



## HEALTH SECTOR INVESTMENTS – 2017 GUIDANCE DOCUMENT

### Ben Franklin Technology Partners of Southeastern PA (“BEN”) Life Sciences Funding: Applying for Investment

**This document is intended to help guide you through applying for venture funding from BEN and what to expect in our process for Health Sector Investments. Have questions about pitching? About due diligence? Fees? Deadlines? Deal terms? And about how we help portfolio companies? You’ve come to the right place.**

#### There are 8 Steps in this process:

- First:** Orientation
- Second:** Application Development
- Third:** Submitting the Completed Application
- Fourth:** Elevator Pitches, Demos & Q&A: Review Committee Day
- Fifth:** Due Diligence
- Sixth:** Investment Recommendation Review
- Seventh:** Funding
- Eighth:** Achieving All That You Have Planned!

#### THE FIRST STEP: ORIENTATION

We highly suggest you first informally reach out to us, if you would like to have a conversation about your plan. This may help provide some critical guidance. We maintain standing office hours to be sure to be available to meet with companies. We are there as a sounding board early!

We also suggest you attend a BEN ‘Health Innovators Funding Workshop’ after drafting an application proposal. You may have attended or planned to attend a BEN Briefing, but a Health Innovators Funding Workshop will be geared to companies or soon-to-be founders that want to have more discussions about scenarios, being competitive for funding, early stage funding terms, the ins and outs of due diligence and other important topics. We will let you know of dates for a workshop that coincides with your application review cycle.



## THE SECOND STEP: APPLICATION DEVELOPMENT

Next, you will want to begin working on a proposal with your team. You may download the application found on the same page at which this guidance document was found. You may also want to take a look at what we may seek from you if we enter additional due diligence. It has been our experience that teams benefit from knowing what to expect, in advance, to begin gathering supporting materials or completing tasks we as investors may need to see done.

We are here to answer your questions in the weeks or months ahead of your submission. Please do not hesitate to contact us if questions arise while developing your application. We understand questions arise even if having attended Workshops and Office Hours.

### What will a full proposal ask of Health companies?

If you have not yet taken a look at the application template, we explain here what topics are covered as well as provide information on what is or is not treated as confidential:

The application will have a limited number of sections for non-confidential information. The rest will be treated as confidential. We will maintain these sections as confidential as long as they have not been disclosed in any public way elsewhere. Our reviewers and staff are under confidentiality with respect to your confidential information. Confidential information is often necessary to being sure we thoroughly review each opportunity. **Please note: we do not sign confidentiality agreements separate from the assurance and commitment we provide herein.**

### The non-confidential sections will include:

- Company name, contact and funding amount sought
- Introduction and Overview
- Project Overview and Expected Outcome for Funding Round
- Key Founding Personnel
- Summary Financial Results/Projections
- Personnel Needs & Roles for next 12-24 months

### The confidential sections will include:

- Funding, Budget & Milestones
- Market and the Unmet Medical or Health Need [Confidential, where applicable]
- Marketing/Distribution or Business Development Strategy
- Product Development Status
- Development Plan
- Healthcare Economics [Confidential, where applicable]
- Regulatory Strategy [Confidential, where applicable]
- Intellectual Property
- Agreements
- Longer Term Budget Planning
- Table of Company Ownership Interests/Stock

When complete, the entire application may be 25-35 pages long.



## THE THIRD STEP: SUBMITTING THE COMPLETE APPLICATION

### How is the application submitted and what happens next?

When you are ready to send us the application, we will have you email the proposal or provide a portal link for upload.

We provide four review starting points per year. To be assured of review, feedback and a decision within a 16-18 week period, your submission: (1) Must be received by the deadline posted; and (2) Must be complete.

There is a \$500 fee for entering into the review process, payable after we receive your full application. We will contact you after receiving your application submission. At this time, in addition to sending you an invoice that will contain a live link for making the \$500 payment, we will acknowledge the application completion, answer any questions you may have about the next steps and let you know if we see that something is missing. Importantly, we will notify you of important dates for which you need to be available in-person (more on that follows, in this guidance document). For preliminary planning, the near term deadlines and review committee dates are:

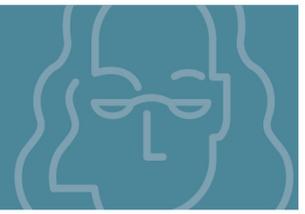
|   |  |
|---|--|
| Tuesday, November 22 <sup>th</sup> 2016 (by 5 pm) | Thursday, January 5 <sup>th</sup> 2017 - Digital Health*<br>Friday, January 6 <sup>th</sup> 2017 - Health ** |
| Tuesday, February 21 <sup>st</sup> 2017 (by 5 pm) | Thursday, April 6 <sup>th</sup> 2017 - Digital Health<br>Friday, April 7 <sup>th</sup> 2017 - Health         |
| Tuesday, May 23 <sup>rd</sup> 2017 (by 5 pm)      | Thursday, July 13 <sup>th</sup> 2017 - Digital Health<br>Friday, July 14 <sup>th</sup> 2017 - Health         |
| Tuesday, August 22 <sup>nd</sup> 2017 (by 5 pm)   | Thursday, October 5 <sup>th</sup> 2017 - Digital Health<br>Friday, October 6 <sup>th</sup> 2017 - Health     |

\*Snow Date: January 12th, 2017      \*\*Snow Date: January 13th, 2017

As we gear up for our next step of review, we will ask you to draft a specific style of Budget and Milestones. We will provide the format. Why? We may later convert this to a use-of-proceeds exhibit of a funding agreement therefore working with this format at an early stage facilitates the discussion around use of funds. You will be provided an Excel template with which to work, after the main application is received, to draft these. You may email this to the Director when completed.

This snapshot below gives you a sense of what this will ask the company to detail, for use-of-proceeds. The Budget and the Milestones should dovetail such that the total requested amount is the same. We suggest rounding the budget to the nearest 25,000. The timeline for spending can go back 90 days before the application deadline. The last of your milestone dates may be as much as ~12 months out into the future. The budget and milestones should reflect at least dollar for dollar co-investment as ‘match.’





## THE FOURTH STEP: THE ELEVATOR PITCHES, DEMOS and Q&A: REVIEW COMMITTEE DAY

This step is known as **Review Committee Day**. Qualified and competitive applicants will be invited to an in-person session with the BEN team and with our Review Committee. The date of this session is the date you were previously asked to hold. At this point, we will be able to narrow down a time of day or alert you of any (rare) date changes. We group companies with technology similarities into parts of the day. Health IT companies will be grouped together, for example.

What is the format for the Review Committee Day? This in-person, interactive session with BEN is a roundtable Q&A format with the Director of Investments and with the Committee reviewers. ***You will be prompted to give an elevator pitch of about 7 minutes and to demo anything that may be prototyped or fully working.*** Whether you are prompted to give a longer pitch than 7 minutes and/or demo will depend on the nature of your technology and its stage. As we get closer to the date, we will provide companies a specific time slot.

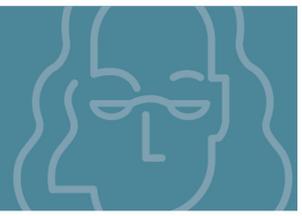
## THE FIFTH STEP: DUE DILIGENCE

Just before or in the weeks following the Review Committee Day, we may move into complete due diligence. **Not all companies will move into this step.** At this step, companies that move into due diligence are those that appear to have very sound technology, good management and governance, matching co-investment in or lined up for the investment round, prospects for future fundraising or near term revenue, a strong overall business plan, can meet an unmet medical need and have the resources to move the company forward. To develop our complete due diligence file, we will have a consultant review the application and work on a report alongside our internal review. This consultant will be under confidentiality with respect to your company confidential information. The consultant will be directly in touch with the company and will often make background calls and reach out to people as part of the due diligence effort. You will have the opportunity to review and respond to the report.

What comes out of this deeper dive?

Multiple considerations go into whether we next move forward with a recommendation to our Board to invest in a company. Examples include:

- Technical feasibility associated with next steps
- Scale-up, material purification or sourcing or manufacturing hurdles
- Initial assessment of IP
- Technical fitness for stated regulatory track
- Scientific/commercial competition working at a similar stage



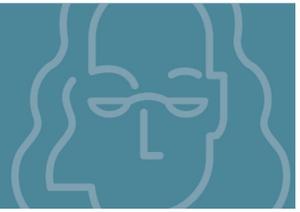
- Soundness of plan and clear de-risking strategy
- Knowledge/experience of team to handle next development steps in company
- Terms (non-financial and financial) of prior investment by previous and pending investors
- Proper documentation of all investment dollars in (e.g. no friends and family handshake deals)
- Documentation of contractual relationships including employment agreements
- Terms (non-financial and financial) of any license agreements
- Judgment and lien searches associated with the company and its principals
- Sophistication of financial function in the company, manner of managing books, GAAP accounting, etc.
- Salary, consulting and contract work rates
- Professionalism and attention to detail in ongoing contact and information exchange throughout the vetting process
- Corporate structure including as to any subsidiary and parent entity relationships
- Debt, Subordination issues, Accounts Payable
- More in depth examinations of intellectual property position and of IP strategy going forward

## THE SIXTH STEP: INVESTMENT RECOMMENDATION REVIEW

If we recommend a company for an investment, we review our recommendations with the Investment Committee of our Board for their action prior to action by our Board. The company is not directly involved in this discussion. However, we may ask you to update some information at this stage. This will be easily done by email. It is important, when taking recommendations to our Board, that information on the company's management, investment-to-date, financial projections and other representations made to us are as up-to-date as possible. Things move quickly in many companies!

### **An opportunity to present near or just after approval:**

With an eye toward investing, we will invite recently approved or expected-to-be-approved companies to present before investment-minded reviewers. In some cases, we may condition our investing on the company participating in this. We will organize these sessions twice per year. In some cases, these sessions will help us refine conditions and how we plan to work with or assist a company early on in the investor-investee relationship, based on feedback from the group. We also hope that in some cases, others interested in investing directly themselves will follow up with the company. Each reviewer who participates in this will have an investor background and be under confidentiality. The presentations are typically 20-25 minutes, with time for questions.



## SEVENTH STEP: FUNDING!

After approval, we make investment offers to companies!

### **What are the details of deal structure for life sciences companies?**

When BEN makes offers of a new investment, the company will have gone through our entire approval process and will have already closed on at least one dollar of pre-invested “match” from other investors or sources of funding for every dollar we are committing to put in.

A new investment may be anywhere from \$75,000 to \$500,000.

Some of these companies will have first gone through another of our programs intended for early stage de-risking wherein simple loan structures are provided to help the company prove out critical steps. These smaller loans are provided through our Technology Acceleration Fund program and are for ~\$50,000 maximum.

### **Typical life sciences deal structures:**

What does a typical deal in the \$75,000-\$500,000 range look like? BEN’s standard investment vehicle for Health companies is convertible debt with a detachable warrant. We and companies – and their early investors – often need to stay “valuation agnostic.” Companies accepting a BEN investment will commit to maintaining a significant company presence in Pennsylvania for 5 years.

Convertible debt with certain features often allows for great flexibility and alignment of interests with equity investors who may want to come in as investors once certain risks are eliminated. Warrants that also do not rely on valuation at the time of initial investment and that are instead based on a dollar amount (with number of shares to be determined in a future financing) and not on a number of shares at time of issuance, are similarly quite flexible.

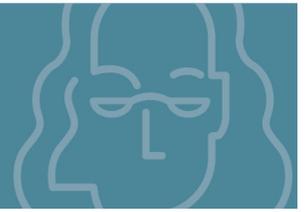
Our terms include seniority and a requirement to subordinate other investor debt. This is to keep funds in the company and encourage equity-based investing where possible. We typically take no lien in Health investments (unless it is taken as part of a restructuring of the deal at a later time) and we require no personal guarantee from founders, major shareholders or board members. We have a 1% closing fee.

### **Other key features of the deal:**

#### **Convertible Note**

- ✓ Allows prepayment or accelerated payment without penalty or premium.

# Application Guidance Document



- ✓ Converts at BEN's option at a qualified, arm's length, future financing of the company by investors.
- ✓ Converts at a discount of (typically) 20% off the price per share of that qualified financing that occurs later.
- ✓ Principal and unpaid interest are due as a balloon at the end of (typically) 5 years. Again, the structure is to keep funds in the company. Exits, conversions to equity or "being taken out" (such as by new investors) will often happen well ahead of that long time horizon maturity date.

## Interest on the Convertible Note

- ✓ Rate is 8%. Begins accruing upon cash disbursements. Simple interest, non-compounding.
- ✓ Payment begins first quarter following the end of the project period. Payments to BEN on interest only. However, importantly: Company makes interest payments at the lesser of 3% of company revenues or the interest due at that quarter. If the company does not make its quarterly interest payment, interest rolls over to the next quarter (non-compounding). This is to be cash-conserving.
- ✓ Principal and unpaid interest are due as a balloon at the end of (typically) 5 years. Again, the structure is to keep funds in the company. Exits, conversions to equity or "being taken out" (such as by new investors) will often happen well ahead of that long time horizon maturity date.

## Funding Timing

- ✓ Initial 50% draw down available just after the closing, balance disbursed according to milestones, with final 10% held back pending submission of final project report. As milestones often cover 6-18 months, it is expected all funds would be drawn down by the end of this time period.

## Warrant

- ✓ 25 - 50 % coverage on the loan amount. Percentage dovetails with the discount on conversion to be worth the equivalent amount of equity yielded by the discount. This provides some upside if we are simply repaid in principal and interest (as repayment bears no premium and prepayment is at the company's election). A note convertible at 20% price per share of a future round would therefore have a 25% Warrant accompanying it. Warrant is good for the financing round class of stock, which is expected to be Preferred stock. Warrant is almost always a cancellable warrant if loan itself has a discounted conversion price. There is, therefore, no "double dip" with these two instruments.
- ✓ 7 to 10-year "penny warrants."
- ✓ The warrant is priced (to determine the number of shares) at a next substantial enough equity financing by, e.g., an accredited angel group and/or reputable institutional investor. The price itself is not based on a penny.
- ✓ Some warrants will also have buy-out features that allow a company to pay a fee that effectively cancels the warrant.



## Board Observation Rights

- ✓ BEN has rights to a non-voting participating Board Observation Seat for the lifetime of the loan. This will often service conversion to equity until a certain funding threshold is met at which point we may hold a small percentage. We require the same notification and materials as are provided any board members.

## Negative Pledge

- ✓ BEN will have rights to prevent the transfer or acquisition of a company's technology and IP, without the prior written consent of BEN. The negative pledge requires others not take a lien on the technology. The goal is to be sure the technology stays in the company where our investment is.

## BEN Reporting

During the period that the company has outstanding debt to BEN it will be obligated to provide the following reporting:

- ✓ Unaudited (audited upon request) financial statements within 30 or 45 days of each calendar quarter.
- ✓ Brief written quarterly update reports that include information on intellectual property developments, development, outreach to new investors and so on. Board Materials and Minutes are also required.
- ✓ Annual Economic Impact Survey for 5 years.
- ✓ Final report upon completion of funded project.

***Disclaimer: The information above is provided for general guidance only. This is not an offer, commitment or term sheet. There may be variations in any actual offer as each company is different and co-investment terms, the size of the round and stage of company all influence actual terms for a given company.***

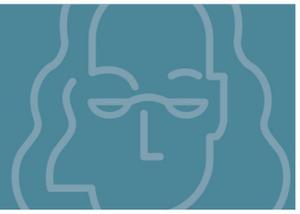
## EIGHTH STEP: ACHIEVING ALL THAT YOU HAVE PLANNED!

We will be there for you, throughout the process and once you are a Ben company, at Board or strategy meetings to assist you in a variety of ways.

Some of the ways we have been able to help Health Portfolio Companies:

- Attend lab demos and scientific presentations that may be scheduled around same time as board meetings
- Review new investment turns, provide input and suggestions, participate in negotiation calls and discussions
- Provide feedback on intellectual property strategy

# Application Guidance Document



- Review study designs/plans when presented for discussion
- Assistance with license review, including to suggest strategies
- Assistance with reviewing other contractual relationship such as Sponsored Research, collaborations
- Advise on grant and funding opportunities when relevant
- Advisee and provide feedback on governance/oversight, identify issues
- Assistance with Board and management selection as requested
- Review of budget/financial projections
- Assistance with investment pitches / Presentation review
- Investor/customer/potential joint venture introductions
- General business Advice/coaching
- Website/marketing material review
- Promotional and marketing opportunities
- Referrals to resources for infrastructure resources such as HIPAA compliant email, cloud back-up services, virtual office support, etc.
- **We will also engage you to learn what else we can do to help you achieve success.**  
**At Ben Franklin, we are Partners with a Purpose!**

## Have questions?

Please, don't hesitate to get in touch with the Director of Investments:

**Jennifer Hartt, M.S.**

[jennifer@sep.benfranklin.org](mailto:jennifer@sep.benfranklin.org)

215-972-6700 x3217

**You may also reach out to our Technology Commercialization Group Manager who assists in the Health sector application review process.**

**Dr. Sri Sriadibhatla, Ph.D.**

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