

Venture Capital Funding Overview

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www.catapult-vm.co.uk

Agenda



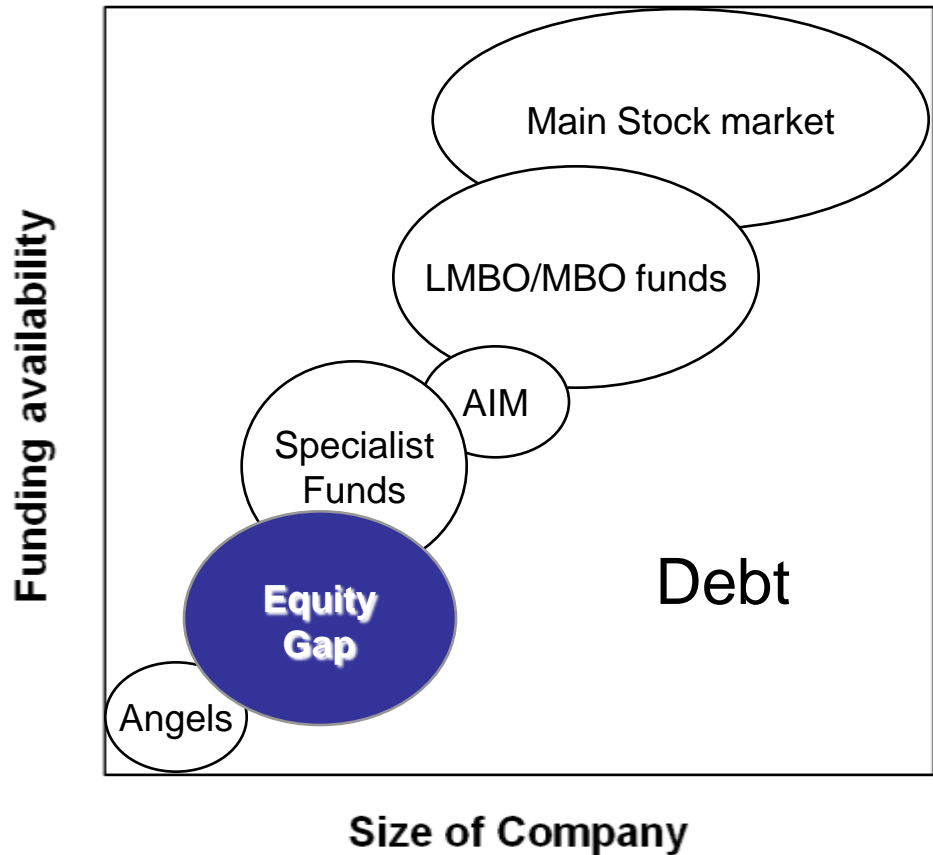
- Introduction to Catapult
- A view of the UK funding market
- Why Venture Capital?
- What can you expect from a VC?
- What is a VC looking for?
- What is the assessment process?
- Summary

Introduction to Catapult



- The largest venture capital house in the Midlands
- Committed to the region
- Offices in the East and West Midlands
- VC funding between £200K and £2M equity requirement
- Manage three Venture Capital Funds
- Total of £80m of funds under management
- Current Portfolio of 47

A view of the UK funding market



- Business Angels typically provide £10k to £250k
- Equity gap £250k to £2-4m
- Equity gap funders include seed funds, Government leveraged funds and Venture Capital Trusts
- Specialist funds - provide larger equity amounts in specific sectors
- AIM – for smaller listings; currently difficult to access
- Leveraged MBO – large deals; but limited debt available currently

Venture Capital – what is it?



- Equity capital for earlier stage, high potential growth companies
- Ultimate goal is to generate a return via a realisation transaction (most commonly a trade sale, occasionally an IPO)
- Historically focussed on IP rich companies in specific sectors
- VC investing is high risk, high potential reward
- Risk is diversified by holding a portfolio of investments
- Where does venture capital come from?
 - High net worth individuals (VCTs)
 - Institutional investors/Public sector

Venture capital – when and why?



- When: all stages of a business' lifecycle
 - Start up / early stage
 - Development capital
 - Acquisitions
 - Transaction
- Why: “if the bank won't fund it, it's an equity risk”
“smaller slice of a larger pie”

Venture capital – when and why?



Friends & Family

Quick decision makers

Flexible re timing of returns

Limited capacity

Risk of relationship breakdown

Venture Capital

Partner to share risk

Further funding

Flexible re timing of returns

Strengthens balance sheet

Comfort for banks / suppliers

Relatively expensive

NED support

Debt

Relatively cheap

No equity requirement

Cash hungry

Fixed commitments

Risk averse - security

Personal guarantees

What can you expect from a VC?



- Requirement for an equity stake
- Introduction of a Non Executive Director/Chairman
- A comprehensive formal Investment Agreement
- An interested investor (level of involvement varies by VC)
- Monitor and challenge performance
- Ability to provide further funding if required
- Help and advice in delivering an exit

What is a VC looking for?



- Strong management team (may need augmenting)
- Growth sectors favoured
- Business capable of:
 - i. sustainable USP/competitive advantage
 - ii. substantial growth
 - iii. achieving an exit within 5 years
- Scalable business model
- Good business plan and financial forecasts
- Honest assessment of risks
- Return commensurate with risk

Management Team



- Clear leader (buck stops here!)
 - Decision maker
 - Ability to convey why the investor should invest
- Well rounded team – commercial, technology / R&D, sales & marketing, operations, finance
- NED to challenge, interface, understand VC requirements
- Proven pedigree
- Committed – time and £

In reality:

- Ideal team unlikely to exist in early stage investing
- VCs are used to multi-tasking teams and to helping to bridge gaps

What is a big turn off?



- Lack of commitment from management team
- Unrealistic timescale to market / milestone...leading to
- Unrealistic funding requirement
- Lack of clarity on strategy / routes to market
- Lack of clarity on investment requirement
 - How much, when and what for?
- Dismissing risks
- Long, expensive lead times to revenue / profit / exit
- Turnover as a percentage of market size!

What is the assessment process?



- Initial assessment via business plan
- Presentation / elevator pitch to VC
- Initial due diligence
- Terms negotiated
- Introduction of Non-executive Director
- Significant further due diligence
 - Management, commercial and financial
- Investment Committee approval
- Legal process

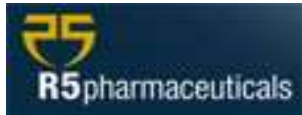
Timescale
12 plus
weeks

Some investment examples



Atlantic Link

- E-learning software business
- Investment of £0.5m in September 2008
- Investment to enter US market
- Sold to Kaplan IT Learning in March 2010
- Minimum IRR of 42%



- Clinical trial drug formulation and manufacture
- Investment of £0.25m in December 2006
- Investment to complete facility and grow sales
- Now trading at significant sales level
- Highly profitable company



- In-building wideband wireless systems
- Investment of £1.2m in February 2010
- Investment to fund sales roll out
- Unique IP with global potential
- Joined existing investor syndicate



- Low energy cooling systems
- Investment to date of £1.3m in 2 rounds
- Carbon Trust on board as new investor
- Investment to expand sector applications
- Significant new blue chip customers

Summary



- VC funding often essential for ambitious growth companies
- Research the VC funding market and identify best partners
- Build appropriate team
- Evidence key assumptions in business plan / forecasts
- Long term relationship, should be:
 - a 2-way process; and
 - a mutually beneficial partnership