

Incubation for Investment

Lou Walcer, Director

The Kevin M. McGovern Family Center for Venture
Development in the Life Sciences

Cornell University, New York, USA



Kevin M. McGovern Family Center for
Venture Development in the Life Sciences
Cornell University



Agenda

- Introductions
- Program principles
- Program practices
- Acknowledgements
- For further Information ...



Introductions



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About Lou Walcer

- Cornell BA, NYU MBA
- Product Management for Schering Plough, Wyeth
- Divisional and Corporate New Product and Business Development for Wyeth, Wyeth-Ayerst, American Home Products Corporation
- Business Officer in multiple startups, President of one startup
- Multiple initial Venture Rounds, two investor exits via IPO, two investor exits via sale
- New Product/New Venture Consultant to Cleveland Clinic, Merck, Wyeth, Medtronic and dozens of small companies
- Sr. Commercialization Executive, New Ventures for Cleveland Clinic
- Appointed Director, Cornell's McGovern Center, June 2011
- Director, Vice Chair and Chairman, Business Incubator Association of New York State 2011-2015
- New York State Governor's Commission on Faculty Retention and Technology Transfer, 2017-Present



About Cornell University

- \$1B annual in sponsored research
- Four campuses
- Committed to turning invention into societal benefit – and University revenue



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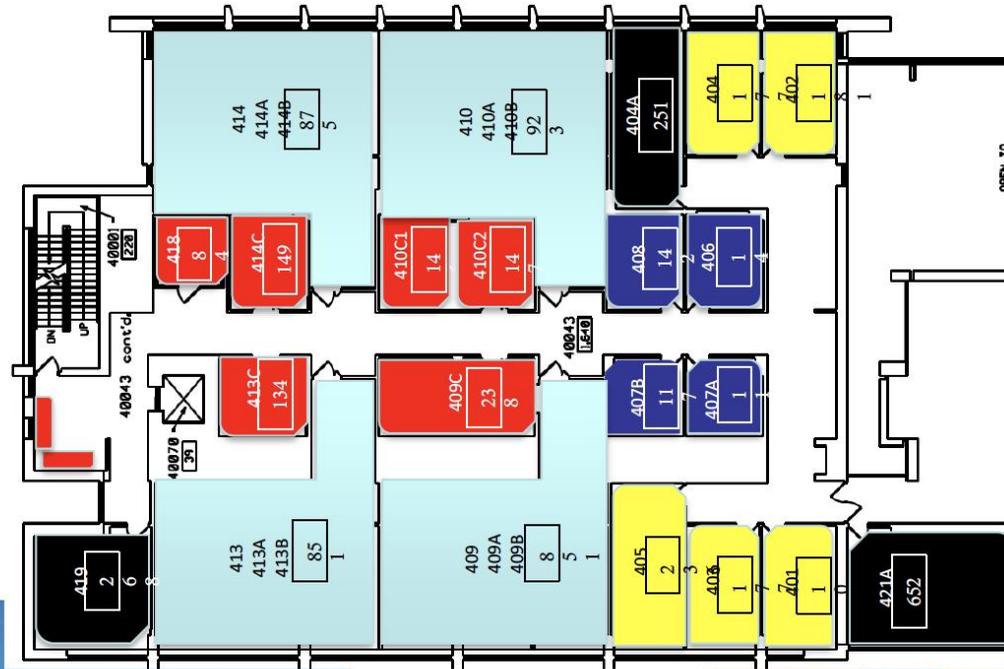


About Cornell's McGovern Center Incubator

- A "company incubator" was required as part of \$25M New York State construction funding for Cornell's "Biotechnology Hub" building
- Company incubator startup naming gift received from Kevin M. McGovern '70 in 2008.
- 2003-2008 - Faculty, Staff and Student Incubator "Best Practices" Committees analyses & pilot test
- 2008-2011- Program Director interviews
- Director hire and Center Startup: June 1, 2011



McGovern Center Facility

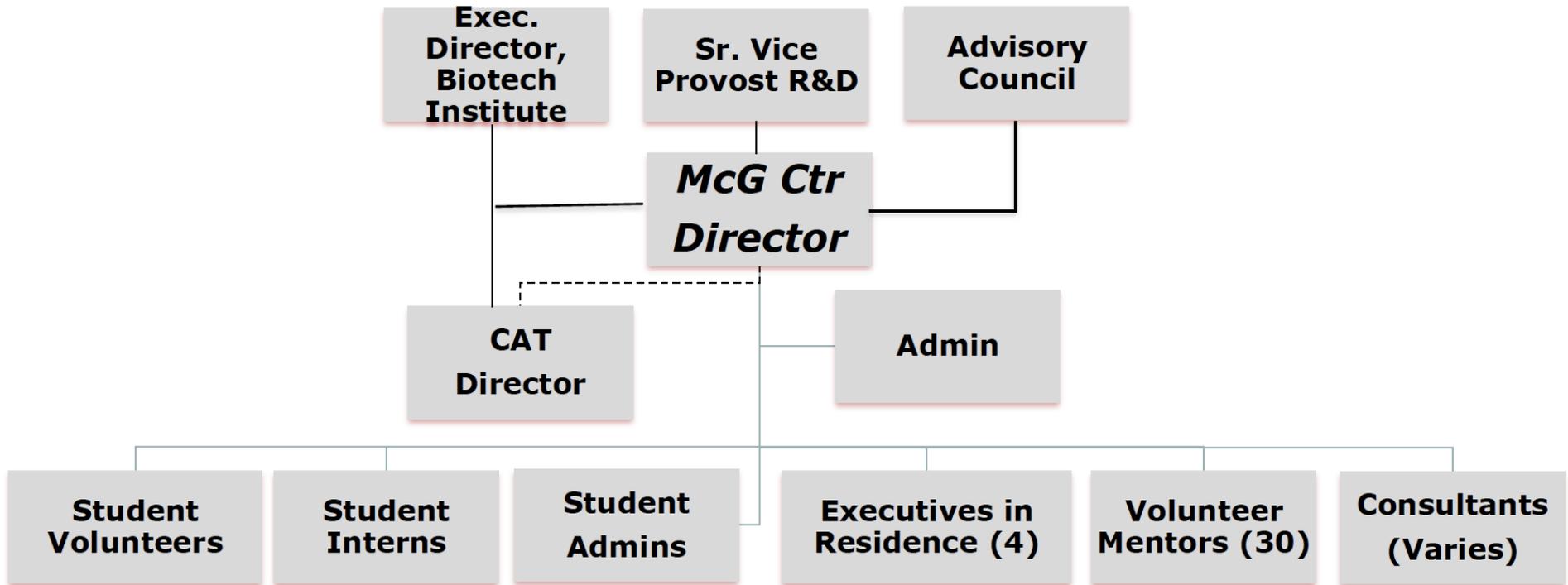


Key:

- Client Wet lab/
Office suites
- Client "MiniLabs"
- Client Offices
- Conference/
Break Rooms
- Shared Lab
- Equipment
Staff Offices



McGovern Center Organization



McGovern Center Goals

- Move high-potential technology startups out of the lab and into the marketplace
- Build investor value
- Secure licensing royalty, monetized equity and sponsored research revenue for Cornell University
- Develop sustainable technology-based businesses, employment, and tax revenue for New York State
- Serve Cornell faculty, students, and post-doc entrepreneurs



McGovern Center Finances

• Annual Budget		\$500K	
• Sources:			
Cornell		55%	
New York State		30%	
Client Fees			10%
Private donation		5%	
• Uses:			
Full- and Part-time Staff		40%	
Executives in Residence/Consultants		20%	
Equipment and maintenance		20%	
Programming			10%
Travel, Miscellaneous, Etc.		10%	



McGovern – 2011-2019 Activities

- 293 Inquiries received (from 10 states, 7 Countries)
- 22 Resident clients admitted
- 5 Client graduations/2 Clients awaiting graduation
- 3 Client expulsions



McGovern - 2011-2019

Client Results (\$000's)

Category	2011-2019 YTD	2018	2019 YTD
Client Equity/ Convertible Debt/ SAFE Notes	\$ 93,314	\$ 13,907	\$ 3,907
Client Grants received	\$ 22,863	\$ 4,830	\$ 6,125
Client Sales	\$ 29,205	\$ 950	\$ 595

McGovern – 2011-2019 Positive University Cash Impact

- Cash Outflows: Staff salaries, space, Programs, Equipment and maintenance
- Cash Inflows: Royalty revenue, Client equity value, monetized equity revenue, sponsored research
- Breakeven achieved: 2018



Launched March 22, 2019:

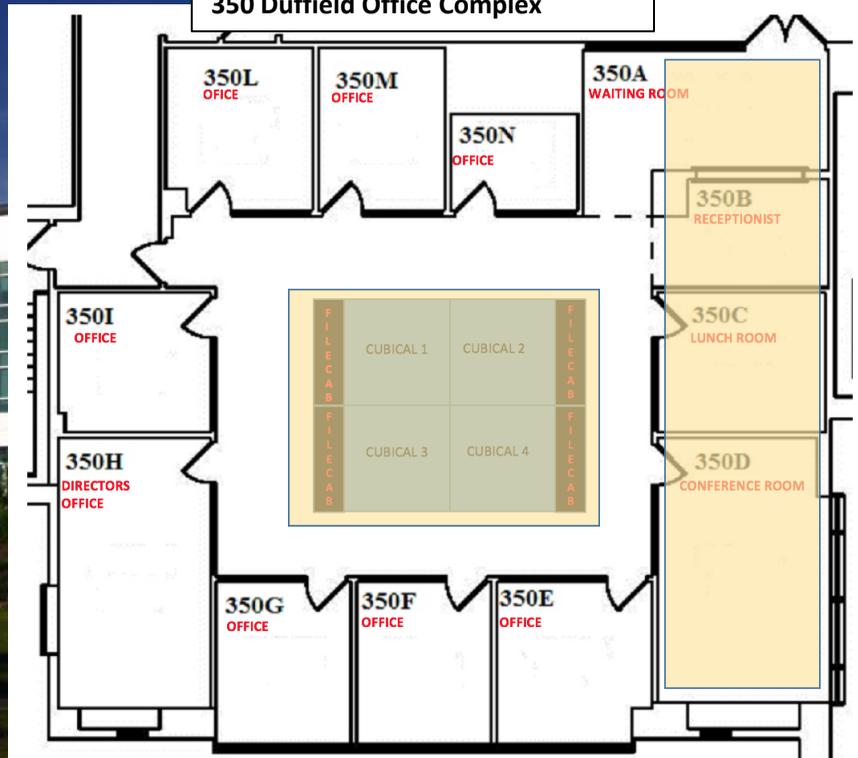


Praxis Center for Venture Development

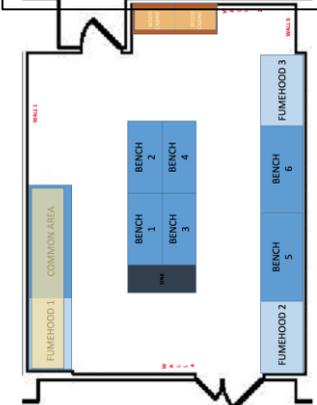
Duffield Hall



350 Duffield Office Complex



213 Duffield Wet Lab



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Program Principles



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Incubation isn't. . .

Entrepreneurship
Education/Boot Camp/
Support Groups



- 1 day to 1 semester
- Goal: Education

“Hackathons”



- 1 day to 3 days
- Themed
- Goal: Idea

Business
Accelerators



- 1 week to 6 months
- Themed
- Goal: Polished “pitch”



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Incubation IS:

- **A plan of Client/Incubator action**
- **Mutually agreed**
- **Variable time frame**
- **Subsidized facilities/services**
- **Weekly, monthly and annual monitoring**
- **Accountability and responsibility for results**



Program Practices



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Incubator goals?

- **Sustainable Client companies**
- **Client shareholder value**
- **Venture/Strategic Partner Investment in Clients**
- **NOT Client incubator rent**



We think long term

- Client development time is not limited to 18-24 months
- Program payback in 10 years



Highly Selective, Investor-gated Admission

- Target 5% admission rate
- Looking for --Big markets, strong IP position, technological advantage, strong management team, and a realistic development plan



Empowered Advisory Council-- Investor majority



David R. Fischell PhD
CEO, Angel Medical Systems, Inc.



Zachary J. Shulman JD
Managing Partner,
Cayuga Venture Fund
Director, Entrepreneurship
Cornell University



Philip Reilly MD JD
Venture Partner,
Third Rock Ventures



Bruce Ganem PhD
Founder and CSO of KensaGroup LLC;
Franz and Elisabeth Roessler
Professor of Chemistry, Entrepreneurship
Cornell University



Kevin M. McGovern JD
Chairman and CEO
McGovern Capital, LLC

Lifetime Member



Rebecca Robertson
Founder, Managing Partner
Versant Ventures



Alice Li PhD CLP
Executive Director
Center for Technology Transfer
Cornell University



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Foundation Medical Partners,
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Formerly Senior VP
Corporate Strategy & Development,
Becton, Dickinson & Co.
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Gene Resnick MD
Chief Medical Officer and
Executive Vice President,
Aptiv Solutions, Inc.



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**Secretary
(non-voting)**



David A. Putnam PhD
Associate Professor,
Biomedical Engineering/
Chemical and Biomolecular Engineering
Cornell University



Incubation Plan

- Key part of the contract between Client and Host
- Builds value for investors via:
 - Technology/Product development
 - Demonstrating a “commercially relevant proof of principle”
 - Strengthening the Business Plan
 - Fill gaps, validate key points with primary/secondary research
 - Developing the Management Team
 - Fill gaps, find experienced, “bankable” members



Investors review and approve Incubation Plans

- Investors know what investors want
- Engage Investors early with the Plan and the company
- Changes in the Plan require investor approval prior to implementation



Investors recommend Incubator admission

- Investors know what investors want
- Investors review prospective Client Application, Business Plan, Incubation Plan, etc.
- May recommend admission, rejection, or modification/reconsideration



Investors measure Client progress against Plan

- Investors know what investors want
- Advisory Council reviews Client progress quarterly, and yearly
- Advisory Council recommends 1st and 2nd “lack of progress” warnings, intervention, graduation and expulsion



Investors recommend “readiness for investment”

- Investors know what investors want
- Seed, venture, strategic partner funding
- Based on Client progress against Plan, value added, next milestones, etc.
- “Friends and Family”, Angel, Angel Groups, Venture, Industrial/Strategic Partner funding
- No fundraising without readiness



Investors recommend “readiness for graduation”

- Investors know what investors want
- Incubation Plan goals achieved– Technical, Management Team, and Business Plan
- Financing/sustainable operations goals achieved



Investors recommend Client expulsion

- Investors know what investors want
- Client unable to follow Incubation Plan
 - Technology doesn't work
 - Management Team doesn't work
- Client Unwilling to follow Incubation Plan
 - "Grant Mills"



Investors find investors for Clients

- Investors know what investors want
- Council Members/Executives in Residence and Volunteer Mentors have endorsed the Plan/seen Clients perform
 - Make personal seed stage investments
 - Recommend venture investments to their own firms
 - Recommend investment to co-investors



In Sum . . .

To incubate for invest-ability:

- Think like an investor
- Learn to say "no"/expel poor performers
- Have investors make key selection/divestment recommendations
- Think about return on investment for investors and the host institution



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- Cornell University Research Division
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- Korean Institute of Energy Research
- Nam & Nam



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