



ASSYSTEM



## Other sources of financing

Financing Innovative BIO Projects  
9 July 2007

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# New Technology Based Firms, Entrepreneurial issues

To create a NTBF, develop a technology

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

Start with whatever can be afforded

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

Keep in mind that: 1€ R&D = 10€ Production = 100€ Marketing

⊗ **New finance will be required for business development**

New Technology-Based Firms are the major source of innovation

- › but 40% cease trading by Year 3
- › 60% by Year 10

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 (debt)

⊗ Listed companies raise extra capital by a new issue of shares (stock exchange)

⊗ You will have to seek other sources of financing

- Raising public money is a good exercise to convince investment partners – Prepare a dossier for Awards, Grants, Subsidies, reimbursable Loans mostly national and regional
- To further finance risky technology development, confront to proposal submission to EC Framework Programme opportunities (and others such as Structural Funds, European Investment Fund - guarantees, European Investment Bank - risk sharing finance facility RSFF)
- The first fund raising round will be with Friends - Family and Fools (3F):
  - A helping hand rather than serious investment
  - Close, personal long time contacts
  - Cannot be relied upon for follow up finance
  - May not have useful commercial contacts
  - Generally less than €10K

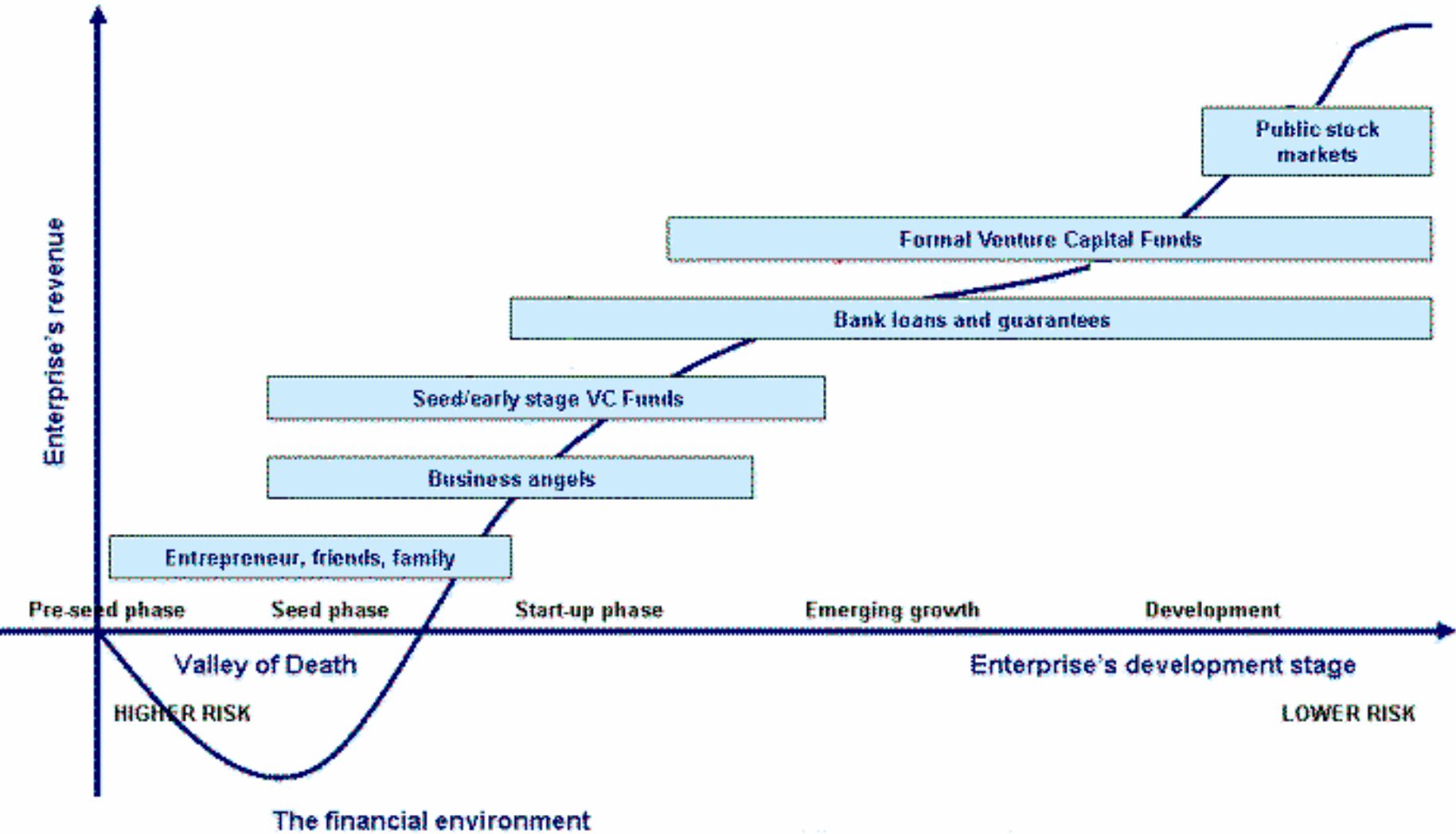
- Provide the usual banking services (telebanking, short time overdraft)

## 2 kinds: retail - investment banks

- Retail bank: Loans and loan guarantees from few K to millions of €, Investment services, Quick decisions
- Investment bank: intermediary between an issuer of securities (shares) or bonds and the investing public



# Development stages and Sources of financing - chart



## 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.

## 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.

## **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.

## 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.

# Informal investors or Business Angels

- ✓ Experienced men (entrepreneurs and / or managers), individuals of high net worth
- ✓ 75% invest between €15K & €150 and up to €250K when co-financing with others (syndicated investments)
- ✓ Make quick decisions
- ✓ Likely to provide a hands-on approach
  - ☞ Willing to share their experience and business contacts
  - ☞ Medium term oriented and not only towards financial return
  - ☞ Often invest in their region of residence
  - ☞ The sympathy for the project and its promoter is determinant

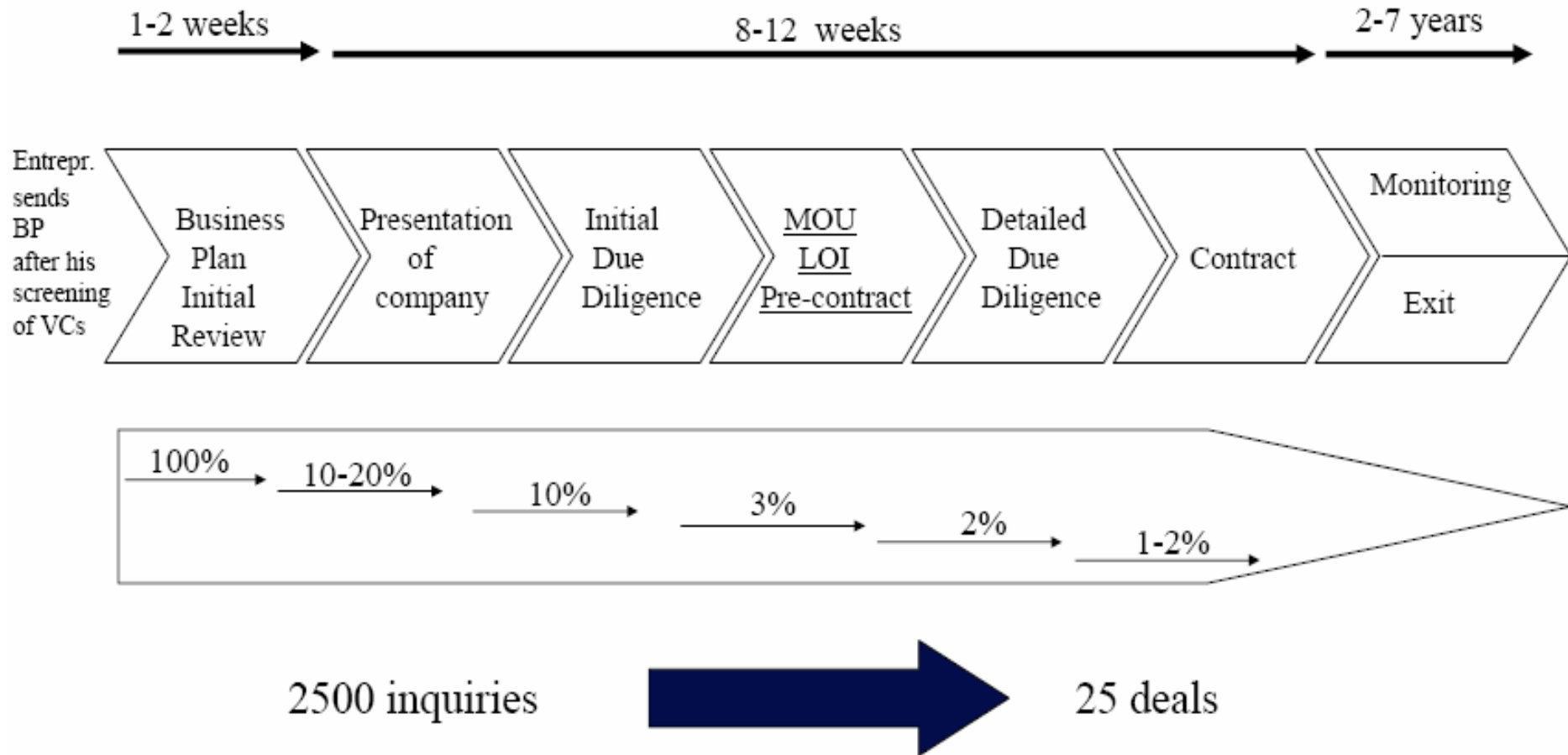


# The informal risk capital, how to attract it?

- 35 % of companies financed by VC were previously financed by a BA
- BAs create networks (regional, thematic, IT/virtual) to finance supported companies
- Use BAN services:
  - › Assistance to entrepreneurs and BAs
  - › Identification of BAs in the region (fiscal incentive)
  - › Business Plan, preparation, presentation, execution
  - › Legal, financial and fiscal advice
  - › Information and support to apply to public schemes
  - › Financial engineering (search for complementary financing)
  - › Evaluation of the amount a company can raise and of the company itself
  - › Organisation of training, BP contest, investment fora
  - › Matching service for BAs and entrepreneurs, computer link-ups
  - › Information bulletins / newsletters

- o VCs see LOTS of deals
- o They are very busy and rushed
- o They can only investigate a very few of the most attractive cases
- o They have a set of criteria to apply
  
- o Does your proposition fit the criteria?
- o What makes it stand out from competing proposals?
  
- Seek investments in firms with high-growth possibilities
- Not usually interested below €250K
- Slow decisions but very thorough
- Add value, not just financial assistance
- No outflow of cash in interest on loans or dividends to investors before exit

# The VC Process



# The VC Process continued

✓ **Preliminary screening:** Market, Technology, IP, Management, History, Business Model, Financials and projections, Funds and application

✓ **Investment committee:** Convincing the sceptics, Championing the proposition, Providing supporting material, Answering questions

✓ **Due diligence:** Market and customers, References, Technology and IPR, Management, Financial and legal, Independent reports

✓ **Reaching agreement:** Valuation, Capital structure, Incentives, Milestones and tranches, Control, Dilution, Tax position, Syndication

	Completed Investments	Failed Transaction
<b>Valuation</b>	Fair and reasonable	Unreasonable expectations with no sales
<b>Management</b>	Committed, well prepared	Other interests
<b>Business model</b>	Tested	Selling snow to Eskimos
<b>Business plan</b>	Complete but concise, Answers all questions, Believable	Waffle
<b>Technology</b>	Proven, protectable From a credible source	'me too' – lacks uniqueness
<b>Timing</b>	2 – 3 months	4 months +



# How to be selected: develop an achievable medium-term vision for the Company

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<b>DIFFERENTIATORS</b>	<ul style="list-style-type: none"><li>• Technology?</li><li>• Product?</li></ul>	<ul style="list-style-type: none"><li>• Design?</li><li>• Price?</li></ul>	<ul style="list-style-type: none"><li>• Distribution?</li><li>• Customer Service?</li></ul>
<b>VALUE PROPOSITION</b>	<ul style="list-style-type: none"><li>• Improves a process?</li></ul>	<ul style="list-style-type: none"><li>• Saves money?</li><li>• Reaches new market?</li></ul>	<ul style="list-style-type: none"><li>• Enriches existing products?</li></ul>
<b>CUSTOMERS</b>	<ul style="list-style-type: none"><li>• Who will buy product / services?</li></ul>	<ul style="list-style-type: none"><li>• How big is potential market size for your exact product?</li></ul>	<ul style="list-style-type: none"><li>• How to maintain customer demand?</li></ul>
<b>FINANCIAL PERFORMANCE</b>	<ul style="list-style-type: none"><li>• What price will customers withstand?</li></ul>	<ul style="list-style-type: none"><li>• Profitability?</li><li>• Cost control</li></ul>	<ul style="list-style-type: none"><li>• Sustainable Business Model</li><li>• Investment Funds expenditure</li></ul>

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**You do not have a business model until you start to receive sales revenue**

# BAs vs. VCs

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

**European Venture Capital Association (EVCA)**

**European Business Angle Network (EBAN)**

**European Commission, SME Portal**

**Community Research & Development Information Service (CORDIS)**

**Seventh Framework Programme (FP7)**

**European Space Agency, SME Portal,**

**Electronic Mail Invitation to Tender System (EMITS)**

**Gate2Growth (G2G)**

**TrendChart, country pages and innovation policy knowledge base**

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

# EXERCISE: elevator speech

## 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.