INTRODUCTION TO VENTURE CAPITAL AND QBIC

Advanced Starter Seminars 2022-23

Marc Goldchstein
Steven Leuridan and Cédric Van Nevel are Partners and co-founders of QBIC III, the Venture Capital Fund related to a/o the VUB.

They will address the following topics:

- they will introduce the Venture Capital Fund QBIC
- how does QBIC evaluate the potential of a project and of a team?
- how does QBIC evaluate the project and its contribution?
- which specific clauses may QBIC want to include in the shareholder agreement?
- how will QBIC spread the investment over different stages?
3. Sources of funding
## MAIN FINANCING OPTIONS

### Internal vs. External financing
- **Internal:** from within company
  - profits
  - sale of assets, reduction working capital,...
  - = Bootstrapping
- **External:** funds from outside the company
  - E.g. Gift, grant, soft money, loan, equity...
  - Evaluate
    - **Length of time the funds are available**
    - Costs involved (not only financial)
    - Amount of control lost

### Debt vs. Equity financing
- **Debt:** obtaining borrowed funds for the company
  - Often assets are used as collateral (car, houses, machine, land...)
  - Pay back loan over time + interest
- **Equity:** obtaining funds for the company in exchange for ownership
  - Investors get ownership + share profits
✓ (Governmental) support schemes
✓ Self-funding
✓ Founders, friends, family and fools (4F’s)
✓ Bank loans
✓ Partners
✓ Customers and suppliers
✓ The crowd
✓ Venture capital
# ADVANCED STARTER SEMINARS

**SESSION 3 – FEBRUARY 28: FUNDING CHANNELS FOR (PRE-) STARTERS**

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Speaker(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18u15 - 18u20</td>
<td>introduction</td>
<td>Marc Goldchtein, TechTransfer</td>
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<tr>
<td>18u20 - 19u</td>
<td>Innoviris Brussels granting programs for every stage of the innovation value chain</td>
<td>Sebastian Serrano, Innovation Facilitator Innoviris</td>
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<td>19u - 19u10</td>
<td>break</td>
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<tr>
<td>19u10-19u50</td>
<td>VLAIO (Vlaams Agentschap Ondernemen en Innoveren): various subsidies will be discussed</td>
<td>Bas Sturm; VLAIO Team Business Trajectories</td>
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<td>19u50 – 20u</td>
<td>break</td>
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<tr>
<td>20u-20u30</td>
<td>The European Innovation Council (EIC), part of the EU Horizon Europe program</td>
<td>Mohammad Boroun, European Funding and Proposals expert VUB TechTransfer</td>
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<tr>
<td>20u30-20u50</td>
<td>VUB Industrial Research Fund: IOF Proof-of Concept Funding</td>
<td>Liesbeth Bosman, VUB TechTransfer Business Developer</td>
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<tr>
<td>20u50-21u15</td>
<td>overall Q&amp;A</td>
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</table>
✓ (Governmental) support schemes
✓ **Self-funding**
✓ Founders, friends, family and fools (4F’s)
✓ Bank loans
✓ Partners
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✓ The crowd
✓ Venture capital
- your operation funds itself -> generates profits
- -> No additional funds needed for day-to-day operations
- But may still require new capital for investments
- It is the ultimate objective of all enterprises to be profitable
  - You can’t be a promising star forever!
- Very few companies managed to be cash flow positive from very early stage on
- Don’t underestimate the amount of money that is tied in an organization
  - Stock (voorraad), unpaid customer invoices, monthly salaries...
  - = working capital needed to pre-finance the operation
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THE 4 F’S

- Founders: own resources and time
  - Each entrepreneur invests his own time and often money
  - Belgium: **90% of startups use own capital of entrepreneur**; often pays himself small or no wage in startup period

- Friends, family and fools
  - “the 3F’s”
  - Has advantages, but...
  - Be aware of disadvantages:
    - risking personal relationships
    - inexperience of investors
    - Time consuming
✓ (Governmental) support schemes
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✓ **Bank loans**
✓ Partners
✓ Customers and suppliers
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BANK LOANS

- By law banks are limited in the risks they may take
  - + most start-ups lack track record
  - -> they will look for collateral, which they can sell in case of failure of project

- collateral = resaleable assets
  - This limits their use for high tech startups, where assets are intangible, or don’t have resell value
    - software
  - If startups invest in equipment with resale value banks can get involved
    - fitness centers, real estate...
  - Public authorities can intervene and act a guarantor
    - Flanders: PMV Waarborgen

- Banks will often require that you co-invest in the project
✓ (Governmental) support schemes
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PARTNERS AND ALLIANCES

- In some cases, strategic alliances are a major source of funds.
- Many alliances are based on simple logic:
  - Capital-rich established partner invests in a start-up.
  - In exchange for substantial long-time revenue streams:
    - Beer sales, drug distribution.
  - See Starter Seminars session on entrepreneurial strategy:
    - Core & complementary assets.
- Alliances can have vastly different ‘formats’:
  - Investor
  - Supplier/customer
  - Funding for exclusivity.
PARTNERS AND ALLIANCES

- **Sportopolis** (fitness centers):
  - how to turn 50.000 euro into 2,5 million euro
    - 50.000 euro own capital
    - 200.000 euro co-funding by brewery in exchange for exclusivity
    - public/private collaboration (i.e. VUB) adds 1 million
    - and then loan by bank: double the amount = 1,25 million euro

- **Ablynx** (drug company)
  - had more than 45 proprietary and partnered product candidates in development
<table>
<thead>
<tr>
<th>Product</th>
<th>Indication</th>
<th>Target</th>
<th>Pre-clinical</th>
<th>Phase I</th>
<th>Phase II</th>
<th>Phase III</th>
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<td>Various</td>
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<td>Greater China</td>
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<td>ALX-0761/M1095</td>
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<td>IL-17A/IL-17F</td>
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<td>BI 836880</td>
<td>Oncology</td>
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<td>BI 655088</td>
<td>Chronic kidney disease</td>
<td>CX3CR1</td>
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<tr>
<td>ALX-0141</td>
<td>Bone disorders</td>
<td>RANKL</td>
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<td>Greater China</td>
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<td>&gt;20 wholly-owned and partnered programmes</td>
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<td>Filing in EU based on Phase II TITAN data</td>
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✓ **Customers and suppliers**
✓ The crowd
✓ Venture capital
Most companies have to pay their employees and suppliers before receiving money from their customers
- the company must finance its operations upfront
- = Working Capital

Customers who pay upfront generate cash upfront
- see Dell business model
- used by Artwork Systems (AWS) to finance its product development
  - AWS is a typical Product Starter

Long payment terms by suppliers provides start-ups financial breathing space
- can sell resell the goods before it has to pay the supplier
- see Cash Conversion Cycle
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The act of funding a project or venture by raising **many small amounts of money from a large number of people** (aka the crowd), typically via the Internet.

- Relatively recent phenomenon
- Generally used for consumer-oriented products
Donation-based crowdfunding
- Campaigns amass donations without being required to provide anything of value in return.
- Often for ‘good causes’

Reward-based crowdfunding
- # levels of rewards that correspond to levels of funding.
- Often (a personalized version of) the product is the reward
- A standard rewards campaign offers at least three levels of pledges/rewards.
- -> crowdfunding becomes a marketing channel!

Debt-based crowdfunding
- Raise funds in the form of loans that they will pay back to the lenders over a pre-determined timeline with a set interest rate.
- Works well for entrepreneurs who don’t want to give up equity in their startup immediately.

Equity-based crowdfunding
- Exchange of actual shares in a private company for capital.
TOP CROWDFUNDING PLATFORMS

KICKSTARTER

INDIEGOGO

PATREON

goFundMe

crowdrise™

PLEDGE MUSIC

KissKissBankBank.com

razoo

ROCKET HUB

Crowdfunder.co.uk

Give

spreds
CROWDFUNDING

CF PLATFORM PROVIDERS IN BELGIUM
✓ (Governmental) support schemes
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"Lenders look at the risks of the loan.

Equity investors look at the potential of the investment."
PRIVATE EQUITY (PE) FUNDING

- the provision of equity capital
  - by financial investors
  - over the medium or long term
  - to non-quoted companies with high growth potential

- Public Equity
  - the provision of equity capital to companies quoted on the Stock Exchange
  - stock owned by large number of people

- Private equity can take on various forms
  - business angel funding
  - venture capital funds
  - private equity companies
    - complex leveraged buyouts
    - consolidation of industries

- Advantages of PE
  - easy access to alternate forms of capital for entrepreneurs
  - less stress of quarterly performance

- Disadvantages of PE
  - private equity valuations are not set by market forces
  - investor often wants to exit from his investment after a certain time: may result in loss of control by entrepreneur
DIFFERENT PRIVATE EQUITY INVESTOR ‘LEAGUES’

- **Business Angel (BA)**
  - ‘Small independent VCs’
  - Often invest their own funds
  - Seed/start-up financing
  - Relatively small amounts, limited investments

- **Venture Capitalist (VC)**
  - Start-up/expansion financing
  - Invest funds of third parties
  - Bigger amounts, larger portfolio of investments
  - Wide array of VCs: focus on ≠ stages, technologies, geographies,...

- **Private Equity (PE)**
  - Turnaround financing, leveraged buyouts
  - Large scale projects (consolidation of industry players,...)
  - Very big amounts
Business Angels (BAs)
- “small independent Venture Capitalists”
- often (ex-)entrepreneurs
- invest (mostly) their own funds
- in high potential start-ups
- generally in sectors they are knowledgeable
- provide guidance to entrepreneur, using their own expertise, skills, and knowledge
- sometimes gets operationally involved in the venture
  - Part time Financial Director
- gives the company a substantial credibility boosts towards customers, suppliers, banks...
- often have an extensive network of contacts

Funding strategy
- Seed, start-up and early stage of enterprises
- Average investment between 25.000 and 250.000 euro

Business Angels Networks
- national / regional
- online BA Networks
THE AVERAGE BUSINESS ANGEL

Ignace de Bock

- Age 40-65
- Male
- High qualification
- Wealthy
- Successful entrepreneur
### PRIVATE EQUITY VERSUS VENTURE CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>VENTURE CAPITAL</th>
<th>PRIVATE EQUITY</th>
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<tbody>
<tr>
<td><strong>Type of Investment</strong></td>
<td>Issuing shares, and therefore investing in the company</td>
<td>Acquire shares from existing shareholders</td>
</tr>
<tr>
<td><strong>Size of Stake</strong></td>
<td>Often Minority stakes with special clauses in SHA</td>
<td>Often Majority Stakes</td>
</tr>
<tr>
<td><strong># Rounds</strong></td>
<td>Several, in syndication</td>
<td>1 (except for further acquisitions in Buy and Build)</td>
</tr>
<tr>
<td><strong>Usages of Debt</strong></td>
<td>Only in the growth stages of company and late scaling</td>
<td>Yes, leverage</td>
</tr>
<tr>
<td><strong>Creating value</strong></td>
<td>Company building</td>
<td>Financial engineering, leverage</td>
</tr>
<tr>
<td><strong>Distributions from and to LP’s</strong></td>
<td>First relatively small investments, later higher tickets, exits after 5-7 years</td>
<td>Big investments early, quick distributions to LP’s by dividends</td>
</tr>
<tr>
<td><strong>Risk of Failure</strong></td>
<td>#volumes: 30%-55% failures, but less in $’s (fail fast, when the exposure is still limited)</td>
<td>Relatively low volumes (available product market fit, available cashflows) but high amounts when failure</td>
</tr>
<tr>
<td><strong>Return (Net IRR)</strong></td>
<td>High spread, up to X00%/yr per company, 3%-20%/yr /fund</td>
<td>10%-15%/yr, with a low spread/company</td>
</tr>
</tbody>
</table>
VC represents +/- 10% of all private equity
QUESTIONS?

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VENTURE CAPITAL (VC)

- financial capital
  - provided by professionally-run investment funds
  - provided to early-stage, high-potential, high risk, growth oriented companies.

- these companies generally possess a novel technology or business model.

- The VC fund receives equity (shares) in exchange for the money invested in the company

- The firstVC investment typically occurs after the seed funding round

- Generally several investment rounds are needed; are called Series A, B, C,... Rounds

- The VC generates a return by selling the shares it owns
  - during a trade sale of the company.
    - the company is acquired by another company
  - or after an Initial Public Offering (IPO) "beursgang"

- -> Venture capital (VC) is
  - Risk sharing investment money
  - With limited investment time horizon
  - Supplied by professional investors
  - In growth oriented companies
  - In form of shares of company
VC ACTORS:

VC firm (General Partners)

Limited Partners (Investors)
(public pension funds, corporate pension funds, insurance companies, individuals, family offices, endowments, foundations, fund-of-funds, ....)

money

management

VC fund

Investment

Investment

Investment
THE THINGS NOT TO DO WHEN RAISING VENTURE CAPITAL

- Not leading the dance:
  - it is important to define the pace at which you want to move forward
  - it is necessary to define a deadline after which those who have not submitted an offer will be out

- Not being sufficiently prepared
  - a complete data room is the key to avoid endless discussions with investors
  - If you're asked good questions, add them to a full FAQ

- Wanting to meet all the VCs
  - Meeting everyone has no interest
  - you end up putting a crazy amount of time into it

- Not talking about the weak points of your business spontaneously
  - if there is a weak point, they will see it, it is better to cover it with confidence and show that you have a plan

- Not being demanding:
  - Make sure your vision is aligned with theirs
  - talk to other companies in their portfolio
  - It is better not to raise capital than to raise capital with the wrong person
Venture Capital Fund Data 2022

Explore the features and functionalities that make PitchBook an indispensable venture capital resource.

What you can research

Counts are updated daily

- 27,861 Venture capital funds
- 3,921 Venture capital deals
- 1,228 Venture-backed exits
- 1,336 Venture capitalists

PitchBook
Warren Buffett once said that it is wise for investors to be “fearful when others are greedy, and greedy when others are fearful.”
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✓ Founders, friends, family and fools (4F’s)
✓ Bank loans
✓ Partners
✓ Customers and suppliers
✓ Venture capital
  the financial logic of a VC  
  VC funding stages
  VC decision making
  Due Diligence & Term Sheets
  Some VC firms
✓ The crowd
✓ Governmental support schemes