

Buyer's market: VC firms demanding greater oversight

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Two local firms accomplished a rare feat this year. They got venture funding at terms both said weren't onerous. **NKT Therapeutics Inc.** in Newton landed \$8 million in Series A funding, while **FirstBest Systems Inc.** in Bedford secured \$6 million in a B round. In both cases, finding a venture firm willing to part with money was the hard part.

"It's sort of like applying to Harvard. There are 3,700 valedictorians — 800 get in," said Robert Mashal, president and CEO of NKT Therapeutics.

Nobody was in a rush to close a deal, he added. Venture capitalists recognize that it's a buyer's market.

Venture capital firms are demanding larger stakes in companies, as well as more future rights such as a preferred spot in line for stock dividends or liquidation proceeds.

VC firms also might demand veto rights on some corporate activities, and rights to participate in future financing.

But the size of the stake in a company remains the key term. And even in a buyer's market, there are practical limits. It's hard to go past 85 percent ownership because there must be enough left to motivate the founders, said Mashal. He would not say how much ownership NKT had to give up.

NKT had the benefit of beginning negotiations last year before the full extent of the economic downturn had become obvious.

"I think that we were very fortunate," Mashal said. "The world really changed from when the initial conversations with the investors started in May to when the financing actually closed. Our investors were very good about saying, 'A deal's a deal.' "

One of those investors was **SV Life Sciences** in Boston. Managing Partner Michael Ross noted that while venture capital firms have been stricter about valuations, it's hard to go down much from the single-digit millions. And while investors are more careful now than they once were, they are looking at 10-year horizons rather than a particular year's economy.

"I don't look back at the Series A we did five years ago and say, 'Boy did we overpay,' " he said.

NKT got all the money it was looking for, but did have to accept tranche financing — getting payments only after meeting funder-prescribed benchmarks.

"We have to hit milestones to get the full \$8 million," Mashal said. "Management doesn't want tranching. Venture capitalists do."

The company's first drug target will focus on asthma, but company officials say the platform could be used to target many autoimmune diseases.

John Belizaire, founder and CEO of FirstBest, said having a clear path to profitability was key to landing the B round. Even then, his company was hoping for \$7 million. On the plus side, it got the entire amount upfront. Flybridge **Capital Partners** and **Brookstone Partners** led the round.

That's not to say that FirstBest didn't face a lot of scrutiny. Investors are getting more aggressive to ensure the path to the return on their investment is clear.

"There has been a complete shift in the investor's perspective and the type of companies they are looking to invest in," Belizaire said.