boosting breakthroughs

Advanced Starter Seminar
Venture Capital

March 1st, 2022
Agenda

- Introduction Qbic III Fund
- VC Funding
  *What is a VC investor looking for and what to expect as founder?*
    o What does a VC fund offer?
    o What does a VC fund want in return?
    o VC investment criteria
    o Valuation considerations
    o Term sheet and SSA
    o VC process
    o Practicalities (Know your investor, when to start, what to provide)
Qbic is an inter-university Venture Fund focusing on spin-offs from our Knowledge Partners.
Qbic mission: from academy to economy

Qbic aims to be the first investor into spin-offs from our partners and actively work with the teams to get the projects funding ready and funded (as a lead investor). We want to be your trusted bridge from the academic to the VC community.
Qbic has the privilege to collaborate with a strong set of partners who all partners contribute to the funnel according to their size, across sectors...

... resulting in a high quality, well diversified deal flow
Qbic’s investment focus

- **Type of companies:**
  - Spin-offs (majority of deals) and **collaborating companies** from/with our Knowledge Partners
  - Targeted allocation of at least 80% of fund size for spin-offs or companies with significant collaboration with Knowledge Partners, with a best effort commitment of 8-10x on investment per partner

- **Sector:** Sector agnostic (Biotech, Medtech, Digital, Deep Tech)

- **Stage:** Seed and early stage, can continue to invest in later rounds

- **Ticket size:**
  - POC funding: up to €200k
  - Investment: €500k – 1,500k in first round, up to 10% of the total fund

- **Investor role:** Lead investor (majority of deals) or part of syndicate
How Qbic collaborates with VUB – The Qbic process

Quarterly meetings between Qbic and UGent TTO to provide overview of dealflow

Earlier start of process upon initiative of project team or TTO

Introductory pitch to Qbic team

Investment pitch to full Qbic team

Due diligence & External fundraising

Term sheet

Advisory Board

Legal documentation & closing

3 months

6 - 9 months

6-10 years investment follow-up before exit

Qbic bootcamp

• 2 team members Qbic
• External experts
• Workshops
• POC funding available

Due diligence

• Term sheet negotiation
• Preparation of investor package for external fund raising (project team/founders, assisted by Qbic)
• Qbic lead investor

Investment pitch to full Qbic team

We build your case together

We fund the project together

We build the company together

We fund the project together
Making introductions for your project, building strong syndicates

Leverage factor: 6.1
(on €16.1M invested)
Qbic III POC funding

- 5% of the total fund is reserved for PoC funding
- Costs for market study, external expert, CEO in residence...
- For teams who are in the Qbic bootcamp
- If not yet incorporated
  - In-kind contribution upon founding of the company
- If already incorporated
  - Convertible loan instrument
- €50 – 200k to be maximally leveraged with other sources (e.g. IOF funding, PMV subordinated loan...)

qbic fund
Qbic II – some results

- Stable deal flow of almost 100 relevant projects/year
- Qbic team actively manages 20–30 projects on a continuous basis
Qbic II built a strong portfolio of early-stage companies, both in Deeptech, Software …
Creating the world’s first invisible continuous glucose sensor for diabetes patients
Developing a novel class of therapeutics based on the human microbiome
Developing micro-implants to deliver ophthalmologic drugs directly to the eye
Facilitating disease diagnosis and follow-up using nanobody-based imaging tracers
Promoting sustainable agriculture by introducing biologicals that promote the growth and health of crops
Mobile health platform providing digital rehabilitation therapy
Developed a novel transfection technology based on light and nanoparticles
Contract Development and Manufacturing Organization, manufacturing micro-implants
Building a medical data aggregation and brokerage platform linking hospitals with pharma & medtech companies
Hospitals
Qbic III is managed by a complementary team

**Sofie Baeten**  
Managing Partner  
6 years Qbic  
11 years of VC experience (Capital-E, Baekeland, GIMV)  
Prior industry experience (Mercedes, Bekaert)  
PhD in Engineering Sciences

**Steven Leuridan**  
Partner  
4 years Qbic  
Prior experience in research (KU Leuven), co-founder (Equilli) and direct investing (family office)  
PhD in Engineering Sciences

**Cédric Van Nevel**  
Partner  
3 years Qbic  
2 years of VC experience (Bekaert)  
Prior experience in management consulting (BCG) and industry (Fluxys)  
MSc in Engineering Sciences

**Sara Vandenwijngaert**  
Investment manager  
1 year Qbic  
Prior experience in research (Harvard) and industry (Medpace, enterprise funded by Verily, AstraZeneca, AHA)  
PhD in Biomedical Sciences
... backed by experienced Advisors and Venture Partners, as well as a reputable LP Committee Chairwoman

**Advisory Board Experts**

- **Ellen Crabbe**
  Partner at brantsandpatents

- **Dirk Wauters**
  Extensive international experience in telco, software, media in industry and start-ups

- **Eric Peeters**
  Industry executive with extensive international experience

- **Pierre Rion**
  Entrepreneur & investor deeply embedded in the Walloon eco-system

- **Delphine Hajaji**
  Medtech & digital health

**Venture Partners**

- **Jean Van Nuwenborg**
  Expert in biotech & life sciences

- **Wim Bijnens**
  Expert in software & IT

**Governance**

- **Sophie Manigart**
  Professor and Faculty Dean at Vlerick Business School (entrepreneurial finance, VC and PE)
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    o What does a VC fund offer?
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    o Practicalities (Know your investor, when to start, what to provide)
What does a VC fund offer?

**Pre-investment (for Qbic style VC funds)**

- Feedback on the business plan and alternative strategies
- Sounding board
- Access to network and know-how to test ideas

**Post capital raising**

- Hands-on assistance
  - No operational interference (unless in case of emergency)
  - Advice on operational issues, helps building the team
  - Sounding board for strategic decisions
  - Professionalizes governance from the start
- A strong network
  - Industrial as well as financial
- Capital (follow-up)

→ Look for a long-term partnership

Where to find money?

Where to find the resources, you need to become a successful company?
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What does a VC fund want in return?

- A stake in the company’s **equity** – strong investor syndicate for the long-term

- **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) – exit horizon of 5 to 7 yrs
  - High investment return multiples: target of 10x
  - Good spectrum of potential buyers (M&A, MBO, secondary, IPO) – trade sale opportunities
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VC Criteria

• Team
• Technology risk
• Sustainable competitive advantage
• Scalable business model / high potential
• Product/market fit
• Market size/global reach
• Entry barriers / FTO (Freedom To Operate)
• Exit potential
• Pre-money expectation
VC Criteria

Figure 63: Most important investment selection criteria

- **Management team**: 83% (VCs) - 92% (BAs)
- **Technology / product’s value proposition**: 57% (VCs) - 57% (BAs)
- ** Scalability of the business**: 51% (VCs) - 51% (BAs)
- ** Market size (actual or potential)**: 24% (VCs) - 36% (BAs)
- ** Exit potential**: 19% (VCs) - 33% (BAs)
- ** Valuation and deal terms**: 12% (VCs) - 19% (BAs)
- ** Strategic fit in investment portfolio**: 10% (VCs) - 14% (BAs)
- ** ESG considerations**: 8% (VCs) - 8% (BAs)
- ** Past performance**: 5% (VCs) - 8% (BAs)
- ** Referral by other VC/BA investors**: 4% (VCs) - 5% (BAs)
VC Criteria – Team

The team is extremely important

→ “VC Funds invest in teams, not in businesses”

• Has the team all the required complementary skills and experience to execute the companies’ plan?

• Team does not have to be complete before an investment, but a core team should be present or identified. Limitations of the existing team should be identified and willingness to improve

• Are team members flexible enough to change plans or incorporate feedback when needed?

• Can teams live with the fact that investors participate in the company as an important shareholder (“Founderitis”)?

The team will have to convert the potential into a successful business
VC Criteria – Team

- **Management team** *(CEO/CTO/COO/CSO…)*
  - Complementarity is key, VC’s will typically not invest in single person teams
  - CEO will coordinate communication with stakeholders and board
  - There must be a match between management and the VC

- **Engineering**: technical functions
  - Identify needs (search for partners or additional hires)
  - Junior/senior mix
  - Cooperation with universities can be established (independence can grow over the first 5 years)

- **Marketing / Business Development / Sales**
  - **Product management**: assesses market requirements by talking to customers (outside in) and defines product development priorities
  - Marketing communication and lead generation
  - Direct sales, channel sales, SaaS sales
  - Pre-sales: tenders, technical sales

- **Support functions**: HR, legal, accounting, … typically outsourced in an early stage
VC Criteria – Technology

- Status **product & development roadmap**
- **IP position**
  - We have a technical proof of concept, or a lab scale model, but can we grow the solution into a commercial product?
    - Process takes often between 2 and 5 years
- Examples of **challenges** include:
  - Certification (e.g. CE, FDA...)
  - Mass production (in service it means for example scaling the teams)
  - Use outside lab
  - Miniaturization
  - ...
VC Criteria – Product/market fit

- Identify your market
- 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 more (cost) effective and/or better way (“gain”)
- Is market share defendable? e.g. IP
- Software/service is easier to modify than hardware/product: this allows to iterate in order to find the best product/market fit (and will typically also impact funding need)
VC Criteria – Market size/global reach

- What’s the full potential of the product/company
- 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 and bottom-up approaches useful
- A large global market means also that team and strategy need to be adapted for a global business
- Another important metric is the market’s compound annual growth rate or CAGR: the year over year growth of the market
VC Criteria – Entry barriers / FTO

- **FTO**: Refers to the absence of barriers and blocking patents
  - If such patents are identified: is a work-around possible?
  - If not: no go!
- **Importance is sector specific**, usually less important for software start-ups but very important in pharmaceutical/medical equipment/deep tech
VC Criteria – Sustainable competitive advantage

- The start-up has found a good \textit{product/market fit}, its approach is unique, and its solution provides more customer value than the competition.
- But can it \textbf{maintain} this competitive lead?
  - This question is especially important if the start-up competes directly against established market leaders.
- Possible strategies include:
  - IP protection/trade secrets/know-how
  - Maintain a feature advantage through continuous development investment
  - Increase market share / addressed markets
  - Many happy customers = competitive advantage
  - Brand building
VC Criteria - Scalable business model / high potential

- Refers to the potential of a company to **grow revenue faster than its cost base**
- VCs invest in **scalable businesses** (typically product business)
- Not every business is scalable
  - Example: **Service** and consulting companies are not easily scalable: to double revenue you have to double the number of employees (service-like businesses)
- 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
  - Beware of the consulting pitfall – although consulting isn’t always bad: it can allow you to remain in touch with your market, or be a marketing tool
VC Criteria – Exit potential

- Agree on **willingness to sell**

- Depends partly on previous factors:
  - Product/market fit
  - Good execution by the team
  - Competitive advantage
  - A sizable TAM and high CAGR

- Major **exit scenarios**: an acquisition by an industrial player (**trade sale**) or another financial player (**LBO/add-on platform/secondary**), a Management Buy Out (**MBO**) or **IPO** (**Initial Public Offering**)

- At the moment of the initial investment the exact scenario or acquirer is usually not known, but **potential acquirers** must be identifiable

- **Need for competition** (strategic premium)

- Company strategy needs to be adapted to eventual sale
VC Criteria - Pre-money expectations

"We've invested our hearts and souls in this company. We're only asking you to invest ten million."
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Valuation considerations

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

  \[
  \text{post-money value} = \text{pre-money value} + \text{investment}
  \]

- 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.

- Valuations in the US are typically higher:
  - US market is typically more scalable than the EU market.
  - More VC funding available.
Valuation considerations – Pre-money

- Economic theory says: \[ DPV = \sum_{t=0}^{N} \frac{FV_t}{(1 + r)^t} \]
- Problem: in a pre-revenue situation there is no way to know the future free cashflows other than through MWTMU
  - You would have to risk-adjust the DCF value anyhow...
  - A 4 year business plan for a pre-revenue company still makes sense, but mainly to get a grasp on burn rate and strategy – Costs are better predictable than revenues
- This means that alternative valuation methods such as multiples are also problematic
- Comparables are not available, and would be difficult to use anyhow
- A few methods:
  - Estimate the exit potential and the required investments, and calculate a possible IRR (10x potential!)
    - In order to reach our fund’s target and compensating for failures in our portfolio, we are looking for an IRR of at least 30% for any individual investment
  - Pre-money = know-how contribution + management (incl. material financial participation of management)
  - ...
Valuation considerations – 10x potential, the fund view

- €100 M Fund size
- €80 M Invested
- €20 M Fund costs
- 12% IRR
- €26.67 M 1x return
- €26.67 M 10x return
- €293.37 M Total return

€26.67 M = €0 M (Fails)
€26.67 M = €26.67 M
€26.67 M = €266.67 M

€193.37 M Profit

+ €293.37 M Total return
Valuation considerations – 10x potential, the reality

VC exits return distribution

How value evolves over the company’s lifetime

- Typical steps an investment goes through (HW/SW)

![Diagram showing the evolution of value over the company's lifetime with stages such as Product/technology development, Product/market fit GTM Strategy, Scaling, Exit, Technology risk, Market risk, Organizational / strategy risk, Execution / strategy risk, and Team risk. There are also milestones indicated at 1-2 years and 2-4 years.](image-url)
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Term sheet and SSA

• Equity investment
  o Contribution in kind
  o In tranches with milestones
• Share classes (A,B...) and rights
  o Anti-dilution
  o First liquidation
  o Transfer of securities (Pre-emptive right; Tag along right; Drag-along right)
• IP provider warranties
  o Right of first refusal
• Team
  o Non-compete, Good Leaver/Bad leaver...
  o ESOP
• Board of Directors
  o Composition of the board
  o Board meetings & shareholder meetings – majorities
• Reporting
• Exit
• Undertakings by the company
  o Exclusivity
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  - **VC process**
    - Practicalities (Know your investor, when to start, what to provide)
VC – a long and intensive process

- Quarterly meetings between Qbic and UGent TTO to provide overview of dealflow
- Earlier start of process upon initiative of project team or TTO

1. Introductory pitch to Qbic team
2. Qbic bootcamp
   - 2 team members Qbic
   - External experts
   - Workshops
   - POC funding available
3. Due diligence & External fundraising
   - Due diligence
   - Term sheet negotiation
   - Preparation of investor package for external fund raising (project team/founders, assisted by Qbic)
   - Qbic lead investor
4. Investment pitch to full Qbic team
5. Term sheet
6. Advisory Board
7. Legal documentation & closing
8. Post investment follow-up
   - 6-10 years investment follow-up before exit

We build your case together
We fund the project together
We build the company together
VC – a long and intensive process

• First contact: the company pitch
• Evaluation of the business plan, financial plan and investment proposal
  o NDA
• Term sheet: terms & conditions to be agreed upon
  o Non-binding intention to continue – exclusivity period
  o Terms of investment:
    o Founder team
    o Investment amount
    o Valuation
    o Classes of shares and their rights
    o BoD, Shareholders meeting
    o Drag along, tag along, pre-emptive rights
    o Exit clauses
    o …
• Due diligence: technical, commercial, IP, legal, financial, …
• Syndication
  o Lead investor vs follower
• Subscription & Shareholders agreement (+ other contracts)
• Closing
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Practicalities – Know your investor

- All investors have investment criteria:
  - Ticket size
  - Stage, including minimal revenue requirements
  - Sector, e.g. big data, or IoT, or ICT, or software only, ...
  - Other (e.g. minimum required % after initial investment)

- Fit into fund timeline (e.g. long time horizon investments become more difficult as the fund nears the end of its investment period)
A quick reminder of Qbic’s criteria

• **Type of companies:**
  o Spin-offs (majority of deals) and **collaborating companies** from/with our Knowledge Partners
  o Targeted allocation of at least 80% of fund size for spin-offs or companies with significant collaboration with Knowledge Partners, with a best effort commitment of 8-10x on investment per partner

• **Sector:** Sector agnostic (Biotech, Medtech, Digital, Deep Tech)

• **Stage:** Seed and early stage, can continue to invest in later rounds

• **Ticket size:**
  o POC funding: up to € 200k
  o Investment: € 500k – 1,500k in first round, up to 10% of the total fund

• **Investor role:** Lead investor (majority of deals) or part of syndicate
Practicalities – When to start

- Start search for a lead investor
- The process takes 6 to 12 months (start well in advance taking into account your burn rate)
- The average VC has a dealflow of 200+ 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
  - Check the investor’s website: most have an e-mail address to submit proposals
- Introductions may help
Practicalities – What to provide

- Executive Summary (1 or 2-pager) or short presentation:
  - (Core) Team (education, relevant experience, responsibilities)
  - 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 & marketing plan: GTM
  - Funding needs; amount, timing and use of proceeds
  - Detailed financial statements can be provided in a follow up meeting

- Be concise and to the point: teaser!
- No NDAs
Take-home points

On Qbic
• Contact Qbic through the TTTO or contact one of the Qbic team members directly to discuss your project
• We’re happy to discuss your file early on and provide feedback on how to improve your file to be ready to start your funding journey
• We provide a structured approach to support you in further making your project funding ready with our bootcamp
• We have POC funding means available for selected projects to improve specific aspects of your file
• We’re happy to open up our network at any time

On VC
• 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
• Keep on trying – nobody has a crystal ball
  • But ask for constructive feedback and take feedback seriously
Let’s get in touch!

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