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**Check Against Delivery**

**OPENING**

Thank you for the opportunity to talk at the First Innovative Enterprise Week.

I would like to acknowledge the European Union's investment policies and its support for business development and innovation.

I'm confident that universities can and will play an important role in these schemes.

I'm therefore very pleased to be given this opportunity to present the Eurotech Alliance and our role in addressing societal challenges – here especially creation of scalable spin out companies based on our inventions.

**ABOUT EUROTECH**

Eurotech is a strategic partnership of four leading European universities of science and technology:

- Eindhoven University of Technology,
- Technische Universität München,
- Ecole Polytechnique Fédérale de Lausanne and
- Technical University of Denmark.

By joining forces, the EuroTech alliance seeks to increase impact and create synergies e.g. across research, innovation, education, and industrial collaboration.

The alliance is committed to finding technical solutions, which address the major challenges of modern society. One important

route is through university spin-outs, which therefore is a strategic task for all four universities.

As technical universities based on very strong research platforms we have set up substantial tech transfer activities.

My own university, DTU, created 51 start-ups including 10 IPR based spin-outs last year.

Similar results are created across the Eurotech alliance with the potential for contributing to economic growth and the introduction of game changers in important areas such as life science and cleantech.

We see it as our obligation to assist university spin-outs to cross the gap between research funding and commercially viable funding in the market.

Appropriate funding is a core enabler and therefore risk-willing financing is needed in order to realize the full commercial potential of university spin-outs.

## **APPROPRIATE FINANCIAL SUPPORT**

There is at least 10 years of experience with running risk finance programs residing within the Eurotech alliance – typically based on smaller national grants or universities own funds.

Over the years we have developed the competencies, processes and structures to systematically identify and mature projects to become new spin-outs.

There are however more promising projects in our pipeline than risk finance available.

It is a positive problem, yet it illustrates a simple point:

The ideas, the competencies and the systems are in place, but still there is a strong need for funds of a grant-like-character to reduce risks and to bridge the valley of death to a point, where more traditional venture capital investors are ready to take over.

In very early technology projects the risks are high and the likelihood of project failure is rather high. Typically only one project of four succeeds in getting to the market.

From our analysis of former risk finance programs at DTU we can see that the average cost of maturing a project to the point where we can create a new company is around 120.000 €.

Please bear in mind that our grant support is only given to projects with a clear commercial potential.

Teams who apply for such grants are met with demanding requirements for verification of market interest, business models, go-to-market strategies and hard milestones. We also follow up on the agreed tasks during the grant period.

We acknowledge that one size does not fit all and different technologies need support at different stages. However, a common denominator is a commercial perspective throughout all activities.

We currently support these activities with a competency building initiative across the Eurotech alliance. The aim is to develop a joint investor readiness program that will strengthen our ability to mature projects towards commercial results.

Even though the need for more grant-like funds is one of my key messages today the terms and models on which funds are provided are equally important.

## **MODELS**

Even in a market affected by the global financial crisis, the Eurotech alliance has been able to attract capital for a number of spin-outs.

It means we have been able to leverage the grants made to each project. For example the projects coming out of TU Eindhoven attracted almost 20 million € in equity capital from 2012 to 2014 – equivalent to a factor of 3 to the granted funds.

These figures indicate that we as universities can successfully attract investors to match and leverage the funds granted to our innovation projects – but typically on a case by case basis.

As part of our practice we are in continuous dialogue with potential investors, customers and partners for each of the innovation projects we fund.

We strive to find an optimal match between specific projects and investors which makes commitments from investors less challenging to obtain.

At present, this case-by-case model cannot be used within the current matching model employed by the European Investment Fund.

Today, investments into a tech transfer fund needs to be matched upfront with investments from local private investors.

The Eurotech alliance indeed respects the need to match EU investments with commercial investments for risk sharing and agree that this is a healthy principle.

However, upfront co-financing on equal terms is a severe challenge.

It is of course in the genuine interest of universities to make all reasonable efforts to go out and talk to investors and convince them to commit upfront investments to match capital raised from EU.

There is a considerable risk that we will be able to match only a minor part of the capital raised from EU for such early stage project. And most likely we will only be able to attract capital from sources with no requirements for ROI – and these are indeed rare.

An outcome could be that we do not utilize the schemes to its full potential, if we as universities will have to reject risk finance investments from the EU simply because we cannot match them upfront with local investors.

This may be a barrier for universities' ability to realize their full potential and thus it may prove a disadvantage for society at large.

Alternative models may solve this!

A preferred alternative would be to build upon the current practice at the universities and establish grants and co-funding case by case.

In such a model an EU investment is committed upfront but released only in tranches according to realization of agreed targets and co-funding from complementary local investors.

A hybrid model with partly upfront local investments supplemented by case-by-case syndication for the rest of the investment could also be imagined.

Or a model with differentiated co-funding that would allow the universities to syndicate grants while local investors syndicate investment into spin-out only.

The reasoning behind such models is in accordance with the approach taken by local investors.

They will be much more willing to consider investing in specific technology which they know and where they are able to make a case-by-case assessment of their risk.

Local investors are not necessarily risk averse, but they need a more qualified basis for their risk assessment, which will be accommodated by what we can call a sequential model.

So I would like to propose more flexibility from EU's side. A flexibility, which will not impact the size or the quality of the deal flow but would share more of the very early risk.

In order to encourage complementary investments from local investors it should be considered to allow implementation of investor specific ROI requirements to some degree.

However a relief in itself is not considered a remedy that will work without the help of elements of case by case syndication as well.

It is my hope that this will be taken into account in the coming negotiations about the Technology Transfer Financing Facility Pilot between the European Commission and the entity which will be expected to operate the program.

There could be more alternatives and also combinations hereof to realize the full potential of European universities as a driver for growth and job creation.

The Eurotech alliance will be pleased to provide input to further elaboration of the options.

Thank you for your attention.