

Case Study 7.3. The partnership between High-Tech Gründerfonds and German Universities



CRITICAL AREA OF FOCUS 3: “Accessing finance and interacting with financial stakeholders”

BEST PRACTICE FOR: “Venture mentoring programs”, “Matchmaking Events and network of Interactions with Investors” and “Partnerships with VC firms and financial investors”

AIMED AT: TTOs/PROs/Investors **VC firm:** High-Tech Gründerfonds

UNIVERSITY: Various German Universities (Germany) **TTO:** Various TTOs

The context:

The **High-Tech Gründerfonds** (henceforth HTGF) is a public-private venture capital investment company founded in 2005 and based in Bonn. HTGF is an early stage seed investor that primarily focuses on high potential high-technology start-ups. The seed financing is provided to allow start-ups to take their ideas through the prototyping phase up to the market launch. Additionally, HTGF aims to create and extend their various networks of expertise to serve new ventures. HTGF has established partnerships with several universities and public research centres in Germany in order to strengthen access to finance for high-tech university spin-offs and start-ups.

HTGF has two executive managers and around 40 employees divided into the following five areas: Hardware, Automation, optic Technologies, Energy, and industrial Software; Life Science, Material Science, and regenerative Energy; Software, Media, Internet, and e-Commerce; Controlling; Relationship-Management, Marketing/Communication, Office.

The problem:

Until the early 2000s, there were not proper seed investors operating in the early stage of the start-up life cycle in Germany. Therefore, there was the perception of a severe funding gap in the early development stage of high-tech start-ups. Such gap was even more pronounced in university spin-offs because of their higher riskiness in comparison to other entrepreneurial initiatives. High-tech ventures are riskier than non high-tech ones, and they also require a longer time to reach maturity. HTGF was created with the aim to fill the existing funding gap for German start-ups, notably for high tech ones, in all sectors.

HTGF does not have a specific declared focus on academic spin-offs. However, since academic spin-offs are normally grounded on high quality research and science and require strong IPR protection, they are among the most relevant targets for HTGF.

The solution:

HTGF was created as a public-private partnership in 2005 in order to address the funding gap and foster the growth of high-tech start-ups in Germany. Investors include the Federal Ministry Economic Affairs and Energy, the KWF Banking group (owned by the federal government), and large private German corporations, such as ALTANA, BASF, Braun, Bosch, Daimler, Deutsche Post DHL, and Deutsche Telekom. The initial objective was to realize at least 40 investments per year. HTGF1 was the first fund created for such objective. Its size was of 272 million Euros with an expected duration of 11 years (it is now in its closing stage). In 2011, a second fund - HTGF2 - was launched, endowed with 304 million Euros. Currently, fund raising is ongoing for the creation of HTGF3.

A specificity of HTGF is that investments follows a simple and standardised procedure, according to which 0.6 million Euros seed financing is provided by the fund to the venture in a first round, through which HTGF acquires a flat 15% of company shares without performing valuation. The 0.6 million Euros are provided by HTGF as a subordinated company loan (seven-year maturity) that can be converted into equity in following financing rounds. In the first round, contribution by the founders must be equal or greater than 10% of HTGF investments, thus at least 0.06 million Euros. HTGF can also provide up to 1.4 million Euros in risk-capital in follow-on rounds.

Since the early years, HTGF has developed numerous partnerships with German universities and public research centres in order to facilitate the generation of high-quality deal-flow from the research context. Aside more standard collaborations with several universities, HTGF has established special agreements with ten institutions, including RWTH Aachen University, Technical University of Berlin, Free University of Berlin, Karlsruhe Institute of Technology, Ludwig-Maximilians University of Munich, Technical University of Munich, Strascheg Center for Entrepreneurship, Technical University of Dresden, Fraunhofer Venture and Max-Planck-Innovation. In such special partnerships, the typical interlocutor for HTGF is represented by the University TTO, the incubator or the Centre for Entrepreneurship. The cornerstone of the partnership is represented by the organisation of matching events, organised by the institutions and attended by representatives of HTGF.

There are two types of events: the first one consists of small and closed half-day events, during which bilateral conversations between HTGF and potential investment targets take place. In this format, a limited number of high-potential start-ups (i.e. 4-5) are selected by the TTOs. They then have the opportunity to pitch in front of HTGF (and sometimes other investors), receive more detailed feedback and ask for clarifications about the investment process. The second format consists of open (typically one-day) events where several start-up ideas are presented by both researchers and students in front of various potential investors (e.g. venture capitalists, business angels), including HTGF. In such format, the pitching time is shorter (i.e. 10 minutes) and there is limited space for interactions. The institutions aspire to 2 closed events and 2 open events each year to which HTGF participates (so participation in some institutions is more or less on a quarterly basis). Besides participating in such events upon invitation by universities, HTGF also participates in lectures and courses within Universities in order to explain what they can offer to start-ups and how they work. In addition to that, a few experts from the TTOs of such partner Universities are included in the network of more than 80 coaches across Germany. Coaches are identified and certified by HTGF in order to support promising start-ups in finding the perfect funding source and help them develop the right case and presentation to approach investors.

Considering the current portfolio of companies backed by HTGF, 23% of them come from universities and 6% from public research centres. Therefore, the interactions with PROs have been very fruitful so far. However, in the experience of HTGF, there are three main issues at stake when interacting with universities. Firstly, the universities usually wish to retain a rather high share of equity in the start-ups, which may discourage investors in follow-on stages; similarly, universities prefer to maintain IPRs and license them to start-ups, whereas HTGF prefers that IPRs are transferred to the start-ups. Secondly, university entrepreneurs often tend to spend high amount of time on technology development, underestimating the following stage of market evaluation and feedback. To tackle this issue, TTOs and TT experts inside Universities have a fundamental role to push scientists towards a more balanced approach across the two stages; to do so, TTOs might offer proof-of-concept and accelerator programs to strengthen business competences of researchers and favour the market validation of technologies.

Lastly, HTGF typically looks for an open attitude from academic entrepreneurs in involving business people inside their ventures. To address this requirement, TTOs should support academic teams in seeking external ad-hoc persons such as managers, sales and marketing specialists, to be involved by the spinoffs side by side to academics, for instance by activating specific matching programs. Although such business skills in the entrepreneurial team may not be strictly needed by HTGF for spinoffs/startups in the first investment round, they tend to become a requirement to access follow-on financing rounds.

Alignment to PROGRESS-TT:

This case is a good illustration of the “Venture mentoring programs”, “Matchmaking Events and network of Interactions with Investors” and “Partnerships with VC firms and financial investors”, Best Practice in PROGRESS-TT Critical Area of Focus 3 “Accessing finance and interacting with financial stakeholders”.

Since its foundation, HTGF has invested in 430 start-ups in Germany, which were able to complete 873 follow-on financing rounds with a contribution through third parties totalling 981.2 million Euros (around 80% of which came from private capital). Companies backed by HTGF have also achieved 58 exits, 43 of which were profitable. It is noteworthy that, whereas university spin-offs/start-ups represent just 7.5% of the pool of start-ups applying for funding from HTGF, they represent 23% of the companies actually receiving HTGF funding. This evidence suggests a very fruitful interaction between HTGF and the science environment.

HTGF is a very interesting case because it suggests new ways of establishing partnerships between academic institutions and venture capital investors. On a more general note, the simplified and standard investment process of HTGF speed-up the negotiation phase between the Fund and target companies, thus addressing an issue that can be very complex in the case of university spin-offs due to the interaction of several actors and stakes (academic founders, TTOs, university administrators). Moreover, the establishment of special partnerships with a selected set of entrepreneurial universities facilitates the generation of deal-flow and the possibility of receiving proposals that are investor-ready. The Fund's participation in matching events regularly organised by Universities is a systematic approach to technology transfer that allows them to fully exploit the potential inside such institutions. The HTGF case particularly highlights the perspective of investors, thereby suggesting that investors pay great attention to the market orientation of the start-ups, in addition to technology, and to the composition of the founding/management team. In this respect, the support of the TTO can be fundamental to orient the spin-offs/start-ups to enhance both aspects in order to strengthen their investor-readiness and chances of success. Focusing on the perspective of investors, this case also represents a showcase for national governments interested in activating financial instruments to support technology transfer activities.

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