

Welcome to SME Growth- Webinar 2 Finance for Growth

We will begin at 10 am (BST) 11am (CEST)
12pm (EEST)



This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 780460

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SME Growth- Webinar 2

Finance for Growth

MERLIN ICT Programme

David Gill

17th September 2019



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Intro to David

David Gill, Managing Director, St John's Innovation Centre

Previously ran and set up the Innovation & Technology Unit at HSBC bank and an expert in access to finance. David is also a co-author of a number of publications on innovation and a non-executive director of a crowdfunding business, SyndicateRoom Ltd.



About MERLIN project

MERLIN project aims to stimulate the interest in the **creation of startups, spin-offs, patents and licensing agreements** among ICT researchers, providing them with the **business skills** that would help them to commercialize their research findings and successfully introduce them to the market, and introducing them to their **local and European entrepreneurial ecosystems**



Organization of more than **40 practical thematic workshops** in several European cities, including Cambridge, Madrid, Poznan, Vilnius, Berlin, Warsaw, Bucharest, Tallinn



Participation in **5 international conferences**, organizing workshops and forums



Preparation of **4 webinars** on SME growth and PPP business models



Organization of **8 meetups** with potential customers, commercial partners, and investors

<https://merlin-ict.eu>

MERLIN partners

3 Incubators

Universidad Politécnica de Cartagena
St John's Innovation Centre
Poznan Science and Technology Park

2 Consultancy Companies

BluSpecs
CIVITTA

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Learning objectives



Understand the advantages and disadvantages of different types of funding



Understand the appropriate sources of finance for your growth plans

Webinar Guidelines

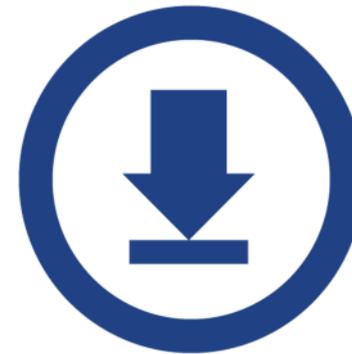
○ How to ask a question



○ Will be recorded



○ Access to slides



Agenda

Understanding the finance landscape

Funding options for early stage businesses

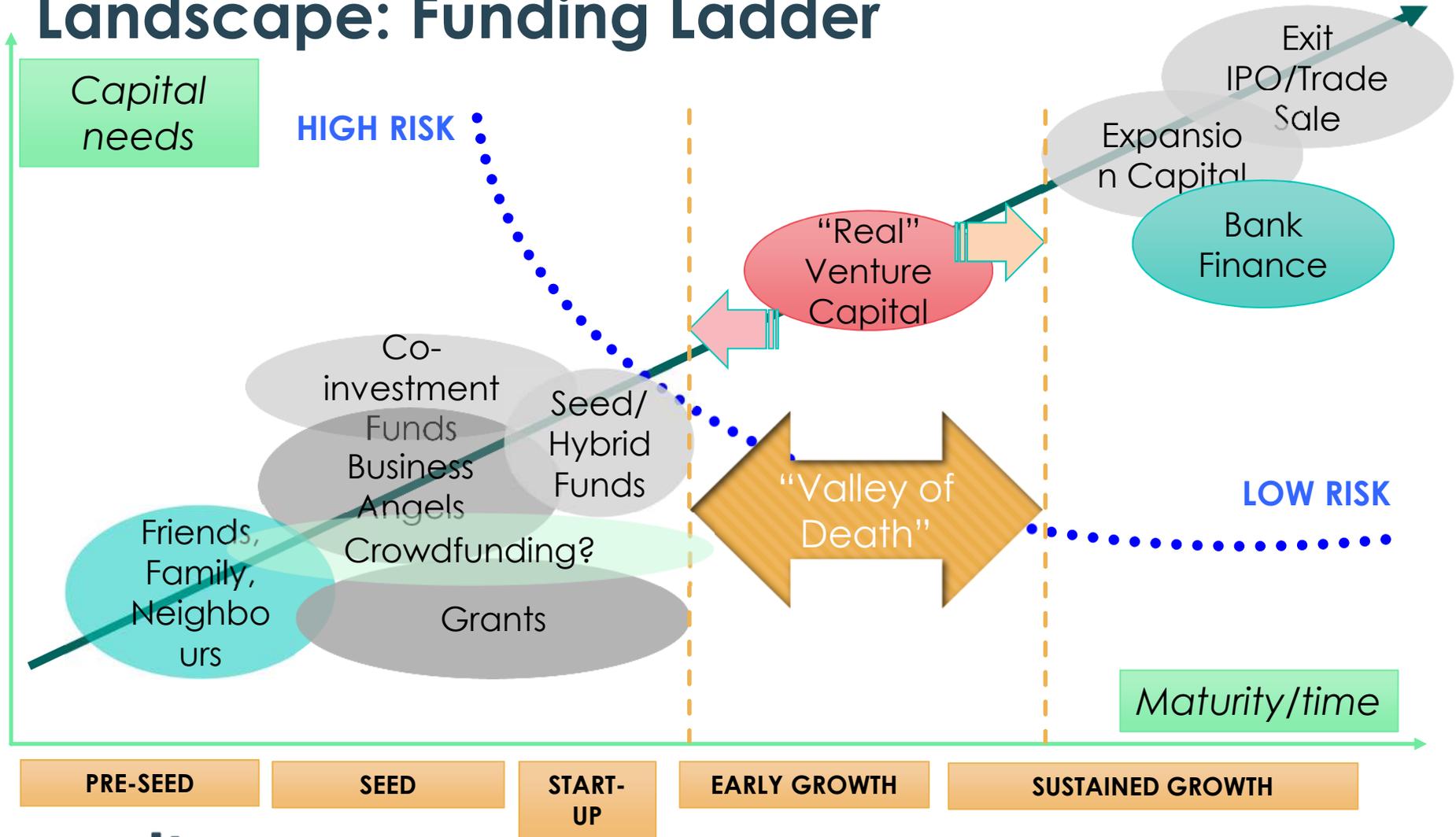
Align Business models for growth with finance options

Equity and debt

What are investors looking for?

Q and A

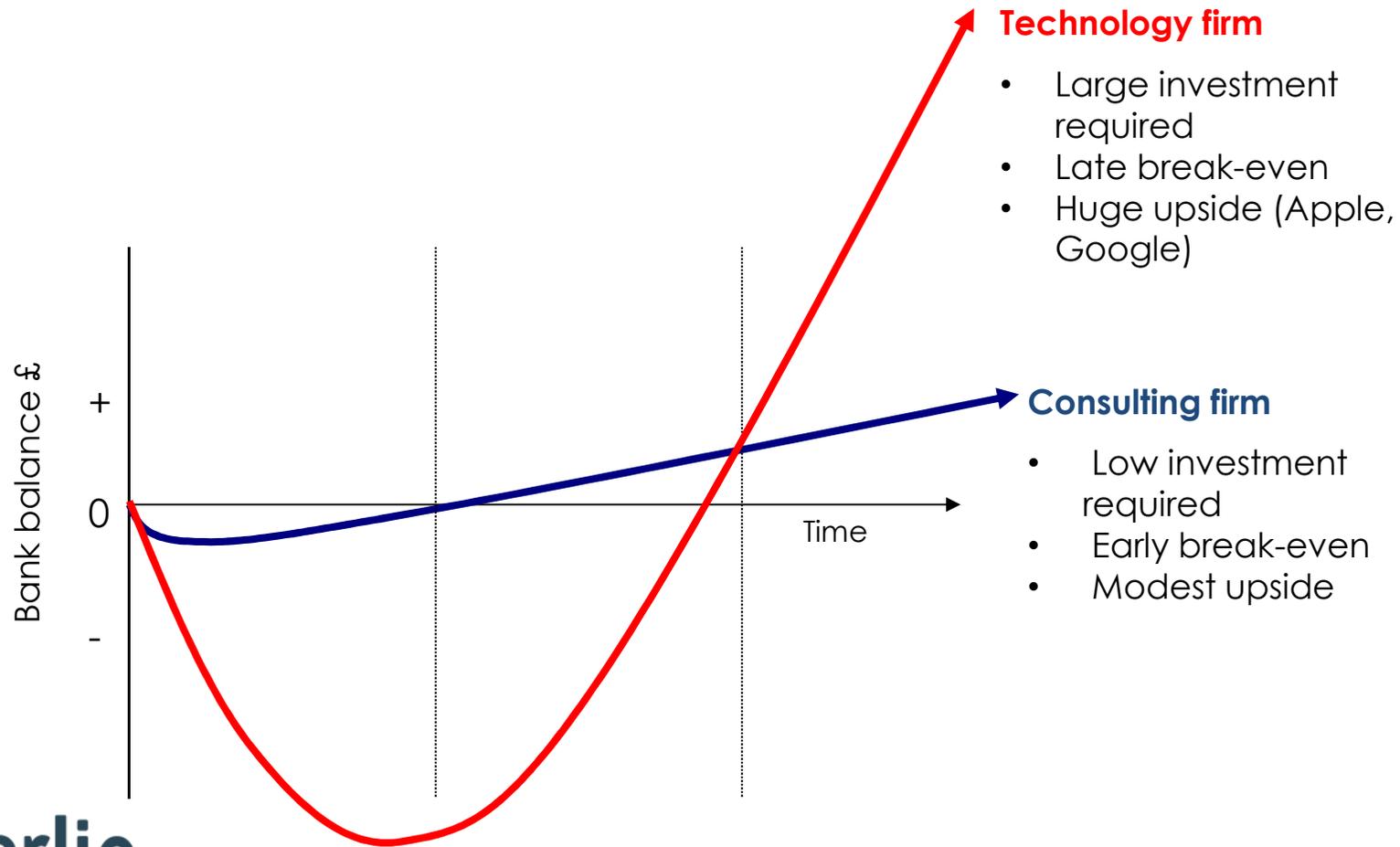
Landscape: Funding Ladder



The Most Important Source of Funding

customers klientai
 clienti
 顧客
 العميل زبون cwsmeriaid
 clientes
 عميل زبون
 müşteri
 parokyano ग्राहक zázazník
 kunde
 klient קוינע 客戶 klienci
 klanten client

Different Firms, Different Profiles...



Financing- The Essentials

- You won't get money just because you need it
- You must be "funding-ready"
- Your finances (or financial projections) must look good
- Right source at the right time with the right story



Business Angels & VC Funds



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Two Very Different Sources of Equity Finance

Business Angels

Individuals or syndicates with flexibility to support any sector/location



Venture Capital funds

Often acting on behalf of institutions, looking for close/at market technologies which will deliver big exits in short time frames

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Definition of a Business Angel

“An **individual**, acting alone or in a formal or informal syndicate, who **invests his or her own money directly** in an unquoted business in which there is **no family connection** and who, after making the investment, takes an **active involvement in the business**, for example, as an advisor or member of the board of directors.”

Prof Colin Mason and Prof Richard Harrison, 2007

Angels currently invest >3x more in early-stage than VCs

Due Diligence: What Angels Look For

- Team, Product, Market, Sector, Profits, Exit...
- Investors back **people** with a range of abilities; fill gaps
- **Exceptional** growth prospects. Sector, timing
- Protection – not just IP! **Know-how**, first-mover gains
- Stage: more than just an idea; **prove yourself first**
- Explain **business model**: where you fit, how you make **€000**
- Investment readiness of the business ... and the people
- Valuation now and at exit
- What happens when you need more money??

Where Angels & VC Funds Are Different

- Angels manage their own money (syndicates possible)
- VCs are hired hands, often acting for institutions
- Angels can choose any sector, location...
- VCs have constitution and investment committee
- Angels can choose anything attractive/interesting
- VCs bonus driven, need big exits/short time frames

Angel Tax Breaks

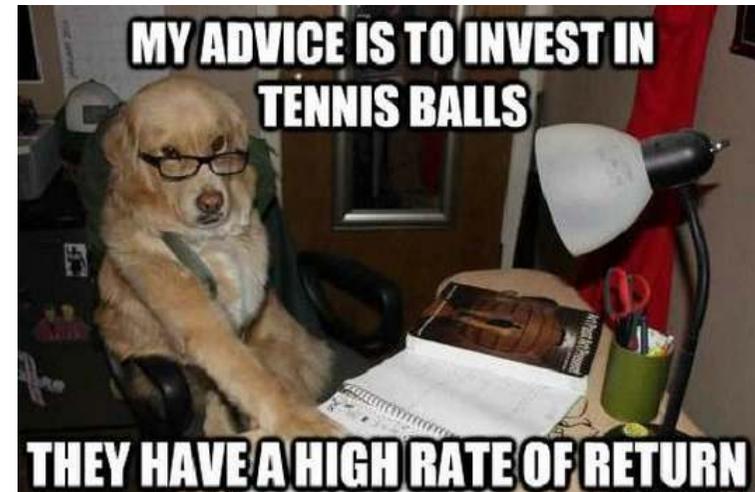
- Numerous international examples
 - Many US states, Ireland, France
- Set investment against income tax liability and/or provide capital gains incentives
- Theory: trade off uncertainty for tax benefit
- UK experience:
 - Angels = 3x venture funding at early stage
 - 82% of angels used tax schemes
 - 57% of investments made under tax schemes

Corporate Investment

- **Many large corporations have investment funds**
 - Act like VCs; ring-fenced activity, strong sector focus
 - Conflicts of interest? Find at least 2?
 - Will have a clear process and 'rules'
- **Some SMEs may act like private investors**
 - Directors/shareholders interested in opportunities they understand and that have synergy with their business

Finding corporate funds is easy, finding strategic interest takes initiative

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Valuation

The valuation of your business is critical: a high 1st round price may limit your ability to attract future investors

BUT ENTREPRENEURS SAY:

“I don't want to give up more than 50%”

“I want to give away as little as possible”

With equity, you are not GIVING anything.

You are SELLING, and you must negotiate the right price



Valuing Technology Firms...

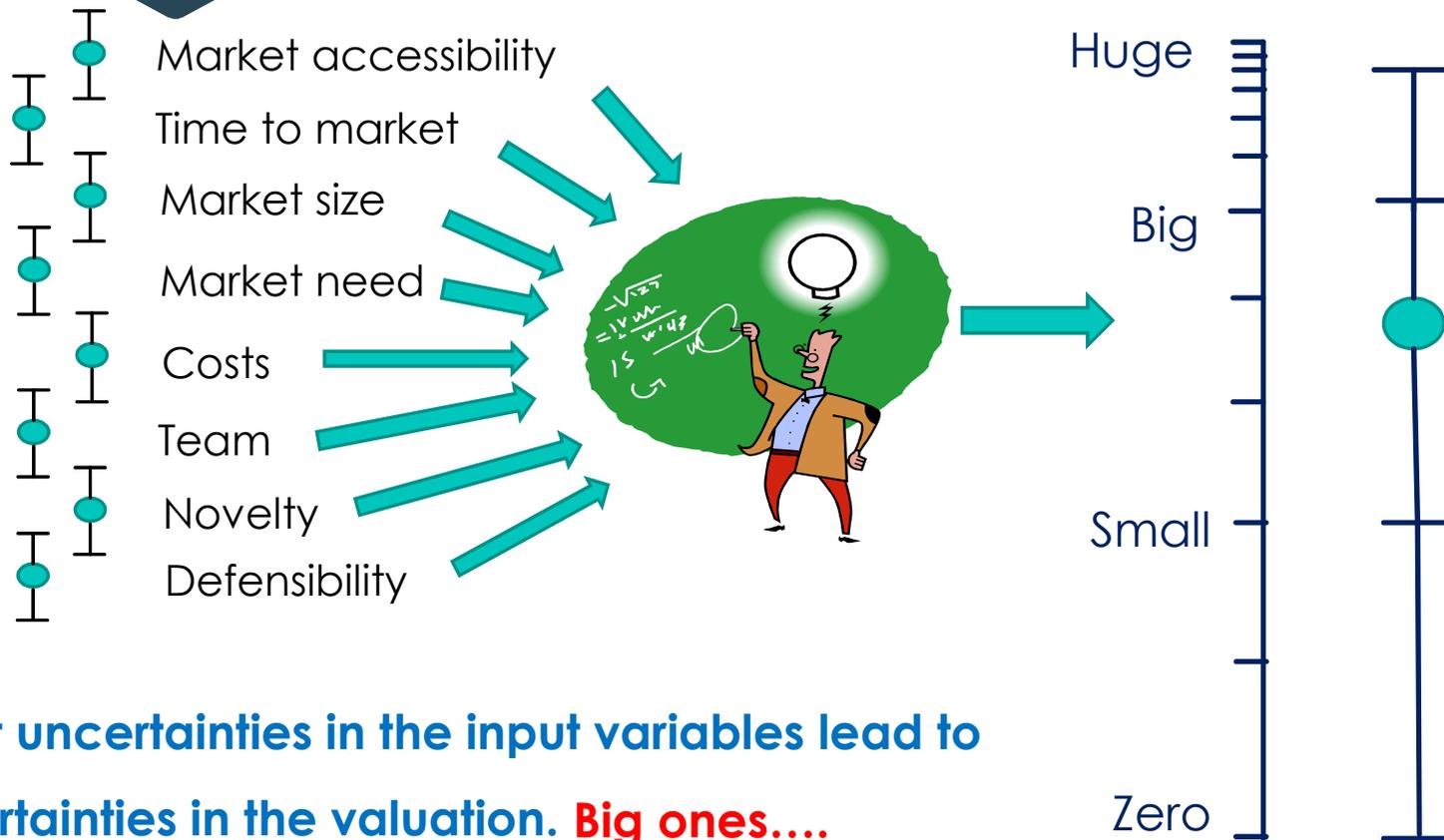
“Valuing technology projects is more of an art than a science.”

“Most approaches are based on tools used to value more tangible assets.”

“Managers often complain that standard tools such as Discounted Cash Flow and Net Present Value are not suited to the uncertainties of technology management.”

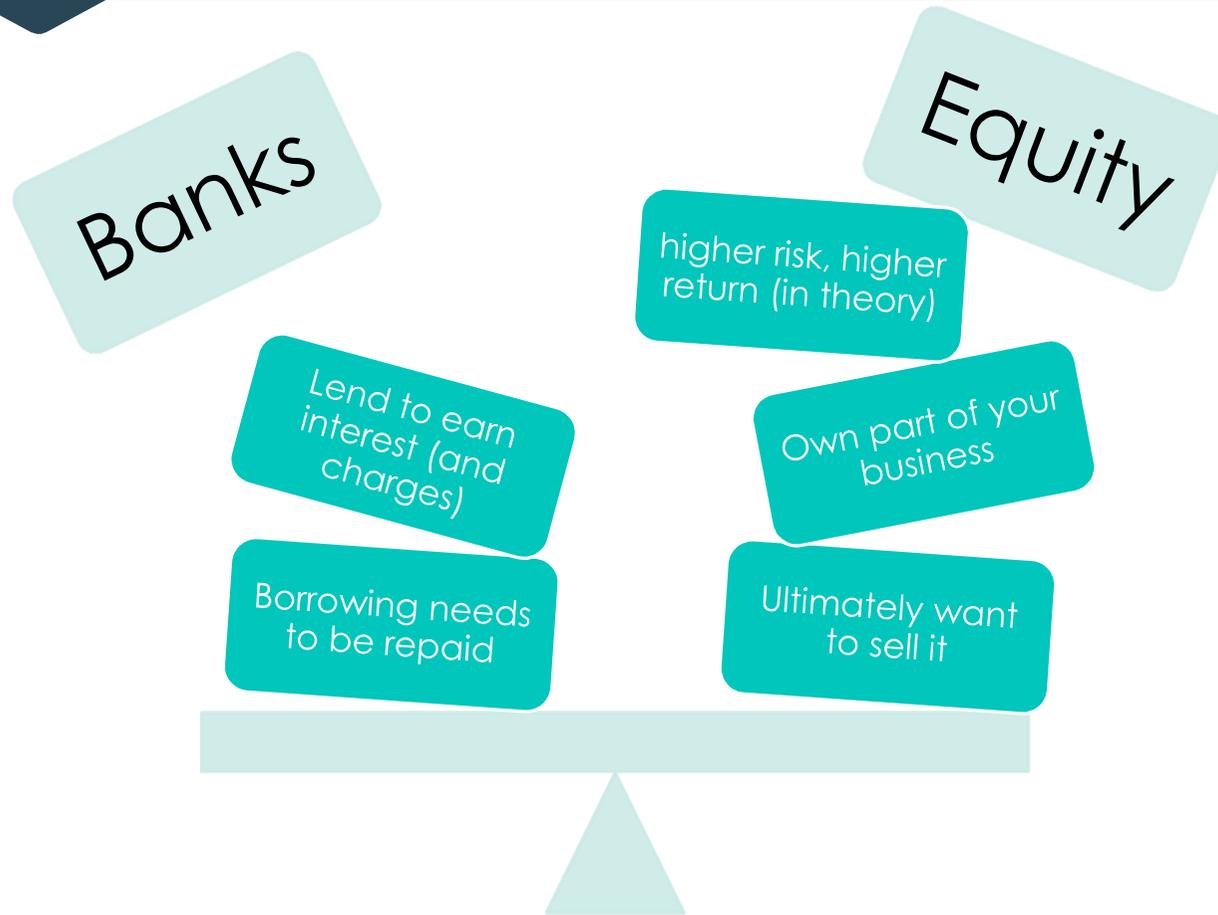
*“Valuing and Selecting Technology Projects”
Institute for Manufacturing, University of Cambridge*

In theory you can calculate a technology's value...



...but uncertainties in the input variables lead to uncertainties in the valuation. **Big ones....**

3. Banks vs Equity Investors



Equity Investors (money for shares)

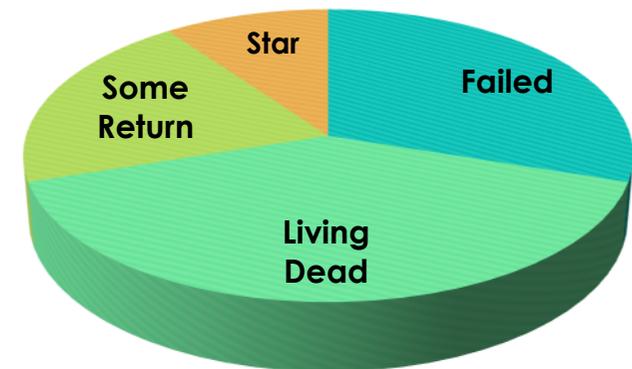
High risk investors

High returns required: 5-10x money invested, *because:*

Of 10 investments:

- 3 will fail
- 4 will be walking wounded
- Of the other 3, only 1 or 2 will star

Venture Portfolio Returns



Business Plans for Equity Providers

- An outstanding 2-3 page executive summary
- The market opportunity
- Product/technology and competitive analysis
- The business model
- The management team
- Keep it short; use appendices for bigger items

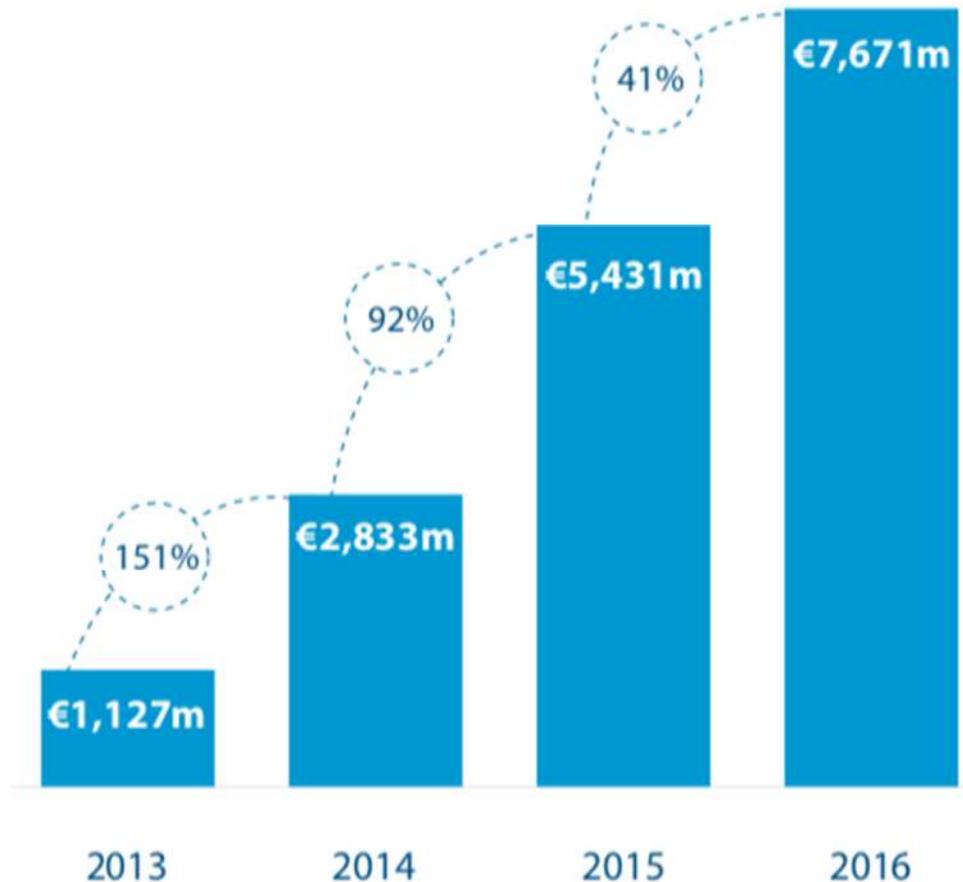
The Executive Summary

- A critical 'hook' for funders
- ≤2 page overview that excites interest
- Help readers to understand your proposal
- Get an independent view (honest friends)
- Don't approach investors until it is right

Think of it as your “elevator pitch”

Rise of the Crowd

Figure 2: European Online Alternative Finance Market Volumes 2013-2016 in € (Including the UK)



EXPANDING HORIZONS

THE 3rd EUROPEAN ALTERNATIVE FINANCE
INDUSTRY REPORT

Tania Ziegler
Rotem Shneur
Kieran Garvey
Karsten Wenzlaff
Nikos Yerolemou
Rui Hao
Bryan Zhang

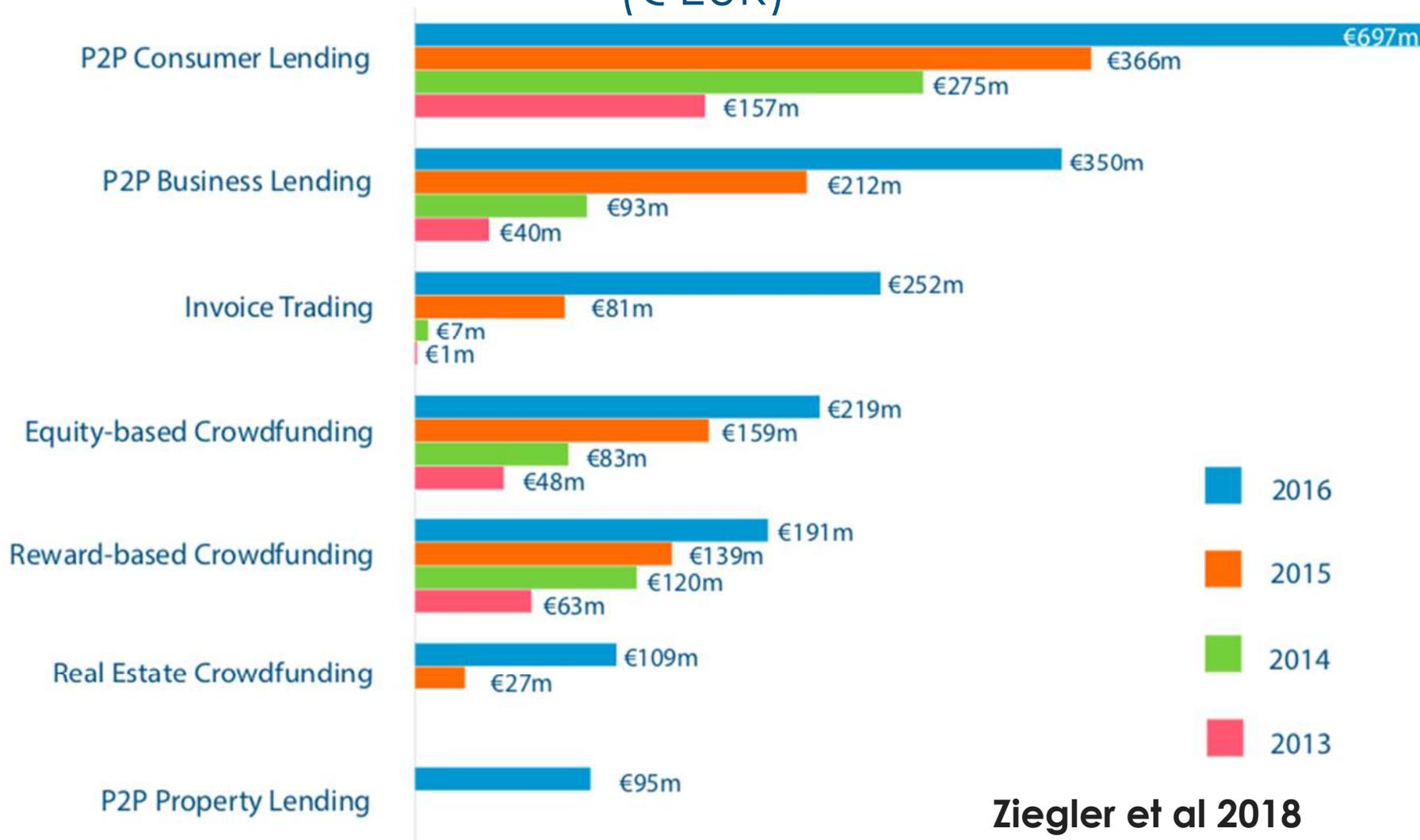
Cambridge
Centre
for Alternative
Finance

UNIVERSITY OF
CAMBRIDGE
Judge Business School

With the support of:



Alternative Finance Volume by Model in Europe 2013-2016 (€ EUR)



Ziegler et al 2018

4. Managing the money

IN TERMS OF MONEY

WE HAVE NO MONEY.

SPEND

SAVE

MONEY

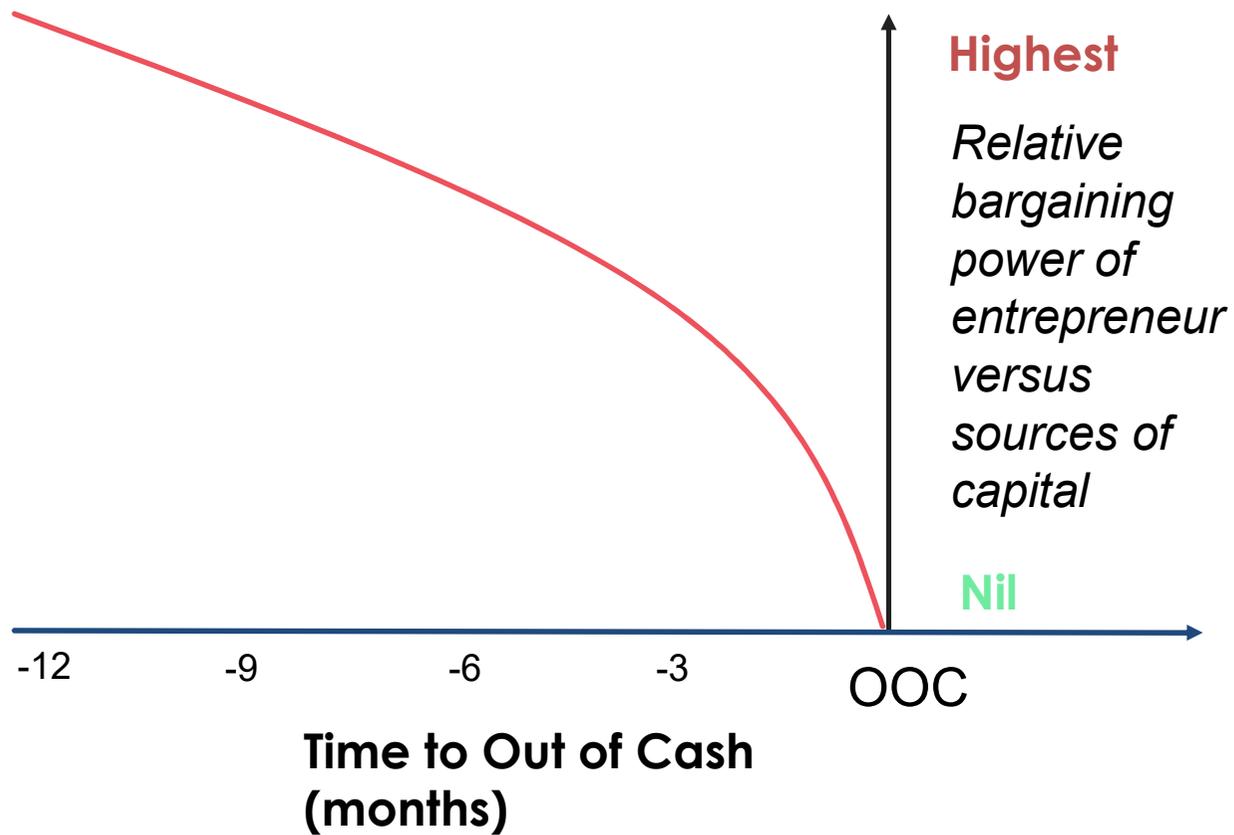
Burn Rate

Burn rate = negative cash flow

OR: how soon you exhaust shareholder capital

THEN: new funding, make profits, close down...

Bargaining Power Based on Time to OOC



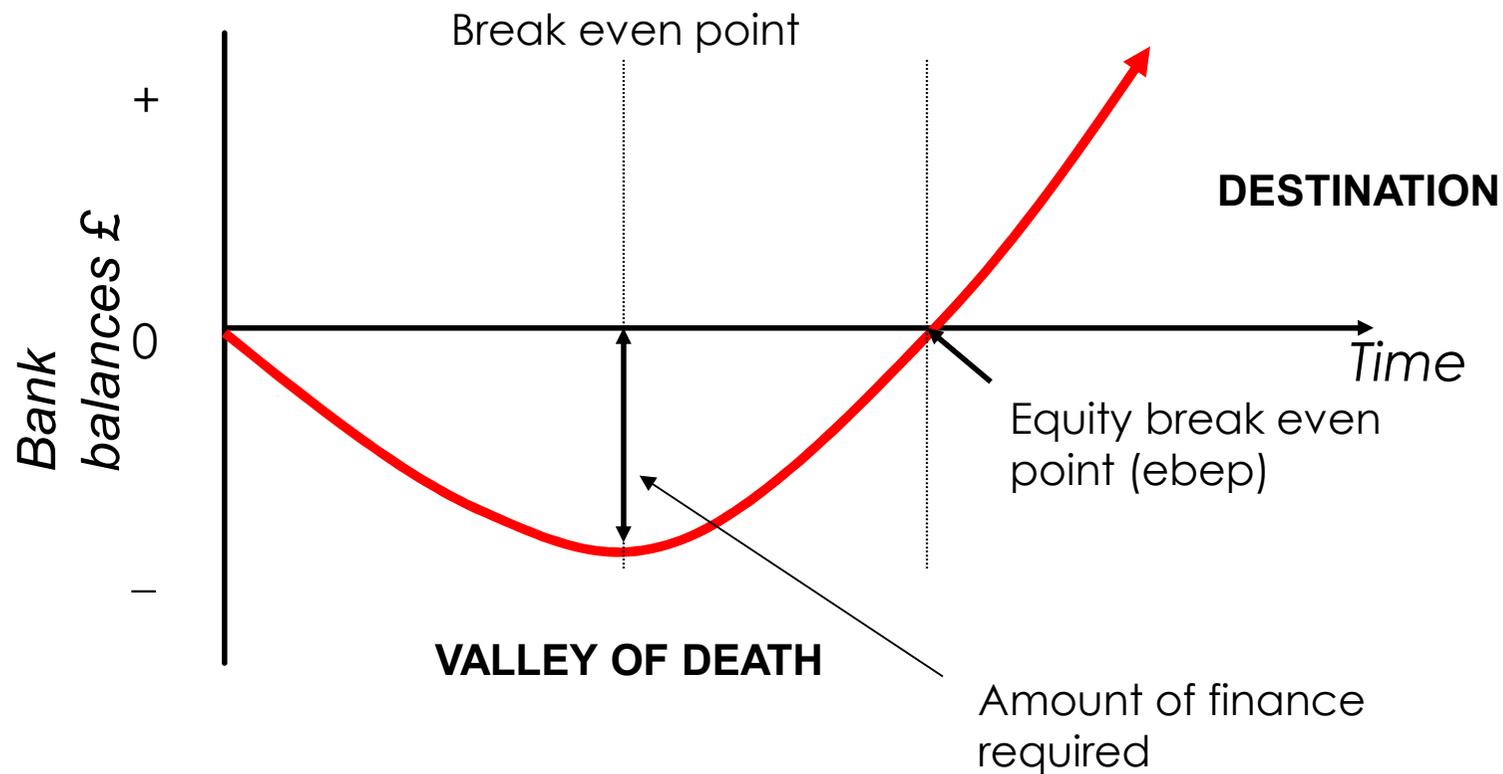
Financial Statements

- Balance sheet
- Profit & Loss Account / Income statement
- Cash Flow
- (statement of changes in equity)
 - All are linked to each other

For start-up firms, Cash Flow is THE key item

- Management/board to check solvency
- Identify when out-of-cash looming

Financing the Journey



6. Summary



**KEEP
CALM
AND
SUMMARISE**

Not What You Say, What They Hear...

“If you experience great difficulty in raising money, it’s not because VCs are idiots and cannot comprehend your curve-jumping, paradigm shifting, revolutionary product.

It’s because you either have a piece of crap or you are not effectively communicating what you have.

Both of these are your fault!”

*Guy Kawasaki
Garage Technology Ventures*

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Final advice...

- Raising money *always* takes longer than you anticipate
 - You nearly always underestimate how much you'll need
 - You'll rarely get all the money you require to begin with
 - Until cash flows, you'll have to use equity (or grants)
 - It's *always* easier to raise money when you don't need it
-
- Good luck!!

Upcoming Merlin Events

Upcoming Events;

Workshop:

Master the Art of an Elevator Pitch

Babraham Institute
24th October 2019

Find the next
Workshop near you!



See our [website](#) to find
the dates and locations
of our upcoming events

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Reading List

Show Me the Money: How to Raise the Cash to Get Your Business Off the Ground, 2015, D. Gill A. Barrell & M. Rigby.

