



## WEBINAR ANDREA DI ANSELMO ON THE 15<sup>TH</sup> OF SEPTEMBER 2011

### HOW TO APPROACH INVESTORS

For those intending to approach investors, it is relevant to understand the main criteria investors use to make the selection of projects and in what they are interested in them.

Below we can find some key points common to early stage investors:

1. Team (+)
2. Market
3. Clear and defendable Business model
4. Intellectual capital
5. Growth potential (High)
6. Availability of exit route
7. Return on investment (capital gain)

#### Key questions to be answered are:

1. Is the team of sufficient breadth, balance and quality to make its ideas happen?
2. Which roles will the team members play in the venture?
3. Are the team members fully dedicated to the venture and their roles in the group?
4. Will the ego of the founder(s) get in the way of success?
5. Is the knowledge protected? If yes, how?
6. Is the team focused on its target market?
7. Can this venture achieve a leadership position in its market?
8. What is the business model?
9. Is the business defensible from competitors?
10. Is the business opportunity as presented both highly attractive and clearly realistic?
11. Does the team have a clear plan to spend the investment money it receives?

12. What is the amount of up-front capital investment required?
13. What is the expected time and amount of pay-off to investors?
14. How is this business going to be around and a real world winner in 5 years?

So, the golden rules for start up companies and/or would be entrepreneurs are:

1. **Choose the right investor** (do not talk to strangers!!)
2. **Get prepared for Q&A** (be prepared to be interrupted)
3. **Do not act as the smartest guy** (even if you are..)
4. **Leave an impression!**
5. **Deliver the right information:**
  - Who you are
  - How much money you need
  - Why investors should believe in you
  - How you have planned to spend the money
  - Exit strategies and pay back
6. **Underlying takeaway message:** keep it high level keep it clean; do not drown in details (but product demos are great!!)
7. **Take small bites but show big appetite:** All investors ask themselves whether the business they are seeing is a feature, a product or a company. As an entrepreneur, you need to be able to sell a vision while focusing on near term milestones. Start small and focused but have a plan to get big.

## **Q&A session with Andrea Di Anselmo, META GROUP**

**1. The BCreative platform contains different funding mechanisms including crowd funding, project donations and a directory of national and European grants and funds. How can the Intellectual Property Rights (IPR) fit with reference to such mechanisms? In particular, regarding the funding, how much can a company handle the ownership of the IPR? Or how is this done with respect to the sharing between the company and the donor?**

In all the financial mechanisms (grants, funds, equity, crowd) the ownership of IP always remains of the inventor/artist.

Furthermore in case of equity investment the owner is again always the company, even if, by becoming shareholder, the investor could “share” the value pulled out from the IP owned, but the IP is locked in the company, part of its intangible assets.

One thing is getting the debt financed (getting a loan) and pay it off; another thing is the IP issue.

As far as the crowd mechanisms are concerned, the framework is totally different with reference to ownership of IP and disclosure of critical issues. Crowd funding implies the sharing of ideas published on the platform and available publically and before getting access to this kind of finance you need to have clarified all the IP issues.

The service providers need to have a license from the inventors to publish information.

**2. Are there particular CI subsectors which have relatively higher success in obtaining finance than others?**

According to a recent study<sup>1</sup>, so far any sectional breakdown for VC investment in creative industry is not available (neither EVCA nor BVCA identified the amount of VC investment in CI).

This means that so far there is a lack of recognition of this sector in the VC field. While EBAN established a category for creative industry and, in 2008, 23% of Bas investment in Europe was devoted to this sector (around 750m euro).

So far in Europe for the creative industry are available:

- 30 specific equity and finance schemes
- 32 specialist national/regional funds dedicated to film and audio-visual

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<sup>1</sup> Source “Mini-Study on the Access to Finance activities of the European Creative Industry Alliance”, Jenny Tooth Director, Angel Capital Group in conjunction with Greater London Enterprise, January 2010 – DG Enterprise and Industry EU Commission

Some VC funds seem to focus more on Creative industry subsectors such as: Digital IP, Low Carbon digital content (for films, TV etc), Fashion.

So the film and audio-visual sectors appear to have more dedicated financing resources, sectors that are more traditional and experienced so it is easier to evaluate their capacities, especially banking systems.

### **3. Which form of financing works better for particular subsectors?**

As for the innovation field, creative projects have difficulties to get finance from traditional financial operators. In any case the suitable financial tools depend mainly on the features of the financial need such as: typology of business, amount of money needed, IP issues. For example, for all the subsectors where the investment is often big (i.e. gaming, film, audiovisual) equity funds appear to be more appropriate.

More in details:

- grants: regional incentives could be useful in the beginning and/or when you need around 60.000 euro, also if limited to the “de minimis rule”. The geographical proximity is a strength for this kind of measures;
- debt capital (loans): the main issue is related to guarantees, so schemes to co-guarantee and facilitate access to loan are suggested;
- business angels: they are very important to build up a partnership with the team to facilitate the further access to finance;
- crowd sources: a very interesting mechanism to access to initial resources to demonstrate market grip, to set up a filtering process

Risk capital is an option for fast growing projects with innovative business models, looking for an important amount of money.

### **4. Which factors could be controllable by CI firms and could increase the possibility to obtain finance?**

Key sensitive factors when investing in CI firms are:

- the entrepreneurs: people from the creative industry are generally focused on developing products or services but with very weak management skills and often they tend to create a “One Man band” company.

- the business model: often in creative businesses there are, as well, new business models that are not always clear to banks or traditional investors. So it is fundamental to make them easy to understand and to demonstrate their solidity, as a mean to increase the possibility to obtain investments.
- intellectual property: many creative projects fail to gain sufficient protection either through ignorance or inertia. Understanding IP and how to protect your creative business is a core requirement for any access to finance support scheme.