of course, Green recommends that you practice telling your story to entrepreneurs who have raised money before, and then begin to target investors. Keep in mind, though, that the “story” you tell in your initial presentation may serve as your only chance to get in front of a targeted investor.

“A venture capitalist’s initial ‘knee-jerk’ reaction will stick,” Green warns. “And it very much will be driven by their past experiences – what made them money and what didn’t.”

She adds: “You’re going to have to kiss a lot of frogs before that handsome prince gets in front of you.”

3. You’ll need personal introductions – Green suggests that you begin to network aggressively with those who might be able to make introductions to investors on your behalf.

“You won’t likely get face-to-face meetings without personal introductions,” she says.
4. Think globally – Don’t limit your fund-raising efforts to U.S.-based investors or venture capital firms only, says Green, who notes that one of her company’s investors resides in Copenhagen.

“Money is green just about everywhere,” she says.

5. It’s all about risk – You need to understand that venture capitalists are motivated largely by the amount of risk they must assume versus the potential reward they could earn in assuming that risk. Their success as investment firms depends on managing that risk effectively in their investments.

“Our ability to raise more money [for new venture capital funds] is 100 percent predicated on how well they did with the last fund,” Green says of the importance of risk management. “If they can’t turn $1 into $10, well, they won’t have a job if they’re not successful.”

Major risks in the pharmaceutical industry, for instance, usually revolve around two key factors: Is the product safe, and does it work?

“Fifty-five percent of drug candidates fail because they’re toxic,” Green says. But even if they’re proven safe, the question then remains, “Does it actually solve the problem?” A very small percentage of drug candidates ultimately make it into the marketplace, she suggests.

Beyond the safety and efficacy risks, start-ups must face still another risk: Will the market embrace the product, particularly in light of market competitors and consumer behavior?

“Sounds like a terrible industry, doesn’t it?” Green asks. “Why would anyone want to invest? Well, the risks are high, but so are the rewards. People get sick, and we are a pill-popping nation.” And in the case of Logical Therapeutic’s focus on obesity, “The market need is large and real.”

The upside, she says, also includes the following considerations:
- Third-party systems (health insurance) pay largely for such medicines;
- Patents provide a good barrier to entry;
- Medicine development is a highly scalable business with potentially high profit margins, even if it requires a major investment up front.

Still, she says, venture capitalists remain pragmatic about the risks, since this is what early-stage investment is all about. Their attitude: “With experience and technical expertise, many risks can be managed.”

For Green, the overall experience required lots of networking and meetings across the country to convey the investment opportunity in Logistical Therapeutics, but the efforts obviously paid off.

“We were in and out and in and out – it was like a meat market,” she jokes about the countless meetings with venture capitalists. “If they liked you, they might ask you to dinner. We got a few dinners out of it.”

And, of course, $30 million in capital.