

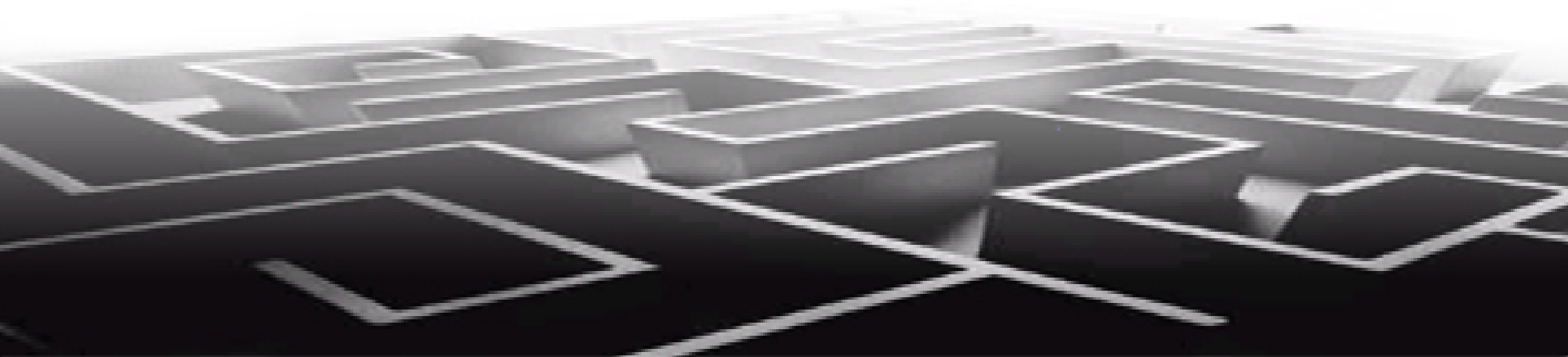
**The Financing of Entrepreneurship
In Internet 2.0**

“Follow the Entrepreneur”

Presented by Julie Meyer

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Europe has always had its backers of Artists, Adventurers, and Mavericks

The difference between then and now is:

- We didn't believe that life was fair
- We didn't believe that all people should be successful
- We didn't believe that everything and everyone should be equal
- The king and queen may have been benevolent, but they certainly didn't treat everyone the same
- Risk was rewarded
- And greatness was frequently achieved

The Medici Family

The Medici family was a powerful and influential Florentine family from the 13th to 17th century. The family produced three popes (Leo X, Clement VII, and Leo XI), and Lorenzo il Magnifico, Ruler of Florence, patron of some of the most famous works of renaissance art.

- The Medici Bank was one of the most prosperous and most respected in Europe.
- There are some estimates that the Medici family was for a period of time the wealthiest family in Europe.
- From this base, the family acquired political power initially in Florence, and later in wider Italy and Europe.

The most significant accomplishments of the Medici were:

- The sponsorship of art and architecture, mainly early and High Renaissance art and architecture. Their money was significant because during this period, artists generally only made their works when they received commissions and advance payments.
- Giovanni di Bicci de' Medici, the first patron of the arts in the family, aided Masaccio and ordered the reconstruction of the Church of San Lorenzo.
- Eleonora of Toledo, princess of Spain purchased Pitti Palace from Buonaccorso Pitti in 1550.
- Cosimo I the Great patronized Vasari erected the Uffizi Gallery in 1560 and founded the Academy of Design in 1562.
- Marie de Medici, widow of Henri IV and mother of Louis XIII, is used by Peter Paul Rubens in 1622-23 as the subject in his oil painting *Marie de' Medici, Queen of France, Landing in Marseilles*.



A notable contribution to the profession of accounting was the improvement of the general ledger system through the development of the double-entry bookkeeping system for tracking credits and debits. This system was first used by accountants working for the Medici family in Florence.

Christopher Columbus ~ The 1st Entrepreneur? Queen Isabella ~ The 1st Venture Capitalist?

The Year is 1492



The advisors to Isabella and Ferdinand were sceptical about Columbus' plans, but to keep him from taking his ideas elsewhere, and perhaps to keep their options open, the King and Queen of Spain gave him an annual annuity and sent an order to all of Spain that he was to be given free food and lodging wherever he went.

When they finally agreed to help him, Ferdinand was reported as having claimed he was "the principal cause why those islands were discovered".

Contract between Columbus and Isabella & Ferdinand

If Columbus discovered any new islands or mainland, he would receive many high rewards.

- He would be given the rank of Admiral of the Ocean Sea.
- Appointed Viceroy and Governor of all the new lands.
- Entitled to 10 percent of all the revenues from the new lands in perpetuity
- He would also have the option of buying one-eighth interest in any commercial venture with the new lands and receive one-eighth of the profits.

The Ariadne Hypothesis – Pre-meditated Sabotage

- Entrepreneurs are not the Problem
 - Europe has had great entrepreneurs – great risk takers and achievers, and is starting to have great serial Internet entrepreneurs
- The Financing of Entrepreneurship has not been World-Class
 - The Financing of Entrepreneurship in Europe has not kept up with the rise of serial, successful entrepreneurs in Europe
 - Although it's changing....
- Europe may have the richest poor people of any other region in the world, but you can count on one hand the £1 billion companies that have started from scratch over the past 30 years.
- Great entrepreneurs can be found on every continent
 - But there has been something pre-meditated about Europe's ability to squash the ambitions or make it harder than elsewhere for Europe's home-grown group of entrepreneurs.

What's The Problem?

Lack of Accountability

- Well, in France, one is taxed on assets whether or not they are revenue-generating, and taxes reach 70% of one's income.
- In the UK, they are increasing capital gains taxes
- The EU Commissions' financial accounts have failed to be signed off for more than a decade.
- Many Other Examples of not believing in people
- It is not difficult at all to connect the dots between government, their lack of accountability, their desire to control people's lives and money, and a diminished entrepreneurial sector.

The Good News – Economics Trumping Politics

- The good news is that in 2007, like a groundswell around the globe
 - economics is trumping politics.
- The triple play of the Internet, Entrepreneurship and Individual Capitalism is bringing first world living conditions to people who previously were given aid and never encouraged to dream big dreams before.
- This triple play means that we are losing the divisions that have historically separated the old and new worlds and different classes of people
- Iqbal Quadir, one of the founders of the Grameen Phone, says so well:
 - “Capitalism was about empowered authority which didn’t necessarily activate the citizenry; the Internet stands that on its head, and shifts the power to the Individual – making Individual Capitalism the force of the 21st Century”.

How UK and European VC's perceive themselves

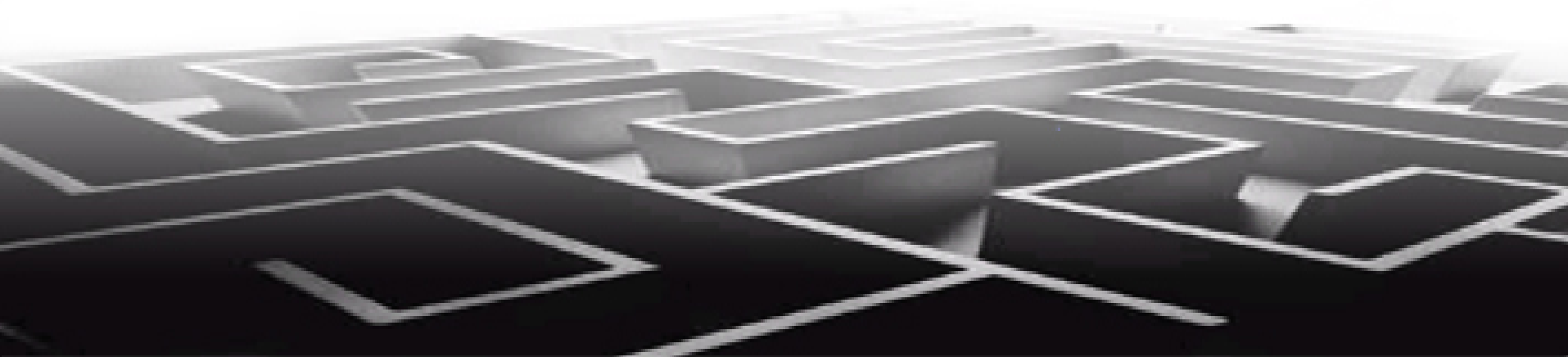
- Local suppliers of capital
- Global service providers
- Company builders
- Partners in company building
- Backers of game-changers
- Catalysts for cultural change
- Entrepreneurs gone to the dark side

How many € billion firms have been built in Europe from scratch with venture backing?

Who's the client?

Follow the Entrepreneur

- He/she has the market insight
- He/she is the value creator
- He/she is the hero



'The credit belongs to the man who is actually in the arena'

"It is not the critic who counts, not the man who points out how the strong man stumbled or how the doer of deeds could have done better. **The credit belongs to the man who is actually in the arena**, whose face is marred by dust and sweat and blood, who strives valiantly, who errs and comes short again and again, who knows the great enthusiasm, the great venture and spends himself in a worthy cause, who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly so that his place shall never be with those cold and timid souls who know neither victory nor defeat." - **Theodore Roosevelt**

So, what are the challenges of being a VC?

Are you kidding?

- Manage and generate deal flow
- Raise the fund
- Keep LPs from going weak in the knees when things are not always 100% positive
- Keep partner dynamics positive
- Deal with emotional and ego-driven entrepreneurs
- Keep Board Room dynamics positive
- Don't get divorced or commit hari kari...

So, what are the challenges of the European VC Industry?

- It is still counter-cultural to be an entrepreneur in Europe; until that changes overall, the returns won't be there systematically
 - Europe is feudal at its core
- The World is Flat
 - The competitive playing fields between industrial and emerging market countries have been leveled
- Entrepreneurs have choices of funding
- Serial entrepreneurs understand the “tricks” of financing start-ups & figure out how to stay in control of their firms
- US VC's are coming to Europe
- Exits are [perceived to be] in the US

What do these companies have in common?

- Thunderhead – enterprise communications
- SAP
- SpinVox – voice to screen, voice-messaging
- Staff ware – business process management
 - Acquired by Tibco for \$240 m in 2004

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All were built with no venture capital backing...

Ariadne Capital – Who We Are

- Ariadne Capital is an Investment and Advisory Firm focused on Software and Services, Digital Media, Communications and Life Services [Consumer Financial Services].
- We are backed by 42 Entrepreneurs who founded the firm in 2000 in order to build the market leading companies of the new Millennium
 - Founders of Hotmail, BetFair, WorldPay, SES Astra
- We have picked some winners early as advisors
 - Skype/Ebay
 - Kashya/EMC
 - Espotting/MIVA
- We are creating a Growth Story for Europe.

What Entrepreneurs do inside companies - They Get Out and Create a Market Storm

- Entrepreneurs, if they're good, have the best insight into how particular markets are developing. They are in the "eye of the storm," dealing every day with how markets are dynamically evolving.
- Entrepreneurs also think differently. They see things that others don't. They feel compelled to make stuff happen, often simply because they see something that doesn't exist yet—and should.
- Sometimes that blind faith leads to catastrophe, but more often, entrepreneurial insights eventually turn into step changes in how industries operate.

Critical Success Factors

For Business 2.0

Critical Success Factor 1:

Be as Unreasonable About Success as an Entrepreneurs

- Entrepreneurs have a view of the market and/or a consumer behaviour, which drives them to bring an innovation to life.
- Like becoming a Parent, if they knew what it would REALLY entail, they would think twice.
- That leads them to be paranoid, and feel that they are in a race against time.
- Which makes them learn how to:
 - Act with Imperfect Information
 - Never assume they control time
 - Never give up – tied to their identity
 - Expect Success

Critical Success Factor 2: You Know More Than You Think You Do

- Don't just trust your instincts but listen, hone and refine your instincts
- Determine what your "Unfair Advantage" is and Do More Of That

Critical Success Factor3:

Invest in the success of others - Today's World is an Ecosystem

- The Businesses with Business Models which enhance and grow the ecosystem will win
- Abundance Mentality
 - Focus on being a Net Contributor to the System rather than a Net Taker, and what you find is that your Sphere of Influence over the System increases
- Focus on Long-Term Relationships

Critical Success Factor 4:

Be radically open to the World

- Bill Joy, the former CTO and guru from Sun Microsystems, “assume innovation occurs elsewhere”.
- Build reliable means to continually pull in what’s relevant and potentially threatening to your business
 - “We have to be in many places and get signals sooner,” Henning Kagerman, SAP CEO in the WSJ
- “We’re not in the dialogue” – Nokia Senior Executive
- Small things can indicate that large change is about to happen

Critical Success Factor 5:

Exact Accountability

- Management is the search for accountability. Who is doing what, by when, why, and how, and most importantly, what happens if they don't?
- The best entrepreneurs and executives are both leaders and good managers.
- There are no bad Lieutenants, Sergeants, Captains – there are only bad Generals
- Trust is Efficient – Trust but Verify
- Economies who trust spontaneously develop and progress more rapidly – Francis Fukuyama

Critical Success Factor 6 –

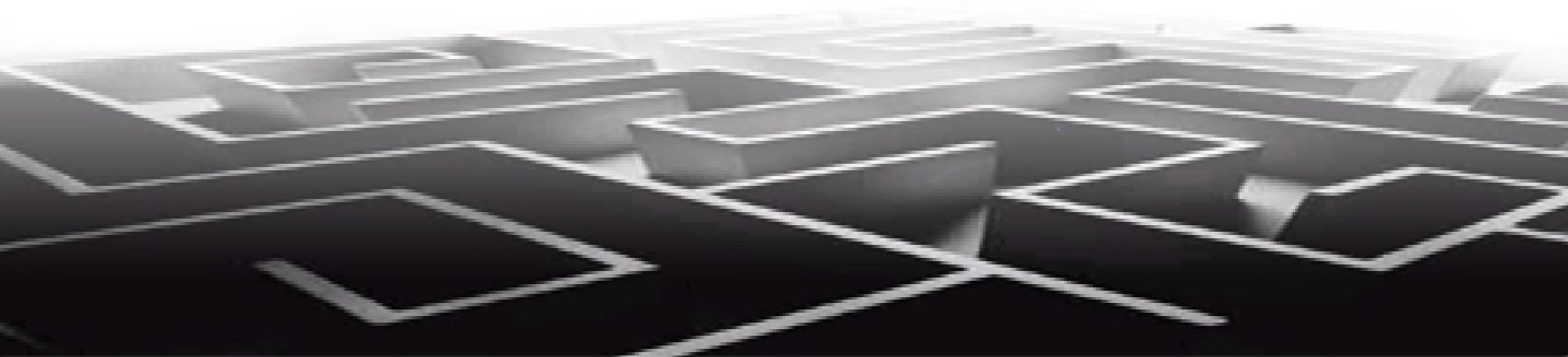
Create the conditions of trust so that great things can happen

Trust *is* efficient; leadership is about creating the conditions of trust, and the combination of building counter-cyclically, paying attention to small change which indicates that large structural change is about to happen, seeking out inefficient markets, and investing in the success of others, leads to businesses that are both valuable and sustainable.

THANK YOU

If you would like this presentation or to get in contact, send me an email on julie@ariadnecapital.com

www.ariadnecapital.com



Is There a Problem?

Feudalism Alive and Well

- Many Europeans still crave as a life goal to become “aristocratic” and see life through the Lord/Peasant framework;
 - Default to being taken care of by the benevolent “lord” [the government] in tough times, sacrificing individual freedoms and willingly accepting taxes from the “lord” as part of the implicit “deal”.
- Feudalism is the oppressive concept and structure which is the opposite of meritocracy and freedom.
- When Respect for authority is given or expected not because the authorities deserve it, but because of blood or family privilege, freedom and all of its benefits are lessened.
- Building a Growth Story for Europe means taking individual risks and actions.
- To bring the metaphor up to date:
 - If European governments are the “pusher”, then its citizens have become the “users”. Once hooked, it is near impossible to get one off whatever one has become dependent upon.
 - Perversely, the junkies are allowed to vote for their favourite pushers - It’s sad but true.

Is There A Problem?

Europe has no Growth Story Today

- I keep the UK slightly to the side when I say that Europe has no growth story.
- And a society which isn't growing, isn't creating – is dying.
- Europe may have the richest poor people of any other region in the world, but you can count on one hand the £1 billion companies that have started from scratch over the past 30 years.
- New company development leads to a growth story.
- Some of the finest entrepreneurs go elsewhere to build their dreams.

The World of the Entrepreneur

- Nick Ogden, the founder of WorldPay, one of my 40 founding investors who are some of the leading European entrepreneurs said the following when I asked him what he was most proud of: “Never missing payroll”.
- Entrepreneurs know where the buck stops. It stops with them and/or hits them smack in their forehead.
- Entrepreneurship is not for the faint-hearted; it is about persisting and taking total accountability for a company and your life: the good, the bad and the ugly.
- As Candace Johnson, the founder of SES Astra always says, “never give up, never accept no, and never ever go away – even when they want you to.”

European Entrepreneurs – Driving the Growth story

- Government needs to understand that it is the servant of the people, and that European Entrepreneurs are driving its growth story.
- Understood that people are not equal.
Wouldn't it be "nicer" if somehow life could be fair and equal?
- What the most important thing to grasp in one's life however is choice.
We all have a choice as to what we do with our lives.
- Some of us choose to create, build and be a net contributor. Others are intent on taking out of the system whatever we can get.