



Definitions - Potential sources of financing

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Entrepreneur issues

Finance depends on factors such as the:

- › stage of development of the project,
- › size of the innovative company,
- › amount of money required

Large corporations look for bank financing

Listed companies raise extra capital by issuing of shares

SMEs have to engineer a mix of funding solutions:

At the technology development stage

- › finance it with the Public Sector or
- › acquire it (licence agreement, TT)

Start with whatever can be afforded

- › + loans, + friends & family
- › + grants & awards

€1R&D = €10 Production = 100€ Marketing

- ☒ New finance is required from individuals, banks, Venture Capital for the business development

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Definitions: Early and Later stages

Early-stages

Seed and start-up stages of a business.

Seed stage

Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.

Start-up

Financing provided to companies for product development and initial marketing. Companies may be in the process of being set up or may have been in business for a short time, but have not sold their product commercially.

Later stages

Expansion, replacement capital and **buyout** stages of investment.

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Definitions: Later stages

Expansion capital

Also called development capital. Financing provided for the growth and expansion of a company, which may or may not break even or trade profitably. Capital may be used to: finance increased production capacity; market or product development; provide additional working capital.

Replacement capital (secondary purchase)

Purchase of existing shares in a company from another private equity investment organisation or from another shareholder or shareholders.

Buyout

A transaction in which a business, business unit or company is acquired from the current shareholders (the vendor).

Management buyin (MBI)

A **buyout** in which external managers take over the company. Financing is provided to enable a manager or group of managers from outside the target company to buy into the company with the support of private equity investors.

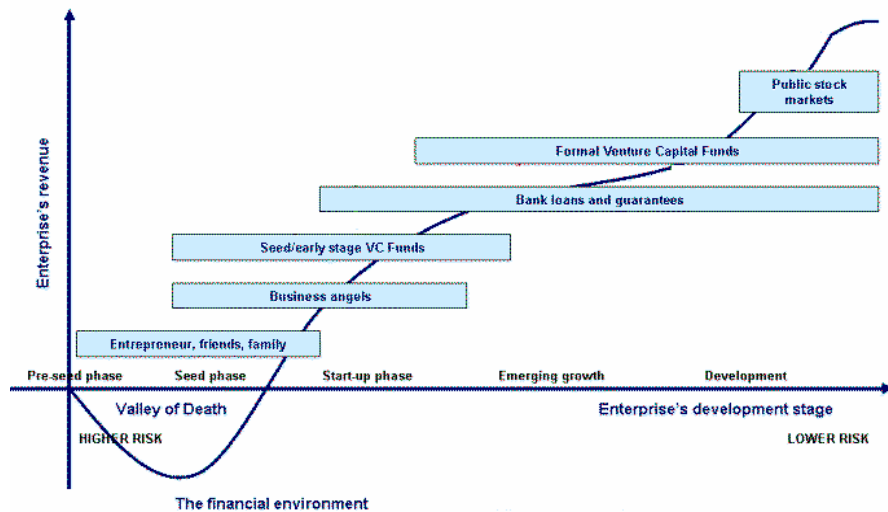
Management buyout (MBO)

A **buyout** in which the target's management team acquires an existing product line or business from the vendor with the support of private equity investors.

Development Fund

Venture capital funds focused on investing in later stage companies in need of expansion capital.

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Private equity

Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues. A succession in family-owned companies, or the buyout and buyin of a business by experienced managers may be achieved using private equity funding. Venture capital is, strictly speaking, a subset of private equity and refers to equity investments made for the launch, early development, or expansion of a business.

Internal rate of return (IRR)

In a private equity fund, the net return earned by investors from the fund's activity from inception to a stated date. The IRR is calculated as an annualised effective compounded rate of return, using monthly cash flows and annual valuations.

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Business angel

A private investor who provides both finance and business expertise to an investee company.

Venture capital

Professional equity co-invested with the entrepreneur to fund an early stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of higher than average return on the investment.

Venture capitalist

The manager of **private equity** fund who has responsibility for the management of the fund's investment in a particular **portfolio company**. In the **hands-on** approach (the general model for private equity investment), the venture capitalist brings in not only moneys as equity capital (ie without security/charge on assets), but also extremely valuable domain knowledge, business contacts, brand-equity, strategic advice, etc.

IPO (Initial Public Offering)

The sale or distribution of a company's shares to the public for the first time. An IPO of the investee company's shares is one the ways in which a private equity fund can exit from an investment.

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Characteristics	Business Angels	Venture Capitalists
Personal	Entrepreneurs	Investors
Firms funded	Small, early stage	Large, mature
Due diligence before financing	Minimal	Extensive
Investment's location	Of concern	Not important
Contracts used	Simple	Comprehensive
Monitoring after investing	Active hands-on	Strategic
Exiting the firm	Of lesser concern	Highly important
Rates of return	Of lesser concern	Highly important

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European Venture Capital Association (EVCA)

European Business Angle Network (EBAN)

European Commission, SME Portal

Community Research & Development Information Service (CORDIS)

Seventh Framework Programme (FP7)

Europe INNOVA

Gate2Growth (G2G)

TrendChart, country pages and innovation policy knowledge base

National Innovation Agencies (CDTI, Enterprise Ireland, FFG, OSEO, SenterNovem, Sviluppo Italia, UK RDAs, etc.)

National Biotech Associations

Elevator Pitch

A term comparing the time an entrepreneur has to gain the interest of a venture capitalist for his business idea with an elevator ride.

An **elevator pitch** (or **elevator speech**) is a brief overview of an idea for a product, service, or project. The pitch is so called because it can be delivered in the time span of an elevator ride (say, thirty seconds or 100-150 words).

The term is typically used in the context of an entrepreneur pitching an idea to a VC to receive funding. Venture capitalists often judge the quality of an idea and team on the basis of the quality of its elevator pitch, and will ask entrepreneurs for the elevator pitch to quickly weed out bad ideas.

5 tips:

Figure out what is unique about what you do: The whole idea behind a great elevator pitch is to intrigue someone. It's an ice-breaker and a marketing pitch — all rolled into one. Your elevator pitch must have a hook.

Make it exciting: A superior elevator pitch increases your heart rate. It speaks to who you really are and what excites you about your business. It has integrity. What is it about your business that really motivates you?

Keep it simple: A good elevator pitch doesn't try and be all things to all people. Rather, it conveys a clear idea in a short amount of time. It might be a few sentences, but no more than a paragraph or so. Keep it under 30 seconds.

Write it down: Use the guidelines above and take a stab at it. Write down your pitch, say it out loud, re-write it, and then re-write it again.

Practice, and the practice some more: The first few times you try out your elevator pitch may be a bit uncomfortable, but it gets easier. After a while, it will become second nature to you, and when it does, you will be glad you practiced.