

“Knowledge to Market,,



Sources of Financing for Innovative SMEs: Public Sector Funds, Banks, Business Angels and Seed Funds, Venture Capitalists,

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**THIRD WIPO-INSME INTERNATIONAL TRAINING PROGRAM: FINANCING YOUR
BUSINESS WITH INTELLECTUAL PROPERTY**

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INSME

INTERNATIONAL NETWORK For SMALL
AND MEDIUM-SIZED ENTERPRISES





SMEs main value resides in their intellectual capital value; but ...



... there are lots of difficulties for the valuation of such rights by banks and investors.

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Intellectual property assets can take different forms:

- trade secrets
- copyrights
- industrial designs
- trade marks and brands
- patents.

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intangible assets provide SMEs with some competitive advantages by creating economic value through:

- **increased revenues generated by new products and/or licensing the technology**
- **raised barriers to competitors**
- **stronger market position.**

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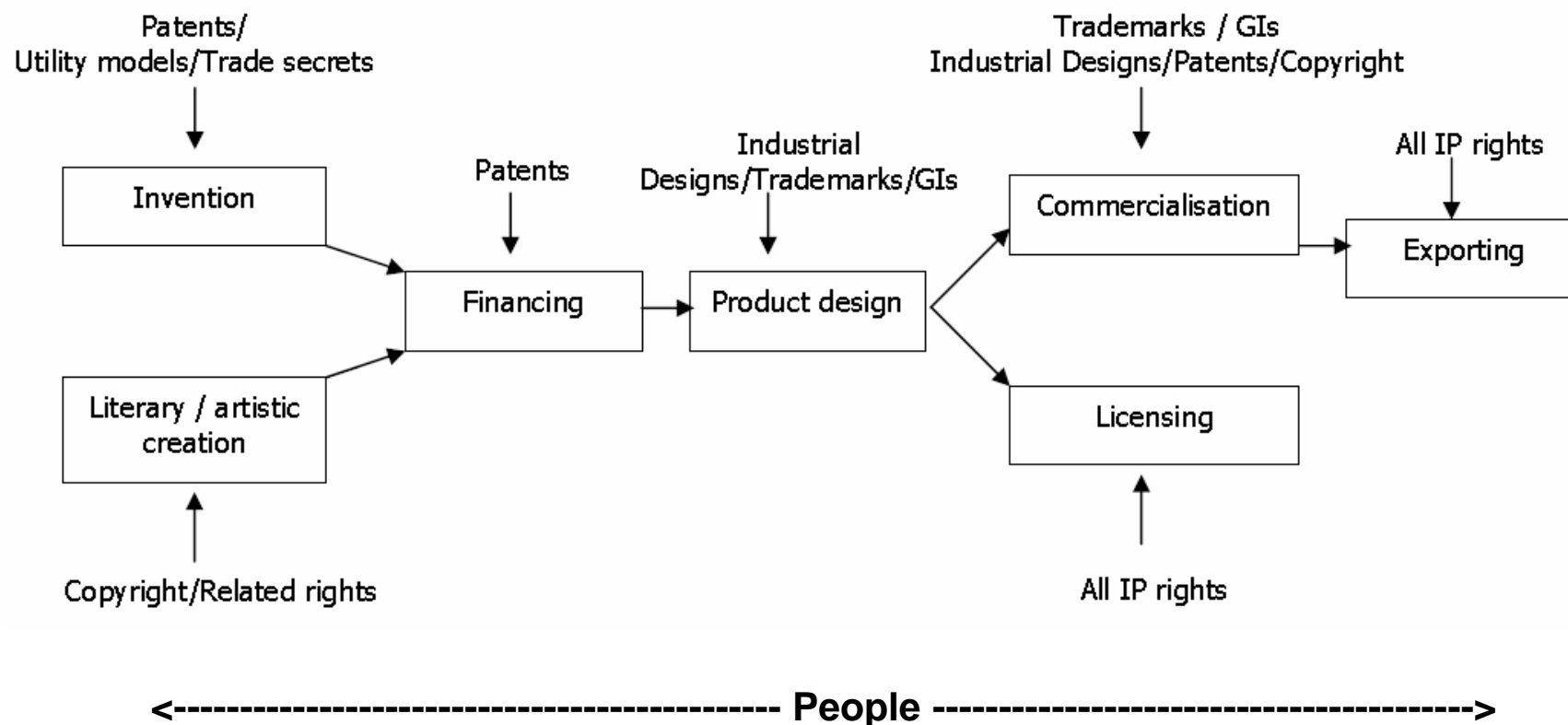


enterprises with strong intangible assets are able to generate higher added value than others but ...

intangible assets are generally riskier than monetary or tangible assets and therefore have to provide investors with more returns



Intellectual capital and enterprises life cycle



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All money is not the same!

🕒 INITIAL & UNORTHODOX SOURCES OF FUNDINGS

🕒 EQUITY

🕒 DEBT FINANCE

🕒 COMBINATION OF EQUITY AND DEBT : MEZZANINE

🕒 PUBLIC FINANCE

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INITIAL & UNORTHODOX SOURCES OF FUNDINGS:

- entrepreneurs savings;
- profit reinvestments;
- friends and family savings;
- second mortgage;
- personal credit cards;
- customer advance;
- delay of payments;
- premises sharing;
- employing relatives at below market salaries.

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EQUITY:

- pre-seed and seed capital;
- business angels;
- venture capital;
- corporate ventures;
- IPO and post IPO.

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DEBT FINANCE:

- bank credits: short or long term loan, unsecured or micro loans;
- commercial debt;
- public/semi-public loans;
- bonds;
- factoring – leasing – franchising;

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COMBINATION OF EQUITY AND DEBT : MEZZANINE PUBLIC FINANCE:

- grants;
- reimbursable advances;
- guarantees.

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BANKS

- Availability of guarantees or collateral
- Perceived ability to repay the loan
- Company track record
- Rating
- Good management
- Repayable short-term loans
- Innovative nature of business projects
- Business plan quality
- Management team



Family, Friends and Fools

- o Personal relationship based on trust

Proof of concept

- o Innovation
- o Management team
- o Entrepreneurship
- o Commercialisation of intellectual property

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Business angels (bas) or informal investors and Spin-off corporate venturing

- Meeting or matching of individual entrepreneurs with bas
- Atmosphere of trust between individuals
- Credible business plan in the eyes of the Business Angel
- Good management team
- Fiscal incentives
- Market knowledge of the entrepreneur
- Availability of exit route
- Return on investment (capital gain)



Seed capital funds

- Business plan quality
- Perception of the innovative nature of the project
- Intellectual property
- High growth potential
- Government tax policies



Venture capital and Financial corporate venturing

- Business plan credibility
- Business plan with patent technology
- Track record (over previous years)
- Ability to grow fast and deliver quick ROI
- Management team quality



Public funding

- New jobs
- Investment in productive tools

Guarantees

- Stamina as well as technical and financial skills/abilities
- Unsecured free of interest loans
- Business plan credibility
- Readiness to cooperate with a tutor

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Corporate venturing

- Innovative nature of the project in relation to the company's core business
- Industry-specific usefulness of the project, in particular from a technological standpoint
- Business plan quality
- Good management
- Tax incentives



Institutional investors

- Business plan
- Intellectual Property (IP)
- High growth
- Good management
- Tax incentives from government

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New capital markets

- Viability and consolidation
- At least three years in existence
- Positive results at least once within twelve months prior to application
- More than €1.5 million in shareholder's equity
- Ability to publish quarterly results
- Public recommendation by analyst
- Positive media attention
- Government tax policies
- Capable and experienced management team
- Prominent Board
- Experienced team of financial, legal and underwriter advisers
- New business concept
- Large market share
- Record of high growth or high growth potential



Intellectual Capital and Risk finance

- “Grants” for assessing exploitation of research results
- Proof of concept (pre seed - FFF)
- Seed (PPP Funds or Angel Groups)
- Start up (PPP and Private Funds)
- Expansion (Private funds)

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Intellectual Capital and Risk finance

An impossible marriage? ...





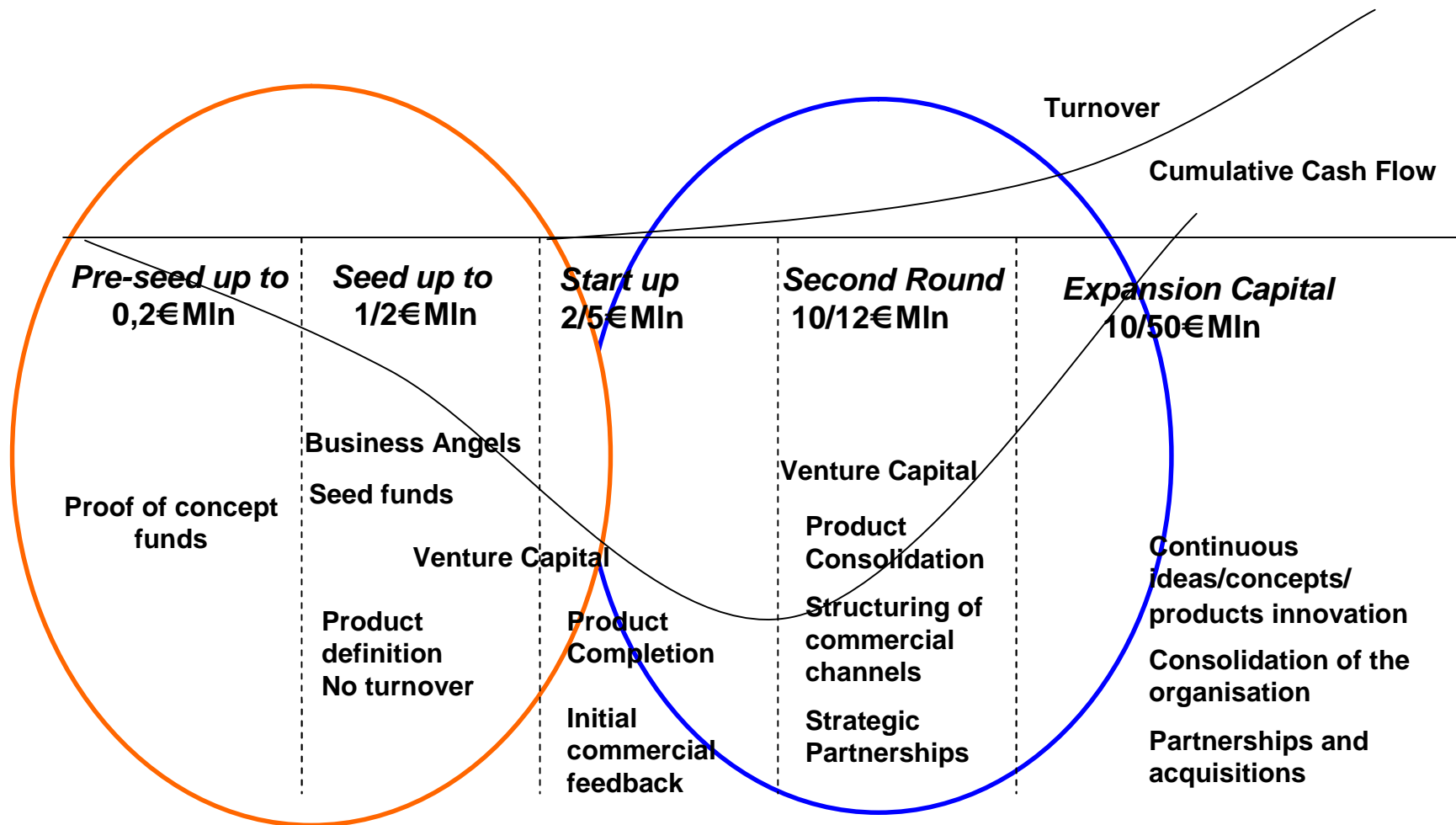
No but they need to know each other much better



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EARLY STAGE + VENTURE CAPITAL





the Financing Food Chain

- Venture Capital Funds tend to lower the risk associated and begin investing in the start up phase
- Exploitation related Grants are resource driven and not market driven

 Grants	Pre-Seed	 Seed	Start up	Expansion
Cultural Gap	Entrepreneur FFFF PoC funds	“Funding” Gap	Venture Capital Funds	
€ 50.000 to € 300.000	€ 20.000 to € 100.000	€ 200.000 to € 1.500.000	€ 1.500.000 to € 10.000.000	



“Grants” for assessing application of research results

- o Potentially plenty of: VII FP, National, Regional Schemes
- o Not used for Exploring application
- o Tick boxing rather than true market reserach

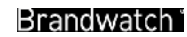
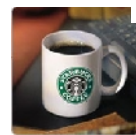
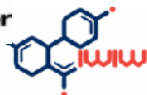
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“Business Angels and Seed Funds”

- o Growing in number and investment capacity
- o Still limited knowledge of Intellectual Capital
- o Valuation still more based on other parameters (market, cost, multiples) than IC

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SUMMARY OF INDUSTRY STATISTICS – EBAN 2010

		EU	US
Networks	↑	400	300
For profit	↑	1/3	1/2
Estimate n of angels		75k	250k
Investment per round	⇒	200k€	186k€
Estimate n of early stage funds		200	200
Investment per round	⇒	500k€	500k€
Total estimate invested annually		4 billion€	20 billion€
Early stage funds Investments		4 billion€	20 billion€

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Angel Investing

Italian  **Angels**
F O R G R O W T H

www.italianangels.net

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Angel investing IRR

US 27%

UK 22%

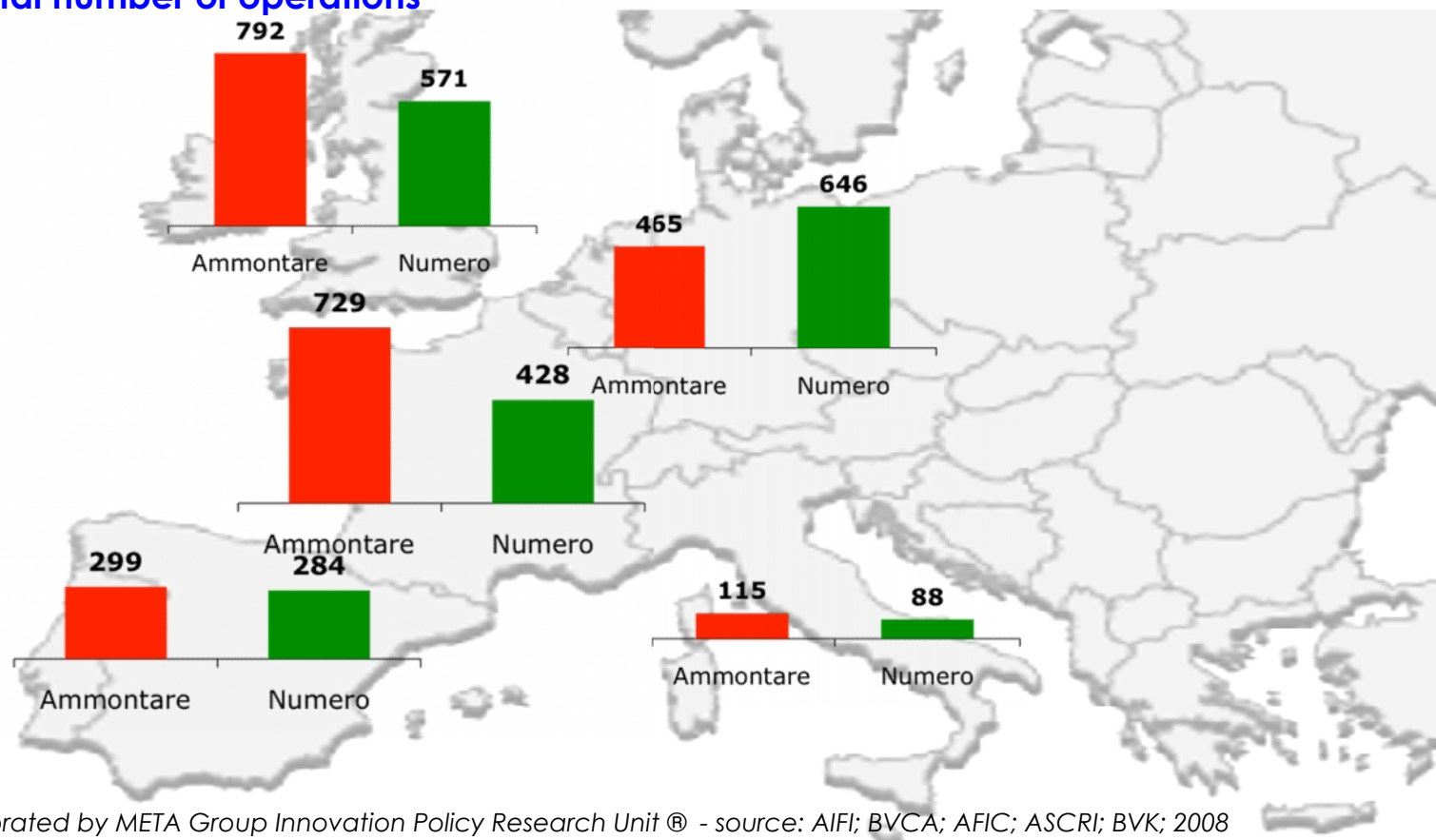
Source: 1 - ACA 2008 and 2 - BBAA 2009



Early stage in Europe

Red - total amount (€ Mln) seed and start up operations in Europe in 2008

Green - total number of operations



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Seed Financing

Ingenium Fund

PPP: public private partnership

Early stage investments: 0,1 – 1,5 ml €

KICs: intangible based, fast growing

Italy, Slovenia, Poland ...

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Seed vs Other Investment Returns

Fund Type	% Return				
	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
EARLY/SEED VC	-2.9	-19.8	47.1	37.9	19.1
Balanced VC	20.5	-9.4	17.5	20.8	13.6
Later Stage VC	38.0	-6.9	7.1	17.1	14.1
All Venture	15.7	-13.3	22.0	26.0	15.7
All Buyouts	28.8	0.1	2.6	8.1	12.4
Mezzanine	18.1	2.0	5.9	7.6	9.6
All Private Equity	23.4	-3.6	6.8	12.8	13.7

Source: Innovation Philadelphia (2005)



Thank you for listening

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