RAISING VENTURE CAPITAL

VENTURE CAPITAL INVESTMENT IN THE CIRCULAR ECONOMY

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INTRODUCTION

There are a lot of investment options for start-up and businesses adopting new, green business models. These eduzine give you an introduction to the expanding field of venture capital investment in the circular economy, as well as an opportunity to think about how it fits your investment needs.

EXPECTED LEARNING OUTCOMES

KNOWLEDGE	• knowledge of sources of venture capital in a circular economy context • Knowledge of what venture capitalists want from you
SKILLS	• List 3 potential sources of venture capital for your business • Write a pitch for venture capital
ATTITUDES	• Aware of the role of venture capital in the circular economy • Understand the advantages and disadvantages of venture capital

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SELF-REFLECTION EXERCISE

This self-assessment exercise will help you reflect on what your current knowledge about Raising Venture Capital is.

Click here to be taken to the quiz.

AN INTRODUCTION TO VENTURE CAPITAL

There are broadly 5 types of funding out there that offer different advantages to different types of businesses.

- Bootstrapping - your own funds
- Debt financing - banks
- Crowd funding
- Venture capital

Venture Capital is possibly the most complex and least well understood source of innovation funding. It can come from individuals, small groups of investors or large and institutional capital funds. It is a type of financing that investors provide to start-up companies and existing businesses that are believed to have considerable growth potential in the short, medium and long term. The role of venture capital is to take on risks and uncertainties and it operates in a niche where traditional, low-cost financing is unavailable to businesses.

Venture Capital funds expect high returns over the lifetime of their investment. Though the levels expected differ from fund to fund reflecting differing attitudes to risk. They identify and invest in any industry that is growing fast and they are increasingly realising that the circular economy is a massive growth area.

Traditionally the bigger players in venture capital can want to focus on the really big ideas offering massive returns. Making them inaccessible if you are a start up with an idea that might not have a massive payback you can build towards.

The good news for circular economy start-ups is that there are now many smaller, more niche, green VCs in Europe and the US that back start-ups to create environmental, financial, and strategic returns for their fund investors, and we will talk about some examples in the next article.

Rising investor appetite for impact investing and green funds means that capital committed to circular economy impact funds worldwide launched in 2021 reached a record €12.7bn, nearly four times 2020 figures, according to impact investing consultancy firm Phenix Capital. Meanwhile, the number of new circular economy funds launched each year has grown five-fold between 2018 and 2021, going from 8 to 40.

Sustainability focused VCs in Europe raised more than £1.8bn in 2021 and this appetite worldwide for green investment is not surprising when, according to Accenture, the circular economy globally represents a $4.3 trillion opportunity for value creation.

In the VC food chain, there are early-stage investors that prefer to invest at lower valuations and higher risk. On the other hand, late-stage VCs like shorter holding periods and time-to-exit and focus on businesses with more than €5M revenues and experienced management teams.

Attracting venture capital can be a time consuming process as you research your options and create an effective approach. In the following articles we hope to help you figure out whether it is the right form of financing for you and how to build your venture capital pitch.

You will find a couple of short videos giving you a bit more detail in the references section.

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OPPORTUNITIES AND SOURCES OF VENTURE CAPITAL

Venture capitalists are constantly searching for the next big innovation that will maximise their returns. With the ongoing climate crises and the increased demand for renewables, trillions worth of funding is being pumped into green industries that promise sustainable solutions for the future. In this expanding market there are a host of different types of green VC funders aiming at different sectors and with different goals.

The EU Green Deal has opened up funding opportunities for businesses and start-ups that are working within the scope of their objectives to achieve net zero emission of greenhouse gases by 2050. The European Green Deal Investment Plan (EGDIP), also referred to as Sustainable Europe Investment Plan (SEIP), is the investment pillar of the Green Deal. To achieve the goals set by the European Green Deal, the Plan will mobilise at least €1 trillion in sustainable investments over the next decade. It will create an enabling framework for private investors and the public sector to facilitate sustainable investments. So your municipality or state may well have investment through corporate green bonds and sovereign funds that focus on their sustainability goals.

Specialist private equity funds such as the Circularity Fund have been oversubscribed and even traditional investment managers like AXA have green investment portfolios. They have identified that businesses with a sustainable strategy have a competitive advantage and have significant growth potential. They know that environmental pressure is rising, awareness is rising, and consumers are changing their habits. As a result, they are offering their investors Green bonds and will be looking for green investments.

Dedicated venture capital investors can focus on particular sectors, such as the Energy Impact Partners (EIP) fund, which is one of the biggest clean energy venture capital firms in New York. They have identified that the energy transition is one of the most promising investment opportunities of our generation with trillions being spent annually worldwide. They not only invest, but partner with ground-breaking energy start-ups, linking them with well-known companies and utilities. EIP has already invested in eleven companies in Europe, including Zolar, Grover, EV.energy, Instagrid, Greenly and ESG Book and has launched a €390 million European Fund this year.

Alternatively there are more wide ranging funds, like ETF Partners, a European growth-stage investor searching for innovation in transport, green connectivity, responsible consumer, and sustainable food sectors. It regularly covers sustainability topics like last-mile delivery and food waste. It recently launched a podcast about the challenges and opportunities in sustainability with speakers from General Atlantic, European Investment Fund and Harvard Business School. Examples of some of their investments are Hamburg-based sustainable banking start-up Tomorrow, London-based electric bus-sharing company Zeelo and UK-based sustainable leather company E-Leather.

With many players in the venture capital game, you need to research their goals and requirements to make sure you will hit the spot with your approach to them. In the references section you will find links to lists of green venture capital providers to get you started.

WHAT DOES A VENTURE CAPITALIST LOOK FOR?

Venture Capital is a huge and complex financial sector. Different parts of the sector have specific criteria to decide if you are a strategic fit for them. If you look at the lists from the previous article you will see that they are generally clear about their strategic priorities.

Across the sector there are common indicators VCs are looking for. Regardless of the idea, they look for entrepreneurs with passion, vision self awareness and resourcefulness. Backing you they want to see that you have a team that know each other well and can build a team that will carry your business to success.

Venture capital investors, particularly in the green investment market, often look for people or companies that share their values and that they can work with to make a positive contribution to their overall development. This chemistry provides a space for VCs to tackle big problems and find exciting solutions where they can create significant value in an ethical way.

A green investor is as focused on returns as any other. The companies that solve big problems and create value for customers in a new way are the ones that have the higest returns for investors. How much is your solution really needed? If your product was removed from the market what difference would it make to your customers?

Demonstrating your value is a basic requirement, but there may also be an expectation that your circular economy business will substantially challenge the status quo. The disruptive ideas that change industries are usually met with scepticism for example Uber and Beyond Meat. Since the entire premise of the circular economy is disruptive, you have an inherant advantage with a circular economy business model. However you may also face more scepticism in those deciding on the viabiilty of your idea in a VC firm. Fortunately this level of scepticism may in fact alert an astute VC to a lucratively disruptive idea.

Venture capitalists and VC firms filter a large number of deals, so you can have a great business concept and never receive funding because the business stage and structure the VCs are interested in might not match your company. Some are generalists, but many will identify as seed funds for early stage start ups with just a concept, or growth oriented for existing businesses, or late stage investors. Don't waste your time pursuing the wrong fit.

Venture capital investments have time limits. Your profit models and equity valuations must be flexible to allow the investor to leave the business after taking the profit it wants. You will need to know what equity and control you are happy to surrender.

If you want to learn more about the decision process of a VC, in the references section you will find links for interviews with an experienced small VC investor, an investor in later stage businesses and a panel of VCs talking about what they don't want to find.

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THE ADVANTAGES AND DISADVANTAGES OF VENTURE CAPITAL INVESTMENT

Advantages

Financial flexibility — While banks may give you a loan if they feel you
have a good business, it's quite difficult to innovate and scale with this kind of debt. VC firms give you money for growth and risk taking with only a stake in your company for security.

Business Expertise - Besides providing financial support, venture capitalists can provide valuable guidance and consultation to start-ups and young businesses. Mentoring, expert advice, help with hiring, and training frequently come as part of the investment package.

Connections – Along with business support, VCs will often have a great number of contacts in their specialised areas that may be able to assist with your development and speed up any growth potential.

Time – While VCs will not be shy in demanding positive and fast results, they will often have a greater scope for leniency in meeting certain expectations, especially if they can see that the start-up is moving in the right direction, compared to a bank manager requiring a loan repayment.

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Disadvantages

Less control - In general, equity financing has drawbacks, but venture capital financing can compound them. It’s highly possible that your VC partner will be interested in participating deeply in your venture if there is a large injection of cash and professional investors. Not all companies and VCs can end up seeing eye to eye and may clash in some of their ideas. Including when to sell the company.

Difficulty finding capital - The reality is that in order to succeed as a start-up, one must invest considerable time, energy and effort into finding, attracting and convincing investors to take a chance on their specific business. This might often feel like searching for a needle in a haystack. Only the best ideas with a high growth potential will usually be considered by VCs.

Ownership status – There is a possibility that you might lose control of your own business if a VC fund takes ownership of more than 50% of the overall shares. In essence, you could lose full control of your own business.

Expectations – A VC fund will often want higher returns for taking the additional risk of investing early. This could mean a lower overall return for you in the long run.

THE KEY ELEMENTS OF A VENTURE CAPITAL PITCH

At some stage in your hunt for investment you will find yourself presenting your business idea to a group of VC fund staff or investors using slides, video or a document. Creating an effective pitch can really focus your thoughts about your business and there are lots of well designed templates on the internet you can work through, with key headings and guidance. Try Canva for some free examples.

Basics to consider when building your pitch:

- Tell a compelling and memorable business story that shows your passion and your impact
- Use interesting, relevant graphics and images.
- Provide a soundbite for investors to remember you by.
- Use a consistent font size, colour, and header title style
- *Slides, slides, slides:*

We all understand how important how graphics and videos are in this day and age. Images are vital to any successful VC pitch to bring the words alive. At an early stage you may not have interesting photos, but there are websites where you can find high quality, royalty free or low cost photos and graphics – for example Pexels, Unsplash and Pixabay. Just remember to credit the site and photographer.

You don’t need a lot of images on each slide, that will become confusing and distracting for your audience. Choose one or two meaningful images that provide context to the message that slide is conveying.

Don’t try and put too much text on your slide. Your audience will be trying to read the small print and not listening to you.

In the pitch
You may be nervous, but resist the temptation to read from your slides or printed copy. Rehearsals are your friend. Prepare a script to go with the slides and learn it so you can tell your story confidently.

If you are well rehearsed, you should be able to present slides with your back to the screen. Take the opportunity to highlight key information and additional detail.

Obviously to present a pitch you must know the fundamental of your business model in depth, if your audience is interested they will be asking probing questions. The more you know about them the more you will be likely to anticipate and prepare for these. What is their position/specialism. Google to see if they have written any blogs or podcasts and You Tube for videos.

We all have different skills and making presentations may not be one you are comfortable with, but there is a lot of help on the internet to make it easier.

To get you started on building your pitch, there is a handy tick list provided by the British Bank giving you a set of steps leading up to the pitch. You will find the links in the references section.

There are lots of expert guides on You Tube, and we have also given you links to videos that will really transform your pitching technique.

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FINAL ASSESSMENT TASK

TITLE OF THE TASK:
Pitching for a new business

AIM OF THE ACTIVITY:
To use the information in the Eduzine to develop a pitch for a new business idea.

TIME REQUIRED:
6 hours

MATERIALS REQUIRED:
Laptop

FORMAT FOR THE PRESENTATION:
Presentation using PowerPoint

STEPS TO COMPLETE THE TASK:
Develop business idea Research the business idea Prepare marketing plan Costs business idea Prepare financial plan Source funding

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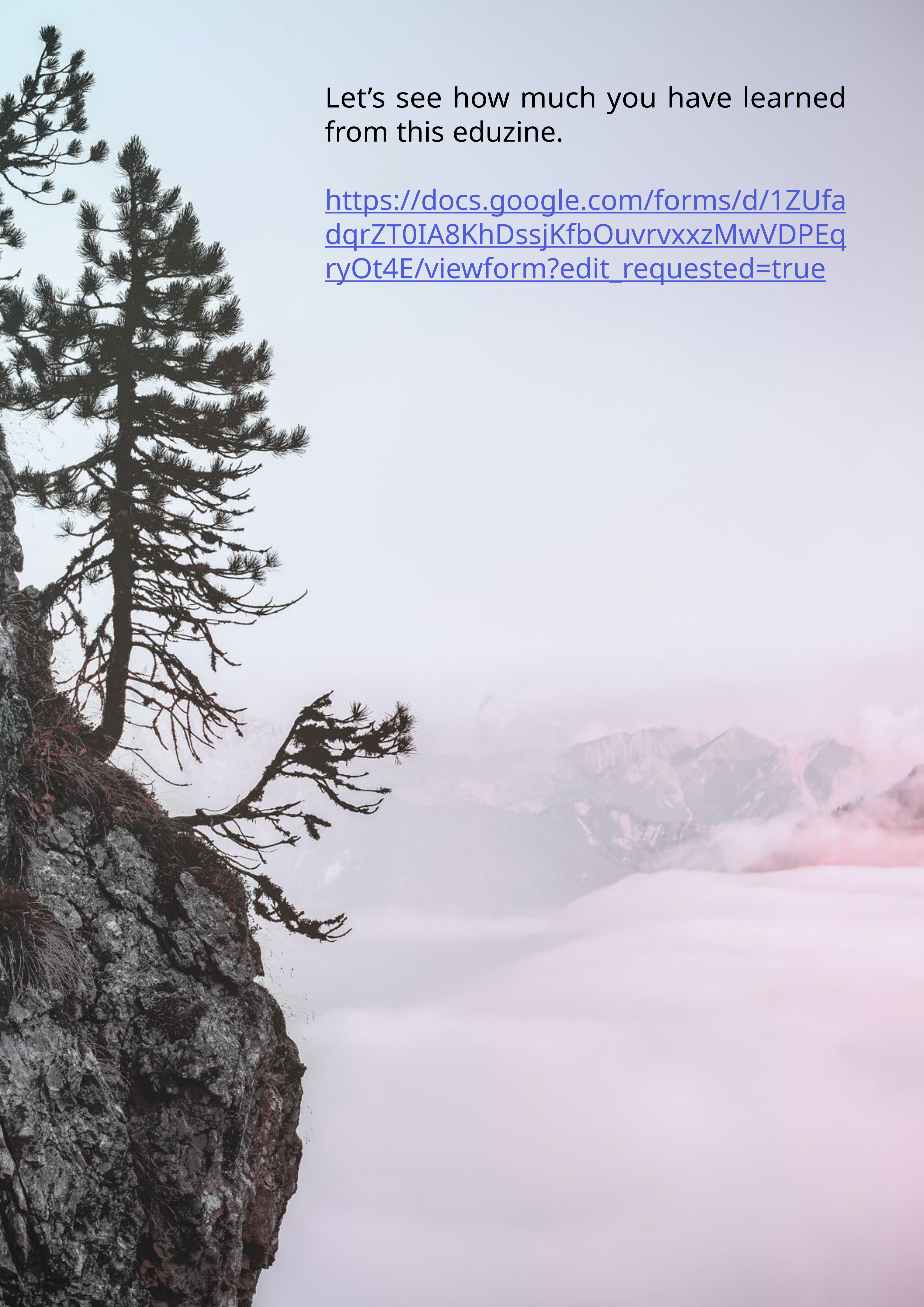
FINAL TEST

Let’s see how much you have learned from this eduzine.

https://docs.google.com/forms/d/1ZUfadqrZT0IA8KhDssjKfbOuvrvxxzMwVDPEqryOt4E/viewform?edit_requested=true



FURTHER READING AND RESOURCES

Venture capital explained in 5 minutes - https://www.youtube.com/watch?v=g8k8-o7NXVw

Bootstrapping v. Venture Capital - https://www.youtube.com/watch?v=osu2JKekD0Y

Circular economy fund investment rockets in 2021 - https://www.pioneerspost.com/news-views/20220907/circular-economy-fund-investments-rocket-2021-new-report

42 green VCs https://ecosummit.net/articles/smart-green-vcs-you-should-know

40 top green VCs https://sifted.eu/articles/europe-climate-vcs-cop26/

Top 13 Green energy venture capital firms https://theimpactinvestor.com/clean-energy-venture-capital-firms/

European Green Deal Investment Plan https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24

Axa Green bonds https://www.axa-im.co.uk/responsible-investing/act-range/clean-tech?gclid=CjwKCAjw4c-ZBhAEEiwAZ105RXoAcZ4rTOQNa2a3I9E8C8yE8AIcT_aJTztQF_MzHsGAOPs2dLyrgBoCOx8QAvD_BwE

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A Master Class in venture capital - https://www.youtube.com/watch?v=oULoamyhycA

The decision process of a venture capitalist – https://www.youtube.com/watch?v=af4I-bmP1nM

How VCs evaluate established businesses - https://www.youtube.com/watch?v=wLbl8TGiM8E

Watch 3 start-up pitches
https://www.youtube.com/watch?v=17SrR7T4GaA&t=5s

Checklist for building your pitch - https://www.british-business-bank.co.uk/finance-hub/venture-capital-checklist/

15 minute video guide to effective pitching https://www.youtube.com/watch?v=jYWF64Um7pw

5 pitch mistakes entrepreneurs make and how to fix them
https://www.youtube.com/watch?v=xr1PKaoflLo

LEARNING CIRCLE

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