The American Investor’s Advice for Innovative Companies in CEE

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VC in Europe
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
- \textit{US Has Only a 9\% Higher Probability of a Trade Sale}
- EU Markets: UK is the Best vs. Germany and Benelux is the Worst

Differences: USA vs. EU

- 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

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?
Main Differences in the Approach to Innovation

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?

- 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?

- 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

- 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: eEurope Capital
Advice to Entrepreneurs

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

- Skype™
- Bluetooth
- Prezi
- TOP ELEVEN
- VATERA.HU
- AVG
- Socialbakers
- USTREAM
- LogMeIn
Thank You

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