



INVESTING IN INNOVATION

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PARKWALK
Advisors

A chance encounter...



Valuations: impact on future growth



VC's
Friend or Foe?

Who is a Venture Capitalist?

- ... an investor who provides capital to start-up ventures or small companies that wish to expand but do not have access to loans or sufficient public funding. Investment is primarily against equity;
- ... looks for fast growing, potentially highly profitable businesses in markets with strong growth;
- ... usually seeks influence and control on management and executive-level decisions;
- ... exit-oriented and driven by financial return: notoriously impatient, expecting big and almost immediate returns on their investment.

What are VC Investors looking for?

VC's are Institutional Investors which means:

- Risk / Reward;
- Investment & Liquidity Timelines;
- Deal Structure (who else is in the deal);
- How much can they make;
- How and when can they get the money out / back;
- Who is running the company; Can they translate plans into success?

Classical VC Provisions (only some are negotiable)

- Preferred Shares;
- Liquidation Preferences;
- Dividends & Interest;
- Anti-Dilution Rights;
- Drag- and Tag-along Rights;
- Control / Veto Rights (both Shareholders and Board of Directors);
- Deal Structure;
- ...

What does a VC like (or request) to see?

- Alignment of Co-founders / Management;
- Entrepreneurial mindset & skills;
- Communication: “say what you do, do what you say”;
- Avoid “intrinsic arrogance” (i.e. we do not have competition), NIH syndrome, ... ;
- Avoid reluctance to appoint new Board members / new management;
- Avoid Greediness, unrealistic compensation requirements;
- Avoid not accepting realistic offers.

The “Truth” Today

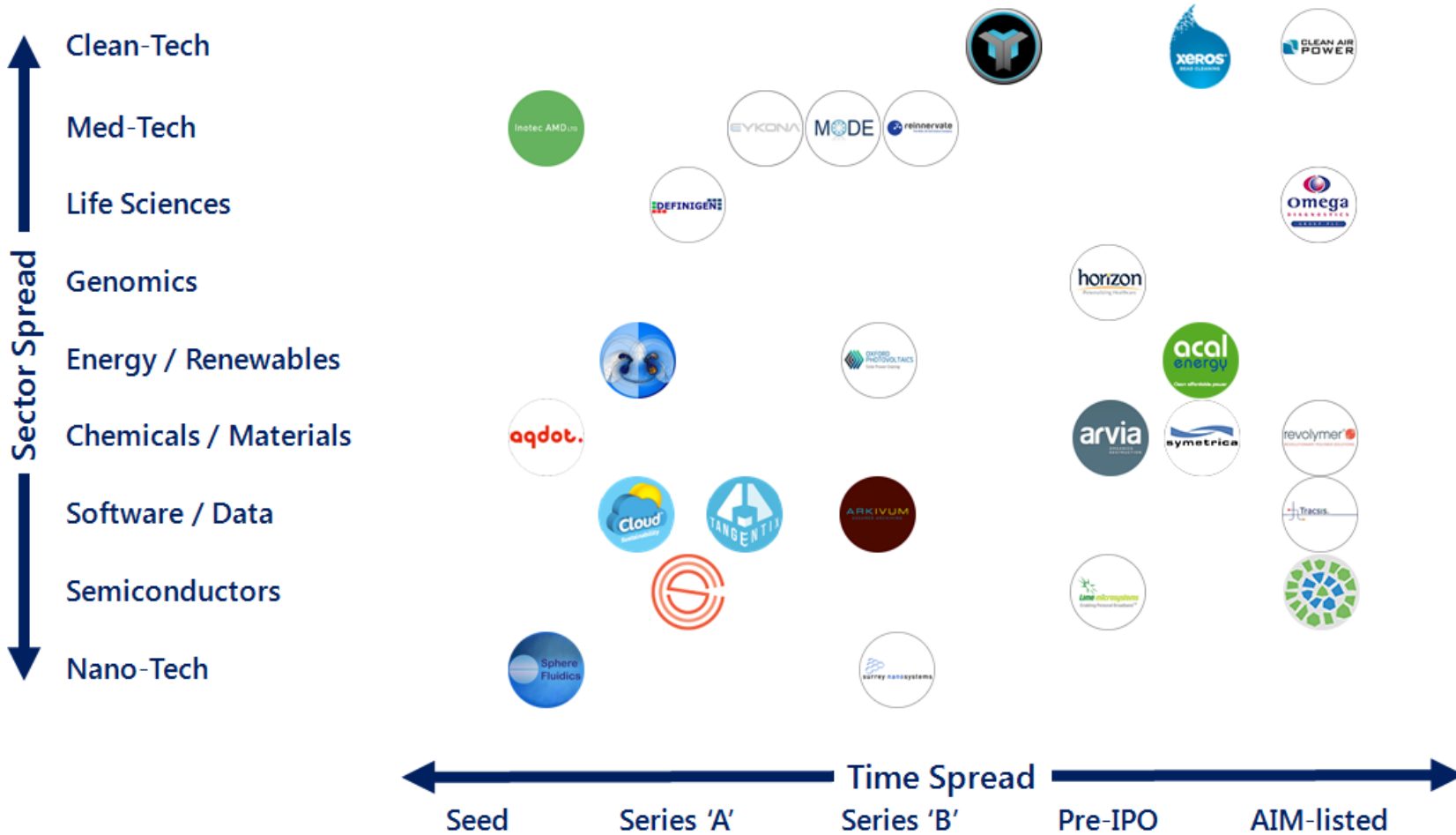
- Recent events could have long lasting adverse effects ...
 - ◆ Limited trade sale opportunities;
 - ◆ Closed IPO windows;
 - ◆ Longer cycles before exit;
 - ◆ Increased financing requirements for investors;
 - ◆ Decreasing exit valuations;
 - ◆ VCs struggling to raise new funds also due to weak performance data.
- But:
 - ✓ Good deals still get funded;
 - ✓ The markets are picking up again;
 - ✓ Enterprise Investment Scheme Funds are increasingly plugging the Equity Gap ...

Parkwalk

Parkwalk – Who we are

- Since 2009, Parkwalk has focused on generating capital gains through investing in University Spin-Out companies
- 6 Technology EIS funds and 2 EIS/SEIS University funds
- Portfolio of 26 companies (have raised over £130m since 2010)
- Total 14 FTEs, 4 investment professionals with long-standing hands-on experience
- Parkwalk is committed to UK University Spin-Outs via its Technology Funds (100% companies financed are academic spin-outs)
- Investment focus is sector agnostic
- Parkwalk invests from seed through to AIM-listed companies
- Investment per company £100k - £2m
- Investing alongside partners who have the capability to ensure follow on funding

Parkwalk – What we do



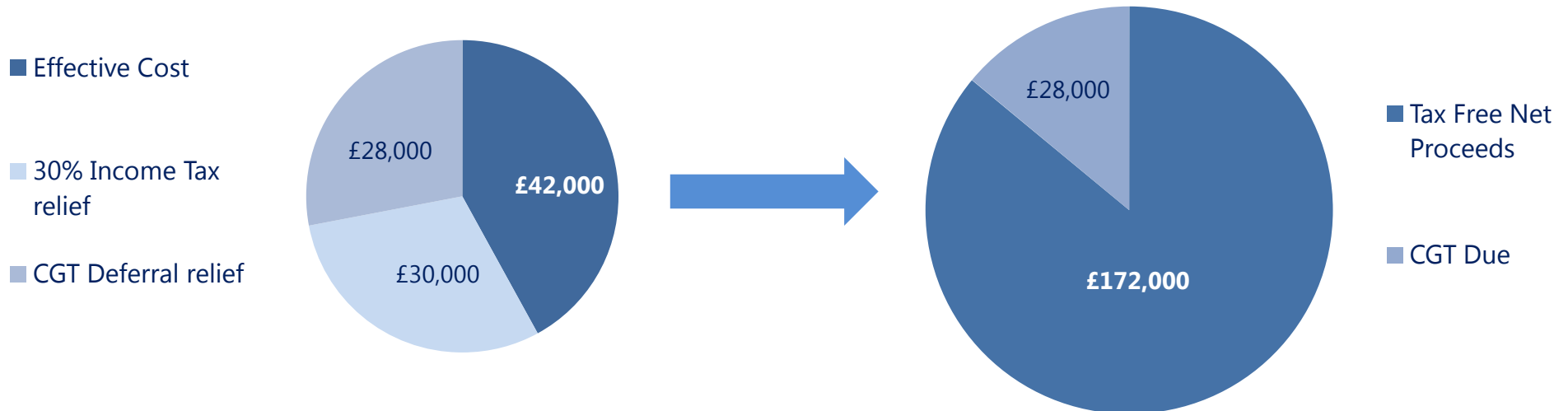
Parkwalk – Not Your Standard VC

- **Experience:** Capital Markets backgrounds
- **Unique:** Specialist University Spin-Out EIS/SEIS Funds
- **Considered but Opportunistic:** Quick decisions
- **Liquidity:** Aim to conform to the underlying investors' time and risk profiles
- **Technology agnostic:** Investment criteria is driven by commercial and financial models, goals and targets
- **Market Neutral:** however, economic and stock market cycles matter.....

Example EIS Benefits: Investment Doubles

An investor taking advantage of both Income Tax relief at 30% and Capital Gains Tax deferral at 28% can effectively reduce the initial cost of a £100,000 EIS investment by £58,000 to £42,000.

Assuming the EIS investment doubles in value to £200,000 after three years, £172,000 will be returned tax free to the investor after the deferred capital gain of £28,000 had been repaid or reinvested.



Why do we do it?

- ◆ We are passionate about this space

B@\$\$!c Re\$\$e@rch
is at the core of
Innovation and
Entrepreneurship

Why do we do it?

- ◆ We are passionate about this space
- ◆ In the UK R&D is concentrated in Universities and today's Government is backing Innovation

UK: a centre of excellence for R&D



Imperial College
London



In September 2013, the QS World University Rankings placed the Universities of Cambridge, UCL, Imperial College and Oxford in the world's top six Universities.

89 affiliates of the University of Cambridge have won the Nobel Prize since 1904.

220 Nobel Laureates are affiliated with the UK's top four Universities.

Why do we do it?

- ◆ We are passionate about this space
- ◆ In the UK R&D concentrated in Universities and today's Government is backing Innovation
- ◆ We provide a much needed new and additional source of Funds to the Tech Transfer Organisations' traditional spinout funding routes of Angels, VC's and Groups with commercialisation rights.

Spin-out Successes



2006 - sold to AstraZeneca for \$1.3bn



2012 – MinION™ genome sequencer



2012 – Market Cap of £9.8bn



March 2013 – Announces acquisition of Skyhigh plc



June 2012 - IP Group plc sells its stake in Kings College London spin-out Proximagen for 35 times their investment in cash



June 2012 - NaturalMotion gets \$11 Million in funding from Benchmark Capital for High-End Mobile Social Gaming

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- ◆ We firmly believe that investments in University spin-out technology now will return multiple capital gains for our investors throughout our investment horizon

How Can VC's help Young Companies Grow?

The Smug Example...



...and the other one!



Some Lessons Learnt

What comes out clearly of our experience:

- Negotiation of investment terms critical;
- Consider fully funded scenarios only;
- Ensure full support of investors and co-investors in rough times;
- Be patient;
- Ensure support of larger funds;
- Back mainly big ideas;
- Ensure EIS provisions are protected at the outset;
- Valuation increases only if value is added to the company;
- The company will go through many rounds before being sold.

Conclusions

- Most successful companies have VC's;
- Most VC backed entrepreneurs go back to VC's in their next endeavors;
- EIS Funds are becoming increasingly active in the VC space;

> The only valuation that counts is the Exit!

Thank You

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