

# CASH INJECTION





Television programmes like *Dragons' Den* have made stars out of venture capitalists, and helped to ensure that today VCs are synonymous with entrepreneurialism. But is the boost provided by venture capital right for your business?

#### **PITCHING VENTURE CAPITALISTS (VCS) FOR THE MILLIONS OF EUROS**

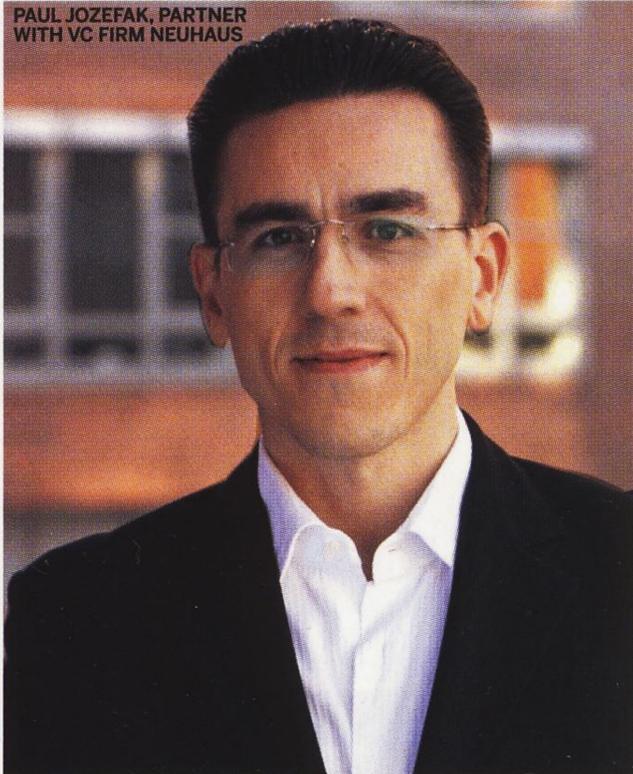
you need to expand that dream business, whether it's a start-up or one you've sweated over for years, has to be a gut-wrenching but hugely exciting experience. If you've been invited to present your idea to VC partners it must mean you have something worth talking about... doesn't it?

Venture capital isn't for everyone – not all entrepreneurs need €1m (£750,000) or more of funding – but if you want to join the big leagues, a VC firm can inject the cash needed to get you there. For anyone not familiar with the process, a venture capitalist will usually acquire an agreed share (or equity) in your company, in return for providing funding. However, unlike bank debt, venture capital money is not secured. VCs hope to reap the benefits of their risky investment at some future date, usually by selling their stake to a larger firm or by floating the business on the stock market. Most of the investor's return is realised at this 'exit' stage, which could be five to seven years after the initial investment.

Vcs tend to stay well clear of start-up and young businesses, preferring to concentrate on the development of existing businesses with a strong track record, or on turning around existing businesses through a management buy-out. There are some venture capitalists, such as London's 3i and Atlas Venture, which specialise in start-ups, but VCs rarely make investments below €150,000 (£110,000). Unless you can generate a high rate of return, meaning 30 per cent or more, it could be a waste of time approaching them.

This brings us to the Catch 22 of venture capital. Aspiring entrepreneurs often complain that start-ups need venture capital to get going, but venture capitalists and angel investors only fund companies that are already making sales. That's why it's usually only industry stars who qualify for venture capital. Paul Jozefak, a partner with Hamburg VC firm Neuhaus Partners, believes that the dotcom boom a decade ago gave rise to hugely unrealistic expectations of how easily VC funding can be acquired. "By the end of the

PAUL JOZEFAK, PARTNER WITH VC FIRM NEUHAUS



of income to plough into the development of new business ideas. With healthy cash flow, he has reinvested his profits into mobile messaging firm Moby picture and advertising specialist Toading, which now counts publishing giant Reed Elsevier among its clients.

Van Abbe chose not to draw a salary for the first 18 months, and Toading grew so quickly it wasn't until the close of 2007 that he felt the need to bring in outside investors. "If you have to experiment with your own hard earned euros, you might be a little more critical of your ideas, helping you to refine and perfect them," says van Abbe. "Our turnover and profit is now high enough to cover most of our costs. We only started meeting with investors recently because we want to expand quickly into foreign markets. We need a local presence, local expertise and

achieving a turnover of €8m (£6m) in 2006. "We can see that figure doubling and tripling," claims Gary Robins, Hotbed's chief executive. The founder of Intempo Digital, Bernadette Spofforth, believes that the key to her success so far has been "an innovative, stylish music brand which stands out in a crowded consumer electronics market." Much like van Abbe, she plans to use the funds to develop new products and expand into other countries.

If you find that angel investors are sceptical about your business's likely future performance, there are some alternatives around. In the UK the Small Firms Loan Guarantee (SFLG) scheme allows businesses to borrow up to €330,000 (£250,000) over 10 years, with the government providing security for the loan. However, the scheme usually requires a deposit of around 25 per cent, and you will pay a two per cent premium on the interest rate. More compelling are the early stage grants provided by local development groups, such as the Northwest Regional Development Agency (NWRDA), which offers funds from €15,000 (£11,000) up to €670,000 (£500,000).

In Belgium, there is ARKimedex, a public initiative managed by the Flemish Holding Company, which has reportedly invested almost €100m (£75m) in 51 start-ups during the past two years, sometimes working on joint ventures with Luxembourg group QAT Investments. A good example of a company that has benefited from ARKimedex is Biofer, a biogas installation in the Belgian town of Zoutleeuw, which secured €4m (£3m) of funding in April last year. Its founder, Jaak Beelen, believes that with ARKimedex' backing, the firm "has the means to keep on growing until we have proven this is the best commercial application of renewable energy." He says that a single installation, when working on full power, can turn 60,000 tons of biomass into six million kWh of electricity per year – enough for around 4,000 people. If Beelen can prove that his is the best way forward for renewable energy it will be good news both for him and for ARKimedex, but not all partnerships work so harmoniously.

The final word of warning comes from van Abbe. "Angels can be great," he says. "But my advice would be not to accept the best offer or settle on the first opportunity. Instead, find an informal investor who has the right vibe. I was in investment talks with some sharks, and at every meeting they tried to get a little more shares from me for a little less money. What I've learned is to get your act together before talking to the investors, and the more you can prolong the money talks the better." v

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1990s, every shoddy company out there managed to get funding. Pets.com springs to mind," he laughs. "Nowadays, you can start up a website for €20 (£15). This is why I always turn away people who visit me armed simply with a business plan. A lot of VCs are entrepreneurs too, so we expect to see some cash flow. True entrepreneurs don't like to ask for money – they'd prefer to draw on their own savings or source funds from family and friends."

This brings to mind the practice of 'bootstrapping', where the founder identifies ways of minimising the amount of outside debt and equity financing taken on by the company. It may involve haggling for cheap office space with a local company, asking friends for their professional advice in areas such as marketing and PR, or simply using income from an existing business to subsidise a test run in new areas or markets. At the riskier extreme, it may involve the use of personal loans or credit cards. While bootstrapping always requires a gamble of some kind from the founders, the absence of any other stakeholder gives them more freedom to develop the company the way they want to.

A guiding light for bootstrappers everywhere is Dutchman Mathijs van Abbe. During the past few years the Amsterdam-based entrepreneur has built a successful web services firm, van Abbe IT, which provides him with a steady source

local networks in order to expand rapidly, and that costs a lot more money."

European VCs are quick to swoop when they do notice an opportunity. Late last year, for example, Salford company Intempo Digital, a manufacturer of sound systems and speakers, picked up €2.4m (£1.8m) from a private equity network called Hotbed. Intempo Digital produces the best-selling systems for major retailers such as Argos, Comet and Amazon,

JAAK BEELEN, FOUNDER OF RENEWABLE ENERGY COMPANY BIOFER

