

EARLY STAGE FUNDING, START UPS ETC

I am responding to the letter posted on the O2C website following Jonathan Kestenbaum's critical comments in FT of 26.03.03 about 3i and others with significant funds to "abandon start up investment" I am much more emotionally concerned than "uneasy" at the conclusions reached or proposed at the bottom of the piece on the website. And I am not convinced that *only* public-sector funds can be the answer to the "**equity gap**" problem (if I may call it that). I offer the following points / thoughts / suggestions as a contribution to a discussion I believe to be extremely important for UK plc. The points are numbered for convenience if anyone wants to join in – not to denote order of importance.

1. Imagination, Creativity, Innovation and Enterprise are for me, at the heart of economies that promise success. To expect that the "creative and inventive phases" of a new development / technology / business can be completed and "shipped off immediately elsewhere" is simply not feasible – and highly undesirable even if it were possible. Technology Transfer, the transformation of ideas into bench models, then into prototypes and working products has been shown to be done best, if ever effectively, close to the source of manufacturing. Yes – Plastic Logic is setting up it's scaled up production in Dresden for reasons of manufacturing economics. But what Plastic Logic has today is the result of many years of development, prototyping etc, and a very large amount of equity financing was raised by that company, from University spin-out and start up times, so it was NOT starved of early stage money. It is not the kind of case Jonathan Kestenbaum is referring to.

Many creative ideas, plans for companies etc would never get anywhere at all if the early stages cannot be taken forward at the point of invention. There may be cases of folks going to Silicon Valley and starting up – but they don't all succeed – by any means. Many fail there too. And there is within the hearts of many "good British men and women and true" the desire to live in their home country and contribute to the local economy. Last week I attended an outstanding conference in Slovenia, where amazingly Business Angel activities and new early stage venture funds have sprung into

being in no time at all, and met a wonderful young entrepreneur who DID go to Silicon Valley, to learn and “*shamelessly steal the best ideas to bring home to Slovenia – because I wanted to start up something successful here*” – and he now has a small, thriving, very Hi-Tech company and recently organised a conference in Slovenia related to his industry and business – and leading practitioners came from twenty countries – including India, China and Japan – to work with him. Motivation of entrepreneurs is not ONLY about \$\$\$\$\$. This young man is not “a nutter” or an isolated case.

And are we to lose those qualities of Imagination (Albert Einstein told us “***Imagination is more important than Knowledge. Knowledge is limited, Imagination encircles the World*** “ Imagination, linked to the ability to Innovate will surely only be encouraged if entrepreneurs can see the prospect of complete development, over time of their ideas and inventions into real things – which may eventually be absorbed into the totality of the Global manufacturing and distribution systems, may be scaled up in China or India, but, experience tells us that transfer and scale up can only happen at certain points in the complete cycle of product development and transfer to manufacturing.

We already see in China and elsewhere the rapid development of capabilities to handle technology transfer more and more effectively. And we see China, India and Brazil, to name but three, investing more and more in research. This is a positive trend. But it doesn't mean that all imaginative research and the conversion of research into economic tangibles will ALL move out of Europe and North America and across the world.

Having quoted Einstein at you all – let me leave this part of the topic with my own words of hope and optimism, and remind you of greater and more inspiring words – spoken by George Bernard Shaw – to a young man who was boring him with a barrage of arcane questions. GBS said... “***Young man – you look at things and ask WHY ? – But I dream of things that never were and ask ...WHY NOT?***” The day people stop asking “**Why Not**” in the context of imaginative but difficult to do things in our country and believe it “will be

all right” if it is all done elsewhere, would indeed be a dark and sad day !

2. Now to the vexed question of Early stage “*Equity Gap*” Funding , and to Jonathan Kestenbaum’s proposition about more availability of public funds for this purpose, it is worth remembering that the till is not entirely empty. Think of :-

- R and D Research Grants
- R and D Tax Credits
- EU Grants of various kinds (hard to get maybe – but ££££s are there)
- Proof of Concept money
- Various sources of funds from DTI / D Health and now announced by MOD (press release attached)
- University Challenge Funds
- Early Stage Growth Funds (for investing alongside Business Angels)
- Enterprise Challenge Fund (ECFs)
- NESTA funds (NESTA already invests in early stage companies)
- Funds for Environmental projects
- Small Firms Loan Guarantee Scheme – private money, but 80% secured by government backing in the event of failure of the company
- More – which the writer has overlooked.

And – when it gets to private money , despite recent adverse changes in Capital gains Tax – most adverse for private equity investors who can no longer get down to 10% as before – we have :-

- Family, Friends and Fools
- Business Angels and related offshore funds
- Debt Finance) some IS available – some from private individuals / small lenders – not just banks)
- Business Angels – individuals and Groups
- Corporate Investors
- Corporate Funds) venture style)
- VCTs
- VCs – there are some smaller organisations

3. Things that might be done – practical things, to optimise what is available and give knowledge and access to those needing it. The “*Equity Gap*”, it is suggested, can, in some cases be “*a knowledge gap*” “*How can I access what I don’t know about?*” The entrepreneur might ask. And, “*how do I prepare to meet investors and can I present myself adequately ??*”

One suggestion that Jonathan and NESTA might be able to help with – if it doesn’t already exist :-

- ✚ Create a web based information centre ALL about “**Early Stage Finance**”. Information, advice, addresses, people to contact, e-mail and web addresses etc. And authoritative written pieces on key aspects of the subject – written for the entrepreneur. And, good Case Studies. How about the inclusion of an “**Expert Mentor Panel**” And there can be more creative PRACTICAL ideas for additions. It must be well hosted and regularly updated.

And, beyond what NESTA alone can do, find the means to:-

- ✚ Make available more “Investment Readiness” workshops “The Venture Academy” model is well developed and has been used all over Europe. The attached shows how it has been done at School of Entrepreneurship and Business, University of Essex.

And, to make more effective use of Business Angels Finance

- ✚ Encourage closer collaboration between Business Angel Networks – and more Angel Syndication. Some of us have started the process of International Network connections to start more effective “Cross Border Angel Syndication”. An attachment shows notes on progress at a recent international teleconference at which this was discussed. UK, France, Germany, Italy, Slovenia and Luxembourg – all were engaged in this exchange. We have examples of UK companies presenting to Sophia Antipolis Business Angels, and companies from Leuven and Eindhoven coming and presenting to UK Angels. And there are more.

Like so much in life, things we want rarely “happen”. They are “made to happen”. Whilst we all work to create more Seed Funds (how we lament the demise of the genuine Seed Fund such as CRIL – Cambridge Research and Innovation Ltd use to be). But there are few now, and it is hard to envisage this will change. Some of us are working hard to make the most of what is on offer and to squeeze more onto the table. As a friend of mine once said to me *“If you have Lemons – make Lemonade”*

Anyone wanting to join my “ramble” – who wants to do so with positive intent – and has other ideas to offer – come on in ! “Bemoaning” is popular in Britain, but it doesn’t change much if anything.

And, if we think the fiscal situation needs changing again – let’s make our case strongly. More public funds might well help, if they are pout in the hands of folks who know how to manage funds – and there’s another point to be considered. And, ending on a positive note – let’s not forget that The European Investment Fund is still in existence – reputedly to encourage new “Early Stage” venture funds to form.

As for 3i – I never thought of them as a “start up investor” – some early stage – yes. Start ups ?.....maybe someone could point me to an example of a 3i funded start up. It would excite me.

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Telephone numbers may be provided to polite communicators !

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