How to Raise Funding Episode 16

Hall T. Martin: [00:00:00] Hi, Cheryl. Thanks for joining. Good morning. Morning. Yes, good to catch up with you guys. Morning. Morning. Thanks for joining.

So, looking forward to learning more about Torgan. I got the deck and so forth. I'm glad to tell you about TenCapital. Where would you like to start?

Guest 01: Why don't you tell us about TenCapital

Hall T. Martin: first? [00:00:20] Sure. So at heart, we're investor relations and introductions. We help you find more investors. I'm a part of the Koretsu program.

We're actually standing up Koretsu here in Texas. So we deal with quite a few investors in the life science space and have done so for many years. We've been doing this for about 12 years now. We originally started as Texas Entrepreneurs Network because I started three [00:00:40] angel networks here, one in Austin, the one in Waco and the one in Williamson County.

And then started this company under the name Texas Entrepreneurs Network to help connect investors to startups and then expanded into venture capital in the 2010 to 15. And then it had a whole bunch of family offices come in in 2016, then went national [00:01:00] with our program in 2017. That's when we changed the name to 10 Capital.

And at heart, what we do is take your deck, go out to our network. Great. An initial list of interested people is anywhere from 200 to 1000 that are initially interested in the deal. And then we go through and have them, have you pitched to them in our online events? We do five a month right now. [00:01:20] And then we're launching a hybrid series this year where we're going out and pitching in person and 1012 cities a month.

To get back in person because we're seeing the shift in the market back to that, we're a monthly retainer. It's three K a month for a three month commitment. And after that, it goes month to month. just depends upon, where we're brought in and [00:01:40] how far we have to go. You're raising 500 K. You can usually do that in three months.

If you're raising 5 million. That's more like five to nine months in today's market, but the life sciences doing very well in the market these days. we see a lot of interest in the biotech and then AI. Those are the two things that are very hot right now and the market is turning up. We are seeing much more [00:02:00] interest coming up now that the interest rates, increases are closing and we're getting to the next level there, but we do have experience with the FDA path companies and most of them that come to us are at the seed pre seed level.

And so we're usually dealing with the angels and the angels in the family offices, not the venture capital. We seem to be a [00:02:20] little bit too early for that. so I looked at your deck, had some questions and comments about it, but that's how we work. What questions do you have for me?

Guest 01: Questions at the moment, I guess.

do you want to go through your questions on the deck? or do you want us to introduce ourselves? What would be most

Hall T. Martin: helpful? I'll give you just a little bit of color on your, your deal as well. Then we'll look at the deck and [00:02:40] talk about it. Primarily interested in the FDA path, interested in the fundraise itself and the structuring of it.

And then looking to see what, where we are with the process of, of accomplishing that current raise.

Guest 01: Yeah. So, we're currently doing a bridge round to our series a, in a convertible note for up [00:03:00] to 2 million. we have a call later today. We'll kind of find out where we stand, but we might be about halfway through that at this point.

and then our next round is a series a, a year ago when we started thinking about this process, we were thinking in the 40 million range.[00:03:20] but with the market, the way that it was in 23, we brought that number down to 15 million because it allows us to hit a couple of milestones. essentially, it allows us to complete our phase 1 trial.

and be ready, to start our phase two trial. but we're kind of. [00:03:40] Rethinking that at the moment and wondering whether we should try to do the larger series a because it allows us to go faster and complete more of our clinical trial.

Hall T. Martin: what evaluation did you put on the two main convertible note?

Guest 01: There is no valuation. It's a 40 percent discount to the [00:04:00] it was a 20 percent discount to the next round, but it's a 40 percent discount to the next

Hall T. Martin: round. how's it going? How much have you raised of it? About half. Okay, all right, half more than I thought you would have, but anyway, without a valuation cap, it can be really tough out there, but maybe 40 percent is actually, effective.

What would you put on [00:04:20] Series A?

Guest 01: probably about 40 million

Hall T. Martin: pre money. What was your last price round?

Guest 01: was 30 million

Hall T. Martin: post money. Okay. So 40 million pre money. Okay. Uh, and what FDA path are you on?

Guest 02: So we're a small molecule. we've actually received guidelines already, on our [00:04:40] pathway with the FDA.

We are currently in a phase one trial with our first generation compound. So, next we will be doing a bridging study with our second generation compound, that's actually, the first generation is a racemic compound, and the second generation is an enantiomer, so it's 50 50 mix of the [00:05:00] current racemic, it's 50 percent of the current racemic, so, this is why the FDA gave us guidelines to do a bridging study, which will be very short, very few patients, so it's essentially another phase one study, but it's, for the second generation compound.

And then we will be going to a phase two study with the second generation compound that's also in [00:05:20] two parts. a two way where we test two different doses of the second generation compound and then pick the winning dose. And the part two will be that winning dose with keytruda against a second arm that standard of care.

So our current phase 1 study with our 1st [00:05:40] generation compound is also in 2 parts. Part 1 is 5 escalating doses of our compound itself and part 2 is 5

escalating doses of our compound combined with a constant dose of keytruda. which is the only immunotherapy approved for HPV induced head and neck cancer.

So the FDA actually [00:06:00] accelerated part two and told us we don't have to do them consecutively when the first two cohorts of part one by our drug by itself is deemed safe, which we just press released that last week, that it is deemed safe. We can start cohort three of part one, but also level one of. [00:06:20] Part two, combining our first generation drug with Keytruda.

So we will be done with this phase one trial by the end of September at the latest. So it's a very fast, study. We've not had trouble enrolling at all. In fact, we've had to institute a reservation system for patients. MD [00:06:40] Anderson is our lead site and our principal investigators there. We also have Mount Sinai, New York City of Hope in California.

and then Yale and UCSD will be onboarded shortly. But those first three sites are already enrolling patients and reserving. So we literally have a line 10 patients deep wanting to get into our study because our cohort [00:07:00] size is very small, just three patients per cohort in part one and three patients.

per level in part two. That's all the FDA required you know of this racemic drug because it's proven safety in humans. it's a actually a generic medication for a different [00:07:20] indication. Okay. So, so we've had a very easy time and have already gotten a safety signal for phase

Hall T. Martin: one. Okay. No, no, that's that's a very clear path.

And I think that's part of what you have to communicate in the slide deck is the FDA path that we're on and each phase of it and [00:07:40] each phase for each trial maps to one portion of the fundraise. So there's a clear set of milestones. It's real simple to look at and see what goes to what. Okay. you know, there's a lot of detail there, but you could do a high level, simplified version that would get it across.

And what we'd like to do is break the fundraise down. If we're going after, say, 40 million, let's say we put that [00:08:00] back on the table. We would do the first 5 million with a very low valuation, say, 30 million. We do the next, 15 million at, uh, 35 million. Then we do the. The remaining 20 million on a 40 million valuation, but by putting out the big 40, you show we're doing, we're raising enough money to get to where we need to go, but if you want to have a

[00:08:20] good price, you incentivize people to come in up front by giving a very nice valuations on the first round.

It's always the hardest one to do and then stair step it up. The VC comes along and takes the whole thing off the table. That's usually going to be a different negotiation with the lead investor. But we find we're spending a lot of time with convertible notes [00:08:40] to get to the lead investor, at least in the round one of these things.

Round two, the lead investor often shows up. But the idea is to break the, the trials down into one of those three buckets. So it's real clear this trial goes to this bucket for this money. So it's very simple to understand what it is. And as you conclude that trial. That justifies going to the [00:09:00] next valuation step up.

And so it makes it easy to go. And so those who think it's only worth 30 million, well, they have an opportunity to get in for 30 million. For those who think they really just don't want to take the risk. Well, we'll wait until they get to the third phase. And we don't mind getting a 40 million valuation, but that's one way to go about it is to structure in a way that incentivize people to [00:09:20] come in early for those who want to.

Have a better price. And when we get two thirds of the way through that raise, we then clear we're closing in six to eight weeks, who wants to be in. And then we talk about the interest and committed that are floating around the top of the funnel, which can be a substantial number of dollars in today's market.

And just to show that [00:09:40] there's other people interested in the deals first come first serve. So there's ways you can structure it so people can move through more, quickly. Our investors have a hard time with. No valuation cap. really want a valuation cap on it. So if we were to put a 30 on it, for example, you know, the last price round, that would give them some comfort to come in and then 10, 15 percent discount rate, something [00:10:00] like that.

So, or you can put it as part of this, you know, finish out the convertible note and start the series. Fresh in January and start off with maybe a 5 million dollar smallish type raise, but at a very good valuation. So once you have that first round close, it gives you momentum to close the second and third round.

And hopefully the trials are going well. So you're moving [00:10:20] through that process at the same time. The market is looking to turn up. I see a lot of interest, a lot of investors coming back to the table. Interest rate hikes seem to

be over. we're getting back to a. more standard economy. And so it looks like there's a lot of movement in the investors today or for the spring.

It will be. So that's one thing to do on the deck. We probably [00:10:40] redesign it a little bit. You have good content, but it's a little hard to read. It's a little hard to figure out. There's a lot of detail there and you have to kind of parse through it a little bit. But, you know, that's part of what we do.

There's no, no cost for that. And so that's, that's how we go about. Changing the deck a little bit is what the deal structure and with a little bit clearer graphics [00:11:00] on how those different things line up. Cause what investors like to see is that the full FDA path from here to the approval, what does that look like?

What are the key milestones? And then map the fundraise onto it. And if you have additional fundraising, some, some sense of what, what scale that would be, because people are trying to figure out from here to the exit, what would that look like? [00:11:20] Are you trying to exit at approval or somewhere through clinical one or two?

Guest 02: Well, our phase two trial may be a pivotal trial because since this is oncology, you know, currently 85 percent of patients do not respond to Keytruda that have HPV induced head and neck cancer. And that's the only immunotherapy approved for them. They don't [00:11:40] respond to chemo. You know, they've had resection radiation.

They're at the end of the line as far as treatment choices, unfortunately. So, you know, if we can show we have a very low bar to show efficacy because. Ketruda only has the 15 percent overall response rate, so even if we doubled that, that would [00:12:00] be way positive on the efficacy scale. And that means our phase 2 may end up being a pivotal study for approval for filing an NDA.

We may not have to do a phase 3, but we, you know, time will tell. we're very confident that we're going to meet the safety endpoints for phase 1 in the bridging studies. So that means really it's phase [00:12:20] 2 or, you know, where it's at.

Hall T. Martin: for us. Okay, so would help to have if we were to look at phase two as the exit point, you know, once you complete phase two, you could exit, we'd have a slide in there that talk about who might want to buy you for what valuation.

And that, that really can help justify these valuations we're putting [00:12:40] down now. I didn't see any exit valuations, so it's hard to get a sense of how do we justify 40. Well, if you have a 1. 2 billion exit value at phase two, well, 40 starts to look like a good deal. So that helps sell it a little bit there as well.

have you ever gone through Koretsu or any of the other angel groups that are out there?

Guest 01: We went through US Angels [00:13:00] and paid them a couple of fees and got absolutely zero investments. In fact, all we got was meetings where people wanted to sell us their

Hall T. Martin: services. Okay, so, might think about going through Koretsu for the amount of money you're trying to raise.

It is a fee for service, but it's also a thousand investors that you get in front of if you go through all four [00:13:20] chapters. So there's usually, usually you get two, three million dollars out of it minimum to go through a Northwest or Mid Atlantic. Coretsu chapter, we're standing up the one in Texas.

So we're seeing a lot of interest in that group because they're, they're a later stage startups that go through. They're not the two guys with an idea seed startup, which is what you normally [00:13:40] see in angel groups. So we're seeing a lot of interest in that as well. And for the amount of money you're trying to raise, that's, that's probably going to be, you really need to get in front of a lot of angel investors.

And then very soon after you'll get in front of the family office in the VCs. Yeah. Okay. cool. any other questions for me about what we do? I can send you more detail [00:14:00] about how we work and send you a proposal, campaign, outline who we've worked with before and all those good things. I think that would be helpful.

Okay. great. Well, I appreciate you guys taking time. I'll send that over and we'll go from there. If you have any questions, happy to jump back on a zoom to dig into a deal structure or anything like that as well. Thank you. Great.

Guest 02: Thank you. Thanks.