



*Hermia Business Development*



**PROJECT PART-FINANCED  
BY THE EUROPEAN UNION**

## VBN INNOREG INTERREG IIIB

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**PILOT ACTIONS FINAL REPORT  
HERMIA BUSINESS DEVELOPMENT LTD  
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# 1 BACKGROUND TO THE PILOT PROJECT

## 1.1 BACKGROUND OF THE PILOT PROJECT

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Hermia Business Development Ltd. is focused on start-up and growth stage business development. Within the development work it has become evident that all start-up companies need financing capital. Usually the founding members are able to invest small amounts themselves, but this isn't enough especially for the companies, which are technologically oriented and the collateral needed for loans etc. gets too fast too high. Usually companies are able to get financing for their research and development projects from the public sector financing for example from TEKES, but nevertheless the company needs also financing for their self-financing share of the projects costs. Even if the start-up is able to gain quickly income from the sales, the cash flow forecasts are typically negative for a long period because of recent investments and/or intensive R&D –development work.

The current problem is that the amount needed for pre-seed and seed stage financing is much smaller than the amount the traditional Venture Capital funds have to offer (app. 500000€). Venture Capital funds in Finland are forced to concentrate on only a few potential start-ups and many other potential companies are left with inadequate seed financing. Thus, there is an evident need for a specialised Seed Fund in the seed financing market, which is suitable for seed stage small amount "first mover" financing. When actively operating, the fund's investments might also signal other investors to join in to the financial consortium if needed. In addition to financing the start-up needs also business experience and services, which support the first steps of the company. The concept of Hermia Ventures also provides the necessary managerial aid and other services for the fund's investment target companies.

There are several potential private investors and business angels in Tampere region, who could invest their assets in potential future growth companies. Investors also might prefer to develop the surrounding economical region in general and help to create new growth companies, jobs and welfare to the whole society. The pilot offers an opportunity to invest in potential technology-based growth companies even for private investors due to the possibility to invest in smaller amounts.

## 1.2 MAIN OBJECTIVES

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In order to have a well directed pilot project, an action plan was developed in the beginning of the project. The action plan stated pilot project's main objectives, indicators and actions for every six month period.

Hermia Business Development was responsible for developing a regionally operating, strategic financing instrument for innovative start-up companies. The business idea was to invest capital into innovative seed and early stage growth companies with commercial potential and good growth prospects.

The Fund's concept was to be unique in several terms: equity consists of private business angel investments, investment focus is on very early stage financing combined with other private and public financing instruments, fund operations are linked with regional Incubator activity being part of Regional Innovation Infrastructure.

According to the action plan, during the pilot project, processes regarding selection, follow-up and measuring old investment targets were to be developed.

One of the objectives was to increase the amount of equity in a Fund to the level, that Fund will be able to make 3-5 new investments annually.

## 1.3 INDICATORS

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Tools for process management will be finalised during the project: Processes regarding follow-up and measuring old investment targets will be finalised.

Company will arrange annually one joint event, where other key seed fund financiers will be invited and where experiences will be exchanged and new cooperation possibilities will be looked for.

In 2006-2007, Fund will make an investment to 4 up to 7 customer companies. Investments will altogether be 300-500 000 €. The main attention will be on new growth companies that are spin-offs from Tampere University of Technology.

## 2 SUMMARY OF THE PILOT

### 2.1 FUND IN A NUTSHELL

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- 10 investments in total
- Typical investment size has been 30 – 50 000 € (4% - 40%)
- In all investments co-investments have been acquired from business angels and/or other private investors
- No exits yet
- Over 50 potential Investment proposals
- Strong Board of Directors, which is appointed by the investors of the fund, real entrepreneurship.
- Moderate management commission.
- The first private pre-seed investor in Finland
- The concept combines already functional business development (HBD) and seed funding know-how. Continuous good-quality deal flow of potential investment targets. Ability and motivation to build the investment targets investment-ready.
- Managerial aid and sparring of the investment targets.
- Private investors network, who have experience and interest to help the start-ups and economical region in general and create new growth companies, jobs and welfare to the whole society.
- Co-investment possibility on equal terms for the owners of the fund.
- Interest and motivation to work in close co-operation with other seed phase financiers.
- Interest and motivation to ask the other seed phase financiers to join in and invest larger amounts together with the fund as a financial consortium if necessary.
- Good survival rate, over 90% of the start-ups are functioning after 4 years.

### 2.2 DESCRIPTION OF THE PILOT

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All start-up companies need financing capital. The problem within the Finnish financing market has been that the required preseed and seed funding is a bottle neck for many start-up companies.

Within the 2 years of operation the fund has made 10 investment decisions of which all received co-investments from business angels and/or other seed financiers. The value of the fund has increased yearly since its establishment. One the excellencies of the fund is in creating co-investments, which is why it can be seen that the fund invests as a part of a

larger investment package. The network of business angels and public investors is in close cooperation with the fund.

This concept combines incubator with a seed fund, which maximises synergies and enables managing a small fund. The fact the fund is managed by a business development company that operates in the field of consultation affects on the fund's functionality and minimisation of risks. This way the concept combines required funding the strong business know-how in an innovative way. The concept enables a channel to continuous good-quality deal flow of potential investment targets and also the ability and motivation to build the investment targets investment-ready.

Seed stage investment risk can be divided through the concept of Hermia Ventures. Because of the nature of operation field there will be failures. Because Hermia Business Development Ltd. will closely follow portfolio companies' operation, possible problems can be noticed at an early stage and needed actions can be taken right away. Also by having a board member in the board of directors enables effective sparring of the company.

Another feature of the fund is that it includes having private investors on board. The fund offers private investors a possibility to invest in technology-based growth companies. This way the investor has a possibility to support and follow-up on the development of its region.

The transferability of the concept has been proven as well. There has been written a cooperation agreement between actors of Salo, to start similar activities in their region.

### 2.3 MAIN RESULTS OF THE PILOT PROJECT

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Within the pilot the fund has been developed into a regionally operating, strategic financing instrument for innovative start-up companies. In addition to the developed features described in chapter 2.1 the pilot activities in relation to indicators are described here. The original indicator for investment decisions of the original action plan was to make four to seven investments. This goal has been met and in total the fund has now made 10 investments. Another indicator was the size of investments. The indicator was to make 300-500 000 € worth of investments. This indicator has been reached as well. One of the aims was to increase the amount of equity to a level that will enable 3-5 investments yearly. By having a directed issue of shares, this goal has been met.

Dissemination work has turned out to be very important in terms of functionality of the fund. The original action plan included arranging annually one joint event, where other key seed

fund financiers will be invited and where experiences will be exchanged and new cooperation possibilities will be looked for. On fall 2006 an event was organised to promote the pilot and the VBN Innoreg project. The even had 50 participants, of which some came from key seed fund financiers and the rest of the participants were mostly from potential companies, which were interested in seed funding opportunities. In addition, the pilot fund and the VBN project has been promoted and presented to a number of actors nationally and internationally through out the project. Other actions of dissemination have included press releases, which have been made each time the fund has made an investment, and making of brochures about the pilot.

In order to enhance the transferability of the pilot a pilot manual has been created within the project. The objective of the manual is to illustrate the concept and development of the pilot project in order to share information and exchange experiences with other actors of the VBN zone. In this manual is described the background situation, the challenges and experiences in the beginning and during the start of the fund, what is the fund's status the moment and also the challenges and possibilities concerning the future.

According to the action plan, during the pilot project, processes regarding selection, follow-up and measuring old investment targets were to be developed. Within the pilot manual, the process description and guidelines for selecting investment targets has been developed. Also an Excel based tool has been developed for measuring and follow-up of old investment targets.

## 3 CONCLUSIONS AND FUTURE ACTIONS

### 3.1 CONCLUSIONS AND LESSONS LEARNT

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- Seed funding sector is becoming more active and attractive.
- Demand for seed funding is stable, the demand is higher than supply.
- There is emerging competition of the best targets. It is essential to get tied with the deal flow early enough.
- Incubator has a steady supply of new projects; quality of the projects is good.
- Early stage companies are still lacking adequate private and public equity.
- The real challenge for seed funding in general is the amount of time required for the targets' business development. This is a common challenge for several seed financiers.
- The concept combines effectively already existent business development and seed funding know-how.
- Maximising the amount of investment input. -> High leverage is sought.
- Continuous deal flow allows the fund to invest in the best potential targets in their early stage.
- There are investment targets available; long time cooperation already done with some of these targets.
- There is rough competition of the best projects, essential is to get tied with project flow early enough.
- Amount of development work that a starting company demands is a challenge for several seed financiers.
- A lot of marketing work is required to make a name for the fund.

### 3.2 FUTURE OF THE FUND

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The main aim of the future is to develop portfolio companies into successful companies, enable their growth and maximise profit gained by investors. Funds operation is continuous by nature.

Development and marketing of the fund is continuous and it is based on past experiences, gained during the VBN Innoreg project, and careful analysis made by HBD and the fund's board of directors.

Other development plans and challenges for the future will include:

- The exit-paths from the investment target companies are being developed based on past experiences.

- How we can ensure successful exits? Is there enough financial flexibility to wait, if the exit-phases are delayed?
- To find and maintain relationships with shareholder and other relevant stakeholders.
- New issue of shares to raise additional capital for the fund.
- Expanding to other new regions
- Creating a functional secondary market for the fund's shares.