

# FIN580

## Entrepreneurial Finance

### Case 1 Venus Medtech - Global Innovation in the Race Between China and the USA

Prof. Seungjoon Oh  
Peking University HSBC Business School

# Today's Agenda

---

- Overview of Venus Medtech
- Case questions
  - 1) For Series A financing, which venture capital firm is the top choice among the finalists?
  - 2) Which city in China would be the best location for Venus Medtech's headquarters?
- Issues on the Global Innovation Race

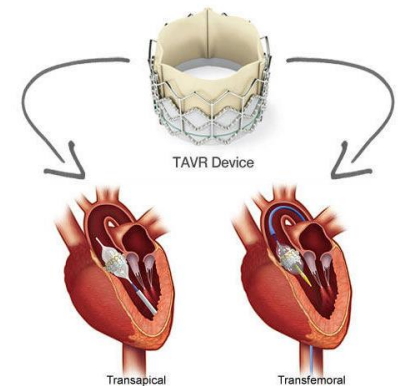
# 1. Overview of Venus Medtech

---

- Company Overview:
  - ▶ Venus Medtech, founded in 2009 by Zi, developed groundbreaking transcatheter aortic valve replacement (TAVR) technology.
  - ▶ Key products included the VenusA-Valve for aortic stenosis and the VenusP-Valve targeting pulmonary valve issues.
- Market Trends:
  - ▶ Aging populations and dietary shifts contribute to rising prevalence of valvular heart diseases.
  - ▶ Chinas economic growth and demographic changes underscore the need for innovative healthcare solutions.

# 1. Overview of Venus Medtech

- Clinical Trial Progress:
  - ▶ Venus Medtech initiated clinical trials for its innovative valves.
  - ▶ Initial trial results were promising, generating excitement within the cardiology community.
  - ▶ Positioned to address unmet needs in the US market for bicuspid aortic valve patients and severe aortic valve calcification.



## 2. Series A Financing

---

- Funding and Investment Strategy:
  - ▶ Series A financing became a priority in mid-2013, leveraging the growing venture capital market in Greater China.
  - ▶ China's venture capital market showed substantial growth, aligning with Zi's fundraising efforts.
  - ▶ Healthcare investments in China kept pace with broader industry trends.
- Investor Interest and Offers:
  - ▶ VM received numerous term sheets from various venture capital firms, exceeding Zi's expectations.
  - ▶ Zi spent a week evaluating options and narrowed down the field to four prospective investors.

## 2. Series A Financing

---

- Investment Terms and Valuation:
  - ▶ Each of the four investors offered to purchase a 20% stake in VM for \$20 million, valuing the company at \$125 million post-money.
  - ▶ Zi aimed to retain at least 75% ownership and proposed a consortium, which the investors declined.

## 2. Series A Financing

---

- Four VC Firms in the finalists:
  - 1) Domestic healthcare fund with limited international reach.
  - 2) U.S. boutique healthcare VC firm lacking understanding of the Chinese market.
  - 3) Chinese affiliate of a renowned U.S. VC firm, inexperienced in healthcare.
  - 4) Cross-border VC firm with strong healthcare track record but potential bandwidth concerns.

Q1) For VM's Series A financing, which venture capital firm is the top choice among the finalists?

## 2. Series A Financing

---

What are the key considerations for this decision?



## 2.1. What are the key considerations?

---

- Selection Criteria:
  - ▶ Zi evaluated the unique value propositions of each investor to determine the best fit for VM's growth trajectory.
  - ▶ Zi's decision hinged on factors beyond valuation, focusing on what each investor could bring beyond financial investment.
  - ▶ Key considerations included strategic alignment, industry expertise, network, and potential value-added contributions.
  - ▶ Decision-making prioritized long-term strategic partnerships and synergies to drive company success.

## 2.1. What are the key considerations?

---

- Key Considerations

- 1) Industry expertise in healthcare sector

- ▶ Immediate market needs and regulatory challenges
- ▶ FDA Clinical trial approval process
- ▶ Track record in medical devices

- 2) Geographic expertise

- ▶ Understanding both Chinese and US healthcare ecosystems
- ▶ China's regulatory environment and providing timely support for domestic market penetration

## 2.1. What are the key considerations?

---

### 3) Global expansion and market penetration

- ▶ International operations and future fundraising needs
- ▶ Currency (RMB vs. USD)
- ▶ Long-term exit strategy (Domestic vs. Global IPO)

### 4) Due diligence process

- ▶ China vs. US due diligence standard

### 5) Investment terms

## 2.2. Which VC is the top choice?

---

### 1) HealthTech Venture Partners

- ▶ A leading healthcare-focused VC firm based in Shanghai.
- ▶ Industry expertise and strategic partnership
  - HealthTech specializing in medical devices, has a successful track record in backing cardiology startups in China.
  - HealthTech offers deep industry expertise and valuable connections within China's medical community.
  - However, international connections may be lacking.

## 2.2. Which VC is the top choice?

---

### 1) HealthTech Venture Partners

- ▶ Concerns arise over limited international network and focus on domestic markets.
  - HealthTech might prioritize incremental innovation over VM's global ambitions for disruptive technology.
- ▶ Investment terms:
  - Term sheet includes control provisions (e.g., Veto rights and governance control) granting substantial influence over governance and long-term growth direction.
  - Currency and Fundraising Challenges:
    - RMB investment may pose challenges for future funding needs in US.
    - HealthTech's preference for a domestic IPO limits exit flexibility and may not align with VM's global expansion plans.

## 2.2. Which VC is the top choice?

---

### 2) Davidson Lockhart

- ▶ Davidson Lockhart is a boutique VC firm with a strong focus on U.S. healthcare startups.
- ▶ Industry expertise and strategic partnership
  - Lockhart's 1) knowledge of global medical device markets, 2) interest in global markets and 3) favorable governance terms aligns with VM's long-term expansion plans beyond China.
- ▶ Investment terms and strategic alignment:
  - U.S. dollar investment will provide flexibility for VM's international operations and future fundraising needs.
  - Potential global exit opportunities.

## 2.2. Which VC is the top choice?

---

### 2) Davidson Lockhart

- ▶ US-specific expertise
  - While Davidson Lockhart brings deep U.S. market expertise, concerns exist regarding their ability to navigate China's regulatory complexities effectively.
- ▶ Lockhart's due diligence process is more thorough and time-consuming compared to Chinese investors, reflecting U.S. investor expectations.

## 2.2. Which VC is the top choice?

---

### 3) Eucalyptus Capital (China)

- ▶ A renowned Silicon Valley VC firm with a strong track record in consumer internet and enterprise technology.
- ▶ Eucalyptus's Chinese affiliate has a focus on healthcare investments in China.
  - It has significant capital resources and a high probability of follow-on investments.
  - Its brand name and reputation could validate VM's potential growth trajectory and entrepreneurial capability.
  - USD investment and long-term exit options (HK/NY) align with VM's global expansion plans.



## 2.2. Which VC is the top choice?

---

### 3) Eucalyptus Capital (China)

- ▶ The Silicon Valley HQ has limited track record in medical devices.
  - Coordination between Eucalyptus's Chinese affiliate and headquarters in Silicon Valley may impact strategic coherence and support for VM's market entry in the U.S.
- ▶ The due diligence process is more extensive, reflecting Eucalyptus's thorough approach and strong brand reputation.

## 2.2. Which VC is the top choice?

---

### 4) White Crane Ventures

- ▶ A cross-border VC firm with offices in China and the US, specializing in healthcare investments
- ▶ Extensive cross-border industry expertise in both China and the US
  - Managing Partner has extensive experience in healthcare investing in both China and the U.S., with a strong track record in biotechnology, medical devices, and diagnostics.
- ▶ Investment terms and strategic alignment:
  - White Crane Ventures adopts a supportive governance approach, emphasizing trust in entrepreneurs and minimal constraints compared to other Chinese investors.
  - The firm can invest in both U.S. dollars and Renminbi, providing flexibility for VM.

## 2.2. Which VC is the top choice?

---

### 4) White Crane Ventures

- ▶ White Crane has significant portfolio of healthcare investments in China and the U.S., potentially impacting their availability to support VM.
- ▶ White Crane may lack the same level of brand recognition and reputation as some other VC firms, such as Eucalyptus Capital.
- ▶ Their due diligence process is thorough, with a 60-day period and emphasis on intellectual property vetting, reflecting American standards.

## 2.2. Which VC is the top choice?

---

So, for VM's Series A financing, which venture capital firm is the top choice among the finalists?

## 2.2. Which VC is the top choice?

---

Do you have different recommendations  
for later rounds?

### 3. HQ Location

---

Q2) Which city in China would be the best for VM's HQ? What are the key considerations?

# 3.1. Key Considerations for HQ Location

---









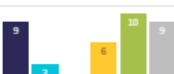

- Performance: Number of successful Exits over \$50mn, Ratio of Series B to Series A companies
- Funding: Access (early-stage funding volume and growth), quality (The number of local investors and those investors' average years investing and exit ratio)
- Market Reach: the size of local markets, the ratio of companies valued at over \$1 billion to GDP
- Talent & Experience: Tech talent, the cumulative number of early-stage companies
- Connectedness: a function of the number of tech meetups in the ecosystem
- Knowledge: volume, complexity, and potential patents generated, publication impact

# 3.1. Key Considerations for HQ Location

## Global Startup Ecosystem Ranking Startup Genome

Success Factors

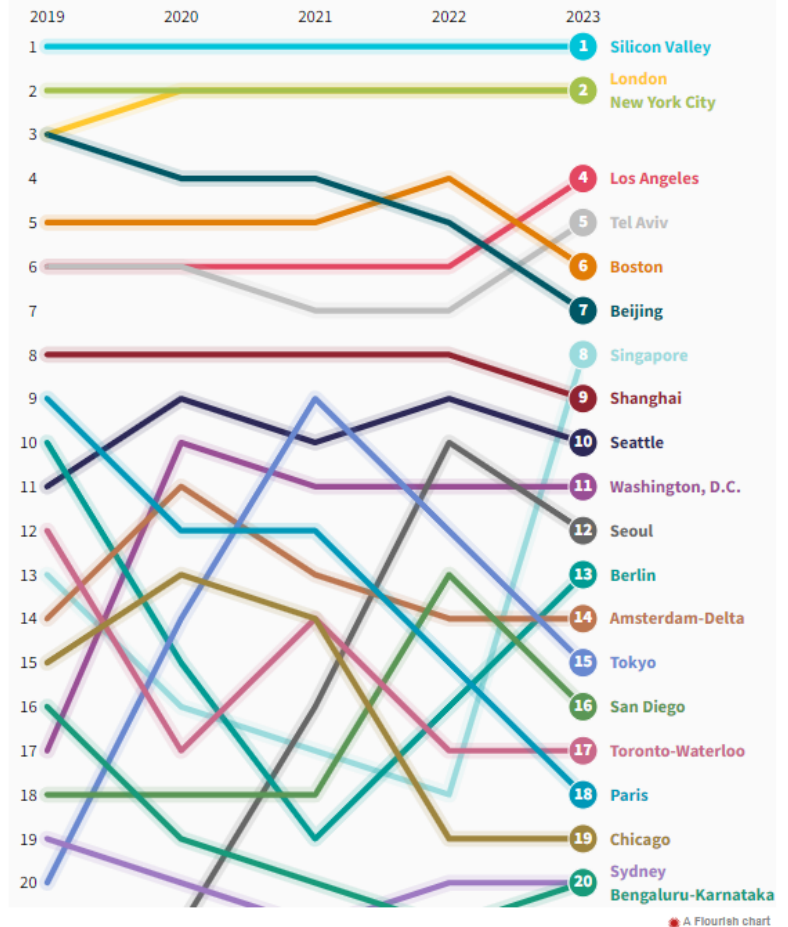
■ Performance ■ Funding ■ Connectedness ■ Market Reach ■ Knowledge  
■ Talent & Experience

Rank	Ecosystems	Region	Factor Scores (1-10)	Improvements from GSER 2022
#1	<u>Silicon Valley</u>	North America		
#2 (tied)	<u>New York City</u>	North America		
#2 (tied)	<u>London</u>	Europe		
#4	<u>Los Angeles</u>	North America		+2
#5	<u>Tel Aviv</u>	MENA		+2
#6	<u>Boston</u>	North America		
#7	<u>Beijing</u>	Asia		
#8	<u>Singapore</u>	Asia		+10
#9	<u>Shanghai</u>	Asia		
#10	<u>Seattle</u>	North America		

## GLOBAL STARTUP ECOSYSTEM RANKING Startup Genome

(2019-2023)

Replay

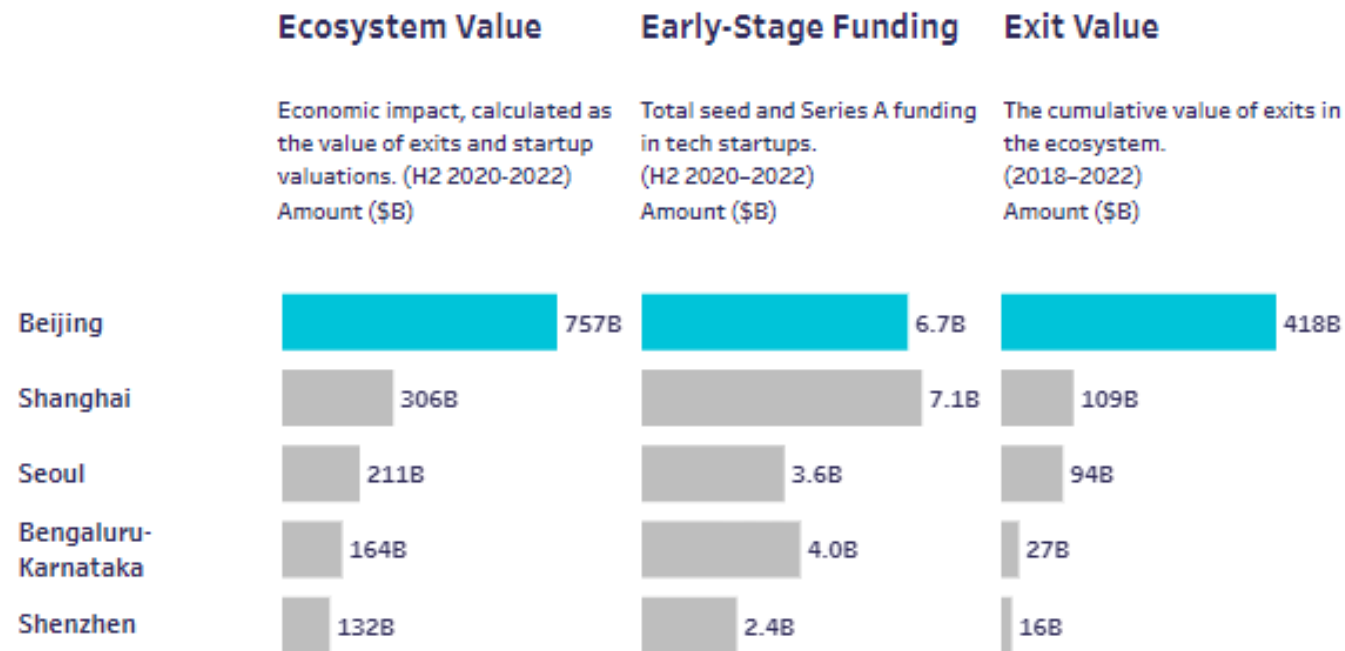




# 3.1. Key Considerations for HQ Location

## Beijing Is the Regional Leader in Ecosystem Value and Exit Value

Source: Startup Genome, 2023



## 3.2. Which city would be the best for VM's HQ?

---

- Beijing:
  - ▶ Beijing offers favorable government policies, funding, and regulatory support for innovative enterprises.
  - ▶ Excellent international connections facilitate global market access and networking opportunities.
  - ▶ Industry Ecosystem: Beijing hosts a vibrant healthcare and biotechnology ecosystem, fostering partnerships and investment.
  - ▶ Leading universities and research institutions provide access to a skilled talent pool in medical technology.
  - ▶ But the city's competitive market may pose challenges in talent acquisition and market penetration.

## 3.2. Which city would be the best for VM's HQ?

---

- Shanghai:
  - ▶ Historically a center for the Chinese medical device industry.
  - ▶ Shanghai's government tends to favor large multinational companies over startups, potentially offering less support and attention to smaller ventures.
  - ▶ Risk of attracting attention from competitors due to industry presence and government focus on established players.

## 3.2. Which city would be the best for VM's HQ?

---

- Shenzhen:
  - ▶ Major city and financial capital with a growing startup scene.
  - ▶ Lacked a strong medical device hub in the late 2000s, potentially reducing the risk of copycat products.
  - ▶ Concerns about the availability of talent from universities for technical roles.

## 3.2. Which city would be the best for VM's HQ?

---

- Hangzhou:
  - ▶ Booming economy with significant growth and foreign investment.
  - ▶ Limited presence in the medical device industry but a deep pool of knowledge workers from 38 colleges and universities.
  - ▶ Supportive local government focused on nurturing high-tech enterprises and providing cost-effective resources.

## 4. Issues on the Global Innovation Race

---

- Intellectual property
- Talent acquisition and retention
- Regulatory and Ethical Considerations
- Socio-economic development