"Turning a Good proposal into a winner"

Know your Audience & Common & Avoidable Errors to be Aware of when engaged in fund raising.

Gerry O'Brien, IDI
PWC8, Istanbul 13th September 2022
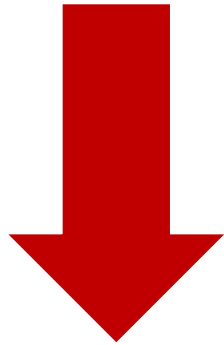
Introduction - Gerry O'Brien

- Director of Capability Building & Knowledge Transfer – IDI

- 20 years in Economic Development & SME Finance

- High Potential Start-Up Division in **Enterprise Ireland –** Ireland's Government Technology & Enterprise Investment Agency

- Experience in **design and management of Grant & Equity Funding Instruments** for High Potential Start-Ups & SMEs

- **Investment Adviser** and **Mentor** to Irish Start-Ups.

- Panel member on **trial EIC Investor Pitch Panels** 2022

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Introduction - Gerry O'Brien

PitchBook
Products   Solutions

News & Analysis

TOP INVESTOR

Europe's most active domestic venture investors

By Leah Hodgson

August 15, 2022

ENTERPRISE IRELAND

Enterprise Ireland, an Irish government agency, has topped the list of most active European investors in domestic venture capital deals.

From 2018 through H1 2022, the firm completed 988 deals, 42% more than its nearest competitor, French sovereign wealth fund Bpifrance.

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Objective of Presentation

- Share experience of reviewing thousand's of business plans - Worked on the other side of the table – Public Sector Grant & Equity Investor

- Recap – Main sources of funding for innovative start-ups and SMEs and how they differ

- Provide Observations on EIC Accelerator as a source of funding (first rule of fund raising "Know your audience!"

- Highlight what Investors are looking for in your Proposal / Pitch

- Flag some **common and avoidable errors** made by start-ups/SMEs when applying for funding/investment
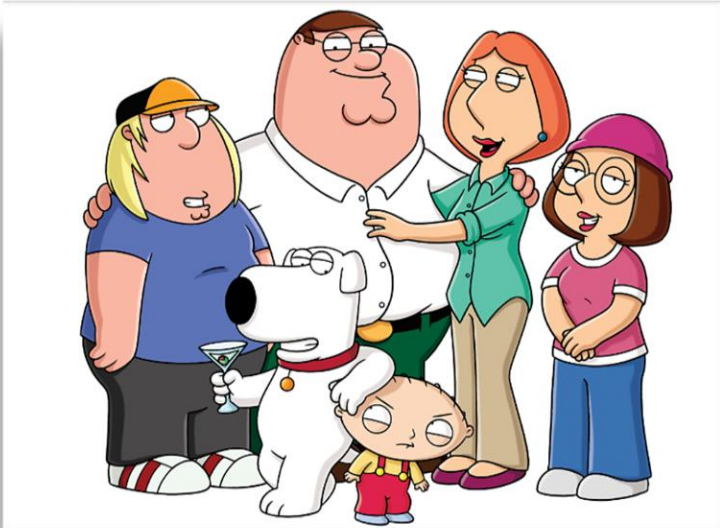
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Family, Founders & Friends (3 F's)

- First capital normally from founders. Having **"Skin in the Game"**

- Family and Friend investors normally invest in the person – not the idea or the business.

- Be sure to have a clear record of money invested.

- **Set Up the Company – it is not your money.**

- Ensure family and friends **understand the risks.**

- A lot of small family and friend investors **can make it difficult to negotiate later funding rounds.**

Business Angels

- High net worth individuals actively looking for investment opportunities and often want to **want to get involved in the business.**

- Increasingly Business Angels form investment syndicates. Pooling funds and spreading risk.

- **Find a business angel that understands your business.**

- **Not just about Money – Find an angel who is strong where you are weak.**

- **Clarify the Business Angels time frame for exit.**

Crowdfunding

- Becoming a recognized way to raise early funding
- Get early revenue and market validation

- Very uncertain, many campaigns fail
- Mainly consumer products, creative projects
- Often Pre-sale, not equity.
- You still have to deliver the product. If you don't negative reviews on-line

Seed & Venture Capital Funds

- A major source of funding for fast growth, technology-based companies.

- Require business that can scale.

- Need significant return on their investment – not *"Lifestyle"* businesses.

- Generally "Tranche" investment. It's important to achieve planned milestones.

- Seed & VC funds are not always keen to invest early.
- Funds will seek to exit after 5-7 years
- They are tough negotiators. Build the business proposition to a point where you have stronger negotiating position.
- research funds to understand their track record – speak to other investee companies.
- Ensure fund has ability to "Follow its Money"

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Corporate Venturing

- Many Multi-Nationals also act as venture capital investors.

- This source of funding is often forgotten about by entrepreneurs.

- They have the same approach as traditional VC funds however can bring significant value and credibility.

- **You need to be careful that the Corporate Venture Funds does not limit your market potential.**

Debt Finance

- By far the main source of finance for SMEs.

- Can support operations (working capital) and expansion funding.

- Is a relatively low cost form of finance as no equity stake provided.

- EU introduced term "Bankability".

- **Limited appetite for risk.**
- **Not suitable to companies at early stage – no collateral, no revenue to repay loans.**
- **Repayments must be made regardless of company performance.**
- **Do not recommend entrepreneurs securing loans on the basis of personal assets.**

Public Sector Funding Sources (National/EU)

- Make maximum use of national and EU funding [often the cheapest money in the room].

- Private investors will expect you to leverage public sector funds **prior and during their investments.**

- Be prepared for the paperwork.
- Treat Pubic funders with the same respect as private investors.
- Do your homework and research the objective and eligibility criteria [e.g. social impact, collaboration etc .]
- Keep up to date with fund closing dates

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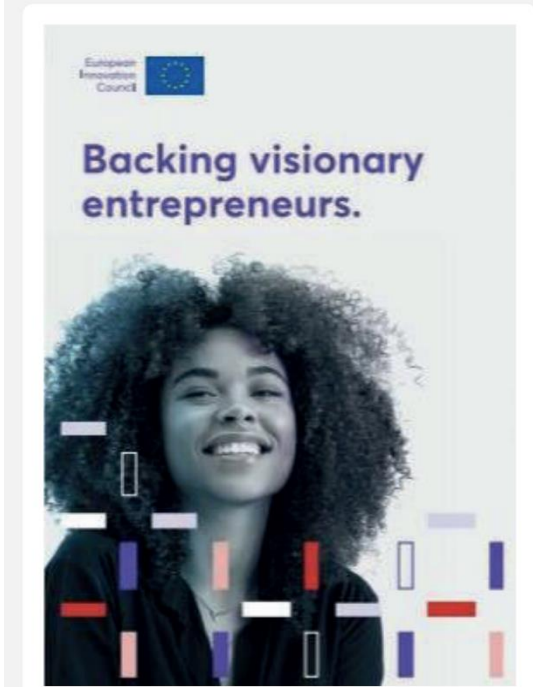COMPETITIVE SECTORS PROGRAMME

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EIC Accelerator

The EIC Accelerator supports companies (principally start-ups and SMEs) to scale up high impact innovations with the potential to create new markets or disrupt existing ones.

European Innovation Council

The EIC Accelerator can support your company to scale up if you …

Backing visionary entrepreneurs.

- Develop **high risk/high impact innovations**;

- Have the potential to **create new markets**, **transform** existing ones and **contribute to societal innovation**;

- Build on scientific discovery, radical thinking or technological breakthroughs ('**deep tech**');

- You innovation activities have already achieved the Technology Readiness Level (TRL) 4 and are currently in **TRL 5** or above;

- Require significant **funding** over a long timeframe before returns can be generated ('patient capital').
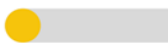
EIC Accelerator 2021 Insights

FUNDING TYPE	€ AWARDED	# COMPANIES	% ON TOTAL €
Blended Finance	€751,401,998	92	76%
Grant First	€121,066,294	47	12%
Equity-only	€88,039,265	9	9%
Grant-only	€30,774,042	16	3%
Total Allocated Funding	€991,281,599	164	91% OF TOTAL 2021 BUDGET

EIC Accelerator V'S Traditional Sources

- Real Game Changer in Europe's Funding Landscape. New source of funding (Just under €1 billion in 2021) Investors not taking more than 25% voting rights.

- Much larger amounts of funding than national public sector sources – up to €15m equity (far exceeds national State Aid Limits)

  - e.g. 2021 – 9 Irish companies approved €45 million – this is more than the government invested in all first round High Potential Start-Ups.

- Openness & Accessibility - while there is paperwork it is relatively easy to apply.

- Excellent resources available setting out the process, assessment criteria and objectives of the EU

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EIC Accelerator V'S Traditional Sources

- Broad panel of international experts – compared to inhouse investor teams/panels

- Very transparent assessment process with significant feedback loop to company – helps to clarify misconceptions and strengthen future funding efforts

- However – company must also demonstrate that your business is not "Investor Ready" or needs "Patient Capital" – this is counterintuitive and needs to be carefully approached.

- Very Prescriptive process, puts the due diligence before the pitch!   Limited investor contact (can be a very important part of fund raising – back the jockey not the horse).

EIC Accelerator – Know Your Audience

https://ec.europa.eu/info/funding-tenders/opportunities/docs/2021-2027/horizon/wp-call/2022/wp_horizon-eic-2022_en.pdf

EIC Accelerator – Know Your Audience

The world's biggest retailer by market value.

Before Ever Opening a Physical Store

The world's largest accommodations provider.

Owns No Real Estate

The world's largest movie house.

Owns No Cinemas

The world's largest taxi company..

Owns No Taxis

The most popular media owner.

Before Ever Creating Content

amazon　airbnb　NETFLIX　UBER　facebook

What have all of these disruptive technologies/business models have in common?

EIC Accelerator – Know Your Audience

- **Global economic competition** (Europe v's USA and ASIA)

- Europe **wants to be leading the charge** in innovation to fuel economic growth with optimal sustainability and societal returns

- Need to ensure it **creates and has access to technologies and companies of the future**.

- Needs to **reduce dependencies (technology and services)** outside of EU area.

- Europe invested billions in R&D yet **not seeing same results as competition**

- State Aid Rules governed SME investment by governments **- Needed a new approach** to investing in start-ups and scale-up activities

- Continue to **foster and invest in research** (basic and applied – challenges)

- But must commercialize the winning technologies and **finance them properly to deliver scale and impact.**

BLUE SKY – novel, innovative, game changing

WHITE SPACE – Filling gaps "white space" in strategic supply & value chains

EIC Accelerator – Clearly set out

European Commission Decision C(2022) 701 of 7 February 2022

European Innovation Council (EIC) Work Programme 2022

European Innovation Council (EIC) established by the European Commission, under the Horizon Europe programme (2021-27)

"EIC Accelerator focuses on innovations building on scientific discovery or technological breakthroughs".

*"In a multipolar world characterised by increasingly strong economic rivalries, Europe seeks to preserve its open strategic autonomy. Such an open **strategic autonomy increasingly relies on technologies and innovative solutions that respond to social needs, that are the cornerstones of new markets and wealth**, and that may have an impact on individual and collective security."*

*"In this context, Europe needs to maintain its capacity to act autonomously by **building and strengthening its supply and value chains for strategically important deep-tech solutions** for Europe, and to avoid situations where it **remains dependent on other regions** for access to or development of the related technologies."*

https://ec.europa.eu/info/funding-tenders/opportunities/docs/2021-2027/horizon/wp-call/2022/wp_horizon-eic-2022_en.pdf

Table 7. Award criteria for EIC Accelerator Open and Challenges at full proposal stage and face to face interview
Excellence
Impact
Level of risk, implementation, and need for Union support
Team: Does the team have the capability and motivation to implement the innovation proposal and bring it to the market? Is there a plan to acquire any critical competencies which are currently missing, including adequate representation of women and men?
Milestones: Is there a clear implementation plan with defined milestones, work packages and deliverables, together with realistic resources and timings?
Risk level of the investment: Does the nature and level of risk of the investment in your innovation mean that European market actors are unwilling to commit the full amount alone? Is there evidence that market actors would be willing to invest, either alongside the EIC or at a later stage? *Note: Small mid-caps will be expected to provide documentary evidence that their bank has refused the financing needed for the project.*
Risk mitigation: Have the main risks (e.g. technological, market, financial, regulatory) been identified, together with measures to take to mitigate them?

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What Investors are looking for in your plans

1. The Offering – (Product or Service) – What are you Selling

2. The Team – Who are you, what is your experience in this market, who else is involved?

3. The Go to Market Strategy - Channels to Market

4. The Market Research – Who will buy?

5. The Financials – How much do you need, what are the milestones/tranches and how will you spend it?

1. The Offering – (Product or Service) – What are you Selling

- **Exactly what you are selling.** IP, Product, Service?

- **Value proposition - the Problem, the Solution**

- Stage of development; Prototype, Beta, Market Ready.

- Intellectual Property owned or needed.
  Is the IP in your company?

- How will the product/service be made/delivered – manufactured, outsourced etc.

2. The Team – Who are you, what is your experience in this market, who else is involved?

- Who will manage the company – full time

- Balanced team - roles and shareholding. (serial entrepreneurs are great)

- Domain / Market knowledge, experience

- Advisers, mentors or informal partners

- Full Disclosure; other business team are/were involved in.

- The gaps in the team that you intend to fill

3. The Go to Market Strategy - Channels to Market

- Business Model / Revenue Model

- Are you a B2B or B2C ?

- Need to show you understand how the market works.

- Operational issues;
  - Regulation
  - Localization,
  - Logistics,
  - Licensing,
  - Currency etc

4. The Market Research – Who will buy?

- What proof have you that customers will buy?

- Investors want to see that you have engaged the market and prospective customers/channel partners.

- Paying Customers add most credibility

- If no customers yet, you need to
  - Speak with target users, target buyers, competitors

Be Clear on your Sales Projections

Most early stage Business Plans focus on the first 2 or 3 levels

"We plan to win 2% of this 3 Billion Euro Market"
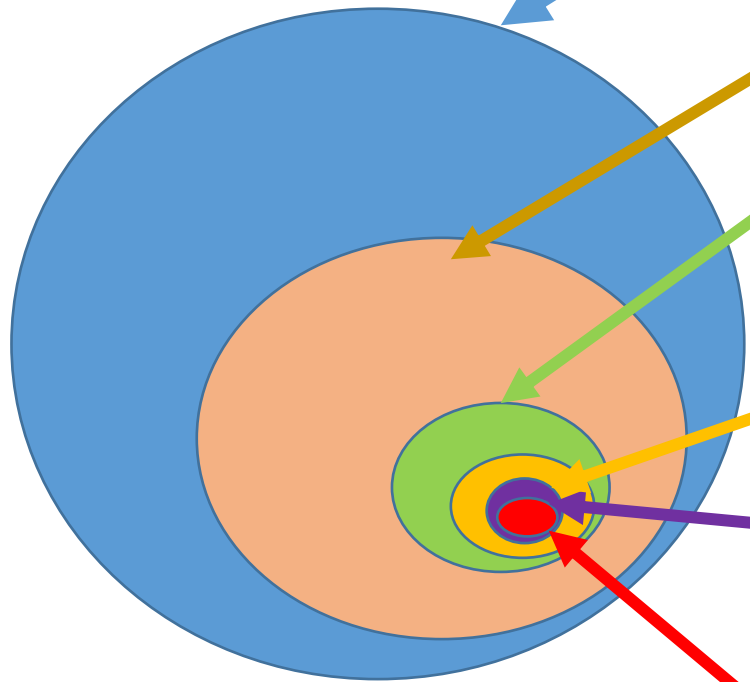
THE MARKET – Overall Global Market
Gartner, Frost & Sullivan etc, Estimates based on Number of Potential Users etc.

YOUR TARGET MARKET
The portion of the market that you will be focusing on to win business

YOUR ADDRESSABLE MARKET
The portion of your target market that you can get access to – based on plans, resources', etc.

TARGET CUSTOMERS
Names, contact details??

VALIDATED CUSTOMER PIPLINE
Who have you spoken to – what is their interest?

CUSTOMERS – RECURRING CUSTOMERS

Investors want to see that you have actually spoken with and validated your target customers.

5. The Financials – How much do you need, what are the milestones/tranches and how will you spend it?

- **Understand the Financials**
    - Revenue Model – Pricing Strategies
    - Company set up and running costs – "Burn Rate"
    - Validated Sales Pipeline (if possible)
    - Salary for founders
    - Other investors, directors loans (subordinated)

- **Projections** - Typically 3 year sales projections.
- **Spend** - Cash flow / cash burn is key issue for first years
- **Funding Plan** – how much is needed and when.
- **Key Milestones** - Time and cost to get to first sales, then time and cost to get to breakeven.

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12 Common & Avoidable Errors

- 1. Approaching Investor too early (for money).

- 2. Not Tailoring Pitch to the Investor (Know your audience)

- 3. Not clearly explaining what you are selling.

- 4. Overly Focused on the Technology/Product.

- 5. Not Speaking with Target Customers/strategic partners or Speaking to the wrong Customers

- 6. Poor competitor analysis [*Customer Decision not to buy is competition*]

12 Common & Avoidable Errors

- 7. Part-Time Entrepreneurs.

- 8. Preparing for a Pitch instead of Due Diligence (<u>note EIC Jury Panels can ask about any aspect of the proposal</u>).

- 9. "x% of Market"

- 10. IP not assigned to the company.

- 11. Not confronting weaknesses/challenges

- 12. Not Listening to Feedback. Get feedback & Improve messaging and details.