

European Investor Gate (EIG)
611076

FP7-ICT-2013-10
Coordination and Support Action
*11.5(b): Cross border services, investment readiness and legal advice for ICT
SMEs, start-ups and entrepreneurs*

Work Package 2
Deliverable 2.1 Communication and Dissemination Report
Responsible Partner: Go Beyond

Guidelines for Financing an ICT Start-Up [Extended Version]

For Researchers and Entrepreneurs

Introduction

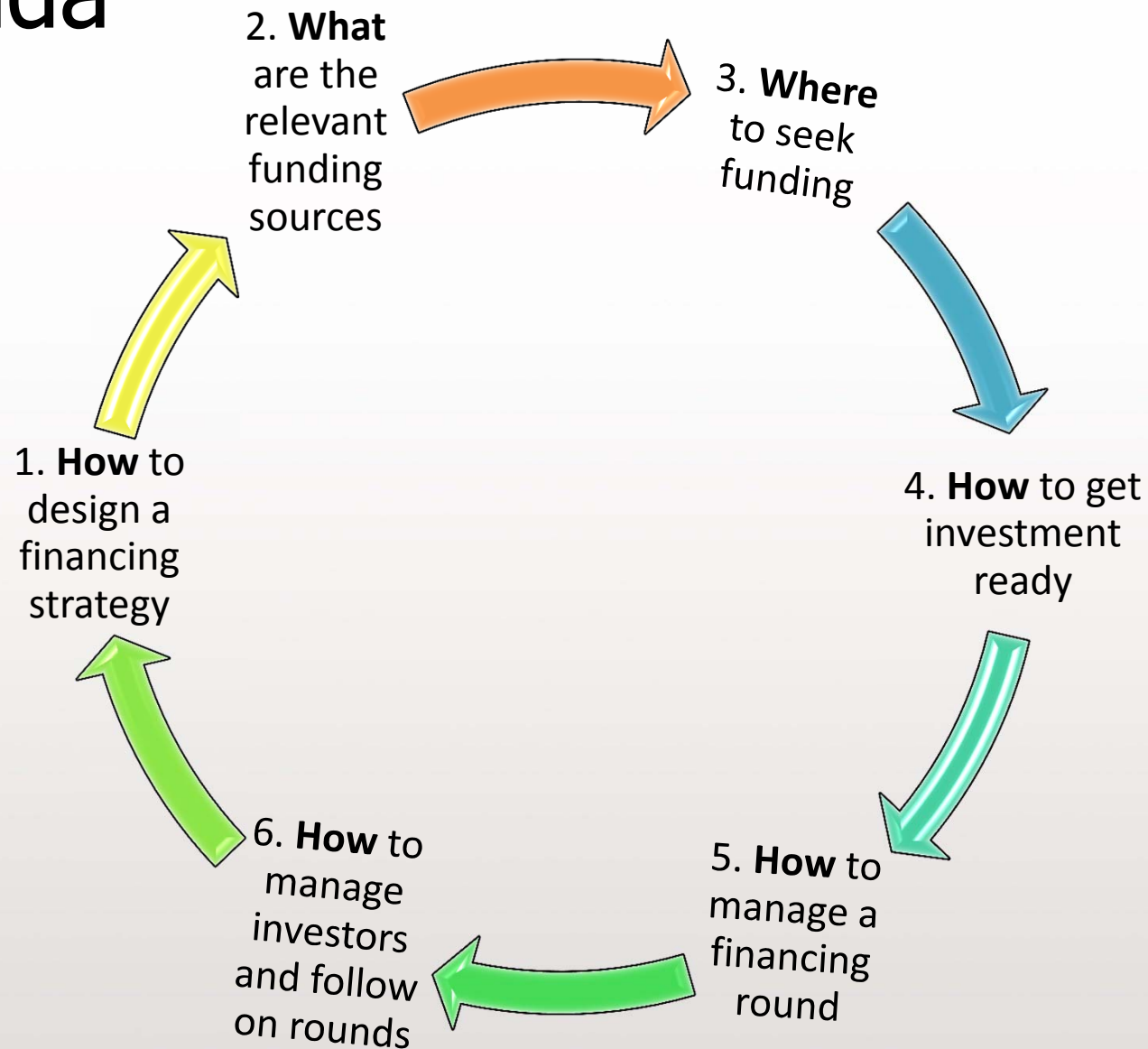
“The lack of access to relevant sources of investment or other suitable sources is a key factor preventing the growth and expansion of the ICT sector in Europe” (Access ICT, deliverable 3 11)

“Research teams/ SMEs were found by investors to be a long way from being considered “investment ready” and in need of comprehensive support to ensure understanding of investor requirements and how to position their idea towards investors” (Access ICT policy recommendation)

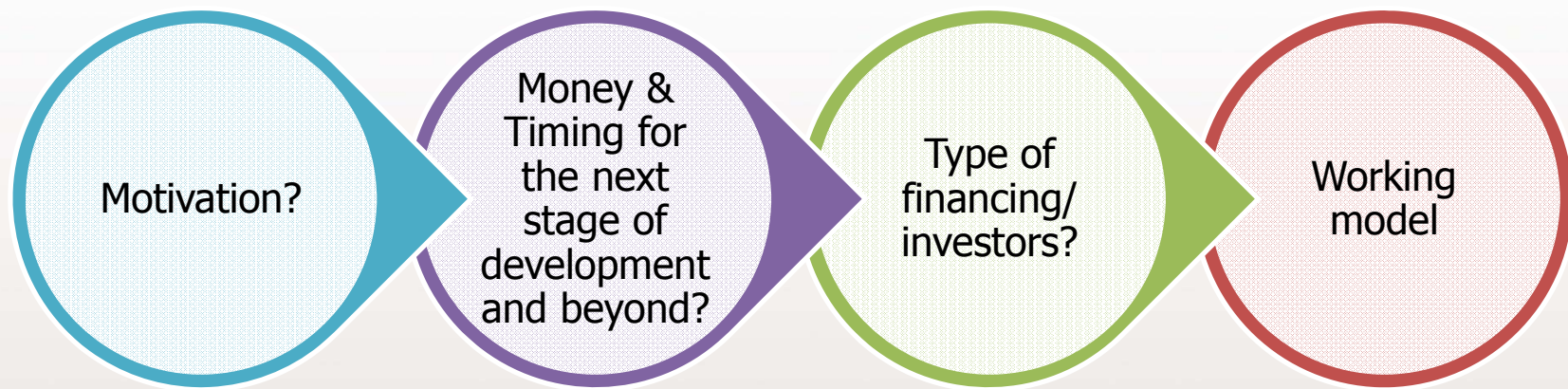
Why think about funding?

- ✓ To involve the investment community throughout the framework of R&D projects from design to commercialisation in order to increase your chances of success (*Policy recommendations for Access ICT*)
- ✓ To be prepared to raise money as it takes a LOT of time and energy
- ✓ To understand when it's the best time to commence a financing round
- ✓ To take advantage of coaching, mentoring and key contacts where/and when possible

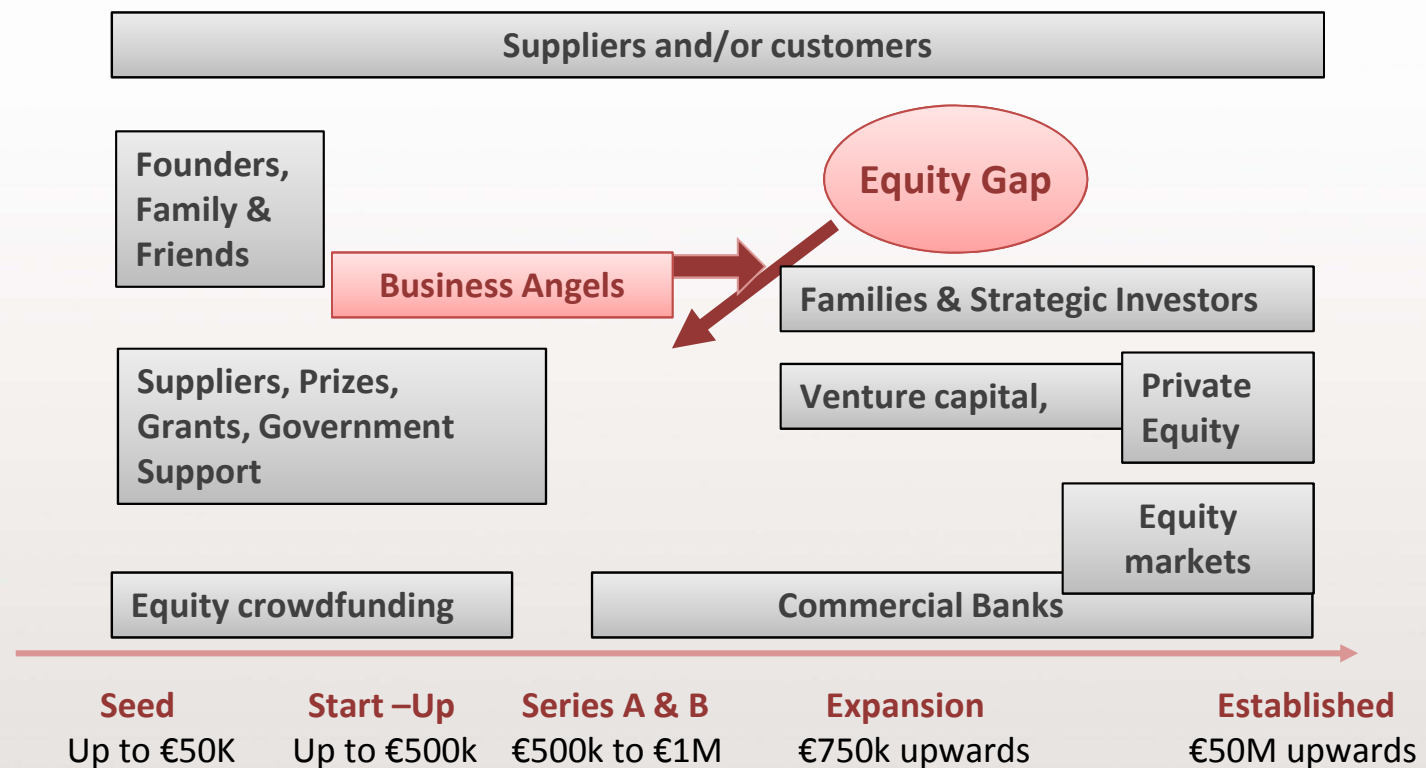
Agenda



1. Key Questions When Developing Your Financing Strategy



1. Define Your Stage of Development and Source of Funds



2. Funding Sources Available

Source	Typical capital for	Right timing	Benefits	Risks
Founders, Family & Friends (F+F's)	<ul style="list-style-type: none"> Research Prototype Process for biz model 	Seed Start-up	<ul style="list-style-type: none"> Speed Credibility: they know you Investors drive based not only on financial returns 	<ul style="list-style-type: none"> Relationships Over-priced in the market Defaults
Industrial partner: Suppliers and/or customers	<ul style="list-style-type: none"> Product, business & service development Explore new markets 	Seed Start-up Series A & B Expansion Established	<ul style="list-style-type: none"> Speed Investors with a strategic insight Force entrepreneurs to be business oriented 	<ul style="list-style-type: none"> Relationships Conflict of interest Lose freedom

** Private individuals, Ex. Entrepreneurs, retired, transition or active executives/ professionals*

2. Funding Sources Available

Source	Typical capital for	Right timing	Benefits	Risks
Bank Loans	<ul style="list-style-type: none"> Business & operational development efforts Further product development 	Series A and B Expansion	<ul style="list-style-type: none"> No equity Push entrepreneurs to make sales 	<ul style="list-style-type: none"> Credit rating Banks reluctant to lend to small & risky firms that lack collateral
Awards in Startup competitions, government grants	<ul style="list-style-type: none"> Product, business & operational development Market survey 	Seed Startup	<ul style="list-style-type: none"> No equity High visibility/ Free press Free coaching 	<ul style="list-style-type: none"> Paperwork/time consuming Entrepreneur commits to tasks that deviate from core business Bureaucracy

2. Funding Sources Available

Source	Typical capital for	Right timing	Benefits	Risks
Equity crowdfunding*	<ul style="list-style-type: none"> Product development Working capital Set process for business model 	Seed Start-up	<ul style="list-style-type: none"> Peer effect: collective intelligence Powerful marketing tool Access to a mass of investors 	<ul style="list-style-type: none"> Significant differences in valuation (generous) Lack of regulation No idea who the investors are
Business Angels**	<ul style="list-style-type: none"> Product, service & operational development Strategic alliances Marketing 	Seed Start-up Series A and B	<ul style="list-style-type: none"> Smart money Lead investor in board of directors Network 	<ul style="list-style-type: none"> Time Other sources High capital returns Exit in medium term

* Online platform allows anyone to take a small stake in an unlisted or private business

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2. Funding sources available

Source	Typical capital for	Right timing	Benefits	Risks
Strategic investors, families and funds	<ul style="list-style-type: none"> Operational & product development Hire top talent Move company into a significant position of the industry 	Series B Expansion	<ul style="list-style-type: none"> Highly entrepreneurial focus Exposure 	<ul style="list-style-type: none"> Hard to reach unless there is a personal introduction
Venture Capitals (VC's)*	<ul style="list-style-type: none"> Move company into a significant position within the industry Achieve profitability Prepare company for an exit 	Expansion	<ul style="list-style-type: none"> Shared risk Network 	<ul style="list-style-type: none"> Priority VC schedule: business strategy will suffer Pressure or delay on Time to exit Loss of control

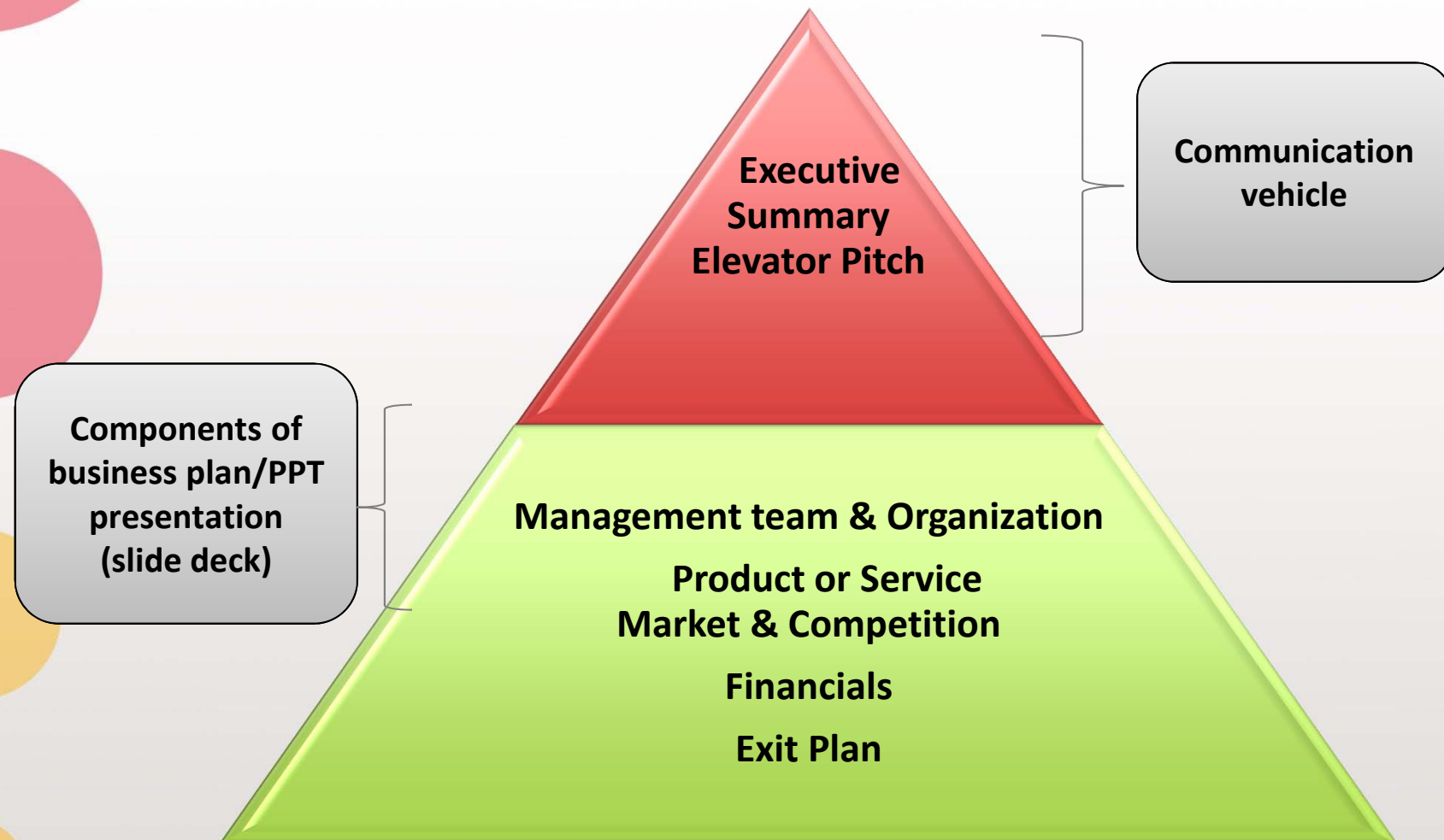
* Professional investors usually in a partnerships

3. Where to seek funds?

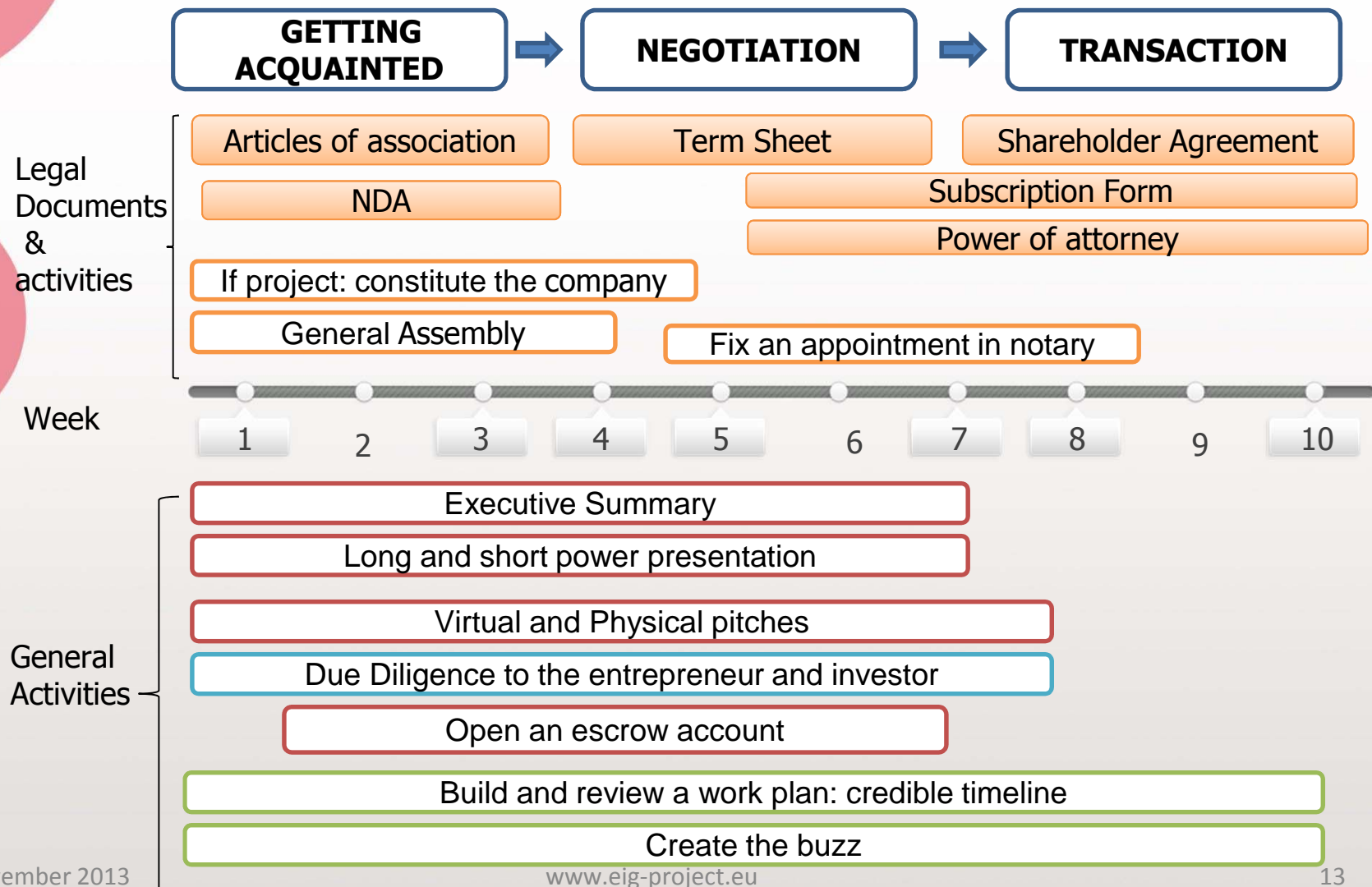
Good starting point: <http://www.ict-finance-marketplace.com>

Source	Where to seek
Business Angels Venture Capitals	<ul style="list-style-type: none"> • Investment Community/Forums and Trade Bodies e.g. EBAN; EVCA • Major network Events e.g. European Tech Tour, Tech Media • Trade Fairs e.g. ICT 2010, TERENA, Eureka, Eurostars • Business angel networks e.g. London Business Angels, Go Beyond Investing • Chamber of commerce
Start-up competitions, grants and government funds	<ul style="list-style-type: none"> • Venture competitions e.g. Venture • Conference meetings e.g. ERRIN ICT Working Group • Trade Fairs e.g. ICT 2010, TERENA, Eureka, Eurostars • Multilateral banks e.g. Inter-American Development Bank (IDB) • Government promotion agencies e.g. CTI Switzerland
Equity crowdfunding platforms focus mainly in European projects/companies	<ul style="list-style-type: none"> • Crowdcube • Seedrs • Wiseed.fr • Indiegogo (international)

4. How to get investment ready



5. How to manage a financing round



6. How to manage investors (and follow-on rounds)

Q: Do you think a closing is the ending?

A: No... it's just the beginning!

How to manage your investors?

- ✓ Address issues quickly and openly with your investors
- ✓ Investors can be great assets by serving as Board member or Advisors
- ✓ Communicate regularly with your investors through reports and/or newsletters

How to manage follow-on rounds?

- ✓ Start preparing the field for a new financing round
- ✓ Think of an exit from day one as most of the funding sources are temporary and investors will eventually want their return
- ✓ Regularly review business, financing and exit strategies to ensure they are consistent and aligned with your (and Founder's) objectives

Summary Thoughts

- ✓ Fundraising is **time consuming** and carries an emotional drain
- ✓ Treat your investors like **allies** – they are there for you
- ✓ Communicate clearly and **listen** to what the other party says – an outside opinion is a most precious gift
- ✓ Always do **due diligence on your investors**: what value can THEY bring beyond financing?
- ✓ **Create a buzz**: financing a company on a cold call is (nearly) unheard of

GO BEYOND EARLY STAGE INVESTING

Thank you
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References

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- 'Business Plans that Raise Money and Generate Success', Financing for Growth Workshop, the Saïd Business School, Oxford, 21-22nd March 2011

Appendices

1. Glossary of financing rounds

Round	Definition	Typical amount
Seed	Great ICT innovation Initial research carried	Up to €50K
Start-up	Working prototype Set process for business model No sales yet	Up to €500k
Series A&B	Product completed Generated sales	€500k to €1M
Expansion	Generating profits Developing new products	€750k upwards
Established	Established company Exploring new markets	€50M upwards

Exiting the investment

(Optional)

Why is important to focus on exits?

While screening deals, experienced investors , are also focused on how to make money via your business. Having an exit strategy in place gives investors peace of mind

How to design an exit strategy?

1. Consider who will be interested in buying the business
2. Identify key players within the industry
3. Build a good assumption chart, considering **internal** and **external** factors

Internal

- Expected Annual return for your investment
- Expected Capital need of the company
- What is the expected time to exit (5-7 years)?
- What kind of exit can be expected? Often a sale of shares to owners, VCs or the sale of the company to a larger corporation - rarely through an IPO
- Valuation
- Ownership structure

External

- Market conditions
- Global economy

5. Deal Terms Glossary

Non-disclosure Agreement	Also known as a confidentiality agreement (CA), confidential disclosure agreement (CDA), proprietary information agreement (PIA), or secrecy agreement, is a legal contract between at least two parties that outlines confidential material, knowledge, or information that the parties wish to share with one another for certain purposes, but restrict access to or by third parties (<i>Wikipedia</i>)
Articles of Association	Key part of the Company's constitution that governs its running , setting out the voting rights of shareholders, how shareholders' and board meetings will be conducted, and important provisions such as good leaver / bad leaver, drag along and tag along (<i>Toolkit</i>)
Term sheet	Is a non-binding offer to invest, although certain provisions will be legally effective. Most important legal document associated with the investment process. It sets out the terms of each document that you refer to separately in the chapter (<i>Toolkit-GBI module</i>)

5. Deal Terms Glossary

Power of Attorney	A legal document giving one person (called an "agent" or "attorney-in-fact") the power to act for another person (the principal). The agent can have broad legal authority or limited authority to make legal decisions about the principal's property and finance. <i>(Investopedia)</i>
Subscription form	Proof that an investor commits to buy the shares. If signed by the company it is also proof that they recognise the subscription. This document must summarize what you have subscribed to i.e. it recalls the resolutions of general assembly that opens the equity and details given by the launching body <i>(Toolkit-GBI module)</i>
Shareholder agreement	A legal document (legal wording and legally binding) for both parties (the investor and entrepreneur) that defines each parties' contributions, rights, obligations and limitations. It anticipates various exit scenarios (by either party). It is generally amended with new-comers, if not redone completely <i>(Toolkit-GBI module)</i>