

City of Entrepreneurs Investment Funding Group

Ecosystem Presentation

The current ecosystem

One of the gaps identified by the broader group at the first City of Entrepreneurs meeting centred on investment funding.

The comments included;

1. Create an Adelaide branded investment fund
2. Create an Australian early stage fund based in Adelaide
3. Provide greater access to finance for early stage companies
4. Set up a seed fund
5. Look at other options and alternative strategies for funding, such as bootstrapping and crowdfunding.

There was a feeling from the entrepreneurs that funding, particularly at the very early stage, was difficult to obtain and this was a limiting factor in the progression of some innovative initiatives.

As a group we meet twice to identify and explore the current environment looking at what steps could be taken to address the market failure.

The interesting finding from the group, which included representation from incubators, Angel investors, early stage venture capital and private equity, was that the lack of funding was more perceived than real.

It was not so much that there was a lack of funds but that the funds were difficult to get, and entrepreneurs at less mature stages of innovation development were unable to access these sources.

The major formal sources of funding in SA are;

Fund	\$	Stage	Sector
Acumen	\$20m proposed (60% committed)	Seed / Series A \$250k - \$1.5m	Web & Software
Terra Rossa Capital/ Verde Fund	\$35m	Series A	General Life science
Innovation Capital	\$100m (proposed, IIF & matched being raised)	Series A & B	General Advanced Manufacturing
Blue Sky PE	Deal by deal eg Alcidion \$5.5m Balance Carbon \$500k	Series A, B & C	General & specialised Water fund

The identified gaps

Based on our discussions and understanding of the ecosystem, we identified the following.

1. We are looking at essentially pre-early stage (PES) funding.
2. Entrepreneurs often needed micro financing more than early stage funding.
3. What was needed was a Micro Financing Fund (MFF) that could provide capital to assist in the development of innovations.
4. There was a lack of understanding surrounding the network linkages to appropriate funding for entrepreneurs.
More education was needed to match expectations.

Barriers to funding centred on the following areas;

1. PES entrepreneurs are too immature to attract traditional funding as the innovation development, company structure and opportunity does not offer an enticement to traditional investors.
2. With later stage entrepreneur's, some valuations are not realistic based on the opportunities presented.
3. There was a sense of entitlement from entrepreneurs, which manifested itself in a mismatch between their abilities, innovation and opportunity, against investors return needs and risk tolerance.

Possible Solutions Model

Based on the discussions the following proposals were suggested.

1. A MFF be established which has as its key stakeholders, State government, private (high net worth) and large corporates.
2. This would contract with standardised terms and conditions to allow simplicity of operation and ease of understanding. (low legal costs)
3. Funds of up to \$20,000.00 could be granted (to be determined) to entrepreneurs on a matching basis for the equivalent in cash. (Entrepreneurs would need to bring matching cash to the table to receive a grant)
4. There would be requirements of the entrepreneurs to create a corporate structure, which would grow with them to the next stage of funding.
5. A lean investment committee (panel) would facilitate the grant allocation.
6. Involvement would be desired from the universities, and early stage developmental community (accelerators, incubators, education)
7. Support in resourcing would be required to manage the funding process.

Solutions Framework

While it was recognised that this model addressed one of the key areas of concern, pre-seed or pre-early stage funding, it was not the sole mechanism to engage entrepreneurial creativity.

There was universal agreement that in order for an entrepreneurial ecosystem to flourish what was needed was a combination of education, mentoring and direction.

To create a City of Entrepreneurs we needed to facilitate an “Innovate SA” like linkage to partner innovators with skills providers, investors and enablers who could all work in concert to grow the knowledge base.

This would allow the ecosystem to feed off itself to grow competency, vibrancy and generate opportunities with highly professional teams.

The vision for this varied from a centralised lean agency style entity to a web site portal providing direction and linkages to established systems.

The proposed model incorporated both hypotheses from pre-early stage funding to educational and strategic support, not only providing a boost to kick-start innovation but impart the skills and connections to help drive their development.

The group was mindful of not reinventing the wheel or duplicating support that was already in place but providing targeted support that facilitated results and progressed the innovation up the ladder of development.

It was also noted that not every inventor or innovator would be successful and that being entrepreneurial did not create an entrepreneur. This is true of all entrepreneurial ecosystems. (all players would not get a prize!)

Existing programs that could provide support to inventors seeking to gain funding support were identified as;

1. Innovation Voucher Program
2. Innovyz Start \$20k in return for 8% equity
3. Commercialisation Australia (Skills and Knowledge) Grant \$52k
4. ANZ / NAB Microloans \$20k (credit criteria can still apply)
5. Kickstarter / Pozible Crowdfunding
6. NEIS – Minimum wage for 6 months
7. Customers (early customers pay for development)
8. Foundation Funds

Stakeholders (engagement and implementation process)

Implementation would be a multifaceted approach from State Government, Adelaide City Council, large corporates and individuals.

Ultimately the system needed to be self-sustaining, generating measurable results -driving investable opportunities that became businesses employing South Australians.

There needed to be clear economic benefits to the State and a willingness to participate in further growing the ecosystem.

Engagement must start from early on to provide a clear focus on finding solutions to real problems and building customer input into the development process. Open and transparent communications are needed to facilitate the information flow which then links stakeholders at all stages for the ecosystem.

Success (what does it look like)

With the implementation of this multi faceted model, South Australia should achieve the following;

1. An ecosystem that fosters and supports entrepreneurial innovators by connecting them with mentors and providing pre seed funding or alternate commercialisation strategy to jump start invention.
2. An interlinked network that exposes innovators, mentors, investors, corporates, council and government to early stage developments in South Australia.
3. Pathways to reduce development time by introducing strategic human resources to each other.
4. A dynamic, vibrant environment that can perpetuate innovation through collaboration.
5. An engaged early stage and angel investment community that actively promotes opportunities and has the confidence to fund innovation.
6. A well resourced and mature entrepreneurial community who have the capability to build professional companies that can scale, providing employment and wealth to SA.
7. Through increased understanding and success, an education system that nurtures entrepreneurship in SA, ever increasing the pool of talent entering the ecosystem.

Historical footnote:

Access to finance has historically been looked at by government sponsored think tanks and economic forums previously. The Venture Capital Board was an example of an initiative that was created in 2004 to address this issue. The policy initiatives to increase pools of capital were to provide leveraged government support and investment (eg Playford Capital (SA Government funded operational costs) and Paragon Capital (SAPE Program), co-ordinated business angel activities & training, investor readiness training, VC training scholarships and forums to connect funders with those seeking funds. A number of these initiatives were continued with Innovate SA. Studies of international ecosystems provide similar initiatives, along with additional tax incentives for entrepreneurial investment funds and business angels.