

POLICY RECOMMENDATION SUMMARY

Good Practice Workshop – Theme 6

Spin offs / Start up / Early stage

28 November 2013 – Llanera, Spain

1. BACKGROUND

Focusing on the development and implementation of non-grant financial based instruments, the overall aim of the **DIFASS PROGRAMME** is to improve access to finance for innovative SMEs by exchanging good practice on innovative business support measures. DIFASS originates from a previous 2008 Interreg Project where it became clear that non-grant financial support instruments are less likely to succeed on their own and need to be integrated with other non-financial support services to be successful.

Run in conjunction with 26 European Partners the project covers 8 themes – Micro Loans, Internationalisation, Guidance to Finance and Loan Guarantee Schemes, Mixed Grant/Non Grant, Intellectual Property and Human Capital, **Spin offs/Start up/Early stage**, Creative Industries and Crowd Funding, Jeremie/Mezzanine/Equity/Venture Capital.

2. SPIN OFFS/START UP/EARLY STAGE – OVERVIEW

Simeon Karafolas

The scientific overview of Spin offs, Start ups and Early stage companies covered three main points:

- A definition and origin of the different types of ‘spin off’ companies.
- Funding stages associated with Spin offs, Start ups and Early stage companies; when and why different types of investors invest in companies.
- Evaluation methods used to by external investors to assess the value of early stage companies.

▪ ORIGIN/DEFINITION OF ‘SPIN-OFF’ COMPANIES

Spin off companies create and commercialise knowledge. Originating mostly from business and from academic research these knowledge intensive companies can be defined in a number of ways can arise as a result of:

- In their simplest form, something i.e. knowledge and information **obtained unexpectedly** during an activity designed to do something else
- **A private sector employee or a group of employees leaving a parent company to start their own business** – thereby transferring all their expertise, knowledge and experience to their own business
- **Companies whose business specialises in applying innovative business plans and commercialisation of external knowledge** generated from research laboratories, university scientific institutions or a public/private entity, sourcing the business expertise and financial resources needed to commercialise the particular innovation/knowledge concerned

- Setting up of an autonomous independent division of an existing company formed specifically to manage all aspects of the innovation e.g. the copyright, know-how and development, financing and commercialisation of the particular product concerned.
- **THE FUNDING STAGES ASSOCIATED WITH SPIN OFFS, START UPS AND EARLY STAGE COMPANIES; WHEN AND WHY DIFFERENT TYPES OF INVESTORS INVEST IN COMPANIES.**

SEED FINANCE – the **first stage of venture capital financing** is often comparatively modest amounts of capital provided to inventors or entrepreneurs **to finance the early development of a new product or service**. This early stage funding may be directed towards companies who have not yet established commercial operations and used for essential continued research, product development, market research, building a management team and developing a business plan.

Typically quite difficult business opportunities to finance, initial seed investment ranges from \$250K to \$1M, (c€183K-€730K), with Seed-stage VC funds normally also used for later investment rounds with other equity players to finance business expansion costs such as sales and distribution, parts and inventory, hiring, training and marketing.

EARLY STAGE FINANCE used for companies that are **able to begin operations but not yet at the stage of commercial manufacturing and sales**, ‘supporting a step-up in their capabilities’.

Early-stage companies may include those who have a corporate organisation in place, and authorised preferred shares or may have received prior rounds of funding from company founders, friends or family members. They may also have filed patent applications, have developed a prototype and/or tested a product, launched a website, generated some revenue or have some impressive evidence of initial interest from early adopters or customer orders for their technology, product or service and/or a clearly defined commercialisation and sales strategy in place.

LATER STAGE FINANCE – capital provided after commercial manufacturing and sales but before any initial public offering. **Typically used by mature companies, where the product or service is in production and is commercially available**, where the company demonstrates significant revenue growth, but may or may not be showing a profit and who have usually been in business for more than three years. This later stage funding may include:

- **Third Stage Funding, capital provided for major expansion** such as physical plant expansion, product improvement and marketing
- **Expansion Stage Funding** for second and third stages of finance
- **Mezzanine (Bridge) Funding – Finance that enables the company to go public**, providing the bridge between expanding the company and the IPO

Other stages of funding that may be discussed with a company include:

BUYOUT FUNDING, the purchase of a company's shares in which the acquiring party takes a control of the targeted firm. This is a common technique used to get access to new markets and grow business because it allows the acquiring firm to align itself with other companies that have a competitive advantage in a specific area. A leveraged buyout is accomplished by borrowed money or by issuing more stock.



BALANCED-STAGE funding refers to **all the stages of funding, from seed through mezzanine funding.**

▪ **TYPES OF INVESTORS AND EVALUATION METHODOLOGIES**

Investors in spin outs, innovative start ups and early stage companies range from **Venture Capital experts and Angel Investors normally requiring a shorter financial credit/return on their investment** through to **Private Equity Funders**, companies investing funds in exchange for a share in their business, normally **taking a longer term view.**

Venture capital providers/angel investors making an investment in the initial life cycle stages of a company normally **use proportionately less funds** than investors, normally **equity investors, investing in the later stages e.g. the 'buy out' stage of a company;** early stage investors could be viewed as taking a **greater risk** at the initial idea stage, with private equity funders viewed as taking **less risk** for a company with a proven concept, production and initial sales.

Results from a survey conducted in 2012 from 30 angel groups in North America looking to achieve the best return on early stage investment identified that the majority of pre revenue funds were invested in Life Science sectors, (despite the lengthy 'roll out' process that can result from Federal licensing requirements) with the Cleantech and the software sector attracting the second and third level of investment.

Survey information collated by the **European Private Equity and Venture Capital Association** reported that a higher proportion of funds, i.e. 21% of funds invested in 2012 were directed at **early stage companies**, with 4.6% of funds invested **in later stage companies.**

Investors used a range of methods to assess the potential and amount they are prepared to invest, (if any funds at all), in a company.

- **Post-money valuation:** The valuation of the company immediately after a round of investment is closed
- **Pre-money valuation:** The valuation of the company just before closing a new round of investment, this includes the value of the idea, the intellectual property, the assembled management team, and the opportunity
- **Terminal value:** The valuation of the company at exit; e.g. the proceeds of the sale of the company via a merger or acquisition, or an initial public offering at which time the investors' ownership can be liquidated
- **ROI (Return on Investment):** The cash-on-cash return on investment expected for such an investment in the year of the harvest, or exit, commonly expressed as a multiple of the cash invested.

Whilst the ROI required by venture capitalists in exchange for their capital injection varies from company to company, there are some general ranges associated with the stage of development that the company has reached. These compounded annual ROIs range from:

- Seed or start-up 35% and up
- First and second stage 20% to 50%
- Third stage and mezzanine 15% to 30%



Further information on the formal evaluation methods used by investors to assess the value of the company and the likely return from their investments is included in **Annex 4**

FURTHER INFORMATION:

DIFASS YOU TUBE CHANNEL Good Practice Overview, Spin offs/Start up/Early stage, Simeon Karafolas, Scientific Partner: <http://www.youtube.com/watch?v=sivgf7A1UAI>

3. OVERVIEW OF WORKSHOP DISCUSSION/KEY LEARNING POINTS

Aiming to improve access to finance and internationalisation for innovative SMEs, the DIFASS project is tasked with identifying and encouraging take-up of programmes and innovative mechanisms that support businesses. Partners in the programme are looking to establish how the examples of good practice presented and discussed at each workshop can help them develop policies and programmes and support businesses in their own region.

The key issues to be considered when assessing each particular theme and good practice programme include:

- Overall Impact: Are the respective guidance to Spin offs/Start up/Early stage schemes discussed providing the support needed by SMEs? Have the schemes presented improved the current situation?
- Are the programmes presented responding to the difficulties encountered by those SMEs who are unable to access finance?
- Are funds supporting ‘innovative’ firms? Those firms most likely to contribute to longer term economic growth.
- What, if any, other non-financial support services has been integrated into the programme to improve the success rate of the businesses involved?
- Has the approach taken helped to influence commercial lenders i.e. banks to overcome their reluctance to help SMEs?
- Are Spin offs/Start up/Early stage schemes sustainable, transferable solutions that can be used to help small businesses?

Spin offs/Start up/Early stage Schemes presented at the Workshop:

- **Access to Early Stage Finance** – CEEI Asturias – Spain
- **Accelerace, loans for start-up companies** – Tallinn Science Park Tehnopol – Estonia
- **Academic Incubator** – Rzeszow Regional Development Agency – Poland
- **Support Programme of Mentorship** – Spirit Slovenia - Slovenia
- **SETsquared Partnership** – University of Southampton (WSX Enterprise) – England



Overall Impact: Are the respective Spin offs/Start up/Early stage schemes discussed providing the support needed by SMEs? Have the schemes presented improved the current situation?

With the exception of the Podkarpackie Science and Technology Park Academic Pre-Incubator, an infrastructure instrument rather than a financial instrument, the schemes presented have improved the current situation providing support for more than 100 firms accessing in excess of c€2M for the three schemes already operating in partner countries in the reporting period.

Importantly, each of the schemes has been set up to help Spin offs, Start-Ups and Early Stage schemes i.e. innovative firms with fast growth potential, **become investor ready and so, as a result, enable the business concerned to access finance.**

Helping the scheme partners concerned to develop local insight and practical know-how and experience of the players and options available in the financial market, has also provided a **secondary benefit from the financial instrument, providing a sustainable longer term benefit for similar firms in the future.**

Are the programmes presented responding to the difficulties encountered by those SMEs who are unable to access finance?

Four schemes have combined their knowledge and expertise of business support and the financial markets to help businesses reach the position where they can access finance.

Maximising the potential for return on investment the **Access to Early Stage Finance** uses a **specific methodology** as part of a package of support **for business projects** to help them get in the best position possible to access the **type of financing that best suits their particular business projects.**

The scheme also provides added value by helping public and private funding entities to understand and meet the needs of business. They act as an **independent bridge** between the two and specialise in helping businesses overcome obstacles involved in raising early stage finance.

The main aim of the scheme is to provide entrepreneurs with the support they need to define their business and financial needs, **help them to develop and present a credible case for investment** and then **signpost** them to appropriate forms of finance.

Selected for a pilot programme the **Accelerace model** was selected to help Tallinn Tehnopol overcome the difficulties of the time taken to get a business to market/rapid sales growth and the benefits. The Tehnopol had decided on deliberate strategy of **targeting support at high tech start-ups, particularly** new businesses started by **'serial entrepreneurs' who having learnt from past experience,** refined their business model over time and as a result are more likely to succeed.

Targeting start-ups who have a unique product or service and 'the ambition to take their business further', **the scheme is based on the principle that entrepreneurship can be taught and learnt and that the most successful start-ups are a result of hard work rather than luck.**



Experts involved in the scheme use their knowledge, experience, business and financial expertise, working actively with start-ups to **meet their needs in two stages:**

- **To search and test the business model. Customer discovery and customer validation.** Establishing the demand/need, the target audience/routes to market and global potential, and **IF viable**
- **Execution of the business model. Establishing the customer base, establishing the company.** Access to space and fast track/intensive help for commercialisation, helping the entrepreneur realise the best value from potential buyers/investors.

The overall aim of the **Support Programme of Mentorship (VALOR 2010)** programme was to create **a stable instrument for the commercialisation of knowledge.**

Designed in response to low numbers of commercial research and development investments and lack of technology transfer, in particular the transfer of IP into business, the programme was **set up to foster the creation of University and public organisation spin-outs.**

Overcoming the key barriers in commercialising knowledge, the complicated legal process involved and the lack of a funding instrument the scheme has responded to the historical difficulties faced by spin-offs involved in raising finance. The scheme had enabled spin offs to accelerate the transfer of knowledge, promote entrepreneurship and new business models and the transfer of IP from universities and public research institutions to private companies.

Launched in 2002 to facilitate access to technological expertise and the research available from the University network represented by the scheme, **SETsquared is an Enterprise partnership set up to accelerate the development of technology-based ventures,** from initial idea to commercialisation.

Responding to the difficulties and lower than expected start-up rate compared to regions with similar advantages such as Cambridge or Silicon Valley in America the scheme provides practical support to technology start-ups by offering an infrastructure around which an entrepreneurial community and culture can develop. Led by experienced entrepreneurs working alongside four other universities, SETsquared provides new high tech companies with access to a hugely experienced entrepreneurial community and leading research/professional facilities.

The five universities involved; Bath, Bristol, Exeter, Southampton and Surrey work with a mix of innovative businesses, with 80% coming from the wider business community, **(‘spinning into the university’)** and the balance made up of **university spin-outs.** The network does not offer grants but **plays a lead role in sourcing long term investment** (up to 100%) from its established Business Angel, VC network and accessing grant schemes (which can then be used to lever further investment).

Aside from the Valor scheme where projects/investments were selected by a public call and detailed application criteria, applicants for the other three schemes were assessed through interviews, with partners taking care to select the best applicants for each of the schemes.



Are funds supporting 'innovative' firms? Those firms most likely to contribute to longer term economic growth.

ALL schemes are aimed at innovative firms.

SETsquared targets **hi-tech innovative start-up and early stage organisations with high growth potential** who would gain from spinning into a university (80% of clients) and university spin outs (20% of clients). Similarly the **VALOR** scheme also targets **spin-outs from universities, public research organisations and Research Technology Organisations (RTOs)** – young companies that have already identified and acquired IP transfer solutions from universities or RTOs.

The **Accelerace** scheme is targeted at **technology start-ups**, particularly **repeatable and scalable business models**. Aimed mainly at innovative and technology-based companies (including spin offs) the **Access to Early Stage Finance** scheme is also open to all types of entrepreneurs and SMEs.

What, if any, other non-financial support services have been integrated into the programme to improve the success rate of the businesses involved?

Mindful of the type i.e. early pre-finance stage of the businesses and levels of funding involved each of the four financial schemes provided a highly comprehensive package of 'parallel support' to **fast track** the commercialisation for the businesses involved. Three of the schemes provide free support with one scheme, Accelerace, charging business for the programme/support involved.

Working in collaboration with a wide range of regional/national partners and financing entities to help entrepreneurs develop their plans, identify lines of credit and become investor ready, the **Access to Early Stage Finance** scheme used a **specific methodology**/package of support, to improve the financial planning for business modelling capabilities of entrepreneurs, helping them move from 'idea stage' to implementation stage as quickly as possible. Divided into two stages, the one to one support covered every aspect of business support from a pre-feasibility analysis, due diligence and viability check though to the formal application to selected financial entities, with the second stage involving the opportunity for businesses to participate in a joint 'Investment Readiness Programme/Venture Investment Competition' for groups of SMEs.

Changes made to **VALOR II** as a result of lessons learnt from the original pilot included the addition of advice and support as well as grant funds, **('it's not only money that's needed but also additional support')** The 6 companies selected for the second i.e. VALOR 2010 pilot received a variety of all-round parallel support to move the 'innovation' from research stage to commercialisation; from expert business advice/agency mentors through to investment readiness and fund management advice in addition to advice on internationalisation and access to national/international networks.

Also built into the programme, core support available from the **SETsquared Programme** includes **practical help from experienced entrepreneurs** with the knowledge and know-how needed to get a company off the ground in addition to all round parallel support. Mindful of the importance potential investors place on the capabilities of the management team involved, their support also includes an **independent review of the skills/make-up of the company's management team**. Businesses are also invited to a funding showcases held throughout the year.



The methodology used by the **Accelerace** scheme also provides a 6 month dedicated/intensive support training programme **paid for by the business**, to train and develop entrepreneurship and business development, helping them maximise their potential and their return as fast as possible.

Has the approach taken helped to influence commercial lenders i.e. banks to overcome their reluctance to help SMEs?

Whilst each of the schemes has played a major role in influencing and brokering deals for spin offs/start-ups and early stage businesses with external investors e.g. the risk capital market, venture capital and angel investors, no direct involvement from banks as funders or supporters or advisors in any of the schemes.

Are Spin offs/Start up/Early stage schemes sustainable, transferable solutions that can be used to help small businesses?

Sustainability

Getting Spin offs, Start-ups and Early Stage businesses **'investor ready' is a critical part of the access to finance process**. Introducing and brokering firms to external sources of finance **once they are ready, improves their chances of survival**, and considered a sustainable model.

All of the schemes are dependent on continued funding and/or availability of publically funded resources to set up and manage the schemes. **Dependent on the substantial experience, understanding and contacts built up by the technical staff involved** in the financial instruments presented, all of the schemes are dependent on the knowledge or 'know-how' of the players and options available in the financial market

The **Access to Early Stage Finance** Scheme run by CEEI Asturias is an entity supported by the Government of Asturias and a wide range of public & private bodies. It does not have a direct funding role itself and conscious of its own funding limitations has tried, but found it difficult to get businesses to recognise the value of the scheme. With the exception of funds secured from the Regional Network of Business Angels which does incur a broker fee for the businesses they represent, the service provided by CEEI Asturias is completely free.

The experience and results gained through delivering the scheme has however resulted in a positive perception of CEEI Asturias, now viewed as experts by entrepreneurs and the financial network in helping innovative/technology based SMEs access funds which may help its own future sustainability.

As the longest running UK partnership of any type with more than 1,000 active alumni companies and a 90% survival rate, SETsquared is also viewed as expert in its field. Celebrating its 10th anniversary and ranked equal 4th World University Business Incubator, it is also dependent on continued public funding.

With stretched resources; technical staff and programme resources, Estonian partners piloting the Danish **Accelerace** scheme have collaborated with 4 other partner countries; Latvia, Sweden, Finland and Denmark, joining forces and raising funds for a pilot launch enabling them to target the life science sector. Each partner country will focus on a specific sub sector, drawing support/expertise for the start up from the partner network, providing a sustainable solution and a win/win for the incubator, government and start-up investor.



With its **Support Programme of Mentorship (VALOR)** scheme SPIRIT Slovenia now has the capacity; valuable knowledge, skills and experience to run the specialised programme and recommend future policy. The Agency has learnt how to provide and access support, developed new knowledge and new services. They can now provide valuable support, with or without access to grants/funds.

Future plans include extending support/organising investment forums/coaching for start-ups.

Although lack of ongoing funds has resulted in cancellation of the programme SPIRIT Slovenia uses the know how gained from the scheme to help start-ups with Venture Capital expertise, (networking, investor readiness support).

Transferability

With all schemes presented funded/resourced to a greater or lesser extent from public funds, long term **sustainability and transferability of each particular programme is subject to availability of future funds and government priorities.**

Already selected and adopted by Estonian partners itself as a transferable best practice, with the relatively small amount of money needed to set up the scheme in addition to the opportunity for revolving public funds needed only at the early stage of the programme, the **Accelerace scheme** was considered the most transferable.

Recognising that the scheme needs 'a very entrepreneurial government to back/invest in the programme' attendees noted benefit for partners and businesses. **For partners**, workshop attendees considered that cooperation with smaller incubators in remote areas would attract greater knowledge and money. **Strictly outcome orientated, with no personal guarantee, no collateral and no conditions** for the use of money, partners considered that the 6 month programme provides early stage business with the 'hands on'; intensive support needed by business to **fast track** their progress from idea to commercialisation.

▪ **NEXT STEPS – PARTNER POLICY IMPLEMENTATION PLANS/ APPLICATION OF GOOD PRACTICE**

Each region is to develop its own Policy Implementation Plan, taking into account the lessons learnt from Workshop discussions, the findings from the scientific analysis and the assessment of the pilot implementations, all of which will be used to implement or improve their own policies for supporting SMEs in different themes.

FURTHER INFORMATION: DIFASS: <http://www.difass.eu/downloads>

DIFASS YOU TUBE CHANNEL: <http://www.youtube.com/user/difassworkshops>

ANNEX 1: SPIN OFFS/START UP/EARLY STAGE WORKSHOP – METHODOLOGY

The initial presentation on the Spin offs/Start up/Early stage theme from the project’s technical partner was followed by presentation and discussion on five areas of good practice:

- **Access to Early Stage Finance** – CEEI Asturias – Spain
- **Accelerace, loans for start-up companies** – Tallinn Science Park Tehnopol – Estonia
- **Academic Incubator** – Rzeszow Regional Development Agency – Poland
- **Support Programme of Mentorship** – Spirit Slovenia – Slovenia
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Facilitated using a World Café technique, Q & A round table discussions after each presentation enabled groups to draw out the strengths of the good practice and barriers to transfer.

- What key **strength** makes this Good Practice suitable for transfer? (what might make it attractive to other regions)
- What **barrier** can you see to transferring this good practice? (what might make it less attractive to other regions)

The presenter of the good practice moved around the tables answering any queries and each table was asked to write their key strengths and barriers on sticky notes and add them to a flip chart. Comments were grouped according to a sub-topic and delegates asked to rank and vote for the points raised using voting points.

Feedback on each discussion was then shared with the wider group. This concluded with a vote on the suitability and ease of transfer for each of the good practices and which Good Practice overall, during the day of the Workshop, they were most interested in with results as follows:

GP29 Access to Early Stage Finance	5 votes
GP30 Accelerace Loans for Start-up Companies	16 votes
GP31 Academic Incubator	1 vote
GP32 Support Programme of Mentorship	0 votes
GP33 Set Squared Partnership	9 votes

Good Practice 30, the **Accelerace Loans for Start-up Companies** was identified as the scheme generating the most interest in terms of taking forward with comments on all the schemes used to inform the policy recommendation paper.

ANNEX 2: GOOD PRACTICE WORKSHOP DISCUSSION – PARTNER FEEDBACK/COMMENTS

SUITABILITY FOR TRANSFER, OPPORTUNITIES & STRENGTHS: What key strengths make this good practice suitable for transfer?	EASE OF TRANSFER, EASE & CHALLENGES: What BARRIERS can you see to transferring this good practice?
<p>GP 29 – ACCESS TO EARLY STAGE FINANCE</p> <ul style="list-style-type: none"> ▪ ‘Smoothing’ access to financial resources ▪ Facilitators are important/needed because they understand both sides (bridge) ▪ Diversification of Technical team. Good number of applications/follow up procedures ▪ Good filter system for investors ▪ Investment readiness is a key focus for coaching ▪ Bridging concept between public & private ▪ High visibility in the innovation eco-system – key agent 	<p>GP 29 – ACCESS TO EARLY STAGE FINANCE</p> <ul style="list-style-type: none"> ▪ Integrated approach. Hard to transfer ▪ Difficult to secure constant flow of funding ▪ Hard to combine validation for public AND private investors ▪ Finding experienced facilitators that know both sides
<p>GP 30 – ACCELLERACE - LOANS FOR START UP COMPANIES</p> <ul style="list-style-type: none"> ▪ Cooperation allows smaller incubators/remote areas to attract knowledge/money etc ▪ Win-win-win-win for incubator, government, start up and investor ▪ Very outcome orientated ▪ Public funds needed only at early stage – then chance to be revolving ▪ Small amount of money ▪ No personal guarantee, no collaterals, no conditions for the use of money 	<p>GP 30 – ACCELLERACE - LOANS FOR START UP COMPANIES</p> <ul style="list-style-type: none"> ▪ You need a very entrepreneurial government to back this. Outcome orientated like the programme is ▪ High implementation costs compared to number of beneficiaries ▪ Reluctance to pay back the loan since there’s access to direct funding of grants ▪ Finding high quality coaches ▪ Small amount given. Restricted limit of 4 years for repayment
<p>GP 31 – ACADEMIC INCUBATOR</p> <ul style="list-style-type: none"> ▪ Closeness to the University ▪ Opportunity for students. Connection between University and Tech Park (Academia and Industry) 	<p>GP 31 – ACADEMIC INCUBATOR</p> <ul style="list-style-type: none"> ▪ Focus on infrastructure and building. It’s an infrastructure measure, not a financial instrument ▪ Facilities already exist basically everywhere. ▪ Sustainability? ▪ True incubation vs ‘selling space’ ▪ Legislation on Eurozone’s not the same across EU ▪ Lack of Financing and Financial Consulting
<p>GP 32 – SUPPORT PROGRAMME FOR MENTORSHIP</p> <ul style="list-style-type: none"> ▪ Being young gives room for improvement. ▪ International mentors ▪ Opportunities for new/young researchers ▪ Raising awareness for IP 	<p>GP 32 – SUPPORT PROGRAMME FOR MENTORSHIP</p> <ul style="list-style-type: none"> ▪ Availability of funds/Funding. No sustainability of funds ▪ Lack of innovation system ▪ Not demand driven ▪ Mentality of researchers and universities/Lack of interest on side of universities
<p>GP 33 – SETSQUARED PARTNERSHIP</p> <ul style="list-style-type: none"> ▪ ‘Researcher to innovator’ programme to train business skills ▪ Good results: 90% of businesses survived/4th incubator in the world ▪ Stimulates Universities to focus on applied science – no research papers 	<p>GP 33 – SETSQUARED PARTNERSHIP</p> <ul style="list-style-type: none"> ▪ Need of collaboration difficult to achieve/Based a lot on public money ▪ Mentality ▪ Hard to get Universities to cooperate ▪ Networking in other countries

<ul style="list-style-type: none">▪ Strong combination of business and academic world▪ Strong cooperation between universities and SME- efficient system▪ Motivations of participants▪ Focus on – business, team, funding University/shows business approach.▪ Good process for motivation of new entrepreneurs▪ Market orientated Investor events- contacts, networking etc + idea to go to where they are.	
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ANNEX 3: SPIN OFFS/START UP/EARLY STAGE WORKSHOP PROGRAMME SUMMARY

DIFASS PARTNER	GOOD PRACTICE SUMMARY – PROGRAMME, KEY OBJECTIVES AND INNOVATIVE FEATURES AT A GLANCE	POLICY IMPLEMENTATION – KEY POINTS AND RECOMMENDATIONS ARISING FROM THE WORKSHOP
<p>CEEI Asturias Spain</p>	<p>GP 29 CEEI FINANCIA: ACCESS TO EARLY STAGE FINANCE Using a specific methodology and part of a package of support aimed at facilitating access to financial resources needed for business projects the purpose of the scheme is to improve the financial planning and business modelling capabilities of entrepreneurs, help businesses identify and source the best financial public/private funding options available and help funding entities to understand and meet the needs of business.</p> <p>KEY OBJECTIVES: To provide innovative entrepreneurs with the support they need to define their business and financial needs, develop and present a credible case for investment and then signpost them to finance that best suits their particular business project.</p> <p>INNOVATIVE FEATURES:</p> <ul style="list-style-type: none"> ✓ Using their extensive knowledge and experience, CEEI Financia act as an independent bridge between entrepreneurs and business finance, specialising in helping businesses overcome obstacles involved in raising early stage finance. ✓ Uses a specific methodology to help firms from idea to start up stage quickly 	<ul style="list-style-type: none"> ▪ Facilitators are important/needed because they understand both sides (i.e. the bridge). ▪ Diversification of the technical team. Good number of applications/follow up procedures. ▪ Good filter system for investors, (creates a lot of 'deal flow') ▪ Difficult to secure the constant flow of funding. Difficult to get entrepreneurs to recognise the value of the service – and prepared pay for it. ▪ Integrated approach, hard to transfer. ▪ Difficult to combine validation for public AND private investors.
<p>Tallinn Science Park Tehnopol Estonia</p>	<p>GP 30 ACCELERACE - LOAN MODEL FOR START-UP COMPANIES A Danish-based, international initiative/model set up to support start-ups who have a unique product or service and 'the ambition to take their business further'. Identified and selected as a best practice model that would enable the Science Parks strategy of targeting support at high tech start-ups and 'serial entrepreneurs'.</p> <p>KEY OBJECTIVES: To accelerate the growth of innovative companies from start-up to rapid growth.</p> <p>INNOVATIVE FEATURES:</p> <ul style="list-style-type: none"> ✓ Programme and resources targeted at high tech start-ups and 'serial entrepreneurs' i.e. those who having learnt from past experience, have refined their business model over time and as a result are more likely to succeed, (providing a better ROI from limited public/partner resources). ✓ 4 other partner countries; Latvia, Sweden, Finland and Denmark have joined forces/raised 	<ul style="list-style-type: none"> ▪ Cooperation allows smaller incubators/remote areas to attract knowledge/money etc. ▪ Win-win-win-win for incubator, government, start up and investor. ▪ No personal guarantee, no collaterals, no conditions for the use of money. ▪ You need a very entrepreneurial government to back this outcome orientated programme. ▪ High implementation costs compared to number of beneficiaries ▪ Reluctance to pay back the loan since there's access to direct funding of grants.

	<p>funds for a pilot launch targeting the life science sector. Each partner country will focus on a specific sub sector, drawing support/expertise for the start up from the partner network.</p> <ul style="list-style-type: none"> ✓ Start-up businesses selected for the scheme receive a loan of €40K receiving €20K in cash with no restrictions on how it can be spent, and the rest (€20K) in time i.e. expert support/help. ✓ The scheme is based on the principle that entrepreneurship can be taught and learnt and that the most successful start-ups are a result of hard work rather than luck. 	<ul style="list-style-type: none"> ▪ Finding high quality coaches.
<p>Rzeszow Regional Development Agency Poland</p>	<p>GP 31 PODKARPACIE SCIENCE AND TECHNOLOGY PARK ACADEMIC PRE-INCUBATOR Opened in 2007 and located in an Economic Zone, part of a major infrastructure development, the Podkarpackie Science and Technology Park Academic Pre-Incubator is an infrastructure measure, ‘a platform for creation and development of cooperation in the field of innovation’. The Zone/Academic Pre-Incubator provides innovative start-ups with a natural pathway to the high tech facilities available, supporting and enabling early stage businesses to move to the facilities provided by the Technological Incubator and ultimately, as they progress, to buy land and build facilities set aside for innovative businesses. KEY OBJECTIVES: Set up as an infrastructure measure <u>not</u> a financial instrument, the original investment/project objectives were to create and facilitate cooperation between Science and SMEs and provide Pre-Incubator places for students and graduates of regional universities, providing dedicated opportunities to start their enterprises.</p>	<ul style="list-style-type: none"> ▪ Focus on infrastructure and building. It’s an infrastructure measure, not a financial instrument. ▪ True incubation vs ‘selling space’ ▪ Connection between University and Tech Park (Academia and Industry)
<p>SPIRIT Slovenia, Public Agency for Entrepreneurship, Innovation, Development, Investment and Tourism Slovenia</p>	<p>GP 32 SUPPORT PROGRAMME OF MENTORSHIP. ENCOURAGING A KNOWLEDGE TRANSFER PROCESS (VALOR 2010) Designed in response to low numbers of commercial research and development investments and lack of technology transfer and in particular the transfer of IP into business, Valor 2010 was set up to overcome the key barriers in commercialising knowledge and foster the creation of University and public organisation spin-outs. KEY OBJECTIVE: Set up to create a stable instrument for the commercialisation of knowledge and so foster the creation of University and public organisation spin-outs. INNOVATIVE FEATURES:</p> <ul style="list-style-type: none"> ✓ The scheme enabled verified research results to come onto the market and helped academic institutions ‘let go’ of their innovations, i.e. pass them to SMEs that would commercialise their ideas. ✓ The scheme encouraged on-going collaboration with the research department and originator of 	<ul style="list-style-type: none"> ▪ The agency has learnt how to provide and access support, developing new knowledge and new services. ▪ Scheme provides access to international mentors. ▪ Opportunities for new/young researchers ▪ Availability of funds/funding ▪ Mentality of researchers and universities. Lack of interest on side of universities.

	<p>the innovation.</p> <ul style="list-style-type: none"> ✓ Projects have to be completed within one year of contract, i.e. speeding up commercialisation. ✓ 'It's not only money that's needed but also additional support', parallel support and pitching experience added to second round of scheme as a result of client feedback. 	
<p>SETsquared Partnership, University of Southampton England</p>	<p>GP33 SETSQUARED PROGRAMME Comprised of five universities; Bath, Bristol, Exeter, Southampton and Surrey the SETsquared scheme aims to stimulate economic growth through the growth of innovation and technology businesses in the region's economy. Working with a mix of innovative businesses, (spinning into the university) and the balance made up of university spin-outs, SETsquared provides access to leading research facilities and practical support to technology start-ups, offering an infrastructure around which an entrepreneurial community and culture can develop.</p> <p>KEY OBJECTIVE: To stimulate economic growth through the growth of innovation and technology businesses in the region's economy.</p> <p>INNOVATIVE FEATURES:</p> <ul style="list-style-type: none"> ✓ Business joining SETsquared are charged a small monthly fee (c€120) towards support and desk space, no upper limit on number of desks encourages companies to grow. ✓ Core support includes an impartial review of the management team involved. ✓ Development of a specific PhD programme – to commercialise doctorate research. ✓ Funding showcases include a high level annual Investment Showcase in London and 'Meet the Primes', enabling SMEs to meet private/public contractors. 	<ul style="list-style-type: none"> ▪ Stimulates University to focus on applied science, not on research papers ▪ Strong combination of business and academic world. ▪ Strong cooperation between universities and SME-efficient system. ▪ Good motivations of participants ▪ Need of collaboration difficult to achieve/Based a lot on public money ▪ Hard to get Universities to cooperate ▪ Networking in other countries difficult

FURTHER INFORMATION

DIFASS You Tube Channel: <http://www.youtube.com/user/difassworkshops>

DIFASS Website: <http://www.difass.eu>

ANNEX 4: OVERVIEW: SPIN OFFS / START UPS / EARLY STAGE COMPANIES

Simeon Karafolas: Scientific Partners

EXAMPLES OF VALUATION METHODS

Best practice Angel Investors will use multiple methods for establishing the pre-money risk and valuation for seed/startup companies. The Dave Berkus Method, Risk Factor Summation Method and Scorecard Valuation Methodology are amongst the most common valuation methods available to them.

1. THE DAVE BERKUS METHOD

A founding member of the Tech Coast Angels in Southern California, Dave Berkus has invested in more than 70 startup ventures. The method is based on the fix of a pre-money valuation according to some specific factors with a maximum amount allocated to each one as follows:

<u>Characteristic</u>	<u>Add to Pre-money Valuation</u>
Quality Management Team	Zero to \$0.5M
Sound Idea	Zero to \$0.5M
Working Prototype	Zero to \$0.5M
Quality Board of Directors	Zero to \$0.5M
Product Rollout or Sales	Zero to \$0.5M

Note that the numbers are the maximum for each class (not absolutes) so a valuation can range from anything from say \$800K (or less) through to \$2.5M. Created specifically for the earliest stage investments this method provides a starting point without relying upon the founder's financial forecasts.

2. THE RISK FACTOR SUMMATION METHOD

The Risk Factor Summation Method, developed by the Ohio TechAngels considers a broad set of factors in determining the pre-money valuation of pre-revenue companies. This method forces investors to consider important exogenous factors and think about the various types of risks which a particular venture must manage in order to achieve a lucrative exit. This method uses the premis that the higher the number of risk factors then the higher the overall risk. Considered the Largest risk, 'Management Risk' demands the most consideration which investors view as the most overarching risk in any venture. While this method certainly considers the level of management risk it also prompts the user to assess other types of risk, these include:

- | | |
|---|---|
| <ul style="list-style-type: none"> • Management • Stage of the business • Legislation/Political risk • Manufacturing risk • Sales and marketing risk • Funding/capital raising risk | <ul style="list-style-type: none"> • Competition risk • Technology risk • Litigation risk • International risk • Reputation risk • Potential lucrative exit |
|---|---|



Each risk is assessed with the following criteria:

+2 very positive for growing the company and executing a good exit

+1 positive

0 neutral

-1 negative for growing the company and executing a good exit

-2 very negative

The average pre-money valuation of pre-revenue companies is then adjusted positively by \$250K for every +1 (e.g. \$500K for a +2) and negatively by \$250K for every -1 (2.g. \$500K for a -2).

3. SCORECARD VALUATION METHODOLOGY

This method compares the target company to typical angel-funded startup ventures and adjusts the average valuation of recently funded companies in the region to establish a pre-money valuation of the target. Such comparisons can only be made for companies at the same stage of development, in this case, for pre-revenue startup ventures.

The **first step** is to determine the average pre-money valuation of pre-revenue companies in the region and business sector of the target company. Pre-money valuation varies with the economy and with the competitive environment for startup ventures within a region. In most regions, the pre-money valuation does not vary significantly from one business sector to another.

From surveys on Angels investments, it appears that the average (mean) pre-money valuation for recent pre-revenue deals is \$2.1M and the mode (middle number) for this data set is \$2.0M, indicating a somewhat normal distribution. The range of the data is from a low pre-money valuation of \$0.8M to a high of \$3.4M for pre-revenue companies.

Data from Venture Capital investments in seed/startup companies, (but not necessarily pre-revenue companies), show almost the same pre-money valuation. With average annual pre-money valuations just over \$2M in the last decade we can assume that the pre-money valuation of pre-revenue companies varies in the range of \$1.5-2.5M and that the average pre-money valuation for these firms is \$2.0M.

The **next step** in determining the pre-money valuation of pre-revenue companies using the Scorecard Method is to compare the target company to similar deals using the following factors:

– Strength of the Management Team	0-30%
– Size of the Opportunity	0-25%
– Product/Technology	0-15%
– Competitive Environment	0-10%
– Marketing/Sales Channels/Partnerships	0-10%
– Need for Additional Investment	0-5%
– Other	0-5%

Like the Risk Summation method, the **scorecard valuation** method also gives the most importance to the quality of the management team.