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Dubrovnik, Croatia
23-24 May 2013

Collaboration and Strategic Alliances in the Promotion of Innovative Entrepreneurship

Collaborative arrangements between the public and private sector to overcome financial and other barriers to entrepreneurship.

A Swiss perspective

Pierre Kladny, MSc

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The current situation in Switzerland

- In 2012, 6% of the Swiss population was entrepreneurs (owner or manager of a company). This is known as the Total Rate of Entrepreneurship (TRE).
- As a comparison, TRE is 12% in the USA and 5.2% in France.
- 330’000 registered companies, of which 20’000 can be considered as innovative.
- 47% of existing companies are services to people (hairdresser, restaurant owner, etc.)
- 30% are corporate services (lawyers, consultants).
- 16% is in the secondary sector (industry and production).
- 7% are primary sector (agriculture).

Demographics

- Every year we have 13’000 new companies incorporated and about 11’000 are liquidated. The average growth of the number of companies is therefore 0.6%.
- The yearly net job creation by startups is 23’000. The yearly job destruction by failed companies is 43’000. The difference is in the hiring by existing companies (stable unemployment rate).
- The rate of survival of new companies after 5 years is 50%.
- About half of all companies in Switzerland have only one employee (the founder).

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Innovation in Switzerland

- Switzerland keeps appearing as the #1 or #2 in innovation statistics.
- It has one of the highest rate of patents per capita in the world.
- Switzerland offers outstanding universities and high level technical and engineering schools.
- Only in the Lake Geneva region, about CHF 1bn is invested in life science R&D every year.
- Government programs like CTI Innovation and CTI Invest have a total budget of nearly CHF 200m/year, and growing.
- Calls for Public-Private Partnerships are growing.

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But…weaknesses are present.

- 52% of all new enterprises have a weak development potential.
- Only 16% have a high or very high potential. The more high potential companies are in a given region, the more service companies are created in the same region.
- Very few startups create more than 5 jobs (<20%).
- Money for startups is scarce. In the 10 most important financing rounds for startups in 2012, none was made by a Swiss VC firm.
- Early stage venture fund raising has dropped from CHF 500m in 2009 to CHF 5.3m (!) in 2011.
- Only about 100 early stage companies have received VC funding in 2012.

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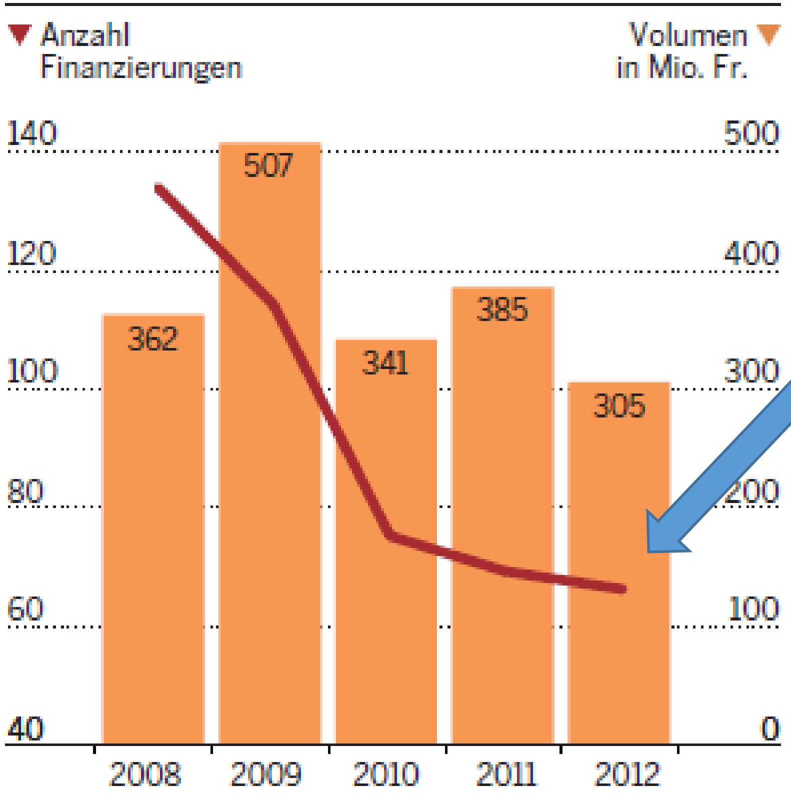
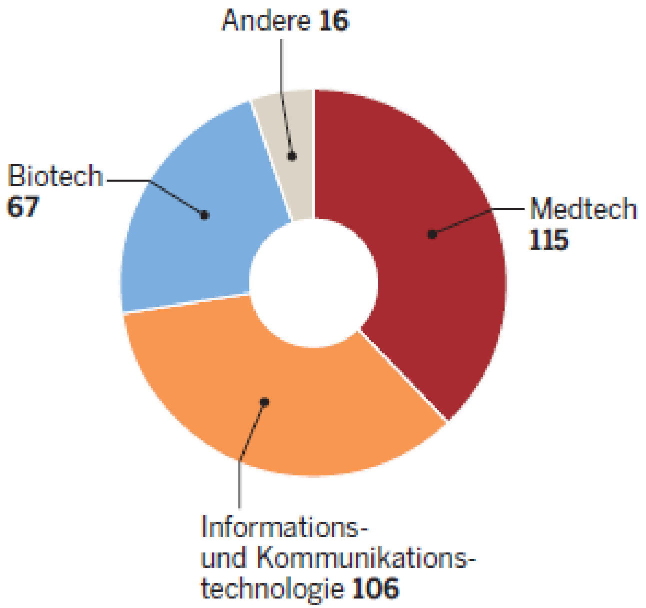
Swiss statistics



Quelle: Venture-Capital-Datenbank der Universität Basel, Seca

Volumes dropping sharply

Volumen der Finanzierungen von Jungunternehmen nach Branchen 2012



Quelle: Venture-Capital-Datenbank der Universität Basel, Seca

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The ecosystem

Academia

ÉCOLE POLYTECHNIQUE FÉDÉRALE DE LAUSANNE

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Kommission für Technologie und Innovation KTI

ETH Eidgenössische Technische Hochschule Zürich
Swiss Federal Institute of Technology Zurich

unitectra

UNI BASEL

Universität Zürich UZH

Universität St.Gallen

UNIVERSITÉ DE GENÈVE

CHUV

Coaching

>>venture>> Companies for tomorrow

CTI Invest

VENTURE KICK — KICKSTART YOUR HIGHTECH BUSINESS

Incubators

Eclosion Sciences de la Vie

EVA

FONDAZIONE AGIRE

http://www.defigestion.com

http://wpfsi.fongitseedinvest.com

Neode

Venture

Index Ventures

endeavourvision

aravis

BB Bellevue

BioMed Partners

emerald Technology Ventures

ABB

zühlke ventures

red alpine

novartis venture funds

Roche

inventages

Entrepreneurs

Angels & Foundations

FONDATION LOMBARD ODIER

GEBERT RÜF STIFTUNG — WISSENSCHAFT.BEWEGEN

Zürcher Kantonalbank

W.A. DE VIGIER STIFTUNG

BZ BANK AKTIENGESELLSCHAFT

VARUMA

b·to·v PARTNERS AG PRIVATE INVESTMENTS

Business Angels Suisse (BAS)

Muskelgesellschaft

S·E·C·A Swiss Private Equity & Corporate Finance Association
Schweizerische Vereinigung für Unternehmensfinanzierung
Association Suisse des Investisseurs en Capital et de Financement

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The ecosystem: annual budget

Academia

9bn

0.5bn

Coaching

1-2M

Incubators

1-2M

Entrepreneurs

Venture

180M+

180M *

Angels & Foundations

30-50M

Source: ,Aravis Estimates
* Swiss and foreign VC's without Corporate venture funds

S•E•C•A Swiss Private Equity & Corporate Finance Association
Schweizerische Vereinigung für Unternehmensfinanzierung
Association Suisse des Investisseurs en Capital et de Financement

A global European problem

- European innovation has a problem: the lack of private sector investors in venture capital. In 2007 Government agencies accounted for less than 10% of investment in European venture capital; by the first half of 2011 this had grown to over 55% (EVCA, 2013).
- During this same time period venture backed companies performed significantly better in terms of sales and employment growth than other, non-venture backed, high-tech companies.
- The overall venture capital industry has not, however, delivered competitive financial returns compared to other private equity investment stages.

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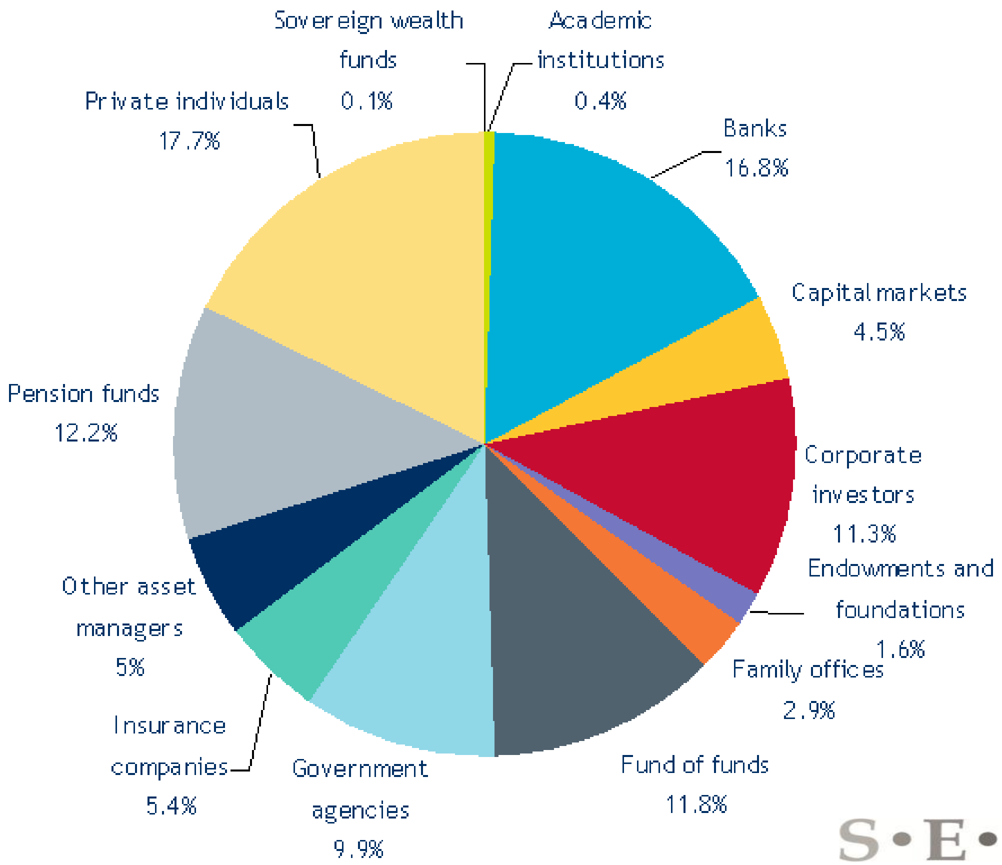
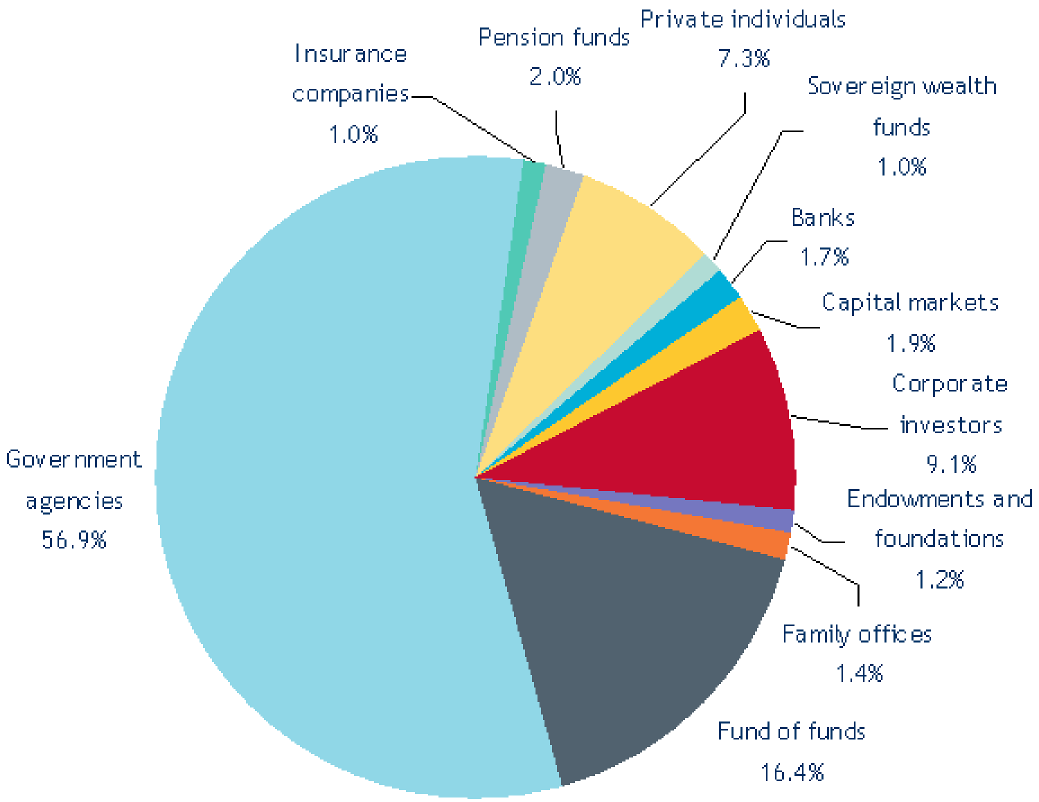
Evolution of venture financing in EU

2007



H1 2011



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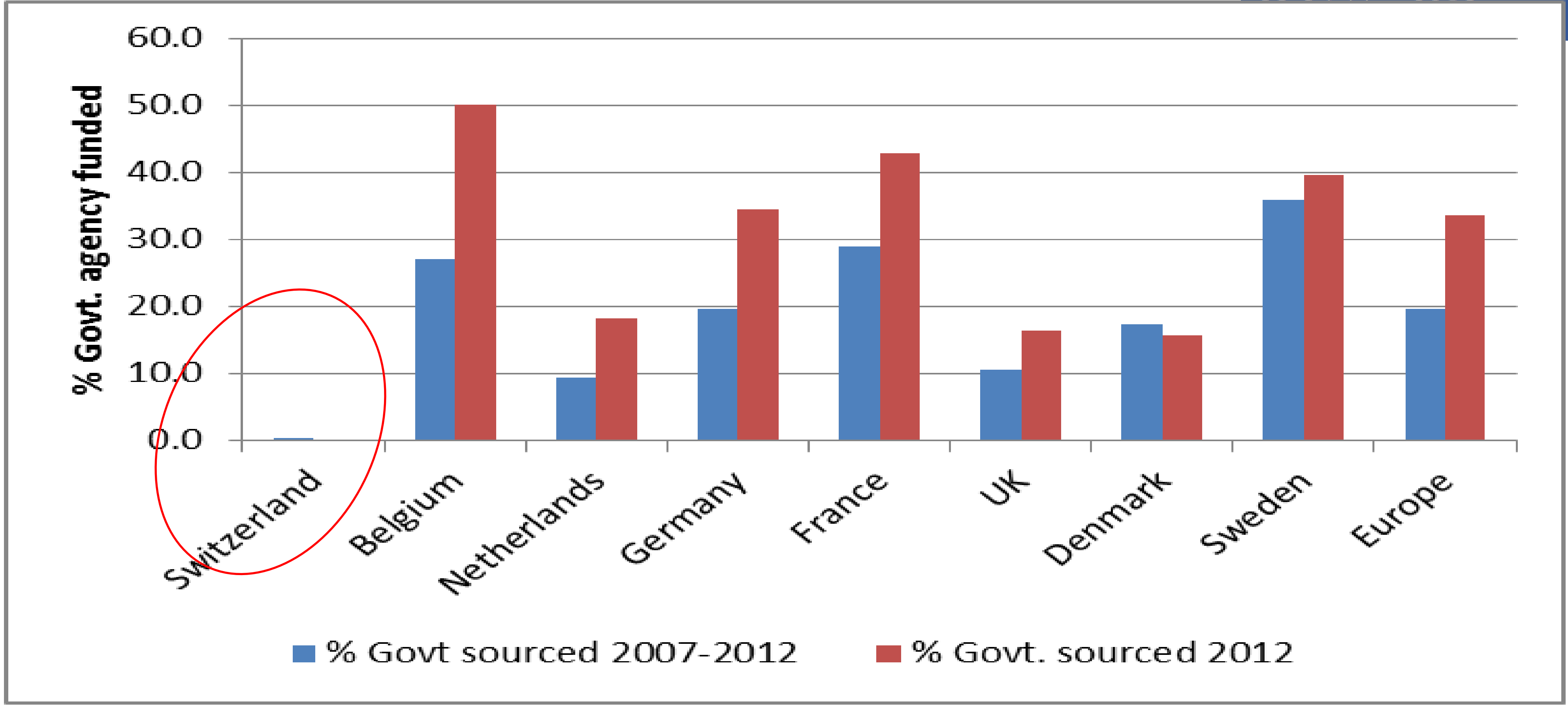
A problem for Swiss VC's



Source: Perep Analytics for EVCA

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Key issues to tackle in financing innovation

- Low returns in the past do not mean low returns in the future. Look at the US.
- Private investors will return when performance returns.
- Acceleration and growth can be provided by State-sponsored funds or PPP programs.
- Nonetheless, history shows that direct State involvement does not work and provides for inefficient use of funds.
- Indirect involvement is the solution, see Israeli program.
- Fund of Funds structure and professional fund management is required

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Barriers to innovative entrepreneurship

Barriers	Low	High	Comments
Financing			Critical point needs urgent solutions
Teaching of entrepreneurship			Lots of programs but not early enough (only at university level), too technical, not enough emphasis on role models.
Incorporation barriers			Relatively easy in Europe, could still be improved through the use of Web administration (should take less than a week)
Minimum required capital			Not excessive but could be improved through zero nominal capital and unlimited treasury shares.
Administrative barriers			To much administration and red-tape burden for startups. Governments tend to be overly eager to hit small companies with a lot of admin burden (VAT, social security, etc).
Public perception			Currently bad, entrepreneurs perceived as profiteers, greedy and unethical.
Bankruptcy laws			Encourage going concerns. Creditors are over-protected. Don’t punish entrepreneurs for failure.
Tax schemes and incentives			Too high taxation is a lot of countries, little incentive for angel investors.
Experienced entrepreneurs			They exist but are difficult to lure to new ventures, unlike in the rest of the world.

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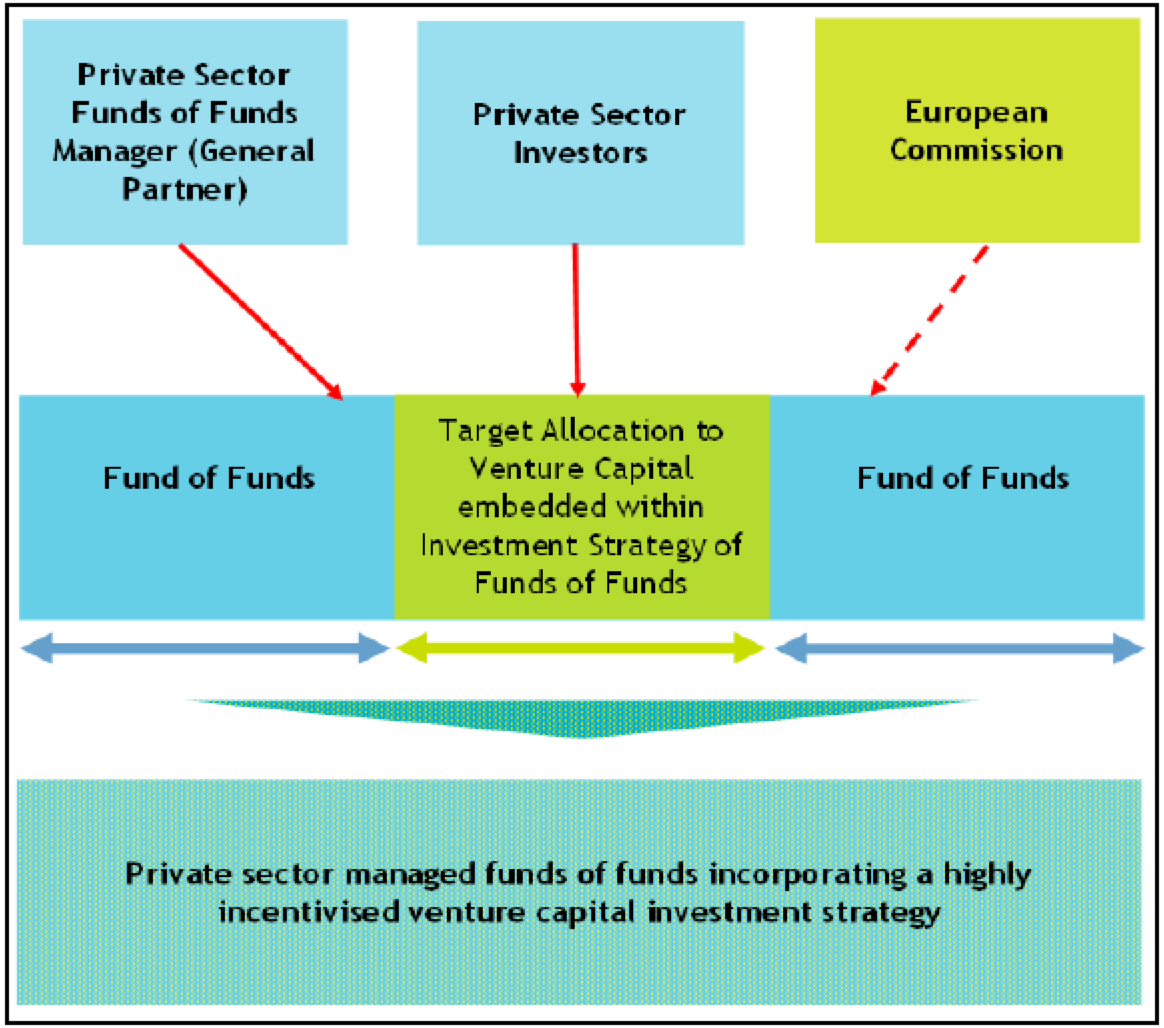
To do list

- Governments should encourage the development of VC funding for innovative startups, with an objective of 1% of GDP.
- Governments need to get actively involved (comparably to program YOZMA in Israel) in funding or co-funding VC activity <u>indirectly</u>.
- Direct funding has shown to be inefficient and a waste of public money.
- Tax incentives should be enacted to VC and angel investors.
- Technology transfer and adequate licensing schemes between universities and startups should be encouraged.

Proposed structure



Source: EVCA