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The investor's purpose in VC, funds industries

"Techventure" kicked off in September this year to great fanfare. Many who attended the event could not help but agree that the start-up space in Singapore is brimming with opportunity and has never been more vibrant. The Singapore government signified its endorsement not only with Deputy Prime Minister Teo Chee Hean gracing the event's opening ceremony, but also with his announcing of disruptive innovation as part of the overall budget for the entrepreneurial sector at a whopping S\$19 billion (US\$13.7 billion). It was an affirming display of the direction that Singapore has charted towards establishing a robust start-up and technology innovation ecosystem.

Recent years have witnessed numerous government-led initiatives spawning the start-up space along with foreign stakeholders. Notably, NUS Enterprise, the leading player in pairing start-ups with funds, recently partnered with unBound Media to host a platform for discussing the latest trends in global and Asian innovation. Such efforts have provided start-ups with vital financial support.

At Techventure, the National Research Foundation launched the new SWITCH programme in partnership with SLUSH from Finland. New support initiatives are reported almost weekly as the collaboration between funds and start-ups strengthens amidst the flourishing start-up scene. Mentions of Block 71 and Block 79 have found their way even into the US through start-up publications and paraphernalia there.

The interest from investors is clear for all to see. Securing investor confidence, it is suggested, stems from the attitude and mind-set of start-ups and their founders. The start-up mentality is widely viewed as the most important consideration behind the investment decision-making process of funds and venture capitalists.

The authors have worked with these funds and observe that what investors really look out for, apart from the appeal of the product or invention of the start-up, is the mind-set of the founder. The founder has to be someone they can mentor and work with, and they are looking for humility and the ability to appreciate investor concerns.

An understanding of core investment concerns is crucial for the budding start-up. Many do not grasp that funding is not solely motivated by the popularity of the enterprise or its product. Funds have their own mandate to assess the prospects of start-ups, notwithstanding attention they may receive.

"It's a great time for start-ups and I wish we could be involved now as a start-up," remarked Royston Tay, one of the co-founders of Zopim, which was eventually bought out by the US-based Zendesk. Tay presently plies his trade in an investment fund keen to uncover the next "big thing". Asked about the types of start-ups he would collaborate with now that he is in funding, he explained that he would gravitate towards an enterprise that not only boasts aspirations but also is in tune with the funding concerns that at times prompt investors and funds to

"interfere" in the businesses in which they have placed a stake.

In general, venture capitalists and funds are adamant that if a start-up has a promising product, but its founders prove impossible to work with, they will not hesitate to drop the start-up. The journey together can be a long one and the start-up must share in the purpose of its funding partner. Investors and funds have much to offer the start-up in terms of spearheading growth through:

- Adding value to the start-up by broadening their network and expertise;
- Offering strategic business planning;
- Opening business doors; and
- Creating international footprints.

As for the fear of "interference", it should be noted that investors or funds are typically granted corporate rights under an investment agreement with the start-up, which include:

- Right to appoint a nominee director and alternate director, as well as a representative on the start-up's committees;
- Right to appoint observers to the board and committee meetings;
- Right to information;
- Veto or approval rights;
- Right of redemption of preference shares (in the event of default); and
- Right to appoint an authorised cheque signatory.

The authors speak regularly with funds looking to invest in the next disruptive medical device or application, and observe that the investor/start-up relationship can be evinced from the way both sides work together. Syphne, for example, is a start-up that has developed a portable unit to manage stroke patients from the home. The synergy between the various stakeholders in Syphne is evident in the steps taken by the start-up to allay investor concerns at every stage of the project, which in turn translates into investor confidence. This is the key to a successful co-existence.

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