

Effective management of start-ups, attracting investors, determinants of market success

Aleksandra Grajkowska, Aleksandria Ventures Ltd, Cyprus

Zygmunt Grajkowski, VBM Consulting, Poland



2nd International

**“Conference European Research Infrastructures
for Innovation and Development” (ERIFID)**

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Why I am speaking here?

1996 -1997 Price Waterhouse

Director in the Polish
division of Corporate
Finance

Responsible for
mergers & acquisitions



1997- 2002 Enterprise Investors

Partner, responsible
for technology deals

The largest private
equity investment fund
in CEE



In 2000 awarded with the
"Złote Procesory"
(The Golden Processors Award)
and the title of the
**'Man of the Year 2000
in the IT Sector'**



2002 - now VBM Consulting

My own business consulting company.

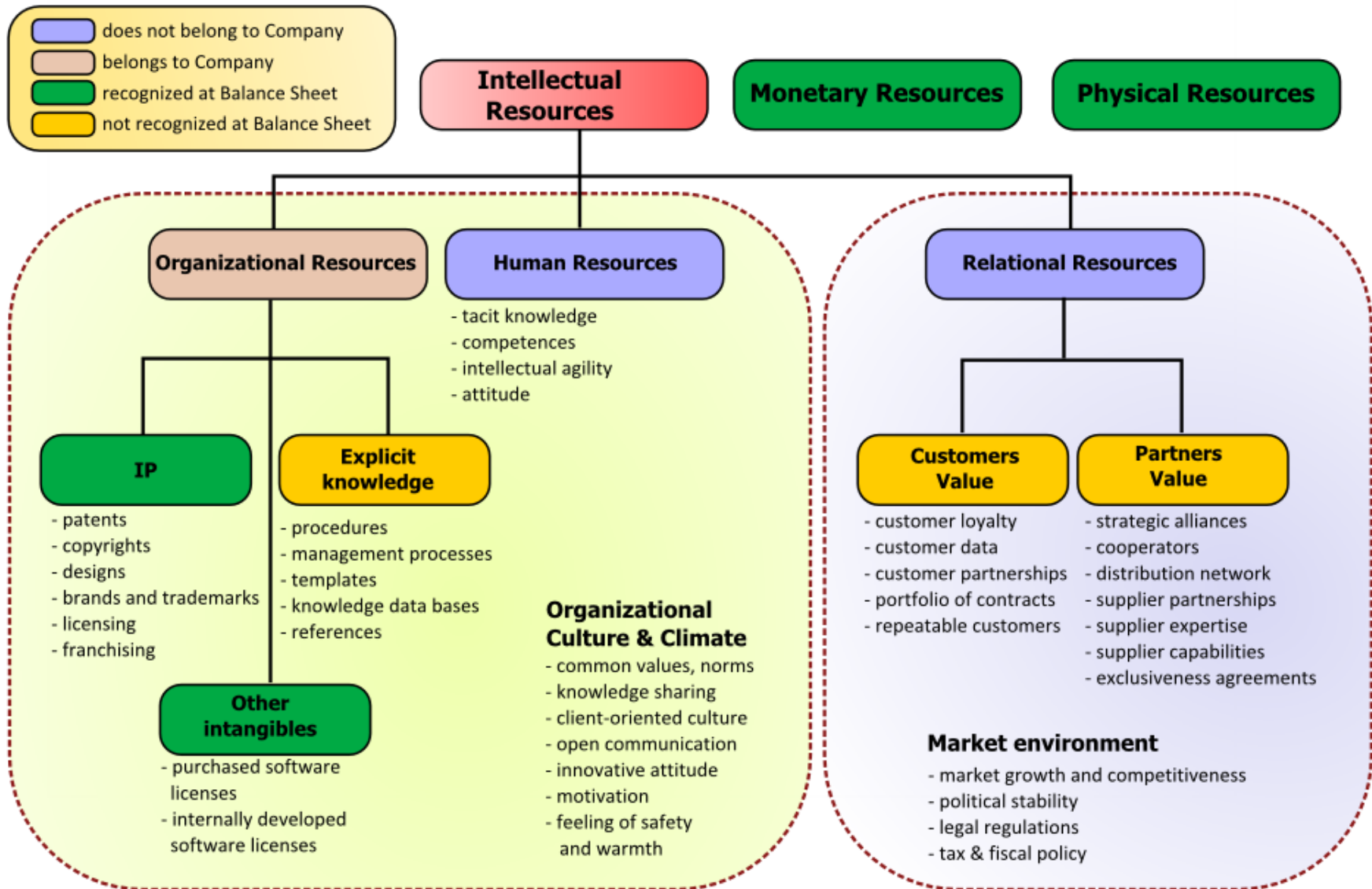
Specializes in Intellectual Capital
Valuations, funds raising and M&A
transactions of innovative,
knowledge based companies.



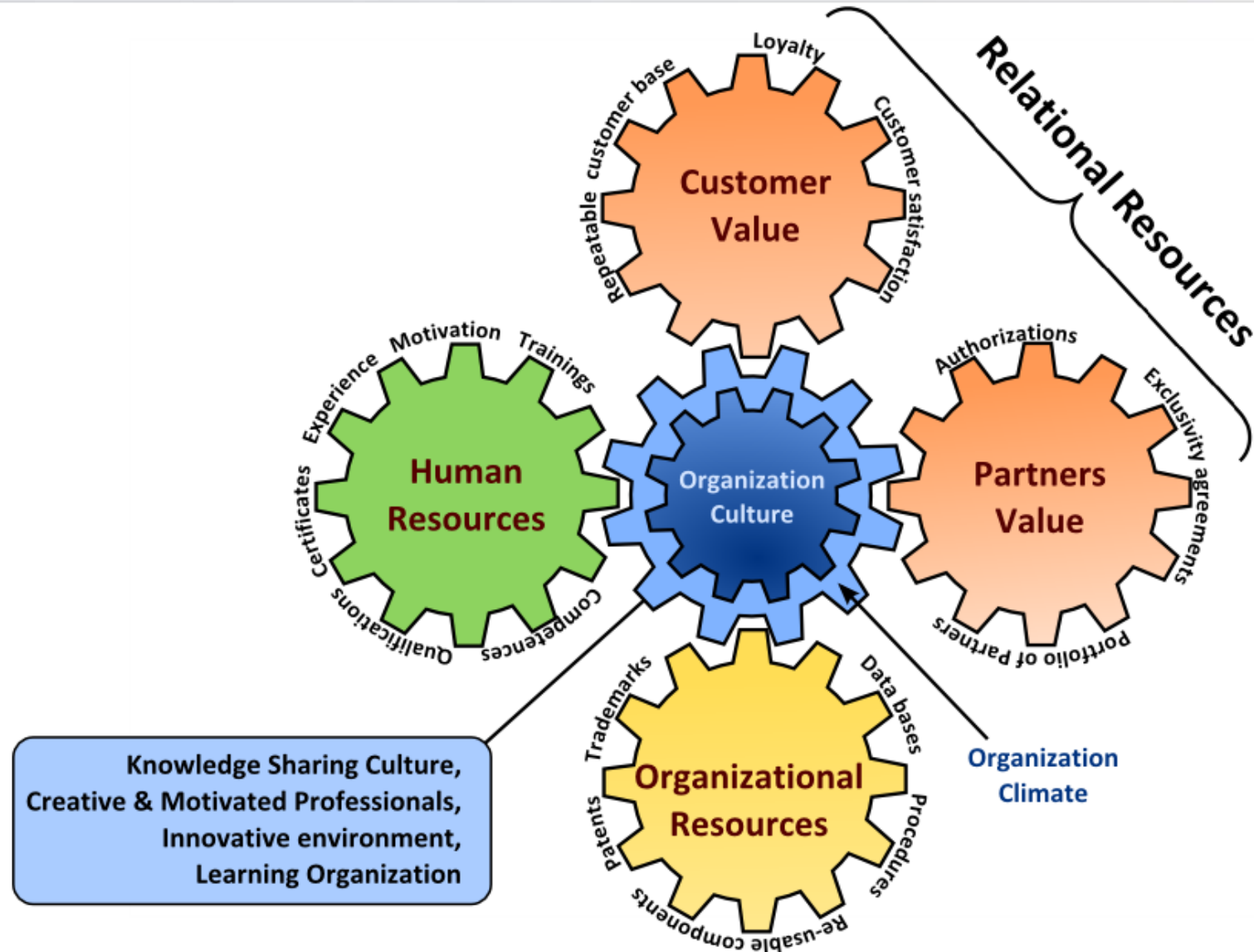
Over 80 projects successfully completed within last 8 years

- 44 business valuation including
15 buy-side transaction (also within
several innovative companies)
- 4 IPOs
- Numerous long term strategies

What is Intellectual Capital?



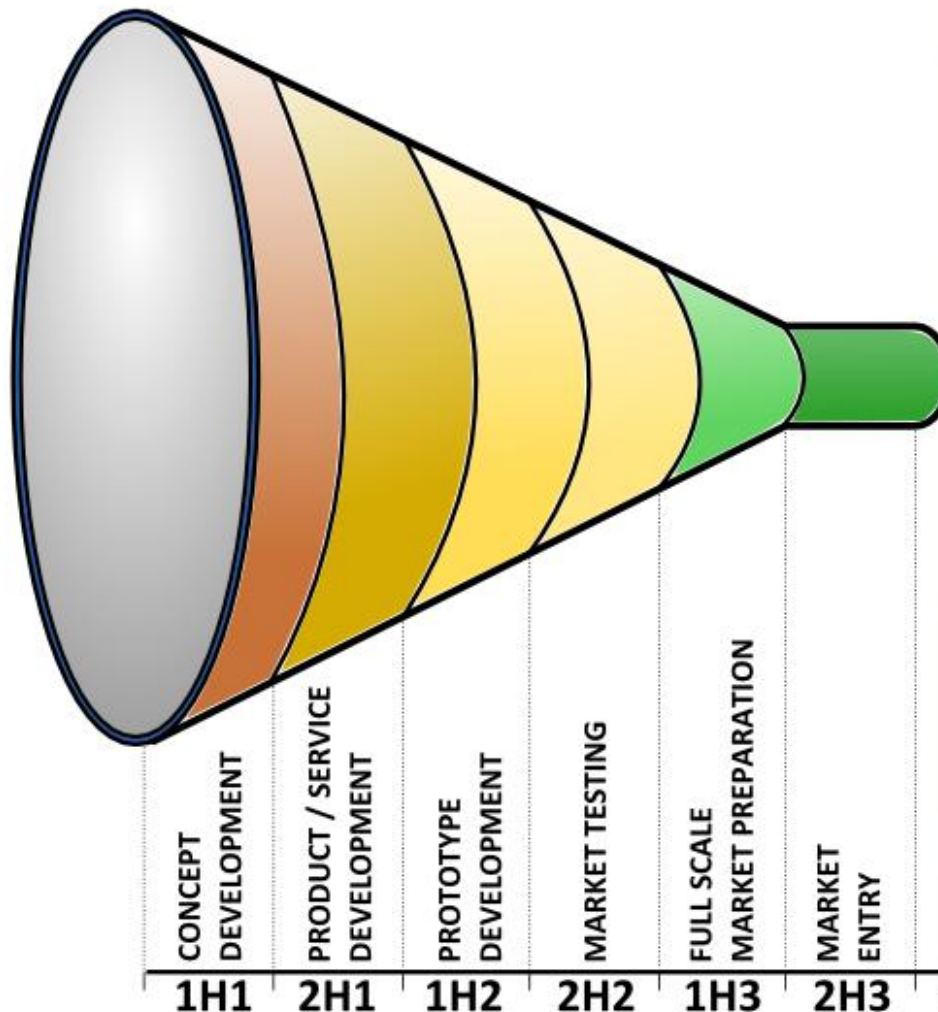
Why and when all together works?



Innovation Funnel

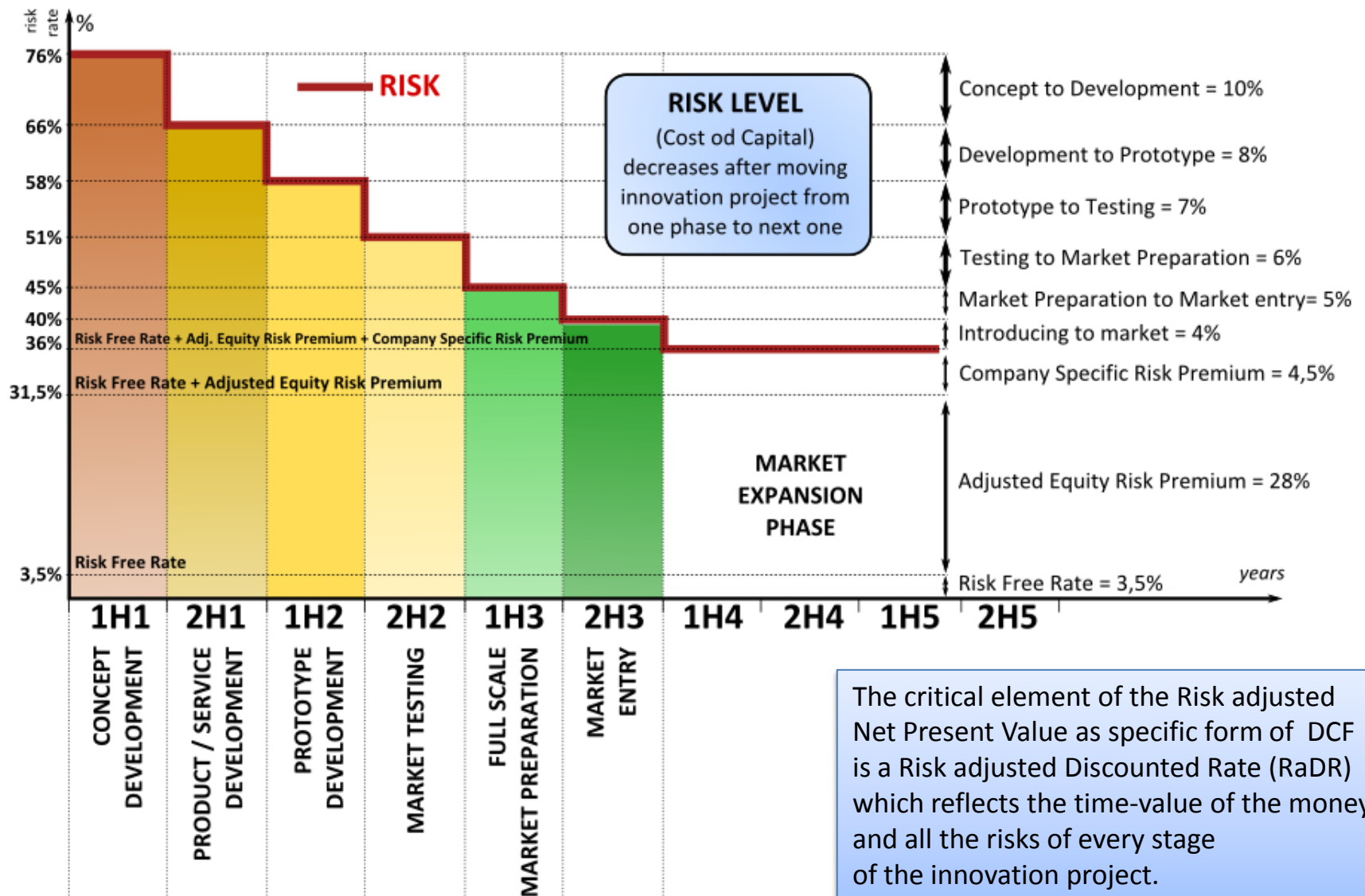
as efficient management methodology and tool

Managing portfolio of projects at innovation funnel



- ☐ has target group been identified?
- ☐ has market size and growth dynamics been estimated?
- ☐ have customer needs and benefits been identified?
- ☐ have product / service features been defined?
- ☐ has product been positioned against competitor's?
- ☐ has internal sponsor and coordinator been identified?
- ☐ has development schedule and budget been estimated and approved?
- ☐ has internal/external R&D lab been booked for a sufficient time?
- ☐ has risk / return analysis been conducted?
- ☐ has the prototype been developed, improved and final version approved?
- ☐ have internal testing procedures been applied?
- ☐ has the final prototype been produced?
- ☐ have new design been protected/patented?
- ☐ has the testing target group been identified?
- ☐ has the sufficient quantity of testing products been produced?
- ☐ have the testing products/services been distributed to testing target group?
- ☐ have opinions been collected and product/services design adjusted?
- ☐ has the optimal technology been selected?
- ☐ have all required resources been secured?
- ☐ have the processes & procedures been defined and communicated?
- ☐ has final blueprints, manuals and package been prepared?
- ☐ is the internal/outsourced production ready to start?
- ☐ has the pricing policy been defined?
- ☐ has the mass production costing structure been set?
- ☐ has marketing and sales plan been defined and implemented?
- ☐ have logistic processes and distribution channels been prepared?

Defining the level of Risk Adjusted Discount Rate



Calculating the level of Risk Adjusted Discount Rate

Company's anualised Cost of Capital build-up method		1H Year 1	2H Year 1	1H Year 2	2H Year 2	1H Year 3	2H Year 3	1H Year 4	2H Year 4	1H Year 5	2H Year 5
Risk Free Rate nominal value including inflation		3,5%	3,6%	3,7%	3,8%	3,9%	4,0%	3,9%	3,8%	3,7%	3,6%
Market Risk Premiums	Adjusted Equity Risk Premium	28,0%	27,3%	26,5%	25,0%	24,3%	23,5%	25,0%	26,5%	27,3%	28,0%
	Base (average over years) Equity Risk Premium [ERP]	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
	Equity Risk Extra Premim/discount for Capital Markets current sentiment [Alfa]	2,0%	1,5%	1,0%	0,0%	-0,5%	-1,0%	0,0%	1,0%	1,5%	2,0%
	Risk Premium for Sector [Beta]	4,0%	3,8%	3,5%	3,0%	2,8%	2,5%	3,0%	3,5%	3,8%	4,0%
	Small Cap Premium	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%	9,0%
	Illiquidity Discount Premium for Privetelly hold companies [Gamma]	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
Company Specific Risk Premiums	Company Specific Risk Premium	4,5%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%
	Revenue variability and backlog and sales pipeline status	1,5%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
	Operating Leverage Risk Premium	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
	Financial Leverage Risk Premium	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
	Technology, Key Person, Single Client, Regulatory related Risks	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%	2,0%
Project Risk Premiums	Project Phase Risk Premiums	40,0%	30,0%	22,0%	15,0%	9,0%	4,0%	0,0%	0,0%	0,0%	0,0%
	Market Entry	4,0%	4,0%	4,0%	4,0%	4,0%	4,0%				
	Full Scale Market Preparation	5,0%	5,0%	5,0%	5,0%	5,0%					
	Market testing	6,0%	6,0%	6,0%	6,0%						
	Prototype Development	7,0%	7,0%	7,0%							
	Product/Service Development	8,0%	8,0%								
	Concept Development	10,0%									
Sum-up	Cost of Capital - Monetary Investment Capitalisation Rate	76,0%	64,9%	56,2%	47,8%	41,2%	35,5%	32,9%	34,3%	35,0%	35,6%
	Semi-annual Monetary Investment Capitalisation Rate	38,0%	32,4%	28,1%	23,9%	20,6%	17,8%	16,5%	17,2%	17,5%	17,8%

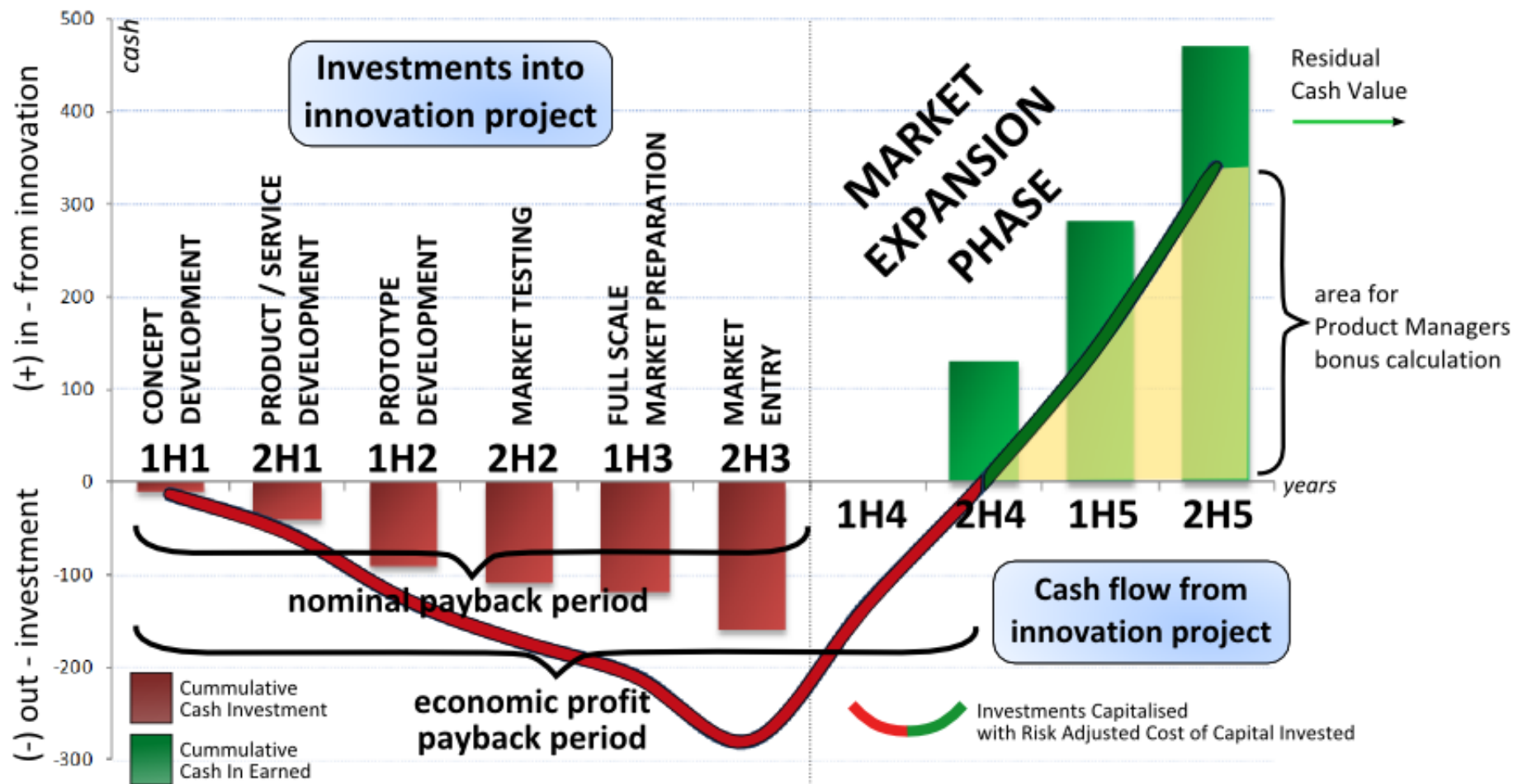
Cash to cash Innovative Project cycle

CASH-TO-CASH Innovation Project cycle		1H Year 1	2H Year 1	1H Year 2	2H Year 2	1H Year 3	2H Year 3	1H Year 4	2H Year 4	1H Year 5	2H Year 5
	Innovative Product/Service Development Phases										
	Phase 1: Concept Development - cash out	-10									
	Phase 2: Product/Service Development - cash out		-30								
	Phase 3: Prototype Development - cash out			-50							
	Phase 4: Market Testing - cash out				-20						
	Phase 5: Full Scale Market Preparation - cash out					-10					
	Phase 6: Market Entry - introduction costs - cash out						-40				
	Developed Innovative Product/Services Introduction to the market										
	Cash in earned							160			
	Cash in earned								131		
	Cash in earned									150	
	Cash in earned										190
	Cummulative Cash Investment into Innovation and cash in earned	-10	-40	-90	-110	-120	-160	0	131	281	471
	Investments Capitalised with Risk Adjusted Cost of Capital Invested	-14	-58	-138	-196	-249	-340	-209	-92	58	248
	Positive EVA - economic profit earned on innovation project	0	0	0	0	0	0	0	0	58	248

Cash Flows Out and In, its cumulative investment value and economic profit earned after charging cash investments rounds with capital charge of RaCoC rate.

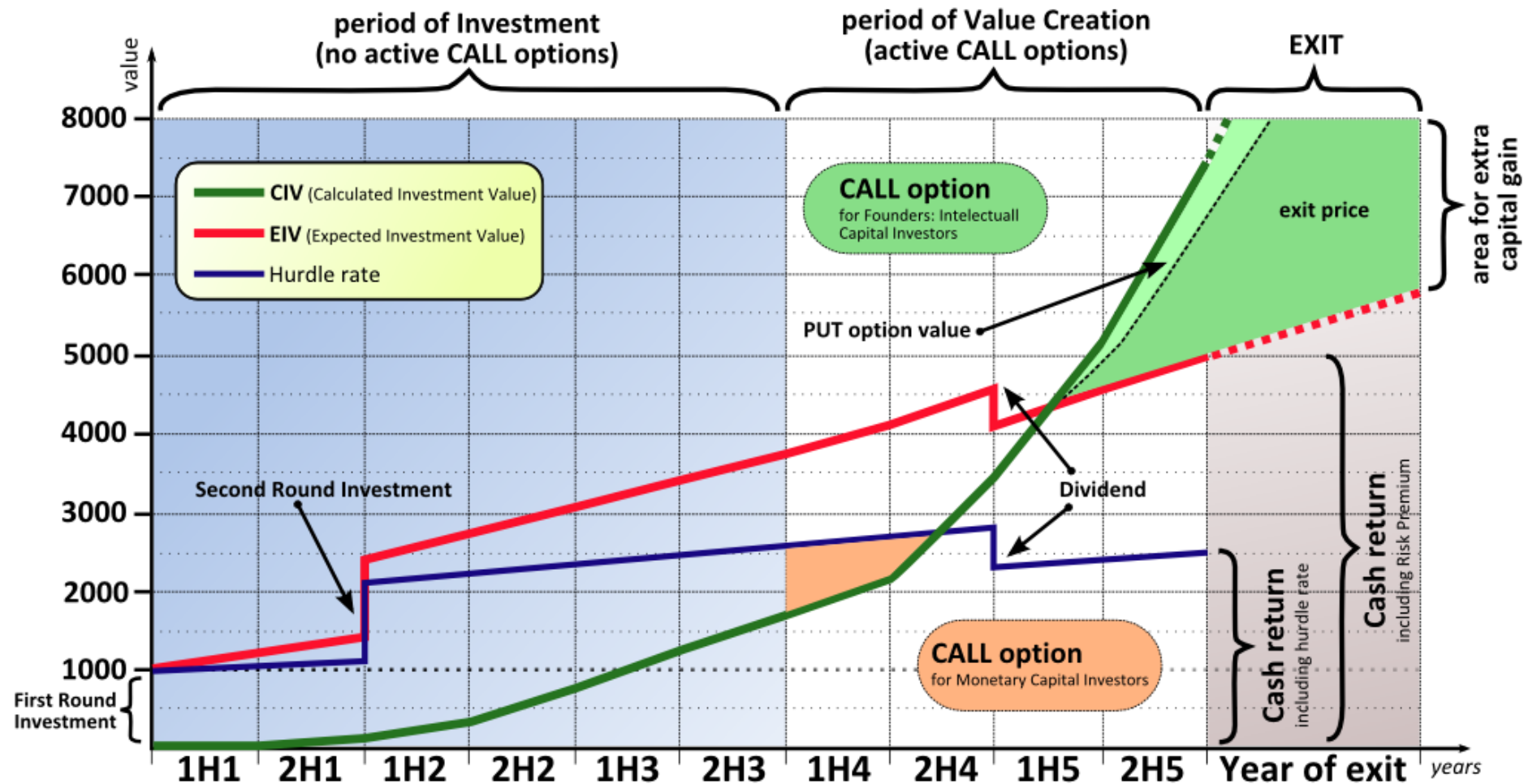
Cash to cash capitalized with RaCoC rate

Cash to cash capitalized with RaCoC rate - in other words **economic profit** should be the base for innovation teams and its managers bonuses calculations



The ex ante method of IC valuation

The ex ante method of valuating the intellectual capital component contributed by founders of innovative company effecting achieving high cash capital gain



VBM Consulting

Zygmunt Grajkowski

tel.: +48 22 789 67 87

fax: +48 22 789 42 33

vbm@vbm-consulting.net

www.vbm-consulting.net

Strategie Budowy Wartości

