



VENTURE CAPITAL

Prospecting

Votorantim Ventures
invests in biotechnology
companies

for good

business

The Votorantim group, the largest Brazilian industrial conglomerate, with annual sales of US\$ 4 billion, is investing US\$ 300 million in high technology businesses. Two years ago, the group created a venture capital fund, Votorantim Ventures, through which it now participates in companies in the areas of telecommunications and e-business, such as Optiglobe, .comDominio, Telefutura, Quadrem and Estrutura.net. Its attentions have now turned to emerging projects in the biotechnology sector, which in their great majority are being incubated in university laboratories. In the next few days, the group will be publishing a list of proposals – selected from a group of 50 – and in the future of which it wishes to invest amounts ranging from US\$ 50,000 to US\$ 50 million.

Without a shadow of doubt, this is a risky bet. In the United States, for example, the statistics show

that nine out of every ten emerging companies in which venture capital has been invested do not take off. The identification and selection of good projects are a fundamental step, though they do not in themselves guarantee the success of the investment. The key word is therefore to carefully prospect the projects developed in the academic world in order to discover which have market potential. This is the task for which Votorantim has hired Fernando Reinach. A lecturer and researcher at the Institute of Chemistry of the University of São Paulo, (USP), Reinach was an advisor to FAPESP, a coordinator of the projects for the genetic sequencing of the *Xylella fastidiosa* and *Xanthomonas citri* bacteria, and he himself has had the experience of an entrepreneur, when in 2000, with funds from private investors, he created .comDominio, nowadays the third largest data center in the country, after Diveo and Optiglobe, and larger than Embratel.

Since December, Reinach has been visiting universities and research institutes, firstly, to explain



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Reinach: university is a pool for good ideas

what venture capital is, and then to prospect for business. “My mandate is to keep my eye on the universities, which is a simple task, because we speak the same language”, he sums up. He has no doubt that a pool of good ideas can be found there. “For 25 years, agencies like FAPESP and the National Council for Scientific and Technological Development (CNPq) have been investing successfully in the development of research. But you can count on your fingers the number of companies generated in the universities”. And why is it that good projects do not translate themselves into

business? He gives the answer: “It is because venture capital is lacking in Brazil”.

Entrepreneurship - But, besides resources, researcher lack information on what this modality of investment actually is. Venture capital is a sort of long term finance – sustained by a participating stake of the investor in the company –, recovered after the development of the company, through a public stock offer, or the total or partial sale of the enter-

A market with a future

Venture capital investments are growing slowly in Brazil. In 2000, they amounted to US\$ 747 million, and, last year, to something around US\$ 800 million, according to the figures released by the Brazilian Venture Capital Association (ABCR), on the basis of a survey by the Getúlio Vargas Foundation (FGV), sponsored by the Financier of Studies and Projects (Finep). The good news is that, in spite of the fall in the NASDAQ electronic stock exchange, the volume of investments has not fallen, observes Robert Binder, the ABCR’s executive director. In the United States, the burst of the Internet bubble had a high cost; the venture capital market plunged from US\$ 100

billion in 2000 to US\$ 40 billion in 2001.

According to the survey, up to last year, the sectors of telecommunications and the new media attracted over half the venture funds. Start-ups got only 15% of the investments, and mature companies at the stage of expansion, 78%. With the exception of Extracta, from Rio de Janeiro, no biotechnology company has been targeted for venture investment, he says. “The great problem is the time it takes these companies to come to maturity”, Binder notes.

“The government’s action, through Finep’s Inovar (Innovate) program, was decisive”. Privatization of sectors like telecommunicati-

ons, for example, is already generating new business. Investments in biotechnology may grow, since, besides biodiversity, Brazil has competitive advantages to bet on the development of this market. Incidentally, in the United States seven biotechnology companies are now part of the NASDAQ 100 index, which ranks the largest non-financial companies according to their market value.

The ABCR has 64 associates, including investment funds, consultancies, stock exchanges, companies and incubators. The entity estimates that the potential for investment in venture capital in Brazil has added up to US\$ 3.8 billion since 2000.

prise. In the United States, it has been working since the Forties. It was, for example, venture capital that allowed the creation of companies like Microsoft, Intel and HP, just to mention more recent cases. "Venture capital works very close to the university. It works as a fulcrum for the creation of small companies, with no more than ten persons, where the researcher goes in with the idea, and venture capital with the money", he explains.

In Brazil, venture capital is a relatively recent investment. These were the funds that boosted the development of Internet companies, from 1999 onwards. "When the Internet bubble burst, the idea of entrepreneurship and venture capital funds stayed on, this time trying to pick out long term investments", explains Reinach. There are strong signs that these funds, which had betted on dotcoms, are now turning towards helping emerging companies in the biotechnology sector. This change of direction, by the way, closes what Reinach calls the "virtuous circle of technology": the government invests in research with no intent of making a profit – as in the case of FAPESP's Project for Small Business Innovation Research (PIPE in the Portuguese acronym), for example –, boosts an invention, and venture capital finance the setting up of a company that, when successful, will pay taxes to the government.

It is in the capacity of a venture capital fund that Votorantim Ventures will be injecting money into good ideas, by buying into the company. "We may participate with 5% or up to 90% of the capital of the future company", the researcher reveals. He believes that the fund may carry out an average of ten investments a year. According to Paulo Henrique de Oliveira Santos, Votorantim Ventures' chief executive officer (CEO), the strategy is to bet on a larger number of smaller projects.

But there are some prerequisites for this association to be carried out. The first is for the good idea to correspond to a good market. An electronic corkcrew, produced at a unit cost of US\$ 5,000, may be a "superdiscovery", but the size of the market would certainly not justify any investment, in Reinach's example. "We rely on a group of analysts that will assess the project, and, in conjunction with the researcher, draw up a business plan", he says. The second prerequisite is to reach an agreement as to the percentage of the investor's participation in the composition of the future company. On this point, as Reinach says, negotiations are "completely subjective". A researcher who supposes that he has discovered a solution for the treatment of a disease calculates that the company will be worth US\$ 150 million in the future. He believes he needs US\$ 15 million to set the business up, and proposes the sale of part of the

estimated value of the future company, in this case 10%, to venture partners. The investors, from their side, calculate the risk of failure, market potential and price, and forecast a lower value for the company, which expands their participating interest in the make-up of its capital. "As it is they who run the risk, they expect the highest remuneration possible", he explains.

He underwent this experience when he created .comDomínio. "We had the idea of making a data center, a service that still did not exist in Brazil. We put together a competent team, recruited from the university, I took leave from full time work at USP, we put up a business plan, and we went off to the United States, after venture capital to bank a US\$ 50 million investment", he recalls. The major part of the funds came from the American bank, JP Morgan, from the start the company's largest stockholder. Votorantim Venture also had a stake in the enterprise. "We have always had less than half of the capital", he says. "If it did not work out, they would lose money and we would have put our career in risk to no avail". The business prospered and .comDominio is a professionally run company. "We continue to be stockholders. We are owners, but no longer members of staff".

The quality of being an entrepreneur does not require the researcher to distance himself from the university. "It is in the company's interest for the link to continue", he explains. Reinach points out, however, that everything depends on the structure and the legislation of each university. He himself has plans for going back to his classes at the Institute of Chemistry in the next semester. "I do not want to leave the university".

