

FIN-URB-ACT

Principles for financing and supporting innovative SMEs and urban economies

AGIT mbH
Havva Coskun
Head of "Consulting innovative Enterprises"
Aachen, January 2009

Principles for financing and supporting innovative SMEs and urban economies

Nearly 75 % of german SMEs report on financing problems!
*(This statement was given bevor the financial crisis,
current situation should be more dramatically!)*

Initial situation for financing Start ups:

- Capital needs already in (pre-) seed stage
- Especially young high-tech companies with high capital needs
- Financing by classic bank credits normally not possible or not sufficient!
- Young teams are not aware of a fundamental financing strategy
(The majority of them build the financing on the basic of random or only according to easy available financial resources)

Nearly 75 % of german SMEs report on financing problems!

Initial situation for financing SMEs:

- **BASEL II criterions and banking crisis in combination with underfunding equity ratios of SMEs**
- **Average equity ratio in german SMEs: 15-20% vs. SMEs in USA: 40-50%**
- **Financing by bank credits became more expensive and promisses are less probable**

Not aware on risk/venture capital possibilities!

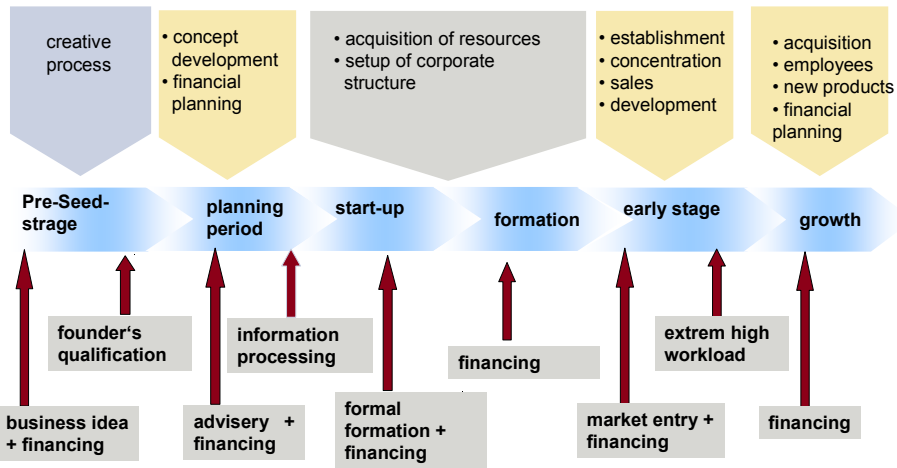
Deprecative thinking about giving off shares to other partners! (because of family based backround)

Reasons:

- **Absence of a mentality for alternative forms of financing and/or no knowledge about them**
- **Absent know-how in private equity financing (USA and GB have round about 10 years more experience)**
- **Incomplete knowledge about founding sources**
- **Missing experience in exploitation and akquisition of founding sources**
- **Problems with the valuation of capital need**
- **Delay by payout of agreed capital (for example public subsidies)**

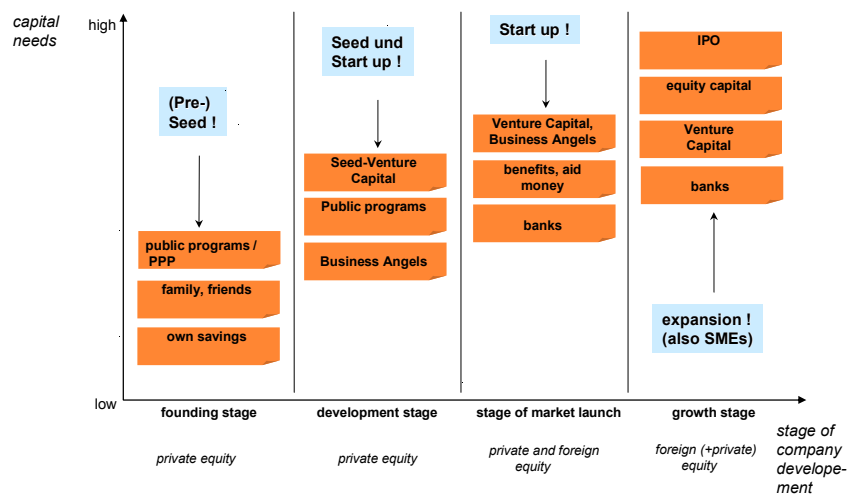
Principles for financing and supporting innovative SMEs and urban economies

Stages in process of formation



Principles for financing and supporting innovative SMEs and urban economies

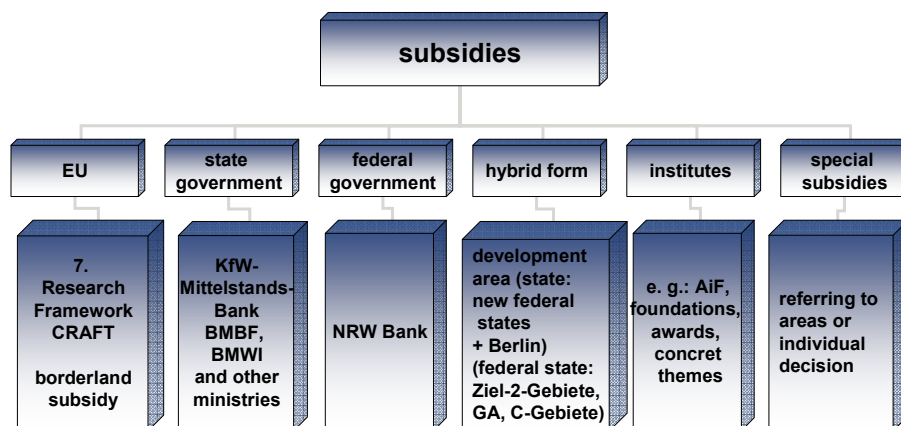
Founding sources for young companies in several stages:



What are the alternative forms of financing for SMEs?

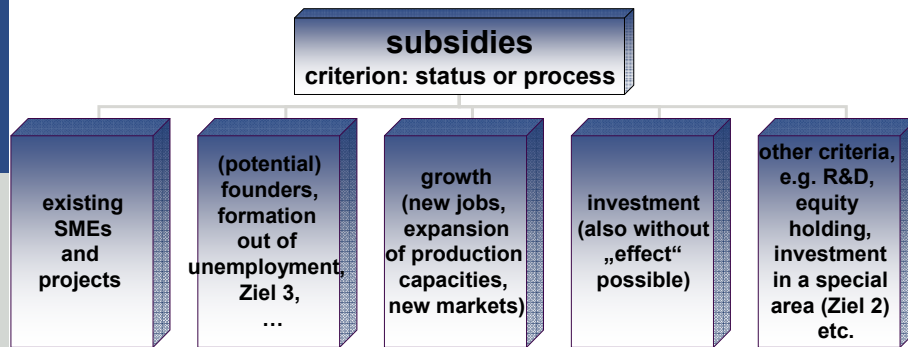
- Public subsidies
 - Unclear structure of public instruments:
 - Programs at the EU level, at the federal level, at the federal state level and at the regional level
 - Additional determination towards industrial sectors, targets groups and utilization of funds
 - Not possible to decide for an adequate instrument without advice
 - General regulations are not automatically effectively for the special case! To combine the adequate financing instruments requires very special know-how and experience!

Subsidies according to their source

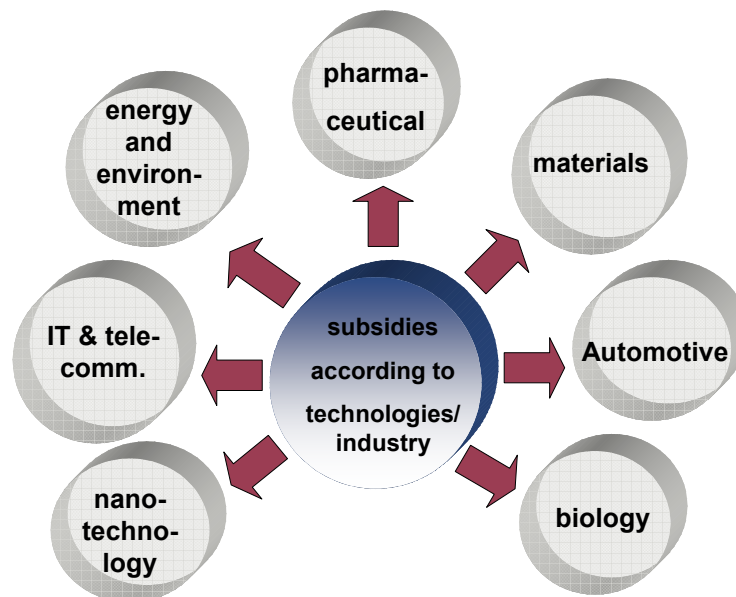


Principles for financing and supporting innovative SMEs and urban economies

Subsidies according to target groups



Principles for financing and supporting innovative SMEs and urban economies



Principles for financing and supporting innovative SMEs and urban economies

Examples for public subsidies:

- ERP Unternehmerkapital (mezzanine capital for entrepreneurs, junior financing)
- KfW-Startgeld („start-up-money“ for small projects)
- ERP Unternehmerkredit (credit for entrepreneurs for big investments)
- ZIM (cooperating R&D projects, cost of staff)
- Exist-Seed (BMW) (Subsidy for Spin-offs from Universities)
- SIGNO-KMU-Patentaktion (subsidy for (utility) patents)
- ERP-Innovationsprogramm (KfW+EU) (from R&D to market entry)
- Beratungsprogramm Wirtschaft NRW („advisery program“)

Principles for financing and supporting innovative SMEs and urban economies

ERP Unternehmerkapital

- Application:**
- Founding and stabilisation of SMEs
 - Subsidy for investment and job preservation
- Eligible costs:**
- Investment in Germany (real estate, factory and office equipment, intangible investment, warehouse, attendance at fairs, costs for advisory services, ...)
- Authorized participants:**
- Founders of a SME (to-be or in the last three years)
- Form and rate of subsidy :**
- Credit; max. 500,000 € per applicant
 - Duration: 15 years
 - Min. 15% of eligible costs have to be borne by applicant's privat equity
- Application procedure:**
- Application to KfW
- www.kfw-mittelstandsbank.de

Principles for financing and supporting innovative SMEs and urban economies

ZIM

- Application:**
- Common R&D projects between several companies or between companies and research institution
 - Intended market entry
 - Personnel exchange
- Eligible costs:**
- Products, proceedings, services
 - Investigations
 - Training courses, qualifications
- Authorized participants:**
- SMEs, research institutions
- Form and rate of subsidy :**
- Max. 250,000 € per SME per project
 - 35 % of eligible cost (45% in Eastern Germany)
 - Nonrepayable subsidy
- Application procedure:** Otto von Guericke e.V. (Aif)
Geschäftsstelle Berlin
Tschaikowskistr. 49
13156 Berlin
www.forschungskoop.de

Principles for financing and supporting innovative SMEs and urban economies

SIGNO-KMU-Patentaktion

- Application:**
- Increase of qualified applications for a patent by SMEs
 - Improvement of condition for patent's realization
- Eligible costs:**
- Patent research
 - Cost-benefit analysis
 - German and foreign application for an (utility) patent
 - Preparation of realization
- Authorized participants:**
- (founders of) SMEs
- Form and rate of subsidy :**
- 50% of eligible costs
 - Max. 8,000 €
 - Nonrepayable subsidy
- Application procedure:**
- Application by one of 31 SIGNO-partners in Germany
- www.signo-deutschland.de

What are the alternative forms of financing for SMEs?

Venture Capital, Business Angels, mezzanine financing

What means Venture Capital?

- Primary companies which are specialized in investment in other companies, is defined as risk-sharing-capital
- Middle or long-term investment
- Expect upper return in investment than in more conservative money investment (so higher risk of loss)
- Become shareholder in these companies (investment becomes private equity for the company!!!)
- Can get controlling and voting rights (lost of founder's autonomy)
- Can import management-experience
- Agreement of EXIT-strategies

What are the alternative forms of financing for SMEs?

Venture Capital, Business Angels, mezzanine financing

- VC can correct financial and personal deficits (private equity, risk sharing, management)
- Investors expect convincing corporate concept
- In Germany insufficient number of investors and institutions in this sector. In the past last 3 years German government and Federal government of NRW implemented funds targeted the seed phase on innovative companies (HTGF and NRW Seed Fond)

What are the alternative forms of financing for SMEs?

Venture Capital, Business Angels, mezzanine financing

But: Changes in the last three years

High-Tech-Gründerfonds (KfW) – public subsidy in seed phase (up to 500,000 €)

NRW-Seed Fonds (NRW). Conditions are basis on negotiations!
Depends on companies value/patent value

Hochschulgründerfonds (NRW)

Consequences for (communal) economic development:

Development of an „equity-capital-cultur“

- Most SMEs come out from a tradition of family business
- Approximation towards an Anglo-Saxon business culture
- Sensibilisation for privat equity financing strategies
- Information and coaching concerning privat equity
- More professional management (finance and controlling)

Consequences for (communal) economic development:

Development of advisory in possibilities of public subsidies

- Offer more transparency (simplification and coordination of all these (partial intersecting) programs)
- Offer support to acquire public subsidies
- Offer less bureaucracy
- Enable easier acquisition for SMEs

Consequences for (communal) economic development:

Establish more prospects of financing in Pre-Seed-Stage

Founders/young managers have to become more professional managers

- Corporate concept
- Know-how in financing
- Negotiating skills
- Involvement of corresponding strength

VIMECON GmbH – a practical example

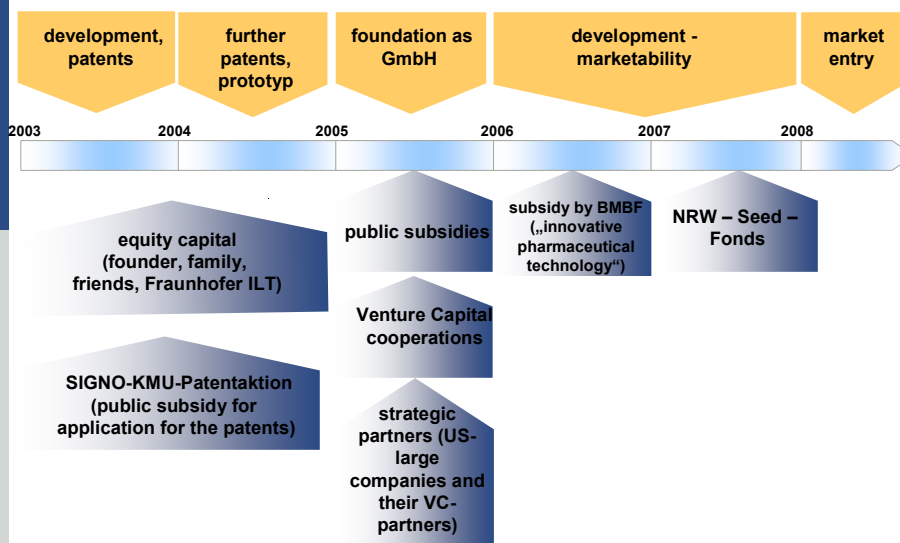
- Novel intracardiac catheter (based on lasertechnology)
- Founder: Dr. Markus & team
- Development partners:

University hospital of RWTH Aachen (Aachen University)

Fraunhofer ILT (Fraunhofer institute for lasertechnology)

In the later phase: other companies in the market field of medical technology

VIMECON GmbH - financing



Thank you for your attention!

www.agit.de
www.technologieregion-aachen.de
www.signo-deutschland.de
www.gruenderregion-aachen.de