Sources of Capital
Starting your own business

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Advanced Starter Seminar VUB

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Qbic Fund - introduction

- Seed & Venture Capital Fund
  - 5 to 6 year investment period (2012 -2017/18)
  - Followed by a 5 to 6 year horizon for follow-up investments
  - Fund size: € 41 M
- Focus on UGent, VUB, UAntwerpen, ULiège, VITO & associated institutes
  - Spin-off projects / existing spin-offs
  - Start-ups exploiting know-how or IP under existing or future licensing agreements
  - Seed & Early Stage
  - Sector Agnostic
- Fund strategy
  - Lead investor of a syndicate
  - Maximum of € 4,1 M per spin-off (including follow up)
  - Equity or semi-equity (convertible loans)
  - Maximum of 15 to 20 projects: we will end up with 17 or 18

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Qbic Fund – introduction (cont'd)

- Qbic's investors
  - Universities, government (PMV, GIMB, FPIM), institutional investors (banks and insurance companies)
- Qbic Venture Partners
  - Dedicated and seasoned management team
    - Two Managing Partners: Marc Zabeau, Martin De Prycker
    - Three Investment Partners
      - Els Hubloux – life sciences
      - Danny Gonnissen – materials sciences
      - Guy Huylebroeck - ICT
  - Strong Investment committee with Captains of Industry
    - Gerard Van Acker, Ajit Shetty, Conny Bogentoft, Frans Van Giel, Stephan Paridaen
  - Complementary mix of experience
    - Senior management experience: start-ups and multinationals
    - Investment experience in venture and corporate funds

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Solid state physics

PhD research
Ghent University

Analytical mechanics
Physics
Computer languages
Algorithmics

Professor
Bujumbura University

Focus on licensing

First discussions spin-off fund

Tech Transfer
Ghent Univers.

Licensing ADSL technology to semiconductor vendors

Strategic alliances

Develop AsiaPac market for DSL modems

Alliances & Bus Dev
Alcatel

1980 1990 2000

Fund of funds AsiaPac and Middle East

Set up VC funds in Israel and China

Corporate venturing
Alcatel

US-Israeli start-up

Anti-virus software

BusDev
Finjan

US IT security specialist

New product line for smartphone security

BusDev & Product Management
SafeNet Inc.

Innovation consulting

Investment Partner
Qbic Venture Partners

2000 2010 2020

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Sources of Capital

Venture Capitalists

Business Angels

Family & Friends

Banks

Government

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Sources of Capital: FFF, Banks

- FFF (Friends, Fools, Family): Winwinlening (up to € 200 k): see http://www.pmv.eu/nl/diensten/winwinlening
- Bootstrapping: can be done for consulting and other services
- Banks: requires substantial revenue (or collateral)…
  - Factoring = debtor financing where accounts receivable are sold at a discount or for a fee in order to meet current cash needs

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Sources of Capital: Government

- University: IOF (technical proof of concept)
- EU: a/o ERC (European Research Council) grants to prepare a spin-off
- Vlaio: http://www.vlaio.be/subsidiedatabank
  - PhD research projects: Baekeland mandate, SBO (Strategisch Basisonderzoek)
  - Valorization of PhD research: Innovatiemandaat (preparation of a spin-off or in cooperation with existing company)
  - Applied research projects: O&O Bedrijfsprojecten
  - Feasibility studies, strategic advice: KMO portefeuille
- Innoviris: http://www.innoviris.be/en/financial-aid-for-companies?set_language=en
- PMV: Innovation Mezzanine (convertible loan of up to € 500k for beneficiaries of an IWT R&D subsidy): http://www.pmv.eu/en/services/innovation-mezzanine
- Other: imec/iMinds (iStart), sector specific or thematic grants (Vlaio, Innotek, EU, …): check Subsidiedatabank

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Sources of Capital: Business Angels

- Individual business angels and family offices
  - often sector specific: relevant sector experience
  - may be small tickets
  - sometimes also bigger tickets but very selective (e.g. Rudi Mariën, Jan Vorstermans, Jurgen Ingels, Michel Delloye, Nicolas Boël, Marc Coucke, …)
- BAN Vlaanderen:
  - mainly smaller tickets
  - in association with AAA Fund
  - http://www.ban.be/

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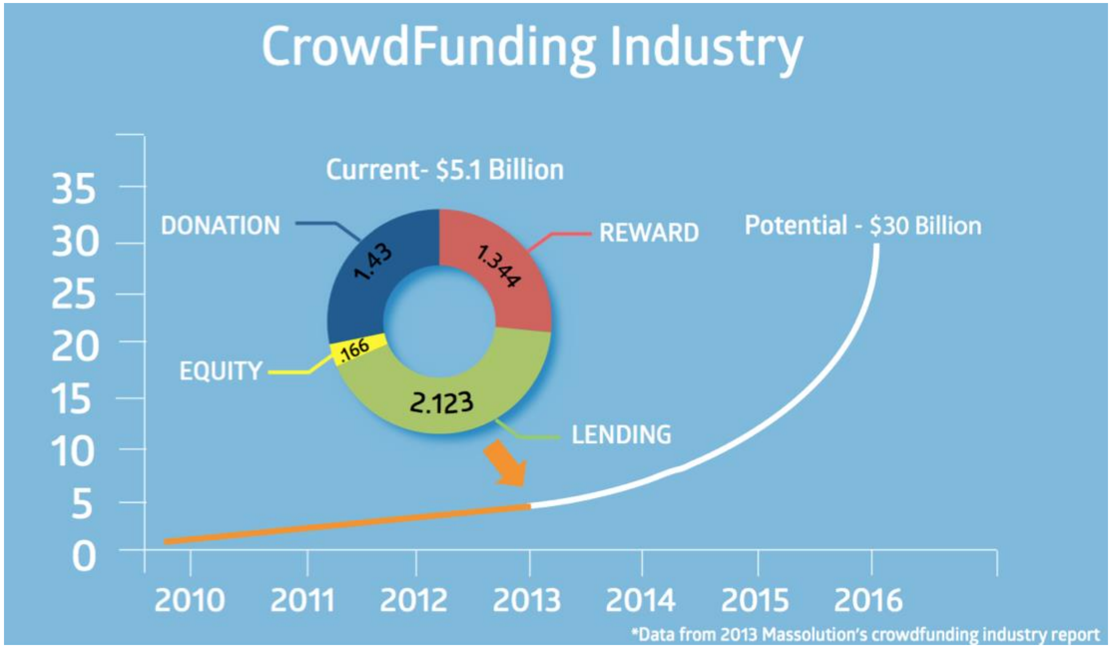
Sources of Capital: Crowdfunding

- Better suited for B2C, relatively small tickets
- Good idea for testing product-market fit
- Only money
- Only a tiny portion of crowdfunding money goes to equity investments



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Sources of Capital

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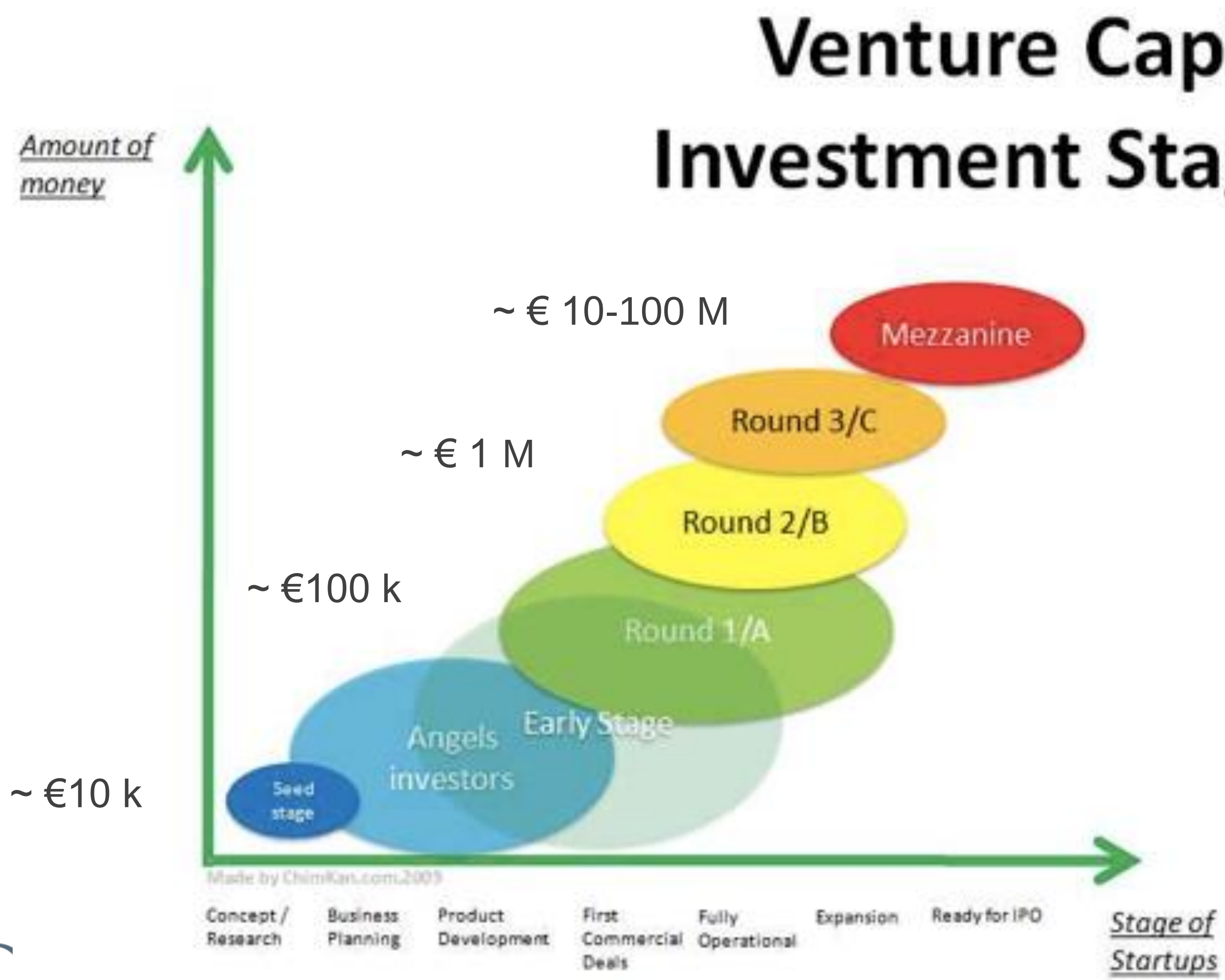

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START CHILLING THE CHAMPAGNE.
WE'VE ALMOST MADE IT.
START-UP SUMMIT
GROWTH STAGE

Where to find mon

Where to find the resources you need to become a successful company?

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What does a VC Fund offer?

- Hands-on assistance
  - No operational interference (unless in case of emergency)
  - Advice on operational issues
  - Help building the team
  - Sounding board for strategic decisions
- A strong network
  - Industrial as well as financial
    - Qbic's investment managers
    - Independent experts
- Capital
  - Equity or (convertible) loan

→look for a long-term partnership iso a cash provider

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What does a VC Fund want in return?

- A stake in the company's equity
- Insight in how the company's business evolves
  - Representation in the company's board of directors
  - A say in strategic key decisions
- An attractive exit horizon
  - Most funds are closed-end (10-12 year)
  - High investment return multiples (potential of 10x)
  - Good spectrum of potential buyers (M&A, MBO, secondary, IPO)

VC Criteria

- Primary Criteria:
  - Product/market fit
  - Team
  - Scalable business model
- Secondary Criteria:*
  - FTO (Freedom To Operate):
  - Sustainable competitive advantage
  - Technology risk
  - Value chain complexity
  - Market size
  - Exit potential
  - Pre-money expectation

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* Scoring a 0 can still mean a no-go

Product / market fit

- Term coined by Marc Andreesen (Netscape, Andreessen Horowitz)
- 2 aspects:
  - the start-up's solution should respond to a strong perceived market need (also referred to as "pain" or "problem")
  - the solution solves this problem in a (cost) effective and efficient way
- Says nothing about competitiveness or uniqueness
- Software is easier to modify than hardware: this allows to iterate in order to find the best product/market fit
- Common SW approach: start with a Minimum Viable Product (MVP = a product with just the bare minimum feature set, used to gather useful feedback from early adopters) and work with short release cycles

The primary cause of company failure is lack of market!

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Team

- At least as important as product/market fit: the team will have to convert the start-up's potential into a successful business
- Complementary skills and experience, team spirit, flexibility, resourcefulness, ability to execute
- Team does not have to be complete before an investment, but a core team should be present or identified
- VC readiness as opposed to founderitis or founder's syndrome
  - Fear of giving up ownership and control
- Technology push vs market pull
  - There is no such thing as a product that sells itself
  - Importance of product management! (= market pull)

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Team: Typical Functions

- CEO
  - only one - someone has to decide!
  - If a VC doesn’t like your CEO he will not invest…
- Engineering: technical functions
  - Software development: code writers (can be partially outsourced)
  - System architects and other (e.g. data scientists)
  - Testing and Operations
- Marketing
  - Product management (strategic): assesses market requirements by talking to customers (outside in) and defines product development prioirities
  - Marketing communication and inbound marketing - lead generation (tactical)
- Business Development
- Sales
  - Direct sales, channel sales, SaaS sales
  - Pre-sales: tenders, technical sales
  - Technical Support, Field Application Engineers: help with installation, trouble-shooting
- Support functions: HR, legal, accounting, … typically outsourced in an early stage

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Team: Typical Initial Configuration

- Minimal Viable Team:
  - CEO + Business Development + Product Management
  - Engineering / CTO
  - Sales + Marketing Communication
  - Support functions: outsourced

Scalable Business Model

- Refers to the potential of a company to grow revenue faster than cost
- Service and consulting companies are not scalable: to double revenue you have to double the number of employees
    - Note: direct sales people are not scalable neither…
- Most software start-ups are inherently scalable: the same program can be resold over and over again
    - Exception: project-based development for customers with specific requirements, or with a specific environment / architecture, e.g. for hospitals
    - Beware of the consulting pitfall – although consulting isn't always bad: it can allow you te remain in touch with your market, or be a marketing tool

Freedom To Operate (FTO)

- Refers to the absence of blocking patents
- If such patents are identified: is a work-around possible?
- If not: no go!
- Is not the same as granted patents
- Importance is sector specific, usually less important for software start-ups but very important in pharmaceutical or medical equipment

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Sustainable Competitive Advantage

- The start-up has found a good product/market fit, its approach is unique and its solution provides more customer value than the competition
- But can it maintain this competitive lead?
- This question is especially important if the start-up competes directly against established market leaders
- Possible strategies include:
  - IP protection
  - Maintain a feature advantage through continuous development investment
  - Increase market share / addressed markets
  - Many happy customers = strongest competitive advantage

Technology Risk

- We have a technical proof of concept, or a lab scale model, but can we grow the solution into a commercial product?
- Very important in process industry, chemical and materials, cleantech, …
- Usually less of an issue for software start-ups

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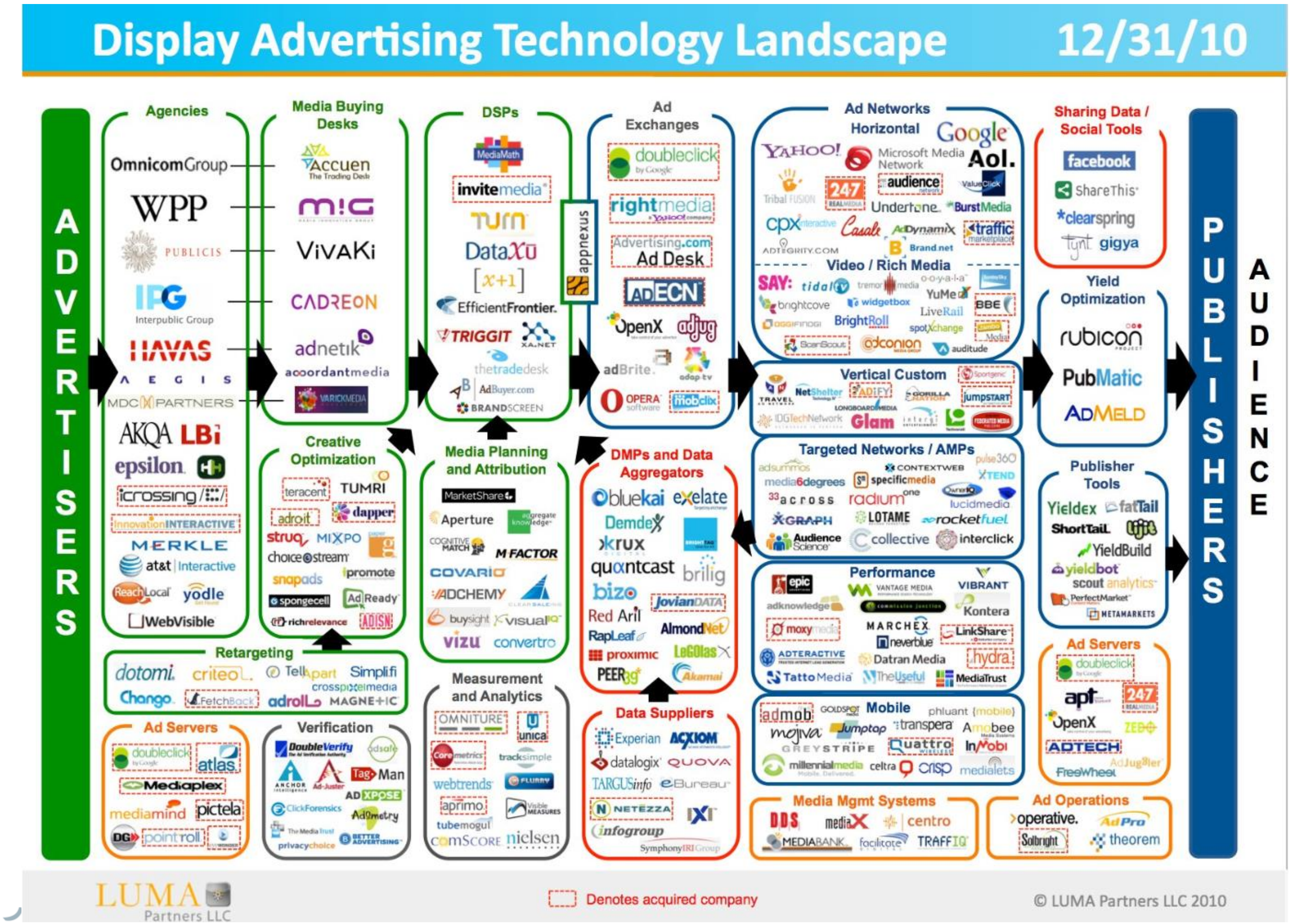
Value Chain Complexity

- Complex markets are notoriously difficult to penetrate (se e.g. next slide)
- Some markets have a “defective” value chain, where the entity who pays for a solution is not the entity that benefits from a solution, e.g.:
  - In smart metering, the grid operators have to invest in smart meters, while consumers and the electricity providers are the ones who benefit
  - Container tracking is important for shippers (the party who owns the goods that are shipped), but devices to track containers have to be paid for by the container owners

Example of a Complex Value Chain



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Market Size

- Big difference between the total market and the Total Addressable Market
  - A small TAM means a smaller exit potential and a smaller return: some investors shy away from small addressable markets
- Top-down approaches are only relevant if detailed numbers are available
- Another important metric is the market's compound annual growth rate or CAGR: the year over year growth of the market

Exit Potential

- Depends partly on previous factors:
  - product/market fit
  - good execution by the team
  - competitive advantage
  - a seizable TAM and high CAGR
- Two major exit scenarios: IPO (Initial Public Offering) or an acquisition
- At the moment of the initial investment the exact scenario or acquirer is usually not known, but potential acquirers must be identifiable (cf e.g. complex value chains)

Pre-money Expectation

- Pre-money valuation is the company value that existing and new investors agree upon before the investment is made

post-money value = pre-money value + investment

- Pre-money valuation has a direct impact on return
- Many VC deals go south because the founders have inflated expectations about the value of their company
- See VC readiness
- A typical pre-money valuation for a pre-revenue start-up in Europe is € 1M - € 2M
- Valuations in the US are typically higher, but the US market is more scalable than the EU market

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10x Potential: No-Go Criteria

- Primary Criteria:
  - Product/market fit
  - Team
- Secondary Criteria:*
  - Scalable business model
  - FTO
  - Sustainable competitive advantage (difficult to assess)
  - Technology risk (tends to be solved – in many cases)
  - Value chain complexity (attention point)
  - Market size (bigger is better)
  - Exit potential (only no-go in extreme cases)
  - Pre-money expectation (negotiable)

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* Scoring a 0 can still mean a no-go

How to make an investable proposal?

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Know Your Investor

- All investors have investment criteria:
  - ticket size

    Qbic: min. € 250k, max. € 4M (total investment)
  - stage (see next slide), including minimal revenue requirements

    Qbic: pre-seed to series B for initial investment
  - sector, e.g. big data, or IoT, or ICT, or software only, …

    Qbic: sector agnostic, but technology link with partner knowledge institution required
  - other (e.g. minimum required % after initial investment)

    Qbic: no other formal requirements
- You have to meet your investor’s criteria
  - some investors may be flexible: in case of doubt ask or just submit

VC Stages

Stage	**Amount raised**	**Use of Proceeds**	**Sources of capital**
Pre-seed	€ 50k - € 150k	technical and/or commercial Proof of Concept, business plan	angels, FFF, (semi-)public investors, university, crowd funding
Seed	€ 250k - € 1,5M	develop MVP (minimal viable product), initial sales in first target market	angels, early stage VCs
Series A	€ 1M - € 5M	International expansion	certain angels, VCs
Series B	€ 5M - € 20M	Further expansion (scale-up)	VCs

Disclaimer: these definitions may vary from sector to sector and from person to person. Check to make sure that you're on the same page.

How and When to Approach an Investor

- The average VC has a dealflow of 1.000+ proposals per year
- You usually only get 1 chance
- Make sure that you comply with the investor's criteria
- Make sure that your executive summary is clear, concise and to the point (see later)
- Check the investor's website: they all have an e-mail address to submit proposals
- Introductions may help

What Information to Provide

- Executive Summary (1 or 2-pager) or short presentation:
  - (Core) Team (education, relevant experience, responsabilities)
  - Product offering
    - Description | features
    - Product status
    - What problem does it solve?
    - Value proposition: how well does it solve this problem
  - Market
    - Target market
    - Size of the addressable market (TAM)
  - Competitive analysis
    - Major competitors
    - Differentiators: how does the venture's solution compare to competition? How and why is it better?
    - Sustainable competitive advantage: how will this competitive advantage be maintained in the future (IP protection, development lead, partnerships, …)
  - Sales and marketing plan: go-to-market
  - Fund raising: target amount, timing and use of proceeds
  - Keep the financial statements / P&L for a follow-up meeting
- Be concise and to the point: it should be a teaser!
- No NDAs!

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This Is NOT Concise

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Venture Capital – the process

- First meeting (if invited…): the company pitch (presentation)
- Follow-up meetings
- Syndication
  - Lead investor vs follower
- Evaluation of the business plan, financial plan and investment proposal by the VC(s), incl. reference checks
- Term sheet: terms & conditions to be agreed upon
  - Non-binding intention to continue the investment process - exclusivity period
- Due diligence: technical, commercial, IP, legal, financial, …
- Subscription & Shareholders Agreement (+ other contracts)
- Closing

advice: do **not** negotiate a term sheet without legal assistance

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Summary

- Take into account the 10x criteria
  - Team!!
- Know your investor
- Concise and to the point executive summary
- Concise and to the point introduction presentation
  - More detailed information sessions will follow if the VC is interested
- Be confident but not cocky when presenting: you sell your company, act as a sales person!
- Keep on trying – nobody has a crystal ball
  - But ask for constructive feedback and take feedback seriously

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Thanks !

Find us at www.qbic.be or via the TT Office