How to Build a Successful Spin-Off

Nabla Technologies

Never trust professors…

University Spin-Off: Definition

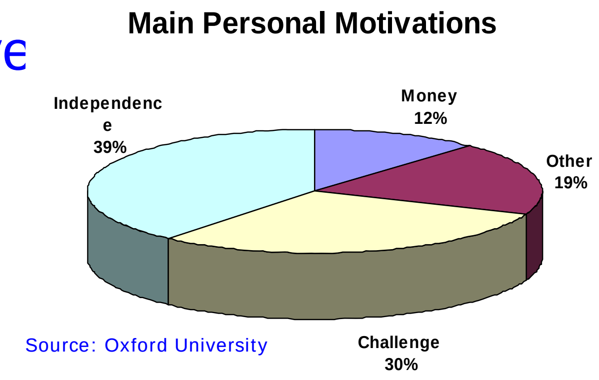
- The University Spin-Off is in general a process that, starting from a disruptive technology developed at the University, leads to the creation of a new technology company that successfully develops within a period of five years
- Most of the actors will end-up in the new company leaving their original position (quite often temporary) at the University
- The new company and the University share part of the entrepreneurial risk and possible success through different forms of joint-venture (exclusive licensing, direct financing, etc.)

University Spin-Off: Preliminary Assessment

- Personal evaluation
  - Begin by taking stock of yourself and your situation. Why do you want to start a business? What skills do you have?
- Market analysis
  - Once you decide on a business, you need to evaluate your idea. Who will buy your product or service? Who would be your competitors?
- Intellectual Property
  - Make sure that you own or can get the rights related to your invention
- You also need to figure out at this stage how much money you will need to get started…

Personal Evaluation

- An entrepreneur is a person who habitually creates and innovates to build something of recognized value around perceived opportunities:
  - Makes a significant difference
  - Is creative and innovative
  - Find resources and competences required to exploit opportunities
  - Is determined to face competition and adve
  - Is a good team-builder
  - Manages change and risk
  - Has control of his business
  - Puts the customers first
  - Creates wealth



Market Analysis

- Your business is ruled by the Marketplace
  - Tailoring your business plan to what the market will buy is always a better, more successful strategy than developing a new product or service without knowing precisely the customers for it and hoping that people would buy it because it's good
- Before people know they need something, you often have to spend lots of time (and money…) “educating” them about why they need it
  - While preparing your business and marketing plan, try to anticipate also the feedback that the marketplace will send you and may cause you to change direction

Intellectual Property

- When conducting research within a University, verify that there is sufficient clarity on who will own potential IP generated from the research project
- Make sure that your invention is not shared with others than your collaborators or published before filing a patent application
- Use patent information available in public databases (i.e. ep.espacenet.com or www.delphion.com) to assess whether your invention is novel
- Refer to the Technology Transfer Office; they will assess the patentability and commercial opportunity for your invention with you, will instruct a professional patent agent to draft a patent application and manage the whole application process.

Patents FAQ

- What is a patent?
  - A patent for an invention is granted by government to the inventor, giving the inventor the right for a limited period to stop others from making, using or selling the invention without the permission of the inventor. In return, the public gain advance knowledge of technological developments which they will eventually be able to use freely
- Is my invention patentable?
  - For a patent application to succeed, your idea must be: novel (it must not have been made public in any way), inventive (the invention must not be obvious to someone with a good knowledge of the area), have industrial utility. Software is a special case!

Patents FAQ (Continued)

- How much does it cost?
  - Filing a patent application at the national patent office is very cheap but drafting a patent application is a skilled task best entrusted to a patent agent. Their fee is usually around €3’000-€6’000, depending on the complexity of the invention. The total cost to obtain granted patents in Europe, the US and Japan is normally in excess of €100’000 and a commercial backer should therefore be identified as soon as possible after the initial filing
- How long does it last?
  - The protection afforded by your patent, if granted, will last for 20 years from the date of the initial filing at the national patent office (“priority date”)

University Spin-Off: Starting Points

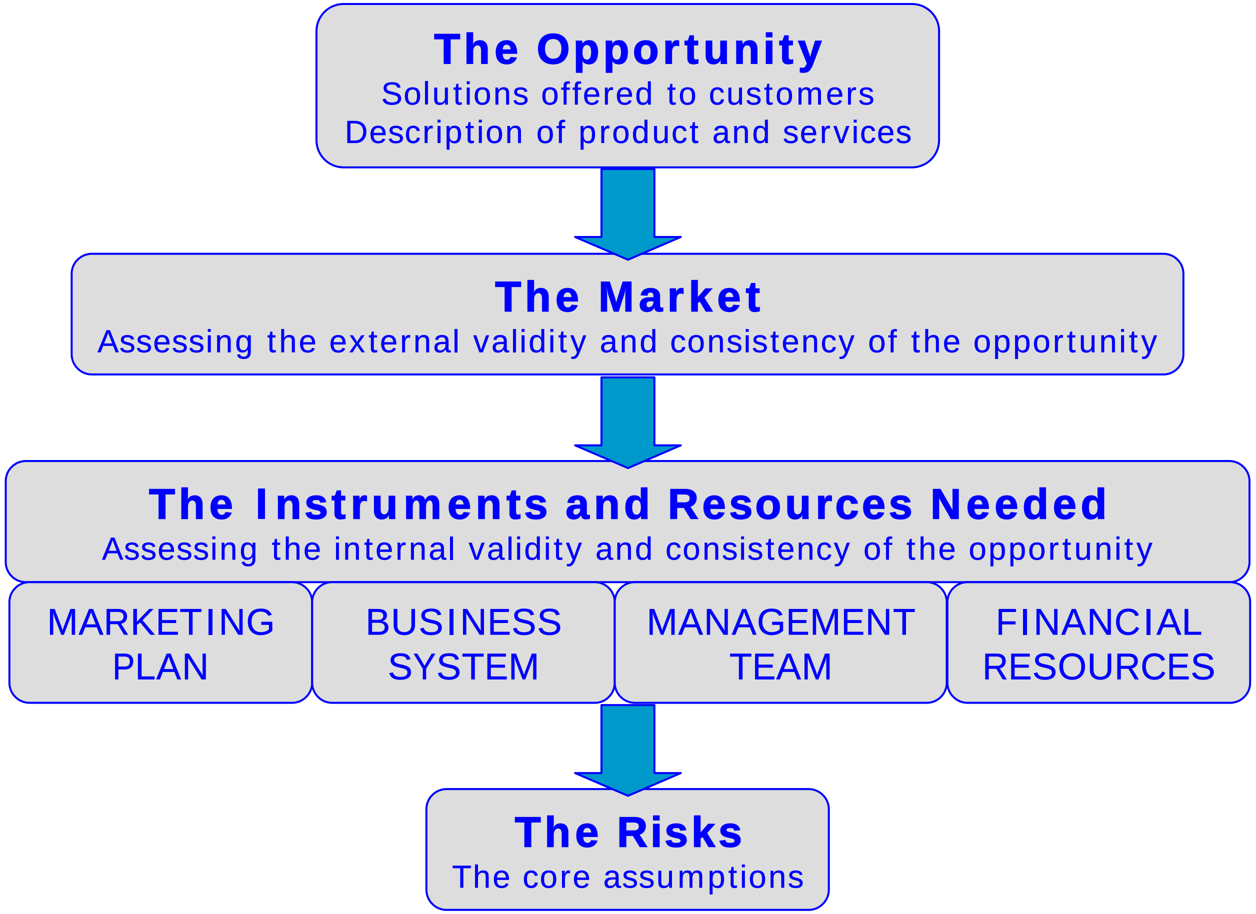
- Draft a business plan
  - If you will be seeking outside financing, a business plan is a necessity. But even if you are going to finance the venture yourself, a business plan will help you figure out how much money you will need to get started, what needs to get done when, and where you are headed
- Get financed
  - Take advantage of the numerous form of public incentives for young entrepreneurs and look for facilitators near you (incubators, etc.) Seek financing from an "angel" investor or from a venture capital firm only at the right time. Begin with personal loans, help from the family, etc.

Executive Summary

- The following questions must be answered in this section of the business plan:
  - What is the business activity? What is the business opportunity? What is unique about it?
  - Who are the target customers and what is the value for them?
  - What is the market volume, the growth rates and the main competitors?
  - What is the cash commitment needed and what are the profit forecasts?
  - Who are the members of the management team?
  - What are the exit possibilities from the investment for potential investors?

Nabla Technologies

Business Model



Market

- What are the size and the growth potential of the targeted segments?
- What are the drivers of growth in the targeted segments?
- What share of sales does the entrepreneur expect from various product/services and/or market segments?
- How will the new venture reach its customers?
- What type of competitors? How easy is for the competition to imitate the business model of the new venture?
- Which are the barriers to entry for competition?

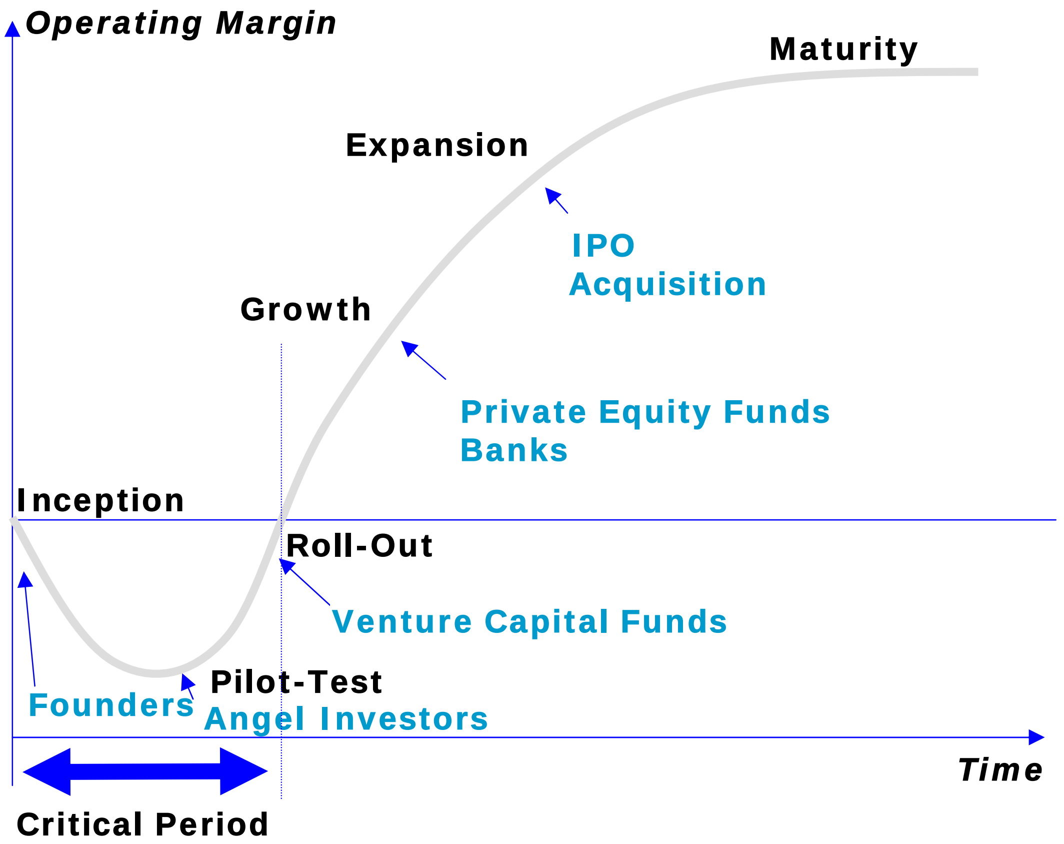
Resources Needed

- How is the offering brought to the customers?
- What are the sales targets (per year, quarterly)?
- What resources does the entrepreneur need (quantitative and qualitative) to create his products/services?
- How flexible is the organization?
- What experience or abilities does the team possess that will be crucial for the success of the business?
- What experience or abilities are lacking? How to find them?
- What are the main cost drivers?

Financing

- Spin Off finance comes from various sources, which is appropriate to a specific case depends on a number of factors:
  - The stage
  - The size
  - The amount required

Company Growth Stages and Funding Sources



Forms of Financing

- The funding package may contain various forms of finance. The two main types are shares ("equity") and loans
  - Shares are company's capital, and they normally carry full voting rights. They also carry the greatest risk and potentially the greatest reward, because they are rewarded in the form of dividends after all other costs have been met.
  - Loans may be secured on the company's assets. The interest is at a fixed rate irrespective of the company's profits or losses. They rank ahead of shares for the repayment of capital.
- A mix of the two is often appropriate

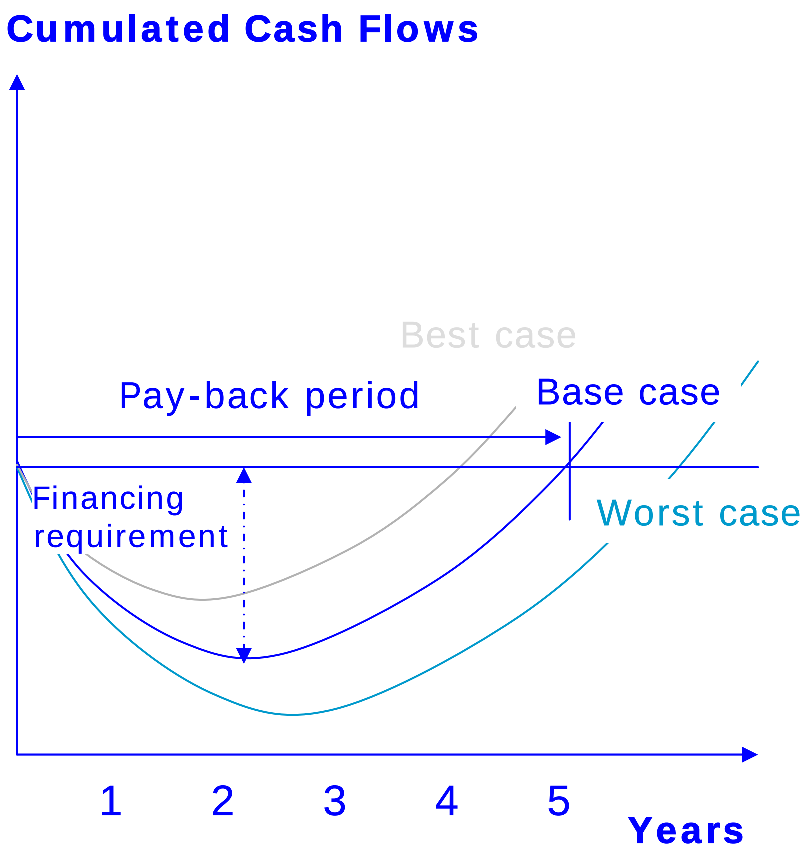
Sources of Equity Financing

- Founders and entrepreneurs
  - Put in all the finance they are able to afford
  - Provide non-financial contributions (no salary, no rent, etc.)
- Business Angels
  - Invest between 10’000 and 100’000 Euro
  - Generate useful commercial contacts
  - Quick decisions
- Venture Capitalists (Early Stage)
  - Invest between 1’000’000 and 5’000’000 Euro
  - Add value not just financial assistance
  - Slow decisions, but very thorough in the due-diligence

Sources of Loan Financing

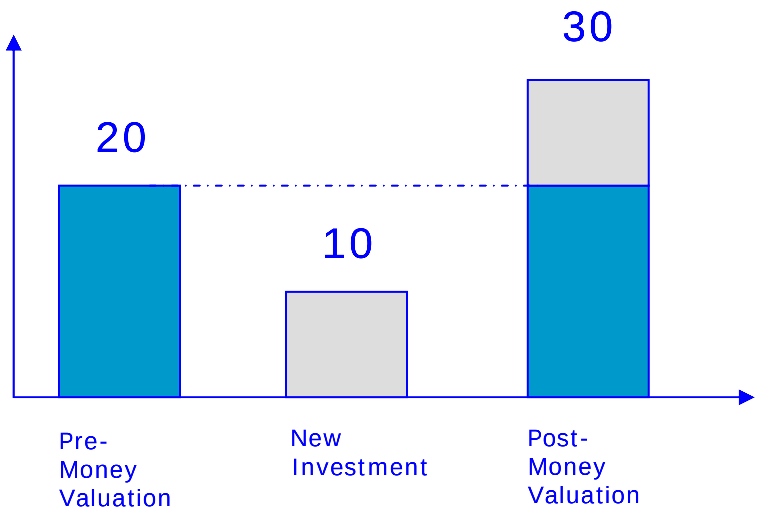
- Friends and Family
  - Put in all the finance they are able to afford
  - Provide non-financial contributions (no salary, no rent, etc.)
- Banks
  - Invest between 10’000 and 1’000’000 Euro
  - Require a number of guarantees (mortgage, etc.)
  - Slow decisions
- Public funding agencies
  - Invest between 100’000 and 5’000’000 Euro
  - Provide facilitated loan conditions (low interest rate)
  - Very slow decisions

How Much Financing?



- The negative values of the company cash flows indicate the amount of financing needed across the time-span of your business plan
- Present all major assumptions and results from the financial planning in the body of the business plan attaching all major tables as appendixes

Valuation



Founder share 100% 67%

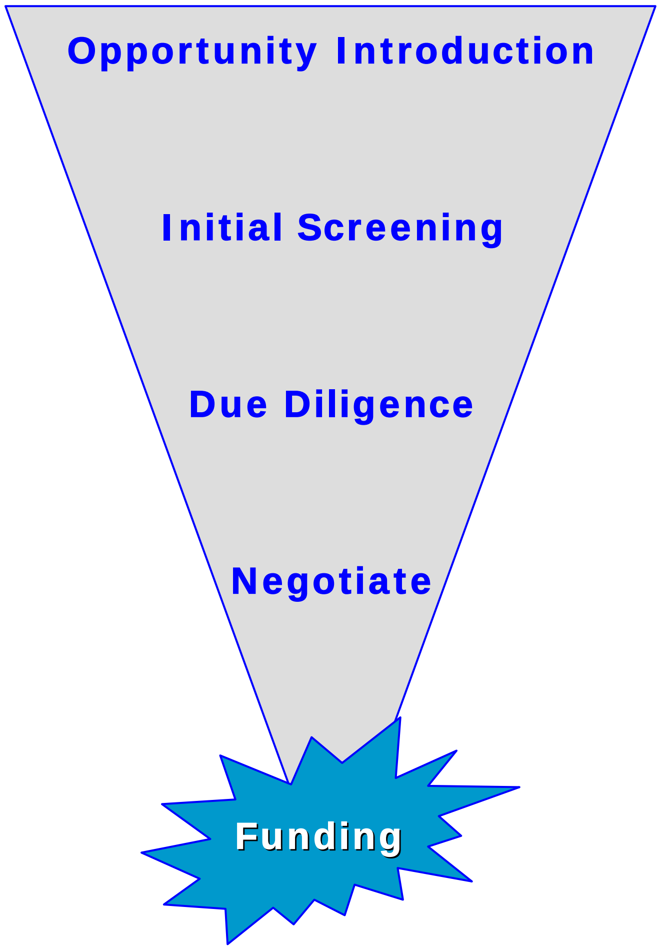
$$Investor\ Share\% = \frac{New\ Investment}{Pre-Money\ Valuation + New\ Investment} \bullet 100$$

$$Pre-Money\ Valuation = New\ Investment \bullet \frac{100 - Investor\ Share\%}{Investor\ Share\%}$$

- Equity investments always affect the founders ownership of the company
- There is no definitive way to determine the value of a company, the three most commonly used methods are:
  - Benchmark valuation
  - Estimating value with multiples
  - Discounted Free Cash Flow Method (DCF)

Investors Evaluation Process

- 6 in 1000 business plans get funded on an average
- 5% of documents are read beyond the executive summary
- 10% of proposals pass initial screening
- 10% of pre-screened proposals pass due-diligence and receive funding
- Selection Parameters:
  - Management team
  - Business idea
  - Valuation



Characteristics of Successful Entrepreneurial Firms

- An effective management team that works cooperatively and consists of members selected to provide a wide range of knowledge and skills
- Sound financing
- Managers who make business decisions based on a clear understanding of the market and the competition, rather than their own enchantment with their product or service
- Managers who keep on top of best business practices by surrounding themselves with knowledgeable people, remaining open to advice and ideas
- Entrepreneurs who are passionate about their ventures and communicate that excitement to potential investors, customers and mentors

Eight Key Reasons Why Companies Fail

- Inadequate planning of the business
- Insufficient initial capital for the start-up period and development stages due to inadequate planning
- Mistaken estimate of the market demand for product or services
- Lack of management ability
- Failure to select and use appropriate outside professional services
- Inability to market products or services effectively
- Over dependence on a single individual or a predicted event
- Failure to understand capital requirements of a growing business