Paths to Scale

Finance lessons from European entrepreneurs

Startup Europe Partnership

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Startup Europe Partnership

Established by the European Commission in January 2014 at the World Economic Forum in Davos, the Startup Europe Partnership (SEP) is the first pan-European platform dedicated to transforming European startups into scaleups by linking them with global corporations and stock exchanges.

SEP is led by Mind the Bridge, an organisation based in Italy and the United States, which connects European entrepreneurial ecosystems to Silicon Valley, together with Nesta, the London Stock Exchange ELITE programme, the European Startup Network, the Scaleup Institute, and the Bisite Accelerator.

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1. Introduction

1.1 About this report

Why do some startups in Europe scale to billion-euro valuations whilst others barely grow? Despite the best efforts of investors, policymakers, academics and entrepreneurs to determine the recipe for success, there remains a substantial gap with other entrepreneurial ecosystems like the US or Israel, both in terms of the number of scaleups and the capital they raise.[1]

This 'scaleup gap' is often explained by looking at barriers on the 'supply side' of the ecosystem, including the availability of talent, access to markets, building leadership capacity, infrastructure, and accessing suitable finance and risk capital.[2]

Whilst these issues are important to address, there is also a need to look at the 'demand side': evidence suggests that some European entrepreneurs are inhibited from scaling by uncertainty over the paths to scale, a lack of confidence in their ability to follow these paths, or mixed motivations based on their perceptions of future hurdles.

This is especially true when it comes to raising finance: one study in the United Kingdom, France and Germany shows that almost 60 per cent of entrepreneurs are not able to access all finance they need from their preferred source, 16 per cent can't access enough capital at all from any source, and 5 per cent don't know where to look.[3]

A better understanding of the role of different sources of finance in business growth can help entrepreneurs to consider alternatives, and give them confidence to pursue these in order to scale up their business.[4]

This report aims to be both educational and inspirational, combining a practical guide to finance with real-life examples which demystify these options. We hope that it serves as a starting point for startups and aspiring scaleups to find inspiration in the journeys of others, and become better equipped to map out their own paths to success.

Although we hope this report is useful for entrepreneurs in all sectors, the focus of this report is on for-profit enterprises. We recognise that social enterprises face additional challenges in terms of creating an attractive business case that also incorporates their mission, and might pursue a different strategy from for-profit startups. For that reason, they will not be considered in depth in this report. We refer readers to Nesta's *Making It Big* for scaling strategies for social innovations specifically.[5]

1.2 Three basic types of financing

There are three basic types of financing that every entrepreneur will come across at some point: grants, debt, and equity. Many entrepreneurs use a mix of the three, but it is important to understand the differences and how they influence your business.

Grants

Grants are a type of financing that does not require you to pay the money back or give up equity in return. They are often offered by a government, charity or trust. The non-repayable nature of these funds can be attractive, but is often bounded by strict eligibility criteria; finding and applying for suitable grants can therefore be a time-consuming and competitive process.[6] Apart from grants, governments may offer other subsidies for entrepreneurs, such as tax breaks.

Debt

Debt finance comes in different forms, but essentially involves borrowing money that has to be paid back at some point, along with the interest accrued over time. Bank overdrafts and credit card finance are some of the most common types of debt finance used by businesses, including scaleups.[7]

Using debt to finance a business can be a critical decision: research in the US found that a startup using business debt "grows its revenues faster and is significantly more likely to survive the critical first three years of operation than does a start-up firm using no debt".[8]

Forms include:

— **Loans and overdrafts:** debt offered by banks and other lending institutions, as well as peer-to-peer business or startup loans. Overdrafts tend to be well-suited for financing working capital and to meet short-term requirements, whereas loans are more often used to finance larger and longer-term purchases.[9] A different type of lending that is on the rise in Europe is peer-to-peer (P2P) lending, which refers to online services that match lenders with borrowers – hence removing the role of the bank as intermediary.

— **Finance secured on assets:** includes asset finance (leasing, hire purchase), asset-based financing (invoice discounting and factoring, asset-based lending and supply finance).[9] The former is a way for businesses to obtain assets such as equipment by securing a lease or hire-purchase agreement that is secured against the asset. The latter is a form of financing where lenders make funds available that are secured against the company's assets[10], generally used to support cash flow. Different types come with specific benefits, risks and requirements and should be considered carefully.[11]

— **Bonds and mini-bonds:** a type of fixed-income debt securities. They allow a company to borrow money in return for a predetermined interest rate over a period of time. The sum must be repaid after the 'maturity' date of the bond expires. Traditionally bonds are traded on the stock market, as opposed to mini-bonds which are promoted to certain types of investors.[9]

Unlike equity, debt financing does not involve giving away shares (though some forms require you to offer assets in case of non-repayment). On the downside, debt financing can come with specific conditions (e.g. banks may prohibit you from acquiring other companies till the loan is repaid) and strict repayment structures are often linked to penalties. Some debt, like credit cards, may be easy to obtain but is comparatively expensive in the long term.

Equity

Equity means giving away a share of your company in return for funds. One advantage of this is that the investors share the risk, so if the company goes bust, you share the pain and may not be left with large debts to repay; another advantage is that it can help align the incentives of stakeholders, so that everyone has a reason to want the company to succeed.

One big disadvantage is that it leads to 'dilution' (you will own less of the company, hence receiving less of the up-side) and you might also have to give up some control over decision-making (but see below). Equity investors naturally want to maximise the value of their stake and typically want to realise this value at an 'exit', which sometimes leads to conflicts in strategy. Equity investment will require a shareholder agreement, for which you will need professional advice.

Many entrepreneurs have understandable reservations about giving away equity: in the UK, for example, only one in four scaleups use equity finance.[2] In some cases, this is due to reservations about giving up control of their business; in other cases, it is due to a lack of knowledge or perceived complexity (again in the UK, 17 per cent of scaleups said they knew nothing about equity finance).[2] However, even without fundraising, startups may need to think about dividing equity between co-founders, as well as incentivising employees or advisors, and reserving a pool for future reward.

Although ownership and control typically go together, it is possible to separate these matters by issuing different classes of shares. (For example, Google's founders, Larry Page and Sergey Brin, have a minority of ownership but a majority of voting rights). Many firms issue two types of shares, 'ordinary' and 'preference', with the later receiving preferential treatment of some kind, such as priority over ordinary shareholders in pay-outs and compensation in case of liquidation (see glossary). Investors will therefore often demand preference shares of some sort, and it is important to understand the consequence of these – especially if the company were to go bust – when negotiating the terms with them.

Hybrid forms

The distinction between grants, debt, and equity financing is not as clear-cut as it may seem. There are many instruments that combine elements from different types of financing, such as convertible debt, warrants, and mezzanine financing, allowing for a tailored approach to financing a growing business. For purposes of clarity, this report will not discuss these forms in detail, but it is worth keeping in mind when designing a financing strategy that different funding sources can complement each other (also see chapter 3).

1.3 Overview of financing routes

In this report, we look at eight different financing routes, summarised below.

	In short	Average investment size (in €)[12]	Average time to raise finance	Cost of finance	Collateral
Bootstrapping	Finance is generated within the business (no external capital)	N/A	N/A	N/A	None
Crowdfunding	Finance is sourced from the crowd on online platforms	10k (rewards-based)	1 – 2 months	Medium	Any (chosen by the startup)
Angel Investment	Finance is sourced from individuals investing their own money	180k	2 – 6 months	Low	A share of ownership or repayable debt
Venture Capital	Finance is sourced from institutional investors or larger corporations	5m	6 – 12 months	Medium	A share of ownership or repayable debt
Initial Coin Offering	Finance is sourced from public investors using cryptocurrencies	15m	3 – 12 months	Medium	Any type of tokens (chosen by the startup)
Corporate Acquisition	Finance is sourced through acquisitions by corporations	57m	4 – 6 months	Medium to high	Company restructuring
Initial Public Offering	Finance is sourced by selling shares to public investors on the stock market	120m	2 – 18 months	High	Multiple small shares of ownership
Private Placement	Finance is sourced from a small group of selected investors through a private offering	210m	4 – 10 weeks	High	A share of ownership or repayable debt

Many of these routes are commonly perceived as being applicable to a certain growth stage or maturity of a business, or only suitable for a certain funding requirement. However, there is a considerable degree of overlap, and changing adoption patterns. The graph below (Figure 1) shows the breadth of investment sizes per round for each type of funding. This serves as an illustration that, rather than thinking only of the quantity of finance required, it is important to instead look at what suits your business (see chapter 3 for further guidance).[12]

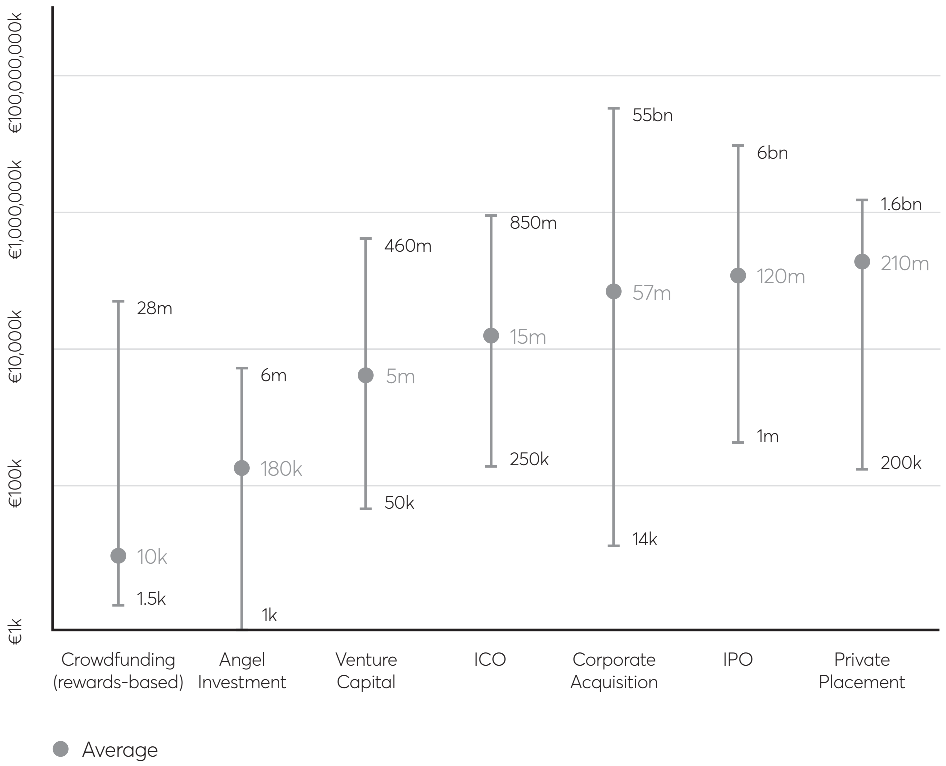

Figure 1: Largest, smallest and median investment size per round for key financing routes (based on available data for European digital startups between 2017-2019)[12]

The following chapters will present inspirational stories of entrepreneurs who successfully scaled their business, using one or multiple types of financing. They share their scaling stories and lessons they learned along the way. Alongside these stories we explain the basics of the eight financing routes, highlighting key figures, how it works, relevant facts, and some practical steps and tips to help you get on your way.

2. Eight routes to finance your growth

2.1 Bootstrapping

Bootstrapping, sometimes called 'organic growth', is the act of starting and funding a company without relying on external capital. The company starts using only the founder's resources and grows by reinvesting profits into its own growth.

For some startups, bootstrapping is not a choice, but the only option until they can convince others to invest in them. For others, it is a deliberate strategy to retain ownership and control.

Good to know

Main advantages

- Retain full ownership.
- Keep focus on customers rather than investors.
- Use freedom to test a product or service, without external pressure to get it right.

Potential challenges

- Limited resources may mean slower growth.
- No access to investors' networks and expertise.
- Need to get operational fast and generate enough cash to break-even.

Common misconceptions

- *Bootstrapping means having no external help at all.* Many entrepreneurs rely on support from public acceleration programmes, challenge prize money, grants or strategic partnerships to finance their growth plans.
- *Bootstrapped startups will always stay small.* There are many examples of startups who experienced exceptional growth whilst bootstrapping and reached millions in revenues.

Next steps: preparatory tips

- Leverage your (online) network and find people with expertise who are willing to help.
- Research funds that might be suitable for your business (e.g., from the European Union, see chapter 5).

The basics

Types
Self financing, non-repayable funds.

Examples
Personal savings, company income, upfront payments, grants, non-equity programmes, donations, and prizes.

Possible funders
Friends and family, public bodies and institutions (e.g. cities, chambers of commerce, national agencies, European Commission, etc.), foundations and corporations.

Common startup growth stage
Idea or very early stage.

Resources

The European Startup Network
www.europeanstartupnetwork.eu

European funding and tenders portal
https://ec.europa.eu/info/funding-tenders_en

ReWork: Change the Way you Work Forever (2010) by Jason Fried and David Heinemeier Hansson.

Scaling story

Eyeo

2011 - 2019

Bootstrapping

Amount
-

Purpose
Professionalising company, team hires, improving software

In short

Country of origin Germany

Founded date 2011

Founder(s) Tim Schumacher, Wladimir Palant, Till Faida

Sector IT

No. of employees 150

Total funding raised -

Tim Schumacher, co-founder Eyeo

German software firm Eyeo is behind AdBlock Plus, the world's leading online advertising blocker. Eyeo's software has been downloaded more than a billion times since it was first developed in 2006. After some initial seed funding from co-founder Tim Schumacher, the business has grown organically, reinvesting profits into development and talent. Today, despite zero external capital, the company has grown to a turnover of €40 million, 100 million users and 150 staff. Tim explains how he did it.

From acorns, mighty oaks

In 2006, programming whizz Wladimir Palant was sick of being bombarded with unwanted online advertising. During his spare time, he wrote a programme that would filter out all the banners and pop-ups. He uploaded his creation to the web so that other users could download it for free. He had no idea that his simple piece of software would be a global hit.

Within four years, AdBlock Plus had become the number one ad blocker in the world, with millions of users. This is when he met serial entrepreneur Tim Schumacher, who was running domain marketplace Sedo.com, which also ran ads on its network. "I noticed that on some occasions ads didn't show up," says Tim. "I wanted to know what was happening." As fate would have it, both entrepreneurs lived in the same city: Cologne, Germany. They met, and Tim was bowled over by the success of Wladimir's side hustle. "I downloaded the plug-in and surfed the web without annoying ads," he says. "I was like, 'Wow! This is amazing. I can't believe I didn't know about this.' We decided to take the hobby and make it a real company." In August 2011, the pair formed Eyeo with co-founder Till Faida, who is now the CEO.

Capitalising on the idea

Tim supplied the seed capital to get the startup off the ground, becoming chairman of Eyeo – and its largest shareholder.

"It didn't need much," he says. "Just a couple of hundred thousand euros. I had sold a company and was in a fortunate position so I provided the initial funding."

Eyeo started life with a major advantage over most startups. "Many spend years and millions trying to get users," explains Tim. "Our user base was already there." Instead, the cash was spent on professionalising the company, hiring a small team, and improving the software itself.

"Our first steps were to expand the user side by moving onto other platforms," Tim says. AdBlock Plus was only available on the Mozilla Firefox browser back then, and needed to be tweaked to run on Google Chrome and mobile. "We spent a lot of time making sure we were available across all the platforms. That's how we gained more users."

At the same time, the software was made more user-friendly: "We made it shinier and easier to use."

The secret to organic growth

Eyeo's founding team knew they had to monetise AdBlock Plus to ensure the survival of the business. They came up with a model, which charged big companies a subscription to allow their ads through the blocker, provided they met strict criteria. "We defined an acceptable ad standard that banned the bad but allowed the good through," explains Tim.

"If you're a small company or independent content creator, you get on the whitelist for free. If you're a bigger company, you have to comply with our standards and pay a certification fee to get on the whitelist. That's been our business model and ethical core." This is how the business has grown to generate €40 million in annual revenue.

"We were profitable quickly and could fund entire growth organically, which is rare. And it's fulfilling to have a company without investors."

"It helps us make long-term plays and do things differently, rather than focusing on how we'll get the next round of funding. We could have done a crowdfunding round if we'd needed money but we were lucky that, even today, we can fund ourselves organically."

According to Tim, this model is not only allowing Eyeo to scale, it is also helping to change the online advertising industry for the better. "Even some of the old guard are adopting best practice from our playbook, which is great," he says. "We're changing things."

Flirting with disaster

Eyeo has made enemies over the years. Many advertising firms have lost millions because of its blocking technology. Some have decided to fight back: "Over 20 companies have been founded, whose only goal is to circumvent ad blockers and show users ads even if they don't want them," says Tim. "They try to game our system."

Eyeo has also been subjected to six different lawsuits over the years, mainly from media giants attempting to recoup lost advertising revenues. "People didn't embrace us with open arms," says Tim. "We felt like climate change activists in the fossil fuel industry or health campaigners in the tobacco industry."

The most aggressive legal challenge came from Axel Springer, the German publisher. "That has kept us busy from 2013/4 onwards," says Tim. The Supreme Court finally dismissed its appeal last year. "Life has been quieter since then."

Tim adds: "If the battle had come two years earlier, we might be dead now. Our great luck was that industry slept for a long time and the battle started at a time when our revenues were in the multi-millions and we could hire good lawyers to defend the lawsuits. It did cost us millions over the years but it also gave us free publicity, so it all balances it out."

Looking to the future

The company has never stopped innovating to meet the needs of a fast-moving industry. It has just launched a new product, Flattr, which allows users to read paid-for content on-demand without seeing annoying ads. It processes micropayments from users in return for using its algorithms to filter out "fake news" so they only see quality, authentic stories online.

Eyeo is also now investing its profits into geographical expansion: "We want to grow in other territories now that our growth is flatlining," says Tim. "We're also looking at more partnerships, diversifying away from a pure consumer play." Mobile is a major market for the company too: "Users are increasingly frustrated by mobile ads but we can't use the same technology [to block them]. We still have a lot of work to do."

Tim has managed to accrue a cash pile and is considering acquisitions for the first time.

"Our percentage rate of growth is much lower than it used to be, so we need to put in a lot more work for the same rate," he explains. "But there are now other companies in our market we could acquire."

Only 20 per cent of online consumers currently use an ad blocker, so there is a significant opportunity to win more fans. Ironically, Eyeo has been very successful at using advertising to secure more users. "We thought it was crazy to market an ad blocker but we showed an ad on YouTube saying, 'This could be the last ad you watch'," says Tim. "People have been very receptive to our message."

Scaling story

Carcela

2016 - 2019 → **2019 (planned)**

Bootstrapping	**Venture Capital**
Amount -	**Amount** £15 million-£20 million (envisioned)
Purpose Develop and prove business model	**Purpose** Team expansion, inventory, marketing

In short

Country of origin UK

Founded date 2016

Founder(s) Dagmawi Belay, Tomasz Sadowski

Sector E-commerce

No. of employees 10

Total funding raised -

Dagmawi Belay, co-founder and chief executive Carcela
Dagmawi Belay, 23, started car selling website Carcela with co-founder Tomasz Sadowski in November 2016 and is in the early stages of scaling up the business. It's a challenge he relishes, having worked in startups since the age of 16.

Before making his foray into car selling, Dagmawi was a key player in the growth of aerospace startup Hiddier. The company was sold to a government agency in 2014 for an undisclosed sum - although some reports suggest it was in the region of $190 million. Dagmawi said this both gave him the appetite for building his own venture and the capital to do it: the sale left him with "some decent pocket change" for a 19-year-old, he says.

"I come from a household where I had four options growing up: [to become a] doctor, lawyer, engineer or a disappointment," he says. "So I was up against that from a young age. But after the success of Hiddier my parents never moaned about me not going to university again."

He experimented with other business ideas, first launching GrabFood, a food delivery business, in 2015. That company didn't find traction, he admits. "Grocery is low margin. It was always going to have a hard burn rate.

Then, when we started courting investors, they had already invested in competitors [such as Deliveroo]." It was an "expensive lesson", he adds.

He landed on the idea for Carcela when he took his mum to a dealership to buy a new car. They left empty-handed, feeling short-changed by the whole process. Dagmawi says dealerships will often advertise a particular model online but when buyers arrive at the forecourt they have another model pushed on them.

He explains: "The market is ripe for disruption. The dealership is a stationary object that sells a moveable item. It's a century-old model. Large dealerships may be investing in their operations but they are not changing the overall customer experience or getting the best use from technology. Most give terrible service, yet people deal with it."

The winning formula
Dagmawi experimented with ten different business models for Carcela before finding the perfect fit for the market. It is a peer-to-peer service for buying and selling cars that takes out all the hassle for the consumer. The company co-ordinates everything from test drive and vehicle inspection to managing and logging the paperwork with the UK's Driver and Vehicle Licensing Agency (DVLA). Buyers don't even need to see a car before buying, as Carcela can handle the purchase remotely and deliver to their doorstep. The company has notched up all favourable reviews on its website, with customers saying Carcela is "very easy to use" and "reasonably priced".

To date, Carcela has managed the car selling process without taking ownership of the physical car. However, in order to scale at pace, the business will now start buying in inventory. Dagmawi is now on the fundraising trail for the first time. He plans to use his Series A round to acquire vehicles.

"We bootstrapped Carcela in the early days, and now we're changing the model from low capital to capital intensive," he says.

He explains that this means he can offer better service and cheaper prices, as insurance companies will give Carcela more favourable rates if they own the cars directly.

Dagmawi is targeting between £15 million - £20 million in a mix of debt and equity. A significant portion of the money will be going towards hiring more people and boosting the marketing spent to further build Carcela's brand awareness.

Dagmawi tried approaching venture capital firms when Carcela was just at the concept stage but found they were reluctant to engage with him due to a string of other company failures in the sector.

He decided to go it alone and prove the model before trying to raise external capital again. He claims he spurned angel investment and acquisition attempts for the first two years to prove that he could budget correctly and that the business could be profitable.

He toyed with the idea of raising money through crowdfunding in order to show future investors that Carcela had won fans, but he believed he would never be able to raise enough through crowdfunding alone. "We're after more capital than is typically raised through crowdfunding," he says. "We're not opposed to it however. Once we have commitments in place for the Series A, we could leave a portion open for crowdfunding from our customers and advocates."

Now he's proved his business model can work and is making money, he's feeling optimistic about this round of fundraising. "It's been great to prove our model works, where other VC-backed players have failed," he says.

"Hubris played a significant role in their downfalls. We will be very diligent with capital usage."

Get advice
Dagmawi advises entrepreneurs to talk to other business owners as much as possible to get tips on where they succeeded and where they failed. He found that entrepreneurs in the US are more willing to give advice than their UK counterparts. For example he asked the founders of Beepi, a firm in the US with a similar model to Carcela, for pointers. The firm went bust after raising over $100 million but the founders were still willing to have a conversation.

However, when he asked two UK competitors why they had closed up shop, neither wanted to share their story.

"Although US players may view you as a rival, you're in a different territory so are not viewed as a threat," he says. "Naturally, this perspective may vary dependent on sector and business type."

Going international
Carcela already has partnerships with rental companies that have bases across Europe, and the company is debating whether to go into France in 2019. But for the time being, the UK is Dagmawi's focus. Currently, the company is most active in Glasgow, Manchester and London.

In three years' time, he hopes Carcela will be the consumer's go-to alternative to the car dealership.

"We know dealerships will not be gone instantaneously, but we want to be the other option," he says.

"My ideal scenario is that Carcela does well, the dealerships are on their last legs, and we shall be the dominant player. The industry has to change. Even if we are not the sole player, or even the winner, it has to change."

2.2 Crowdfunding

Crowdfunding is a way of financing projects and businesses through many small donations from a large group of people, in exchange for promises of future goods, services, equity, dividends or other rewards.

Many of us have heard stories of successful crowdfunding campaigns, like German startup *Bragi*, which raised ten times more than its target amount through a rewards campaign,[13] or UK challenger bank *Monzo*, which raised £20m in two days. However, success is not always guaranteed and depends on a strong product/market fit and good preparation.

The average amount raised per round varies

€10,000 – €20,000 **(rewards)**

€0.3 million – €1 million **(debt)**

€0.5 – €2 million **(equity)**[15]

The duration of the campaign is
one to two months
on average*, with an additional
two to five months
pre-campaign preparation time.

***The optimal campaign length is estimated at around 30-40 days.**[16]

The basics

Types

Reward / donation (non-equity), debt, equity.[14]

Possible investors

'The crowd' (anyone who meets the requirements of the platform), institutional investors, professional investors.

How to meet your investor

Primarily personal network (friends and family), pre-existing network and social media, or dedicated online crowdfunding platforms.

Common startup growth stage

Any startup stage (but can vary per platform and type).

Resources

Nesta crowdfunding tools and resources
www.nesta.org.uk/feature/innovation-methods/crowdfunding/

European Crowdfunding Network (ECN)
www.eurocrowd.org

National crowdfunding associations
See country profiles in chapter 5

Cambridge Centre for Alternative Finance
European Alternative Finance Industry Report

Good to know

Main advantages

- Opportunity to build a network of ambassadors, fans and loyal customers.
- Form of business/product validation or proof of concept (the crowd can be useful in testing market fit, iterating on features and harnessing collective intelligence for new ideas).
- Can help accessing other forms of financing for future rounds, e.g. through media attention gained.
- Relatively quick way to raise funding.

Potential challenges

- Requirement to disclose significant business information to the public creates risk of copycats.
- No guarantee for success – for example only around 36 per cent of Kickstarter campaigns succeed[17] – and most platforms have an "all-or-nothing model" (no investment if target is not reached within the maximum running time).
- Failure is public, and might deter subsequent investors, if it suggests that the market does not exist or is not ready.
- Potential pressure from pledgers to meet their demands and deliver rewards on time.

Common misconceptions

- *The crowd will find you on the platform.* It takes a strong campaign with an active marketing strategy to activate an audience and attract potential investors to the platform.
- *Crowdfunding is an easy route to finance.* The amount of time and resources invested in a successful campaign should not be underestimated. A lot of the work happens upfront, including designing a campaign, setting up the platform, and pre-committing investors. Generally speaking, a precommitment of 30-50 per cent of the total goal will increase the success of the campaign.

The investor's perspective

With crowdfunding, everyone can invest in a business. This means that there are many different types of investors and it is important to determine which type of investor you are targeting.

Preparatory tips

- Research national regulations to establish how much funding you can raise and how and where you can raise it.
- Consider which platform is best suited for you. Carefully compare fees, the subscription agreement, the platform's audience and past fundraising campaigns.
- Consider IP-protection.
- Getting potential funders pre-committed can significantly improve your chances of success, for example by committing angel investors to invest through the crowdfunding platform.

How it works

Crowdfunding

You are here

1. Preparation

Pitch and screening

- Define a campaign strategy (target audience, objectives, allocation of time and resources).
- Find suitable platforms that fit the developed strategy.
- Develop a campaign page and/or pitch video that explains the business and growth plans.
- Undergo screening by platform to ensure the pitch meets criteria.

2. Pitch goes live

Announce campaign publicly

3. Fundraising

Public pledges money

- Post regular updates during fundraising period.
- Answer questions from the community.
- Issue/sign shareholders' agreements/coupons and any other documents to comply with your stated offer (commercial, equity, dividends, etc). *Not applicable for donations.*

4. Post-fundraising

Goal not reached → End of project

Target met

Project development

- Communicate regularly with backers (investors) and keep them updated on any developments.
- Complete project and return rewards to backers (if applicable).

Costs may include

Platform fees

- Registration fee.
- Fundraising fee: 3 to 5 per cent of the total amount raised if the fundraising campaign has been successful.
- Listing fees (5 per cent) for equity crowdfunding may apply.

Payment processing fees

Online marketing costs

**fees vary greatly depending on country, type of crowdfunding and platform used*

Commonly followed by

Angel Investment

- See chapter 2.3

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Venture capital round(s)

- See chapter 2.4

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Scaling story

Invesdor

2012-2014
Venture Capital
Amount
> €300,000

Purpose
Go full-time, marketing

2014
Crowdfunding
Amount
€290,000

Purpose
Bring early adopters together, add value to customers

2014
Grant
Amount
€50,000

2015
Crowdfunding
Amount
€1 million

Purpose
Brand awareness, feedback on service, expansion

2015
Angel investment
Amount
Undisclosed

Purpose
Corporate partnership with US market-players

2016
Grant
Amount
€250,000

2016
Crowdfunding
Amount
€1.2 million

Purpose
Brand awareness, feedback on service, growth

2017
Angel investment
Amount
Undisclosed

2018
Crowdfunding
Amount
€970,000

Purpose
Strengthen international presence

In short

Country of origin Finland

Founded date 2012

Founder(s) Lasse Mäkelä, Jouni Leskinen, Lare Lekman, Miikka Poutiainen, Petteri Poutiainen, Timo Lappi

Sector Fintech

No. of employees 21

Total funding raised more than €4.2 million

Lasse Mäkelä, CEO and co-founder Invesdor
Invesdor launched in 2012, becoming the first equity crowdfunding platform in the Nordic region and enabling the first IPO of a crowdfunded company, when Finnish company Heeros Oyj listed on Nasdaq in 2016. The company has raised a total of €4.2 million, the majority of which has come from equity crowdfunding on its own platform. Chief executive Lasse Mäkelä shares Invesdor's scaling story.

As a former investment banker, Lasse Mäkelä has experienced fundraising from both sides of the table. Seeing some of the challenges for funders and entrepreneurs prompted him to try and improve the process.

"What bothered me was the need for entrepreneurs to get expensive lawyers and advisors involved in the fundraising process," Lasse explains. "I wanted to digitise the process, making it fair, easy and, importantly, transparent."

The catalyst to turn this idea into a reality came when Lasse was trying to raise funds in another startup. He wanted to enable customers of the company to become shareholders but no one was offering equity crowdfunding in the Nordic region. "We contacted Crowdcube to see if they could help but they were only active in the UK. That is when we decided to found Invesdor," he says.

Lasse and five other friends got together to create the first equity crowdfunding platform in Scandinavia in 2012. The entrepreneur admits it began life as a side-project for the founding team, who kept their full-time jobs, ploughing their own money in to start it off. But it soon became apparent that working on the project in evenings and weekends was not enough and they decided to take the plunge and go full-time.

"We realised we were in the right place at the right time and needed to put in more effort," says Lasse.

"After a year, we got our first external investor, a Nasdaq-listed wealth management company. It invested a little money, which enabled me to move to the business full-time in 2013."

The backer was Finland's Taaleri Oyj, whose management had got wind of this local crowdfunding effort. "This new and growing form of financing is an interesting way to invest in unlisted companies," the company's executive vice president, Karri Haaparinne, said at the time. "Taaleri wants to be involved in developing the service, and thus also carry out its own mission of developing the Finnish capital markets and increasing the Finnish ownership."

Finding that breakthrough moment
One of the early challenges for the business was splitting the focus between getting great quality companies on the platform and finding a critical mass of investors. "The first two to three years, we had low volumes but then it started to pick up," explains Lasse.

The team worked hard to create brand awareness. Lasse, with his longstanding career in banking, was the ideal face of the company; he inspired trust in customers and backers alike. At the same time, Invesdor rode the wave of support created by its international crowdfunding peers, such as Crowdcube, which was gaining traction in the UK, and Kickstarter in the US.

"Digitising the investment process was a major trend that helped us," he explains. "Kickstarter was becoming a global phenomenon and people understood that we were similar; just instead of a company's products, you would get shares."

Increasingly, negative perceptions of other forms of finance did not hurt either, he adds:

"You hear many stories about angels and VCs making very hard terms for entrepreneurs, driving valuations down and creating a lot of unfairness in the market."

Invesdor's big break came when one of its early adopters, Finnish cloud-based financial management company Heeros Oyj, listed on Nasdaq. The company had raised €660,000 in equity crowdfunding on Invesdor the year before – becoming the first company in Europe to IPO, having raised crowdfunding.

More than 140 companies have raised €67 million via the platform. Deal sizes are rising steadily. During the year of 2018, the average deal was worth €800,000 – up from an average of €500,000 - €600,000 the year before.

Practising what they preach
As drivers and advocates for the burgeoning crowdfunding industry, it only seemed right that Invesdor's fundraising would be done through the platform. Following Taaleri's initial investment into the company, Invesdor embarked on a series of public rounds of fundraising on its own platform, drumming up €1 million in 2015 and €1.2 million less than a year later in June 2016.

“We have been really happy with our fundraising and it is great for feedback,” says Lasse. “It enables us to see for ourselves where we can improve our service to customers.”

The company has now crowdfunded four times through its platform. It closed a €970,000 round in June 2018. The entrepreneur says Invesdor may go back to these armchair investors, or perhaps look to venture capital for future funds. “We are in good shape for fundraising, and it has been quite natural,” says Lasse. “Of course at some point, we may get more professional investors on board but I am sure we will combine that with our own service too.

Branching out

Invesdor is now active in Finland, Sweden, Norway, Denmark and the UK – although Brexit has somewhat put the breaks on further investment here. “The question is always how aggressively do you want to grow and which countries to target?” says Lasse. Determined to be the leading platform for digital fundraising in Europe, the company is exploring more ways to scale.

“We have divided our business into two areas,” explains Lasse. “We have fundraising but we also sell our technology, processes and investment firm licence as a package to help other traditional fundraising companies to digitalise their processes.” In addition to this, the team wants to make company reporting easier, looking at digital tools for shareholder reports.

Invesdor is also hoping to attract bigger investors to the platform and close more substantial rounds for its customers. This will help the service to hit the mainstream.

“We need to get more institutional investors using this digital platform,” says Lasse. “That is our largest barrier to growth.

Invesdor is also hoping to attract bigger investors to the platform and close more substantial rounds for its customers. This will help the service to hit the mainstream.

If the platform succeeds in overcoming these obstacles, Lasse says an IPO is not off the cards. “We would consider it,” he says. “We have had some discussions but we are not ready yet. It is something we keep in mind because it would make a lot of sense for us at some point.”

Invesdor finished 2018 on a high, winning the title of Best Nordic Fintech Start-up in November. Awards aside, enabling the ecosystem is a strong driver for Lasse: “I used to work for an American investment bank and it was a very money driven environment. At Invesdor I can focus on building new things, but also help companies to raise funding and investors to find interesting new opportunities that they could not before. That is important.”

Scaling story

Agroop

2015 → **2016** → **2017**

Crowdfunding

Amount
€83,570 (€75,000 target)

Purpose
Establishing initial tech team and capability

Crowdfunding

Amount
€97,755 (€75,008 target)

Purpose
Building sales and support capacity

Accelerator

Amount
€20,000

Purpose
Beginning to pivot business to hardware

2017 → **2018**

Crowdfunding

Amount
€525,412 (€200,009 target)

Purpose
Development of proprietary IOT hardware

Grant
SME Instrument (phase 1)

Amount
€50,000

In short

Country of origin Portugal

Founded date 2014

Founder(S) Bruno Fonseca, Bruno Rodrigues

Sector Agriculture/AgriTech

No. of employees Nine

Total funding raised more than €725,000

Bruno Fonseca, CEO and co-founder, Agroop
When Agroop started its journey, founders Bruno Fonseca and Bruno Rodrigues had a good idea, and lots of passion. It was crowdfunding that let them scale those humble attributes into a fast-growing business which helps maintain and maximise harvests across the globe.

Feeling underqualified might be more prevalent in startup culture than you imagine. Often a small team must embrace an intimidating spectrum of roles, so they can turn a business idea into a business. With management, company structuring, financing, staffing, sales, marketing, accounting, technology, legal, production and more to consider, it can feel impossible.

That sensation is certainly familiar to Bruno Fonseca, who - with his long-serving partner Bruno Rodrigues – co-founded Agroop, a technology company that provides hardware and software to help farmers and agricultural consultants monitor growing conditions, maximise harvest and minimise water and energy waste. Having worked on a rebranding project with a farmer, Bruno Fonseca had found an opportunity to start a business serving the agricultural sector. In short, farmers rarely had access to meaningful data to inform growing decisions. Bruno realised that with a relatively simple app, that challenge could be readily countered.

There was one problem. "We had no technical experience back then," confirms Bruno, with a knowing laugh. "That was a huge challenge, because we both were designers. Usually people will say try to find founders with different backgrounds and different knowhow so they can complement each other. There we made our first big mistake. Or maybe it was a 'lesson'. We cannot say if that was a real mistake, because we are still here. But in the beginning, it was very difficult."

It was 2014, and buoyed up by a modest scholarship from the government of their Portuguese homeland, the pair received €700 a month for one year, to help establish their business.

A design for success
The pair of founders had tried wooing investors in the early days, but with agritech being a highly specialised field at the time, the right backers were difficult to find. Many lacked experience, while some wanted a substantial cut of any equity; Bruno remembers offers of €50,000 for a 51 per cent stake in the company.

Undeterred, they looked to a funding option where design experience could give them the edge needed. In 2015 Agroop went to Seedrs to try its popular approach to equity crowdfunding. Reward-based crowdfunding, like that offered by Kickstarter would most probably not raise enough cash because of their type of business. But the same rules that apply to Kickstarter apply, to a degree, to Seedrs. You need a people-facing page that is very well designed.

"Going to Seedrs was a very interesting decision for us," asserts Bruno. "There we tried to find a different approach. And we used our strongest points on that platform. What we did – being designers – was to build a very precise mock-up of what we needed to do. We could communicate our idea very well, and make interesting videos. That was the base from which we wanted to get investment. Making a good video in crowdfunding is very important, and we knew how to do that. We did what we did best at the time."

Certainly, the Seedrs campaign went very well. Agroop were looking for €75,000. Thanks to overfunding, they secured close to €84,000, in return for a 5 per cent cut in the company. It was a considerably better deal than those offered by some of the early business angels the team met with. As the company has grown it has returned to Seedrs twice, and at the time of writing a fourth campaign is underway.

The second campaign came in 2016, when the team hoped to pull in a further €75,008 in order to establish the company's broader operations, including a sales and support capacity. They secured nearly €98,000 thanks to more overfunding. The following year Bruno and his team returned to Seedrs for a third time looking for a more ambitious €200,009; the money would be put to developing the hardware that would become the core of their business. They raised more than double that, tipping the scales at just over €525,000. At the time of writing, Agroop's fourth Seedrs campaign is about to launch.

Stoock Control
Before considering how Agroop harnessed the potential of equity funding to successfully scale their business, it is worth taking a look at the changes to that business. Very early on the focus was on an agricultural management app, Agroop Operational. While the app was popular, it did not gain ideal levels of traction. Feedback from farmers said Agroop Operational was useful, but manually entering data was too time-consuming.

"We did something which is very usual for a startup; we pivoted"

Bruno remembers. "Instead of building software or a platform that is very dependent on manual inputs from farmers, we did the very opposite. We started delivering an IoT device called Stoock. The Stoock collects data on five different parameters, so we can basically parenthesise soil moisture and temperature, air temperature and humidity, and the solar radiation with just one device, in a very scalable way. The sensor does not need any cables, does not need a technical team to implement and deploy it, and it is energetically efficient." An app – Agroop Cooperation – was built to accompany Stoock. Crucially, this time the platform presented data, rather than requiring to be fed information.

Community gains
Pivoting is famously common in startup culture, but it can rather complicate business roadmaps, financial planning, and so on. Equity crowdfunding let Agroop both scale and shift its shape. Of course, you need to get crowdfunding right to enjoy those benefits. And for Agroop, it is all about community. Building a meaningful community is easier said than done, but Agroop had already done the legwork early on, when the company was making initial contact with investors and pooling insight on the business' viability.

Bruno recommends that at the start of an equity crowdfunding campaign, any business should have around 30 per cent of its backing target already likely to come in from an established investor or contact network. Significant early funding lends any campaign credibility, which creates momentum.

"It is very important," says Bruno of the early days of such a campaign. "It is like a snowball. If you get that initial momentum and initial community right, in the next campaign that community will be very important. That community will still be growing, and your investors and stakeholders will be there to invest more and convince others to do the same."

Equally, the Agroop CEO recommends giving a full month of your time to building the campaign in advance. With the campaign active you will also want to communicate constantly with confirmed and potential backers. Make regular blog updates, invite backers to private message groups or a special area of your website, send newsletters, and generally make your audience feel valued, special and informed. And, at least for Agroop, a degree of vulnerability worked.

"The momentum is very important. And so is transparency," offers Bruno. "People need to understand that you are not only communicating the positive outcomes, but also that you show your struggles. Sometimes you have to make them feel the pain, and show them that you are honest. Occasionally, being vulnerable and showing others our vulnerabilities is very powerful. People can correlate and connect with that."

Equity crowdfunding was not the only financial foundation for Agroop's success. As well as the aforementioned government scholarship, the team spent time on an immersive agricultural accelerator in Italy, which covered expenses, provided €20,000 in cash, and much more significantly for Bruno, provided access to expert insight, experience and mentoring.

As Agroop proves, you do not need a founding team that covers every possible skill the business could ever need to scale successfully, and with equity crowdfunding, your business can evolve as it scales. It is not the only funding option for a scaling-minded startup, but it may be one of the more accessible. And from small acorns grow mighty farming businesses.

Scaling story

Funderbeam

2013

Angel
(Kaidi herself)

Amount
€20,000

Purpose
Set up costs: for the platform

2013

Seed round

Amount
€100,000

Purpose
Set up costs: regulatory compliance expenses linked to fintech

2014

Seed round

Amount
€500,000

Purpose
Build data intelligence service and legal compliance costs

2015

Seed round

Amount
€655,000

Purpose
Prepare launch of Funderbeam Markets (launched in 2016) and product testing

2016

Equity funding
on Funderbeam platform

Amount
€2.3 million

Purpose
Scaling

2017

Venture Capital

Amount
€2 million

Purpose
Asian market entry

2018

Equity funding
on Funderbeam platform
+ Convertible note

Amount
€2 million

Purpose
Asian market entry

In short

Country of origin Estonia

Founded date 2013

Founder Kaidi Ruusalepp

Co-founder Urmas Peiker

Sector Fintech

No. of employees 32

Total funding raised €11.3 million

Kaidi Ruusalepp, Founder, Funderbeam

Funderbeam is an innovative marketplace that allows investors to invest in and trade shares of startup and growth companies. Powered by the blockchain, the Estonian startup has attracted 6,500 investors to its platform from 117 countries. Funderbeam has an impressive list of backers, including Skype founding engineer Jaan Tallinn, famous Silicon Valley VC Tim Draper, Japanese Taizo Son and Thomson Reuters. Kaidi Ruusalepp, Funderbeam's creator, explains how Funderbeam disrupted a traditional industry.

Kaidi left a long and prestigious career as the CEO & Board Member of Nasdaq Tallinn to start Funderbeam because of her belief that companies and investors deserved a better deal when trading shares in growing companies. As the former chief executive of the Tallinn Stock Exchange, she learned about lack of capital in growing markets, limited liquidity for early investors and the changes of IPO market.

"I decided that after 11 years at the business, it was time to move on," she says. "I wanted to set up a business so I discussed my ideas with friends and people from previous business journeys and Funderbeam came out."

Founded in 2013, Funderbeam enables the funding and trading of global private companies. The exchange uses the blockchain to record investments and transactions. "Investors can invest in early-stage companies without using major intermediaries, which makes our service immediately global," says Kaidi. "That's our core. Speed. Cost efficiency. Transparency."

Kaidi provided €20,000 of seed capital to start building the platform. Having skin in the game was essential to win the trust of Estonian venture capital outfit "We have been very lucky and found visionary investors from Estonia and the UK," says Kaidi. "They understood the pain felt by private investors, who didn't have any liquidity."

It took a lot of money to build the business because it required jumping through multiple regulatory hoops: "It's been expensive," admits Kaidi. "One VC told me that in fintech, it's always the lawyers who get rich." The investment has paid off and Funderbeam is now licensed in UK, covers Scandinavia, Estonia and Croatia and soon will have a business opened in Singapore.

The company has used Funderbeam's own platform to raise funds on three occasions. "We were the first to be a guinea pig," says Kaidi, adding that using the technology helped Funderbeam iron out any glitches in the process.

The first test round at the end of 2015 was very small, only €10,000 to test the system. But all went well and it gave company the confidence to launch publicly in April 2016.

The capital Funderbeam has been raising over the years has been used to boost the team; the startup now has 32 staff. It has also been used for software development: "We didn't just build an app that takes a couple of months to create," she says. Funderbeam does extensive due diligence on the companies that fundraise on its platform. It can take up to six months to get investment campaigns live.

The last round raised through the platform was the most engaging as Funderbeam, asked investors what could they bring to the company besides capital.

"When investors indicate interest we say 'Okay, what else can you do for Funderbeam?'" she says.

"A quarter of investors replied. Some are spreading the word in Finland, others are helping with SEO [search engine optimisation] or events. It was simply heartwarming and a start for the strong community".

Kaidi has been told she would fail many times over the course of her startup journey. "A lot of people didn't believe in us," she says. "VCs didn't believe there would be people who wanted to trade early-stage companies." The entrepreneur has proved the naysayers wrong: there are currently 30 companies trading on the platform.

More fundraising is on the cards: "It's difficult to know how much more money we will need to raise," says Kaidi.

"If we attract the necessary volumes, then we'll need to invest more aggressively. If we go slowly, we can use at one point our revenue stream and move market by market."

Her plans for the future: a listing on Funderbeam exchange, "if all goes well", she says. But that's a long way in the future: "We aren't thinking about exit. It's about focusing on the business."

2.3 Angel Investment

Angel investors, also known as business angels, invest their own money in early-stage businesses for a share in the company. They can invest alone, or as part of a syndicate (a group of angels).

Angel investors are notoriously difficult to track down, but it can be worth the time and effort: angels can add great non-monetary value to a deal, like expertise and access to networks. Business angels tend to receive many business plans, so be sure to understand their unique requirements and processes beforehand, and tailor your proposition to potential investors.

€180,000

Is the average angel investment per company (2017)[18] in exchange for a minority stake (usually between 10-25 per cent)[19]

A deal typically takes between

two and six months[19]

The duration of partnership is typically between

three and eight years[19]

The basics

Types

Equity and debt.

Examples

Equity shares (ordinary or preference, see section 1.3), promissory notes, convertible notes (see glossary).

Possible investors

High net worth individuals, angel investor syndicates, friends and family.

How to meet your investor

Personal and professional network, investment matchmaking platforms (online and offline), angel directories, events.

Common startup growth stage

Early or seed-stage startups.

Resources

European Business Angel Network
www.eban.org

Raising Business Angel Investment: European Booklet for Entrepreneurs (2013) by HBAN and EBAN.

The Invested Investor: The new rules for start-ups, scale-ups and angel investing (2018) by Peter Cowley.

Siding with the Angels: Business angel investing – promising outcomes and effective strategies (2009) by Nesta and UKBAA.

Good to know

Main advantages

- Midpoint investment between small investment needs and larger venture capital funding needs.
- Flexible and agile way of working - angels do not work with the same limitations as VCs.
- More likely to receive funding in a later VC round.

Potential challenges

- It can be difficult to find the right angel who shares your business vision and supports your growth strategy, and with whom you can form a personal connection.
- Lack of formal structure can cause delays in payment or lengthen the fundraising process.

Common misconceptions:

- *Angel investors 'have all the power'*. Deals are negotiations and there is no compulsory form as to what the deal terms include. The founder-angel relationship depends greatly on the type of angel investor and the startup's needs. Angels usually only ask for a minority stake.

The investor's perspective

It is important to keep in mind that angel investors are individuals who invest from their own pockets, and don't manage funds on behalf of others. They may be under less time pressure compared to other private equity investors and more willing to hold investments for a longer time period.

Angels are usually actively involved with assisting the founders of the businesses they invest in with their own network connections and sector expertise. They tend to spend time with the founders, even on a day-to-day basis, to structure the business to scale, to service large clients, to enter new markets and geographies, to integrate the core team with talented human resources, etc.

Angel investors usually invest at a very early stage of the company's life cycle (often even pre-revenue). They typically look to invest in businesses that offer solutions to real problems, that have potential to scale, to which they can add value in addition to the funding provided, that they can exit in the next five to ten years, and that are being led by entrepreneurs with excellent industry knowledge and execution skills.

Preparatory tips

- Use your network to identify potential angel investors or networks of angel investors.
- Prepare a clear proposition, including a well-documented growth plan and how the investment is to be used.
- Whilst criteria will vary, many angels will look for a ten-fold return on initial investment within five years, and want an exit strategy which allows for this.
- Check if there are any fiscal incentives for business angels in your country and eligibility for tax breaks; if so, then doing background research or preparing mock-up forms may give you a competitive advantage. The *Compendium of Tax Incentives* published by the European Business Angel Network (EBAN) can help.

How it works

Angel Investment

You are here

1. Preparation

- Define funding amount, percentage of the company/ownership to sell, and startup valuation.

2. Pitch to investors

- Present business to potential angel investors.

3. Due diligence

- Prepare documents for the investor (typically includes competitive analysis, validation of product and IP assessment of the company's structure, financials and contracts, a check of compliance issues and reference checks on the team).
- Carry out due diligence on the investor, including investment history, methodologies, record of support, etc.

4. Review, negotiate and agree

- On the term sheet.

5. Dealmaking

- Get other shareholders to approve the investment round and sign a pre-emption notice (only applicable if money has been raised before).
- Sign shareholders' agreement with the new investor(s).
- Issue shares – sign appropriate legal forms (varies, depends on deal terms).
- Possibly appoint the (lead) investor as a Board or Advisory Board Member.
- Optionally, commit to a share option plan (see glossary).

Costs may include

Fees to angel investors' network

- Such as platform subscription fees, tickets to events or membership fees.

Legal advice

- If required.

Commonly followed by

Venture Capital round(s)

- See chapter 2.4

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Scaling story

Cloudalize

2010-2017	2018
Angel Investment	**Venture Capital**
Amount €5 million	**Amount** €5 million
Purpose Team expansion, technology development	**Purpose** Team expansion (sales), geographical expansion

In short

Country of origin Belgium

Founded date 2010

Founder(s) Benny Willen, Jeffrey Meesemaecker

Sector IT

No. of employees 28

Total funding raised €10 million

Benny Willen, co-founder Cloudalize

Cloudalize gives users anywhere in the world the ability to run power-hungry graphics on any device through its Desktop-as-a-Service Platform, MyGDaaS. Funded by friends and family in the early days, the startup also raised a major venture capital round in 2018. Co-founder Benny Willen explains how his choice of fundraising helped the business to scale.

A tale of personal sacrifice

There's no denying the drive and commitment of Benny Willen and his co-founder Jeffrey Meesemaecker. The pair didn't pay themselves a proper salary for seven years while building Cloudalize, so great was their belief in the technology's potential to change the world.

Cloudalize delivers GPU power on-demand, and is used by engineers and information architects to run energy-hungry graphics and more on devices that should not be able to sustain that level of processing power. "Smart technologies are enabled and delivered by our full-stack platform," says Benny of the company he co-founded in 2010. "It's powerful, instantaneous and hassle-free, regardless of purpose, device or location."

For Benny, going without a wage for such a long time has not been easy. "It's been a tough, hard journey," he admits. "I drove a very cheap second-hand car and we live in a small house and buy clothes at the cheapest stores." Despite these sacrifices, Benny has the full support of his wife and two children. "I wanted to realise this dream," he says. "It's been very important to me."

Jeffrey and Benny have been friends since their college days, when they launched an accidental startup – a gaming forum – from their dorm room. But Benny's career took a very different course after university. He joined the family business – a small construction firm. "I did that for four years," he says. "It was the most difficult period of my life. I would lie awake at night feeling I was wasting my life away."

He found the courage to quit, and became an innovation consultant, working with big companies on major transformation projects. But then a chance conversation with Jeffrey led to the pair collaborating once more.

Benny says: "The best thing you can do is start a business if it's in pursuit of your dreams."

Financing the dream

Like many founders, Jeffrey and Benny invested all their savings into the nascent startup. It was more of a side project in the early days but the pair soon realised that Cloudalize had global reach. "When our money was depleted we wanted to continue, so we had to raise external capital," Benny explains. "That's actually the reason why we officially started the company. Before that it was a project, not an official company, but to raise money from family, friends and fans, we had to create Cloudalize."

> Raising capital dominated the whole of 2010, Benny reveals. "Most of my time in the first year of the company was spent fundraising. It was the most time-consuming thing you can imagine.

You make a list of everyone you know and call them up. People are super-supportive and then you ask them to invest and suddenly your emails aren't getting answered and people stop answering your calls. They come back with every kind of excuse for not investing. I've heard them all." Nevertheless, Benny says that entrepreneurs should never shy away from raising finance from their personal network.

> "I know some founders who are hesitant about raising money from friends and family because they are worried about damaging the relationship if things go bad," he says.

"But in my case, I was so convinced by what we were doing that I thought: instead of making a large investor very rich, I will make my family and friends very rich. It was a positive way of looking at things."

However, he advised his friends and family to invest only a small proportion of their available capital. "People that really trust you sometimes try and invest half of their savings," he says. "I'd say, 'No, you're crazy'."

Cloudalize executed three rounds of funding with these angel investors, raising a total of €5 million. Each round was easier than the last, according to Benny. "Every three months we came together with all of our investors to give them an update about the business. During these meetings, personal trust grew, as did their familiarity with our business and team. They started introducing us to other investors, saving us a lot of time.

"It's paradoxical but the time you invest in fundraising as a founder is very high at the beginning and then becomes less and less."
All of the capital was invested in people and technology, says Benny. Cloudalize has to pay high salaries to find people who understand its deep technology. "It's so hard to find the right people," says Benny. "There's a war for talent." The company now employs 28 people across its offices in Belgium, UK, US, Romania, and the Netherlands.

> "We are forecasting to grow the team to more than 100 people by 2022."

Securing venture capital

In November 2017, Benny attended Slush, a startup event in Helsinki, and had the opportunity to pitch to a room of 80 investors. One of them was a representative of Horizons Ventures, the Hong Kong investor. "He came up to me after the event and that's how we raised the round," says Benny.

> "When you look for money, you want investors who believe in what you are doing. I would not say I chose Horizons, I would say they chose us."

Cloudalize raised a further €5 million through this round, which will be used to bolster its sales team and to continue its geographical expansion. Venture capital was the natural next step for the business, Benny says: "There is a sequence in funding. You can't go from starting a company to closing your €5 million VC round. That's not happening."

Benny had considered other sources of finance, but his business was seen as too high risk by traditional funders.

> "Along the way, I hoped that a bank would be willing to fund us," he says. "But that was absolute nonsense."

The next step for Cloudalize will be to court private equity investors, he reveals: "But we're not at that stage yet."

This latest fundraising means that Benny can finally pay himself a salary. It's a major turning point for the pair. "My wife also has entrepreneurial dreams," reveals Benny. "I can now pay myself a wage and support her. She can lean on me now…"

Scaling story

Ada Health

2011-2016	2015	2017-2018
Angel Investment	**Grant**	**Venture Capital**
Amount €20 million	**Amount** €2.4 million	**Amount** €40 million
Purpose R&D, test market-fit	**Purpose** R&D	**Purpose** Team expansion, build partnerships

In short

Country of origin Germany

Founded date 2011

Founder(s) Dr. Claire Novorol, Daniel Nathrath, Dr. Martin Hirsch

Sector Healthcare

No. of employees 135

Total funding raised €60+ million

Doctor Claire Novorol, co-founder and chief medical officer Ada Health

Ada Health was started in 2011 to improve clinical assessment and provide easier access to healthcare. The Ada smartphone app gives people access to an artificial intelligence-powered "doctor" that can give feedback to those feeling unwell. The Berlin-headquartered company, which also has a base in London and employs over 135 people, has raised over €60 million to date and is using the money to expand worldwide. More than 10 million health assessments have been completed since the app launched in 2016 and Ada has been ranked the top medical app in over 130 countries. Here, Claire explains why having the support of patient private investors gave them the time needed to develop their proprietary technology platform from the ground up, putting it through repeated rounds of testing and iteration before launch.

The beginnings

The World Health Organisation estimates that half the world's population still lacks access to basic health services. Ada Health is on a mission to solve this problem, aiming to use technology to give everybody easier access to quality healthcare.

Doctor Claire Novorol, a former NHS doctor specialising in paediatrics and genetics, met her two Ada co-founders when she was finishing off a PhD in neuroscience at Cambridge University. Her time at the University, home to a lively startup scene, convinced her to take the leap into entrepreneurship. "There's an amazing ecosystem in Cambridge that gives people an insight into what it takes to build a business," she explains.

Claire began developing ideas in health tech and around that time met her business partners - Daniel Nathrath and Martin Hirsch - who were working on a digital medical platform. Claire was able to provide expertise as a doctor and ended up becoming a co-founder of the business that later became Ada Health.

Scaling up the business

Claire and her team were able to fine-tune their idea over several years because of the support of patient investors. Co-founder Daniel Nathrath's experience with startups and technology companies in Europe means they had "a solid standing" with angel investors from their work together at a previous company.

The firm's early angel funding came from German private individuals who understood it would take time to develop a concept that was exactly right for the market. "Our investors believe in the team and understand our industry well, including the complexities involved in developing a health AI product like ours, so they were happy to be patient and allow us to take the time needed to build a truly industry-leading platform", Claire explains.
According to Claire, if the business had taken on venture capital (VC) funding in the early stages, it could have created pressure to focus too early on short term financial targets rather than on developing and refining the core technology, which is especially important when dealing with healthcare products. "This meant our focus could be on R&D in the first years and ensuring the quality of our product"

Word spread amongst the wider network of Ada's original angel investors, and more backers joined the consortium as the business required more capital.

"Our early investors played an important role in our development. They are well connected in Europe and globally, and they've been very supportive of us throughout our journey, including helping to make connections for us across their network."

Did the founders ever consider moving the business to the US in the early days? Claire says not; they had already built a world-class core team in Berlin and the city gave them access to a tremendous talent pool in Europe due to its proximity to some of the most prestigious universities and medical institutions in the world. For tech startups, being based in Europe can also be more cost effective as engineers and data scientists are significantly more expensive to hire on the west coast of the US.

"We had so much knowledge and experience here, we didn't want to move the company to the US – although we have opened an office there. There may be a perception that it's essential to start your company in the US, but we saw the opportunity here." says Claire. She adds that access to finance is now improving in Europe. "I'm heartened by the fact we're seeing the ecosystem mature here, and that there's more money available. It's on the right track."

Changing the focus

By the time the app was launched in 2016, Ada had transformed from a healthcare platform, designed to be used by doctors, into a service that could be used by the everyday consumer. The name Ada was picked because it's friendly and memorable, has the double meaning of "aider" or little helper, and is a nod to star computer programmer Ada Lovelace.
Once Ada had gained traction in the market, the company was able to secure a further €40 million in venture capital since October 2017.

Claire explains: "We were a small team for the first few years, and we were strategic with how we invested in our resources.

Once we launched our consumer facing product and started to see the tremendous global impact we could truly have, we knew that the time was right to bring in institutional capital ."

Whether you're trying to raise seed funding or an institutional round of investment, the challenging part, Claire says, is that raising money requires patience and investing capital strategically. We have ambitious goals, but we're really fortunate to have investors on board who are supportive of our global ambitions and are willing to go on that journey with us".

The long journey to market-fit was worth the effort: the app has won critical acclaim, being ranked the top medical advice app in scores of countries. On the Apple and Google Play stores, the Ada app has been given a ranking of 4.8 stars out of five from over 150,000 reviews. "It's always been spot on accurate. It's better than waiting weeks for an appointment if it's not necessary," says one reviewer. To be clear: Ada cannot give a formal diagnosis due to strict regulations. The app recognises patterns based on other people's symptoms and experiences, and draws upon an extensive knowledge base covering thousands of conditions, symptoms and findings. Users can then present this information to the right medical professional.

The benefits of co-founders

Claire says there are multiple benefits to having co-founders, rather than going it alone. It meant that one could concentrate on building the business and pitching for funding, leaving the others to concentrate on the more technical aspects of developing the product.

"Even though we were all involved, we didn't all have to focus all our energies on that. For Daniel, who led the process as chief executive officer, it was of course very time consuming at times."

This also meant that the other founders could focus on their areas of expertise. "Investors base their decisions on the strength of the founding team, as well as the quality of the technology and the potential of the business model, so Daniel, Martin and I each had a vital role to play", explains Claire.The key to a successful business partnership, she adds, is for the founders to remain aligned to make sure the business moves in one direction.

How the business model works

Ada doesn't charge people to use the app. Instead, the business makes money by partnering with health providers and corporations. Medical professionals benefit from the service because Ada saves them time and does a lot of the legwork. For example, a recent trial with the National Health Service (NHS) in the UK found Ada's assessment saved GPs roughly two minutes per consultation. Claire says the company is also working with insurers that want to route patients to the right care faster. When customers are pushed into the wrong treatment, it is costly for both insurers and health providers.The firm is also working with governments, NGOs and local authorities in multiple markets.

The future

There is a lot of consolidation and acquisition in the medical industry. However, Ada does not have a specific exit plan in mind right now. "Our focus is on our purpose, not on a potential exit", says Claire. "There's a lot of building and development and growth to focus on and that's what we currently spend our time thinking about and working on". For now, Claire's focus is on continuing to extend Ada's reach and pushing the app into more countries. The app is currently available in five languages: English, German, Spanish, Portuguese and French. Swahili will soon be an option because the company wants to push into east Africa, where it already has a partnership with the Bill and Melinda Gates Foundation and Fondation Botnar. Claire also wants to launch services in other widely spoken languages, for instance Hindi. She says: "If you live in rural Africa or India it might be a two-day journey to see a doctor. But if you have a smartphone and can get access to world class expertise immediately, that will transform lives. I think that's a huge opportunity."

2.4 Venture Capital

Venture capital is a form of investment for early-stage, innovative businesses with strong growth potential. Crucially, VCs also offer non-financial support to help a business commercialise and grow.[20]

The past five years saw a nearly five-fold growth in European venture capital investment.[21] Whilst founders are sometimes hesitant to give away equity, the potential size of the investment coupled with professional strategic advice make this a common route for startups with grand scaling ambitions.

Corporate Venture Capital

Corporate Venture Capital (CVC) is growing globally, both in terms of deals and the amount of capital invested. Numbers of active corporate venture investors globally tripled between 2011 and 2017.[22] In Europe, CVC investors participated in 8 per cent of all VC deals but this is expected to grow, especially as more US and Chinese corporates enter Europe.[23] The global deal share to European companies grew to a high of 20 per cent in 2017.[24]

CVC differs from conventional VC in some significant ways. The benefits for startups, besides investment, may include access to the resources, reputation, market insight and network of an established organisation; there is also evidence that a global corporate investor can help startups export or expand internationally. CVC teams may be more concerned with strategic fit and potential future acquisition, and less concerned with a rapid exit.

See Nesta's *Scaling Together* report for more information about working with corporates, and common mistakes that smaller partners make.[25]

The investor's perspective

Robert Bosch Venture Capital GmbH (RBVC) - the VC wing of the Bosch Group - has been working with tech start-ups for a decade. Individual businesses can receive up to 20 million euros, as well as access to know-how and contacts. 6 to 10 startups (selected from over 2,500 applications!) receive an investment each year. Apart from looking for a healthy return on the capital it invests, RBVC is eager to help develop new technologies. The investment strategy focuses on complementary technologies or on business models that fit particularly well with the Bosch Group portfolio.

RBVC regularly creates contacts between young companies and Bosch operating units: start-ups may ultimately become a supplier, technology partner, or even customer of Bosch. This "open innovation" approach selectively involves external partners in a company's own innovation process. It means that each party can benefit from the other's experience and know-how. This business model produces numerous win-win situations. "We are a tech investor and, as such, we often discuss highly complex technologies with start-ups," says Dr. Ingo Ramesohl, Managing Director at RBVC. "We are also prepared to take on the financial risk of investing in such technologies."

The basics

Types
Equity and debt.

Examples
Equity shares (ordinary or preference shares, as explained in section 1.3), promissory notes, convertible notes (as defined in the glossary).

Possible investors
- Investment/VC firms: firms that pool together money from institutional investors like investment banks, insurance companies, pension funds, universities and other financial institutions (in a fund managed by General Partners).
- Corporates (see "Corporate Venture Capital").

How to meet your investor
Many VCs rely on personal networks and relationships, so third-party introductions can be useful. However, some will also be receptive to unsolicited approaches, and may use networking events, meetups, demo days, accelerators, pitch competitions/ challenges or brokering platforms (e.g. *www.euroquity.com*) to find prospective investments. The right lead investor can help bring other investors on board.

Lead investors
Many VC rounds are composed of multiple investors. However, one investor typically takes the greatest stake and the greatest responsibility for structuring the deal. This lead investor is usually an experienced investor who shows real conviction in the startup and helps give confidence to other investors. He or she may sometimes represent all the investors during negotiations and potentially also on the board. Finding the right lead is thus important.

Common startup growth stage
Seed, early to late-stage startups.

Venture Capital, like Angel Investing, is a subset of private equity – a broad category which includes all equity capital that is not publicly listed or traded.

Institutional Venture Capital	Corporate Venture Capital
Median amount raised per round **€0.78m – €2.29m – €5.40m** (seed) (early VC) (late VC)[26]	Average amount per deal **€11.8m** in 2018[27]
Average time to raise funds **Typically 6 to 12 months** (but is extremely deal-dependent)[19]	Average time to raise funds **Typically 6 to 12 months**[19]
Typical duration of partnership **5 to 10 years**[19]	Typical duration of partnership **3 to 5 years**[19]

Preparatory tips

- Prepare three key documents to show to interested VCs (look for model documents, e.g. BVCA).
  - **Executive summary with a high-level overview of the company.**
  - **In-depth assessment of the business, usually in a PowerPoint or pitch deck format.**
  - **Operational Financial Model that quantitatively illustrates how you anticipate the business to grow.**
- Shortlist potential funding opportunities.
  - **Identify potential VCs: first within your existing network then outside**
  - **Check if their alignment meets your needs: partners, location, sector focus, stage preference, culture, track records (VC portfolios), etc. Valuable resources include CB Insights, Crunchbase, PwC Money Tree reports, and PitchBook.**
  - **Make contact: physical introductions or third-party introductions are preferable. However, an increasing number of VCs now have contact forms on their website.**
- Prepare for investors' due diligence.
- Prepare entourage (team, professional references and network) to be aligned with your business idea and investment strategy.
- Prepare a solid five to ten-year business plan and growth strategy with proven product-market fit (or ability to demonstrate knowledge of market/product/ customer trends).
- Have a clear exit strategy, e.g. plans for a trade sale or initial public offering (IPO). Focus on positioning and attractiveness of the business to potential future acquirers or public market investors.

Resources

Invest Europe *www.investeurope.eu*

The European Investment Fund *www.eif.org*

Venture Capital, Private Equity, and The Financing of Entrepreneurship: The Power of Active Investing by Josh Lerner, Ann Leamon, and Felda Hardymon

Mastering the VC Game: A Venture Capital Insider Reveals How to Get from Start-up to IPO on Your Terms by Jeffrey Bussgang

British Business Bank's Finance Hub *www.british-business-bank.co.uk/finance-hub/*

British Venture Capital Association *www.buca.co.uk e.g. see Venture Capital Explained or search for model documents for early stage investments*

Good to know

Main advantages
- Potential access to larger funds (compared to angel investment).
- Increase business validation of the startup.
- Informed investors with expertise and relevant networks.

Potential challenges
- Creates growth/financial performance strain on entrepreneurs.
- Can be business-oriented rather than partnership-oriented.
- There can be significant cultural, strategic, cultural and process barriers, especially with corporate VCs.
- Popular type of funding, may be competition for investment.

Common misconceptions
- *VCs want full control over my company.* Whilst VCs will want to ensure that the firm's strategy allows them to exit, and may want a board seat, VCs are not interested in day-to-day running your business. It is in their best interest to incentivise and support you to develop and grow your business.
- *European VCs do not invest across borders.* Geographic proximity is becoming less important for investors and foreign investment is on the rise, especially for larger rounds. More than a third of all European VC investment flows across borders.[21]

How it works

Venture Capital

You are here

1. Preparation

Submit a business plan

After first investors show interest: submit business plan and other growth plans.

2. Due Diligence

Due diligence period (see angels section).

3. Dealmaking

Selecting lead investors and signing documents

- Lead investors are selected.
- Agree on term sheet and deal terms with lead investor(s).
- Sign pre-emption notice (in case of existing shareholders).
- Agree and sign the final shareholders' agreement.
- Issue various legal transaction documents and close the round.
- Lead investor(s) becomes (Advisory) Board Member*.

**Note that there is a crucial difference between the company Board of Directors, which has true power over the firm, and an 'Advisory Board', which does not. Board seats should not be given away lightly or too early; legendary entrepreneur Steve Blank recommends that board seats are not given to 'outsiders' until series A. Silent, non-voting board observer rights may be a better option in some cases.*

Costs may include

Legal expenses

- May include external advice, due diligence costs, and potential IP costs.

Fundraising activity costs

- May include travels, visits to and from investors, entertainment and special events organised by the startup to attract investors.

Subsequent rounds of VC funding

Commonly followed by

Acquisitions

- See chapter 2.6

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IPO

- See chapter 2.7

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Scaling story

Glovo

		Amount	Purpose
2015	Angel Investment	€140,000	Launch service
2015	Venture Capital Seed round	€2.2 million	Expansion, improve technology
2016	Venture Capital Series A	€5 million	Consolidate market presence, improve technology, build out platform
2017	Venture Capital Series B	€30 million	Strengthen market position, optimise technology
2018	Venture Capital Series C	€115 million	Team expansion, optimise technology and platform

In short

Country of origin Spain

Founded date 2015

Founder(s) Sacha Michaud, Oscar Pierre

Sector Delivery

No. of employees Over 900 globally

Total funding raised €150 million

Sacha Michaud, co-founder Glovo

On-demand delivery service Glovo launched in Barcelona in 2015, challenging the likes of Amazon with delivery times of 35 minutes for a range of different products. Active in 91 cities across 21 countries, Glovo's fast growth has been powered by venture capital investment of €150 million, raised from Seaya Ventures, Cathay Innovation and Rakuten Capital. Here co-founder Sacha Michaud shares Glovo's story.

Sacha Michaud, co-founder of on-demand delivery platform, Glovo, has always had an entrepreneurial streak. He started selling popcorn at a fair when he was nine years old. But it was a somewhat different early career that he credits for his business smarts.

"I became a jockey when I was 16," he explains. "It was good because I ended up being much more mature than other people my age: being out there, hustling and dealing with owners, trainers and agents, I learned to be business savvy, which has been really valuable to me."

His career as a jockey took Sacha to the UK and US, until he finally moved to Barcelona in the late 90s, where his mother was living. "I fell in love with the city," he says. This is when his career took a new turn: he learned to programme, and founded social media site LatinRed. This gave Sacha a taste for startup life. He sold the business to a Nasdaq-listed company and joined nascent betting site, Betfair. He spent nine years growing that business before deciding he was ready to go it alone once more. "I was interested in launching something in the delivery space and someone introduced me to my co-founder Oscar [Pierre], who had the same idea."

Getting Glovo off the ground

The pair decided to launch Glovo together in January 2015, with headquarters in Barcelona. Oscar had already lined up an angel round of €140,000 when the pair joined forces. "That money meant we could take our first order in March," says Sacha. The concept for Glovo was simple: you can order things on your smartphone and they will arrive in around 30 minutes via a

courier (or a "Glover", to use their official term). "It was really straightforward and customers liked us," Sacha says. "We didn't have money for marketing so word of mouth was great and growth was explosive. In the summer of 2015, we did another seed round of €2.2 million which let us launch in other cities." The round was raised from a consortium of investors, including Cube Investments. It enabled the startup to keep improving its technology, evolving from a simple text box for taking orders to a more user-friendly platform.

"I'm a firm believer that if we hadn't started the way we did and got the viral traction, we wouldn't be here today," says Sacha.

From nappies at 2am on a sleepless night, to an emergency Big Mac on a Sunday morning – Glovo offers an endless range of products at the touch of a button. "The fact that we can bring anything in the city is huge," explains Sacha. "It makes us more sticky for customers and thousands of orders are processed every day – we're a part of people's lives."

A game changing move

This early growth spurt was quickly followed by an important realisation for the founders – while their service was popular it wasn't particularly scalable. "After a year and a half, we turned into Glovo 2.0, signing agreements with restaurants, shops and stores to integrate them into the app," says Sacha. "It meant orders went straight to retailers, making it a more seamless process."

"Suddenly that changed the dynamics, making the business more scalable and more economically viable once we began charging partners a small commission on orders," he adds.

Now, an army of freelance delivery riders receive their orders through the Glovo app, making the whole process as easy as possible – the challenge now is maintaining a decent level of orders. "The higher volumes the better," says Sacha. "That means more liquidity and shorter distances between deliveries. We don't want our people standing around not making any deliveries."

Glovo is now available in 91 cities, across 21 different countries and with more than 3.5 million unique users, it has serviced over 22 million orders. "Most of that growth happened in 2018," explains Sacha. "We're in Africa, Southern and Eastern Europe – now Latin America is a huge growth opportunity for us. We move into markets that aren't too saturated and where we can offer an advantage." This strategy has meant Glovo is less interested in the UK and US, where Sacha says it is too competitive, due to the presence of various other rapid delivery firms. "The cost of arriving late is high," he adds.

A lean approach to investment

Having started off with angel and seed rounds in 2015, Glovo has since completed three further investment rounds, closing its latest Series C round worth €115 million in July 2018, with the likes of Seaya Ventures, Cathay Innovation and Rakuten Capital. "That put us on the map and allowed us to build up our technology team with world class resources – bringing them to Barcelona," explains Sacha. The company has raised €150 million in total - a purposely modest amount according to the co-founder.

"We've been very lean and executed with a lot less money than competitors when they were at our level at volumes," Sacha explains.

"We have to be very efficient with marketing and the tech team. We would have liked to hire a lot more engineers in the past but being lean makes you execute quickly." The focus has now shifted to significantly growing the tech team.

Part of a global debate

With its fleet of freelance workers, Glovo has found itself part of the burgeoning gig economy and the debate that surrounds it – something Sacha is keen to have a voice in. "The economy is changing. The way people want to work is changing. It's a dynamic environment that couldn't exist ten years ago when the technology wasn't available," he says. "We want to be part of the debate. The solution is probably not a labour contract or a freelance contract but something in between."

Glovo is also intrinsically linked to the evolution of cities, helping to get cars off the streets and giving local shops a way to fight back against the mighty Amazon. "We give them a competitive advantage – even at its quickest Amazon takes two hours – our deliveries take 35 minutes," he says.

Managing scale

Looking to the future, Sacha pinpoints two big priorities: finding further growth in existing cities and looking for new opportunities. "We want to demonstrate we can be profitable in mature markets too. We're already seeing that in Southern Europe."

Of course, managing growth has its own challenges. Glovo has around 900 employees across its various markets, so maintaining the strong company culture across borders is a focus for Sacha.

"Hiring good senior management is crucial to creating a business that can scale quickly," he explains.

"Being able to share our core values is part of that. We've been lucky with hiring and our organisation is still very reactive. It's all about the team at the end of the day. I've never seen any company excel without a great team."

Scaling story

Fishbrain

2013
Angel Investment
Amount
$150,000
Purpose
Development, attracting users

2014
Venture Capital
Amount
$2.4 million
Purpose
Development, attracting users, scale

2015
Venture Capital
Amount
$8 million
Purpose
Enter US market

2017
Venture Capital
Amount
$3.7 million
Purpose
Hire staff, geographical expansion

2018
Venture Capital
Amount
$13.5 million
Purpose
Growth

In short

Country of origin Sweden

Founded date 2012

Founder(s) Johan Attby, Jens Persson, Marcus Fransson

Sector Social network

No. of employees 52

Total funding raised $27.8 million

Johan Attby, founder Fishbrain

Serial entrepreneur Johan Attby is the founder of Stockholm-based Fishbrain, the world's leading social network for anglers. The platform was launched in 2013 and has been funded by venture capital, raising a total of $27.8 million. Johan explains why this funding route was ideal for his business model, and shares the secrets to his scale-up success.

Fishing is the biggest sport in the world, reveals Fishbrain founder Johan Attby. "Sixty million Americans go fishing each year," he says. "More people go running but runners spend a fraction of the amount on their hobby that anglers do."

Johan stumbled upon this fact by chance back in 2012 while reading a Forbes article. At the time, he was on the hunt for his next startup idea. His most recent venture, Tific, a B2B IT firm, had been acquired and he was serving out a year's "earn-out" deal in Bedford, MA. "It's very typical," he explains. "I was locked in for a year and a half. During that time, I realised I didn't want to stay with the acquirer."

Johan knew that he wanted to create a new social network that centred on a hobby or passion. "I'm a big fan of companies where you can crowdsource data and turn that into a valuable service for users," he says. He wrote a blog post, claiming that the time was right for this kind of "deep social network".

"I got a tonne of feedback from Silicon Valley investors," he says. "So I decided to create a company." He wasn't sure which passion to focus on; the Forbes article prompted a light bulb moment. Fishing is a sport that lends itself well to a social network because of anglers' fondness for posting pictures with their catch.

A scaly venture

Johan decided to move back to his native Stockholm to launch Fishbrain, which was incorporated at the end of 2012. He considered staying in the US but software developers in Silicon Valley command "astronomical salaries", which was a problem as Johan was on a tight budget until he could raise external funding. "I financed the business in the beginning."

In Johan's view, venture capital was the only realistic funding option for the startup, because of its model: build first, monetise later: build first, monetise later. "I knew from the beginning that we would need substantial venture capital backing," Johan explains. "With a social network, there is no way to monetise before you hit a critical mass of users. Users pay for access to data and without the data, we had nothing to sell. So, for the first three years, we had zero revenue. Venture capital means you don't have to monetise immediately; you just have to know how you're going to do it.

"We raised our seed round on the vision alone," he adds. "But I had to do a lot of educating and take investors through the market size. Not many people realise how big it is. I had no clue either until I researched it." The sports fishing industry is worth an estimated $48 billion in the US alone, he claims.

Reeling in the first investors

Fishbrain secured a seed round of $150,000 from Swedish angel investors in 2013. It was not a struggle to secure meetings with these initial backers, as Johan was not only a proven entrepreneur who had raised venture capital for his previous outfit, but was also an angel investor himself at the time. **"It is always easier to raise money when you've done it before," he says.** "I had started and sold a company before so it was easy for me, with my proven track record."

Then, in 2014, Fishbrain landed a meatier seed round of $2.4 million. The round was led by Northzone, the technology investment firm behind Spotify, and pulled in venture capital from GP Bullhound, Industrifonden and Active Venture Partners. All of the seed capital was ploughed into development and attracting users: "We spent the first couple of years building the platform," says Johan.

"We were not the first to go after this market opportunity but we were the first to scale. When building a deep social network, the market dynamics are brutal. There will be one winner and everyone else will fail."

During the first few years, Fishbrain was focused on just one territory. Johan explains: "Even though we were based in Sweden, we decided to go for the US to begin with because it was the most important market to win. All our marketing spend was for the US." This is why, when it came to raising his Series A, Johan looked beyond Sweden's venture community for the first time.

"For the early stages [of Fishbrain] there was enough VC but for the Series A we had to look beyond Stockholm," he says.

He secured $8 million in 2015. Among the investors was Novel TMT Venture, an American outfit that could help Fishbrain expand its footprint across the country. "I'm so happy we did that because we hit a critical mass of users and data in the US that year and, in 2016, we started to accelerate away from the competition," says Johan. "In the US, it would be really hard to replace us." Fishbrain currently has seven million registered users - most hail from the US.

The business model

Fishbrain uses the data it captures from its users to build a picture of the best fishing spots across the world. This is one of the reasons users love the platform. "We had five million logged catches today," says Johan. This makes us the world's largest database of logged catches. We have a scientific method for telling users when and where to go fishing, and the most effective lures for fish in a given body of water."

This database was first made available in 2016, which allowed the company to start bringing on paid subscribers for the first time. Once Fishbrain had proven its ability to monetise its data, Johan went back to his venture capital backers for cash to hire staff and expand beyond the US. It raised $3.7 million in 2017 through a Series B round. "We are expanding the team from 25 to 52," says Johan.

The second tranche of the Series B was closed in 2018. B Capital and Softbank Ventures Korea led this substantial $13.5 million deal. "When we raised the Series B, it was important to get investors on board with a network in Asia," says Johan.

Each round was successful because Fishbrain had hit a specific target, he explains.

"We raised our seed round on vision, our Series A on user attraction, and our Series B came in because people were paying for subscriptions."

The future of Fishbrain

It will take a lot more capital for Fishbrain to achieve Johan's ambitious targets. Last year, the company launched its image recognition technology, to help anglers identify species. This was co-developed with Google and was featured in the keynote presentation at Google I/O. In 2019 the company will release more unique features for anglers. "We need to continue to innovate to stay ahead of competitors," says Johan.

"Our vision is not to be just an app for anglers but also the platform for the entire ecosystem. It will take years and a lot of money."

Johan is building a company that could eventually list on the stock market. This is not to say that he is dead set on this form of exit; he believes that all founders should aim to create organisations that are fit for initial public offering. "I want to build a sustainable company that is profitable and has a predictable business model," he explains.

"It doesn't mean you will IPO but I get nervous when the companies I am investing in tell me they will sell to Facebook, Google or Apple. We don't know where those companies will be in ten years. It creates the wrong mindset. Monetisation is important."

Scaling story

AppyParking

2013 → **2015** → **2016**

Bootstrapping

Amount
$261

Purpose
Develop MVP

Corporate VC + Angel Investment

Amount
$1.3 million

Purpose
Product development

Corporate VC

Amount
$2.6 million

Purpose
Product development

2017 → **2018**

Corporate grant

Amount
£1.3 million

Purpose
Invest in infrastructure

Corporate VC

Amount
$7.3 million

Purpose
Expansion

In short

Country of origin UK

Founded date 2013

Founder(s) Dan Hubert

Sector Automotive/parking

No. of employees 41

Total funding raised $13 million

Dan Hubert, founder AppyParking

AppyParking, the parking space database, has leveraged corporate partnerships to become the market leader in its industry, raising $13 million over five rounds. Founder Dan Hubert explains how he convinced some of the world's best-known brands to support his startup, and how these relationships helped him to solve one of the irksome urban problems of our time.

As cities across the UK become increasingly congested, kerbside access has developed into a major issue for motorists and local government alike. AppyParking aims to solve the problem by offering the world's most comprehensive database of kerbside information, helping consumers park and pay more easily, allow ride hailing and sharing to flourish and allow towns and cities to manage and monetise their valuable commodity.

The business was founded in 2013 by former advertising executive Dan Hubert. "I was a creative director. I'd spent 13 years making commercials," he explains. "But after so many years, I felt like I was rotting. The creativity had left the industry and I wanted an escape route."

Londoner Dan was living in Camden Town at the time, and was constantly receiving parking fines because of confusing signage and a shortage of available spaces. He noticed that the same was true across much of London, and decided to try and compile a basic directory that explained where motorists could park, and when. He says: "I went online and looked for parking information. All I found were badly drawn PDF maps, so I started to digitise them using a Google web app. That's how it started. I made a basic MVP [minimum viable product] with 13 boroughs, telling you where you could park on single yellow lines. It got loads of downloads, so I decided to give up my career."

Finding the capital to realise the vision

Dan used his own money to finance the startup during the first year. "I lived on usual founder diet of beans on toast for the year to fund the development of the app," he says. He got the app to a stage where it had basic functionality and could capture the imagination of customers and funders.

"Our first corporate partnership was with Ford," Dan says. "It was looking for technology startups that could provide congestion-easing solutions in London, and held a hackathon." Dan won the hackathon with his parking concept, securing a prize of $13,000.

Ford and AppyParking – then called Yellow Line Parking – embarked on a joint venture to produce a high definition map of London that could help Ford drivers navigate the city and park with greater ease. "We started with one zone in Islington," says Dan. Today, the map comprises 14,000km of road network across the capital.

Getting big brands on board

Dan realised the power of partnering with corporate giants; AppyParking could benefit from the extra resource and manpower. He decided to apply for all the corporate startup programmes he could. In 2014, AppyParking won the People's Vote in Virgin's "Pitch to Rich" competition and also landed a coveted spot on Microsoft Ventures' accelerator programme. The latter, which he describes as "a mini MBA", led to AppyParking's first venture round.

In 2015, Dan raised $1.5 million during the Microsoft Accelerator with Aviva Ventures, Rosemont Group Capital Partners, and two angel investors. It was the connection with Microsoft that attracted the attention of the venture capital fund, says the entrepreneur.

> "Corporate partnerships have been crucial. VC's are extremely risk averse – especially in the UK. Having a brand [like Microsoft] attached to us has been fundamental to our success. It elevates us to a startup people take notice of."

Microsoft's venture team provided more than capital; it opened doors. "They connected me with the head of IoT [Internet of Things] at Vodafone," explains Dan. "They had these devices for connected vehicles but no value proposition for them. I created a user case for them, and they created equity-free capital to prove the concept."

The next stage of funding

In 2016, Aviva Ventures invested again, providing $1.5 million to help AppyParking complete and build high definition kerbside maps and a platform that acts, "like an air traffic control system" allowing cities to manage and monetise vehicles interacting with the kerbside. "We were the second ever investment in Aviva's portfolio," says Dan. "They see us as a data provider. Insurance premiums will fall off a cliff in a the next decade and we will help them sell autonomous vehicle compliance."

In 2017, Aviva invested yet again, alongside the IoT specialist VC Breed Reply. The round was worth £2.3 million. "And we're just in the middle of closing a Series A at the moment," adds Dan. "We're targeting between £8 million and £10 million."

The cash will be spent on helping AppyParking to "create a nationwide digital blueprint", which can be used by both the UK government and autonomous vehicle makers.

Equity-free deals

Dan has become adept at winning the confidence of corporate giants. He has even convinced some to give him equity-free capital to build out his technology. He explains: "I always knew Visa would be interested in mobility as money ultimately makes the world go around. I kept knocking on doors but initially they weren't interested because the company was undergoing a restructure."

Dan didn't take 'no' for an answer: "Thirteen years of rejection in advertising was the perfect grounding for the life of an entrepreneur," he jokes. Then, two and a half years ago, he had a breakthrough, and was able to pitch his idea for frictionless payments, powered by Visa, that would help make parking pain-free.

"In November 2017, Visa gave me $1 million, equity free, to disrupt the space and remove the current friction experienced at the point of sale," reveals Dan. The cash has been used to buy 14,000 Bluetooth sensors, which are being deployed along Britain's streets and transmit a signal when a car is parked in a space, and then take a seamless minute by minute payment when it drives away." As a result, five smart city installations went live in January across the UK: in Portsmouth, Worcester, Pymoth, Dundee, Halifax and Harrogate.

His advice to other entrepreneurs seeking to close an equity-free deal:

> "Get a memorandum of understanding, which says 'let's play nicely together' but don't get into bed with anyone where it's restrictive or onerous."

AppyParking's future depends on its ability to share all the data it possesses with its customers. "If we get exclusive with anyone, it kills the concept."

These rounds of funding alongside the corporate grants have helped Dan to increase the valuation of AppyParking fivefold, he claims, and take the startup to a headcount of 41 people. "Now we've mapped all 14,000km of London's restricted road network we've mapping larger UK cities with a plan to digitise Britain in preparation for the connected car revolution."

"Parking affects everyone, even if they don't drive," he adds. "Our goal is to make parking forgettable and become part of the fabric of mobility allowing cities to move more efficiently and create greener, cleaner places to live."

Scaling story

Blablacar

2004

Bootstrapping

Amount
€10,000

Purpose
Code product, start the marketplace

2006

Loan

Amount
€70,000

Purpose
Start company

2009

Angel Investment

Amount
€600,000

Purpose
Take the clear lead position as carpooling platform in France

2010

Venture Capital Series A

Amount
€1.25 million

Purpose
Prove the Business Model on high traction.

2012

Venture Capital Series B

Amount
€7.5 million

Purpose
Early European expansion

2014

Venture Capital Series C

Amount
$100 million

Purpose
Global expansion - notably through acquisitions of local businesses & competitors

2015

Venture Capital Series D

Amount
$200 million

Purpose
Global expansion - notably through acquisitions of local businesses & competitors

2016

Private equity

Amount
€21.3 million

Purpose
Global expansion

2019

Corporate Venture Capital (CVC)

Amount
€101 million

Purpose
Product development through acquisition of complementary business

In short

Country of origin France

Founded date 2006

Co-Founder(s) Frédéric Mazzella, Francis Nappez, Nicolas Brusson

Sector Car pooling

No. of employees More than 400

Total funding raised nearly €400 million

Frédéric Mazzella, Founder BlaBlaCar
BlaBlaCar is a carpooling platform, which spans across 22 countries and boasts 70 million users. It allows a driver to make space in their car available on the app for other passengers, and split the fuel costs. BlaBlaCar takes a 15 per cent cut of the transaction.

Frédéric began the coding of the platform in 2004 and launched the business in 2006. Back then, it was called CoVoiturage, French for carpooling. Frédéric Mazzella took out a €70,000 loan to build his new outfit, and enrolled in the MBA programme at the INSEAD Business School in 2007. This was where he met co-founder Nicolas Brusson who had been evolving many years in Silicon Valley in the startup environment and then joined BlaBlaCar as COO in 2011 after 4 years working as a VC in London.

The first round of fundraising was speculative. "We got €600,000 in 2009 through friends and angels," says Frédéric. "At the time, you just look for people who believe you can make it. But you do not have much proof that you could be super big." Professional investors just could not believe that BlaBlaCar could match enough drivers and passengers to make the business work. "They saw difficulty reaching a liquidity threshold in such a market," says Frédéric.

Accelerating growth
Then, in 2009, Frédéric was able to pitch to an entrepreneurs' fund, Isai, which aims to back the next generation of digital businesses. BlaBlaCar raised €1.25 million. It was easier to capture the imaginations of these entrepreneurs than it was to convince traditional VCs to back the business: "Other funds were more finance driven," says Frédéric. But VCs were eventually swayed by BlaBlaCar's growth metrics. "We were able to prove we could scale our business model," says Frédéric. "We convinced more traditional funds [to invest], like Accel in 2012, Index in 2014 and Insight in 2015." The Accel round totalled $100 million, then Insight invested $200 million alongside Accel and other VCs. The meeting with Accel Ventures was secured by Frederic and Nicolas. Nicolas had become friends with one of the VC's key executive, Philippe Botteri, after meeting him in Silicon Valley in 2004.

Strategic acquisitions
BlaBlaCar's war chest of capital enabled the company to seek out complementary businesses to acquire. Frédéric knew that this was the best way to expand into new territories. "Acquisitions have been instrumental in our international growth", he says.

"When you grow in a new country, you need people on the ground who are really strongly motivated, and convinced that carpooling is a great thing. It is super hard to recruit such teams from scratch. It is faster and more efficient to make acquisitions."

BlaBlaCar's VC backers have been instrumental in tracking down these complementary businesses, Frédéric reveals: "They look for businesses all over the planet to make sure they are investing in the best so they knew a lot of smaller companies and were able to put us in touch, which helped us grow." According to Frédéric, M&A will be the cornerstone of the growth strategy over the coming years. "We will continue to grow our service and attract more people," he says. "We do not think about exit right now."

Life as a unicorn
The business has raised almost €400 million to date. The 2015 fundraising drove BlaBlaCar's valuation beyond $1 billion, making it one of the first tech unicorn to come out of France. "Being a unicorn is good for us," says Frédéric. "[Investors] are happy to see the valuation rising but it also brings more responsibility. People look at you more.

When you are a small startup, people clap when you do something. When you are big, people have higher expectations. They want to tell you what you should be doing.

Just because we're bigger… it brings more pressure and responsibility."

The business has grown to 400 people but the challenge of finding talented staff is the only thing slowing BlaBaCar down, according to Frédéric. "There are not enough people who are trained for hyper-growth environments," he says.

BlaBlaCar has just secured a deal that will supercharge growth: it has partnered with France's national railway operator SNCF, acquiring its bus network Ouibus who operates coach services connecting 300 destinations across Europe, and has carried more than 12 million passengers over the past three years. This deal will enable BlaBlaCar to feature rail and bus journeys on its platform for the first time. Along with this ambition comes a new fundraising of €101 million.

Frédéric explains: "We will be more attractive for passengers. They do not have to go to a different platform to look for the best options of book the rest of their journey because we'll be offering a "one-stop-shop" for booking trips. We will be the only form of transport that can go from your countryside house to any transport hub, reconciling multiple means of transport. They can come because they want to travel by bus, carpooling, or both."

2.5 Token and Initial Coin Offering (ICO)

An Initial Coin Offering (ICO), also known as a token generation event, a token sale or crowdsale, is an innovative – and largely unregulated – funding mechanism, that has been pioneered by digital asset startups. The transaction typically happens on a public marketplace (like IPOs and crowdfunding) for a limited and predetermined period of time, with investors using cryptocurrency (such as Bitcoin or Ethereum) to purchase digital 'tokens' created by the company. In some cases, these tokens may act as quasi-equity; in other cases, they are effectively vouchers related to future participation in an ecosystem relating to the digital asset (e.g. file storage).

ICOs have exploded in the past few years, partly linked to the cryptocurrency bubble of 2017. In Europe alone, scaleups have raised more than €3.5 billion through ICOs in 2018.[28] For many, ICOs present an appealing alternative to early-stage fundraising that is quicker and procures greater amounts. For others, ICOs are a way to fund a truly decentralised ecosystem, built around a common protocol but without centralised ownership.

However, the space has been marred by fraud and ICOs come with significant regulatory uncertainties and other risks, of which entrepreneurs should take notice. ICO advisory firm Statis Group estimates that around 78 per cent of the ICOs conducted in 2017 were scams;[29] though many were obvious (the frauds accounted for only around 10 per cent of value of funds raised), this clearly creates a massive challenge for bona fide businesses using this fundraising route. For these reasons, many firms are now eschewing the term 'ICO'; in its place, some are issuing Security Token Offerings ('STOs'), which make explicit their role as securities, and hence must be issued in accordance with investor protection regulations, such as those demanded by the US Securities and Exchange Commission.

The basics

Types

Security and utility.

Tokens can represent 'securities', such as equity, debt, dividends of future profits, ownership or voting right, this type of token is also known as 'security tokens'; or a service, a piece of the technology or product to be developed by the company, also known as 'utility tokens'.

Event types

Private sale, pre-sale, crowdsale.

Possible investors

Anyone who possess a digital wallet.

How to meet your investor

Token marketplaces such as ICO Bench, Neufund, STOscope or CoinList.

Common startup growth stage

Any stage, but commonly used by early-stage startups.

€14.6 million **was the average amount raised in 2017**[30]

The listing process for an ICO can take between
three and 12 months
(or shorter in case of previous ICO).

Preparatory tips

- Carry out due-diligence on regulatory environment.[36]
  - **Existing laws regarding token offerings vary by country and are constantly changing. Confirm that the token is allowed and check registration requirements, banking issues, and whether advertising crypto-investment is permitted in the jurisdiction.**
  - **As the campaign heavily relies on online tools, it is important to check if social media platforms accept ICO ad-placements; policies in this regard are currently changing quickly.**
- Put in place a robust security system to protect the issued tokens from hackers and phishers.
- Consider bounty programmes to cut on ICO costs.[37]
- Join cryptocurrency communities (e.g. Telegram, Slack, Reddit or Medium) to reach out for support.
- Publish information about your company on dedicated forums and magazines (e.g. CoinTelegram and BitcoinTalks).
- Announce the token using online calendars such as ICOAlert or TokenMarket.

Resources

Best Bitcoin Exchange market
www.bestbitcoinexchange.io

CoinMarketCap for the valuation price of cryptocurrencies
www.coinmarketcap.com

The Geography of Initial Coin Offerings (2019) by Winifred Huang, Michele Meoli and Silvio Vismara.

Art of the Initial Coin Offering: Lessons Learned from the Launch of a Crypto-Token (2017) by Andrew James Chapin

Good to know

Main advantages

- No intermediaries.
- Global investor reach.
- Full control of funding timeline.

Potential challenges

- Security concerns for both investors and entrepreneurs (e.g. risk of project or digital wallet being hacked).
- Regulatory hazard for entrepreneurs.
- Little to no professional advice from investors.
- Low professional networking opportunities.

Common misconceptions

- *An ICO is fast and cheap.* ICOs can take as much time as other funding rounds, and legal fees may approach those of a small IPO. One Ethereum expert estimates the average costs of a good ICO campaign to be around €52,000.[35]
- *Once the ICO is done, the fundraising work stops.* In fact, if the ICO is successful, it is only the beginning of the project (see post-campaign steps). The aim of these post-ICO processes is to increase the value of the tokens. The more they are valued, the more sustainable the startup is, and the more it will raise in the next ICO round.

How it works

ICO

You are here

1. Pre-campaign steps

Planning

- Determine the nature of the offering (e.g. type of token, number of tokens to be sold).
- Choose the jurisdiction (country) of the offering: laws around ICOs vary per country and change quickly.
- Develop a communication strategy pre- and post-offering.
- Evaluate your competition and determine your token's price.
- Determine the elements in the financial section such as the amount of soft cap and hard cap, price in ICO, minimum investment, distributed ownership in ICOs etc. (The more information provided, the less asymmetric information exists, hence increasing the success of ICO fundraising).

2. Document preparations [31]

To be published on company's website and token marketplace

- Issue a whitepaper
- Publish a Company Token Sale Agreement (also called Token Purchase Agreement) that sets the terms and conditions of the sale.[32]
- Formulate Terms of Use and Privacy Policy.
- Sign shareholders' agreement (in case of previous investors).
- Prepare a term sheet – depends on token marketplace/platform.

3. Technical preparation

- Create your tokens, design recognisable logo.
- Launch/update your website. [33]
- Set up a smart contract for the token sale (not compulsory).
- Publish/open sales on a blockchain platform or token marketplace. [34]

Second ICO funding round or security token offering (STO)

Commonly followed by

Costs may include

- Legal and consultancy fees.
- Making or use of blockchain technologies.
- Design and creation of tokens.
- Purchase or making of cryptocurrencies.
- Exchange rate from crypto to fiat currencies – if company decides to accept cash payments.
- Platform security and high-capacity hosting services.
- Online marketing costs.
- In case of a successful token offering: listing on crypto-market exchange.

4. Closing round

- Once investors have signed the Token Sale Agreement and the funding round has ended.
- If funding target is reached, investors automatically receive a key to their tokens and documentation.
- A final prospectus is issued to investors (when applicable).
- Investors are automatically refunded if the target is not reached.

Goal not reached

Target met

End of project

5. Post-campaign steps

If the target is reached

- Inform investors about the results of the fundraising event and development of the project.
- List token on the crypto-exchange market (not compulsory).

Scaling story

Dovu

2017 → **2017**

Venture Capital	**ICO**
Amount £350,000	**Amount** $6.2 million
Purpose Building the product, hires	**Purpose** Team expansion, platform development (launch beta)

In short

Country of origin UK

Founded date 2017

Founder(s) Krasina Mileva, Irfon Watkins, Arwen Smit

Sector Mobility

No. of employees 12

Total funding raised $6.5 million

Krasina Mileva, co-founder DOVU

DOVU uses "nudge economics" to encourage users to switch to greener modes of transportation, such as electric cars, buses, cycling and walking. The startup issues rewards in the shape of cryptocurrency tokens, which can be exchanged for a wide range of goods and services – even hard cash. The business raised $6.2 million in a token sale in 2017 to build out its team and platform. Here, co-founder Krasina Mileva explains why she opted for this modern and groundbreaking funding route, and outlines how it will help her deliver explosive growth.

A new approach

If you drive to work each day, what would convince you to swap to cycling, or taking the bus? This is the question that Krasina Mileva and her co-founders Irfon Watkins and Arwen Smit sought to answer with DOVU. "We are building a new type of rewards and incentives platform," says Krasina. "We're focused, not on spendings, but on the behaviour of the user. We nudge the user to change their behaviour using rewards."

Founded at the beginning of 2017, the Bristol-based business works with major partners such as BMW, Jaguar Land Rover, and Go-Ahead, the rail and bus operator, to encourage consumers to take control of their personal mobility data and make greener decisions with their transport decisions. "Small changes, made often, create habits and make a big difference," says Krasina. "We could make a huge impact worldwide."

Users receive cryptocurrency tokens when they make positive changes to their behaviour, which can either be exchanged for rewards, such as Uber credit and first class upgrades in the DOVU marketplace, or exchanged for other cryptocurrencies and traditional cash.

Financing the new model

"When we founded the business, there were just two of us," says Krasina. She knew that she would struggle to scale the business without hiring more people, so she joined the InMotion Ventures incubator, run by Jaguar Land Rover's (JLR) investment arm. It specialises in funding startups that promise to revolutionise the transport sector, so it was the perfect fit for DOVU. "This is how our journey started," she recalls. "Our first vision of DOVU was to create an API marketplace where different transport providers would exchange, sell and share data."

However, the team were soon forced to pivot their model: "No one knew how to price mobility data," admits Krasina. "So we shifted the idea to make it more useful for businesses and individuals, which also works toward a greener method of transportation."

As part of the programme, DOVU raised some seed funding from InMotion Ventures in April 2017. At the same time, it also secured capital from Creative England, a Bristol-based fund backed by the UK Government. "Once we had this money, we recruited more people and got a development team working on the technology," says Krasina. "So the focus was on team expansion and building the product too."

DOVU's model harnesses the power of the blockchain to track users' mobility decisions, and it also has its own coin, the DOV, which is used to reward greener behaviours. These roots in the crypto world meant that a token sale was the most obvious next step for the startup. Krasina explains:

> "We were comparing all the fundraising options on the market but this made sense for us, given the nature of our business, and because of what we wanted to do with the rewards. We needed to follow that path and do a token sale rather than go a standard route."

In October 2017, DOVU raised 20,000 Ethereum – then worth $6.2 million – in its token sale. The two-week-long sale attracted participants from more than 40 countries.

However, because of the volatility around cryptocurrencies, the value of the round has since dropped. "The price of Ethereum (ETH) has gone down massively," says Krasina. At the end of December 2017, a single Ethereum was worth more than $720, at the end of December 2018, its value had sunk to $85.

However, it is possible to hedge risk by moving cryptocurrencies into different kinds of coin. "You never know what the price of a cryptocurrency will be the next day, but you can hedge the risk a bit," she says, adding that she took steps to protect DOVU following the raise. Krasina claims that she and her co-founder understood the risk when they opted for a token sale, and were willing to absorb any volatility. "We are 100 per cent bought into the idea of cryptocurrency and the blockchain and we know how they work," she says. "There isn't any worry on that side."

Bringing transparency to the "Wild West"

Krasina is keen to distance DOVU's "token offering" from the much-maligned "initial coin offering", even though they are essentially the same thing.

"We don't refer to it as an ICO," she says, claiming that by calling the round a "token raise", investors were less likely to be spooked. "Still, we didn't know how it would go," she adds. "It was exciting… It was an experience."

A lawyer by training, Krasina was careful to go the extra mile to prove that DOVU's token offering was genuine.

> "We put out a white paper and ran all our financials by KPMG [the accounting giant] to prove they were correct," she says.

"From a legal standpoint, I brought my own experience too."

Krasina went through the same due diligence with the token raise as she would have with a traditional fundraising, even though there was no requirement to do so. "There is no obligation to do KYC," she says, referring to the concept of "Know Your Customer", which means the process of proving your identity and credibility when doing deals.

"It was still the Wild West. We made sure [our offering] was more transparent and visible." At the time of the raise, the UK had yet to lay down cast-iron regulation governing ICOs, so the DOVU team opted to hold their token offering in Gibraltar instead. "They are more blockchain friendly there," says Krasina, adding that Gibraltar was also much further down the regulation route than the UK at that time. "They are just about to use regulations around token sales. So it made sense to go there."

Having international corporations like JLR as investors meant that there was even more pressure to prove the legitimacy of the raise, Krasina admits. "Those conversations were interesting because there was a fear within JLR," she says. "They didn't want to wake up to an article in a newspaper saying that JLR was involved in cryptocurrency scam."

The next round

The token raise in 2017 allowed DOVU to expand the team to 12 people, and build a working mobility platform. The business recently finished its first beta project, with 350 users. Now, it is gearing up for another round of fundraising. This time, it is seeking to raise $2 million through a security token sale – the first of its kind in the UK. "A security token is a mixture of a token sale and an IPO," Krasina explains. "You allocate a portion of equity in your business for the fundraising event and that equity is transferred to digital tokens. Each token is a share in the business." The token is the digital representation of the share. These security tokens can be traded on a licensed platform, which creates market liquidity – a real bonus for investors. "It's an opportunity for them to make more out of their investment," Krasina says. They are able to trade their tokens whenever they wish to do so, which gives them liquidity at an earlier stage, or get their return on exit or acquisition. "We feel excited about the opportunity that a STO provides for both business and investors", adds Krasina.

This $2 million is earmarked for talent. "The next step for us is getting more people in-house because we need to build out what we do a bit faster," says Krasina. "We're working on our financial model too. We need more people in business development to get more partnerships." There are just two people in sales currently.

> "We don't struggle with getting partnerships now, we just don't have enough people," adds Krasina.

With a bigger sales team and more skills in the development team, there's no limit to how big DOVU could become: "There are no limits. You could use the mechanism anywhere in the world."

Scaling story

Viberate

2016 → **2017** → **2017**

Angel Investment	Angel Investment	ICO
Amount Around €300,000	**Amount** €400,000	**Amount** $10.7 million (around €9.4 million) based on cryptocurrency value at the time
Purpose Creating MVP	**Purpose** Salaries and running costs	**Purpose** Expanding team

In short

Country of origin Slovenia

Founded date 2015

Founder(s) Vasja Veber, Matej Gregorčič, Uroš Umek

Sector Live music; analytics

No. of employees 50

Total funding raised Around €10.1 million

Vasja Veber, COO and co-founder, Viberate

Viberate is a crowdsourced live music database that is aiming to become the IMDB of the music industry, helping people discover and find up-to-date information on artists, venues, and events. In 2017, the company raised $10.7 million (around €9.4 million) from an initial coin offering (ICO) at the height of the crypto-hype, issuing their own tokens in exchange for Ethereum's ether tokens. Here, co-founder and COO Vasja Veber discusses the process, why they chose this route, how the crypto-collapse has affected their company, and his outlook for the future.

The founders of Viberate had the idea to "standardise the music industry" during their work in music management. Vasja Veber and Matej Gregorčič have been managing Uroš Umek, (AKA DJ Umek, a well-known techno DJ) for the past 12 years. "During that work we found out that it's extremely hard to measure how popular an artist really is, or to measure the effect of marketing campaigns," says Vasja. "We invested a lot of money into digital marketing, particularly with Facebook, but we never had the chance to really measure how this impacted his popularity online."

Together, the three of them started a small project called topdeejays.com, to measure the online fanbase of around 1,000 DJs. The site collated simple stats such as how many followers DJs had on different social networks, and how this grew on a daily basis. They decided to open up the database for anyone to add information on DJs and artists, and the site began to take off. "We managed to get 30,000 user-generated profiles in about a year and a half, and then we saw that there's a real need on the market for such services," recalls Vasja.

Around this time, the idea was upgraded into Viberate, reflecting the new vision to expand beyond the electronic music genre to include all types of artists, live music venues, booking agencies and "the whole music ecosystem". The idea was to enable venues to easily find reliable info on artists they're considering booking (including where they've played before; how big and engaged their online community is), and for artists to size up prospective venues (by seeing which acts have played there before, and more).

The Silicon Valley slog

Viberate's funding story began at ABC Accelerator, a startup accelerator in Slovenia. The founders joined at a late stage to receive help with their fundraising pitch. "That turned out to be really helpful, because we didn't have any connections in the VC world, and we didn't know any angels," says Vasja.

They met their first investor at the ABC demo day, who contributed to the first angel round totalling around €300,000. After this kickstart, the plan was to seek a larger VC round to expand the team and scale faster. After a few weeks they realised that cold emailing VCs was not working. Vasja and his wife decided to go to Silicon Valley to pay them a visit instead.

"We rented a car, and went door to door in Palo Alto and San Francisco. We simply crashed into their office and delivered our pitch materials." "In the beginning it was awkward, but after a few visits, it became interesting, because we never knew what to expect. Surprisingly we got escorted out only once out of around 50 visits. Most investors said they really appreciated our effort and that startups have become too spoiled to do that kind of old school hustling."

Despite their efforts, it turned out to be a fruitless mission. This was a tough time for the founders. "It's extremely hard to raise money there in such an early phase. Because Silicon Valley investors are only going to invest into companies that are [generating] at least some revenue, and we didn't have that," says Vasja. But they remained positive. "In the end we didn't get the investment, but we did get a decent number of direct VC contacts and a few pitches, so it really paid off to get out of the comfort zone".

While the VC route didn't work out at this stage, they were fortunate to have an angel investor who truly believed in them, even when their faith in themselves began to waver. "We came back and luckily one of the angel investors really liked the whole team and he trusted in us – even at times when we lost trust in ourselves. We were really down and near bankruptcy. We had a meeting, we said 'OK, we're sorry, we failed, we really did our best, but somehow it wasn't a success'. And he said, 'look, don't worry, I still believe in you. Here's another round (€400,000), just go and get it'. He really helped us!"

Creating the VIB token

This boost was enough to get them back on track, and in September 2017 Viberate completed an initial coin offering (ICO) at the top of the crypto bubble, raising $10.7 million in cryptocurrency, based on values at the time, through the sale of their own VIB tokens (which sold out in under four minutes, says Vasja). Why did they choose this route? "Well, the venture round was hard, for the reasons I shared. We weren't generating any revenue. Plus, we came up with the idea of having our own currency to fuel the growth of the database."

Viberate's success depends on the reliability of its data. Today, 15 of its staff are devoted to database curation, but the company still relies on its (around 7,500-strong) network of music fans to upload info on artists and venues around the world, says Vasja. They wanted to use their tokens to incentivise contributors, as well as promoting the most reliable users to "supervisors" to help maintain the accuracy of the data.

Being based on Ethereum, Viberate's ICO process involved employing a developer to write a 'smart contract'. When investors send Ether, this code generates tokens and returns them to people's wallets. Marketing is important. "People need to know about your ICO. You have to write a 'white paper'. It took a lot of effort. For us, it was at least four months of intense preparations, and €300,000 of our own money into the marketing campaign," says Vasja, adding that a strong and loyal community is key to success.

For Viberate, the ICO fuelled a significant growth phase; according to Vasja, the database grew from around 30,000 artists to almost 400,000 in a little over a year; the team increased to 50. The founders were also contacted by some VCs who said 'no' initially, and wanted to talk again.

"About a year and a half ago we really had a lot of money," says Vasja. "But the value of our crypto assets of course went down with the plunge."

The crypto collapse

The value of cryptocurrencies plummeted across the board in 2018. Headlines of eye-watering ICOs saw lots of people jumping on the bandwagon, including those without a solid business idea to back them up, and scepticism began to set in. "This was too bad, because we really believed this was going to change the way we do business, but in the end it was just the greed [took] it down," says Vasja.

However, he remains upbeat; since this fundraising method did not require relinquishing any equity, things could be a lot worse (and could still pick up again). "All crypto companies that raised money in the ICO hype lost millions last year. And it's really sad to see how much we could have had; but still, you have to focus on what you have now. We're still left with what would be a really nice A round, without giving away any equity. But it could have been much better if we had managed to sell everything in time."

It can take time for policy to catch up with innovation, and this thwarted their efforts to sell their crypto assets in time. "Tax legislation was really unclear [in Slovenia], and the government couldn't say how they would tax the income that you got from selling the crypto, and we didn't want to take the risk," says Vasja. However, they were able to use some of it to cover their running costs. "We were converting it into euros, but on a monthly basis. [The government] did allow us to cover our monthly burn rate with it. So we could sell whatever money we needed to cover the salaries and monthly costs. In the end this is what we were doing and just hoping they were going to finally come up with a solution, which they didn't." While no-one knows what the future holds for cryptocurrencies, Vasja warns it's currently extremely tough to do an effective ICO (at the time of our interview, in February 2019, at least!). "Right now you're not going to do anything with it unless you have a really, really good case."

New business models

Viberate origninally had big plans for its tokens - including enabling people to spend them on things like gig tickets or booking artists - but this is on hold longterm pending a cryptocurrency recovery. While tokens are still used to reward contributors, the founders are currently focusing on new business models, that will eventually also see a solid case for the use of their VIB token.

The music business is notoriously tough to earn money in, and they are focusing on the "marketing segment" instead. They have created a mobile app, Viberate Tonight, which uses proprietary tech to recommend nights out based on your music tastes. They're planning to license this on a 'white label' basis (where customers can use their own branding), to telecoms companies looking to connect with a younger audience.

A second business model will see Viberate offer its data to ticket providers, helping fans find out more about headliners and supporting acts at events. Meanwhile, a third revenue stream (still in development) involves developing a platform that enables small festival producers to create a simple mobile app to promote their event, with content sourced from Viberate's database.

The focus is now on closing the first few deals with telecoms providers (they're in talks with three, says Vasja). Then, once they're generating enough revenue to fund the business, they will seek their first VC round to help them scale faster.

2.6 Corporate Acquisition

Corporate acquisition is the takeover of one company by another, so as to access its customers, talent, markets, technology and other resources, often in the hope of creating synergies. Acquired businesses may be absorbed by the parent company, run as subsidiaries, or function autonomously from the parent company.

The acquisition market is large and complex. At the upper end it includes large deals such as iZettle's €1.75 billion sale to PayPal in 2018.[21] However, at the lower end, Europe's traditional companies are increasingly acquiring young, innovative startups as a way to stay ahead of their competitors, access technology and talent, and expand into new areas whether by geography or products. In fact, 91 per cent of European exits are trade sales (acquisitions), whilst the remainder are 4 per cent leveraged buyouts (LBOs) and 5 per cent IPOs.[38]

Whilst an acquisition by a larger corporate is often considered an exit strategy for stakeholders in the smaller firm, it can also be motivated by a startup's strategy to access new markets and develop the business.

Median acquisition price is around
€57 million **(but varies widely by sector)**[39]

It typically takes
four to six months **to complete an acquisition**[40]

Strategic Partnerships

A corporate (or strategic) partnership creates synergies between businesses to elevate an existing product/service offer, or develop a new one. A corporate partnership is a good alternative to an acquisition and creates access to new technologies, skills, capabilities and competencies that would otherwise be difficult or take a long time to develop. Strategic partnerships are not only between startups and corporates, but also with the public sector.

The basics

Types
Equity financing, debt financing, asset financing.

Examples
Acqui-hires, asset purchase (i.e. patents, list of customers, etc.), equity/share purchase (i.e. buyouts), purchase of stocks, all-cash deals.

Possible acquirers
Corporates (usually larger-sized).

How to meet your acquirers
Professional network, investment bankers and corporate lawyers, existing investors' pool, strategic recruitment, corporate events, challenge prizes and competitions, accelerators.

Common startup growth stage
On average European tech startups get acquired nine years after foundation[1] (but this varies widely per sector).

Resources

Winning together: A guide to successful Corporate-Startup Collaboration, by Nesta.

M&A Research Centre at Cass Business School

Tech Startup M&As report by Mind the Bridge and Crunchbase

Good to know

Main advantages

- Access to new customers, markets, and technologies.
- Enhanced security by being part of a larger company.
- Exit for shareholders (although key managers may have share sale lock-in periods and post-deal employment contracts).
- Easier, faster and more certain transaction process than an IPO.
- Opportunity to reconsider role of founder (e.g. ability to relegate administrative and executive tasks to the other business and refocus on product development, either gaining a broader executive role or taking on new responsibilities).

Potential challenges

- Chance of misalignment of vision or strategy, or culture between acquirer and startup (can be mitigated by better due diligence).
- Loss of control.
- Retention of employees: 'Will the acquiring company take care of my employees?'.

Common misconceptions

- *You have to sell 100 per cent of the business.* Depending on the deal, buyers are increasingly willing to provide capital for a minority ownership position. This can be a strategic way to access new growth paths whilst still retaining control.
- *The larger the better.* An acquisition does not necessarily have to be a billion-dollar deal. So-called micro-acquisitions are increasingly common, but due to low media coverage, they are harder to track.[41] The acquirer doesn't have to be large, either.

Preparatory tips

- Evaluate the potential for a win-win situation
  - **How will a specific acquisition help your growth plans? What are the other company's growth plans? How you can help it achieve its goals?**
- Make sure corporate governance is in order, and that records and accounts are up to date.
- Involve external advisors, including legal and financial advisory teams early on to help deal with the complex process.

The buyer's perspective

Buyers often look at acquiring companies that fit their current or future strategy. They tend to be particularly interested in fast-growing companies with high profitability and low valuations.[42] Other non-financial considerations such as established and loyal client base, culture, brand and people can influence decisions too.

Stéphane Estryn, M&A director at Publicis Groupe, one of the most active acquirers in Europe, explains: "We look for talent and capabilities. Talent as in some cases we want to hire leaders in their fields who happen to have set up their own companies, and so buying their business is part of the "hiring" process; talent also when we are looking to expand in a particular vertical or geography. Capabilities as our business moves towards digital business transformation. **My recommendation to startups is to give a clear, super practical presentation of their capabilities (no buzzwords, forget the use of "leading" in every sentence) and their leaders**."

He advises startups to be pragmatic in their preparation for an acquisition: "Be very pragmatic about the constraints that come with integrating a large corporation. There will be many. There is no way around them. On the bright side, corporate groups mean access to a wealth of client opportunities, to greater capabilities and to the financial means to grow. **I would advise startups to get organised as if they were small corporations: well-structured, processed and with a clear corporate organisation**".

How it works

Corporate Acquisition

You are here

Costs may include

- Legal and investment banking fees, generally around 2-3 per cent of transaction size.
- External consultancy fees (especially for due diligence and business integration planning).

1. Preparation

- Identification of potential buyers including a list of buyers to be excluded from the process (such as competitors).
- Initial contact, typically by the advisor to the seller, with the highest potential buyers.
- Initiate buyer discussions: high level letter of intent ('terms of agreement').
- Prepare documents: appraisal criteria and processes, valuation, future mergers/acquisitions, benefits and risks, etc.

2. Due diligence

- Negotiations open with the selected buyer: term sheet, terms and conditions including representations and warranties, price, post-deal management.
- Due diligence period when both companies conduct due diligence on each other, not just financial, tax and legal, but commercial, operational, organisational and regulatory/compliance.

3. Deal making

- Finalisation of documents, review of agreements with minority shareholders.
- Sign final agreements, Purchase and Sales contract.
- Legal and regulatory filings (although this can start earlier in the process).

4. Transition phase

- Must be led by the CEO but managed by an internal M&A management team or specific non-CEO, C-level team.

Scaling story

mySugr

2012 → **2012** → **2014** → **2015** → **2017**

Grant

2012

Amount
Around €100,000

Purpose
Hiring first developers and starting up

Angel Investment

2012

Amount
Around €400,000

Purpose
Hiring more staff, launching first app

Angel Investment + Venture Capital

2014

Amount
€1 million

Purpose
Hiring more staff, business development

Venture Capital

2015

Amount
€4 million

Purpose
Hiring more staff, new partnerships

Acquired by Roche

2017

Amount
SFr 70 million (+/- €61 million)

Purpose
Fuelling global growth and partnerships

In short

Country of origin Austria

Founded date 2012

Founder(s) Frank Westermann, Fredrik Debong, Gerald Stangl, Michael Forisch

Sector Diabetes care; digital health

No. of employees 100+

Total funding raised €5.5 million (prior to acquisition)

Frank Westermann, co-founder and CEO, mySugr

mySugr began as a simple app to help people with diabetes manage their health and care. With more than 1.5 million registered users, the company now offers a range of apps and services designed to "make diabetes suck less". Today, the company employs more than 100 people across two bases in Vienna and California, and is part of global pharma giant Roche. Here, co-founder and CEO Frank Westermann tells the story of building and selling the business – one step at a time.

Some businesses begin as solutions to problems faced by the founders themselves. For Frank Westermann, this was very much the case. Frank was diagnosed with type 1 diabetes 20 years ago. The initial idea for mySugr came from wanting to improve his own therapy and care – and in turn, to help others too.

Together with co-founders Fredrik Debong (who also has type 1 diabetes), Gerald Stangl and Michael Forisch, they set out to empower people to take a more active role in their health and care, and take the hassle out of living with diabetes. "Typically it's a negative spiral," says Frank. "Through a very different approach to treat the disease, we have an application that motivates you to put in numbers – you can gain points – and our diabetes monster which gives you funny feedback about your inputs."

The more they discussed the idea, the more they saw its potential and began to think about how they could bring it to life.

"Back then we weren't thinking about financing rounds and venture capital, we were just thinking, 'how could we launch this product and get it running?', recalls Frank. "We had no clue about venture financing!"

The right capital at the right time

An initial kickstart came in the form of a grant worth around €100,000 from Austria Wirtschaftsservice (AWS), a business support programme funded by the Austrian Government.

"That grant really helped us to quit our day jobs, hire our first developers and start work on a prototype," says Frank.

mySugr received early acclaim after winning a startup contest, before the first app was even on the market. This caught the attention of several VC investors, and the founders were invited for talks with a few.

While tempted, they decided not to pursue VC funding at this stage, and feel this was the right decision. mySugr was their first company; it was still pre-launch and pre-revenue.

"We didn't feel we were ready for VCs back then. And probably also the VCs felt we weren't ready for them, either," says Frank

Elaborating, he says they needed more time to figure out how to run a company properly and find themselves as a team: "It takes time to understand what you need to do, and I think that [VCs] probably would have lost pace – or maybe lost patience – with us."

The right funding for them at this stage came from business angel Johann Hansmann (an experienced businessman and contact of Fredrik) in 2012, who gave them the breathing space they needed to build a solid foundation. Through this investment, they were able to hire more staff and overcome initial challenges, not least finding great developers for the (then relatively new) mobile apps market.

"We're lucky we found a business angel who believed in us, and invested in us at an early and risky stage. He gave us the time to really figure stuff out and get things done. We're eternally grateful!"

One step at a time

This step-by-step approach has also informed the product development. The first version of the core mySugr app was relatively rudimental compared to today's, and has evolved gradually over time.

However, while Frank slightly cringes at some of the early features (the monster was a simple square, without the much-loved face it has today), he stresses that version one still offered features that were highly valued.

"Even that product, people loved it," recalls Frank. "We had very simple features that were super-appreciated by users; for example, you could take a picture of your food [helping users calculate and track their insulin doses]. Nobody else was thinking about that but as we are patients, we know how important these little things are."

Even today, around a third of mySugr's 100+ team live with diabetes, and the philosophy of step-by-step growth and continuous improvement remains strong; the team still aims to release new app updates every two weeks.

Building momentum

mySugr's user-centred approach soon attracted a loyal community, and this early traction prompted the founders to seek further funding in 2014. This time, they raised around €1 million from business angels (including Johann) and their first venture capital investor, XLHealth, a family-run firm specialising in healthcare. This helped the team grow to around 30 people by 2015 – at which point the founders felt ready for a more substantial VC round.

"[Venture capital] was the logical next step," says Frank. Why now? "I think the size. We needed more money than you would usually raise from private investors. And I also think that, as a company, you need different advice and support as you grow. This can also offer a potential exit for your early investors."

In 2015, mySugr completed its Series A round, raising €4 million from iSeed Ventures and Roche Ventures, with further support from XLHealth. As well as proactively going out to pitch, Frank met iSeed Ventures by chance at a diabetes conference and had "a good gut feeling with them". He was also keen to bring a US investor on board – this is mySugr's biggest market – and felt iSeed had the right ambitions and knowledge of healthcare.

Similarly with Roche Ventures (the venture arm of pharma giant Roche, which acquired mySugr in 2017), the founders had numerous positive discussions with them and felt aligned in their goals. The strategic potential of working with Roche was also a factor: "Especially in healthcare, it's so difficult to crack into [overseas] markets and you need strategic partners as a younger company," says Frank.

Selling the business

Fresh from this funding round, mySugr's growth accelerated, but the founders became increasingly aware of heavyweights entering the space, such as Glooko and Livongo, (the latter raised $105 million in 2018). "We were growing very fast, but maybe not fast enough to keep pace with better-financed competitors," says Frank. "It was clear they would simply outspend us, and we needed a kicker to continue to grow."

The founders were approached by two companies interested in acquiring their business. When considering their options, the most important thing for them was a buyer that would allow mySugr to stay as independently run as possible, and maintain the culture they had created.

→

Roche's global footprint was, again, another factor, and this relationship is now helping mySugr to enter new partnerships and markets.

Still, acquisitions are no mean feat and Frank admits it was "a lengthy and complicated process", involving a lot due diligence and uncertainty at times. Cultural integration is often cited by founders as the trickiest part of an acquisition, but Frank was encouraged that Roche seemed very conscious of this potential challenge.

So how are things working out so far? "I still love going into work every day because it feels like it always felt," says Frank. "Of course not everything is perfect, but it still feels like an independent company. When I go to work, I go into a mySugr office, and not a Roche office."

"Also very important, from the management team we didn't see a lot of fluctuation or people leaving after we got acquired, so the group of people [running] mySugr is still more or less the same group."

When it comes to finding the right investors or buyers, Frank has several tips: "You always need to have somebody you really trust. And somebody you think can help you on your board, to give you advice and push you forward. In general you should always be very honest; don't try to sell anything that you are not or that you don't really want to do.

"And then, probably the best advice I can give is very simple, and that's to follow your gut feeling; if it's not the right fit for you then just don't do it, because the pains will be so much bigger afterwards."

From apps to services
While mySugr began as a primarily B2C business, partnerships with diagnostic and pharma companies have seen it evolve "quite drastically" from a simple app to a company offering a range of products and services. Users now have access to diabetes educators, and can get test strips delivered to their door.

More than 100 people work at mySugr's main HQ in Vienna, with a further 15 (including Frank) in the US. The core app has more than 1.5 million registered users, while deals with health insurers across Europe and new healthcare partners in the US (to deliver mySugr's offerings to their customers) are a key part of the ongoing growth strategy.

However, for Frank the most fulfilling aspect is the human impact. In a recent review, a user shared that she had lowered her A1C value (which indicates blood glucose levels and overall health) from ten to 5.5 within three months of using the app. "It's much more than just the financial return," says Frank. "I'm so happy that we've been able to help so many people with diabetes."

2.7 Initial Public Offering (IPO)

A Public Offering is the process of selling shares of the company to the public via a stock market in order to raise funds. This also allows earlier investors to exit their investment. By 'floating' or 'going public', companies must disclose details about the company's past and future operations, which are audited and evaluated by an external team.

On average, European scaleups 'go public' 8.7 years after inception.[1] Floatation is often chosen by relatively established firms seeking large amounts of capital (as illustrated by some of the recent "IPO Blockbusters" in Europe), or the credibility and international exposure that public listing entails. Europe delivered more large tech IPOs in 2018 than the US.[21] IPOs are, however, still rare: only 1 per cent of European tech scaleups have gone public between 2010 and 2017.[1]

Average offering value in 2018 was
€117 million[44]

Listing process typically takes between
2 and 18 months*[45]

***Varies depending on company size, country of issuance, and size of the IPO.**

The basics

Types

Initial public offering (IPO), direct public offering (DPO or direct listing, uncommon in Europe).[43]

A 'reverse IPO' is the acquisition of an already-public company by a private firm, in order for the latter to bypass the IPO process. This may be quicker and cheaper.

Where

Stock exchange market (e.g. LSE, Nasdaq, Euronext) or alternative market (e.g. AIM, Mercado Alternativo Bursátil, Nasdaq First North).

Multilateral Trading Facilities (MTFs) and **alternative markets** represent cheaper yet official trading platforms on which growing businesses in Europe may sell shares. They are positioned as direct alternatives to venture rounds and initial public offerings (IPOs). Northern Europe is home to the most prominent MTFs with Swedish Aktietorget and Norwegian Oslo Axess. The listing process for alternative markets differs from traditional stock exchanges and is often less strict. However, they will not be discussed in detail in this report.

Common startup growth stage

Mature-stage startups (preferably a minimum of three years old).

Resources

EuropeanIssuers
www.europeanissuers.eu

ELITE
www.elite-network.com/private-companies/journey
- See the SPAC tool and Growth Compass

The Intelligent Investor: The Definitive Book on Value Investing (2006) by Benjamin Graham.

Mastering the VC Game: A Venture Capital Insider Reveals How to Get from Start-up to IPO on Your Terms by Jeffrey Bussgang

Good to know

Main advantages
- Increased credibility – public validation of business model and prestige of being listed.
- Global market visibility and access to new customers.
- Help to attract new talent and incentivise existing employees.
- Ability to reach a large number of investors and raise capital quickly.

Potential challenges
- Expensive and time-consuming process.
- Increased media attention: a strong public image management strategy should be in place.
- Pressure from market and shareholders can make it difficult to focus on long-term growth rather than short-term profits.

Common misconceptions
- *IPOs will destroy the startup's entrepreneurial culture.* The IPO process is time- and money-consuming, but post-IPO companies can note a gain in expertise and time-management capacities, as well as a renewed focus on product development.
- *Once the IPO is completed, there is no way of going back to the private sector.* Public companies can be merged or acquired later by private companies, or a majority of shares can get bought by private shareholders, a phenomenon also known as a 'Take-private buyout'.
- *Small businesses can't go public.* Even though stock exchanges have minimum listing requirements, there are cases of IPOs as small as a few million.

Preparatory tips

- Carefully evaluate the pros and cons of going public and consider what you will use the IPO proceeds for.
- Carry out an "IPO readiness assessment" to consider whether your business is ready in terms of strategy, structure, taxes, finances, systems, leadership and other factors.[46]
- Prepare a Securities Prospectus compliant to EU laws.[48]
- Adopt International Financial Reporting Standards (IFRS) early on to save time and be compliant to EU's Transparency Directive.[49]

How it works

IPO

You are here

1. Pre-IPO preparation

- Understand objectives and assess your readiness.
- Review corporate governance model, identify structural and management issues & documents.
- Call shareholders' meeting to present preliminary action plan to IPO.
- Seek board and legal advisors' views.
- Research minimum listing requirements for selected stock exchange (this may include minimum value price for shares, specific corporate governance rules or specific languages for financial reports).

2. Execution

- Determine equity story that explains why investors should buy stock.
- Select an underwriter (investment bank) to act as a broker.
- Due-diligence on selected stock exchange and regulatory requirements.
- Form an external initial public offering team.
- Prepare application (by underwriter) and draft required documents: an engagement letter, an underwriting agreement, a filing/registration form, the company prospectus, an investor roadshow, disclosure documents and other required documents.
- Financial audit of the company to finalise the filing form.
- File for listing - typically through submitting the required form to the selected stock exchange and a national regulator.
- Stock exchange review process to accept your application.
- Once accepted, negotiation period between the investment bank and your investors to determine the price of the shares.

3. Completion

Selling your business to the market

- Announce final bidding offer.
- Set a date and activate a marketing campaign.
- Public announcement of IPO in the media.
- Bidding starts.

Costs may include

First listing costs

- Between 3 per cent and 15 per cent of the total amount you are proposing to raise [46] (the lower the value, the higher the percentage required).

Listing application fee

- Typically between 0.1 per cent and 0.6 per cent of market capitalisation, with a maximum of €3 million*[47]

Significant legal, advisory, accounting and marketing fees

Commission fees

4. Post-IPO

- Establish and refine your reporting system to the investors, the public and the underwriter(s).

*The process varies per European country according to national regulations.

Scaling story

Mynaric

2009 → **2014-2017** → **2017**

Incubation

Amount
Unknown

Purpose
Starting the company; hiring first staff; working on prototypes

Angel Investment + Private investment

Amount
Around €12 million across several rounds

Purpose
Expanding team; product development; branding and design. In 2017, risk minimisation pre-IPO

IPO

Amount
€27.3 million

Purpose
Moving into volume production, including manufacturing facilities and costs; international expansion

In short

Country of origin Germany

Founded date 2009

Founder(s) Dr Markus Knapek and Joachim Horwath

Sector Aerospace communications

No. of employees over 80

Total funding raised Around €12 million pre-IPO

Dr Markus Knapek, co-founder, and Sven Meyer-Brunswick, director of communications and corporate growth Mynaric
Mynaric believes the sky is the next frontier for communications. The company develops terminals for the ground, air, stratosphere and space that will enable high-speed internet to be delivered via laser beam to remote locations. In 2017, Mynaric completed an IPO, raising €27.3 million in its debut on the Frankfurt Stock Exchange. Here, Dr Markus Knapek, co-founder, and Sven Meyer-Brunswick, Director of Communications and Corporate Growth, talk us through the process, and how this helped the company shift from developing prototypes for clients to beginning serial production of its first scalable product.

Mynaric is not your average startup. The company is developing hardware to power new aerospace networks with the aim of bringing high-speed internet, via lasers, to areas cables cannot reach - whether that is at sea, in the Arctic, on an aeroplane or in space. It does this by connecting terminals on the ground with others in the skies (for example, on unmanned aerial vehicles, aircraft, balloons or satellites).

While the specific projects they are working on are mostly under wraps for now, Mynaric has confirmed it is working with Facebook and says its customers are typically tech companies keen to establish these kinds of networks for various reasons, whether bringing internet access to the three billion people not currently online; connecting devices and industries (such as ships or aircraft) to the internet and to each other; or for cyber security (laser communication can be used to create more secure networks for transmitting sensitive data).

From research to prototyping

According to Sven, Mynaric's growth has seen three key phases: the research and scientific phase; the prototyping phase; and now, the "production and scaling phase".

The research phase took place at the German Aerospace Center (DLR), where co-founders Dr Markus Knapek and Joachim Horwath spent several years looking into different aspects of laser communication. They did a lot of research into the technology there to prove that it worked theoretically and in practice.

Excited by its potential and keen to take their research to the market, the two of them started Mynaric as a spin-out from DLR in 2009. Early support and funding came from the technology marketing department at DLR itself; the European Space Agency (ESA) incubation programme in Bavaria and the Helmholtz Association (a group of research organisations in Germany), which gave them "time to really concentrate on the company" and build a strong foundation.

The first product was finished in collaboration with Airbus. They flew one of their terminals on a Tornado jet fighter in 2013, demonstrating that the laser could remain stable despite the jet's vibrations over long distances. "That was a really important demonstration for us," recalls Markus.

This, along with other contracts, helped fund the business in the early days. Though the technology was still in development, companies were willing to pay to build prototypes and test its potential, particularly given the high data rates promised by laser communication.

"Pretty much the first four to five years we really lived from our cash flow, so from contracts with customers, and only then did we decide to get investor money and grow the company faster," says Markus.

Seeking investment
The founders had always planned to move into volume production as soon as they had a scalable product and the right infrastructure in place. After their successful demonstration with Airbus, and with a growing interest in their technology (particularly around its potential use in low-earth orbit satellite constellations), they began seeking investment to accelerate their growth.

"At that time, it became clear that we needed more power to increase the speed of development of the company, to get into volume production and get the right products in place," says Markus.

First up, they submitted a proposal to the Munich Business Competition (MBC), in a spontaneous decision, around two days before the deadline for the third round, recalls Marcus. Their ambitious plan scooped third place and this was a "kick-off" for the company. "The guys from MBC helped us a great deal. They connected us to many investors, to the right people to start this process," says Markus.

Still, raising money for an ambitious venture is no mean feat, particularly when no-one else is doing what you are planning on a commercial scale yet.

While laser communication itself was not new, the idea of creating off-the-shelf products for the ground, air, stratosphere and space was uncharted territory. "It still took a while to get the first financing round, but that pushed us forward," recalls Markus.

Indeed, "space lasers" are not the easiest sell. "We did not approach or make deals with VC money here," says Sven. "Because in Europe - it is starting to change, I believe - but in Europe it is still not easy to get money for deep-tech aerospace stuff, because these things tend to have long lead times. A lot of capital needs to be deployed in order to build up a company. So that was not the perfect route. European investors do not always appreciate such daring proposals; they tend to want something that is safe and proven. New disruptive technology made in Europe is a hard thing to sell."

Instead, the starting capital came from wealthy individuals. In 2014, Mynaric managed to find a couple of "daring investors", who believed in the vision, and raised around €3 million in their first funding round from business angels.

The IPO
The decision to IPO was partly driven by the desire to capitalise on growing opportunities.

While Mynaric cannot confirm the names of everyone they are working with (aside from Facebook, which has been announced publicly), aerospace communications is a growing market, with Google, SpaceX and Sir Richard Branson all working on projects in this field. For example, in 2018 SpaceX gained approval to launch more than 7,000 satellites for its 'Starlink' constellation, with the aim of building a new aerospace network for internet coverage.

"We are seeing more and more constellations popping up. We have the right product for these constellations, in air and space," says Markus. "We saw this all growing. We were seeing a lot of interest from China, across Asia, and from other countries, and we just realised that we have to grow this bigger and faster if we want to produce enough systems and really get the systems ready for the market."

Why did they feel a public listing was the right route for them? "There were two reasons why the IPO was the right track for us," says Sven. "First, as I mentioned earlier, the investment climate in Europe is just not very inclined to invest in deep tech stuff in large sums, and we needed large sums to continue. But it was also about transparency for our customers."

"Every half year we report our financial results, and we do have to commit to very strict market regulations. So we are very transparent when it comes to what is happening inside the company, which is helping us with the market access, essentially, to our customers."

The process
Mynaric raised €27.3 million when it floated on the Frankfurt Stock Exchange in October 2017.

When it comes to the IPO process itself, it is essential to get the right partners on board, says Sven, adding that their existing investors and network helped them find and select theirs. "You need a ton of partners to do an IPO: an investment bank, lawyers, PR and investor relations (IR) advisers, and more."

For Mynaric, another key part of the process involved taking some more money into the company before the IPO (more private investment from the network of investors they had already built up), for "risk minimisation purposes".

Timing is crucial with IPOs, and the team believes the strong market conditions at the time played a key factor in Mynaric's fundraising success. Still, the decision to take on additional investment beforehand was intended to minimise the risk if the market had taken a turn, as Sven explains: "An IPO depends very critically on the market condition. You never really know where the market will be in half a year or a year from now. [And because of this], you have to get some more capital into the company in case you cannot IPO the company - in case the market crashes, etc."

Mynaric completed its IPO within six months - much to the surprise of the investment banking community, who had advised that it would take around a year and a half - with three people working on the process full-time internally (none of whom had been through the process before). On the day, it was four times subscribed, meaning they could have sold four times as many shares.

Production and scaling
Since the IPO, the team has more than doubled in size from around 40 to just over 80 across the group. There has also been a "shift in professionalism", with new structures and processes established to build a strong foundation.

"Every investment round we did, including the IPO, was always a major step forward so we could scale the team here and take the right steps towards volume production and internationalisation," says Markus.

With its first product (ground terminals) in volume production since 2018, the company is now working on refining its products for the air and space markets, with the aim of moving to serial production of both within the next two years, too.

Mynaric now has a company in the US and an office in Shanghai, China, along with its base in Munich, Germany. The focus for the next few years is on continuing the transition into volume production, including bringing in new infrastructure, test equipment and people with the right experience to move this forward. "In all the segments [we work in], we need lots of systems for our customers," says Markus. "So this will keep us busy over the next few years!"

Scaling story

FacePhi

2012 → **2013** → **2014**

Family and friends

Amount
Around €800,000

Purpose
Salaries and product development

Angel Investment

Amount
€300,000

Purpose
Hiring new staff, e.g. sales

IPO

Amount
Around €1.3 million

Purpose
Business development and credibility

2016

EU FACCESS grant

Amount
€1.7 million

Purpose
Product development and marketing

2017

EU IVACE grants

Amount
€46,191

Purpose
R&D

In short

Country of origin Spain

Founded date 2012

Founder(s) Javier Mira, Salvador Martí

Sector Biometrics

No. of employees 30

Total funding raised
Around €4.15 million

Javier Mira, CEO and co-founder FacePhi
FacePhi's vision is a world where usernames and passwords are replaced with biometric technology such as facial recognition. Its flagship product, Selphi, enables people to log into an app or authorise transactions by taking a selfie with their phone. Thirty banks across Central and South America are now employing the technology in a number of ways. Here, co-founder and CEO Javier Mira explains why the company decided to list on Mercado Alternativo Bursátil (MAB), Spain's secondary stock exchange, what that process looked like, and the impact this has had on the business.

Javier Mira, co-founder and CEO, FacePhi
FacePhi's underlying technology was developed by a group of engineers at university. Javier Mira came on board in 2012, investing in the project and bringing along experience of developing businesses in different sectors, to help turn their facial recognition algorithms into a viable business.

Together with co-founder Salvador Martí, Javier started FacePhi and got to work on creating a sellable and user-friendly product, developing a business model, and getting the right foundations in place. "We put all this technology together with a business plan, in order to avoid the use of passwords and usernames whenever you are logging into an app or accessing your bank account online," says Javier.

FacePhi's early days were bankrolled by family, friends and the founders themselves, who put in around €30,000 a month for two years to get the business off the ground.

> "It took a lot of time to convert the algorithm into a product capable of being used by the end user, and deployed within a bank's architecture. We were just putting money on the table every month," recalls Javier.

It was a tough and uncertain time that required a lot of keeping the faith - and friends and family who believed in the project as much as they did (receiving equity in the business in return for their investment). "We were trying to raise money by having a lot of meetings with venture capital [investors]. I was living for six weeks in San Francisco, sitting down and trying to sell our project," says Javier.

> "But at that point we didn't have any traction. We didn't have clients or revenues yet, and the proposals you're receiving at that point are very interesting, but at the same time it's too little money for a big part of the pie. So we decided not to take this strategy."

Eventually, their luck changed, and they found a couple of business angels who believed in the company and arrived at "a different valuation of the company" from those they'd received from most VC investors. In 2013, the company raised around €300,000 from business angels to help expand the team and finalise the first product, Selphi, including bringing on some key sales roles to help the company secure its first contracts.

Going public
On July 1st 2014, FacePhi was listed on the Spanish secondary market, Mercado Alternativo Bursátil (MAB), a sub-market of the main Madrid Stock Exchange (Bolsa de Madrid), aimed at earlier-stage companies with a smaller market capitalisation (the total value of all shares).

Javier and the team analysed different markets in Europe, including London's Alternative Investment Market (AIM) and pan-European exchange Euronext. But as a Spanish company, it was simpler and more cost effective to go with MAB (rather than having to travel overseas to meet with advisers, etc.).

So what drove them to take the company public? They'd recently started sitting down with banks to discuss their technology, and felt that the credibility and accountability of being a public company would help them to close contracts with financial institutions.

"For big entities in [the financial] sector to consider implementing a technology that is going to be heavily involved in the daily use of the end user, there was a risk of being a small company."

> "The fact that this company is public gives you a lot of transparency - you are audited by big names - so that means that the image of the company was much stronger once we were public."

Since then, FacePhi has closed deals with around 30 banks, which are using its biometric technology in different ways (some enable customers to log into their banking apps with their face, others use the technology to authorise transactions over a certain amount or for digital onboarding to verify customers' ID against their documents). Around six million people now use FacePhi technology around the world, with more than 500 million authentications processed in 2018. The technology includes measures to thwart hackers (including ensuring a selfie is taken live and not a pre-existing image). And, according to Javier, so far there have been no reports of fraud.

"I think for us it's been really good in order to have the prestige of being public to sign contracts with key names, like HSBC or ICBC," he says.

Another reason behind the decision to take the company public was the opportunity to raise capital to fuel business growth, including hiring additional staff in strategy and sales roles. FacePhi raised around €1.3 million in a 'capital increase', before listing on MAB around a month later. This is a slightly different approach from a traditional IPO, where shares become available to purchase on the day the company is listed.

The process of listing took around eight months from start to finish. There are three key players involved in the process, explains Javier:

- The market (in this case, MAB)
- A registered adviser (who helps facilitate the process between the company and market, reviews the documentation and business plans, etc.)
- An investment bank - which manages the process, coordinates the money that is received and exchanged for shares when you go public.

To find advisers, Javier recommends searching online (e.g. 'advisers for MAB market') to find specialists, then sitting down with several, finding out about their fees and processes, and choosing the one you feel is the best fit for you.

Life as a public company
While for FacePhi there were compelling reasons to go public - given the nature of their technology and the types of companies they wanted to work with - Javier is keen to stress that running a public company is notably different from life at the helm of a private business, and this isn't a decision to be taken lightly.

For a start, there's a lot more regulation governing publicly traded companies, and many ongoing responsibilities and rules to comply with. "Obviously [there are] disadvantages as well, because it is expensive to be on the market and it is really regulated. It's not as flexible as a non-public company. You have to be clear that it's a lot of money once you are on the market, because you need to have people in your company capable [of giving] the detailed information to the market at the right moment, and who understand the rules. It's also really important that the company has a strong potential for growth," says Javier.

While aspects of his role have stayed the same (particularly around business and product development), he now has to oversee corporate policies and procedures, too.

"You have to give results to the market publicly, every six months in our case. Any time you close a deal with a bank, any movement that you do in terms of product, you have to think, 'Is this important enough to communicate this to the market?' So I need to be focused on the market as well."

The structure of the company has also changed. In the early days, the team was mostly comprised of engineers and focused on research and development. Now there's a legal department, a corporate admin department and an advisory board to develop the company, as well as sales and business development staff.

Product evolution
In 2016, FacePhi was awarded €1.7 million over two years from the European Commission as part of the Horizon 2020 FACCESS project, which aims to support the growth of innovative tech companies in Europe. Part of this funding was for R&D, to adapt Selphi for new platforms and develop new technologies, and some is earmarked for boosting marketing activities.

Future plans include attracting new financial institutions in Europe, Asia, the US, and eventually entering new sectors such as e-commerce. FacePhi also recently launched a new platform, inPhinite, offering customers different biometrics to use in different scenarios (for example, facial recognition for log-ins; voice recognition for authorisations; eye recognition to grant access; multi-finger contactless biometric authentication; and a handwritten signature authentication solution).

When it comes to his tips for scaling a business effectively, Javier warns against focusing on growth at the expense of looking after your existing customers:

"The big challenge is to keep the growth in a successful way. At the same time you have to pay attention to your current clients."

2.8 Private Placement

Private placement (or non-public offering) is a private offering made to a small number of chosen investors. This typically takes place after several VC rounds and often is a precursor to an actual IPO, but can also happen after an IPO.

The average deal size in 2016 was around

€210 million.[51]

*Variations per market: SSD deal sizes range from €10 million to €1.6 billion; Euro-PP deals from €4 million to €380 million (with an average of around €70 million).[51]

The average transaction takes between

four and ten weeks.

*Variations per market: An average SSD deal takes six to ten weeks; Euro-PP deals four to eight weeks. For repeat issuers, the process could be quicker (three to four weeks on SSD).[51]

Good to know

Main advantages

- Non-public, non-M&A alternative to create liquidity for existing shareholders.
- Quicker and more time-efficient process than IPO with reduced regulatory requirements and standards.
- Freedom to choose investors.
- Facilitates cross-border investments.

Potential challenges

- Shares are issued at a discounted price.
- It might be harder to convince investors to pour in large amounts.
- Limits the variety and number of investors you can reach.

Common misconceptions

- *Not applicable for smaller size borrowers.* The Euro PP market is known for smaller size transactions than other private placement markets, as little as €5 million.
- *Private Placements are just less expensive versions of IPO.* Fewer intermediaries, fewer regulations, a faster process and chosen investors seem like the perfect deal. However, expect to sell your shares or securities at a discounted price.

Preparatory tips

- Scan the horizon: as an offering is not publicly advertised, it can be more difficult to attract the right investors and compare market offers. It is important to take time for this phase and avoid a sense of urgency.[53]
- Be ready to provide lean and flexible documentation (deal-specific): often consolidated audited financial statements of the last two years are required.
- Prepare documentation using standard forms available online (usually found on the chosen Private Placement firm's website).

The basics

Types
Equity and debt.

Examples
Shares, loans, bonds, convertible notes, buyouts.

Possible investors
Accredited investors i.e. banks and institutional investors (insurances, pension funds, asset managers), high-net-worth individuals.[50]

Where
National private placement markets
The largest European markets include German Schuldschein (SSD) and French Euro-PP market.

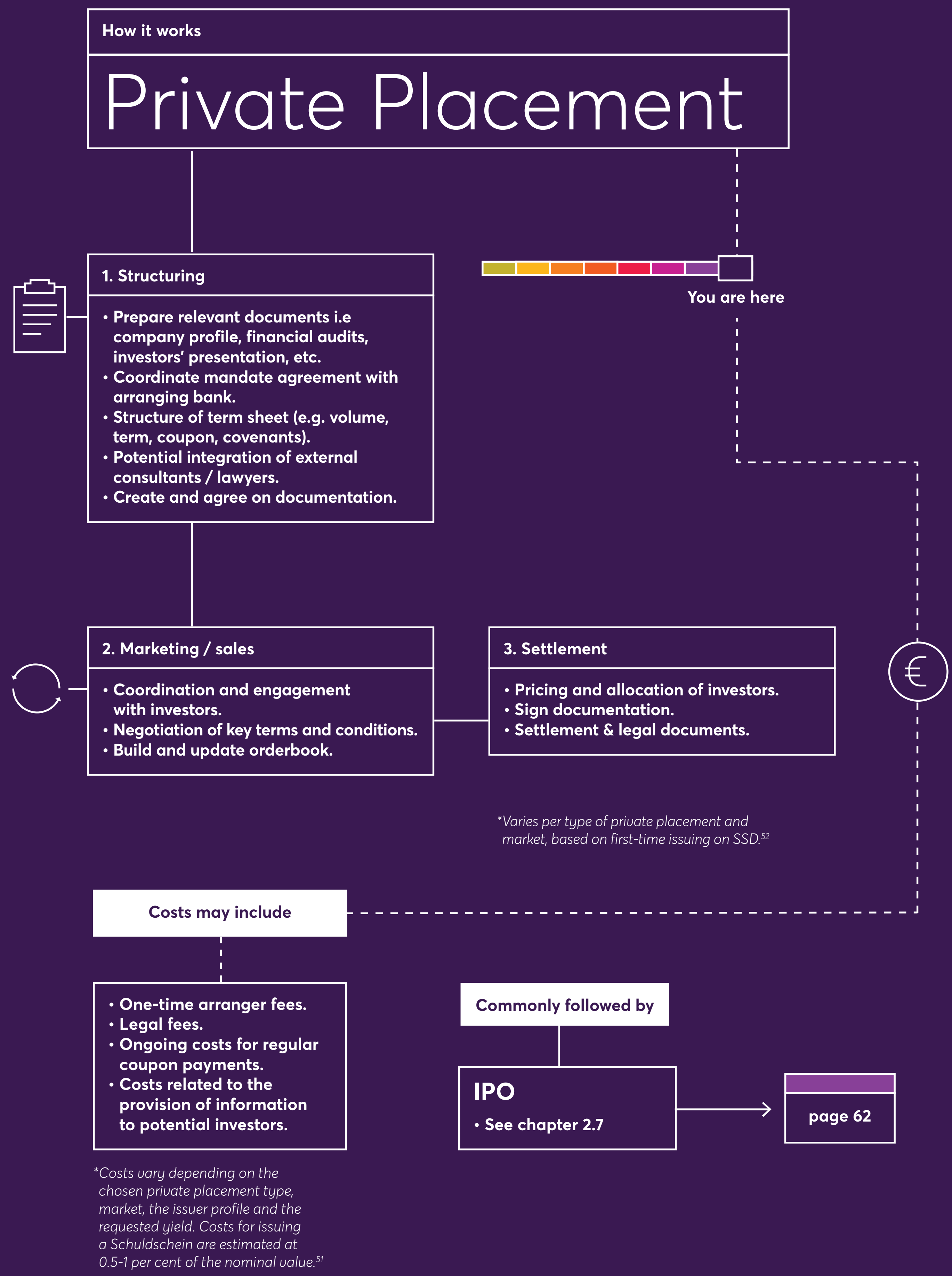
Common startup growth stage
Mature- and later-stage startups (with typical estimated revenues between €75 million and €5 billion).[51]

Resources

Euro PP Committee
www.euro-privateplacement.com

ELITE
www.elite-network.com/private-companies/journey

Identifying market and regulatory obstacles to the development of private placement of debt in the EU by the **European Commission**.



Scaling story

Credimi

2015 → **2018**

Private placement

Amount
€8.2 million

Purpose
Team building, product development, lending license application, launch platform

Private placement

Amount
€10 million

Purpose
Scaling company and team, plus further product development

In short

Country of origin Italy

Founded date 2015
Founder(s) Ignazio Rocco di Torrepadula, Gianmarco Molinari, Edmondo Porcu, Jacopo Anselmi, Sabino Costanza
Sector FinTech/Invoice financing

No. of employees 35

Total funding raised €18.2 million

Ignazio Rocco di Torrepadula, founder and CEO, Credimi, and Luca Bottone, chief risk and compliance officer, Credimi
Since its inception in 2015, Italian FinTech outfit Credimi has secured significant funds which enabled it to scale at impressive pace. Private placement investment offers a fascinating opportunity for startups keen to scale, and the Credimi team has found it particularly suited to their growth plans.

In 2015 Credimi was a freshly-founded startup with a clear vision: to create an online platform that simplified the often obscure process of invoice-financing, enabling firms quickly and easily to turn their invoices into cash advances. The idea is that, once registered with Credimi, corporates and SMEs should only need a few minutes to apply for an advance that will arrive in a handful of hours, providing businesses with financial flexibility.

Getting Credimi up and running depended on securing a lender's licence from the Bank of Italy. Securing that license, unsurprisingly, required a demonstration of significant capital: after all, one cannot advance an invoice without having the cash to advance.

Credimi chose to finance this through private placement. The nature of the funding mechanism means selected investors tend to bring highly specialised knowledge and relevant understanding, and may be particularly familiar with the founders. That makes it a popular choice when raising equity for nuanced or complex FinTech businesses, where investor understanding of the product, market and risks is essential. Coming from the world of finance, Credimi already fundamentally understood the process.

Credit where it's due
The first investment was raised in 2015, in an €8.2 million private round. Credimi's CEO, Ignazio Rocco di Torrepadula, contributed €1.2 million himself, with the rest of the funds coming from a group of successful Italian entrepreneurs and business leaders.

"Many of these entrepreneurs were not from the financial industry," explained Ignazio. "They, however, led established Italian brands from the 'Made in Italy' industries – for example apparel, fitness equipment, appliances. And they had significant testimonials of Credimi from the community of suppliers of such industries – such as the target clients of Credimi's invoice financing and supply chain finance solutions." Tikehau Capital – a global Asset Management Group focusing on credit strategies and private equity – was also part of this round, along with a few other professionals from the financial community in Milan.

'Community' is an apt word here: a private placement investment round could, in lay terms, be considered an equity raising exercise within a community. Dedicated platforms like ELITE Club Deal exist to facilitate this by bringing together professional investors with high growth companies in a secure environment.

Ignazio and his co-founders, however, started with an already existing network of entrepreneurs and businesses. They toured investors they felt confident would love the product, emphasising the team's CVs and business plan granularity to assert credibility and establish momentum. Ultimately, Credimi built their own small community within which the funding round would take place, enabling the raising of a fairly remarkable amount for a first round, whilst still enabling Ignazio and his eight co-founders to retain the majority of the firm.

But Credimi did a lot more with the money than just secure appropriate licensing.

"That first round was also used to create the full team, develop the product – with more than 200,000 lines of code developed internally – obtain the license, establish all the debt funding partnerships, and launch Credimi.com with related marketing investment. We then started in January 2017, and lent around €60 million in our first year," Ignazio explains.

Banking on success
A few years later, the firm decided a second round was needed to help them grow further. This closed in 2018, delivering a €10 million capital increase. The same pool of selected, accredited investors contributed – albeit with the introduction of the digital and FinTech-focused venture capital funds United Ventures and Vertis.

"This round was crucial to scale up Credimi in Italy, in terms of technology, team and product development capabilities," Ignazio offers. "It enabled us to more than triple our flow of loans – to over € 200 million in 2018 – through a couple of successful product launches and limited sales and marketing investment."

"In December 2018 we launched 'medium-long-term' financing solutions, and we hope that it will be the best on the market, and be a really good product in terms of revenue realization," says Credimi's chief risk and compliance officer Luca Bottone. "We would like to push a lot on medium-long-term and also invoicing financing in the next three years."

Certainly, Ignazio and the team were well connected and had some relevant experience of the finance industry which made the private placement process easier. But they also believe there were other highly important factors which assisted the process: the team was committed, the business plan was extremely detailed and granular, the size of the potential opportunity was carefully established and expressed, and the route forward for the business was precisely set.

The firm has significant plans for future growth, too. In 2019 Credimi is upping its game again, and hopes to process half a billion in invoices that year. "In 2018 we made over €200 million of turnover. Now we are looking for €600 million turnover 2019." Luca confirms. "We would like, for 2020, maybe something like €1.2 billion, and around than €2.5 billion factoring turnover in 2021."

Clearly, Credimi continues to evolve and scale. The company is well connected, handsomely funded and rich with relevant experience that allows it to continue its path to scale.

3. Starting your journey

3.1 Key starting points

Start your fundraising journey by asking yourself three key questions: why do you need finance, how much do you need, and how do you value your business? A solid understanding of your financing needs and a realistic strategy will impact your fundraising prospects and the ultimate success of your business.[54]

A) What do I need finance for?

Defining why you need to raise finance is an important starting point. This will help you shortlist suitable financing routes and narrow down the pool of potential investors (e.g. entrepreneurs with ambitions to expand into a specific market may find it beneficial to find local investors who can help them enter that market). In addition, investors will also want to understand how you plan on using the money. Make sure you define your need as clearly and precisely as possible. Also take into account that investors might ask you about the timing of the investment: can you justify why you need it at a specific time?

The list below shows some common uses of capital and illustrative examples based on the stories of entrepreneurs featured throughout this report:

- **Set-up costs: e.g. rent, accountant fees, business registration fees, website development, etc.**
  FacePhi's early funding was used to develop the technology and get the business off the ground.

- **Working capital costs: e.g. material, staff, cover short-term or long-term debts, gaps between rounds, etc.**
  MySugr used an angel investment to give them "breathing space" to build a solid foundation, hire more staff, and overcome initial challenges.

- **Product development: e.g. legal compliance (cross-border data-flows, copyright, IP,...), research, product testing, etc.**
  FishBrain used a $2.4 million seed round for development, building the platform, and attracting users.

- **(Market) expansion: e.g. open subsidiaries, hires, marketing strategy, etc.**
  AppyParking is closing a financing round planning specifically to expand and "create a nationwide digital blueprint".

B) How much do I need?

'As much as possible' may be an intuitive answer to this question. In reality, it is not as simple: whilst raising too little might mean you 'run out of runway', or else spend your time and energy jumping from one fundraising round to the next, raising too much can mean giving away more equity, inflating valuations (see next section), and pressure to put that money to work. Moreover, investors will require a robust estimate of the amount of finance you actually need to reach certain milestones in your development. To determine the amount that is right – and realistic – you should prepare a detailed financial plan outlining how much you need and how you will spend it.

Glovo, for example, raised raised a purposely modest amount: "We've been very lean and executed with a lot less money than competitors when they were at our level at volumes. We have to be very efficient with marketing and the tech team. We'd like a lot more engineers but being lean makes you execute quickly."

The list below shows some common uses of capital and illustrative examples based on the stories of entrepreneurs featured throughout this report:

- **Map cash burn and milestones.**
  - Determine your monthly cash burn to find out how much money you need to start or sustain your business.
  - Set milestones to further calculate your investment need to grow your business. Each milestone is an important point in your development (e.g. signing the first pilot customers) and it will take a specific funding need to get here.
  - It is recommended to have a runway of at least 12-18 months (i.e. make sure you raise enough money to last 12-18 months before the next round, taking into account your cash burn and ideally a buffer or safety cushion).
  - Don't forget to factor in your own salary in the financial plan!

- **Consider different scenarios.**
  - Create multiple financial plans according to different scenarios.
  - What would be the ideal amount to realise your goals, and what is your minimum cash requirement?

- **Look ahead to the future.**
  - Make sure that governance and shareholder structures, as determined in one round, will not be problematic for further rounds.

- **Assess your investment likelihood.**
  - Benchmark your determined investment need to trends and your competition.
  - How much do startups in your sector/ region usually get? Who are your competitors? How much have they raised?

C) What is the valuation of my business?

As with the previous question, it may often seem that 'bigger is better'; undoubtedly it feels good to be told that your company is worth more. However, higher valuation inevitably entails higher expectations from investors and may make future fundraising more difficult: investors want to see the company's valuation increase at each round, and 'down-rounds' – funding rounds where the price per share is lower than in previous rounds – are viewed very poorly indeed. (This is true even if you have agreed to anti-dilution provisions which transfer the burden of down-rounds away from preferred shareholders and onto common shareholders).

The following steps can help you determine the valuation of your business. (Note that even if you are planning to raise debt finance, it will be helpful to understand your valuation to increase your likeliness of receiving capital.)

- **Get rid of common misconceptions.**
  - Business valuation is not an exact science; it is the result of a negotiation.
  - Giving away more equity in return for more funding may be tempting, but may not be a good solution for the long term. Think about future funding rounds and further dilution.

- **Estimate your business valuation.**
  - Familiarise yourself with different ways to calculate your valuation (see example) and different approaches that investors use. There are many methodologies: asset-based, discounted cash flow, VC methodology, rule of thumb, industry benchmarks, etc..
  - Get an idea of comparable company valuations using data from sources like AngelList or Crunchbase (but don't base your own valuation only on this information).
  - Keep in mind that accelerators, local startup hubs, universities, and many others can also help you with your business valuation calculations.

- **Get ready to negotiate your estimated valuation price.**
  - Business valuation is the starting point of all funding and share price negotiations. The more room you leave for doubt, the more investors will be inclined to put their own price tag on your business.
  - Strengthen your negotiating position by preparing convincing documentation and arguments.

Example scenarios

Scenario 1
Business with no revenue

a) Make a list of your assets (e.g. patents, cash-flow, customers/users, partnerships, products).

b) Add your projected revenues (KPIs such as rate of user growth, statistics on daily usage, etc.).

c) Add information about the team: who is in the team, and what have they achieved in the past? Their role or past achievements will add value to your company.

4) Allocate a value to the following factors and consider how they influence your valuation (positively/negatively): product idea, prototype, strategic relationships, quality of business management, stage of business, legislation/ political risk, manufacturing risk, sales and marketing risk, competition risk, capital raising risk, technology and litigation risk, etc.

Scenario 2
Business with existing revenues

a) Make a list of your assets.

b) Calculate your revenue run rate (RRR); your sales/revenues over the past 12 months.

c) Based on your RRR, calculate your past growth rate (monthly or weekly).

d) Extrapolate this number to calculate your projected growth for the next 12 months (or longer).

e) Adjust this number to match variations over time due to change in trends, emergence of new technologies, etc. This step is known as rational valuation and pricing. For more information on formulas, see existing open source documentations on rational valuation formula (RVF), valuation models or rational planning models.

Resources

Startup Secrets, *How much money should you raise? www.startupsecrets.com/how-much-money-should-you-raise/*

Luisa Alemany, Job J. Andreoli. Entrepreneurial Finance: the Art and Science of Growing Ventures

European Startup Network: *www.europeanstartupnetwork.eu/investor-readiness/*

British Business Bank Finance Hub: *www.british-business-bank.co.uk/finance-hub/understand-finance-options/*

ELITE Network: *www.elite-network.com*

Invest Horizon: *www.investhorizon.eu/*

How routes interact

Every entrepreneur will face various funding needs throughout their growth journey, and will need to evaluate what the most suitable type of investment is at each stage. The journey to growth is often a combination of different routes. As mentioned, routes are often not mutually exclusive and different types of financing work together and can influence each other. Examples include:

Business angels + Crowdfunding

It is increasingly common to combine angel investment and crowdfunding by committing business angels to invest through crowdfunding platforms. For entrepreneurs, this can be a way to raise a larger sum and increase the success of the crowdfunding campaign by having pre-committed funding on the platform, whilst creating security and efficiency for other prospective angel investors.

Acquisitions + IPOs

Simultaneously pursuing a potential IPO and acquisition is a dual-track strategy that is increasingly common. This approach offers firms the opportunity to explore the prospects of a potential exit and the flexibility to keep options open until the last minute. Although a dual-track strategy is a time- and resource-demanding process, it can be an attractive option especially in times of market volatility. It can also increase valuation at IPO.[55]

Venture equity + Venture debt

Venture debt is a common way to provide a runway between rounds, but it is increasingly common to raise venture debt and equity in the same round. This can make an equity round cheaper (venture debt is typically less expensive than equity), and less dilutive. For example, UK fintech startup MarketInvoice raising €63 million in equity and debt funding (€29.4 million in Series B equity and debt financing of up to €34 million).[56]

ICO + Private funding

Going public is not the only fundraising option for blockchain startups. They can also fundraise by selling tokens on the private market, like in a Security Token Offering (STO) or in an Initial Loan Procurement (ILP). Both processes can also be used by non-blockchain businesses.

ICO + Crowdfunding (B2B/P2B lending)

Blockchain startups do not necessarily use tokens to run their business. However, they might need to raise funds. Initial Loan Procurements (ILPs) enable startups to receive borrowed funds from investors (creditors) through smart contracts without them having to use or issue tokens – only the actual loan agreement is tokenised. ILPs can also be a debt option for those wanting to avoid giving up equity.

3.2 Adding up the routes

Bridging the gaps between rounds

Even if you have carefully mapped a financing route that is suitable for your business, you might end up with short-term funding gaps in between rounds. There are various ways to fill this gap.

Bridge financing can come in the form of a (convertible) loan or equity – often from venture capital firms or investment banks – to fill working capital need while securing the next funding round. It is also used by companies before they go public to cover expenses until the IPO is completed.

Venture debt is also a way to bridge the gap between equity rounds, without diluting existing shareholders. A big provider of venture debt is the European Investment Bank (especially for sums of €7.5 million to €50 million).[57]

Invoice financing is another way that can help with working capital issues and keeping your business afloat in between payments by selling unpaid invoices to investors. It is a fast and easy way - transactions happen on dedicated online marketplaces and you can retrieve payment often within 48 hours.

4. Conclusions

The stories of European entrepreneurs in this report illustrate various "paths to scale", along with the opportunities and challenges that entrepreneurs face when trying to finance their growing business. The diversity of their experiences demonstrates that there is not one path to growth, but many.

As the case studies show, there are many factors which influence the decision and ability to scale. (Some of these factors, such as motivation, will be explored in a follow-on report which will be published later in 2019.) However, whilst these other factors may be necessary, they are rarely sufficient without finance.

For some of the companies described here, like Glovo, raising money was relatively straightforward. Yet these are the exception rather than the rule. Many entrepreneurs faced rejection from investors at some point. Many also experienced how time-consuming fundraising can be, and grappled with the trade-off between focusing on their core product or service, and attracting investors.

Several of the scaling stories illustrate how funding choices were constrained by circumstances: Fishbrain, for example, knew that because of its "build first, monetise later" model, VC would be the only funding option. Ada Health worked with individual "patient" investors in the early stages, who knew it would take time to develop the concept.

Other stories illustrate how particular routes were sought because of their non-monetary benefits, like connections, mentoring, know-how or hands-on support. FacePhi decided to go public because of the credibility and accountability that it would give them would help them to close contracts. AppyParking specifically targeted corporate giants after realising the power of the extra resource and manpower – their persistence even leading to an equity-free corporate investment. In BlaBlaCar's story, VC backers were instrumental in finding complementary businesses to acquire.

Finally, several of the entrepreneurs we interviewed also told us, bashfully, that they had very little clue about how to go about raising finance before starting the process. We hope that this publication will demystify the options and persuade other entrepreneurs across Europe that they, too, can do it!

5. European and national support infrastructures

The European Commission has introduced various initiatives to support entrepreneurs in starting and scaling their business. The SME Instrument, for example, has supported nearly 4000 European entrepreneurs since 2014, with a total of over €1.5 billion in public funding.[58]

Access to EU finance

Visit **access2finance.eu** to find financial institutions that provide EU finance in your country. → **Contact a financial institution** that provides for your investment needs. → **Apply for EU financing** directly at the local financial institution.

What is available?

Find EU business finance in three easy steps

Programme	Type	Amount
Social Change and Innovation	Microfinance	< €25,000
	Investments	< €500,000
COSME	Guarantees	< €150,000
	Equity	
Creative Europe	Guarantees	
InnovFin (Horizon 2020)	Guarantees	< €25,000 — €7,500,000
	Equity	
Private Finance for Energy Efficiency	Loans	< €5,000,000
Natural Capital Financing Facility	Loans, equity	< €5,000,000 — < €15,000,000
European Investment Bank, European, Investment Fund, European Structural and Investment Funds, European Fund for Strategic Investments	Loans, guarantees, equity	

Who is eligible for EU financing?

Start-ups | Entrepreneurs | Businesses — any size, any sector

Focus	Size of company		
	Micro	SMEs	Small mid caps
Micro-enterprises	✓		
Social enterprises	✓	✓	
General	✓	✓	
Growth, expansion stage	✓	✓	
Cultural and creative sector	✓	✓	
Research, development, innovation	✓	✓	✓
Start-up, early stage	✓	✓	✓
Energy efficiency	✓	✓	✓
Preservation of natural capital, climate change	✓	✓	✓
General	✓	✓	✓

Source: adapted from European Commission 'Find EU business finance in 3 easy steps'.
Ref. Ares(2015)2849559

1. Discover European funding opportunities for startups

In Europe
Startup Europe Club
startupeuropeclub.eu

European Investment Bank
www.eib.org

At country level
Access to finance
www.accesstofinance.eu

2. Check if you could be eligible for EU funds

EU funds checklist
https://ec.europa.eu/regional_policy/en/funding/checklist

3. Get assistance to apply

European Commission Funding and Tenders
https://ec.europa.eu/info/funding-tenders_en

National support

Entrepreneurs can also turn to national supporting structures for country-specific information and assistance. The following pages contain a (non-exhaustive) list of organisations for each European Member State and the United Kingdom that can help entrepreneurs through their fundraising process.

Access to investors

For angel investment
European Business Angels Network (EBAN)
www.eban.org

For crowdfunding
European Crowdfunding Network (ECN)
www.eurocrowd.org

For venture capital
Invest Europe
www.investeurope.eu

Access to mentoring

Investment readiness training and company-building course
Invest Horizon
www.investhorizon.eu

Access to networks

Get access to national startups associations
European Startup Network *www.europeanstartupnetwork.eu*

Find Digital Innovation Hubs (DIHs) in Europe
The Commission's directory *http://s3platform.jrc.ec.europa.eu/digital-innovation-hubs-tool*

Sustain and expand your business using an international networks
The Enterprise Europe Network
www.een.ec.europa.eu/

Innovation Communities of European Institute of Innovation & Technology (EIT)
Dynamic cross-border partnerships
www.eit.europa.eu/activities/innovation-communities

Business acceleration services
European Innovation Council (EIC) pilot
www.ec.europa.eu/research/eic/index.cfm?pg=networking

Austria

Financing route	Support organisation	Website
General point of entry	Austrian startups	www.austrianstartups.com
Angel Investment	Austrian Angel Investors Association Austria Wirtschaftsservice Gesellschaft (AWS)	www.aaia.at www.aws.at
Venture Capital	Austrian Private Equity and Venture Capital Organisation (AVCO)	www.avco.at
IPO	Wiener Börse (Vienna Stock Exchange)	www.wienerborse.at

Belgium

Financing route	Support organisation	Website
General point of entry	Startups.be	www.startups.be
Angel Investment	Business Angels Netwerk Vlaanderen	www.ban.be
Venture Capital	Belgian Venture Capital & Private Equity Association (BVA)	www.bva.be
IPO	Euronext N.V. Enternext	www.euronext.com www.enternext.biz/en/enternext/belgium

Bulgaria

Financing route	Support organisation	Website
General point of entry	Bulgaria Startup Association BESCO	www.besco.bg
Angel Investment	Bulgarian Association Of Business Angels	www.businessangels.bg
Venture Capital	Bulgarian Private Equity and Venture Capital Association (BVCA)	www.bvca.bg
IPO	Bulgarian Stock Exchange – Sofia	www.bse-sofia.bg

Croatia

Financing route	Support organisation	Website
General point of entry	Hub385	www.hub385.com
Angel Investment	Croatian Business Angels Network	www.crane.hr
Venture Capital	Croatian Private Equity & Venture Capital Association (CVCA)	www.cvca.hr
IPO	Zagreb Stock Exchange	www.zse.hr

Cyprus

Financing route	Support organisation	Website
General point of entry	CyprusInno Launch in Cyprus	www.cyprusinno.com www.launchincyprus.com
Angel Investment	Cyprus Business Angels Network	www.cyban.com.cy
IPO	Cyprus Stock Exchange	www.cse.com.cy

Czech Republic

Financing route	Support organisation	Website
General point of entry	Czech startups Czech invest	www.czechstartups.org www.czechinvest.org
Angel Investment	Business angels club	www.businessangelsclub.cz
Venture Capital	Czech Private Equity and Venture Capital Association (CVCA)	www.cvca.cz
IPO	Prague Stock Exchange	www.pse.cz

Denmark

Financing route	Support organisation	Website
General point of entry	Danish Business Authority Danish Startup Group	www.danishbusinessauthority.dk www.danishstartupgroup.com
Angel Investment	Danish Business Angels (DanBAN) Keystones	www.danban.org www.keystones.dk
Crowdfunding	Danish Crowdfunding Association	www.danskcrowdfundingforening.dk
Venture Capital	Danish Venture Capital and Private Equity Association (DVCA)	www.dvca.dk
IPO	Nasdaq Copenhagen	www.nasdaqomxnordic.com

Estonia

Financing route	Support organisation	Website
General point of entry	Startup Estonia	www.startupestonia.ee
Angel Investment	Estonian Business Angels Network	www.estban.ee
Venture Capital	Estonian Private Equity and Venture Capital Association (EstVCA)	www.estvca.ee
IPO	Nasdaq Tallinn	www.nasdaqbaltic.com

Finland

Financing route	Support organisation	Website
General point of entry	Finnvera Invest in Finland	www.finnvera.fi/eng/ www.investinfinland.fi
Angel Investment	Finnish Business Angels Network	www.fiban.org
Venture Capital	Finnish Venture Capital Association (FVCA)	www.fvca.fi
IPO	Nasdaq Helsinki Nasdaq First North	www.nasdaqbaltic.co www.business.nasdaq.com/list/listing-options/European-Markets/nasdaq-first-north/index.html

France

Financing route	Support organisation	Website
General point of entry	France Digitale	www.francedigitale.org
Angel Investment	L'association France Angels (Fédération Nationale des Business Angels)	www.franceangels.org
Crowdfunding	Financement Participatif France - FPF	www.financeparticipative.org/
Venture Capital	France Invest	www.franceinvest.eu
IPO	Euronext N.V. Enternext	www.euronext.com www.enternext.biz/en/enternext/france

Germany

Financing route	Support organisation	Website
General point of entry	German startups association	www.deutschestartups.org
Angel Investment	Business Angels Netzwerk Deutschland (BAND)	www.business-angels.de
Crowdfunding	Bundesverband Crowdfunding e.V.	www.bundesverband-crowdfunding.de
Venture Capital	German Private Equity and Venture Capital Association (BVK)	www.bvkap.de
IPO	Deutsche Börse Venture Network Deutsche Börse; Berliner Börse; Börse Düsseldorf; Hamburg Stock exchange; Börse München; Börse Stuttgart; Frankfurt Stock exchange	www.venture-network.com/dbvn-en/

Greece

Financing route	Support organisation	Website
General point of entry	Hellenic Startup Association Startup Nation	www.hellenicstartups.gr www.startupnation.gr
Angel Investment	Business Angels Greece	www.businessangelsgreece.gr
Angel Investment	Hellenic Business Angels Network	www.heban.gr
Venture Capital	Hellenic Venture Capital Association (HVCA)	www.hvca.gr
IPO	Athens Stock Exchange	www.helex.gr

Hungary

Financing route	Support organisation	Website
General point of entry	Startups.hu	www.startups.hu
Angel Investment	Hungarian Business Angels Network	www.hunban.eu
Venture Capital	Hungarian Venture Capital and Private Equity Association (HVCA)	www.hvca.hu
IPO	Budapest Stock Exchange	www.bse.hu

Ireland

Financing route	Support organisation	Website
General point of entry	Startup Ireland	www.startupireland.ie
Angel Investment	Halo Business Angel Network	www.hban.org
Venture Capital	Irish Venture Capital Association (IVCA)	www.ivca.ie
IPO	Euronext Dublin	www.ise.ie

Italy

Financing route	Support organisation	Website
General point of entry	Italia startup	www.italiastartup.it
Angel Investment	Italian Business Angels Network	www.iban.it
Crowdfunding	Italian Association of the Equity Crowdfunding Platforms	www.equitycrowdfundingitalia.org
Venture Capital	Italian Private Equity, Venture Capital and Private Debt Association (AIFI)	www.aifi.it
IPO	Borsa Italiana	www.borsaitaliana.it/homepage/homepage.htm

Latvia

Financing route	Support organisation	Website
General point of entry	Latvian Startup Association	startin.lv
Angel Investment	Latvian Business Angel Network	www.latban.lv
Venture Capital	Latvian Private Equity and Venture Capital Association (LVCA)	www.lvca.lv
IPO	Nasdaq Riga	www.nasdaqbaltic.com

Lithuania

Financing route	Support organisation	Website
General point of entry	Startup Lithuania	www.startuplithuania.com
Angel Investment	Lithuanian Business Angel Network	www.litban.org
Venture Capital	Lithuanian Private Equity and Venture Capital Association (LTVCA)	www.vca.lt/EN/
IPO	Nasdaq Vilnius	www.nasdaqbaltic.com

Luxembourg

Financing route	Support organisation	Website
General point of entry	Luxinnovation	www.luxinnovation.lu
Angel Investment	Luxembourg Business Angel Network	www.lban.lu
Venture Capital	Luxembourg Private Equity and Venture Capital Association (LPEA)	www.lpea.lu
IPO	Luxembourg Stock Exchange	www.bourse.lu

Malta

Financing route	Support organisation	Website
General point of entry	Startup Malta	www.startupmalta.com
Venture Capital	Venture Capital Malta	www.vca.com.mt
IPO	Malta Stock Exchange	www.borzamalta.com.mt

Netherlands

Financing route	Support organisation	Website
General point of entry	StartupDelta	www.startupdelta.org
Angel Investment	Business Angels Netwerken Nederland	www.bannederland.nl
Crowdfunding	The Netherlands Crowdfunding association	www.startcrowdfunding.nl
Venture Capital	Nederlandse Vereniging van Participatiemaatschappijen (NVP)	www.nvp.nl
IPO	Euronext N.V. Enternext	www.euronext.com www.enternext.biz/en/enternext/netherlands

Poland

Financing route	Support organisation	Website
General point of entry	StartupPoland	www.startuppoland.org
Angel Investment	Amber invest	www.amberinvest.org/pl/
Angel Investment	Lewiatan Business angels	www.lba.pl/en
Crowdfunding	Crowdfunding.pl	www.crowdfunding.pl
Venture Capital	Polish Private Equity and Venture Capital Association (PSIK)	www.psik.org.pl
IPO	Warsaw Stock Exchange	www.gpw.pl

Portugal

Financing route	Support organisation	Website
General point of entry	Beta-i	www.beta-i.com
Angel Investment	Federação Nacional De Associações De Business Angels	www.fnaba.org
Venture Capital	Associação Portuguesa de Capital de Risco e de Desenvolvimento (APCRI)	www.apcri.pt
IPO	Euronext N.V. Enternext	www.euronext.com www.enternext.biz/en/enternext/portugal

Romania

Financing route	Support organisation	Website
General point of entry	Romanian Startups	www.romanianstartups.com
Angel Investment	Business Angels Romania	www.businessangelsromania.ro
IPO	Bucharest Stock Exchange; Sibiu Stock Exchange	www.bvb.ro

Slovakia

Financing route	Support organisation	Website
General point of entry	Slovak Alliance for Innovation Economy	www.sapie.sk
Angel Investment	Slovak Business Agency	www.sbagency.sk
Venture Capital	Slovak Venture Capital and Private Equity Association (SLOVCA)	www.slovca.sk
IPO	Bratislava Stock Exchange	www.bsse.sk

Slovenia

Financing route	Support organisation	Website
General point of entry	Startup Slovenia	www.startup.si
Angel Investment	Business Angels of Slovenia	www.poslovniangeli.si
IPO	Ljubljana Stock Exchange	www.ljse.si

Spain

Financing route	Support organisation	Website
General point of entry	Startups asociacion espanola	www.asociacionstartups.es
Angel Investment	Asociacion Espanola Business Angels Business Angels InnoBAN network Business Angels Network Catalunya	www.aeban.es www.businessangelsinnoban.es www.bancat.com
Crowdfunding	Spain Crowdfunding	www.spaincrowdfunding.org
Venture Capital	Asociación Española de Capital, Crecimiento e Inversión (ASCRI)	www.ascri.org
IPO	Bolsa de Madrid (largest); Barcelona; Madrid; Valencia; Mercado Oficial Español de Futoros y Opciones Mercado Alternativo Bursátil (MAB)	www.bolsasymercados.es www.bolsasymercados.es/mab/esp/Home.aspx

Sweden

Financing route	Support organisation	Website
General point of entry	Young Entrepreneurs of Sweden	www.yeos.se
Angel Investment	Connect Sverige	www.connectsverige.se/startsida/investerare/
Venture Capital	Swedish Private Equity & Venture Capital Association (SVCA)	www.svca.se
IPO	Nordic Growth Market Nasdaq Stockholm Nasdaq First North	www.ngm.se www.nasdaqomxnordic.com www.business.nasdaq.com/list/listing-options/European-Markets/nasdaq-first-north/index.html

United Kingdom

Financing route	Support organisation	Website
General point of entry	Startup Britain Tech Nation	www.startupbritain.org www.technation.io
Angel Investment	UK Business Angels Association	www.ukbaa.org.uk
Crowdfunding	UK Crowdfunding Association	www.ukcfa.org.uk
Venture Capital	The British Private Equity and Venture Capital Association (BVCA)	www.bvca.co.uk
IPO	London Stock Exchange AIM	www.londonstockexchange.com www.londonstockexchange.com/companies-and-advisors/aim/aim/aim.htm

6. Glossary

Accredited investors High net worth individuals, financial institutions or corporations that have been given a specific status under financial regulations to conduct investments. Requirements to become an accredited investor are country-specific. Depending on jurisdictions, accredited investors can be granted various rights and obligations.

Angel investor syndicates When individual angel investors join together as a group to raise the necessary funds to meet a company's target fund.

Asset finance A type of lending in which a company either acquires assets or releases existing assets in exchange for money. Asset-based lending is when a company raises money by offering an asset as a security - e.g. a mortgage.

Asset purchase The selling or purchase of a company's asset. An asset purchase agreement (APA) specifies the type of asset sold and transfers ownership from seller to buyer. Assets must be re-titled to the new owner, leaving the latter with the power to determine its liability.

Business overdraft A credit extension allowed by a lending institution (i.e a bank) that enables a business to continue making payments, even when its available current balance is below €0.

Buyout A financial transaction that consists of buying the totality or the majority of the equity shares of a company.

Company prospectus A document published by a company during an acquisition, a private placement or initial public offering to attract potential investors and give them details about the business so as to give them the ability to assert future growth and profitability.

Compliance checks Also referred to as investigations, due-diligence or assurance visits. During the offer stage, the steps taken by an interested investor to verify that your business is in accordance with the law (tax claims, work permits, etc).

(Promissory) convertible note A loan with conditions attached which enable the debt to be converted into equity (often at the price determined at the next funding round).

Corporate Venture Capital (CVC) A VC fund owned by a corporate. Funds can be managed by a dedicated unit within the corporation or externally by a third-party.

Coupons The interest rate paid annually by a business to its bond-holders.

Covenants Any binding agreement. May refer to promises made by a startup to secure repayment of its debt to its lender.

(Crypto) token An intangible, digital entity created by a company to be traded. A token can represent both physical and non-physical goods or services.

Debt finance Funds raised with a promise to repay the amount received plus interest, e.g. promissory notes and bonds.

Engagement letter A written agreement settling out the legal terms, conditions and arrangements of a professional relationship.

Equity A share, stock or other security that represents an ownership interest in a company.

Family offices Wealth management advisors for high-net-worth individual investors.

Founders' agreement A document which states the roles and rights of each founder in the future growth of the company, including in future fundraising activities.

Growth capital (or expansion capital) A type of private equity usually provided to mature companies – generally series D round and after – to meet immediate growth objectives, i.e technology development, geographic expansion, etc.

Hire-purchase agreement A financial arrangement allowing people or businesses to purchase goods by making an initial down payment, followed by monthly fixed payments over a period of time to cover the total price of the purchase. However, the person/business does not become the owner of the good until it is fully paid.

Internal rate of return (IRR) The effective return on an investment, ignoring external factors such as inflation and cost of capital.

Investors or financial roadshow A series of marketing and networking events where current and prospect investors of a business meet to discuss the upcoming funding transactions. Usually used during private placements and initial public offerings, it helps to close the deal during the negotiation process.

Invoice financing Generic term for invoice-based lending options. Its two main forms are invoice discounting (the lender pays invoices at a discounted price to the business but let the business collect payments and deal with customers) and invoice factoring (the lender fully covers the price of invoices but requires to collect payments and deal with customers itself.) Both options come with lending fees.

Joint venture An agreement between two or more entities to join resources to undertake a new project or accomplish a specific task. While each entity remains autonomous, all entities are responsible for costs, profits and losses.

Lead investor An individual or group that is leading a funding round. Generally chosen by the pool of investors on account of time or experience, the lead investor is likely to act as the other investors' representative.

Leveraged buyout The acquisition of another company with a large amount of borrowed money.

Mezzanine financing A label applied to various forms of finance that are subordinate to senior debt but senior to equity. Because of the lack of seniority, it is typically considered high-risk, and hence comes with high interest rates. Usually used by fairly mature firms.

Mini bonds A form of debt financing that allows companies to borrow money from investors and return it over a fixed period of time (3 to 5 years) at a fixed rate. In the form of a business-to-business (B2B) or peer-to-business (P2B) lending, mini bonds have surged in Europe over the last decade thanks to crowdfunding platforms such as Crowdcube.

Non-repayable funding When a sum of money is given by one entity to another with no expectations or incentives to be repaid, e.g. grants and donations.

Ordinary shares A unit of ownership of a company. Typically carries voting rights and rights to a share in the firm's profits. Ordinary shares ('common stock') typically carry fewer rights than preference shares.

Preemption notice A notice to existing shareholders concerning their preemption rights (see below). Requesting existing shareholders to acknowledge a new funding round allows them to exercise their preemption rights (if applicable) and helps avoid future legal disputes.

Preemption rights The right of existing shareholders of a company to purchase new shares in it before they become available to new investors.

Preference shares — A class of shares which give the holders superior rights to ordinary shares. These rights might include different dividends, different voting rights, or special treatment in the event that the company goes into liquidation.

Private equity — A broad class of investments that are not publicly traded. Includes angel investing and venture capital, as well as other forms, like leveraged buyouts.

Promissory note — A written promise to repay another entity (VCs, banks, etc) a definite sum of money either on demand or on a specific future date.

Reference checks — During the due diligence process, the steps taken by an interested investor to verify that your business, you and your team have the references you claimed to have when raising funds. It could be previous employers, degrees & education, sponsors or your investors' background (especially if you previously raised money from friends and family).

Senior debt — Debt which takes priority over other debt, and hence should be repaid first in the event of bankruptcy.

Share option plan — An incentive scheme granting company shares (or the option to buy these) to its employees, board members or other stakeholders, under specific conditions. It is often used by startups with limited financial resources to attract and retain the talent necessary for their growth, in place of more substantial salaries.

Smart contract — A digital, self-executing protocol to automate transactions on a blockchain platform. Smart contracts are often used during initial coin offerings to transfer tokens to investors and funds to startups. Their use provides prospective investors with additional guaranties, while startups save time on deal settlements.

Sovereign wealth funds — An investment fund owned by a sovereign state.

Subordinate debt — Debt which is repaid after more senior debt. Also called 'junior' debt.

Term sheet — A non-binding agreement between a company and investors that outlines the terms and conditions under which an investment will be made.

Underwriting agreement — A contract between an investment bank and an issuing company that states the details of the transactions, the price of the shares and other important information related to an initial public offering.

Upfront payments — When a business asks to be paid before the client receives the agreed service.

Venture Capital — A type of private equity, usually focussed on high-risk, high-return investments.

Warrants — The option – but not the obligation – to buy a certain amount of shares at a given price at an agreed future time. Sometimes issued with bonds in order to make them more attractive to investors.

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*Not all case studies appear in this report. To read all growth stories, please visit the Startup Europe Partnership 2.0 webpage on the Nesta website: *www.nesta.org.uk/project/startup-europe-partnership-20/*.

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[11] The ICAEW in the UK has published a 'Best-Practice Guideline' for growth through asset based finance. Available at: http://www.abfa.org.uk/About/Guideline_65_Growth_through_ABF.pdf.

[12] Data on minimum and maximum funding rounds collected from Crunchbase based on investment raised after 01/01/2017 by startups with headquarters in the EU. Average investment size based on existing research about funding trends for each route (see respective chapters for more information). Please note this overview is meant to paint an overall picture of the depth and breadth of funding types and relies on interpretation of existing sources, and is therefore not exhaustive.

[13] In 2014, Bragi ran a first rewards crowdfunding campaign to raise €227,400 for its product The Dash but ended up receiving more than €2.88 million in funding from the crowd through the Kickstarter crowdfunding platform.

[14] Donation-based crowdfunding is used predominantly in the charity and philanthropy, health and social work, and community enterprise sectors, it will therefore not be discussed in detail in this report.

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[31] Entrepreneurs often use smart contracts. Smart contract technologies can either be provided by the blockchain platform, created by the company or rented from a smart contract service provider. Although smart contracts are not compulsory, they are nonetheless a rather convincing and re-assuring protection for prospect investors.

[32] This contract, published alongside the white paper, sets terms about the token distributions, liabilities, governing laws, etc. It may also contain a Reservation and Acquisition Agreement. Investors need to acknowledge and sign the white paper before making any payments.

[33] A good website ideally includes a subscription form, a presentation video, the project's roadmap, a description of the ICO, the team and the board with a short bio, any press coverage, a description of the project, documents (whitepaper, Token Sale Agreement, etc.), a list of partners, advisors or early investors if possible, and your contacts.

[34] By filling details about your identity, your company, your project, the tokens price and venture target, and upload documents for interested investors (whitepaper and possibly a template term sheet).

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