

JULY 2016

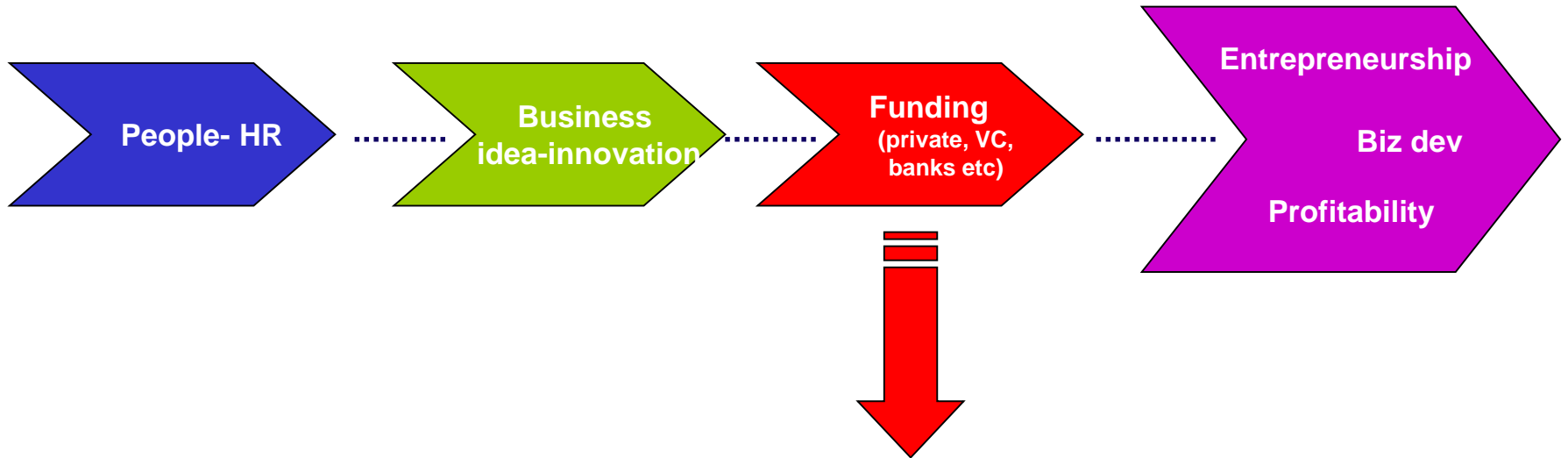
Venture Capital: **The financial tool for innovation, new business and competitiveness**

Giannis Papadopoulos

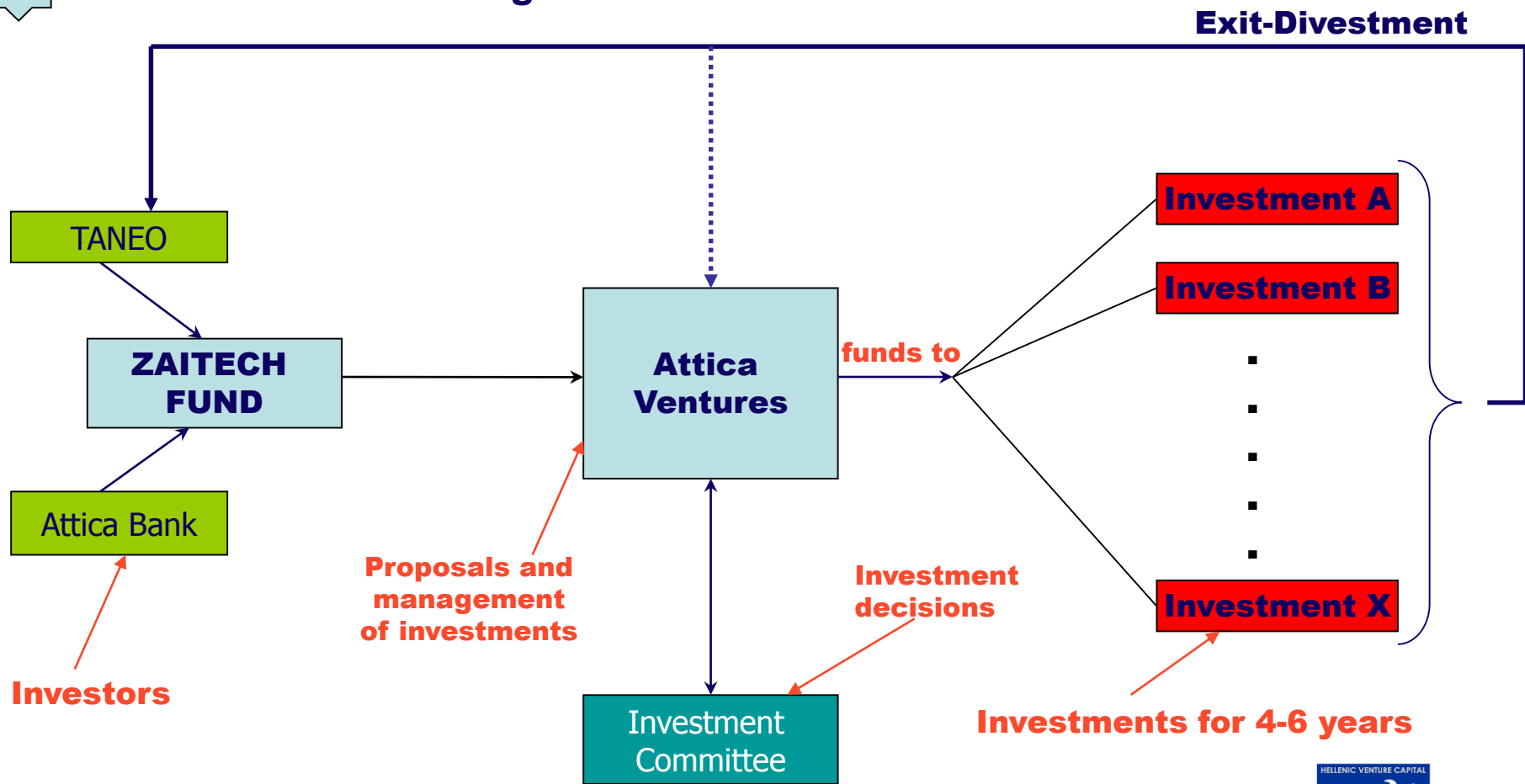
**Chief Executive Officer ATTICA VENTURES
Chairman HVCA**



1 The entrepreneurship-business chain

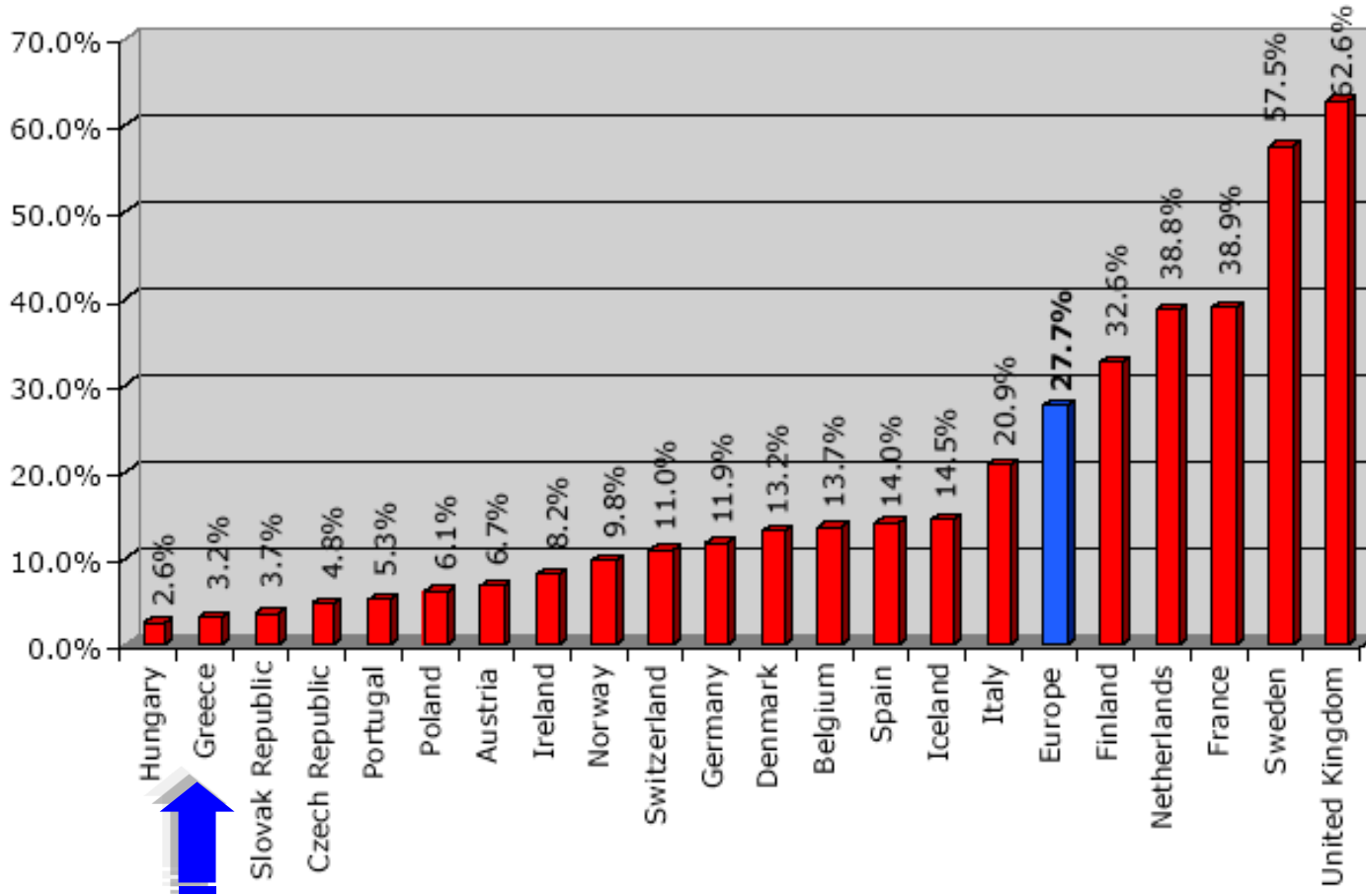


2 VC: a business funding mechanism



3

VC Investments in Greece as % of GDP

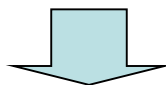
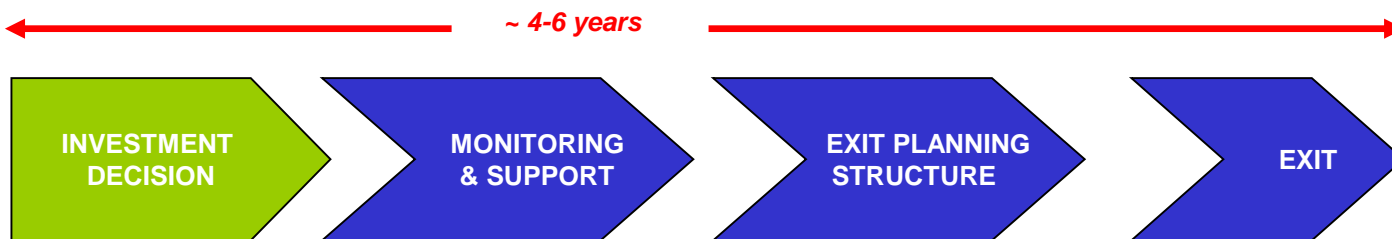
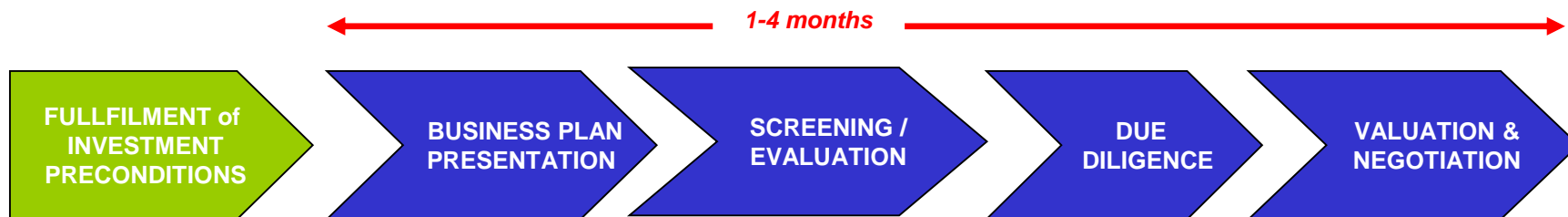


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How VC worksalternatives to invest in companies

- ◆ Share capital increase (minority or majority %) - **AVE**
- ◆ Start up capital provision (seed-start up capital, minority or majority) - **AVE**
- ◆ Convertible Corporate bonds (mezzanine finance) - **AVE**
- ◆ MBO or LBO (most of cases majority)
- ◆ Mixture of the above

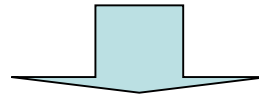
5 How VC works - the investment cycle



6

The Venture Capital market in Greece

- ◆ 21 Venture capital management companies for PE, VC, incubators
- ◆ 14 new funds created since 2004 after the launch of TNEO framework, with more than € 250 m. total funds under management
- ◆ 11 of these funds have been created in the last 4 years-market under development
- ◆ The active VC laws are 2992/2002 and 4141/2013 for AKES
- ◆ 1992-2015: 1bn investments, 50.000 new jobs, 130 investee companies, e.g. Chipita, Germanos, goody's, jumbo, andromeda, Antcor, Foodlink, Mastishop, taxibeat, upstream, Krokos, inaccess, EZA, nanoradio etc.
- ◆ EU Structural Funds (5th FP) 2014-2020 initiatives are underway as VC has a key role in EU innovation and competitiveness strategy for the years to come



7 The impact of VC in the economy-EVCA research

- ◆ **VC backed companies have higher earnings than their competitors- tax income**
- ◆ **VC backed companies create more new jobs – lower unemployment rate higher income for pension system and tax authorities**
- ◆ **VC backed companies are more export driven – lower trade deficit**
- ◆ **90%of the VC backed companies exist because of the support provided by their investors according to the management**
- ◆ **20% of total employees in GB work in companies that have been funded by VC**

8 The VC Market in Greece - tax and legal environment

Country	2004
Great Britain	1,26
Luxembourg	1,49
Ireland	1,53
GREECE	1,75
Holland	1,76
Portugal	1,81
Belgium	1,82
Hungury	1,86
Italy	1,86
France	1,89
Switzerland	1,95
Spain	1,96
EU average 2003	1,97
EU average 2002	2,03



**(1=more favourable,
3= less favourable)**

- ◆ AKES framework Ranked 4th according to the EVCA survey (2004)
- ◆ New fund structure (AKES) governed under law 2992/2002
- ◆ The Greek fund structure is tax transparent for income tax purposes
- ◆ Investments by international investors do not create a permanent establishment
- ◆ Management charges and carried interest are not liable to VAT
- ◆ No tax on transfer of non listed shares and dividends



9 AKES - Variety of benefits for investors

- ◆ **Venture capital funds have no legal entity. In substance they constitute a bank account belonging to shareholders pro rata.**
- ◆ **They don't have a VAT identity and don't submit tax return.**
- ◆ **Venture capital funds operate with fully transparent method. The fund's account is monitored by the trustee and it is also mandatory the reporting and basic principles to follow the EVCA Guidelines as imposed by law.**
- ◆ **Annual report audited by certified external auditors**
- ◆ **Venture capital funds are not subject to any form of tax.**
- ◆ **Foreign investors' participation in a VC fund does not require the establishment of a company based in Greece nor does it create a tax liability. A simple fund deposit into the bank account is needed granting nominal title.**

10 AKES - Variety of benefits for investors

- ◆ Management costs and carried interest are not subject to VAT
- ◆ Sale of unlisted shares held by the VC fund are non taxable (tax is normally equal to 20% of goodwill)
- ◆ AKES, acting as a shareholder, is not subject to dividend withholding tax, in the case of dividend distribution (26% currently)
- ◆ Following statute's 4141, article 1 latest amendment, VC funds are allowed to be listed in the stock market, to invest in listed companies, as long as they acquire a 15% stake in the subject company and are also able to invest abroad.
- ◆ Management company's minimum share capital: EURO 100k
- ◆ VC Fund's minimum share capital by incorporation: EURO 3M.
- ◆ Companies that have a VC fund participation are subject to the same participation rights regarding investment incentive laws and other financial tools.

11 Investment criteria-focus

People-Team

1

- Capable and dedicated to the company
- Proven experience, past success story in the market (critical for start-up)



Product-Strategy

2

- Differentiation from competition-Innovation, patent
- Products –brand names- services that meet market – customer needs
- Large and growing potential market, or market that can be created
- Nature of competition



Risk -Return

3

- Complete and concrete funding structure
- Returns related to market risk and company level (IRR 20-70%)
- Correlation of investment with total portfolio (diversification of risk, market, level)
- Projections – coherence - conservative approach



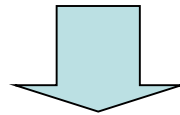


In search of innovation.....

- ◆ **...seems to be the seditious or rebellious ?**
- ◆ **...is the development of the existing, known and tested ?**
- ◆ **...is it the invention of new technologies?**
- ◆ **...does it makes sense the consonance with specific markets?**

13 Trying to define innovation....

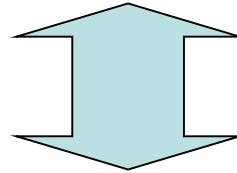
...refers to the process of **prioritizing and transforming new ideas**, prototypes-research results, and elements of knowledge (tacit or codified) **into value added products** with extensive consumer acceptance and commercial value



..is verified and successful if and only if it is proved by the systematic and extensive consumers' use and economic results

14 Invention = innovation? Probably not

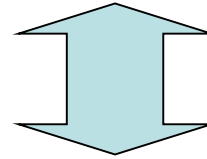
- ◆ Invention is the creation of a new idea, a new concept, a prototype



- ◆ Innovation is the development and completion of the new concept that drives you to commercial – business success-profitability

15 New technology = innovation?

◆ **New technology is a parameter of innovation with emphasis on the technological content, a content connected with «technical performance»**



◆ **Innovation in the full sense embodies and includes economic and social aspects**

◆ **Consequently innovation is not limited to technology, but can also refer to organisational and product improvements**

16 Defining the elements.... (1)

- ◆ **New product launch – technological aspect** (*radical change of markets and competition*, e.g. skype, facebook, iPhone, iPad, sensors, waste management, MS Office -windows)
- ◆ **Improvement of existing products** (improved – modified product composition, new packaging, pricing policy etc.)- *marginal development of markets and competition* e.g. Zara, IKEA, Body Shop, Goody's
- ◆ **Introduction and exploitation of new or improved production methods** (e.g. leading to improved procedures, lower production costs-higher profit margins), semiconductor industry, corean car manufacturers



17 Defining the elements.... (2)

- ◆ **Improvements in supply chain –organisation** (franchising, outsourcing, logistics, just in time manufacturing) e.g. Benetton, Germanos
- ◆ **New applications-usage of existing products**, e.g. mastiha gum, Nespresso
- ◆ **New market creation for mature business – rejuvenation** (adaptation, repositioning, transformation, e.g. Apple, Burberry)
- ◆ **New distribution channels disruption** e-commerce e.g. e BAY, mobile apps e.g. taxibeat, pharmacies - Korres



18 A useful research – Pantion University *

The 15 most innovative Greek companies

**Intracom
Goody's
Petzetakis
Vivartia
Titan
3E
Fage
Germanos**

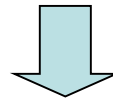
**Elais
Chipita
Corres
Cosmote
mastihashop
Cocomat
Follie Follie**

*** among 500 senior business executives of Greek leading companies with unconstrained answers**



Analysing the research....

- ◆ The vast majority of them are mature business with more than 10 years in the markets (exception: mastihashop)
- ◆ All based on product innovation (mainly marginal development)
- ◆ 4 of them based on technology innovation
- ◆ Most of them combined product and supply chain innovation
- ◆ Addressing different markets - industries



**Innovation covers all aspects of the business value chain
from start up to large conglomerates**

Policies to be applied for creating an innovation ecosystem....

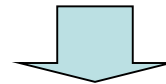
- ◆ We need to build a system that supports R&D projects in companies through the creation of an independent and autonomous public authority- e.g 70% of the investment in soft costs of which 70% in salaries that will lead in new jobs creation of at least 25%
- ◆ We need to build a system that will enable financing to SME's (VCs, Incubators, Angels etc), best practice to be accelerated is TANEQ as the fund of funds mechanism. Need for extended use of structural funds (More than € 500m. and attracting private investors from Greece and abroad providing them the appropriate incentives in order to attract them
- ◆ We need to build tools to transfer technology from universities and research centers to industry, best practice to copy the example of Israel in creating successful and profitable TTO offices
- ◆ We need to Initiate incubation centers to promote commercialized ideas in new companies, providing also seed funding not just office rental and CSR

Incentives for private investors in order to accelerate public funds....

- ◆ **Upside potential to private investors and/or**
- ◆ **First loss guarantee – downside protection and/ or**
- ◆ **Priority payment for the capital invested**
- ◆ **Tax incentives e.g tax relief for the amount invested in VC funds-business Angels**
- ◆ **Pension funds to be allowed to invest in VC –Greece the only country in Europe that pension funds are not allowed to invest in VC**
- ◆ **Need for change in Basel III rules in order banks to be even more active investors in VC / PE**
- ◆ **Tax incentives for multinational companies that will transfer research and development activities in Greece**
- ◆ **Lower tax rates and insurance costs for start ups for a 3 year period**

Who we are - ATTICA VENTURES

- ◆ VC management company incorporated precisely for the purpose of managing VC funds as stipulated by article 7 of Law 2992/2002.
- ◆ Member of Attica Bank Group
- ◆ Two funds under management: Zatech Fund € 40m., Zatech Fund II € 25m.
- ◆ Investors: Attica Bank, TANE0, private investors
- ◆ Considered the most active VC management company in Greece
- ◆ Honored the 2011 ACCI award for its contribution in employment growth
- ◆ More details about our management team, investment philosophy etc. at www.attica-ventures.com



Our practice so far

- ◆ **12 investments in SME's active in various sectors, more than € 40m invested, and accelerated more than 170 total investments**
- ◆ **More than €12m co – investments at second round by employees, private investors and institutional investors**
- ◆ **Sectors invested:** retail, RES, IT, telecoms, industrial innovation, brewery, real estate, logistics (3PL), healthcare
- ◆ **4 IPO's at ASE so far – Mediterra, Doppler, Performance Technologies, Foodlink**
- ◆ **4 divestments so far - IRR 16%, 7 co-investments with private and institutional investors**
- ◆ **More than 800 new jobs created, with more than € 170m total investments**



Investing in start up



- ◆ Experienced and successful top management in the telecoms software market
- ◆ Addressing worldwide needs and markets – specialised in the embedded wireless broadband network systems (Wi Fi – Wi Max networks).
- ◆ Start up from Patras Technology Park with ready to market products – world class high level R&D
- ◆ Market with high potential growth in the coming years
- ◆ Target markets for cooperation: China, Asia, Israel, USA, Eastern Europe with OEM manufacturers and/or wireless LAN operators
- ◆ The company received in 2009 European Research Grant amounting € 1,3 m. for developing Femtosecond LTE cells





25 Investing in start up (2)



- ◆ Many changes in strategy and product focus needed to adapt in market needs
- ◆ Entrepreneurship is different than being an employee – strong character and leadership needed
- ◆ Setting up and growth of management team was critical to keep pace
- ◆ Ready to survive with limited resources
- ◆ Investors with trust –ready to invest in successive rounds
- ◆ Company sold to U-Blox (Swiss multinational company) in August 2014 for € 8 m



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**Than You Very Much
For Your Attention**

