



# CORE TECHNOLOGY VENTURES SERVICES

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## Guide to Financing R2H Workshop Brussels April 2006

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# Overview

**Essentially 3 sources of finance exist with many (interrelated) instruments:**

**I. Debt, Equity and Subsidies**

- ✓ A brief description

**II. Debt, Equity & Subsidies**

- ✓ A matrix

**III. Access to Capital**

- ✓ Debt & Equity; the balance sheet

**IV. Access to Capital and Risk**

- ✓ An absence of equity, precludes subsidy for the private sector

**V. Access to Capital and Demonstration Projects**

- ✓ A road map



# Debt Equity & Subsidies

- ❑ **Debt:** Money raised on a debt market (bonds) or obtained from a bank (loans or mortgages). This requires the borrower to prove he or she has the resources to 'service' the debt i.e. make interest payments and be able to pay the debt back. It is available to corporate entities (e.g. bonds, loans, mortgages) or to private individuals (e.g. loans, mortgages). Conceivably available to Joint Technology Initiatives depending on legal structure. Not suitable for university R&D projects or independent developers who have little or no revenues, assets or no entity to guarantee the debt. Corporations and public bodies can raise debt to be provided to demonstration projects.
- ❑ **Equity:** Or risk capital or permanent capital, is money raised on a bourse or private market from venture capitalists or private individuals, and which is not returned to the providers. Available to established corporations (bourse) and is possible though difficult for start-up companies from VCs and private individuals. The provider of equity becomes an owner of the company with corresponding rights. Requires assets (physical & intellectual) that can be owned. Highly unlikely to be available source of finance to demonstration projects.
- ❑ **Subsidies 2:** R&D grants e.g. EU Framework grants are available to academe and corporations that have the capital reserves necessary to cover that part of the project's cost not paid for by the grant. Whether such subsidies will be directly available to demonstration projects needs clarification.
- ❑ **Subsidies 1:** Tax breaks and capital grants are made available to corporations and are only of use where the corporation has taxable revenues is can use to claim the tax break and the capital resources to match the capital grant which normally a percentage of the specified capital cost incurred by the corporation. Only indirectly useful for demonstration projects in as far as corporate participants may have access to tax breaks and grants against which the project could be used. Will be different across the EU depending on local tax regimes. QQ

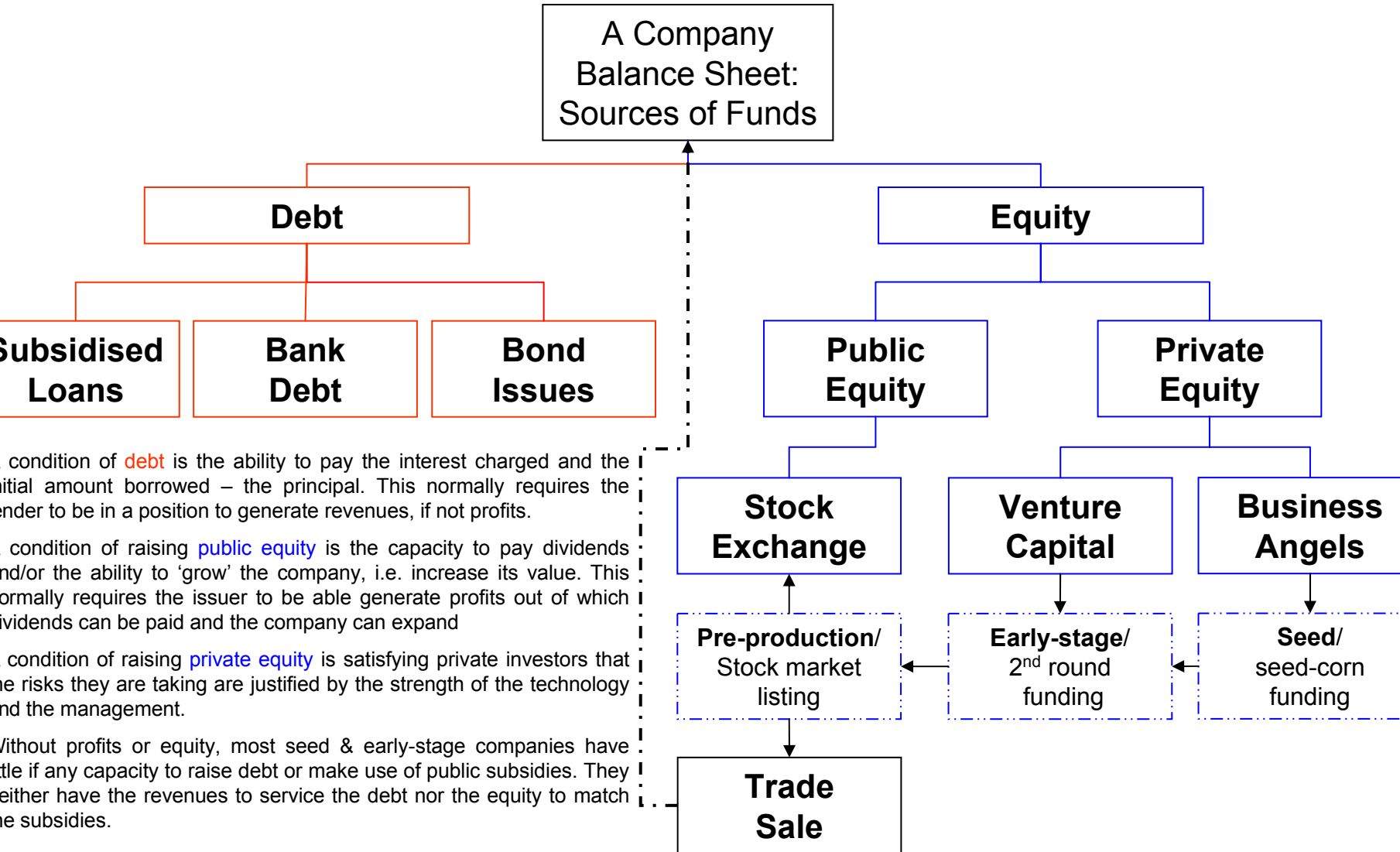


# A Matrix of Debt, Equity & Subsidies

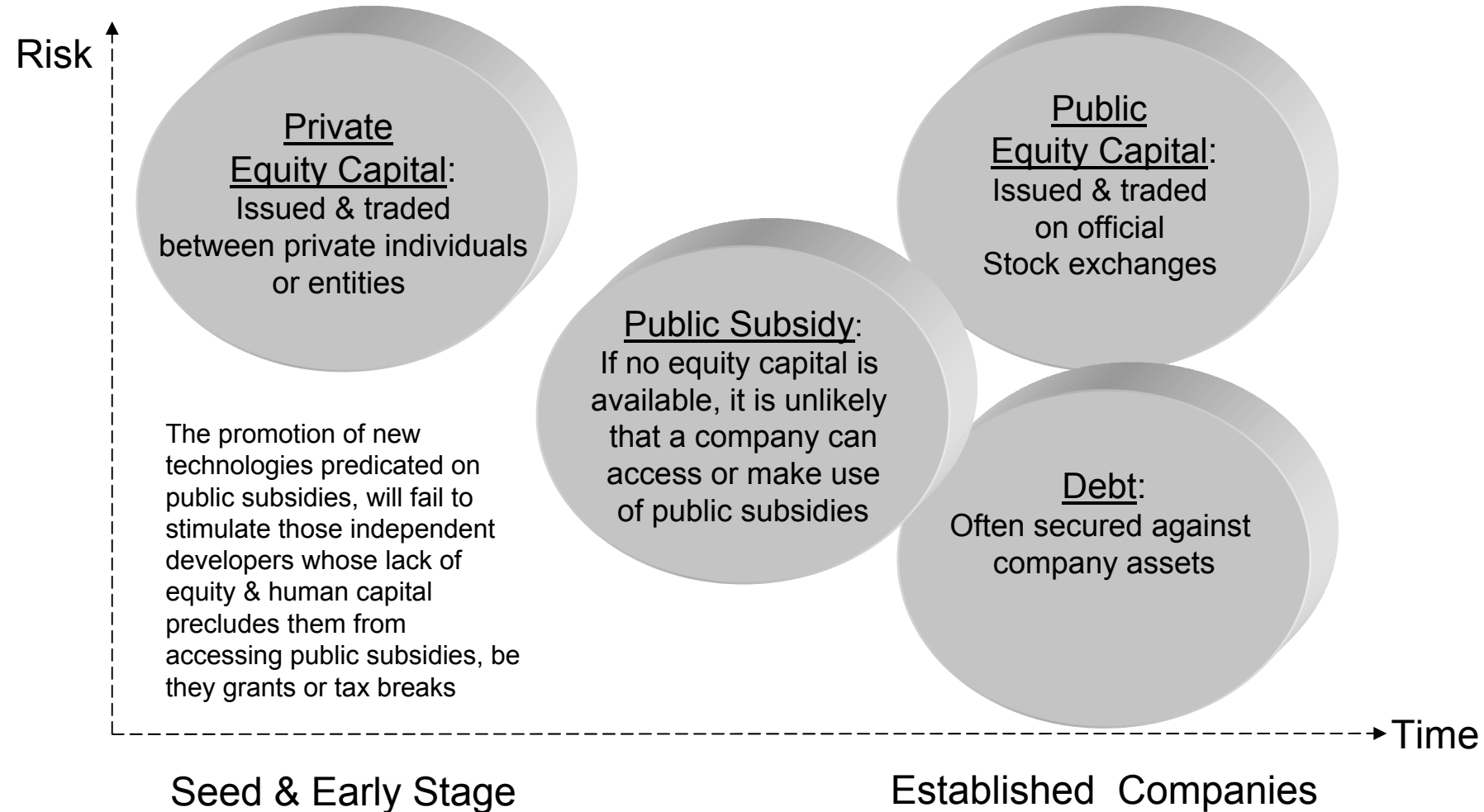
	<u>Debt</u>		<u>Equity</u>		<u>Subsidies</u>	
Type	Bonds	Mortgages	Publicly traded shares	Privately traded shares	R&D Grants: e.g. EU Framework Grants	Tax Credits: e.g. accelerated depreciation
Used by	<ul style="list-style-type: none"> <li>✓ Companies</li> <li>✓ Governments</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> <li>✓ Home owners</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> </ul>	<ul style="list-style-type: none"> <li>✓ National &amp; local governments</li> <li>✓ European Union</li> </ul>	<ul style="list-style-type: none"> <li>✓ National &amp; local governments</li> </ul>
Constraints	<ul style="list-style-type: none"> <li>❖ Ability to pay interest &amp; principal</li> </ul>	<ul style="list-style-type: none"> <li>❖ Ability to pay interest &amp; principal</li> </ul>	<ul style="list-style-type: none"> <li>❖ Capacity to generate profits and pay dividends</li> </ul>	<ul style="list-style-type: none"> <li>❖ Ability to show superior technology and management</li> </ul>	<ul style="list-style-type: none"> <li>❖ For companies, proven capacity to match the subsidy</li> </ul>	<ul style="list-style-type: none"> <li>❖ Ability to make profits to benefit from tax credit</li> </ul>
Typical Takers	<ul style="list-style-type: none"> <li>✓ Institutional Investors,</li> <li>✓ Financial companies</li> </ul>	<ul style="list-style-type: none"> <li>✓ Retail banks</li> <li>✓ Building societies</li> </ul>	<ul style="list-style-type: none"> <li>✓ Institutional investors</li> <li>✓ Individuals</li> </ul>	<ul style="list-style-type: none"> <li>✓ Business angels</li> <li>✓ Venture capitalists</li> <li>✓ Corporate venturers</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> <li>✓ Universities</li> <li>✓ Research Institutes</li> </ul>	<ul style="list-style-type: none"> <li>✓ Companies</li> </ul>
Purpose	<ul style="list-style-type: none"> <li>❖ Debt allows companies to pursue their own interests by leveraging profits with little or no impact on control. Unlike equity, debt can attract tax breaks with interest payments treated as a cost. Typically companies choose a mixture of debt and equity that suits their aims and the current state of the economy. E.g. as interest rates fall companies make seek to finance increased investment by debt rather than issuing new equity to shareholders.</li> </ul>		<ul style="list-style-type: none"> <li>❖ Equity gives companies the freedom to pursue their own best interests in the manner they regard as most appropriate, as well affording them the ability to make use various government subsidies, such as EU Framework grants. However, subsidies related to income tax relief require a company to generate taxable profits.</li> </ul>		<ul style="list-style-type: none"> <li>❖ Subsidies can allow both governments and companies to pursue the social welfare &amp; profit simultaneously by promoting economic growth (jobs). In the case of R&amp;D, subsidies encourage firms to pursue socially beneficial projects that otherwise may be lost to society. The drawback for newly emerging companies is that they often do not have the capital required to match grants not the profits to benefit from tax breaks.</li> </ul>	



# Access to Capital: Debt & Equity



# Access to Capital & Risk: An absence of equity, precludes subsidy for the private sector



# Access to Capital and Demonstration Projects

