



The **CRE**ation of the Department of Physical Chemistry of Biological Sys**T**Ems [CREATE]

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**Visit of Rafał Bator - report
[WP5]**

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CREATE lectures "Innovation source"

On May, 31 Rafał Bator delivered an open lecture "**How to deal with the investment of a Venture Capital fund**". The lecture was held under the series "*Innovation source*". The whole society of IPC, including IPC researchers and doctoral students, was invited – 59 persons signed the attendance list. This event was aimed at offering support to researchers, interested in commercial application of own ideas, with development of own ventures and acquiring private funding for initial development stages.

The lecturer, **Rafał Bator specializes in technology investments**. He has been working at Enterprise Investors, the leading private equity fund in CEE, for 17 years. Before joining Enterprise Investors, Rafał worked for two Polish leading IT companies, and PriceWaterhouse Coopers (today PwC). His most important investments were AVG Technologies, PBKM and Intive. He invested in AVG Technologies (antivirus software provider) in 2005 when the company had a revenue of \$10 m. At the time of an IPO (entering the main floor of the NYSE) in 2012 the company grew up to \$400 m. AVG became the market leader in the US by number of protected computers. The IPO of AVG was the first IPO of a technology company from CEE in the US. PBKM is the largest European stem cell bank. Rafał led this investment starting from a small based in Poland company through a series of acquisitions to become the leader, in Europe. Intive is a software house specializing in bespoke software for large international companies (automotive, bank, telecommunication). The company employs 1,500 developers in Poland, Germany, Argentina and in the U.S. For the period of 2008-2019 Rafał was the president of Enterprise Venture Fund (managed by Enterprise Investors) providing expansion capital of EUR 2 – 10 m. for companies in CEE. The fund was fully invested and as such closed in 2019. He has managed 20 investment and exits (including 5 IPOs).





The seminar of Rafał Bator

In his speech, Rafał Bator stressed that company's performance in the period preceding product market launch, has become the key factor in determining success of for early stage companies. This success is understood as wining leading position on the global market. Growth of the company can be accelerated by external financing, including one offered by venture capital (VC) funds.

Lack of knowledge how VC work, what they expect in financial and managerial terms is main cause of misunderstanding between young entrepreneurs and VCs.

Rafał Bator explained that VCs achieve the average internal return rates amounting to 4.4%, while MBO ca. 13-17%, which means that at the market there are only few good projects and/or investors. Different goals and expectations of VCs and companies owners are very visible. Contrary to the companies owners VCs main goal is to maximize profit, and minimize loss taking into account investment horizon of 3 – 5 years. Dependence of the company upon the company owner is main risk of an investor, in particular, taking into account that their long-term goal is to sell the company to generate a cashflow, and reinvest the money in another venture. For this reason most interesting investments for VCs are those with high gross margin or promising rapid growth of revenue. They pay special attention at the team standing behind the venture in terms of their competence in relation to technology, sales and finance. The sound team is crucial from the point of view of the investor. Their competence can be proved by record of cooperation with financial investors and/or a record of company/projects sold.

Rafał Bator explained that the founder is expected to allocate 100% of their time to the venture and make cash investment. It guarantees that the goals of a VC and the company founder become convergent, at least to some extent. Contrary to the founder's wishes, the VC are focused on firstly holding profits for themselves (up to the investment value plus defined IRR) in case of investment exit. The remaining profit can be shared. After entering the investment, the VCs insist on regular board meeting and holding veto rights on key business decisions. In case of the early exit, the venture founder has the same right as any other entity operating on the market to buy out the venture. The VCs often also decide to increase their involvement in the venture. However, such decision requires answering the questions, such as:

- Is it time to liquidate my position (horizon of a fund)?
- Can I participate in the next capital increase (maximum exposure of a fund)?
- Would the new capital increase delay exit – new investors would like to stay some time before an exit (horizon of a fund)?

In all cases the VC is focused on aggressive development (cash burn) or cash generation which means sticking to primary goals of the VCs.

The seminar met with great interest from the audience. It ended with a long discussion which proved that some plots touched by Rafał Bator were new for the audience, and some of them - a bit shocking. The audience expressed a wish to continue similar topics in the future.