

## **20051113 THE CAPITALMARKET IN BELGIUM (EUROPE)**

### **1. For whom is this information ?**

This information aims at entrepreneurs and managers of “innovative” companies and projects. Innovative means set about business in one’s “own” way. This does not always concern new products or services, it can also concern a renewed approach of marketing or logistics, extra attention to quality or an unusual high level of service to the customers.

*“A good preparation before the start of an enterprise minimally takes one year.”*

### **2. Introduction**

New and quickly expanding enterprises contribute greatly to the growth of the economy and the employment. The money for these new activities does not exclusively come from the government, banks or the existing business. The biggest part of the necessary capital, billions a year, come from particular investors and professional holding companies. There are so many different parties, that even the most exotic proposals can count on a warm interest of the investors.

*“Belgium belongs to the strongest countries in the world, when it comes to availability of risk-bearing capital.”*

In some matters, we are even at the top, namely when it concerns the additional value of the investor. Additional value means that the investor does not only contribute capital, but also knowledge, experience and connections. The capital market in Belgium is well organised and effective.

If you want to start an enterprise, innovative or not, consider particularly the commercial (non-subsidized) capital market. There are investors in all shapes and sizes. They particularly invest in business they know a lot of or in which they are good at. Each investor, both professional and private, contributes except money also additional value in the form of knowledge and connections. Private investors are even willing to invest a lot of time in the starting phase to get the initiative smoothly off the ground. The good investor, or combination of investors (they like working together to combine their knowledge and networks) can more than double the survival chances of a new initiative.

*“The finding of the right (combination) of investors demands some effort. We are here to help you.”*

The idea that a lot of investors “are ready” to finance each starter or every innovative project exists, but this is not true. Who wants to make an appeal to the private capital market, has to go into the possibilities that the market has to offer. It seems difficult, but everyone can do this. It only takes some time and attention.

*“The finding of a suitable investor demands at least three to six months. When this does not succeed after half a year, the attention is usually better directed towards other things.”*

### 3. Good entrepreneurship

An entrepreneur has in fact two chore tasks. He makes plans and has to make sure they are carried out. He cannot do everything himself. The planning takes up all the attention. But the carrying out of the plans is actually just as important and this involves the elusive aspect “good entrepreneurship”.

An entrepreneur with a plan, then has to get several things done. He (or she) has to get money from his investors, orders from his clients, motivation from his employees and a good service from his suppliers. To get these things done he can follow four strategies:

1. **Forcing** (force clients to place orders, force employees to work hard etc.) demands a position of power and is bad for the endurance of the relation.
2. **Begging** (beg investors for money, beg customers for orders) is unwise, bad for the necessary mutual respect.
3. **Buying** (everything is for sale, employees for more salary, money for more interest, orders for more discount) is directly at the expense of the margin and the profitableness and does not result into endurable relations.
4. **Tempting** (clients who place orders without nagging for discounts, investors who “join” because they like it, employees who work hard for little money because they can develop themselves and are appreciated and suppliers who deliver quickly, think along and still are prepared to wait for their money). Who makes sure that things are granted, gets value for money. This is also something informal investors pay attention to. They are willing to be “tempted” by the entrepreneur, in the conviction that the entrepreneur can also tempt his customers, employees and suppliers. Temptation has something to do with promising little and making a lot come true.

**Option 1** is often used by inventors, engineers and professors. They are of the opinion that they are in a position of power because they have the technique. They behave in this way, so that they isolate themselves from their surroundings, while the game only begins with the availability of the product.

**Option 2** is used by many inventors who are already searching a while and by inexperienced entrepreneurs. It does not get them anywhere.

**Option 3** is often used by management students. They use the ratios of established business and are rarely successful (too high “burn rate” or cost factor). Once in a while, inexperienced bankers and investment managers are surprised by “overheads” fall.

**Option 4** shows good entrepreneurship and can be found with a big number of successful starting entrepreneurs. They easily find good financiers.

### 4. Own capital or loan capital

*“The Subsidy Butler can help you to map your own needs and solutions to size.”*

The money that is needed to let an enterprise turn, is initially (at the start of a new enterprise) from investors or financiers. The investors provide the “own capital”, they buy shares and in

this way they become co-owner of the enterprise. When all goes well, they earn nicely, when all goes wrong, they lose everything. Financers, on the other hand, do not partake in the risk. They provide “loan capital” on the basis of securities. Financers usually receive for the lending out of money an allowance in the form of a fixed interest.

***“Suppliers of loan capital ALWAYS want to have their money back. It is after all their money. Keep this in mind while negotiating.”***

When the enterprise is turning, suppliers and other creditors supply a part of the other capital. When the enterprise is making a profit, this is added to the own capital. An enterprise, particularly a young enterprise, has the need for a balanced composition of the capital. Especially the own capital provides the resilience of the enterprise. The own capital can serve as “security” to attract loan capital and when things do not go as expected for a little while, or when there has to be developed very quickly, the own capital can serve as a reserve for the enterprise.

Already centuries, people hold the view that there is an optimal proportion between the own capital and the loan capital. This proportion (solvency) is surrounded by all kinds of theories and arithmetic methods.

***“In actual practice it is proven that when the proportion of the own capital drops under the 30% (for middle large companies), the continuity of the enterprise is threatened.”***

The statistical chance that the enterprise will get into trouble, rises exponentially with the decrease of solvency.

Financers (suppliers of loan capital) know this. They are not always able to judge the commercial prospects of an enterprise. They have to base themselves on established facts. The solvency plays a crucial role in their judgement. An entrepreneur can read the “strength” of the enterprise by the solvency. When this gets in the danger zone, the entrepreneur has to search reinforcements of the own capital.

Banks and financial institutions are the obvious parties to supply loan capital. They have a range of products, varying from mortgage loans to account current credit, debtor financing, lease constructions etc. Several of their products have a risk-bearing character, or are even completely risk-bearing. Your local bank will inform you with pleasure.

For own capital (or risk-bearing capital) the obvious supplier is less obvious. In this brochure you are informed about the possibilities that the market of risk-bearing capital offers you.

## **5. Sources of risk-bearing capital**

**Friends and family** are the greatest source of risk-bearing capital leaving the entrepreneur aside. They can, especially during the initial phase of the enterprise, show the trust to support the entrepreneur in his plans. 80% of the external risk-bearing capital comes from friends and family. It concerns many millions of euros a year.

**Informal Investors or “Business Angels”** come in the second place. They are by definition (ex)entrepreneurs who have made money (usually less than 20 million EUROS) out of the sale of the enterprise, they have started themselves a few years ago. There are probably about 500 of them in Belgium. Their number is difficult to estimate because they like to stay anonymous for the public at large. Except money they particularly offer knowledge of business and contact with their connections. They pay particular attention to the person of the entrepreneur and the qualitative aspects of his plans. Real Informal Investors do not have the need to take the place of the entrepreneur. They usually want a minor share in the enterprise and are not to be appeased with the promises of return. They participate (= become co-owner by buying a part of the shares) with sums of 15000 euros to 1 million EUROS in innovative starters and young, fast growing companies. Also small sums are invested in product development or plan development (“seed capital” or sowing capital).

**Holding companies** have much more money. A few hundred million euros a fund is no exception. There are different holding companies in Belgium. Because the investors of the holding companies actually control money for big investors, they will avoid great risks as much as possible.

*“When their money is asked for a new initiative, the request has to be carefully prepared and well-founded. We can write your winning business plan”*

After years of concentration (mergers between funds) and a craving for increasingly bigger participation in increasingly bigger companies (minimal 2 to 5 million EUROS in an existing enterprise) the trend is now turning.

Also holding companies are aiming to their additional value (knowledge and network) and work together with others to finance companies they would not finance by themselves.

**Special funds are holding companies with a special aim** Regional development companies stimulate activity in their region, Technostarter funds participate in innovative starters, and certain institutions stimulate new companies in a specific sector. These companies are usually set up with government support, but they just finance under commercial conditions. They only invest when the investment produces enough “return”. These funds are counted to the holding companies further on.

**Venture Capitalist** are private investors who are often seen as Informal Investors, but are not. They usually have more money (more than 20 million euros) and are not so attached to anonymity as to privacy. On the market, they are usually known, but difficult to approach. They invest particularly sums of 2 million and more to companies that already have proven their right to exist. Quality of management, market research, cash flow analysis, return prognosis and taxability are things that need to be well arranged, before they are approached. Because of the big capital they control, they have little time to guide young entrepreneurs. To keep the situation in control they prefer a controlled (= majority) concern in the enterprise. Because they make decisions on their own money, they can act very quickly. They are also called in during crisis situations.

**Investment companies**, in Belgium and abroad called “Private Equity Funds”, are funds with a great amount of often private money, that is used to buy (shares of) existing companies.

They move around on the same market as the Venture Capitalist, but do much bigger transactions. Those transactions have often more to do with investment, than with investment.

**Application for a stock market quotation.** the valuable research process that precedes an application for a stock market quotation, and the attention that a stock market quotation demands, set the lower limit of capital demand at about 7 to 8 million EUROS.

## 6. Specific characteristics and additional value:

<i>Kinds of investor</i>	<i>Advantages</i>	<i>Disadvantages</i>
<b>Friends and Family</b>  Number: > 500.000 Sum: 500.000 Euros tot 25.000 Euros Fase: pre-start / start  Personal loans. Do not expect shares or securities in return for their loan.	<ul style="list-style-type: none"> <li>- Easy to find</li> <li>- Have in advance confidence in the investor</li> <li>- Give smaller sums without definite plans</li> <li>- Best option in the pre-phase</li> <li>- Good fiscal settlements</li> <li>- Usually has a happy ending</li> </ul>	<ul style="list-style-type: none"> <li>- Limited additional value for the investor</li> <li>- Because of inexperience of the investor, he is in a constant state of insecurity about whether or not the correct decision has been made.</li> <li>- When the project fails, the friendship or family relation is disrupted.</li> </ul>

<i>Kind of investor</i>	<i>Advantages</i>	<i>Disadvantages</i>
<b>Informal Investors</b>  Number: approx. 500 Sum: from 15.000 Euros to 1 million Euros Phase: (pre)start and quick growth  Combination of new shares and subordinated loans	<ul style="list-style-type: none"> <li>- Like doing starters</li> <li>- Also finance development course</li> <li>- The more innovative, the better</li> <li>- 'think along' and supply knowledge and networks</li> <li>- leave the entrepreneur the entrepreneur</li> <li>- wish a minority block of shares</li> <li>- like participating with others</li> </ul>	<ul style="list-style-type: none"> <li>- hard to find</li> <li>- 9 in 10 'do not'</li> <li>- it has to click especially at a personal level</li> <li>- difficult to be convinced with 'financial' arguments.</li> <li>- Barely contribute more than 1 million.</li> <li>- Once the business is running, they want to get out of it.</li> </ul>

<i>Kind of investor</i>	<i>Advantages</i>	<i>Disadvantages</i>
<p><b>Holding companies and special funds</b></p> <p>Number: approx. 3 Sum: 1 to 10 million Euros Phase: (fast) growth, reorganisation, gaining independence</p> <p>New and existing shares, subordinated and preferential loans, standby credit and modern mixed forms</p>	<ul style="list-style-type: none"> <li>- Great diversity in expertises and interests</li> <li>- A lot of capital</li> <li>- Fairly dynamic</li> <li>- Professional attitude</li> <li>- Department expertise</li> <li>- International networks</li> <li>- Also cooperate with others.</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid unpredictable risks (starters)</li> <li>- “more expensive” than informal investors.</li> <li>- Less counselling</li> <li>- More reporting</li> <li>- Controlling on a distance</li> </ul>

<i>Kind of investor</i>	<i>Advantages</i>	<i>Disadvantages</i>
<p><b>Venture Capitalist</b></p> <p>Number: approx. 250 Sum: 1 to 2.5 million Euros Phase: taking-over, growth, reorganisation, gaining independence</p> <p>Existing shares, mortgage loans and standby credit</p>	<ul style="list-style-type: none"> <li>- Have more money than informal investors</li> <li>- Create easier syndicates (= group of investors) from their own network</li> <li>- Can negotiate quickly</li> <li>- Professional negotiators</li> <li>- Like professionally prepared proposals</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid starters</li> <li>- Difficult to approach</li> <li>- Tough negotiators</li> <li>- Place great demands on the management team</li> <li>- Usually want controlling (= majority) interest</li> <li>- Very much aimed at results</li> </ul>

<i>Kind of investor</i>	<i>Advantages</i>	<i>Disadvantages</i>
<p><b>Investment companies</b></p> <p>Number: approx. 20 Sum: 2.5 to 250 million Euros Phase: taking-over, reorganisation, gaining independence and bridging</p> <p>Only buy existing shares</p>	<ul style="list-style-type: none"> <li>- Have substantial means</li> <li>- Do not need to form syndicates, but however form this sometimes</li> <li>- Can act relatively quickly</li> <li>- Professional negotiators</li> <li>- Like professionally prepared proposals</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid every risk</li> <li>- Only for very serious and very big transactions with existent companies</li> </ul>

<i>Kind of investor</i>	<i>Advantages</i>	<i>Disadvantages</i>
<b>Share stock market</b>  Number: 1 Sum: 8 to 250 million Phase: strong growth  Distribution of new shares, replacing existing shares or a combination of those two	- Shares become easily tradable - The availability of money is almost unlimited - Publicity at the application for a stock market quotation increases the acquaintance with the enterprise - Previous shareholders can (partly) resign	- Only for companies that show great promises or that are very profitable - High costs for the introduction and the information service - When promise does not come true, stock exchange price crashes - High threshold for minimum sum

## 7. Possibilities of choice for the entrepreneur

The entrepreneur who wants to bring his product or service “on the market” makes a marketing plan. He investigates the market, chooses a target group, gains more in-depth knowledge about this target group and asks himself: what do these people expect of me and how can I meet those expectations best? Nobody gets an order “just like that”, one has to do something for that.

The capital market is an ordinary market, just like any other market. For those who want to call upon this market, it is wise to gain more in-depth knowledge of that market, and then approach the proper party (or parties) with the proper proposal. Nobody gets money just like that. One has to see the calling upon the capital market as the marketing of the own shares.

**There are 3 global factors, that are decisive for the direction in which the supplier of capital has to be looked for:**

1. **Kind of project or enterprise.**
2. **Phase in which the project or enterprise is in (or risk profile or the enterprise, these matters are closely connected)**
3. **The amount of capital.**

The phase (and the risk profile) of the enterprise can react against the size of capital demand. In the plan that then is created, suppliers of the capital can be projected. The entrepreneur can then, depending on their own point of departure, decide which (kind) of supplier of capital is for them the most obvious choice.

A number of “sources of money” are NOT mentioned here, but therefore they are not less important. Think in the plan also of:

- **Limitation of the expenses.** Consider that a starting company cannot permit itself unnecessary luxury, like an expensive office space and an expensive interior, a car that is too big and therefore too expensive, and so on.
- **Subsidies and (guarantee) regulations** by the government.
- **Special pots,** all kind of institutions with more or less commercial aims that supply money to (starting) companies with green, ideal or woman-friendly motives, or to companies that develop knowledge or employment in a certain department or region.

- **Credits from banks and financial institutions.** They have a broad selection of “products”, some of which have a risk-bearing character. Feel free to have a look around and let you inform about the advantages and disadvantages of those products. For all the information, go to your (local) bank.
- **Leasing (instead of buying)** of office equipment, cars, and so on at leasing firms. They supply goods (often maintenance and debit are included) that fit your needs and financial possibilities. You can find more information at your bank or at a specialised leasing firm.
- **Factoring.** You “sell” your invoices to a factor company, who makes sure they are paid on time and you get (a share of) the money of outstanding invoices prepaid. Factoring is specialised work. It is more than debtor financing. You can find more information at your bank or at a specialised factoring company.
- **Supplier credit.** Your suppliers do not always demand cash payment, but usually payment within a certain period (for example three months). In practice, this is the most important form of credit, that you have to use optimal. But confer with your supplier beforehand, when you are going to deviate from the arranged paying term. Information at your suppliers.
- **Employee participation.** Your employees “save” (for example by deducting a certain part of their wage) shares of your company or they buy them. In this way they become partly the owner of the company. This will also increase their commitment and effort. It is “cheap” money (you do not pay interest or other compensation), but you hand in shares.

## **8. Good preparation is everything**

The desired kind of supplier of capital determines to a high extent, the way in which these should be approached. There is a big difference between the approaching of a formal (official) and an informal (private) supplier of capital, and between a new or an existing initiative. An entrepreneur with a new initiative in search of an informal investor has to bear in mind these things amongst others:

- Investing in a new enterprise is a matter of trust and demands a big portion of courage from the investor.
- There are few certainties. Success never lies solely in the initiative itself. Success still has to be MADE. Therefore, the informal investor pays more attention to the entrepreneur than to his initiative.
- The investor has to have trust in the capacities, views and integrity (trustworthiness) of the entrepreneur and he has “to enjoy” the initiative.
- Make sure that at the acquaintance your appearance is well-kept, you arrive on time and you do not promise things you cannot fulfil.
- Make sure that the investor has a good impression of your capacities (background, knowledge and experience), of your intentions (plans and proposals) and of what he may expect from you as your partner.
- The business plan is at the most 30 pages long. We advise you to let it be written by a specialist.
- Copywriting enhances the textual quality of the business plan and of the profile. Do not

regard it as a cost but as a gain to get appointments and money.

- The plans are self-made, well-considered, thorough and brief.

A good profile runs from 6 to 8 pages in which the following items are certainly brought up:

*1. How will the enterprise look in 3 to 5 years time:*

- Who are the clients (and how many)?
- Who are the competitors?
- What are the products (estimated turnover and costs included)
- Why do the clients want to buy the products from me and not from someone else?

*2. What do I have to do to realise these aims?*

- Plan of approach, what to do at what point in time

*3. What do I therefore need:*

- That has to do with people, knowledge and money?

*4. Where do I get it?*

*5. Further more, there needs to be a proposal in which is brought up what the entrepreneur expects from the investor and what the investor can expect from this in return.*

*6. It is advisable not to dwell too long on market analysis and return prognosis. However, this has to be considerable thought of.*

***“We write profiles in first instance for presentation and in second instance business plans that win. When we register a client, you can count on it that we aim for your excellence in the presentation of the profile and in the writing of your business plan. However, we do not accept all files.”***