

CHALLENGES IN FINANCING START-UPS AND POTENTIAL SOLUTIONS

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1. START-UPS: SCOPE OF THIS PRESENTATION

- WHICH START UPS ARE WE CONSIDERING?
- NOT THE SMALL COPIES OF EXISTING TRADE AND CRAFT, FOR WHICH RISK FACTORS ARE LIMITED TO THE ENTREPRENEURS PERSONAL PROFILE (SKILL, CHARACTER, IMPLICATION), OR LOCATION OF THE BUSINESS
- THE REAL START UP PROPOSES SOMETHING NEW, UNUSUAL, TO BE PRODUCED THROUGH A COMPLEX ORGANIZATION;
- PRESENTING THE NEED OF A SUBSTANTIAL AMOUNT OF BORROWING, TO BE PAID BACK WITH FUTURE CASH FLOWS
- WITH A BUSINESS PLAN OPENING MANY QUESTIONS, WHOSE ANSWERS ARE HYPOTHETICAL, AND ON THE WHOLE OFFERING TO A THIRD PARTY A LACK OF VISIBILITY

START-UPS: A DIFFICULT TOPIC FOR LENDERS

- NO PAST RELATIONSHIP ALLOWS VISIBILITY ON PERFORMANCE AND VIABILITY
- CONFIDENCE FACTOR IS MISSING; BANKS NEED CERTAINTY AND REQUIRE MINIMAL OBSERVATION PERIOD BEFORE LENDING
- NO TRACK RECORD OR INFORMATION ON EXISTING BORROWING ARE AVAILABLE
- ASSYMETRY OF INFORMATION BETWEEN BORROWER AND LENDER CREATE HESITATION AND REFUSAL OF CREDIT REQUEST
- DOUBLE LEVEL OF DIFFICULTY ASSESSING RISKS WHEN ACTIVITY IS OF A NEW TYPE
- SUCH CUSTOMERS REQUIRE SPECIFIC APPROACH, SPECIFIC TEAMS IN BANKS TO DEAL WITH THEM
- MAKING PROFIT ON NEW ENTERPRISES IS CHALLENGING: SMALL VOLUME OF LENDING / HIGH RISK

2.... FOR GOOD REASONS

- ACCEPTED STATISTICS FOR START UP POPULATIONS DEFAULT: 30% TO 50%;
- ODDS AGAINST SUCCESS ARE NUMEROUS AND STRONG:
- NEW SMES HAVE USUALLY A WEAK FINANCIAL STRUCTURE, AND OFTEN NO ADDITIONAL FINANCIAL CAPABILITIES ; PROVIDING COLLATERAL IS A PROBLEM
- ENTREPRENEURS ARE ON THEIR OWN AND MUST ASSUME ALL ROLES; LEARNING TO BE AN ENTREPRENEUR CAN TAKE TIME
- ENTREPRENEURS ARE OFTEN MEN WITH ON MAIN KNOWLEDGE : TECHNICIAN , OR COMMERCIAL, OR MANAGER, OFTEN WITH LITTLE FINANCIAL CULTURE
- PROJECTS JOINING VARIOUS ASSOCIATES WITH DIFFERENT COMPETENCES CAN BE A GOOD RESPONSE, BUT BREAKING UP OF TEAM CAN BE FATAL

THE „FINANCIAL TRAP“ FOR MANY START UPS

- STARTING A COMPANY RARELY GOES ACCORDING TO PLANS
- SEVERAL FACTORS OF PRODUCTION CAN NEED ADJUSTING, OR REQUIRE MORE TIME TO REACH OBJECTIVES / STAFF, EQUIPMENT, ALTERING THE OFFER OR PRODUCTS, TURNING CLIENTS EXPECTATIONS INTO REAL SALES
- “ENTREPRENARIAL APPRENTICESHIP” MEANS EXTRA EFFORTS, COST AND TIME FOR THE ENTREPRENEUR; THAT CAN BE DETRIMENTAL TO RESPECT OF TURNOVER BUDGET.
- USUALLY, START UPS DO NOT GET ALL THE FINANCING EXPECTED FROM BANKS, DUE TO BANKERS ATTITUDE AGAINST RISK, OR SHORTAGE OF COLLATERAL; WORKING CAPITAL NEEDS ARE FREQUENTLY UNDER FINANCED BY SCARCE RESOURCES.
- ADDITIONAL COSTS IN INVESTMENTS AND OPERATIONAL EXPENSES BRING THE YOUNG COMPANY, WITH YET UNSUFFICIENT SALES, INTO A DEADLY SITUATION;

STILL, FAVORABLE CONSIDERATIONS EXIST FOR SUPPORTING SMES

- HELP RENEWING THE SME POPULATION.
- ALLOW CUSTOMER BASE TO INCREASE FOR THE BANKS , AND PRESENCE OF NEW ACTIVITIES
- THEY TAKE PART IN JOB CREATION
- THEY UNLEASH INITIATIVE, HELP INDIVIDUALS CREATE THEIR OWN JOB, BRING MOTIVATION AND ENTHUSIASM
- NEW BLOOD” AND COMPETENCE IN ENTREPRENEURS’ POPULATION
- PLAY A ROLE THAT LARGE ESTABLISHED ENTERPRISES CANNOT PLAY, DUE TO ORGANIZATIONAL CONSTRAINTS OF MANAGEMENT

PUBLIC SUPPORT POLICIES OFTEN PUT START UPS AS PRIVILEGED CATEGORIES

- SPECIFIC GUARANTEE FUNDS APPEAR IN MOST COUNTRIES (IN FRANCE SINCE 1979)
- DEDICATED LENDING INSTITUTIONS, OFFERING ALSO GRANTS, TRAINING, EQUITY (EXAMPLE: TUNISIA)
- TAX REBATES (NOT SO FREQUENT NOW, AND MORE DISCRIMINATING)
- TAX DEDUCTIBILITY PROGRAMS NOW TARGET INNOVATIVE FIRMS USING CAPACITY BUILDING FOR ENTREPRENEURSHIP OR USING INCUBATORS;
- SMALL LOANS PROGRAMS BASED ON PUBLIC RESOURCES (« PCE » IN FRANCE, TOTALLING 150 000 SMALL LOANS WITHOUT STUDY PROCESS, SELECTION OF BENEFICIARIES DONE BY BANKS SUPPLYING AN ADDITIONAL LOAN)
- BUT PUBLIC SUPPORT HAS ITS LIMITS (BUDGET); EFFICIENCY ALSO DEPENDS ON SIZE AND QUALITY OF PERSONAL ATTENDING THE PROJECTS.
- REGIONAL AUTHORITIES (AND SOMETIME MUNICIPALITIES OF LARGE CITIES) COMPLEMENT NOW TO A LARGE EXTENT THE NATIONAL SUPPORT

SCREENING THE EFFICIENCY OF GUARANTEE PROGRAMS , AS THE MAIN RECOGNIZED INSTRUMENT ON ACCESS TO FINANCE FOR START UPS

- CONDITIONS FOR EFFICIENCY: REAL EXPERIENCE AND GOOD RISK APPRECIATION IS NEEDED
- DECISION FROM THE LOAN GUARANTEE SCHEME MUST BE BASED ON ANALYSIS AND KNOWLEDGE OF RISKS FACTORS, AND GOOD ACCESS TO INFORMATION (LOCAL ENVIRONMENT, BUSINESS PLAN, AND OFTEN DIALOGUE WITH THE ENTREPRENEUR.
- GUARANTEE OFFER MUST BE WIDESPREAD ON ALL TYPES OF FINANCING NEEDED:
 - MATERIAL AND IMMATERIAL INVESTMENTS (THE LATTER BEING LESS ACCEPTED AS SUCH BY LENDERS)
 - WORKING CAPITAL NEEDS
 - EQUITY AND QUASI EQUITY (STILL RARE IN THE GUARANTEE LANDSCAPE)

PRIVATE SUPPORT TO START UPS

- PROFESSIONAL BODIES SUCH AS CHAMBERS OF COMMERCE PROPOSE INFORMATION CENTERS, TRAINING, DEDICATED ADVISORY TEAMS, SIMPLIFIED ACCESS TO ADMINISTRATIVE PROCESSES
- THEY PLAY A LARGE ROLE IN PROMOTING THE START UPS THROUGH CONFERENCES AND SEMINARS
- THEY ALSO PROVIDE INSTRUMENTS FOR MATCHING INVESTORS RESEARCH OF POTENTIAL TARGETS WITH YOUNG ENTERPRISES IN NEED OF EQUITY
- LOGISTIC SUPPORT IS AVAILABLE AT LOW COST IN NURSERIES OFFERING PREMICES AND COMMUNICATION
- ASSOCIATIONS OF ENTREPRENEURS OFFER PRECIOUS TUTORSHIP AND FOLLOW-UP ADVISORY; THIS INCREASES BY 50% THE SURVIVAL RATE
- SOME ASSOCIATIONS ALSO PROVIDE FINANCIAL SUPPORT, SUCH AS PERSONAL LOANS, WITHOUT REQUEST FOR COLLATERAL ; TO BE USED TO INCREASE THE EQUITY

IMPORTANCE OF SEED AND VENTURE CAPITAL

- EQUITY INVESTORS ARE ACTIVE PARTNERS
- THE PROFESSION IS INCREASING THE NUMBER OF ACTORS, OF VARIOUS SIZES , PROFILE AND MOTIVES
- REGIONAL INITIATIVES, OR INVESTORS SPECIALIZING ONE KIND OF TARGET, SUCH AS START UPS, OFFER POTENTIAL SUPPORT
- SPECIALIZED VC FIRMS OR FUNDS TARGET INNOVATIVE START UPS, LOOKING FOR THE NEW GOOGLE
- TAX INCENTIVES FOR INDIVIDUALS HELP GATHERING RESOURCES TO BE INVESTED BY FUNDS
- HOWEVER, EQUITY RESOURCES ARE STILL FOR THE “HAPPY FEW”; INVESTORS ACCEPT ONE PROJECT OUT OF 50 STUDIES; THIS STILL REPRESENTS A SMALL PERCENTAGE OF THE POPULATION OF START UPS
- AND DEATH RATE AMONG PORTFOLIOS IS HIGH (BUT IT IS BALANCED BY A FEW BRILLIANT SUCCESSES)

NEW OPPORTUNITIES ARISE

- THE « NEW ECONOMY » « E – ECONOMY » BASED ON INTERNET BASED APPLICATIONS HAS OPENED NEW OPPORTUNITIES AND LARGE POTENTIAL MARKETS:
- SUCCESSFUL VENTURES CREATE ATTRACTIVE EXAMPLES FOR ENTREPRENEURS, AND STIR UP MOTIVATIONS
- THE RAPID CHANGE IN TECHNIQUES BRINGS OPPORTUNITIES TO YOUNGER ENTREPRENEURS AND GRADUATES.
- THE EXPERIENCE FACTOR WAS A “MUST” TWENTY YEARS AGO, IN TRADITIONAL ACTIVITY PROJECTS; NOW, IT COULD BE A DRAWBACK, AS SUCH ENTERPRISES FIND LITTLE MARKET SHARE TO TAKE IN A HIGHLY COMPETITIVE INTERNATIONAL CONTEXT
- PROVISION OF FINANCIAL SUPPORT IS MORE SUCCESSFULLY OFFERED WITH A COMBINATION OF CONSULTING SERVICES, BUSINESS ADVICE OR NETWORK OPPORTUNITIES.

NEW FORMS OF ALTERNATIVE FINANCING OPEN NEW HORIZONS

- CROWDFUNDING IS THE KEY TO MANY START UPS
- THE FRENCH EXAMPLE: IN 2016, LEVERAGED RESOURCES THROUGH CROWDFUNDING REACHED 230 MILLION €, FROM ABOUT 1 MILLION INVESTORS
- RAPID GROWTH ON SUCH FINANCING ALSO ILLUSTRATES NEW MOTIVATIONS AMONG INVESTORS, LINKED TO ENVIRONMENTAL, ETHICAL OR MORAL OBJECTIVES
- CRODFUNDING CAN TAKE SEVERAL FORMS: AS EQUITY, AS LOAN; OR SIMPLY GIVEN TO ATTRACTIVE PROJECTS (THE “3 F “ FAMILY, FRIENDS AND FOOLS ARE BECOMING 4? WITH FIBER6ASSOCIATES)
- PLATFORMS AND SOME NEWLY ESTABLISHED FIRMS OFFERING A SERVICE FOR SETTING UP CROWDFUNDING APPLICATIONS CAN NOW SOLVE ENTIRELY THE FINANCIAL ISSUE FOR START UPS

THE DEVELOPMENT OF FORMS OF ALTERNATIVE FINANCING OPEN NEW HORIZONS

- ASSET BASED FINANCING IS ON THE INCREASE, AND CAN ALSO HELP START UPS FIND RESOURCES
- THE ADAPTED LEGAL FRAMEWORK THAT ENABLES SUCH FINANCING TO DEVELOP CAN BE OBSERVED IN MANY MORE COUNTRIES
- THE CONFIDENCE FACTOR LIES MORE IN THE UNDERLYING ASSET THAN IN THE VIABILITY OF THE BORROWER
- LEASING MAKES INVESTMENT FINANCING EASIER FOR NEW SMES, AS OWNERSHIP OF THE ASSET UNTIL THE END OF CONTRACT PROTECTS THE FINANCIAL PARTNER
- FACTORING ALSO HELPS A YOUNG COMPANY WITH WELL RATED CUSTOMERS TO MOBILIZE ITS RECEIVABLES
- TECHNIQUES MAKE SUCH PARTNERS MUCH QUICKER AND OPEN MINDED TO ATTEND TO START



UPS NEEDS

HOWEVER, STRONG FINANCIAL FRAMEWORK FACTORS REMAIN UNFAVORABLE FOR START UPS

- BANKING ATTITUDE APPEARS TO STIFFEN, MEANING MORE ATTENTIVE SELECTION
- CONSEQUENCES OF THE GLOBAL 2009 CRISIS HAVE TURNED INTO BASEL 3 REGULATIONS FOR COMMERCIAL BANKS
- RISK RATING FOR INDIVIDUAL LOANS IS REQUIRED, AND ADEQUATE REGULATORY CONDITIONS HAVE TO BE SATISFYIED (EQUITY FOR THE BANK, AND COLLATERALS FOR THE BORROWERS)
- NATURALLY, THE BANKING SECTOR IS TURNING, VIA SUBSIDIARIES, INTO AN ADDITIONAL ACTOR IN THE FIELD OF EQUITY, INCREASING THE OFFER TO VENTURES;
- BUT THIS LEAVES ASIDE MOST SMES, OFFERING UNCERTAIN OR UNATTRACTIVE PERSPECTIVES

BETTER COORDINATION BETWEEN SUPPORT ACTORS IS NEEDED, ESPECIALLY FOR INNOVATIVE START UPS

- CREATION OF « CONFIDENCE SHARING » IS ESSENTIAL FOR A SOUND FINANCING ENVIRONMENT FOR START UPS
- BANKS, GUARANTEE FUNDS, EQUITY INVESTORS AND INNOVATION SUPPORT STRUCTURES (MOSTLY PUBLIC) TRY TO WORK TOGETHER;
- BUT THEY GENERALLY CONFRONT DIFFERENT OBJECTIVES AND METHODOLOGIES, OFTEN UNMATCHING:
 - BANKS AND GUARANTEE INSTITUTIONS LACK INTERNAL STAFF TO EVALUATE TECHNOLOGICAL RISKS
 - EQUITY INVESTORS NEED CONFIDENTIALITY AND CANNOT DISCLOSE THE REASONS OF A FAVORABLE TO BANKS
 - INNOVATION SUPPORT ENTITIES, WITH A SCIENTIFIC APPROACH, HAVE A DIFFICULT (AND SOMETIMES UNCONVINCING) DIALOGUE WITH THE FINANCIAL ACTORS

AN INTERESTING EXAMPLE OF PUBLIC SUPPORT, OFFERING BETTER COORDINATION

- THE FRENCH PUBLIC INSTITUTION BPIFRANCE IS A RARE COMBINATION, IN THE SAME GROUP, OF ALL ACTORS, OFFERING THE IDEAL « ONE STOP SHOP » TO ENTREPRENEURS
- IT HAS 4 ACTIVITIES:
 - LENDING,
 - GUARANTEEING (AS A MISSION OF GENERAL INTEREST),
 - MANAGING THE INNOVATION SUPPORT SCHEME FOR SMES,
 - AND ACTS AS EQUITY INVESTOR VIA SEVERAL CHANNELS.
- FROM ITS TECHNICAL EVALUATION OF INNOVATIVE PROJECTS ARISES THE POSSIBILITY FOR THE GUARANTEE VECTOR TO OFFER RISK COVERAGE ON LENDING AND EQUITY ISSUED BY THE GROUP ITSELF AND BY ALL PRIVATE FINANCIAL INTERMEDIARIES.
- THE SCIENTIFIC ASSESSMENT OF THE INNOVATION IS IN THAT WAY TURNED INTO A « CAPITAL OF CONFIDENCE » WHICH IN TURN RELEASES A FINANCIAL VALUE REPRESENTED BY THE GUARANTEE GRANTED ON FINANCING.

CONCLUSION: AN ENCOURAGING VISION FOR START UPS


- FINANCING START UPS IS STILL A COMPLEX PROCESS, CHALLENGING FOR BANKS AND DIFFICULT FOR NEW ENTREPRENEURS
- THE GLOBAL CRISIS HAS LEFT TRACES IN THE ATTITUDE OF FINANCING ACTORS, SLOWING DOWN PROGRESS IN FINANCING ALLOCATION OBTAINED BEFORE 2009;
- BUT ON THE WHOLE, A BETTER UNDERSTANDING APPEARS OF THE NECESSARY ADAPTATION OF THE ENVIRONMENT SUPPORTING START UPS;
- MORE INFORMATION, BETTER EXCHANGE OF DATA , AND IMPROVED ACCESSIBLE ADVISORY IS NOTICEABLE.
- MORE NETWORKS OR INSTRUMENTS MATCHING COMPETENCES AND OPPORTUNITIES, ARE AVAILABLE, THANKS TO DIGITALIZATION AND IMPROVED INFORMATION TECHNOLOGIES SOLUTIONS.


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



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