Identifying Funding
and Working with Early stage Investors

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July 2020

All the money is not the same!

The approach of an early stage investor from the DD to exit

Sources of Funds: Equity and Debt (and other)

All the money is not the same

RAISING CAPITAL

- Raising capital to launch or expand a business is a challenge.
- Many entrepreneurs are caught in the “credit crunch.”
- Financing needs in the $100,000 to $3 million may be the toughest to fill.
- Choosing the right sources (or mix) of capital is a decision that will influence a company for a lifetime.
- **Money is crucial but not enough, especially at the start up phase!**

THE “SECRETS” TO SUCCESSFUL FINANCING

1. The money is out there; the key is knowing where to look.
2. Raising money takes time and effort.
3. Creativity counts. Entrepreneurs have to be as creative in their searches for capital as they are in developing their business ideas.
4. The World Wide Web puts at entrepreneur’s fingertips vast resources of information that can lead to financing.
5. Be thoroughly prepared before approaching lenders and investors.
6. Entrepreneurs should not underestimate the importance of making sure that the “chemistry” among themselves, their companies, and their funding sources is a good one.

CHOOSING THE RIGHT SOURCES OF CAPITAL

Entrepreneurs must cast a wide net to capture the financing they need to launch their businesses:

1. Debt Capital
2. **Equity Capital**
3. Guarantees
4. Subsidies
5. **Non-financial supports**

(Tips: Layering – piecing together capital from multiple sources)

Debt capital

- Must be repaid with interest.
- Is carried as a liability on the company's balance sheet.
- Can be just as difficult to secure as equity financing, even though sources of debt financing are more numerous.
- Can be expensive, especially for small companies, because of the risk/return tradeoff.
- Personal guarantees are required

Equity Capital

- Represents *the personal investment of the owner(s)* in the business.
- Is called *risk capital* because investors assume the risk of losing their money if the business fails.
- Does not have to be repaid with interest like a loan does.
- Means that an *entrepreneur must give up some ownership* in the company to outside investors.

Other Funding Sources

- Factoring
- Awards and sponsorship
- Leasing
- Franchising
- Sale and lease-back

Guarantees

- tax relief
- mutual or joint-guarantee societies
- public guarantee schemes, often set up by national or region public authority
- guarantee or counter-guarantee schemes

Subsidies

- tax relief
- investment subsidies
- support for job creations
- innovation grants

Non-financial supports

- space in incubator
- coaching, mentoring, including a Business Angel
- consultancy services aiming at improving the management capability of the entrepreneurs (marketing, innovation, quality, human resources …)
- clustering and networking.
- investment readiness schemes
- support to fill in the paper requested to access the funding

SOURCES OF EQUITY FINANCING

- Personal savings
- Friends and family members
- **Angels**
- **Partners**
- **Corporations**
- **Venture capital companies**
- Public stock sale

SOURCES OF DEBT CAPITAL

- Commercial banks
- Asset-based lenders
- Vendor financing (trade credit)
- Equipment suppliers
- Commercial finance companies
- Saving and loan associations

Equity financing

THE RISK CAPITAL INVESTMENT

WHAT IS IT?	It is fresh capital provided by Investor to support company growth/expansion (as described into the BP). Capital invested into the company in exchange of a certain amount of new shares (capital increase) or old shares (sale of shares by existing shareholders)
WHO ARE THE INVESTORs?	Individuals (Business Angels) or Financial Company (Venture Capitalist_Priva Equity Funds) specialised in risk investments.
WHEN?	**At different stages of Company's life cycle**
WHY?	Profit (IRR) and also «collaterals»

Investment stages and actors

Early stages

Angel Investing
€20k - €200k
Business Angels

Seed – Start Up
Early Stage
€200k - €1.5 Mln
Early Stage Fund – BAN – Super Angels

Business plan

Company established but not invoicing

Expansion Stage Later Rounds
€1.5 Mln - €5 Mln
Venture Capital Fund

Late Stage Growth Capital
€5 Mln - €50 Mln
Growth Capital Mezzanine

Building up turnover

Making Profits

Startup

Challenge: The search for a repeatable and scalable business model

Scaleup

Challenge: Exponential growth and market development via strategic collaborations with established corporates

Scaler

Challenge: Sustain market leadership and growth

From SEP, Startup Europe Partnership

- **Startup:** are companies that in the last three years of activity have collected investments between 500 thousand and 1-2 million dollars or that have self-financed and have a turnover included in the same ranges

- **Scale ups** are companies that have collected (last three years) from one up to 100 million dollars of investments or have self-financed and have a turnover included in the same range

- **Scaler:** are companies that have collected (last three years) more than 100 million dollars of investments or have a similar turnover

DO NOT TALK WITH STRANGERS

Each financial partner has its own expectations and consequently requirements and evaluation criteria

“Am I looking for the right financial partner?”

THE EARLY STAGE RISK CAPITAL INVESTMENT
Financial sources for start ups

Business Angels

Seed and VC funds

THE EARLY STAGE RISK CAPITAL INVESTMENT
Financial sources for start ups

Business Angels

- **High Net Worth Individuals (HNWI)**
- **Entrapreneurs with financial means**

Angel investors often organize themselves into angel groups or angel networks to share and pool their investments

SEED AND START UPS FUNDS

- Financial Intermediaries specialized (mostly) in risk capital investing into technology start-ups
- The purpose is to earn money by investing where others can not / want to (because it is too risky)
- To avoid/reduce default, the team works closely with the start-up to
- Most funds acts locally, relying on its network, often without industrial specialization (with the exception of few funds specializes in biotech).
- They can support the target company trough further rounds of financing
- They invest up to 3-4 millions euro trough further rounds of financing
- **They DO NOT invest their own money…**

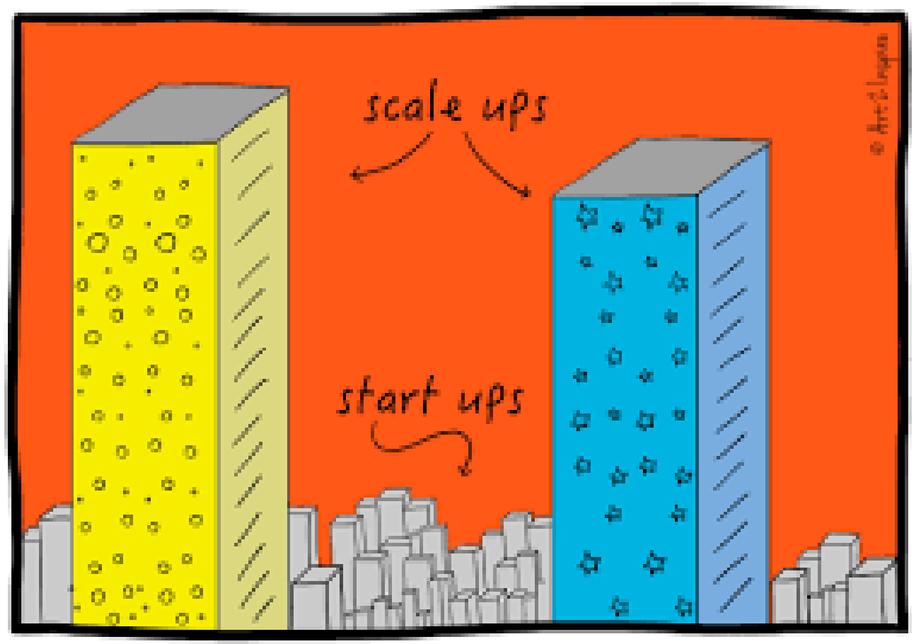
SEED AND START UP CAPITAL FUNDS EVALUATION APPROACH

- **Team (+)**
- Clear Business model
- Intellectual capital
- Growth potential (High)
- Availability of exit route
- Return on investment (capital gain)

SCALE UPS EQUITY FUNDS

Financial sources for scale ups

Equity financing that is provided by firms or funds to company who has an average annualized return of at least 20% in the past 3 years with at least 10 employees in the beginning of the period



SCALE UPS FUNDS EVALUATION APPROACH

- **Market traction:**
  1 mil+ € revenues
  1 mil+ users
  Strong growth: 100%+ Y/Y

- **Internationally scalable business:** 20%+ of revenues from international markets
- **Funding request**: Raising 3-30 mil €
- Team already located or willing to relocate partially abroad

INTERNATIONAL INVESTOR: EIC ACCELERATOR

The EIC Accelerator is a new programme of the European Commission dedicated to innovative SMEs

It offers Europe's brightest and boldest entrepreneurs the chance to step forward and request funding for breakthrough ideas with the potential to create entirely new markets or revolutionise existing ones.

How does it work? Jury members will evaluate 20-25 companies each session

Companies are invited to pitch their innovation and answer questions from a panel made of 5-6 jury members (“dragon’s den” style).

EIC ACCELERATOR EVALUATION CRITERIA

Evaluations for Phase 1

All proposals are evaluated based on three award criteria:

- **Excellence**: your project has high innovation potential and is beyond the state of the art. It has a strong added-value, it is viable and better than existing solutions.
- **Impact**: your innovation meets a pressing need on European and global markets, it will generate revenue and create jobs and has an international dimension.
- **Implementation**: your work plan is efficient and coherent with a realistic time-frame. Your team has hte technical and commercial competence to deliver.

Proposal is evaluated remotely and scored by at least four expert-evaluators.

EIC ACCELERATOR EVALUATION CRITERIA

Evaluations for Phase 2

Step 1: Proposals are evaluated remotely by four independent expert-evaluators with different profiles.

Step 2 Companies that pass the initial selection stage (step 1) , **will be invited to pitch their innovation projects in front of a panel of jury experts, consisting of private investors, business angels and other players in the innovation ecosystem.** This Step 2 complements the existing paper based assessment in order to take full account of the personal qualities and motivations of the applicant innovators. At this stage around 50% of the companies will get selected for funding.

WHAT THE (RISK CAPITAL) INVESTOR IS LOOKING FOR?

High-grow ventures which are capable (also thanks to money invested!) to increase their values in a certain (reasonable) period of time!

WHO IS THE PERFECT INVESTOR ?

- Enough money for further round of financing
- Expertise in the target company field of work
- Hands on approach

How the seed investor evaluates

The due diligence path

INVESTMENT DECISION DRIVERS

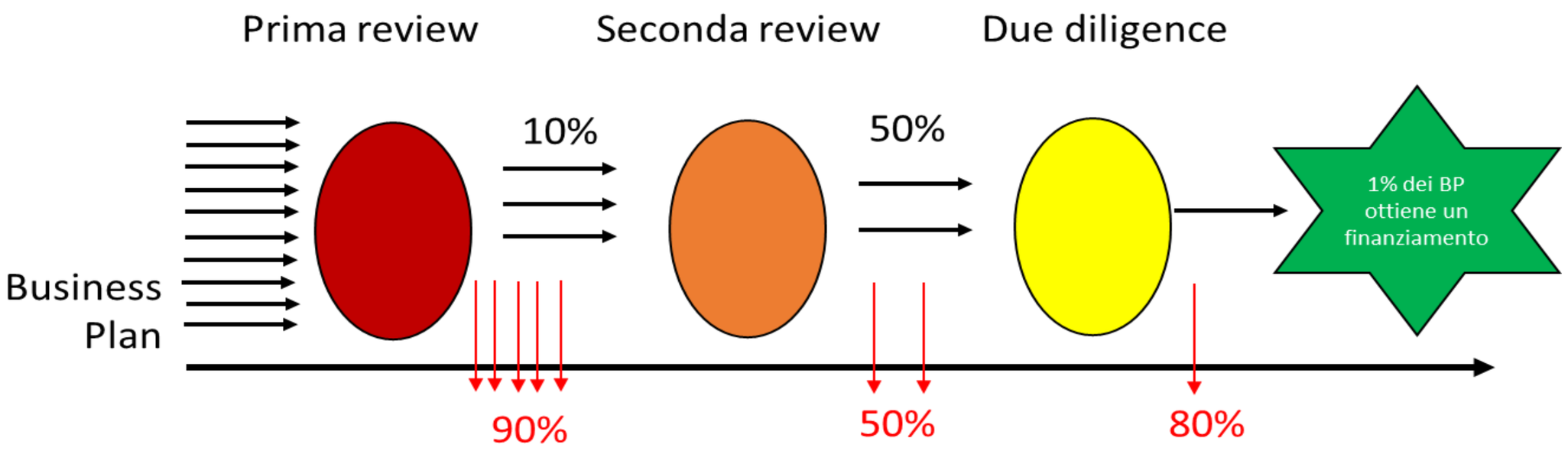
- Management team (+++)
- Product defend ability (IPR)
- Market size& growth rate
- Current and further capital needs
- Exit routes

FEW (CRUCIAL) QUESTIONS

1. Is the business opportunity as presented both highly attractive and clearly realistic?
2. Is the business defensible from competitors?
3. What is the business model?
4. What comparisons are there to past success stories that indicate this venture will succeed?
5. What is the amount of up-front capital investment required?
6. Do the market and financial projections demonstrate that the team understands its business?
7. How long will it take from the current stage of development to bring this to market?
8. Can this venture achieve a leadership position in its market?
9. Has the team gone out to the market already to test its ideas?
10. Who will be the first customer's)?
11. Is the team of sufficient breadth, balance and quality to make its ideas happen?
12. Will the ego of the founders) get in the way of success?
13. Is the team focused on its target market?
14. What is the expected time and amount of pay-off to investors?
15. Is the plan clear and well-written?
16. Does the team have the necessary communications skills to present a compelling story?
17. What roles will the team members play in the venture?
18. Are the team members dedicated to the venture and their roles in the group?
19. Does the team have a clear plan for spending the investment money it receives?
20. Why is this business going to be around and a real world winner in 5 years?

Technology is not an isssue!

IT IS NOT SO EASY TO ACCESS TO RISK CAPITAL MONEY..



Activities

Rejection of not promising deal and not eligible deal (size sector..)

Verification of critical information and the main assumptions / assumptions made in the business plan (interview /visit)

Discussions with key personnel, customers, suppliers and creditors
Using external consultants such as lawyers and auditors

THE CLOSING PHASE: THE NEGOTIATION

INVESTOR NEEDS/REQUIREMENTS

1. High IRR
2. To reduce failure risk

Common goals

- **Create value**
- **Further round of financing at higher value**
- **Profitable exit**

ENTREPRENEUR NEEDS/REQUIREMENTS

1. High company valuation
2. Not to loose control

INVEST TO EXIT

The fund manager must maximize the return from the sale of shares of portfolio companies: with no **profitable exits**, he won’t be able to raise additional money for the next funds!

INVEST TO EXIT

To invest into successful companies it is mandatory to:

- Select the target carefully
- Fix clear rules of the game
- The Lucky factor!!!

ENGAGEMENT RULES (FOR LIVING HAPPY TOGETHER)

Management involvement

- Financial involvement to the round of financing

Way-out

- Exit modalities identification
- Milestones identification

Governance

- Drag and tag along clause
- Lock in
- Anti dilution clauses and liquidation preference
- Board of directors and statutory auditors member
- Special decision right for extraordinary situations

TIPs

(before meeting an investor)

KEY ELEMENTS INVESTORS LOOK AT

- You need to be an **entrepreneur**
- You need to have a **business** not an **Invention or a research project**
- You need to have a **core team**
- You need to have a clear view of **financial resources needed**

Make money is not the only motivation
but is how the shareholders
measure success

ISSUES OF CONCERN FOR A RISK CAPITAL INVESTOR

- Want their money back (at a certain time)
- Want more (much more) than they put
- Want to know when
- Want to measure the opportunity/risk

HOMEWORK TO BE DONE (BEFORE THE MEETING WITH THE VC)

get prepared get prepared get prepared

- Write a clear and comprehensive business plan
- To prepare an appealing executive summary can attract who receives 10,000 per year business plan
- Get ready for an elevator pitch: think you are in a lift with a VC and you have 4 floors to explain what you want to do
- Do not talk with strangers: choose the right (potential) investor Seed, first stage? Specialized or non-specialist? Intrusive or financial?

TYPICAL REASONS FOR NOT TO INVEST

1. **Business plan nor realist and entrepreneurial team not trustable**:
    1. Market size
    2. IPR
2. **IRR not appealing for the investors**
    1. Big initial investment
    2. Poor cash flow
    3. No way out
3. **<u>Scarce willgness t</u>o accept Risk capital investors rules**
4. **Non investor-ready**

"I call my invention 'The Wheel,' but so far I've been unable to attract any venture capital."

What Investors are looking for..

A.A.A. Entrapreneurs who want to change the world!!

Who are they?

Microsoft Corporation, 1978

GREENBONE

Greenbone Horto is a company based in Faenza, which wants to become a worldwide leader for biomimetics by providing innovative and easy to use lifelike inspired solutions that will help cure severe diseases. **GreenBone** develops a highly innovative wood-derived bone implants technology, to generate biomimetic – reabsorbable– load bearing implant suitable to address non-union fractures, a severe high morbidity condition

The Company got first round of financing from business angels, Industrial partners and MV for a first round of financing of 3 Meuro

Location: Faenza
Industry: Biotech
Investment Stage: Seed
Investment date: 2015
MV investment: 2Mln €
Status: unrealized

B-SHIVER

SNO Yachts is a company operating in the marine industry offering all kind of services for yachts ranging from 12 to 70 meters. Through the company B-Shiver, where the Ingenium Fund invested in 2012 to sustain the expansion stage, the group is producing and selling luxury yachts industry, under the brand Novamarine and Black-Shiver.
Thanks to Ingenium investment, the company has been able to reach high worth customers mainly in the Arabic Peninsula and to expand his producing facilities in Sardinia.

Location: Olbia
Industry: Manufacturing
Investment Stage: Expansion
Investment date: 2012
MV investment: 3 Mln €
Status: sold

Grazie per l’attenzione

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META GROUP