

Financing start-ups:

Processes, criteria and lessons learned from case studies

**Bachelor Project submitted for the Bachelor of Science HES in Business
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Declaration

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Geneva, 31st May 2013

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Executive summary

Behind every business, there is an idea; for realizing it, investment is needed. This thesis focuses on a particular type of investment, the one related to start-ups and venture capitals.

The most brilliant idea will need to have some capital investment to be launched. The difference compared to ongoing businesses is that a new business implies a higher risk, which cannot be measured with the usual criteria used for an existing business. Therefore, investment in start-ups can be analyzed as a special type of investments, which I will describe in this thesis, based on literature review, desk research and real cases studies. I will draw some conclusions and propose some criteria for generic guidelines to help investors as well as entrepreneurs looking for funding.

This paper aims to identify the key success factors for successful business stories. Even though it focuses on innovative and futuristic businesses, it can also provide some good advice and tips for entrepreneurs in any type of industry.

The analysis will focus on the Venture Capital industry since it is the main source of funding for start-ups, being the most significant and active shareholders of the companies in which they invest and influencing their development strategies. Their investment is known as “risk capital”. While they cannot avoid risk, they assess the level of risk to decide their investment. World-wide recognized companies such as Skype or Microsoft were successful thanks to this type of investment

Investments in start-ups are organized in different steps and the period of investment is usually longer than for a traditional investment. They face much higher potential risk, due to the uncertainty associated to the success of the investment, but it also implies a much higher potential yield for the investment. A four-step model is used as a reference for start-ups investments. This thesis analyzes in detail the four phases of the investment process and includes a clear identification of the factors to be considered at each stage.

The different types of investors involved in the investment process are described in the first section, illustrated by real life case-studies, with risk venture companies based in Switzerland: Endeavour and Index Ventures. In the following section, real case-studies of start-ups are described, based on personal interviews with the founders of Mindmaze and Aleva Neurotherapeutics. The last section is a guideline for entrepreneurs highlighting the key elements learned during the research.

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Introduction

Nowadays, the world is facing a global challenge concerning the unemployment rate that is growing in many industrialized countries. Over the years, more and more people are being caught in systems that do not create enough employment for everybody. The issue of finding work is sometimes solved by becoming an entrepreneur.

Unemployment affects now a labor force which is often overqualified compared to the working opportunities that the current labor market can offer to them. In the recent past, people could move and find work abroad, but in the current situation companies are cutting budgets and unemployment rates are increasing in many countries. People seeking employment have to emigrate in complete different economic environments, far away from their homes, to increase their job opportunities and career development. As an alternative, some of the high-level skilled unemployed people think of creating their own companies, and need funding for that purpose.

The real problem is how to create new employment opportunities if there is no willingness to finance new companies? The banking sector, especially the financing sector, is damaged by the recent financial crisis. If banks do not finance new companies, no new works are created, unemployment increases, the economy slows down and the economic cycle enters into a vicious circle.

The main issue for start-ups is the 3-years based analysis to assess their solvency made by many banks when an entrepreneur asks for a commercial credit. The bank will request a proof of the business' profitability by checking 3 years of its past accounts, as part of the decision-making process to grant the requested credit.

To face this issue, investors' groups have been growing around the world, such as Love money or Angel investors. However, the most famous and the most requested are companies called "Venture Capital". They provide the most risky capital of a company, this is why this capital is called Risk or Venture capital. This capital is the ground of many new businesses.

Start-ups are the most suitable to search for new channels to find investors, and nowadays venture capital investments are becoming famous and appealing. Venture capital investors represent a key partner for many start-ups around the world. They do their own financing process by investing in start-ups looking for external funding.

The investment can be done at any business stage. Some companies are already established, some others are still just "seeds". This type of investment is not new, but the situation post-crisis is increasing the need for entrepreneurs to search for new ways of financing if they want to have a solid ground for their business.

Venture Capital companies (VCs) provide risk capital if they consider the business idea as being valuable. They believe that by assuming this risk they will contribute to the development of a successful company, achieving a “win-win” situation and positive returns on investment. Start-ups will then have sufficient funding to develop their business and the VCs will benefit from their profits.

This type of investment is also done by private investors using private networks (families, friends, fools) or investment funds for start-ups (crowd funding). Those different ways of financing are not new but their business is increasing year by year. Nowadays, we can find websites, investment funds or even companies doing fund-raising for start-ups as their main business. Some of them are behind worldwide successes.

The globalization effect is turning our world into a little village and people are used to consume the same kind of products. This effect is similar in the investment world. Multinational companies are everywhere and traditional investors prefer to invest in already established and recognized companies. However, this kind of investment is not always the best one, in terms of profitability and sustainability. Some people prefer to invest in new ideas, or little companies that need investments to develop their projects. This can be a profitable investment, while representing an open door for new jobs and fostering the development of new technologies and new products.

Every company in the world started one day with an idea. Almost every idea needs money to be achieved. In the past, every big company of today was a small start-up working and believing strongly in its own idea. Today, many of those companies are big players in their own industries and their reputation is already established. However, for most of them, their success is not only due to a brilliant idea.

Behind the idea, there is always the company's funding. This funding can also be called the company's capital, and this capital is often provided by external sources. This capital is a key source for the development of a company, as it provides for instance the opportunity of investing in human resources or new equipment. This capital is not always available and in many cases entrepreneurs need to look for external sources of capital.

The Venture Capital industry is a part of the Private Equity industry (PE). Some Private Equity Funds (PEF) specialized in Venture investments had very high return on investments during the late 1990s. These success stories helped to increase the profile of the industry. Despite the amount of institutional investments, the PE investments decreased during the crisis due to difficulties to raise funds.

PE investments follow specific investment strategies and the type of financial products used depends on the investment stage of the company. They can invest either in start-ups or in mature companies. Usually, the companies dealing with the PE industry are looking for capital while, for different reasons, traditional sources of financing such as banks or public institutions are not available.

Two types of PEF are available in the market: the Buyout funds and the Venture Capital funds (VCFs). They are close in terms of management and investment period. However, the Buyout funds focus on already established and mature companies. VCFs focus on young companies. Their main difference is the type of funding: Buyouts use debt and equity as financing, Ventures never use debts.

As this paper focuses on how to finance start-ups, I will concentrate the analysis on the Venture Capital industry. They are usually significant and active shareholders of the companies where they invest. Their goal is to influence the companies' strategies in order to help the evolution of their portfolio thanks to their high degree of control. Compared to the other modalities of traditional investment, PE's customers have a better access to the information of the companies of the funds where they invest. This type of investment is much more transparent than the large majority available on the market.

By investing in the VC industry, you invest in start-ups that will create jobs, pay wages and contribute to the economic development. The National Venture Capital Association (NVCA, leading trade association of Venture Capital in the US) states clearly its aim to promote job creation and economic growth by helping and supporting entrepreneurs to turn ideas into real products for the future.¹ VCs support entrepreneurs willing to create jobs and change the way we live and work. NVCA reported in 2009 some statistics: 11% of private sector jobs in the USA originated from companies supported by VC companies and their revenues represented 21% of the GDP. They are becoming a lung for the private sector economy and their market opportunities are increasing year by year.

The VCs' investment process involves three main players: the VCs, their portfolio's start-ups and the investors. The start-ups apply for funding, the investors bring their money and the VCs manage both sides. They are in the middle of the process, they invest the money, but they also provide support and advice to their start-ups. This is a main characteristic of this type of investment, the money is not all. There is a unique possibility of helping the investment to grow in terms of real added value by coaching, training, networking, and many other types of material or moral investments. VCs own equities of their portfolios' companies. They have a

¹ First paragraph of the official website: www.nvca.org

personal interest linked with the success of their portfolio's start-ups. As they invest their own money and time in the companies they advise to their customers, it implies a trust-based relationship between the three actors.

VCs assume the financial risk, they finance and guide entrepreneurs without having any concrete guarantee about the future of their investment. However, they use some techniques to evaluate the potential risks. This will be addressed later in this study.

The VC customers are long term investors. They invest in "Venture Capital Funds" (VCFs), which are funds invested in start-ups, usually for at least 10 years. This is a serious investment, the decision needs to be thoroughly analyzed and the conditions need to be agreed and understood by the investors from the beginning.

While investing through the services provided by a VC, investors are actually investing in many different start-ups that are part of the VC's portfolio. Their advisors (the VCs) are investing in the companies they offer to them as an investment (the start-ups). This means they truly believe in the success of their portfolio's companies and the risk is taken by all three parties, not only by the customer (the investor) as it was usually the case during the crisis. If the portfolio's companies do not earn money, the VC company and its customers neither. Nowadays, many investors need this commitment in order to trust their investment's advisor.

The profitability and sustainability of VC investments are also related with the investment done at the adolescent stage of a company's life-cycle². At this stage, the growth potential is really high. Due to the diversification, the structure and the profits of VCFs, big customers and institutions are now investing in VCs. Among these customers we can even find pension funds and universities around the world.

An excellent example of a VC's success at the global level is Skype, financed before the crisis by a VC called Index Ventures. The VC met with Skype founding members in 2005, when the company was trying to find investors. At the time, Skype was in trouble and the 3 associate creators were close to abandon their idea, due to the lack of funding to launch their project. Thanks to the Index Venture's investment, the company became Skype as we know it today. However, not every company financed is a success, and for each Skype there are dozens of failures.

Obviously, many entrepreneurs already established in their business know they have a good growth potential. However, some of them need help because they require new investments to boost their company. Some other entrepreneurs are not yet established, but they have an idea

² How Venture Capital works, by Bob Zider, Harvard Business Review, 1998

or a prototype and need seed-money to create the business. Every business is different and they are not all at the same stage. Thus, the need of financing is different for each company at each step of the business cycle.

There are 4 main stages for a business: seed, early, middle or late stage. I will explain the 4 steps in detail, as this is the basics when entrepreneurs look for financing. This is a crucial step for a VC analysis, their support in terms of coaching, training and funding is different at each step. Furthermore, many VC companies do not deal with the 4 steps.

The aim of this research is to provide a guideline for any innovative entrepreneur looking for an external funding and willing to succeed. This is a translation of a complex process that will help entrepreneurs to evaluate the stage of their business, the type of financing needed, the strengths and weaknesses of their business plan, and the tips for successful collaboration in the long run.

Ultimately, this paper aims at helping entrepreneurs willing to succeed with innovative ideas, in order to change our daily life and to make this world better. The aim is not to explain how to establish a small restaurant in the district or a clothing store down the road. The aim is to help young dreamers to achieve and realize their dreams by having a clear vision and description of the fund-raising opportunities available on the market for futuristic ideas.

1. Investment in start-ups

Investments in start-ups are special investments, they are organized in different ways and the period of investment is usually longer than for a traditional investment.

If you had to remember only one sentence about the investment in start-ups, it would be this one: the most important is not only where, but also when you invest. Start-ups are in constant evolution, consequently depending on when you invest the situation can be totally different. It is important to be an expert or to have an expert in order to identify the best moment to invest.

Similarly, the reminder is the same for entrepreneurs looking for investment: you have to be clearly aware about your company's needs and stage in the lifecycle before asking for funding. Many entrepreneurs failed in their fundraising process because their plan was not elaborated as the investment industry was expecting, not because the idea was bad.

In order to understand the procedure and the key success factors, I will detail the investment itself, the different types of investors, the applicants for investment and eventually the win-win situation created by the process.

Many people want to invest in start-ups and many entrepreneurs are willing to raise funds. Nevertheless, the process, the opportunities and the amount of information available are so complex and diverse that one can easily get lost. The aim of this section is to clarify, organize and describe all the important characteristics for a successful fund raising.

The analysis is done for both sides, investors and investees. I believe it is important for both parties to understand the expectations and the needs of each other in order to have a full awareness of the situation. This may improve the collaboration and increase the potential growth of the partnership.

1.1 The investment

An investment in a company needs a complex analysis. For big companies listed in the stock markets around the world, the analysis is done frequently and everybody has an access to the annual reports and other types of financial information. For start-ups, the process is much more complex, with no background based on annual reports, no public information and no forecast based on financial evidence.

The critical step for a company's funding is the risk capital funding. This step is crucial for the future of a business as it is the ground step. When financing a risk capital, a VC is financing the foundation of what could become a solid player in its own market sector. The main risk factor is the uncertainty, the investor has no guarantee of the business' success. On the other

hand, if nobody is willing to finance this risk capital, the business will never grow and the opportunity may be missed.

When a start-up looks for external funding, many factors have to be taken into account. The first one, is the stage in the life-cycle of the company. As mentioned in the introduction, every business evolves and at each step the needs are different. Some businesses evolve faster than others, some become bigger than others, and at each level and size they can be profitable and competitive, the only difference is the benchmark framework we use to evaluate them.

Before looking for investors, an entrepreneur needs to carefully assess at what stage the company is. To do so, a four steps investment cycle has been defined, and the investment approach will vary according to these different phases.

1.1.1 Risk Capital

Risk Capital, also called Venture Capital, is a capital available for investment in new or speculative companies. For the purpose of this paper, I will only focus on the Risk Capital dedicated to finance new businesses.

This capital, in spite of the high risk involved, represents the foundation of a company's capital. Every company has a Risk Capital but not every business is able to go beyond. As its name suggests, this investment has a high risk of loss, especially when Risk Capital is invested in companies focusing on niche markets. However, this is all the interest for capital providers: a high risk implies also a high potential yield for the investment.

As a general rule, usual credit institutions, banks and other typical capital providers do not provide this type of capital. The risk linked with the investment is too high and the amount of tangible guarantee of the future success is too small.

There are different types of Risk Capital providers, the biggest ones are Venture Capitalists. When they provide Risk Capital to a company, the capital is provided in stocks. Therefore, the companies where VCs invest need to have a stock capital. For the other investors, the rules are less defined but the investment process is similar.

Companies have different stages in their life-cycle and capital requirements tend to change with the evolution of a business. In order to make it clear and easier for investors and entrepreneurs, a four step investment stage process has been established. Worldwide investors and companies focusing on the Venture Capital industry follow this four step model.

1.1.2 Investment stages

The investment stages are defined in a four steps investment cycle: seed, early, middle and late stage. Every company starts at the seed stage, but not every company is successful. Only a successful company will evolve through the four steps and the investors' profile will change and evolve with the business.

The different investors needed at the different stages of a company lifecycle can be divided in the following categories: Love money, Angel investors and Venture Capital companies. They will be detailed in the next section of this chapter (1.2).

The definition and the understanding of the different stages of a company's lifecycle is crucial for a successful fund raising or an eventual partnership. An entrepreneur needs to be aware of the needs of its company and the expectations of the investors, partners and other types of stakeholders during the evolution of the business.

1.1.2.1 Seed stage

The seed capital is usually provided in order to develop a prototype or an initial concept. Entrepreneurs looking for seed capital have an idea but not enough money for its development. They can have a product but difficulties for its commercialization, small or inexistent sales, or even just an idea but no finished product yet.

Given the risk linked to an investment at a stage where there are no guarantees of success, the usual seed investors are called "Love money" and "Angel Investors". Love money investors are family, friends and fools. Angel investors are early investors not considered as part of the love money group, with usually a higher amount of resources. They expect a return on investment around 80-100%.

Venture Capital companies are not typical investors at this stage of a company lifecycle. VCs' requirements are often too high and start-ups results usually too small to attract their investment. However, some companies with exceptional potential can be considered at this stage, but this is rather the exception more than the rule. In the VC industry, the seed investment represents a small part of the business. Typical "seed funds" go rarely up to one million of Swiss francs. However, for unique and futuristic projects, some companies, such as Index Ventures, offer some funds called "seed +" going up to two millions of Swiss francs.

The specificity of this type of investment is the frequent need of networking and coaching. Some entrepreneurs have amazing ideas with exceptional growth potential but they lack the necessary networks in the field they want to enter. It is naive to think that talent is everything, without a good network it is really hard to be successful. Moreover, to have a good network in

the field can also help to receive good advice and expertise in order to improve the idea before the finalization of the project.

The key success factor at this stage is to look for experts in the field and to acquire their expertise before entering the market. It is important to keep in mind that everybody needs to study and train before becoming an expert in every kind of industry.

1.1.2.2 Early stage

This stage represents generally the first time that a company offers investment opportunities for external sources. In other words, companies usually raise external funds for the first time at the early stage. An entrepreneur will usually start by setting up a business with its own capital, which is the typical seed stage of a company. When the business starts running, with a good growth potential, there is a possibility of raising funds externally. For an average company it is almost impossible to raise external funds before this stage, as there is not enough evidence of success to convince external investors such as VCs.

The early stage is officially the first stage where VCs invest. In comparison with the middle and late stage, this investment involves the highest risk, due to the lack of information necessary to forecast a potential success. Moreover, the amount of investment is limited and provided cautiously as the success of the business is not yet proven.

This step is also called “A-round” (or “Series A”), as it is the first significant round of corporate investments. It is considered as a pre-revenue investment because most of early stage companies are not yet profitable. When a VC invest in this type of companies, an evolution plan is elaborated, including different steps and objectives for the evolution of the start-up. When those objectives are successfully achieved, step by step, the VC is willing to provide more capital. When a company asks for new capital, it represents a new round of financing. Consequently, the start-up will be revalued and the VC will start new rounds (B, C, etc.) when needed. The amount provided to early stage companies varies between one and 5 millions of Swiss francs.

Beyond the financial investment provided by VCs, there is also a non-financial investment done at this stage. If investors have good knowledge about the field where they invest, they can directly advice the entrepreneurs. Moreover, a network in the field of interest is usually provided by VCs to their portfolio’s start-ups. This is a typical characteristic of the VC industry. The aim is to create a strong portfolio thanks to a strong collaboration between the different partners. Actually, when a VC invests in a start-up, it is often considered as a limited partnership and the VC is willing to create a relation between its partners in order to make them evolve faster

and better. The aim is to progress through the four steps, and ultimately to become a leader in the market.

1.1.2.3 Middle stage

A middle stage company, also called growth stage or mid-stage, is a company already established in the market. As a general rule, a company at this stage has already customer relations established, good revenues and a business model running at a competitive level. However, this type of companies can still develop better processes and have possibilities to expand their business beyond their actual situation.

Theoretically, it is easy to categorize a company in one of the four steps, but in practice, the distinction is much more complicated. We could differentiate the evolution of a company by revenues, by profits, or by many other types of accounting measures. However, the most important measure for a financial investment is the risk, subdivided in many risk factors.

For a VC investment, the distinction between an early and a middle stage company is when technology is “de-risked”. This means the technology used for the core business of a start-up is not a risk factor anymore. The execution risk is still existing but the main risk factor is now avoided or under control. The management does not have to worry about the technological part of the business, leaving time for them to focus on the improvement of the executional part.

A company at this stage may need some money to invest in new facilities, go international, hire more people or buy more equipment. Many companies are victims of their own success and are easily running out of resources if their product works better than expected. A middle stage investment can help this type of start-ups to satisfy the demand of their consumers and to consolidated and/or expand their business.

An investment at this step has a clear objective: to help a company which is in a competitive position to become a leader in the marketplace. When investors focus on a middle stage business they expect it to become exceptional with more investments and external support.

Another reason for an investment at this stage could be the feeling of investors about the success of a company. If they believe a company has good opportunities to become a leader, they may want to invest in the company in order to be part of the future success.

It is hard for Love money and Angel investors to afford the amount of investment at this stage. As middle stage companies are already established and are running quite well, the investment is much higher than for the two first stages of a company lifecycle. Therefore, the main investors are VCs and their frequent customers such as non-profit institutions (mainly universities and pension funds) and big corporations.

1.1.2.4 Late stage

A late stage investment in a start-up is the final step, usually symbol of success. This late financing is provided by a VC when a start-up has reached a strong position on the market, with a product or a service widely distributed and a success already recognized. It occurs when there is visibility into an exit. The financial health of the business is not to be proven anymore and the only remaining question is how far this company can continue to grow.

Late-stage investors look for companies with revenues of at least \$10 million. Usual investors at this level expect a three to five hundred percent return on a period of about 5 years.

This investment associates the lowest risk of a company's lifecycle with the fastest return on investment. However, this stage represents also the highest investment in the VC industry, with amounts going up to several tens of millions.

The key success factor for a company in order to attract late-stage investors is to have a solid plan. This plan has to explain how you are willing to deal with the small companies entering the market and the big players already established. If a team is able to prove to investors how strong their business plan is, how competitive is their advantage and how they can be better than the competitors, the late investment agreement can be concluded.

A VC investing at a late stage will usually end up by helping the management of the start up to find out some additional processes, services or key employees in order to help the business to reach the top position on the market.

This step is the final step of investment in start-ups and. The next step is the exit, typically done through a sale, a merger, or an IPO. This is what happened for instance with Facebook when the company launched its capital in the stock market. It is called Initial Public Offering (IPO), it means the start-up has grown enough to enter in the stock market and to open the access to its capital to the general public. Anyway, when a start-up reaches the late-stage of its lifecycle, it is a promise of successful and prosperous business.

1.2 The investors

Investors are a key component of a successful company. As explained in the previous section, it is hard for an entrepreneur to finance alone an entire business, especially when a business is growing up faster than expected.

Different types of investor groups have been created over time. Their objective is to support start-ups in a financial and/or non-financial way. Those groups can be official networks of

investors, such as the ones created by VCs, as well as private investors aiming at a similar objective, such as Love money or Angel investors.

Each investor group has different objectives and expectations. Accordingly, they have different roles in the investment process. This section will detail the main characteristics, roles and expectations of each type of investor group.

1.2.1 Love Money

When an entrepreneur is willing to create a company, the first thing to do is to look for capital. If no private capital is available, an entrepreneur will have to find sources of capital. Before looking for external sources or capital, it is natural to look around its own private network. This network includes mainly the family, the friends and the fools, also known as 3F or Love money investors.

Love money investors represent the closest relations of an entrepreneur, people who love them (or their project). Some companies will never go further or look for other types of investors. Love money is fundamental for a company. It can be money borrowed from a mother, a brother, a best friend or a relation interested in your project. Sometimes the amount of money collected by love money investors is enough to start and to run a successful business.

Among start-ups, VCs and Angel investors are popular. However, the money provided by the members of the entrepreneurs' private networks is often neglected in the description of the fund raising process. This type of early-funding stage is commonly considered as pre-angel funding, and this is the basis for the creation of a company's capital.

In contrast with the other ways of financing, this is the one everybody will look for. Other types of investors such as Angels or VCs are available but not always requested by start-ups.

Love money is an important source of financing all over the world, reaching areas where financial industries are not willing or able to invest. Thanks to this range of investors, small companies are growing everywhere, in every type of industry and in regions where nobody was expecting to find new technologies some decades ago.

The main difference with this type of capital is the decision making process. When Love money investors provide money to a start-up, the decision is based on qualitative arguments rather than formal analysis. For a first experience in a fund raising process, it is easier to start to collaborate with Love money investors, as I will show by detailing them one by one.

1.2.1.1 Families

Families are generally willing to provide money because of an emotional link with an entrepreneur. Most of the time, family members will not look into the details of the investment.

Young entrepreneurs willing to set up a business are used to ask money to their parents or direct family. If family networks are able to do provide capital, the decision making process is generally based on trust and personal criteria. Moreover, most of the time, they lend money without any interest rate as they are not willing to make profit from the lending. They invest in order to contribute to the success of the project because they love the entrepreneur.

The idea of risk analysis is generally not present at this stage. Families are not frequent investors, many of them are involved for the first time in an investment process and do not know much about the financial industry. Sometimes, they do an implicit risk analysis by thinking about the entrepreneurs' background, taking into account the level of education, professional experiences and past successes.

When the entrepreneur explains the project, the family is usually proud and willing to push the project. Once the family members are emotionally involved in the project, the goal of the family investment is achieved. A certain amount of money is collected, provided to the entrepreneur and invested in the creation of a start-up. At this point, the start-up is at a seed stage, trying to develop an idea or a prototype. The money provided by the family (and maybe also by friends or fools) will help the start up to grow up to an early-stage level (cf. 1.1.2 Investment stages).

1.2.1.2 Friends

Friends, as families, are willing to invest money based on an emotional criteria rather than a profit oriented one. They consider this type of investment because they trust their friend(s).

Friends' investors are generally providing capital because they believe in the entrepreneur more than in the business itself. The relationship is based on past experiences and the risk analysis is done at a basic degree (education level, professional experience, range of skills).

Sometimes, high-skilled or passionate friends can get involved in the project and therefore become partners of the project, but this is still an exception more than a rule. Their main role as investors is to provide a financial contribution for the creation of their friends' start-ups.

As families and friends are generally not qualified in their field of investment and not frequently involved in financial activities, this type of investors is often neglected in the financial world. Yet, they do not raise huge amounts (generally they raise less than USD 50'000) but they are the starting point of almost every company.

1.2.1.3 Fools

Fools, in contrast with family and friends, are considered as skilled investors. Their decision making process is based on the project itself.

They invest because they believe the entrepreneur is able to manage a successful company and develop a profitable business. They know the start-up needs funding to be successful and they are able to provide the missing tools. Besides, they are more likely to understand the procedures and to provide necessary advices or services.

They are also part of the entrepreneurs' private networks, in a direct or indirect way. They can be a friend of the family, a work relation or even a third party who knows the entrepreneur only by word of mouth. They usually hear about interesting projects and look for the details. If they think one idea may worth the investment, they start their risk analysis.

For the first time, an entrepreneur has to develop and detail the financing plan of its project in order to obtain funding. Fools investors do not rely on personal criteria, they need clear and tangible business arguments to take a final investment decision.

1.2.2 Angel Investors

The name of this group of investors comes from a simple idea: when an angel is needed, as entrepreneurs are used to say when they need help in order to boost their little business, Angel investors are there to help. They are private investors with a financial capacity higher than Love money investors' one. Moreover, they are generally experts or highly specialized in the field they invest so that they can provide their expertise and networks to young entrepreneurs entering the market.

Angel investors are commonly called Business Angels (BA). The first angel investors were wealthy families, such as the Rockefellers' family, investing in private companies before the Second World War. The trend was to provide money to companies in order to help their business growth and then benefit from their profits. Since then, the concept evolved a lot but the principle is still the same: Angel investors invest their money in young companies and they receive some profits from them if their business turn out to be successful.

They are the second actor in the investment cycle after the "love money" investors. They have no direct link with the owner of the company, they may know each other but they are not considered as friends or part of the family. Their aim is to fill the equity gap of the companies. The amount of investment can vary between \$100'000 to \$500'000. The amount of the gap at this step is, most of the time, not affordable for friends, families or fools and the profits

generated are too low to satisfy the different investment funds available on the market. Therefore, angel investors are a key success factor for any start up looking for external funding.

The Angel Capital analysis is much more flexible than the Venture Capital one, mainly due to the amount of investment. As explained during this thesis, the later you invest, the more you need to invest. VCs invest higher amounts than Angels and this is why they are stricter with their investment procedures.

Typical Angel investors are part of Angel investment networks (BANs, Business Angel Networks), made of private investors willing to do Angel investments. Their aim is to select start-ups and to connect them with suitable business angels. By creating BANs, they become stronger and their fund raising opportunities are multiplied. Some BANs are able to raise millions of USD.

The overall investment amounts of the VC industry are much more important than the Angels' ones. However, this is not a problem for them. It leaves the possibility of choice of partner for entrepreneurs. Sometimes, Love money, Angel investors and VCs interact in the same areas but they have clear and different expectations so they are not annoyed by that. They are players in the same market but they are complementary to each other.

The concept of Angel investment is based on investments at a critical step of a business with a substantial support in terms of coaching and development. It is considered as a personal investment and Angels are not considered as typical financial investors.

Angel investors play a special role in the investment process. They make the link between a small capital provided by close relations (love money) and a huge capital provided by investment companies (such as ventures). They also provide capital to companies that have not yet reached the requirements of corporate and/or public investors. Angel investments are substantial for the investment cycle of companies around the world. They exist since more than 70 years and they are not willing to disappear. Their business is in constant evolution.

1.2.3 Venture Capital

Basically, the concept of venture capitalists is simple: they provide capital to entrepreneurs and they receive a part of the profits generated by their business. They usually operate in niche markets, or segments of markets where traditional financing is not available or suitable for different reasons.

The Venture Capital industry exists since more than 60 years, with companies established at the end of the Second World War such as J.H. Whitney & Company and American Research

& Development Corporation (ARCD), both founded in 1946.³ Those companies were specialized in early and seed capital investments. In 25 years, ARCD raised funds for more than hundred companies and earned more than 15% annual returns.

Some legends, as Arthur Rock, Tommy Davis, and some other pioneers in the VC field, were successful thanks to their investment in the computer industry. At the time, they already understood the importance of the support given to their start-ups, providing capital, experience and advices at the same time.

Nowadays, companies operating in completely different industries are starting entering the VC industry. As an example, Google, which is an internet-related company, decided to create its own Venture entity. Google ventures was created as a VC division in 2009 and is now funding for \$300 million annually, mainly for early and mid-stage companies. They are also considering projects of late-stage investment funds for a near future.

Venture capital is a source of financing for new businesses. VCs invest when they see a significant growth potential in a company. They are not credit institutions, their aim is not to finance every new company with growth opportunities. They look for exceptional, innovative and futuristic ideas. They have a clear vision and mission: drive the entrepreneurs of today to the success of tomorrow.

They are an important source of capital for innovative start-ups. Those companies have difficulties to find investors and are usually looking for risky capital with high potential return, called Risk Capital. Venture capital investments are actually Risk Capital investments, also due to the challenges linked with new technologies, new markets and new ideas not yet established in the market. Their investee companies (the start-ups) need high risk capital and the investors expect a high return in the long run, and they are usually right.

Two types of financial investments are available in the VC industry. The first is called "Milestone financing", where the full amount of capital is provided upfront. The second one is called "Round financing", which suggests a financing by rounds, at different levels of the company's evolution. The best known method is the second one, as it is safer for a VC to control the supply of capital step by step. Thanks to a step-by-step investment process, VCs are able to interrupt the supply if an unexpected problem occurs.

Almost every Venture Capital Fund is invested for at least 10 years. This long period of investment provides a unique opportunity of development and expansion for the start-ups. Instead of asking high returns in a short period, VCs prefer to let the start-ups focus on a

³ International Private Equity by Eli Talmor and Florine Vasvari, John Wiley & sons, 2011

sustainable approach that will generate profits in the long run, even if during the first years they are not profitable.

The business of VCs is based on managing funds with sufficient returns at acceptable risks⁴. This seems easy to say, but it is far more difficult to execute. The first key success factor of their business, is the investment period and the autonomy allowed by VC's investors. The second is the potential of growth and investment, other than financial, such as coaching or networking. Even though VC investments are not always profitable, the direct communication between VCs and start-ups is a key source of trust and success that benefits day after day to this kind of investments.

To manage a sustainable business, the investments are organized in "investment pools" for businesses. As mentioned before, not every company will be successful, the eggs need to be in different baskets. The idea is to differentiate the investments, as wealth managers are used to do in the financial market with funds made of stocks, bonds and other types of products. The difference with VC's investments is the variety of their funds: they invest in shares of different companies instead of investing in different financial products.

When they invest, customers choose the VC where they invest, not the start-ups. They invest in funds, which are pools made of the combination of their portfolio's companies (the start-ups where the VCs invest). The differentiation is done by each VC when they select the companies that will be in the funds. Some VCs are specialized in certain types of industries. They get profits by balancing the success of some start-ups with the failures of the rest of the fund. Those pools are called "Venture Capital Funds" (VCFs).

1.2.3.1 Venture Capital Funds

Venture Capital Funds (VFCs) are a subset of Private Equity Funds (PEFs). They are investment funds provided by VCs, made of several investments done in different start-ups which are part of VCs' portfolios.

They are structured like limited partnerships. As VCs consider the start-ups where they invest as partners, they provide necessary capital and significant knowledge by giving financial, administrative and strategic advices. They aim to facilitate the business of their investees by providing them new opportunities and networks. The final objective is to have a win-win situation: start-ups grow, make benefits and VCFs satisfy their investors with positive returns made of the balance of the profits of the different start-ups.

⁴ How Venture Capital works, by Bob Zider, Harvard Business Review, 1998.

Two types of partners interact in the investment process: General partners (GPs) and limited partners (LPs). GPs are in charge of the management of the fund whereas LPs provide most of the fund's capital. LPs are passive partners, they are not involved in the decision-making process of their investment, and their unique role is to provide capital. GPs have the exclusivity on how, where, when and how long to invest the fund's capital.

As other private equity funds, they are "close-ended" funds. They have a finite deadline and investors cannot withdraw their money before, in contrast with other types of investments where funds are available at any time. Moreover, they are clearly differentiated from other funds thanks to their special characteristics.

The first characteristic is the lifetime, usually of ten years with a provision to extend the partnership up to four years more. The second one is the type of investments, mainly done in illiquid private companies. Eventually, least but not last, the fund's lifecycle is structured in two parts: the first three to five years, the capital is invested in the different start-ups (remember that capital is usually provided step-by-step, to ensure that start-ups achieve objectives agreed with the VC before receiving new capital). Then, the GPs manage and progressively liquidate the investments. They terminate the limited-partnership during the ten to fourteen years period.

Basically, VCs created VCFs made of their portfolio's start-ups. Some VCs differentiate themselves by focusing on special industries. However, most of them deal with several different industries and have only one fund including all the start-ups.

Nowadays, many customers want to focus their investments in specific industries, therefore, VCs start to elaborate industry-specific VCFs. The objective of this new type of funds is to attract investors which are willing to focus on one field and are not ready to invest at an early stage in companies which are not matching with their investment profile.

Profits generated by VCFs are also due to the liquidation of their investments, by doing Initial Public Offering (IPO), sales or mergers. This allows VCs to have extraordinary returns with relatively low risks, such as the profits made by Index Ventures with the sale of Skype for several billions.

1.2.4 Crowd funding

Crowd funding represents networks of individuals willing to use their money to support other people's ideas. It is a collective cooperation most of the time made by social communities. Those communities or networks are usually available online. People can pool their money together through web sites displaying different types of ideas. The objective is to collect funds from several individuals in order to create a pool of funding for start-ups.

This type of funding is inspired from the crowdsourcing concept. It refers to resources gathered thanks to the contribution of a large group of people. This alternative funding allows random people to become part of a group of investors and to benefit from the success of their investment without having to invest huge amounts of money.

Start-ups are fond of this type of funding, which enables them to raise small amounts of money without having to go through complex financing processes. Moreover, as the capital comes from a large range of people, the start-up will not end-up by having a majority of shares hold by a single investor. A company financed by crowd funding has more freedom of decisions than a venture-backed one.

Crowd funding investors are not officially part of the financing industry, no common basis are established as every network defines its rules. They are individuals looking for investment opportunities. When they find it, they invest small amounts of money in ideas that appeal them, for different types of reasons. Those small amounts pooled together end up by being important amounts able to create start-ups or to expand the business of existing ones.

The trend is evolving pretty fast in the last decade and is now available for almost every type of industry. Indeed, fan-based networks are now emerging all over the world. Sport-clubs, singers, movies, beers, and many other types of products or services that people love are starting to being financed by crowd funding.

This alternative way of financing enables new opportunities of business models. Nowadays, some brands decided to mix their funding strategy with marketing and research. They do it online, by offering several prototypes of products and asking actual or potential consumers to finance the idea(s) they would like to see available on the market. Every idea has a minimum amount of funding requested for the launch. Some ideas will never reach the amount requested, some will overpass the objectives. The ideas reaching the funding objectives are then launched, knowing that some consumers are already waiting for it.

1.3 Win-win situation

After having described the process, let's talk about the benefits for each party involved. Indeed, the purpose is to establish a win-win situation between investors and investees. This situation is achieved when both parties are satisfied, as described below.

1.3.1 Benefit for the investors

The financial world is not a friendly one. However, the Venture Capital industry enables investors to have direct relations with the companies where they invest. They have the privilege to work with passionate people, to be implicated in radical changes and worldwide innovations.

Do you imagine yourself contributing to change the world by being involved in the creation of a company that may help people with disabilities to be able to walk again? I believe this benefit goes far beyond a pure financial benefit. By investing money in the VC industry, investors are contributing to the future of our world and to the global economy at the same time.

Furthermore, a VC investment is the one where the combination of the performance and the added value is the highest. The performance opportunities of the VC industry's assets is the key that attracts worldwide investors.

Even though the VC industry proved to be profitable, early stage companies produced better or even exceptional returns on investment than the rest of the industry in the last decades. The table below shows the clear difference of profits between early and late stage companies. The earlier you invest in a company, the higher yield of investment you can have.

Returns on investments are different depending on the stages of investment. Thomson Venture Economics and the NVCA did a research based on 1750 VCFs in the US in 2008. The funds were invested in all types of industries. Over the past ten and twenty years, the best returns came from early and seed stages investments.

As mentioned before, ten years is the usual period of investment for a VCF. Companies, especially early and seed stages, need time to develop a sustainable and profitable management. Therefore, the important columns are the two last ones (ten and twenty years).

Early-Stage Investing Yields the Highest Long-Term Returns (avg % per year)					
Fund Type	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr
Early Seed/VC	10.6	4.9	4.8	34.0 ✓	21.2 ✓
Balanced VC	8.8	13.1	12.7	14.8	14.6
Later Stage VC	30.4	13.1	11.1	8.6	14.4
All Venture	13.3	9.5	9.1	17.2	16.8

Thomson Reuters' US Private Equity Performance Index (PEPI)
Investment Horizon Performance through 3/31/2008

The significant difference of profits can be explained by their size of early and seed companies. A small company has a better ability to adapt and respond to the changes in the market needs. Moreover, a small company evolves relatively faster than a big company. In terms of profits, an early investment can be an excellent option.

What works well in the deal between investors and investees is the relation that can be created thanks to the investment at an early stage of a business. Obviously, at first there is a financial

interest and investors are, for most of them, not really interested on the start-up itself. However, by the time, investors can see a high-growth and may start having a personal interest in the company.

Some companies prove to be jackpots and sometimes investors decide to go further and they invest themselves in companies that where at first just financial investments. They have a better access to the information and they are usually privileged if they want to reinvest in the company after some years.

On top of that, they invest in something considered as “socially good”. By investing in the VC industry, you create jobs, pay wages, contribute to the economy, promote development of new technologies and the money you invest is directly injected in the monetary system.

Nowadays, too many people invest in “paper money” or “debt money”, which is the virtual money that transits every day all around the world in the financial markets. By selling or buying a stock, the only thing they do is to loose or to earn money for themselves but the company that issued the share has no benefits on this transaction.

In other words, when people deal in financial markets they are not adding any kind of real value, they are just speculating on companies that are eventually forced to deal with the pressure of the market. In comparison with a widespread way of investment, the Venture Capital investment represents nowadays a type of business that creates a real added-value for the community in a healthy and sustainable way.

1.3.2 Benefit for the start up

World-wide recognized companies such as Google, Microsoft or Zynga, are Venture Capital backed companies. Some years ago, those companies were only start-ups looking for capital. Thanks to Love money’s, Angels’ and VCs’ investments, they are now considered as symbols of our daily life. As an example, who never heard the expression “let’s google it”? It seems hard to believe but this company also started from the bottom by looking for Risk Capital as any other start-up and it is now a world reference.

Love money and Angel investors are essential for the success of a young company. However, VCs’ role is much more important in terms of amounts of investments and involvement in the companies’ evolution. The VC industry was involved in the creation of most of the main technologies and trends of our times. They fulfill the equity gaps of companies that have good growth potential but financial and/or technical difficulties to reach their objectives.

Even though a single entrepreneur has enough money to set up a business alone, investors and partners are important for a successful business. If the business wants to grow, the knowledge of only one person may not be enough.

The clear benefit for a start-up looking for external capital is the additional opportunities the entrepreneur will get by collaborating with the investors. The networks, the advices, the human capital and the experience provided by investors, especially by VCs, has definitely a positive impact on the business. This impact can be noticed by comparing VC-backed companies with non-VC-backed companies. The speed of growth and the period before the entrance of the products on the markets are clearly accelerated and improved by VC investments.⁵

A competitive advantage for a start-up is the collaboration with experts already established in the field. This effect has been identified since the first investments in start-ups before the Second World War. When young entrepreneurs are willing to enter a market, they may have brilliant ideas and futuristic visions but the expertise provided by seniors in the field is priceless. The merger of a young vision with an old expertise has always been a key success factor in the evolution of new technologies and trends around the world.

Nowadays, some projects are based on the collaboration, the coaching and the supervision of young entrepreneurs by experts in their field. In France, for instance, the government put in place a system of exchange of senior employees and retired employees with local SMEs. The aim is to boost and provide high quality expertise to new entrepreneurs of the country. Governments are aware of the importance of investing in start-ups also in a non-financial way.

⁵ Hellman and Puri, 2002, Strömberg, 2009

1.4 Key statistics

Nowadays, the Venture Capital industry is mainly based in the US (see appendix 1). However, the future may drive the business in a different direction. The following statistics are useful in order to understand the future trends and the current situation of the market.

The related tables and figures can be found in the appendices.

Historical trend

In the late 90's, the investment in start-ups was a well-known trend, especially in the US. The highest level of VC's investments was before the dot.com bubble. Since then, the industry is trying to recover. After almost ten years of struggle, the crisis of 2008 represented the final blow for many VCs. Despite these two factors, the market is now recovering and the amounts invested in start-ups are increasing again. This period of time was the end of many VCs but also enabled some of them to become the references of the current market. (see appendix 2)

Fundraising statistics

Despite the crisis, the VCs' business is running well. Indeed, after a decrease of the number of funds raised between 2008 and 2009, the industry is in constant increase. Moreover, the amount of money raised in the US in 2012 is over 20 billion of USD, which represents 80% of the amounts collected before the crisis. This shows a clear improvement over the years and predicts a good future for start-ups looking for first or additional funding. (See appendix 3)

Stock market entrance in 2012/2013

The NVCA statistics corresponding to venture-backed IPO's in the US market in 2012 and early 2013 indicate two main sectors of interest: Life sciences and Information technology. Companies in those industries are a main focus of investors. Their attractiveness is in constant evaluation, mainly thanks to their potential of growth and their global impact. (See appendix 4)

The development of those industries and the opportunities linked with the potential success of their projects are a key interest for investors around the world. The future of VC investments is closely linked with the future of those two industries as well as with ours.

Investors' expectations:

Investors are willing to increase their investment in new markets, especially in China, India and Brazil. Therefore, VCs are expected to broaden their geographical coverage to include

emerging markets. This trend is part of the globalization effect, which will probably make the industry evolve into a less centralized market.

2. Case studies

Now that the basics of the investment in start-ups have been explained, I would like to introduce some real cases. The best way to understand and to link all the previous information is to see concretely how it works in the real life.

This section presents four case studies based on personal interviews. It is divided in two parts: the first one is a brief description of two Swiss VCs, whereas the second one includes the cases of two start-ups based in Switzerland.

2.1 Venture Capital companies

Within the framework of my research, I had the pleasure to interview two co-founders of well-known VCs. Both are established in Geneva and were founded by Swiss entrepreneurs. Those interviews took place at the beginning of my research and they were instrumental for me to identify key aspects of the industry.

The information they shared with me was in line with the literature review done previously. However, it allowed me to link theory and practice. Before the interviews, I only had a theoretical background and some details were still unclear in my mind. While discovering their business and their companies, I also discovered some practical aspects of the VC industry.

The interviews were the starting point of my redaction. After having a live explanation of the topic made by two experts of the field, the structure of my thesis became almost obvious. The talks were split between general explanations and detailed questions.

Most of the data included in this thesis come directly from the interviews. The information provided by those two Swiss capital riskers was far more detailed and interesting than what I found in books, papers or online publications. Therefore, I decided to spread the information in the different sections and to make a little overview of these two VCs.

2.1.1 Endeavour Vision

Interview with Bernad Vogel, co-founder of Endeavour Vision

Endeavour Vision is a Venture Capital company focusing on breakthrough technologies. They look for start-ups that change our way of living. They are 9 employees and they have twenty companies in their portfolio. They are experts in the fields where they invest and they generally spend one day per week managing their investments.

Basically, they created a global fund with all their start-ups, as they were used to invest only in the technological sector. Over the years, they started to focus also on life science, with two

sub-sectors: biotech (bio technology) & medtech (medical technology). Consequently, some of their customers are now willing to invest only in one of the 3 sectors. In order to improve their customers' satisfaction, they are now working on splitting the main fund actually offered in different funds focusing on their different topics.

Their strategy is also linked with the evolution of the market and the stage of the companies where they invest. They are used to invest in seed or early stages, which are types of investments requiring a small amount of capital. This enables the VC to invest in several companies. By doing this, they can easily diversify the risk in their funds, increasing their potential of success. If they decide to invest in middle or growth stages companies, the amount of investment becomes more important and it becomes difficult to invest in several companies. Therefore, the funds are less diversified. The later they invest in a company, the more the fund will be specialized in a certain field, and the more the amount of investment will be high.

Concretely, they offer an investment strategy. Many customers are interested in the fields where Endeavour invests. However, they are not experts and they only know what they see or read in the newspapers. The role of Endeavour is to inform their costumers about the market evolution, the new technologies and the growth opportunities for the fund. They describe everything in detail: what industry, what type of company, what stage, what size. Some modifications may be done due to a specific customer request.

The specificity of Endeavour Vision is the exclusivity of their offer and their high expertise. The employees have close relations with their investees, based on trust and collaboration. Their investors are satisfied and their business is prosperous.

2.1.2 Index Ventures

Interview with David Rimmer, co-founder of Index Ventures

Index Ventures is the biggest Swiss Venture Capital company, founded in 1996 by a team of three entrepreneurs. Nowadays, they are thirteen partners with a large variety of backgrounds and skills. When they invest in a start-up, all the partners contribute to the success of the investment by providing their networks, advice, skills and resources. They financed start-ups such as Skype, MySQL or Dropbox. Thanks to Index Ventures' expertise, those companies became quickly big players in their own market sector.

The company has now a worldwide recognition, with offices in London, Jersey and San Francisco for a total of 65 employees. They currently offer several types of VCFs, focusing on different industries and different stages of start-ups life-cycle. The funds are raised every three years.

When they look for new start-ups to invest in, they tend to focus on companies willing to have a global impact. Many companies financed at a seed stage by Index Ventures are nowadays companies with more than 500 employees. Even though they do not do business for the purpose of creating jobs, they believe in the “Risk Capital Model”. In other words, they believe their industry is a growth engine for the global economy, such as the creation of new jobs. This is not their main goal but by doing business the way they do it, they are not the only beneficiaries of their success. Even if you want to believe in something you need money to make things change. By doing money for their customers, they create new jobs, new technologies and they change the world with the values they believe in.

They differentiate themselves by being a global VC, active in Europe as well as in the US. They have a clear management and investment style associated with a strong mission. Indeed, the company was created with the purpose of driving the Risk Capital Model from the US to Europe. As 95% of the VC investments are in the US, they compete in the 5 % European and 95% US. They are more leaders than followers, well-known and recognized worldwide for their technological challenges.

When they look for new investment opportunities, they look for projects giving an answer to a critical problem. A good technology, better than another one, is not enough. The project needs to be clear, to have a strong differentiation on the market and an incremental gain opportunity.

They generally invest if they find an appealing project driven by a company looking for an important market, with a possibility of getting a substantial part of this important market. This is not an exact science, they cannot be sure to be successful with every company they finance. To reduce the risk of failure, they analyze the industry, the market, the idea and the team. If they feel something really enthusiastic behind the project, they take the necessary risk in order to have substantial profits by investing in innovative ideas. The size of the market is an important criteria, but the team analysis is crucial for the decision making.

Many of their customers have teams specialized in the VC industry, as 90% of their customers are institutional customers which have no time to deal with their financial investments. Due to the nature of the funds, the investment managers needs to be sure and aware of the investment. They cannot change their mind after some years. It is too long term to give this decision to a generalist. Most of their customers manage huge amounts of capitals and they invest only a small part of their money in VCFs.

If the management of the institutional customers is in constant change they do not know really each other. However, some customers are investing with Index Ventures since more than fifteen years. Therefore, they know each other pretty good. Usually, if they have a good return

on investment, they are happy. Obviously, the performance matters, but as a general rule Index Ventures' investors are satisfied.

2.2 Start-ups

I had the opportunity to interview different entrepreneurs within the framework of my thesis. All of them have an experience in the fundraising process and some of them are still looking for additional funding.

The companies I will present are all Swiss start-ups based in the canton of Vaud and the information is based on personal interviews with their founders or co-founders.

As mentioned previously, the evolution of a start-up is not something defined, each case can differ from a similar one. Therefore, the case studies will detail different topics depending on the past experience and the life-cycle stage of each company. However, in order to have a common basis, both case studies will begin with a description of the company and will end up by a brief explanation of their current situation and their future projects. Moreover, the critical points of the development of each start-up will be highlighted.

The findings and lessons learned from the case studies will be split in the different parts of the following section, which is the guideline for start-ups.

2.2.1 Mindmaze

The company

Mindmaze is a young start-up of 12 employees based in Ecublens, near Lausanne, in Switzerland. Their business is part of the med-tech industry. They are building a neurotechnology platform in order to bring brain technology to people's homes. More specifically, to use medical technology in order to help patients with movement deficits in their daily life. The platform combines information from the brain and the muscles with feedbacks made by computers graphics. Those feedbacks are given by animations such as 3D avatars, in order to make it fun. They want people to interact easily with their interfaces.

The specificity of the start-up is the integration of virtual reality in the brain technology market. They integrate it by using the next generation of neural interfaces, usually well-known for being able to control daily devices (such as cars, TVs, phones, and many other things) only with the brain. This is not science fiction, it does exist, brain technology is evolving pretty fast these last decades. However, their purpose is medical and their company wants to focus on the possibility of adapting those devices for the rehabilitation of patients, to help them to recover quick, even quicker than what they experience in some hospitals nowadays.

The first product they will launch is mainly aimed at patients with movement deficits usually due to a stroke, an accident or an amputation for instance. The business and the product are already certified by the CE (European certification) for medical devices and the ISO13485. This first product is classified as a class 1 device in the CE categories, which implies the lowest range of certification requested. They decided to start with this device also because the cost link with this certification is lower than for other types of devices.

The idea came while wondering about the length of the recovering period and the lack of available time of therapists for patients. A clear need of improvement of the recovering conditions was identified by Mr Tej Tadi. He believed the recovery period of patients could be shortened by giving them a better support, adapted to their daily life.

When the prototype was elaborated, the objective was to have a product compatible with the evolution of the recovery. While having this brilliant idea, the analysis of the competition became quite large, as they are now competing with medical devices producers, hospitals and therapists at the same time.

The concept

The concept is to create incentives in order to stimulate brain's zones that help patients to recover quicker. Concretely, they conceived motivational devices able to reproduce the patients' movements, in a virtual or a physical way.

The virtual way is a visual support to stimulate the brain. Virtual 3D avatars representing the patients are there to motivate them. By seeing the progress of their avatar, they can see their own progress and get motivated to continue to train and to recover.

The physical way is based on a progressive scale system. Physical devices are there to push the patient's experience forward. It has been proven, movement deficits are reduced by improving the level of motivation of the patients. For instance, if the patient is able to raise its arm 5 cm, the device will push its arm 5 cm higher. This will end up by encouraging them to overpass their limits.

The differentiation

In order to face the market challenges, the start-up develops a unique concept and differentiates itself from competition by having devices that are able to support patients from their arrival to the hospital until the day they go back home. Mindmaze is the only one in the market providing diagnostic and therapy at the same time with a high quality performance and affordable prices.

Furthermore, they have a highly developed software with scalable revenues and an innovative hardware combined with neuroscience. This is an innovation, a surprising mix of two different industries likely to be successful and replicated in the future. The patients enjoy doing their therapy thanks to their motivational devices.

2008: The roots

Tej Tadi, the CEO, founded Mindmaze by himself. He came up with the idea in 2008, while he was doing his PhD. He already had a master in Virtual Reality and Computer Graphics but he wanted to focus on the potential of the combination of neuroscience with virtual reality.

He was initially alone in his idea and he had no business background. Therefore, he decided to learn by himself all the knowledge required in order to become a good entrepreneur. During two years, between 2008 and 2010, he attended several events such as Venture Lab, Venture Leader or Venture Kick, which are well-known networks that focus on the identification and promotion of promising start-ups. Those different conferences helped him to familiarize with the business and more especially the financing industry. An important aspect of the learning process was to get used to the business vocabulary and the common terms.

Likewise, during this learning period, he was also doing networking and getting visibility in the market. He hired some business consultants in the medical industry and started creating some good networks.

2010/2011: Research and development

Thanks to the networking done during the two previous years, he finally got his first financing, which was actually an organic funding. By organic, I mean a funding that was neither a loan nor an investment.

This first funding was made of grants and foundations, provided by public institutions and entrepreneurial networks. None of them was equity based, no payback expected, the purpose of the first investors was to help the evolution of an idea that may change patients' life. It made sense for them to invest, they perceived Mindmaze's cause as a social cause and they provided money without looking for profit.

From a financial point of view, this first funding is not considered as an investment as there is no payback of the capital invested and no profit made from the provision of capital. However, from the start-up point of view, this was the first time they received capital and it gave them the financial resources requested for the creation of their business.

The company was officially created in 2011, thanks to the first funding. The start-up was starting to be familiar with the market and the business strategy was established.

The first employees were hired and research and development was the main focus. The human resource had to stay coherent with the start-up's budget. Right people had to be chosen for the key positions, in some cases, it was preferable to hire a consultant for a definite period of time. The first prototypes were created and consequently protected by the creation of their patent portfolio (a portfolio including all their intellectual property rights).

When prototypes were created, two main analysis were done: the consumer needs and the usability test of the product itself. The first analysis was about a direct entrance in the market, an immediate need that can be fulfilled. The second one refers to a long run criteria, it analyzes the likelihood of the product to be accepted, adopted and eventually to become part of consumers' daily life.

In the case of those medical devices, the test was done by providing some devices to therapists or hospitals and let them use it for free in their daily work with their patients. The objective was to receive feedback about the usage, the performance, the design, the reactions of the patients, and related issues.

2012: Industrialization

In 2012, the research and development phase was successfully completed and the industrialization phase could begin.

First of all, the product had to be certified by the CE and ISO 13485. The certification process took approximately one year, which is quite a short period compared to other companies. Indeed, thanks to its small size, a start-up has a better response to change, a higher degree of adaptability and flexibility. This allowed Mindmaze to quickly adapt to the certification requirements and in one year the two certifications were delivered.

Subsequently, the different production possibilities were considered. For cost efficiency reasons, the manufacturing was eventually outsourced to Italy and France.

At the same time, the first clinical validation was done by the Centre Hospitalier Universitaire Vaudois (CHUV). This validation is an ongoing process that assesses and confirms the quality of the offer, the risk analysis and the procedures.

Also, during the same period, the Commission for Technology and Innovation (CTI) and some national institutions provided additional grants.

2013: Commercialization

The first device will be sold in the Swiss market by the end of 2013. The missing step before the launching of this first product is the commercialization. In order to have a successful product commercialized, a correct pricing strategy needs to be established. The pricing requires a complex analysis, especially in the medical industry. Typical medical devices are not affordable for common customers, so they are usually bought by hospitals or therapists and used for patients' therapies.

The goal of Mindmaze is to get a product available for private customers (patients). The main issue linked with their pricing strategy is to have a medical device that can be reimbursed by health insurance. Reimbursement criteria are based on potential social, economic and clinical outcomes. If insurances are willing to reimburse it, private customers will be more willing to buy, use and recommend the Mindmaze's device. However, not every country has health care reimbursement systems. This is also an important factor to be considered when thinking about where to commercialize the product.

The start-up received its first European grant beginning of 2013. During this year, the visibility of Mindmaze on the market started to increase. They are now networking at European level and their objectives of expansion are evolving.

While looking for new markets, opportunities have been detected in the US. A special American standard called Food Drug Administration (FDA) is required to enter the US market. It is expensive and it takes time to be implemented. Mindmaze is in the process of being certified FDA in order to enter the US market.

Critical point

As explained before, therapists and hospitals are considered as a kind of competitors. When the start-up was looking for collaboration, within the framework of the usability test, it was not easy to make them use the Mindmaze device. Indeed, those new technologies may be perceived as a future replacement, able to reproduce a human work with equal or even better performance and quality.

Eventually, what makes the investment in this field kind of special, is the nature of their purpose. At the end of the day, all the parties involved are interested in improving the medical industry rather than improve their individual business. Mindmaze can count on the support and collaboration of the medical sector in order to achieve the final objective.

Experience with early investors

For the moment, Mindmaze only had two official investors (without taking into account the organic funding). The first amount capital was provided by a Love money investor, closely followed by the second who was an Angel investor. They both invested in 2012 for a total amount of CHF 500'000.-. This amount was split between convertible loans and equity investments.

Investors invested in Mindmaze by personal interest, as they both knew somebody suffering from neurological deficits. Their interest is the potential of the technology. Until today, they are satisfied and they share a friendly relation with the start-up.

Despite the smooth running of the business, no VC investments have been made so far, but it is not for lack of trying. A German institutional VC was already approached. Nevertheless, the first hurdle was the unique investment they were willing to do, no long-run collaboration was expected afterwards. Mindmaze is clearly aware of the importance of having long-run investors that will support the business and be willing to reinvest when new funds will be required. The second one was a mandatory time-line of presence of the start-up in Germany, required by the VC. Eventually, the collaboration never came to fruition.

Despite this first experience with the VC industry, Mindmaze does not give up and is now discussing with other VCs. The first VC investment may probably come within the next year.

Eventually, some small amounts of private investment have been provided. Those private investors are part of the board of directors (B.O.D.) of the company. When Tej Tadi created the B.O.D., he also negotiated with the members a certain participation in the company's capital. Indeed, if members invest their own capital in the company, they show a clear commitment and support to the business. This investment has more influence on the image of the start-up than on the capital itself.

Current situation and projects of the company

As mentioned before, Mindmaze is willing to expand its business to the US. The first device will be available at the end of 2013. Ten pre-orders have already been made. The company's target is about 35 to 40 pre-orders before the official date of commercialization.

Some negotiations are also in progress with India, where the market opportunities are increasing and the CE standard is accepted.

Two other devices are expected to be launched in a near future. The elaboration of those new products depends mainly on the available resources and future profits of the start-up. The

strategy behind the three types of devices imagined by Mindmaze follows a simple idea: to move from the medical market to the home market. But this is still a future project.

2.2.2 Aleva Neurotherapeutics

The company

Aleva Neurotherapeutics is a young start-up created in 2008 as a spin-off of the Ecole Polytechnique Federale de Lausanne (EPFL). At the time, only two co-founders were involved in the project: Andre Mercanzini, who was a PhD student, and Dr. Claudio Pollo, a neurosurgeon. The company raised fourteen millions of CHF in five years, they are now a team of ten people and they are certified ISO13485.

The idea came in 2006, when Andre was doing his PhD at the EPFL. During the drafting of his thesis, he had the idea of developing better electrodes for brain stimulation by creating a system of targeted brain stimulation. While wondering about his idea, he quickly recognized the need of different knowledge and skills. This pushed him to look for partners and to collaborate with Dr. Pollo.

Their business is part of the med-tech industry, focusing on the development of medical technology. Their field of interest is neurology and their aim is to develop a next-generation brain implants in order to treat brain diseases.

Concretely, they do it by implanting electrodes and recording data from diseased brains. Their differentiation is the precision of the stimulation of their electrodes. They are now focusing on the Parkinson disease but they would like to expand their technology to other types of brain diseases.

From the beginning of the project, they were well supported by Andres Mercanzini's PhD director, Philippe Renaud. However, when the two co-founders had to create their business plan, an external assistance has been required, and the business started as follows:

Elaboration of the business plan:

In order to build an attractive business plan, they attended some conferences called "Venture Lab" given by the Commission for Technology and Innovation (CTI). Those lectures assisted them in the elaboration of their business plan and their business strategy, which is not always easy to define for entrepreneurs with scientific backgrounds.

Public funding:

Before looking for private external funding, they decided to look for public funding. Public funding opportunities are different in every region of the world, the most common are subsidies and loans with preferential terms or conditions.

Their business objectives and their technology have a clear benefit for the society. The return on investment for this type of company goes beyond money, as their success may mean a success in the fight against brain diseases. For all those reasons, they thought they had good chances to get public funding, and they were right.

After approaching different sources of public financing, they finally met their first investor, the Foundation for Technological Innovation (FIT). In 2008, the foundation provided 100'000.- of CHF to Aleva Neurotherapeutics with no interest rate.

This capital has been the seed of the business and during two years the company was developing the business thanks to this first amount of funding. After the two first years, the business was evolving well and the perspectives of the company were growing.

First round financing:

In 2010, they started to collaborate with an entrepreneur called Jean-Pierre Rosat, which is now the CEO of the company. During this same year he raised approximately two millions of CHF through his love money's and business angels' networks.

The business had a clear boost and the clinical trials were developed, planned to be done in December 2011. At this point, the company was still at an early stage. As mentioned before (cf. 1.1.2 Investment stages), a company is at a middle stage when the technology is de-risked. In the med-tech industry, a technology is de-risked when it has been clinically approved.

Venture Capitalists were also part of this first round of financing. They decided to provide capital but in two steps, investing at first eight millions of CHF in 2011.

Second round financing:

The partnership between the start-up and the Venture Capitalists was successful, so they invested four millions more in 2012. The three first VCs who invested in the start-up were Swiss VCs, all focusing on life-science and bio-medical industries.

The discussions with VCs took many months, trying to get contacts and networks. Surprisingly, the deal was concluded in only few weeks once Venture Capitalists knew how they will get their money back. The future of the investment was the clear tipping point.

Investors get their money back after the termination of the investment. Termination is achieved through exit strategies, generally by selling the start-ups. Only few entrepreneurs are able to give a concrete exit strategy from the beginning of the negotiation with investors. By having defined an exit strategy with three different potential buyers, Aleva Neurotherapeutics had a clear competitive advantage. VCs had already a proof of compatibility of the offer and profitability of the investment in case of successful technology.

Typical investors want to know how the investment will be terminated (how the start-up will be sold) and approximately how many years it will take to get the returns and the investment back. In order to give a clear overview of their situation, the entrepreneurs decided to do a presentation for investors, which allowed them to facilitate the communication.

The key success factor of their presentation and their negotiation process was the tangible proof behind every assumption they did. For every number they presented, they had an explanation and a concrete unit of measure. Even though a start-up cannot give a tangible proof a future success, they were able to give examples and real cases to support their arguments.

On top of that, an expert in the field was able to certify that big companies of the industry will be willing to buy the start-up in case of success. The networks and the references also had an important role in the negotiation, as it is important for VCs to have conveyed and supported entrepreneurs in their portfolio.

Critical point

When they were starting their business, they evaluated the costs linked with the ISO13485 certification (in order to produce themselves the electrodes). The cost was high and their resources were limited, so they decided to look for a supplier with the necessary certification. They started collaborating with a supplier that ended up by being unsuitable. The amount of money used to fix the situation was finally more than what they had to pay for the certification.

Their fund raising process was successful, but the clinical trials were delayed due to their issues with the supplier, in charge of the production of the electrodes. The switching of a supplier can take months in some cases, and this is exactly what happened. Even so, they solved the matter and the first trial started in December 2012, rather than 2011.

Investors do not like surprises, and the start-up is fully aware of this reality. A surprise such as their trials' delay may happen, but it has to be an exception rather than the rule.

Current situation and projects of the company

Until today, several clinical trials have been made with 7 patients and all of them were positives. Their technology is being de-risked and their company is moving forward. They are now recognized as a middle stage company with satisfied investors.

In 2013, Aleva Neurotherapeutics is willing to do a third round of financing. Existent investors are willing to reinvest, they are satisfied of their investment and they believe in their success.

They also look for new investors around Europe. They participate to some events such as European Venture conferences called “European Tech Tour”, where entrepreneurs do their speech in front of dozens of VCs’ representatives. The best European start-ups are selected and supported in their fund raising process.

3. Guidelines for start-ups

The aim of this thesis is to describe in a simple way the ideal fund-raising process and evolution of a start-up. This final and special section is useful to any entrepreneur (or team of entrepreneurs) willing to set up a successful business with sustainable collaborations.

Nowadays, too many entrepreneurs set up their business without being aware about even half of the topics discussed in this thesis. Many of them end up by going bankrupt and in most cases this could have been avoided.

Not everybody is willing to acquire financial knowledge, but everybody should have a basic understanding about how to finance a start-up before launching any type of business.

During the elaboration of my thesis, I had the pleasure to interview four people involved in their daily work or once in their carrier with an investment process in a start-up. Two of them are partners of a VC company and the two others are entrepreneurs with experience in the fund-raising process. Their different perspectives allowed me to build my own opinion and analysis on what I believe are the main factors for a successful collaboration.

Entrepreneurs and investors, especially Venture Capitalists, are part of two different worlds and sometimes their perspectives and expectations differ from A to Z. However, if they are aware of the expectations of each other, they can easily find ways to agree and end up by creating a win-win partnership. They have to listen, understand and collaborate together. To do so, they need to have a clear vision of their different interests beforehand.

My goal is to give some tips, recommendations, check-lists, and other different types of tools that can help entrepreneurs to succeed. The previous part of the thesis was the theoretical background of the empirical part that follows. The success comes rarely by chance, a good entrepreneur is also a good partner, a good employer and a good strategist. I do not pretend to have all the keys of success, but based on my interviews and the research I have done, I believe the main elements are those described in the sections below.

3.1 Advices

In order to have a common question with a large range of opinions and point of views, I asked the same question at the end of each interview: What advice would you give to an entrepreneur willing to succeed?

The following advices are based on the past experiences of each interviewee:

Build trust: Be honest, transparent and realistic.

Be accountable: Show your accountability by achieving what you commit to within the agreed timeframe.

Analyze the market environment: Get the awareness from people having done a similar project before. While doing a thorough literature review, identify a substantial market of interest. Know your market and your industry, demonstrate expertise in your field.

Focus on funding: Take your time to build your project but keep centered around your key goals. Look for initial funding before developing your business or your prototype.

Ensure private sector contribution: Even though public funding is a good starting point, try to go for private investment as soon as you can.

Identify the human resource needs on an ongoing basis: Adapt the length of the employment contracts to the company's stage and requirements. Do not grant long term contracts or try to employ from the beginning, it is sometimes better to hire consultants in your field at first.

Get knowledgeable partners: Set up a good advisor board and senior management able to identify the best strategies for your business.

Define a business a model and a clear market strategy: Focus on your business model and your market strategy, monitor on a regular basis their status of implementation. If necessary, readjust them, keeping in mind your final goals.

Motivate the managers to become shareholders/investors: Get the management to invest in the start-up in order to give a certain level of credibility to the business. This increases the external credibility and strengthens the image of the company.

Ensure your competitiveness: Identify or build fundamental competitive advantages, define a unique selling proposition and a clear vision and mission.

Communicate your vision and mission: Explain the project clearly to investors, make sure they fully understand and validate what your company wants to accomplish and how you plan to achieve it.

Diversify the team-skills: Get on board complementary skills and knowledge. Do not fear to work with more intelligent people.

Establish a common thread: Be aware of the expectations of each other in order to find an area of common interest.

Add Real Value: Focus your business on the creation of real value, such as technological innovation, rather than pure financial engineering.

Create networks: Contact the actors, identify possible partnerships, associate yourself with already established companies and take their experience.

Be or become a leader: An entrepreneur needs to be a leader, good entrepreneurs become managers by the time. The most important is to lead the team to the success. A start-up is a company needing exceptional people ready to take the company further, making choices to be successful.

Eventually, when you think about your market share, think about making the cake bigger, not necessarily the piece of cake.

3.2 Profile of an ideal entrepreneur

This section details the main characteristics sought by investors when looking for entrepreneurs. By entrepreneurs, I mean also team of entrepreneurs. As a general rule, investors prefer teams than individuals. Surveys showed that teams are more successful than individual entrepreneurs, mainly due to the diversification of skills. Many competences are requested when creating a company and different visions can lead to a better understanding of the current situation.

The main skills, capacities and qualities that hold the attention of investors are the following:

No risk aversion: Ready to take risks to achieve its goals

Passionate: Involved with passion in the project

Clear vision: Is able to have a global view and is fully aware of the situation

Talent recognition: No fear of working or collaborate with people more intelligent than them

Proactive: Acts in advance, anticipates decisions

Ethic: Has moral principles integrated in its management strategy

Good reputation: provides references that show clearly its competence and skills

Skill-mix: Understand the need of variety of skills, allocates equity to other people

Flexible: Is able to quickly respond to changes, has a flexible management strategy

Coveted by investors: Gets along with investors' groups, has a good visibility on the market

Realistic: Has reachable expectations about the processes and outcomes

Negotiator: Has a negotiation talent, tells cogent stories and is presentable and persuasive

Innovator: Is creative, considered as a forerunner, able to deliver profits and open doors

3.3 Key success factors

Key success factors are simple factors that are too often neglected during the elaboration of a business plan. Here are the main factors highlighted during the research and the different interviews:

Market analysis

A product (or service) has to fit consumers' needs. Too many companies (even the biggest ones) forget this simple concept. When you elaborate a product, you do it for your customers, not for you. Even if your product is the best available in the market, if it does not fit their needs, nobody will pay for it.

The first thing to do when you want to create a business is to analyze the market you want to enter. By doing market research, interviews, consumers analysis, you can find ways to turn your issues into advantages. This has to be done primarily, before even thinking about what you will produce or provide to your consumers.

Do not wait for the golden idea

If you wait for the perfect condition, you will never get things done. A “golden idea” is a dream sought since the dawn of time. It represents an idea that nobody had implemented before, with a fantastic potential of success. However, this is a dream and too many people are waiting for this “golden idea” in order to launch themselves in the world of entrepreneurship.

When products such as Coca-Cola or iPhone were launched, nobody was considering these ideas as “golden ideas”. Their success was not yet guaranteed and the communities around the world were not yet accustomed to this type of product.

Before the creation of the first dating website, nobody was even thinking of meeting someone on the internet. At the time, many people thought meeting people on internet was dangerous. Still, the online dating market is increasing year by year.

Those examples are there to show you that the most important is not the idea you have, it is how you develop it and implement it in your daily business. Many entrepreneurs tried to launch the same type of ideas, but only few on them ended up by having a successful business in the long run. The idea is an important factor, but the key success factor is how you manage your business.

Human resources selection

A start-up is a small company with a small number of employees. The recruitment of human resources is a crucial step for the success of a start-up, more than for every other type of company.

Every employee in every kind of business has to share the values and the vision of its company. Though, a start-up has an additional constraint: the resources are limited and the selection has to be coherent with the budget and the business objectives.

Some entrepreneurs want to evolve too fast. Therefore, they hire talents that may be useful afterwards but that are pointless in the first two or three years of business. The important thing is to know what skills are required at what step and to stick to that primary analysis, at least for the first years of business. While business evolves, the human resources evolve consequently.

Also, the recruitment of senior managers is an important factor of the human resources selection. A start-up will always benefit from the knowledge of a senior employee having an experience in the targeted market. However, as they require higher wages, an entrepreneur needs to make sure about the necessity of those employees. Having too much senior positions is counter-productive and is usually not affordable for a start-up budget.

Financial awareness

A good entrepreneur is always aware of the financial situation of its company. A clear book-keeping is a key success factor but also a key tool for future investments. The implementation of a measurement system of cash flows, work in process, stocks and returns, facilitates the understanding and forecasting of the possibilities of the start-up in a near future.

As explained before, the main issue for a start-up looking for funding is to provide a proof of profitability. Yet, by having clear records and a full financial awareness of the business, an entrepreneur improves the chances of gathering new funds.

Pricing/Competition analysis

A critical point when a start-up enters a market is the setting of the price. It is really important for a start-up to have a clear map of the market. By map of the market, I mean a clear picture of the actual situation. Nothing has to be neglected: the competitors, the actual prices, the innovations, the past failures/successes, everything has to be considered if you want to be able to set a correct price for your product or service.

When you enter a market with a wrong price strategy, it is really hard to move back. Price strategy does not only mean the price. Nowadays, people look for affordable prices but also

for affordable methods of payment. If a product is really expensive, customer may do a leasing or a loan rather than paying cash.

Every company should consider what kind of methods of payment are available in the market and what they are able to offer without having lacks of available cash. If all the products are paid by leasing, then no money is entering during the sales and no cash is available for the daily business. An equilibrium needs to be achieved in order to attract sales and run a successful and profitable business.

3.4 How to choose a good partner?

An entrepreneur has to keep in mind that good investors are also good partners for the future. The analysis of those five key points is helpful to avoid disagreements or conflicts with future partners.

Culture: to be aware of the values of people investing in your business is crucial for the success of the partnership. It is important to share same objectives and opinions when you need to collaborate, especially in this type of long term investment.

Support: how can they support your business? Do they have good networks or good coaching plans? It is useful to look for information about their previous investments in order to know what kind of support they are able to provide.

Reputation: How do people talk about them? What can you hear about their business and their integrity? Do they represent the values you want to convey?

Experience: Do they have previous experiences in the field? If yes, what kind of experience and what type of results did they get from it?

Financial capacity: how much are they able to invest? Do they have enough assets to help your business to grow in the long run? Are they able to follow up with future investments?

Conclusion: lessons learned

The case studies have shown that the necessary analysis of the market for a potential new product (or service) is not only a conceptual need but an asset that is required for an entrepreneur to be able to convince VCs to invest in his idea.

As discussed in the guidelines, the golden idea is not the solution. The solution is to have an initial idea and to analyze the market possibilities. If the market has significant opportunities, the first thing to do is to develop a strategy while doing a thorough literature and market review in order to make sure that your idea, or a similar one, is not being developed somewhere else.

The companies I have analyzed, both for investors and for entrepreneurs, have common goals. The requirement for a successful development of an idea is to find the area of common interest. The identification and the understanding of each other's' expectations is crucial for a win-win collaboration in the long run. To do so, the investors require information and arguments to be convinced on the real growth potential of the company, and the company needs to collect evidence and support to promote the quality of its product and to demonstrate that there is a potential market waiting for this product to be commercialized.

When entrepreneurs and investors manage to establish a clear communication covering the mentioned aspects, the basis is set to establish a fruitful partnerships, resulting from the qualities identified in the section providing the guidelines. Entrepreneurs may develop new opportunities by collaborating with their investors, who can invest money as well as their time and experience to coach and advice.

I had a lot of pleasure while doing my research. I believe this is an important, interesting and useful topic, beyond its pure financial dimension. I hope non-financial readers appreciated this thesis, as my aim was to make it clear and easy to read and understand for them.

I decided to use an innovative approach including different types of information and sources, thanks to the mix of investors' and investees' recommendations and point of views collected through interviews.

I would like this study to become a useful and frequent tool for entrepreneurs. A start-up has great opportunities to be successful if the process and the guidelines discussed in this thesis are used as a reference.

In the appendix 5, some important addresses are classified by categories. This list is made of important contacts for entrepreneurs, likely to be useful at any stage of their business. It

includes funding contacts, innovation partners as well as venture events dedicated to young entrepreneurs willing to succeed.

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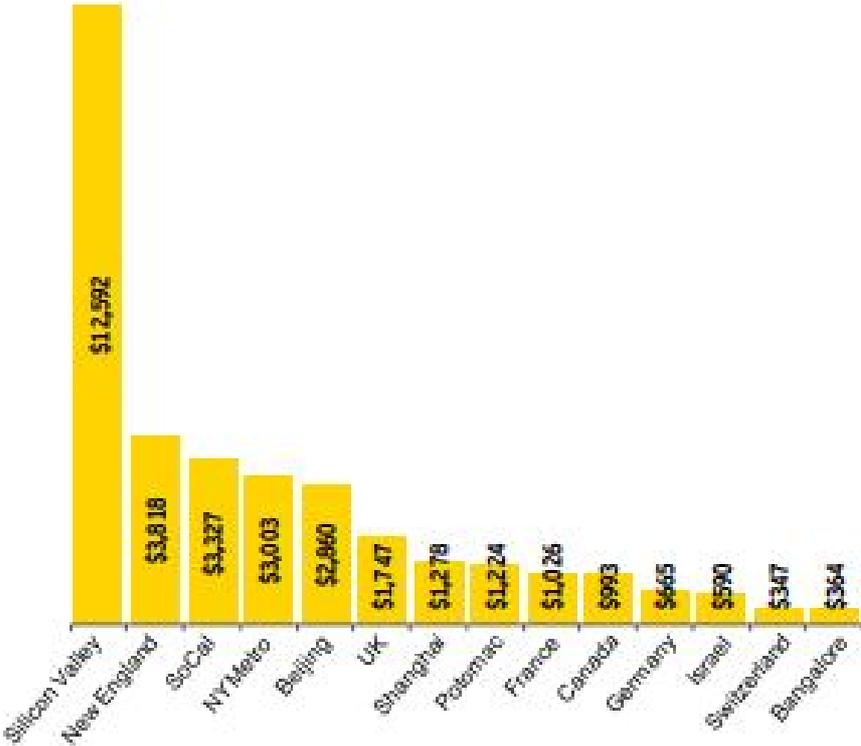
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Appendix 1: Amounts raised by regions

In 2011, the majority of the investments came from the US, mainly from Silicon Valley, New England, South California and New York. Even though American VCs are leaders in their industry, some regions such as Beijing (China) or United Kingdom are competing pretty well.

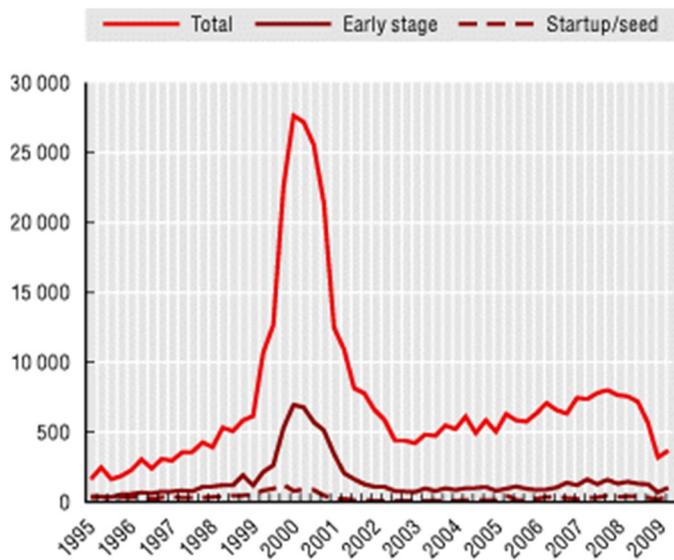
Amount raised, by hotbed, 2011 (US\$m)



Source: Dow Jones Venture Source, 2012

Appendix 2: Historical trend

This figure shows the evolution of VC investments between 1995 and 2009. A distinction is done between the stages, highlighting the two first ones (early and seed stage). The dot.com bubble (2000) and the financial crisis (2008) had a clear negative effect on the amounts invested. However, the VC industry shows a good ability to recover.



Source: OECD Science, Technology and Industry Scoreboard 2009

Appendix 3: Fundraising statistics

This table shows the number of VCFs raised by year and the respective amounts of the last five years in the US. The amounts are starting to increase again after the crisis; the industry seems to recover well.

Year/Quarter	Number of Funds	Venture Capital (\$M)
2008	215	25,577.2
2009	162	16,187.9
2010	176	13,669.8
2011	187	18,745.7
2012	182	20,569.9
4Q'10	50	3,712.2
1Q'11	49	7,699.5
2Q'11	48	2,713.3
3Q'11	66	2,116.0
4Q'11	54	6,217.0
1Q'12	54	5,987.4
2Q'12	46	6,203.7
3Q'12	56	5,088.0
4Q'12	42	3,290.8

Source: NVCA VC fundraising statistics for 2012

Appendix 4: Stock market entrance in 2012/2013

The five following tables show the venture-backed IPO's in the U.S. in 2012 and early 2013. There is a clear focus on Information technology and Life sciences, almost all the start-ups who entered the stock market this last year are part of one of those two industries.

		Q1 2012	
Industry		*Number of Venture-Backed IPO's in the U.S.	Total Venture-Backed Offering Size (\$M)
Information Technology	Internet Specific	8	671.8
	Computer Software and Services	2	181.7
	Communications and Media	1	93.6
		11	947.1
Life Sciences	Biotechnology	4	265.1
	Medical/Health	1	50.4
		5	315.5
	Industrial/Energy	2	122.6
	Other Products	1	132.6
		3	255.2
TOTAL		19	1,517.9

		Q2 2012	
Industry		*Number of Venture-Backed IPO's in the U.S.	Total Venture-Backed Offering Size (\$M)
Information Technology	Communications and Media	4	361.7
	Internet Specific	2	16,065.4
	Computer Software and Services	3	501.7
		9	16,928.8
Life Sciences	Biotechnology	1	81.0
	Medical/Health	1	50.0
		2	131.0
TOTAL		11	17,059.8

Source: Thomson Reuters & National Venture Capital Association

		Q3 2012	
		*Number of Venture-Backed IPO's in the U.S.	Total Venture- Backed Offering Size (\$M)
Industry			
Information Technology	Computer Software and Services	3	421.6
	Internet Specific	3	327.8
		6	749.4
Life Sciences	Medical/Health	2	172.5
	Biotechnology	1	77.6
		3	250.1
Other	Industrial/Energy	1	88.6
TOTAL		10	1,088.0

		Q4 2012	
		*Number of Venture-Backed IPO's in the U.S.	Total Venture- Backed Offering Size (\$M)
Industry			
Information Technology	Computer Software and Services	1	732.6
	Internet Specific	2	235.5
	Communications and Media	1	126.0
	Semiconductors/Other Elect.	1	41.4
		5	1,135.4
Life Sciences	Biotechnology	2	167.2
		2	167.2
	Industrial/Energy	1	105.8
		1	105.8
TOTAL		8	1,408.4

		Q1 2013	
		*Number of Venture-Backed IPO's in the U.S.	Total Venture- Backed Offering Size (\$M)
Industry			
Information Technology	Computer Software and Services	3	318.0
	Internet Specific	3	201.0
		6	519.0
Life Sciences	Biotechnology	1	101.2
	Medical/Health	1	51.8
		2	153.0
TOTAL		8	672.0

Source: Thomson Reuters & National Venture Capital Association

Appendix 5: Useful addresses

Public funding:

Swiss National Fund:

<http://www.snf.ch>

Swiss Innovation Agency

<http://www.kti-cti.ch>

European Union Research

<http://ec.europa.eu/research>

Foundation & grants:

Foundation Liechti “coup de pouce”

<http://www.fondation-liechti.ch>

Venturekick

<http://www.venturekick.ch>

Foundation de Vigier

www.devigier.ch

Foundation Gebert Rüt

www.grstiftung.ch

Foundation Volkswirtschaft

<http://www.volkswirtschaft-stiftung.ch/>

Startups.ch

www.startups.ch/de/award

Swiss Economic Award

www.swisseconomic.ch

Innovation:

Alliance for innovation

<http://www.alliance-tt.ch>

Innogrants: EPFL's support to start-up creation

<http://vpiv.epfl.ch/innogrants>

Genilem: support association for start-ups

<http://www.genilem-suisse.ch/>

Training:

Venturelab

<http://www.venturelab.ch>

Commission for Technology and Innovation (CTI): Entrepreneurship training

<http://startuptraining.ch>

Coaching:

A3 angels: Business angels and mentoring club

<http://www.a3angels.ch/mentoring>

Commission for Technology and Innovation (CTI): Start-up Label

<http://www.ctistartup.ch>

Idée Suisse Award

www.idee-suisse.ch