

ENTREPRENEURIAL FINANCE

The Art and Science of Growing Ventures

Academics and practitioners from a range of institutions across Europe provide a cutting-edge, practical, and comprehensive review on the financing of entrepreneurial ventures. From sourcing and obtaining funds, to financial tools for growing and managing the financial challenges and opportunities of the startup, *Entrepreneurial Finance: The Art and Science of Growing Ventures* is an engaging text that equips entrepreneurs, students and early-stage investors to make sound financial decisions at every stage of a business' life. Largely reflecting European businesses and with a European perspective, the text is grounded in sound theoretical foundations. Case studies and success stories as well as perspectives from the media and from experts provide real-world applications, while a wealth of activities give students abundant opportunities to apply what they have learned. A must-have text for both graduate and undergraduate students in entrepreneurship, finance and management programs, as well as aspiring entrepreneurs in any field.

Luisa Alemany is an associate professor in entrepreneurial finance at ESADE Business School and holds an M.B.A. from Stanford University, California, and a PhD from the Universidad Complutense, Madrid. Her research focuses on business angels, venture capital, impact investing, and entrepreneurship education for children. From 2009 to 2017, Dr Alemany was the director of the ESADE Entrepreneurship Institute. She is currently the academic sponsor of ESADE Business Angels Network (BAN) and is active at the European level, where she has been a director of the board of the European Business Angels Network (EBAN). She also holds seats in different investment committees, both in venture capital and impact investing. She is part of the first European women-only business angels network, Rising Tide I and II. Dr Alemany has held positions at Procter & Gamble, McKinsey & Co., and Goldman Sachs. She also has experience in venture capital and private equity, having worked for the funds Europ@Web and The Carlyle Group.

Job J. Andreoli is a senior lecturer and PhD candidate at the Center for Finance of the Nyenrode Business Universiteit and the Nyenrode New Business School in the Netherlands. In addition, he leads the Nyenrode Incubator in Amsterdam and is on the advisory board of a venture capital firm. Prior to joining Nyenrode, Mr Andreoli has worked as a strategy consultant for Ernst & Young (EY) and Capgemini and was responsible for setting up the Strategy and Innovation practice of Atos Consulting. He has also been involved in startups and working with small and medium-sized enterprises that tend towards financial distress. Mr Andreoli holds an M.Sc. degree in Strategic Management from Rotterdam School of Management, Erasmus University and an M.Sc. in Education from VU Amsterdam.

ENTREPRENEURIAL FINANCE

The Art and Science of Growing Ventures

LUISA ALEMANY

ESADE Business School

JOB J. ANDREOLI

Nyenrode Business University



CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE
UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom
One Liberty Plaza, 20th Floor, New York, NY 10006, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre,
New Delhi – 110025, India
79 Anson Road, #06–04/06, Singapore 079906

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

www.cambridge.org
Information on this title: www.cambridge.org/9781108421355
DOI: 10.1017/9781108368070

© Cambridge University Press 2018

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2018

Printed and bound in Great Britain by Clays Ltd, Elcograf S.p.A.

A catalogue record for this publication is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Names: Alemany, Luisa, editor. | Andreoli, Job, editor.

Title: Entrepreneurial finance : the art and science of growing ventures / edited by Luisa Alemany, ESADE Business School, Job Andreoli, Nyenrode Business University/New Business School.

Description: New York : University of Cambridge, [2018] | Includes bibliographical references and index.

Identifiers: LCCN 2017061576 | ISBN 9781108421355 (hbk. : alk. paper) | ISBN 9781108431859 (paperback : alk. paper)

Subjects: LCSH: New business enterprises – Finance. | Small business – Finance. | Venture capital. | Entrepreneurship.

Classification: LCC HG4027.6 .E58 2018 | DDC 658.15/92–dc23

LC record available at <https://lcn.loc.gov/2017061576>

ISBN 978-1-108-42135-5 Hardback

ISBN 978-1-108-43185-9 Paperback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

CONTENTS

List of Figures	<i>page</i> vii
List of Tables	x
List of Contributors	xi
Preface	xxi
Structure of the Book	xxiii

I FUNDING SOURCES

1 Introduction to Entrepreneurial Finance Luisa Alemany and Job J. Andreoli	2
2 Early Sources of Funding (1): Incubators, Accelerators and Crowdfunding Job J. Andreoli	23
3 Early Sources of Funding (2): Business Angels Colin Mason and Tiago Botelho	60
4 Venture Capital, Private Equity and Corporate Venture Capital Josep Duran and Oscar Farres	97
5 Public Sources of Funding Isidro Laso	129

II FUNDING PROCESS

6 Deal Sourcing and Screening Dietmar Grichnik, Torben Antretter and Alexander Stoeckel	148
7 Preparing the Financial Plan: Forecasting Sophie Manigart and Miguel Meuleman	181
8 Valuation of New Ventures Luisa Alemany	214
9 The Term Sheet and Negotiating with Investors Stefano Caselli	249

III GROWING THE VENTURE

10 Monitoring Tactics and Key Metrics Jan Brinckmann, Miguel Meuleman and Peter Witt	278
11 Corporate Governance Stefano Caselli	310

12	Managing your Intellectual Property Peter Hiscocks	338
IV ALTERNATIVE ROUTES TO ENTREPRENEURSHIP		
13	Entrepreneurship through Acquisition (1): MBOS and MBIS Miguel Meuleman and Hans Vanoorbeek	362
14	Entrepreneurship through Acquisition (2): ‘Searchers’ Timothy Bovard	408
15	Turnarounds, Workouts and Other Restructuring: Reinventing Value Benoît F. Leleux	449
16	Impact Investing: Financing Social Entrepreneurs Lisa Hehenberger, Johanna Mair and Sara Seganti	485
V HARVESTING AND THE FUTURE OF ENTREPRENEURIAL FINANCE		
17	Harvesting: The Exit Peter Roosenboom	530
18	The Future of Entrepreneurial Finance Luisa Alemany and Job Andreoli	562
	Appendix 1 Examples of Public Support for Entrepreneurship in Europe	583
	Appendix 2 Typical Business Angel Term Sheet Clauses	587
	Appendix 3 General Term Sheet	588
	Appendix 4 Angel Term Sheet	594
	Appendix 5 Measuring and Managing Impact	600
	Index	607

FIGURES

Figure 1.1	Stages of venture development	<i>page</i> 13
Figure 1.2	Early stages of a new venture and sources of funding	16
Figure 1.3	Sources of funding by venture development phase	17
Figure 2.1	Early stages of funding by orientation and venture development phase	27
Figure 2.2	Global difference in enterprise creation (2016)	30
Figure 2.3	Overview of the accelerator process	39
Figure 2.4	Top 10 accelerators by capital investment: Europe (2017)	43
Figure 2.5	Main forms of crowdfunding	48
Figure 3.1	Sources of informal venture capital	70
Figure 3.2	The stages in the business angel's investment process	71
Figure 3.3	The funding funnel of Canadian angel groups	85
Figure 4.1	Venture Capital versus Private Equity	100
Figure 4.2	Life of a VC fund	104
Figure 4.3	Net IRR by vintage year in PE funds as of 30 June 2016	106
Figure 4.4	Investors in European venture capital in 2015	107
Figure 4.5	Distribution of exit multiples in European VC funds (1996–2016)	110
Figure 4.6	Structure chart of a VC fund	116
Figure 4.7	Fundraising volumes by European VC funds (2015)	120
Figure 4.8	Investors in European VC funds (2015)	120
Figure 4.9	Venture capital investments by sector as percentage (2015)	121
Figure 4.10	Venture capital investments as percentage of GDP in European countries (2015)	123
Figure 4.11	Venture capital investment as percentage of GDP in the world (2015)	123
Figure 4.12	Graduation rates for European startups (2013)	127
Figure 6.1	The investor–entrepreneur relationship as an agency problem	151
Figure 6.2	Solving the principal–agent problem	154
Figure 6.3	Investment strategy	158
Figure 6.4	btov screening model	161
Figure 6.5	MOVU early investor pitch deck	177
Figure 7.1	Typical cash flow pattern of a startup company	184
Figure 7.2	Pre-IPO financing rounds of Biocartis	185
Figure 7.3	Steps in the development of a startup's financial plan	191
Figure 7.4	Working capital requirement	197

LIST OF FIGURES

Figure 7.5	Valuation step-ups around milestones	204
Figure 7.6	Funds required for different levels of growth	207
Figure 8.1	The VC method of valuing startups	223
Figure 8.2	Enterprise value versus Equity value: accounting and market perspective	229
Figure 10.1	Car2Go monthly gross profit per member	291
Figure 10.2	Car2Go customer acquisition cost	292
Figure 10.3	Average customer lifetime value versus customer acquisition cost	293
Figure 10.4	Marketing metrics for Suitcase	299
Figure 11.1	The company and its stakeholders	314
Figure 11.2	One-tier versus two-tier board structure	317
Figure 11.3	The trade-off entrepreneurs make	322
Figure 11.4	Strategic thresholds and the roles of corporate governance	324
Figure 11.5	The Integrated Reporting Model	333
Figure 12.1	Developing an IP strategy	355
Figure 13.1	Buyout process	368
Figure 13.2	Return to equity in a buyout transaction	373
Figure 13.3	Value generation framework in a buyout	373
Figure 13.4	Evolution Enterprise Value/EBITDA multiples for different deal ranges	381
Figure 13.5	Sources and uses of funds	385
Figure 13.6	Where does mezzanine financing fit in the capital structure?	388
Figure 13.7	Sources and uses of funds in SeaSmoke transaction	393
Figure 13.8	Net working capital evolution	398
Figure 15.1	Global private equity raised by fund type (2003–2016)	452
Figure 15.2	European private equity investments by deal type (2015)	453
Figure 15.3	Global private equity index returns by fund type (2000–2015)	453
Figure 15.4	Global private equity risk–return profiles by fund type	454
Figure 15.5	Profit and loss statements for Stelton, 1998–2002	462
Figure 15.6	Balance sheets for Stelton, 1998–2002	463
Figure 15.7	Results of the brand tests (AITR) for Stelton, March 2003	466
Figure 15.8	Stelton’s major competitors in the Danish market: Menu and Rosendahl	468
Figure 15.9	Evolution of employment at Stelton	473
Figure 15.10	The Stelton display box	474
Figure 15.11	Stelton’s new advertising material	474
Figure 15.12	Financial Statements (2003–2007)	478
Figure 16.1	Social enterprises need different types of financing at different stages in their evolution	488
Figure 16.2	The impact investment process	489
Figure 16.3	Target sectors by € spend (Europe 2015/16)	502
Figure 16.4	Geographic focus by € spend (Europe 2015/16)	503

Figure 16.5	Geographic focus by \$ spend (Worldwide 2016)	503
Figure 16.6	The Investment Spectrum	504
Figure 16.7	Financing instruments: social enterprise organizational structure and impact investor return expectation	507
Figure 16.8	A mapping of non-functional support	509
Figure 16.9	The five-step exit strategy process	510
Figure 16.10	The five steps of the social impact measurement process	513
Figure 16.11	The Impact Value Chain	515
Figure 16.12	Managing impact in the impact investor's investment process	518
Figure 16.13	The problem and solution table	520
Figure 16.14	Developing an impact value chain	521
Figure 17.1	Exit routes in the United States, 2007–2016	533
Figure 17.2	Exit routes in Europe, 2007–2015	534
Figure 17.3	The going public process	547
Figure 17.4	Average underpricing per year in the United States, 1980–2016	550
Figure 17.5	Average level of underpricing in 51 countries	551
Figure 17.6	Number of IPOs per year in the United States, 1980–2016	553
Figure 18.1	Key moments in the history of alternative investments	566
Figure 18.2	Areas likely to affect the future of entrepreneurial finance	567
Figure 18.3	How a blockchain works	569
Figure 18.4	Crowdfunding size and growth	570
Figure 18.5	Development of European Central Bank interest rate	571

TABLES

Table 1.1	Definitions of ‘Entrepreneurship’	<i>page 8</i>
Table 1.2	Key characteristics of entrepreneurial finance versus corporate finance	12
Table 2.1	Differences between an incubator and accelerator	28
Table 2.2	Accelerator programmes around the world in 2016	30
Table 2.3	University business incubator: Europe Top 10	34
Table 2.4	Comparing three support sources of funding	44
Table 4.1	VC/PE returns benchmarked against stock market indexes	106
Table 7.1	Biocartis 2016 results	186
Table 7.2	Core components of a startup’s financial plan	189
Table 7.3	NewTech’s assumptions under the most likely scenario	199
Table 8.1	Time required to multiply your money based on number of years and expected return on the investment (IRR)	222
Table 8.2	First Chicago valuation method, example	228
Table 8.3	Stake in Moontrip for the business angel after converting debt to equity	240
Table 9.1	The content and the functioning of staging technique agreement	267
Table 10.1	Evolution of Hubspot’s LTV to CAC ratio	302
Table 11.1	Corporate governance rules	319
Table 11.2	Code of conduct	329
Table 11.3	Principles of good governance	330
Table 12.1	Registered IP protection	344
Table 12.2	Unregistered IP protection	344
Table 13.1	SeaSmoke multiple valuation	383
Table 16.1	The Impact Value Chain: Definition of key terms and examples	516
Table 16.2	A comparison between Oltre Venture’s two funds	525
Table 17.1	Pros and cons of different exit routes for investors	537

CONTRIBUTORS



ESADE
Business School

Luisa Alemany is an associate professor in entrepreneurial finance at ESADE Business School and holds an M.B.A. from Stanford University, California, and a PhD from the Universidad Complutense, Madrid. Her research focuses on business angels, venture capital, impact investing, and entrepreneurship education for children. From 2009 to 2017, Dr Alemany was the director of the ESADE Entrepreneurship Institute. She is currently the academic sponsor of ESADE Business Angels Network (BAN) and is active at the European level, where she has been a director of the board of the European Business Angels Network (EBAN). She also holds seats in different investment committees, both in venture capital and impact investing. She is part of the first European women-only business angels network, Rising Tide I and II. Dr Alemany has held positions at Procter & Gamble, McKinsey & Co., and Goldman Sachs. She also has experience in venture capital and private equity, having worked for the funds Europ@Web and The Carlyle Group.



NYENRODE
BUSINESS UNIVERSITEIT

Job Andreoli is a senior lecturer and PhD candidate at the Center for Finance of the Nyenrode Business Universiteit and the Nyenrode New Business School in the Netherlands. In addition, he leads the Nyenrode Incubator in Amsterdam and is on the advisory board of a venture capital firm. Prior to joining Nyenrode, Mr Andreoli has worked as a strategy consultant for Ernst & Young (EY) and Capgemini and was responsible for setting up the Strategy and Innovation practice of Atos Consulting. He has also been involved in startups and working with small and medium-sized enterprises that tend towards financial distress. Mr Andreoli holds an M.Sc. degree in Strategic Management from Rotterdam School of Management, Erasmus University and an M.Sc. in Education from VU Amsterdam.



University of St.Gallen

Torben Antretter Research Associate and PhD Candidate at the Chair for Entrepreneurship of the University of St. Gallen (HSG). His research is mainly focused on entrepreneurial finance with special emphasis on venture capital. At the HSG, he further leads an interdisciplinary project that aims to build algorithmic models to support data-driven investment decisions. Before joining the Chair for Entrepreneurship, Torben worked in management consulting, focusing on financial transformation. Besides his research at the university, he is active as an entrepreneur in the field of LegalTech. With his venture he currently raised € +25 million in venture capital and private equity financing. He holds a MSc degree from the University of Muenster, where he was awarded the National Scholarship of the Haniel Foundation.



Tiago Botelho joined Norwich Business School (NBS) as a Lecturer in Business Strategy in August 2015. Prior to joining NBS he held teaching positions (lecturer, teaching assistant, and tutor) at the University of Glasgow, University of Strathclyde, Universidade Nova de Lisboa and Piaget Institute.

From 2011 to 2013, Tiago was part of a research team lead by Colin Mason and Richard Harrison in an ESRC project on business angel exits. His research interests are in entrepreneurial finance and methodological applications. The first stream of his research has been on business angels' decision-making criteria. The second has questioned the comparability of different methodologies to address this issue. Tiago has published in several academic journals.

Tiago holds a BA degree in Economics from the Universidade Autónoma de Lisboa and a Masters degree in Finance and Business Economics from Fundação Getúlio Vargas, Escola de Pós-Graduação em Economia, Rio de Janeiro, Brazil. He completed a PhD in Management at the University of Glasgow on the topic of business angel investing criteria.



Timothy Bovard is Adjunct Professor of Entrepreneurship at INSEAD and Adjunct Professor at Columbia Business School where he teaches Entrepreneurship Through Acquisition. He also teaches in the MBA program, guest lectures at Chicago Booth School of Business, and is a regular speaker at conferences on search funds and entrepreneurship through acquisition.

Timothy is the Founder and CEO of Search Fund Accelerator (SFA), the first-ever accelerator accompanying highly motivated entrepreneurs seeking to acquire businesses to run as CEOs. Created in 2015, SFA provides unparalleled mentoring and support to searchers throughout the search, acquisition and post-acquisition phases, providing all needed equity from its fund of committed capital.

As Founder and former President of CPI S.A., Timothy created Europe's leading book manufacturer. Through a series of twenty acquisitions over twelve years, he built CPI into a group with over €500 million in sales and 4000 employees in fifteen plants across Europe. Timothy is President of the Association Petits Princes, a leading French charitable organization that realizes the dreams of severely ill children.

Timothy holds a BS in Management from Rensselaer Polytechnic Institute, an MA in Political Science from the University of North Carolina at Chapel Hill and an MBA with Distinction from INSEAD.



ESADE
Business School

Jan Brinckmann is Associate Professor of Entrepreneurship and Strategy at ESADE Business School. He is Director of the Entrepreneurship Lab of the ESADE MBA Program, Director of the ESADE Entrepreneurship Research Group and is Academic Director of EWorks ESADE's entrepreneurship support activities. Before coming to ESADE, he taught at Loyola University Chicago and Cornell University and was a visiting scholar at Stanford University and Case Western Reserve University. He published extensively in leading academic entrepreneurship journals and is editorial review board member of the *Journal of Business Venturing and Entrepreneurship: Theory and Practice*.

He founded and leads Karma Ventures. He is member of the board of Aklamio, Kviar Groupe, Red Points and Value Desk. He made over eleven seed and follow-on investments in companies including Aklamio, First Stop Health, Juniqe, Red Points, Magin Software, ValueDesk and Savedo. He was investor and advisor to Icebergs, acquired by Pinterest. In addition he leads ESADE support for the KIC InnoEnergy incubator. He also created and teaches at the Founders Academy for the Bertelsmann Foundation and the Corporate Academy for the Pioneers Club.

Jan holds a PhD in entrepreneurship from the Technical University of Berlin and a Master of Economics and Business Administration from University of Hanover.



 Università Commerciale
Luigi Bocconi

Stefano Caselli is Full Professor of Banking and Finance and the Vice Rector for International Affairs at Bocconi University. He is a member of the board of directors of SDA Bocconi School of Management. He conducted numerous research, training and consulting projects both with the most important financial institutions at European level and corporations for valuation and corporate governance issues. His research activities focus on the relationship between banking and industrial systems, facing issues of banking strategy and corporate governance, investment banking and private equity and venture capital.

He is the author of numerous books and articles on the subject. His works have been published in *Journal of Financial Intermediation*, *Journal of Banking and Finance*, *European Financial Management*, *Journal of Financial Services Research*, *Journal of Applied Corporate Finance*, among others. He is also the founder and the director of the 'Start-up Day' platform for Bocconi, devoted to facilitate the start-up process for Bocconi students and alumni.

He has extensive experience as independent director in several boards as well as advisor of investment committees. Among them: Generali Real Estate SGR S.p.A., Santander Consumer Bank S.p.A., SIAS S.p.A.

He holds a MSc in Business Administration from the University of Genoa and a PhD in Financial Markets and Institutions from the University of Siena.



Josep Duran is an Investment Manager at the European Investment Fund (EIF), a cornerstone investor in Private Equity and Venture Capital funds across Europe. He joined EIF in 2015 at its Innovation and Technology Investments division in Luxembourg, where he has led investments and participated in the board of several VC funds, and has closed co-investment deals with some of the most relevant Business Angels in Europe. He is an active member of the investment ecosystem and is also a regular speaker in some of the main events in the continent.

Before joining EIF, He was investment associate at Caixa Capital Risc, the venture capital division of CaixaBank where he invested in tech startups in their early stages. He was also Entrepreneurship Program Manager at La Salle University of Barcelona, where he also led the Business Angels Network.

He holds a degree in Telecommunications Engineering from the Universitat Ramon Llull and an MBA from the same university. He has also received executive education from the European Venture Capital Association and Cambridge University.



Oscar Farres is Head of Unit in the Innovation and Technology Investments team at the European Investment Fund (EIF) in Luxembourg, a European institution that provides risk finance to benefit small and medium-sized enterprises (SME) across Europe. At EIF, he has invested in VC funds across Europe with a focus on the ICT sector and sits on their Advisory Boards. He is a seasoned speaker in VC industry events and contributor to publications in the field of venture capital.

Prior to joining the EIF, Oscar developed his professional career at two Spanish VC funds, Caixa Capital Risc and Debaeque Venture Capital, where he invested in internet and software startups. During this period, he invested and sat on the Boards of companies such as Groupalia, BuyVIP, ApeSoft, Icinetic, and HelpMyCash among others. In 2003, he co-founded Kineto Project, a technology startup in the fitness space.

He holds an Electronics Engineering degree from the Universitat Ramon Llull and an MBA degree from IESE Business School with an exchange at MIT.



Dietmar Grichnik is Chair Professor of Entrepreneurship and Director of the Institute of Technology Management at the University of St. Gallen (HSG). He is the Initiator and Co-Director of the Center for Entrepreneurship and the Global Center for Entrepreneurship and Innovation. In addition, he is the Dean of the School of Management and Board Member of the Institute of Media and Communications Management and the Institute of Business Education and Educational Management at HSG.

Before joining HSG, Dietmar served on the faculties of WHU – Otto Beisheim School of Management and Witten/Herdecke University in Germany. Moreover, he held a visiting professorship at University of Melbourne, was guest professor

at Harvard Business School and lecturer at the Swiss Federal Institute of Technology (ETH) Zurich.

The main focus of his work is on entrepreneurial cognition and emotions, entrepreneurial finance and entrepreneurial decision-making. He has published seven books and several articles in leading journals such as *Journal of Business Venturing*, *Research Policy*, *Entrepreneurship Theory & Practice* and *Journal of Economic Behavior and Organization*. He served as an associate editor for *R&D Management Journal* and reviews currently on the editorial board of *Journal of Small Business Management* among others.

He holds a Diploma in Business Administration and in Business Education, as well as a PhD in Business Administration from University of Cologne, Germany.

Lisa Hehenberger is a Lecturer in Strategy and General Management at ESADE business school. Her research focus is on applying organizational theory to study the evolution of venture philanthropy and social impact investment. She teaches courses in social entrepreneurship, impact investing and strategy.

She is a member of the European Commission's Expert Group on Social Business (GECES) and the OECD's Expert Group on Social Impact Investment, and has been a member of the French National Advisory Board and the Impact Measurement Working Group of the Social Impact Investment Task Force established by the G8.

Until recently, she was the Research and Policy Director of the European Venture Philanthropy Association (EVPA). She set up and ran EVPA's Knowledge Centre, conducting and publishing research, and collecting and disseminating data and knowledge. She also coordinated EVPA's policy initiatives, facilitating the dual transfer of knowledge between policy makers and practitioners. Previously she worked in investment banking at UBS and GB Investment Banking in London, Madrid and Barcelona.

She has a PhD in Management from IESE Business School and a Master's degree in Business and Economics from Stockholm School of Economics and HEC (CEMS).

Peter Hiscocks built the entrepreneurship resources within the University of Cambridge, from the original Cambridge Entrepreneurship Centre to Cambridge Enterprise and achieved a considerable increase in the level of commercialization. He is a Senior Lecturer in Entrepreneurship and Innovation Management at the Judge Business School and is managing several research projects on the success factors for new hi tech business ventures. For the last four years he has been Head of Executive Education but has just stepped down from this role.

He is a scientist who worked in business; initially large companies, then consultancy and finally starting his own companies. He worked in consulting for fifteen years and was one of the founding members of two consulting businesses that grew to have several hundred professional staff. Overall he has



ESADE
Business School



UNIVERSITY OF CAMBRIDGE
Judge Business School

founded ten companies; is Chairman of three growth companies and is on the board of three others: he has achieved the successful sale of five companies. He is the co-founder of a £30 million seed-fund in the North East of England and is on the advisory board of a VC firm.

He is a graduate from the University of Cambridge.

Isidro Laso is Head of Startups and Scaleups sector of the European Commission, known as Startup Europe (www.startupeuropeclub.eu). Since 2013 He is continuing policy fellow at the Cambridge University's CSaP where he works on the intersection of research and policy with other academics. In 2015 he was selected as thought leader at United Nations ITU. Isidro is also member/observer of several advisory boards to international networks of startups. He is visiting lecturer to CEPADE (business school of the Universidad Politecnica de Madrid) as well.

Since becoming an European Commission official in 2001 he has managed research projects and drafted research and innovation strategy objectives. From 2010 he has been focused on creating a new endeavour within the EU institutions related to startups: the Startup Europe initiative. Isidro has written many books and papers, some of which have been translated into many languages.

He had his first taste of entrepreneurship at university, where he created a junior enterprise. After graduating he set up his own software business in the agritech domain. He then moved to the research and innovation department of an IT international company. This gave him the opportunity to create a new department within his company offering change management projects to customers, to complement traditional ICT projects.

He holds an engineering degree from the Universidad Politecnica de Madrid.

Benoît Leleux is the Stephan Schmidheiny Professor of Entrepreneurship and Finance at IMD in Lausanne (Switzerland), where he was also Director of the MBA program (2006–2008) and Director of Research and Development (2004–2008). He is currently the co-Director of Foundations for Business Leadership (FBL).

He was previously Visiting Professor of Entrepreneurship at INSEAD and Director of the 3i VentureLab and Associate Professor and Zubillaga Chair in Finance and Entrepreneurship at Babson College.

He is the author of *Investing Private Capital in Emerging and Frontier Market SMEs* (2009), *Nurturing Science-Based Ventures: An International Case Perspective* (2008), *From Microfinance to Small Business Finance* (2007), and *A European Casebook on Entrepreneurship and New Ventures* (1996). His latest book *Private Equity 4.0: Reinventing Value Creation* was published in March 2015 by Wiley. His teaching cases have earned more than nineteen European case writing awards. Prior to his academic career, he was the head of corporate venturing for a leading agribusiness conglomerate in South East Asia.



He earned an MSc in Agricultural Engineering and an MEd in Natural Sciences from the Catholic University of Louvain, an MBA from Virginia Tech and his PhD at INSEAD, specializing in Corporate Finance and Venture Capital.

Johanna Mair is Professor of Organization, Strategy and Leadership at the Hertie School of Governance in Berlin. She is the PACS Distinguished Fellow at Stanford University and the academic co-director of the Social Innovation and Change Initiative at the Harvard Kennedy School. From 2001 to 2011 she served on the faculty at IESE Business School and has held a visiting position at the Harvard Business School and INSEAD.



Hertie School
of Governance



Dr Mair's research focuses on how novel organizational forms and institutional arrangements create economic value and social impact and the role of innovation in this process. Her works has been published in leading academic journals including the *Academy of Management Journal*, *Academy of Management Perspective*, *Journal of Management*, *Journal of Management Studies*, *Organization Studies* among others. Her book with Christian Seelos on *Innovation and Scaling: How effective Social Entrepreneurs create Impact* makes this research accessible to a broader audience.

She earned her PhD in Management from INSEAD.

Sophie Manigart is Full Professor at the Department of Accounting and Corporate Finance at Ghent University and partner of the Vlerick Business School. Her research interests are entrepreneurial finance, including the supply side (venture capital, business angels, crowdfunding, bootstrapping) and the demand side (entrepreneurs and entrepreneurial companies).



She was guest professor at London Business School and IE Business School, and research fellow at the Wharton School, University of Pennsylvania. Her research has been published in international journals like *Journal of Business Venturing*, *Journal of Management Science*, *European Financial Management*, *Entrepreneurship Theory and Practice*, or *Small Business Economics*, and in numerous book chapters.

She was founder and director of the first Belgian business angels network, Vlerick BAN, and director of BAN Vlaanderen. She is involved in the investment committee of Baekeland-fund, the risk capital fund for spin-offs of Ghent University and Qbic II Venture Fund, among others. She is an independent board member of Gimv (quoted private equity firm), of AXA Belgium (insurance company) and Ovinto (a high tech growth company). She has consulted on entrepreneurial finance for policy makers at the regional, national and European level.

She holds a degree in Civil Engineering, and an MBA and a PhD from Ghent University.



Colin Mason is Professor of Entrepreneurship in the Adam Smith Business School, University of Glasgow. His research and teaching are in the area of entrepreneurship and regional development. His specific research interests are in entrepreneurial finance and entrepreneurial ecosystems.

He has written extensively on business angel investing and has been closely involved with government and private sector initiatives to promote business angel investment, both in the UK and elsewhere. He was joint winner of the ESRC's 2015 Outstanding Impact in Business Award for his research with Professor Richard Harrison on business angels. His other research interests include high-growth firms, home-based businesses, entrepreneurship education and more generally in the concept of 'entrepreneurial campuses'. His research is often featured in the media and he is a contributor to both newspapers and business magazines.

Professor Mason has served on a number of European Commission Expert Groups. He is the founding editor of the journal *Venture Capital: An International Journal of Entrepreneurial Finance* (published by Taylor and Francis Ltd.).

He has a Master of Arts degree from the University of Edinburgh and a PhD from the University of Manchester.

Miguel Meuleman is Associate Professor in Entrepreneurship at Vlerick Business School and visiting professor at Imperial College Business School. His research focuses on management buyouts and buy-ins, venture capital and private equity, new venture creation and entrepreneurial finance more generally.

He has published several articles in journals such as *Journal of Business Venturing*, *Journal of Management Studies*, *Entrepreneurship Theory & Practice*, *Strategic Entrepreneurship Journal* and *Research Policy*. He has also co-authored a book on entrepreneurial finance and has written a number of teaching cases. He has initiated the Entrepreneurial Buyout Academy at Vlerick Business School to promote entrepreneurship through acquisition. Additionally, he has been involved in many initiatives to make entrepreneurship education more effective including BRIDEE (Bridging Entrepreneurship Education & Design) and the EFER European Entrepreneurship Colloquium. He also received the Excellence in Teaching Award at Imperial College Business School in 2017.

Professor Meuleman is a member of the investment committee of the Ark Angel Fund, a business angel fund that provides seed capital investments to start-up companies in Belgium. He has been involved in numerous consulting projects on new business development in established companies and start-up firms in multiple industries.

He holds a PhD in Applied Economic Sciences at Ghent University.





Peter Roosenboom is Professor of Entrepreneurial Finance and Private Equity at the Rotterdam School of Management, Erasmus University. He has been an invited speaker at influential conferences and seminars in the private equity industry and has advised the Dutch government on private equity and the financing of small and medium-sized enterprises (SMEs).

His research has been published in finance and accounting journals such as the *Review of Financial Studies*, *Journal of Financial and Quantitative Analysis*, *Review of Finance and Contemporary Accounting Research*. He is a member of the Editorial Boards of the *Journal of Banking & Finance* and *Multinational Finance Journal*. His research has been widely covered in newspapers and magazines.

He holds a PhD degree in finance from Tilburg University.



Sara Seganti is EVPA's Training Manager. She joined EVPA's Knowledge Centre in March 2017 after more than ten years working as training and project manager in the venture philanthropy and social investment sectors.

Before, she also provided secretariat support to the Italian Advisory Board to the Social Impact Investment Taskforce established under the UK's Presidency of the G7.

She holds a Master's Degree in Social Enterprises Management from SDA Bocconi School of Management.



Alexander Stoeckel is a Partner and Board Member at venture capital firm btov. He joined the firm in 2007. He has studied international business administration at the European Business School (EBS) in Oestrich-Winkel and Paris, and at the International School of Management (ISM) in Dortmund and San Diego.

Prior to btov, he has worked as fund-of-fund manager for Hauck & Aufhäuser Private Bankers, and as Assistant Executive Manager for KPMG. From May 2015 to May 2017, he was a Board Member for the Seed Money & Venture Capital Chapter of the Swiss Private Equity & Corporate Finance Association (SECA).

He holds an MBA from the University of Oxford.



Hans Vanoorbeek is Adjunct Professor at Vlerick Business School. He supports the school in its activities around entrepreneurship through acquisition. Together with Professor Miguel Meuleman he co-founded the Platform for Entrepreneurial Buyouts ('PEBO'), where he contributes with his experience as a practitioner. He is also Adjunct Professor at INSEAD where he teaches the Leveraged Buy Out elective.

He is managing partner and co-founder of BV Capital Partners since mid 2003, a private equity holding which invests the money of its two partners in small- and medium sized enterprises in the Benelux. He is also a Director at Aquasourca SA in Luxembourg, the private equity investment vehicle of the family Defforey (founding family of French food retail chain Carrefour), where he is responsible for their international investments. He is a senior advisor of Chequer's Capital, a French private equity firm, for the Benelux. He is currently a shareholder and board member of several companies.

Before this he was active in London in private equity between 1996 and 2004. He was a partner at BC Partners and an Associate Director at IK Investment Partners. In that capacity, he served in several boards.

He holds an MBA from Harvard University, a master's degree in Applied Economics from University College London, a master's degree in Law and a bachelor's degree in philosophy from KU Leuven.

Peter Witt is Full Professor of Technology and Innovation Management at the University of Wuppertal and a director of the Jackstädt Center of Entrepreneurship and Innovation Research. His research interests are innovation management, entrepreneurship and corporate governance. He has published in refereed academic journals like *Entrepreneurship & Regional Development*, *Journal of Business Economics*, *Management International Review*, and *R&D Management*.

He is department editor for entrepreneurship and SME at the *Journal of Business Economics*. From 2008 to 2015, he was the president of the German entrepreneurship association (FGF e.V.).

Before joining University of Wuppertal, Peter was a full professor of innovation management and entrepreneurship at the University of Dortmund as well as a full professor of entrepreneurship at WHU, Otto Beisheim School of Management in Vallendar.

He holds a Diploma in Economics from the University of Bonn and a PhD in Management from WHU.



INSEAD



PREFACE

THE ART AND SCIENCE OF ‘AN ENTREPRENEURIAL (FINANCE) BOOK’

It was the end of July of 2016, and a group of more than fifty professors from technical universities and business schools from around Europe were gathered at Harvard University. They were all there because of their passion for entrepreneurship, in all its different specialities and forms. Many of them were teaching courses on ‘Entrepreneurship’, ‘Entrepreneurial Marketing’ or ‘Social Entrepreneurship’. There was also a group focusing on ‘Innovation and Design Thinking’. However, the group we were part of was the most appealing one (of course): the faculty of ‘Entrepreneurial Finance’

Luisa was teaching a workshop on the way she had designed her course at ESADE in Barcelona. Around twenty-five professors joined the discussion. It was interesting to share knowledge in a new field and to be able to ask questions to colleagues who were facing the same challenges as they introduced their students in Europe to the ever-evolving field of financing for new ventures. Then, somebody asked a basic question: ‘*So, which book are you using for your classes?*’ ‘*Well, actually, there is no such a book for the European context. Of course, there are some good textbooks when it comes to explaining the financing path of an entrepreneur in the USA. The ways of doing business, Silicon Valley, alternative financing, legal issues, etc. Some of them offer global coverage, but their focus on Silicon Valley and IPOs makes some students think that there is no alternative to raising funds if you are not based there. I use chapters from many different books . . .*’ replied Luisa.

Suddenly the room fell silent. ‘*Then, why don’t we write a book. We need to have a textbook, and if it is not available we have to create one,*’ Job added. After the summer break (always well-deserved), Job contacted Luisa and they committed to start working together on a proposal in the autumn.

The story of this book is all about entrepreneurship. Just as entrepreneurs do, we identified a need and decided to do something about it. We put together a short proposal, including the proposed table of contents, *the executive summary* and the ‘dream team’; a list of professors, the leading experts in particular topics, who could each contribute a chapter to the textbook. We thought that in an entrepreneurial book co-creation was a good idea.

Once the short proposal was ready, we needed to find our ‘investor’. In fact, as our entrepreneurial endeavour was a textbook, we needed to find the best publishing house to make our dream come true. After reviewing in some depth the publishers of books covering the topic, or aspects of it, we identified our favourite publisher. And as entrepreneurs do, Job contacted the editor in charge

of Management books at Cambridge University Press (CUP). It was our lucky day! The editor, Valerie Appleby, replied promptly with a positive response, acknowledging that she also had identified a need in the market, and shared with us the good news that she would be interested in hearing more about the book. We were really excited! Imagine an entrepreneur receiving an email back from a venture capitalist saying that he wants to know more about the startup and is happy to meet. Well, the rest is history.

We really hope that you enjoy the book, and we look forward hearing from you: Alemany_Andreoli_EF@outlook.com and @EntrFinance

Luisa & Job
Twitter: @LuAlemany LinkedIn.com/in/JJAndreoli

THANK YOU

Entrepreneurial finance has grown steadily over the past few decades, adding both width and depth to the options available to entrepreneurs and investors for financing ventures. We have carefully selected the experts on the different areas from leading European institutions, creating a difference in ‘tone of voice’ but, at the same time, assuring that the provided content is best of breed. We feel proud and privileged to have worked with so many leading professors, practitioners, investors and entrepreneurs, the collaboration has been a pleasure and the outcome is worthwhile. Thank you all!

To Paula Parish for her patience while doing all the editorial work and Valerie Appleby for being super entrepreneurial and helpful along the way, supporting us in all our ‘crazy’ ideas . . .

A special gratitude to Bert Twaalfhoven who enabled the EFER European Entrepreneurship Colloquium at Harvard University, where Luisa & Job met.

We would also like to thank our institutions, ESADE and Nyenrode, for the support and encouragement to pursue our dream, and of course, our families, for the long hours spent in front of the laptop during family vacations and weekends. Yes, we made it!

Finally, to Amsterdam for the inspiration, the city where it all started . . .

STRUCTURE OF THE BOOK

This book is organized in five parts. Each of the parts has a distinct topic:

- **Part I: Funding Sources** This part of the book reviews all the alternative sources of financing available to entrepreneurs. Chapter 2 looks in depth at incubators, accelerators and crowdfunding. Chapter 3 considers business angels, from who they are, to how they select, invest and exit their investments. Chapter 4 covers venture capital, private equity and corporate venture capital. Finally, Chapter 5 reviews the public sources of financing available to entrepreneurs.
- **Part II: Funding Process** This part is devoted to the process of obtaining financing for a new venture. Chapter 6 explains how investors source their deals and how they screen them. This is particularly important for first-time entrepreneurs who are trying to raise funding. Chapter 7 examines in some depth the process of preparing a good business plan that will allow the entrepreneurs to understand how much money is needed, its timing and other relevant metrics such as cash burn rate or break-even point. Chapter 8 discusses the valuation of new ventures using the venture capital method. Finally, Chapter 9 looks at the fascinating topic of negotiating the key terms of the deal with investors. In doing so, we move from finance to law, but, in fact, we will see that terms almost always have a financial impact.
- **Part III: Growing the Venture** Once the entrepreneur has raised funds from equity investors, the focus moves to growth and control. In Chapter 10, we review the tools used by venture capitalists and business angels to monitor the evolution of the business plan. We include key metrics for some of the most common business models. Then, in Chapter 11, the focus turns to corporate governance, including key issues such as the board of directors or employee stock option plans. Chapter 12 concludes with considering the concept and practicalities of intellectual property.
- **Part IV: Alternative Routes to Entrepreneurship** This part moves from starting a new venture to becoming an entrepreneur by acquisition, and concludes by looking in depth at social entrepreneurship. Chapter 13 covers management buy-ins and buyouts. In these circumstances, the acquired company is used as a platform for becoming an entrepreneur. The process of acquiring a company requires a completely different approach than starting from scratch, and the chapter covers the process step-by-step. Chapter 14 reviews search funds and the search process involved in acquiring a company. Chapter 15 explores the special situation of acquiring a failing company and turning it around. Finally, in Chapter 16, we look at social entrepreneurship and venture philanthropy, the latter being a very interesting source of financing in the social sector.
- **Part V: Harvesting and the Future of Entrepreneurial Finance** Chapter 17 takes a detailed look at the final stage of the entrepreneurial finance process for

investors, that is, exiting the venture. The chapter explores the different exit options available to successful entrepreneurs, considering in depth the topics of acquisitions (trade sales) and initial public offerings (IPOs). Finally, Chapter 18 concludes with some of the trends and future evolution of this exciting topic of entrepreneurial finance.