

## 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.

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# ENTREPRENEURIAL FINANCE

**The Art and Science of Growing Ventures**

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**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  
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## 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.