

# The American Investor's Advice for Innovative Companies in CEE

April 8, 2013



# VC in Europe

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# Venture Capital: US vs. EU

## Europe Lags Behind US in Terms of:

- # of Investments
- # of VC/PE Funds
- # Serial Entrepreneurs
- IRR and Cash-On-Cash Returns
- Exits (IPO, Trade sale and Others)

## But EU is hanging on:

- No Difference in the Probability of an IPO
- *US Has Only a 9% Higher Probability of a Trade Sale*
- EU Markets: UK is the Best vs. Germany and Benelux is the Worst

*Source: Dow Jones and British Private Equity & Venture Capital Association: "European Venture Capital Myths & Facts" – January 2013*



# Differences: USA vs. EU

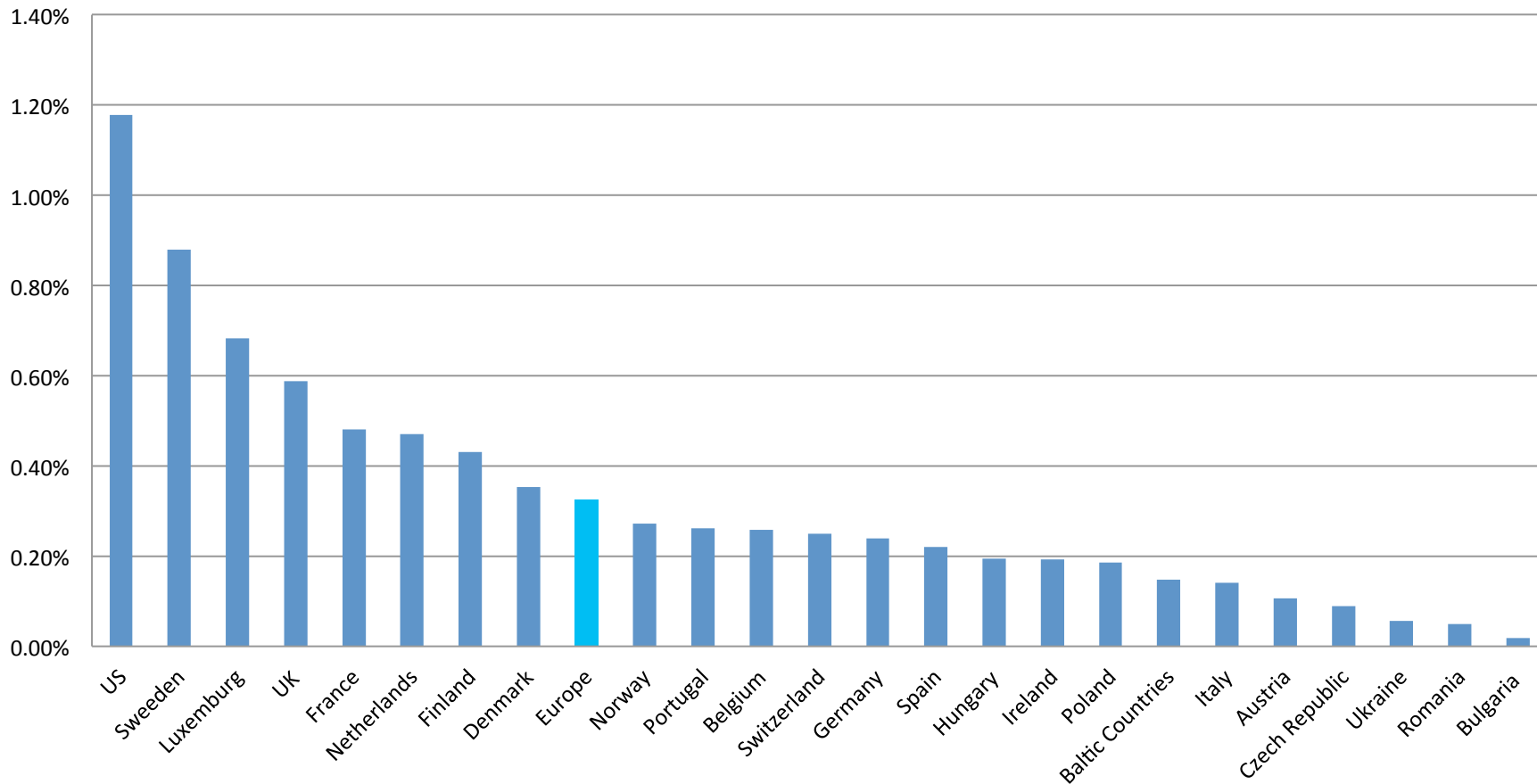
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- US Has More Serial Entrepreneurs and Talented Teams
- US Has More Investors with Specific Industry Knowledge
- US Has More Start-Ups
- Serial Entrepreneurs Are Equally Likely to Succeed
  - BUT In Europe 15% of Founders Are Serial Entrepreneurs While in the US 35%
- No Difference in Performance for VC Investors Based on Experience

*Source: Dow Jones and British Private Equity & Venture Capital Association: "European Venture Capital Myths & Facts" – January 2013*

# VC Investment: US vs. EU

PE and VC Investment as Share of GDP (2011)



Source: World Bank, EVCA, PREP Analytics, National Venture Capital Association

# Innovation or Execution?

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OR



# Main Differences in the Approach to Innovation

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## Due to ENTREPRENEURS:

- Entrepreneurs are Fewer and Many Are From Big Companies
- More Interested in Getting Cash and Perks Rather than Fighting for Equity Value Growth – Vacations, Company Car, etc.
- Fear of Failure – Social Pressure and the Lack of Personal Bankruptcy

## Due to INVESTORS:

- American Investors Focus More on the Entrepreneur While European Investors Have a More Financial Focus
  - Financial Focus Meaning: Investors Seek Profitability Early Versus Giving More Capital to Allow Entrepreneur to Succeed by Enduring Unprofitable Growth Phase
- More Risk Averse
- Smaller Fund Sizes

# So What Forms a Good Entrepreneur?

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- Sacrifice, spirit, focus
- Ability to Fail
- Understanding of Market Needs
- Fast to Market and to Growth
- Availability of Experienced Mentors, Advisors and Support – From FFF to Institutional Investors



# And What Characteristics Does a Good Investor Possess?

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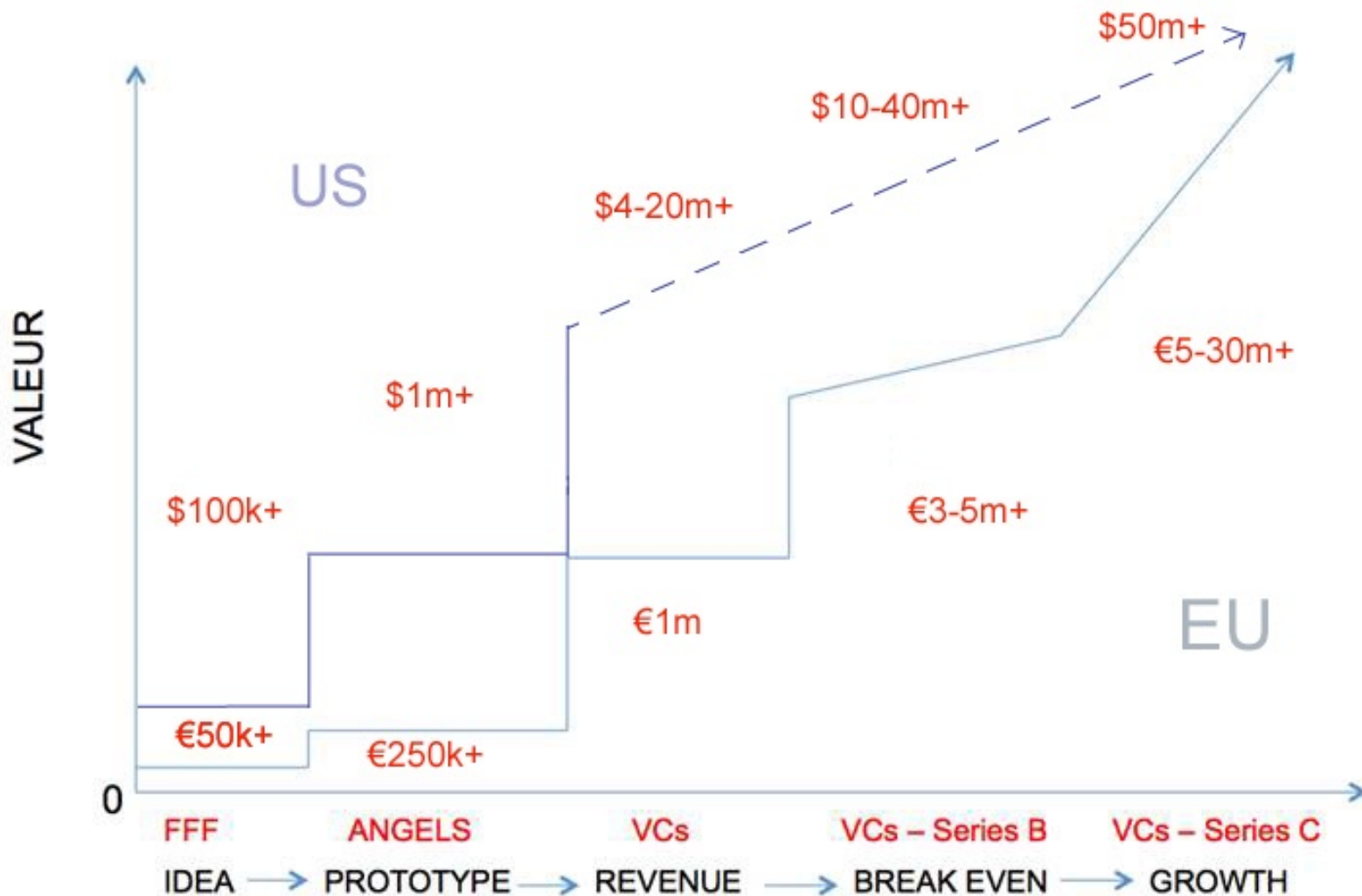
- Deal Experience
- Industry and Operational Experience
- Proactive Involvement in Investments to Help Business Grow
- Relationships in Silicon valley and Broader Markets
- Ability to Syndicate Deals and Provide Follow-On Investment
- Good Understanding of Structuring – i.e. Aligning Interests, Preferred Shares

# Valuation Differences: USA vs. EU

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- Answer – Yes, But it Depends on Industry, Stage and Geography in Europe
- US is a “Shit Show” Meaning a Lot of Deals Getting Funding at Silly Valuations – Seller’s Market
- Europe has Limited VCs and Less Entrepreneurs. Most Geographic Markets are an Investor’s Market

# Funding Stages: US vs. EU



Source: iEurope Capital

# Advice to Entrepreneurs

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## Basis of a Good Business Model:

- Focuses on Value for the Customer
- Builds a Sustainable Competitive Advantage
- Does Not Build on State Procurement - Solely Market Driven
- Avoids Tax Evasion

Transparency and Good Communication with Stakeholders Decrease the Investor's Risk

# European and CEE Successes

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Heart of social media statistics



# Thank You

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