

# Foundations of the Open Innovations program under the new FENG perspective

Warsaw, 31.01.2024 r.



Co-funded by the European Union



 **PFR Ventures**

Security

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# Agenda

- > Definition
- > Models for the provision of Private Contribution
- > Summary of past tenders under the POIR perspective
- > Key program principles under the new FENG perspective
- > POIR vs FENG – revisions from the previous perspective
- > Criteria for VC Fund Managers selection
- > Call schedule
- > Q&A

# Definition

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# Definition

*What is the Open Innovations model?*

*What are examples of projects implemented in the Open Innovations formula?*

The Open Innovations model involves the development of a technological innovation (including new products/ processes) using knowledge, resources and technologies from external sources, i.e. from the scientific sector and/or in cooperation with the organizations' stakeholders

- Spin-offs, spin-outs, creation of companies with external partners
- Cooperation on product/process technology refinement with employees of research and scientific units, outsourcing R&D work
- Use/development of existing IP (license agreements and others)
- Commissioning laboratory tests, commissioning technological verification
- External pre-implementation analyses and consultations
- Consumer market research or conducting external product tests, after which the product is refined
- Other activities including the use and aggregation of externally acquired knowledge, resources and technologies

# The Open Innovations program pursues a number of business goals



Support for technology transfer to the economy through commercialization of research and development.



Development of the venture capital market, including building new managing teams.



Financial support for technology projects by financing innovative SMEs implementing the R&D&I component.



Implementation of the best VC standards in Poland.



Attracting private investors and encouraging them to make long-term investments and co-investments in the VC market



Development of human capital with a high degree of specialization and experience in innovative technology solutions.



The internationalization of business operations, including the entry of Polish companies into foreign markets.



# Models for the provision of Private Contribution

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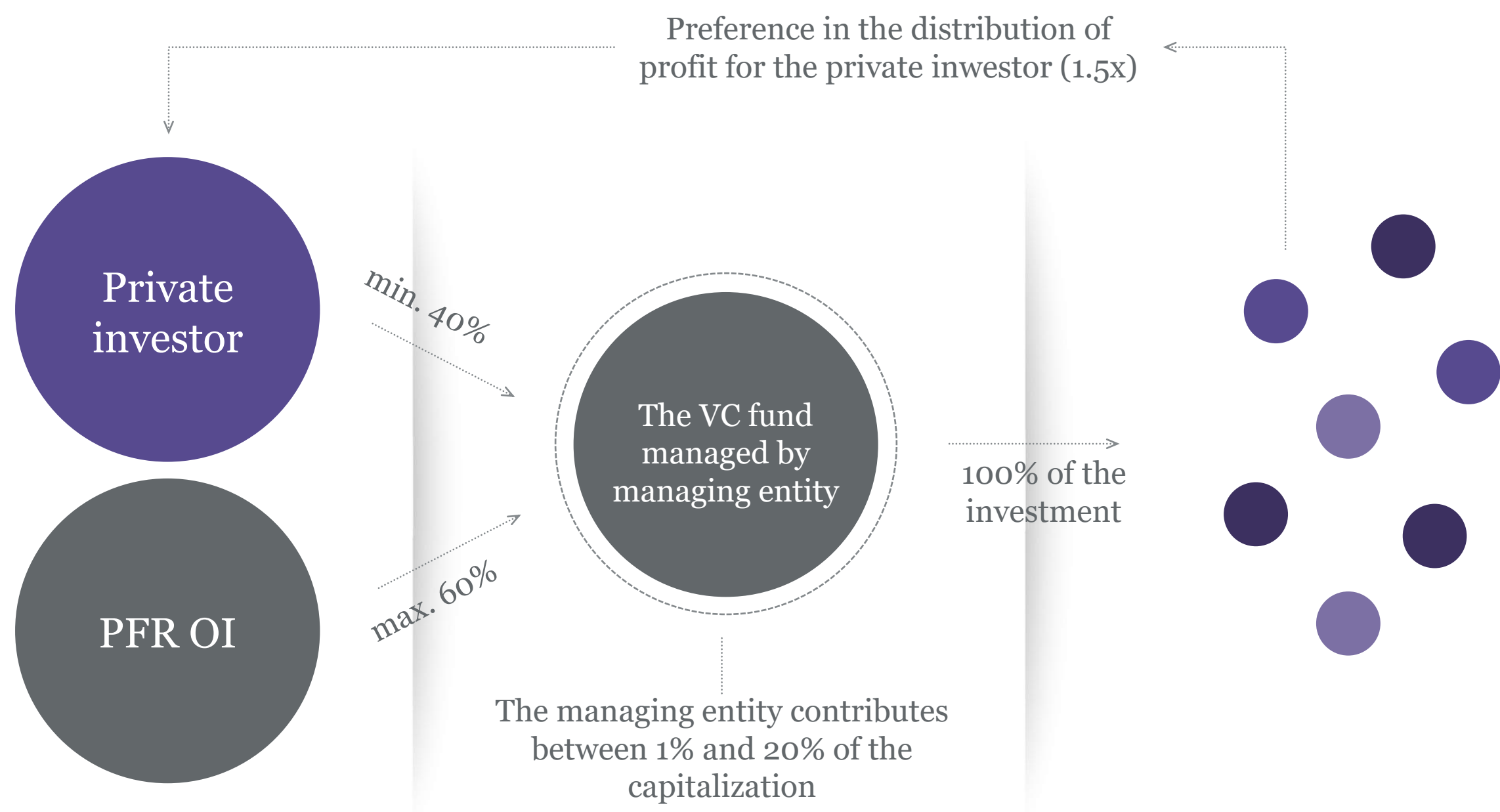
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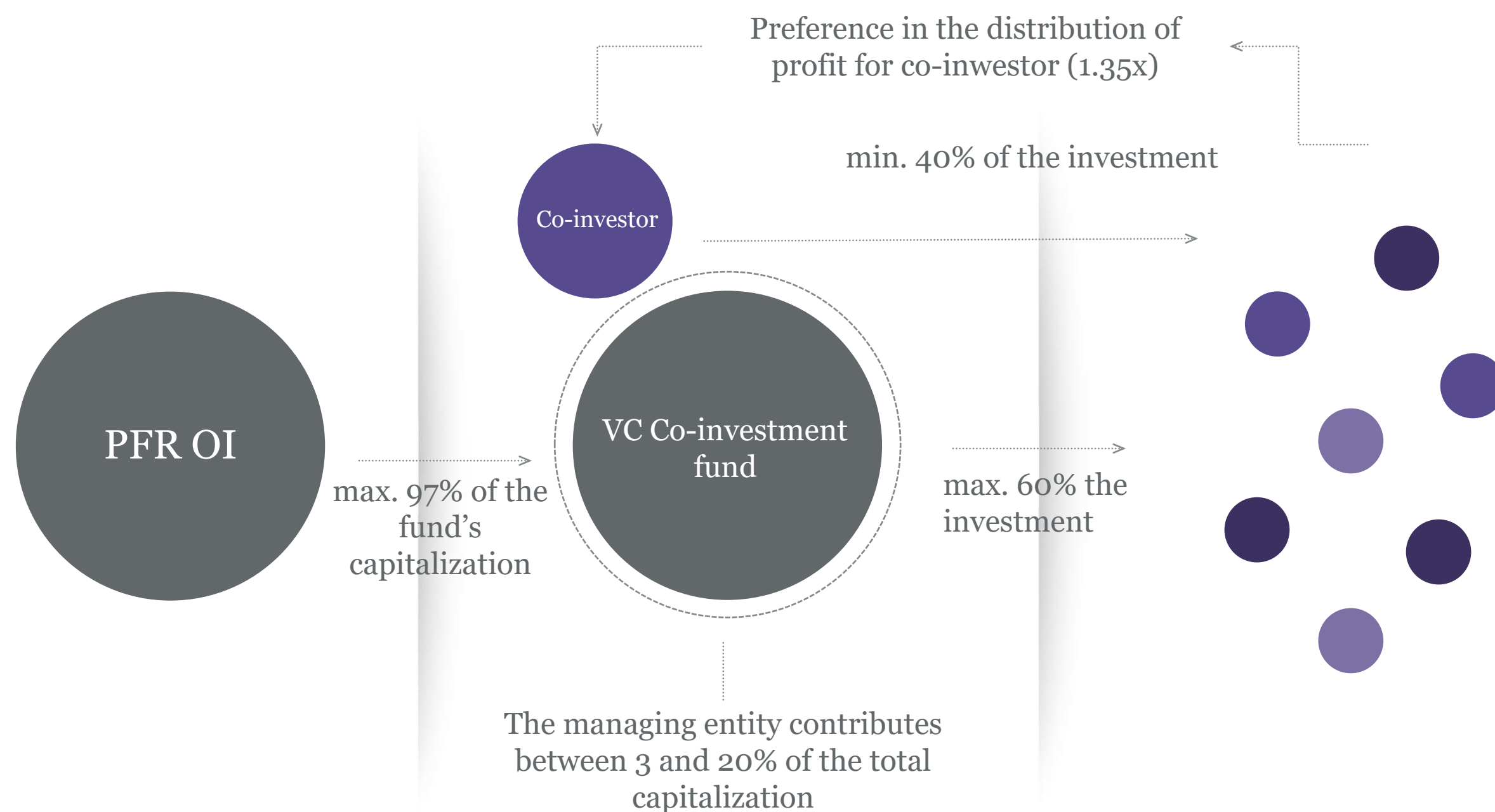
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# Model 1 – Commitment Model



- 100% of the private contribution (i.e., at least 40% of the VC Fund's Declared Capitalization) is to be present at the time of Tender submission

# Model 2 – Co-Investment Model



- As part of the Model 2 Tender submission, the Tenderer should provide a list of potential Co-Investors, which will be taken into account during evaluation
- It is preferred that Tenderers submit letters of intent or other forms that authenticate cooperation with Co-Investors
- The Co-Investor must be approved by PFR Open Innovations prior to co-investment



# Summary of past tenders under the POIR perspective

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# POIR perspective funds have supported the commercialization of R&D projects

40

Funded startups

10

Companies established at the university or commercializing technology developed at the university

PLN 500m

Declared capitalization of 5 existing VC funds (including contributions from co-investors)

196

PLN million invested in startups by PFR OI

181

PLN million from co-investors to enhance innovations

VC Funds we have invested in

# FENG perspective Program assumptions

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# The main objectives of the PFR OI program under FENG regarding VC funds



## Who is the Program aimed at?

VC funds investing in startups implementing R&D&I component



## Preferred legal form

Limited partnership, limited joint-stock partnership



**PFR OI contribution**  
PLN 45 – 80 m



**Time commitment**  
Min. 2 KP members for 40h/week/100% of professional time



## Investment Committee

KP members  
+ PFRV (observer) with a veto right  
+ potentially a non-voting representative of private investors



## Carried Interest

25%  
(up to 30% in Model 1)



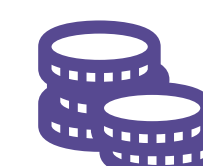
## Hurdle Rate

0%



## Investment Period/ Investment Horizon Lengths

4 years (+1)/ max. 10 years



## GP's contribution

- Model 1 – min. 1% of Declared Capitalization
- Model 2 – min. 3% of Declared Capitalization



## Profit asymmetry

- Model 1 – 1,5x the Private Investor's share of profits compared to their participation in the VC fund
- Model 2 – 1,35x

# The main objectives of the PFR OI program under FENG regarding investments in companies



## Investment ticket

From PLN 5m



## Limit of % of shares for the first investment

Below 50%



## Investment stage

Early stage/growth/expansion



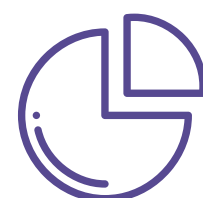
## Company headquarters

The company should be located in the EU, EFTA, EEA or UK



## Follow-on investments

Up to 60% of the Investment Budget



## Min. share in the company

Best effort to secure min. 10% or a significant influence in the company



## Geographic restrictions

Max. 15% in foreign companies with a "Polish nexus"



## Acquisition of shares from current shareholders

Up to 50% investment value contingent on company's development stage

# POIR vs FENG – revisions from the previous perspective

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# POIR vs FENG – revisions to some of the assumptions as a response to market needs

Characteristics	POIR	FENG
Program size	PLN 391m	PLN 442m
Planned number of VC funds	5	6
Min./max. commitment of PFR Ventures	PLN 36m / 78m	PLN 45m / 80m
Profit asymmetry (Model I / Model II)	1,7x / 1,2x	1,5x / 1,35x
Time commitment of the members of Key Personnel	Minimum of 2 people for 80% professional time and 32h/week*	Minimum of 2 people for 100% professional time and 40h/week*
Management fee % rate	No differentiation by size of VC Fund	Higher rates of variable remuneration for all funds and additional preference for micro funds (up to PLN 45m)
Geographical restrictions for the headquarters of startups	None while retaining the "Polish nexus"	Adding the UK to permitted jurisdictions Max 15% in foreign companies with a "Polish nexus"
Min. percentage share in the company	10%	Removal of the "hard" requirement - the introduction of a "best efforts" clause to ensure min. 10% or significant influence in the company



\* Allowable exceptions in cases where: (i) the Key Personnel Member is involved in a previous VC fund during the divestment period, or (ii) the side activity is of limited size, synergistic and does not generate a conflict of interest.

# Criteria for selection of VC Fund Managers

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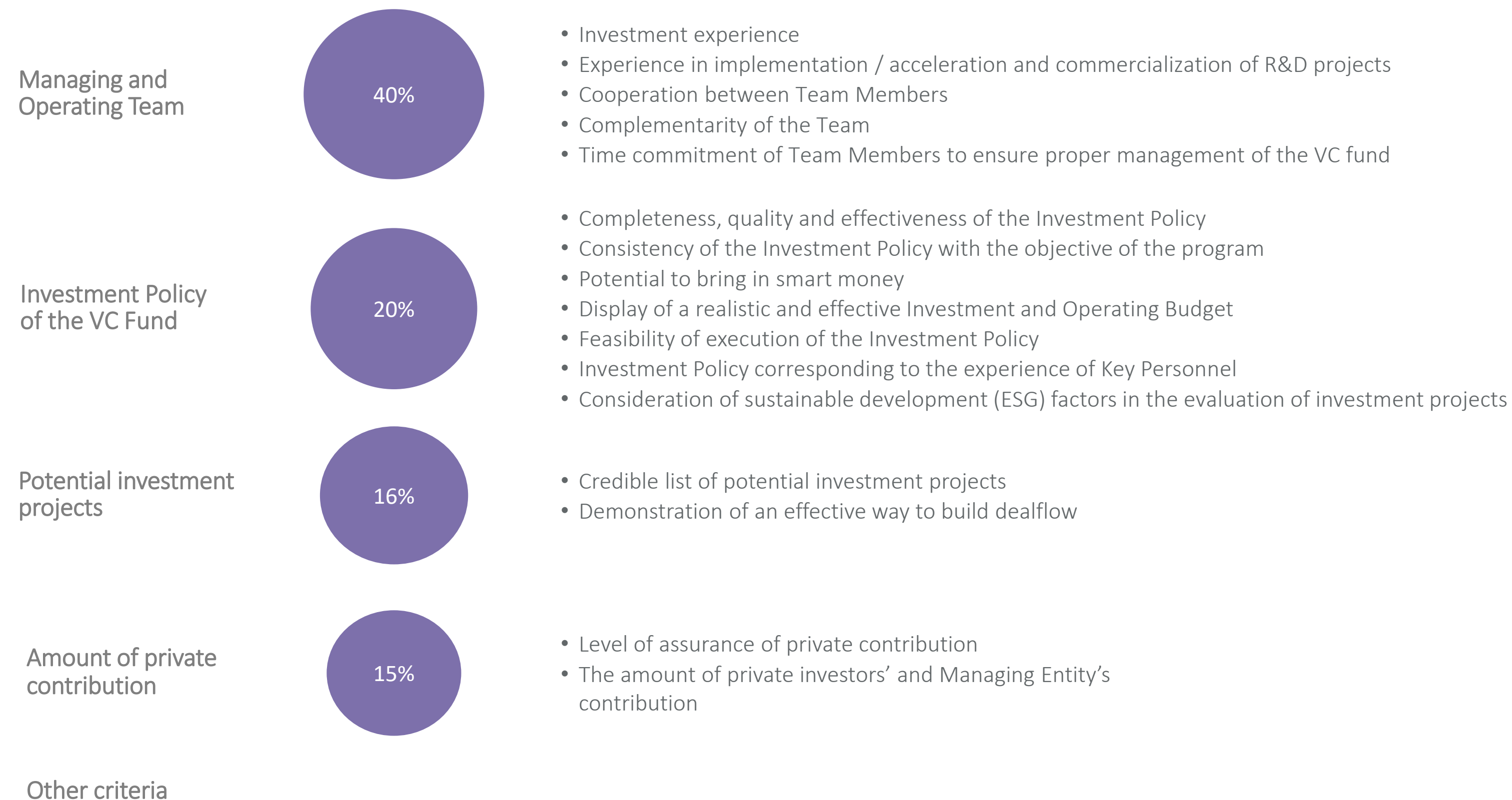
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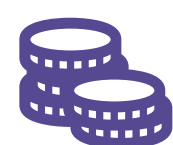


# PFR OI's selection criteria of VC funds



# Team as a key aspect of evaluation in the Tender

## Critical areas in the Team's evaluation



Investment experience



Complementarity of experience



Experience in commercialization of R&D projects



Previous cooperation of the Team

### Who/ what we are looking for

- Individuals with solid investment experience within the Team, particularly at the seed stage
- Complementarity of the Team in terms of investment, entrepreneurial and industry experience
- Individuals with experience in companies in line with the fund's investment policy
- A team with an existing track record of joint collaboration in investments, work or other projects
- Credible full involvement of Key Personnel members in the fund's activities
- Individuals with experience in attracting co-investors to deals and making co-investments
- Individuals with extensive networking in the academic and scientific community

### Most common undesirable situations

- Lack of any member of the Team with investment experience or experience is outdated or inadequate (e.g., buyout investments)
- Actual experience and professional achievements significantly different from those declared in the Tender
- VC fund specialization not supported by experience of Team members
- Short track record of cooperation of the majority of the Team (e.g., a few months), no joint investments or projects
- Managers (declaring 40 hrs/week) planning to continue other professional activities
- Lack of a person with experience in the implementation of R&D projects

# Other undesirable situations in offers based on experience with POIR 1/3

## Fund size and economics



- High target capitalization of the fund in relation to Team's investment experience
- Inefficient fund economics (e.g., low salaries of Team members due to too large a Team, participation of external parties in fund management fees, lack of management fee collection policy from the Co-Investors involved)
- Too small Team relative to the planned capitalization of the fund

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## Investment Policy



- Industry profile of the fund not supported by the experience of Team members in the relevant area
- Lack of focus on commercialization of projects from universities / accelerators
- Poorly credible or vague investment policy, e.g. in terms of deal flow generation

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## Pipeline



- Low quality or low credibility of the indicated investment projects
- Lack of clear investment theses for indicated projects
- Investment projects inconsistent with the fund's investment policy (lack of innovation, companies with commercial revenues, foreign companies with limited ties to Poland) or the objectives of the Program

# Other undesirable situations in offers based on experience with POIR 2/3

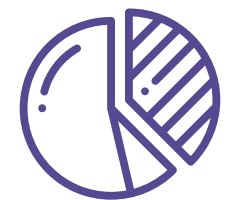
## Structure of the Managing Entity



- Complicated and unclear ownership structure of the Managing Entity
- Inconsistency between the ownership structure and the structure of contributions made
- Inadequate contributions of Key Personnel members in relation to their assets
- Lack of Key Personnel members on the Managing Entity's Board of Directors

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## Carried Interest



- Allocation of Carried Interest inadequate for commitment of time, money and contributed know-how
- Carried Interest over-allocated to those declaring low time or financial commitment
- Part of Carried Interest allocated to Business Angels or persons/entities affiliated with Business Angels

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## Investors



- Affiliations of Investors with the Managing Entity's Team
- Declarations from Investors with reputational problems
- Lack of an effective strategy to attract Co-Investors

# Other undesirable situations in offers based on experience with POIR 3/3

## Investment decision process and criteria



- Limited decision-making capacity of Key Personnel members declaring full time commitment to the Investment Committee
- No / low declared contributions to the fund by those making investment decisions

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## Conflict of interest management



- No market-based valuation validation rules for investments in companies affiliated with Key Personnel or Private Investors
- Affiliations of Team members with other funds/incubators/venture builders generating conflict of interest risks
- Direct investment by KP members or funds affiliated with KP members in competition with the fund
- Management of another VC fund that is in the investment period

# Call schedule

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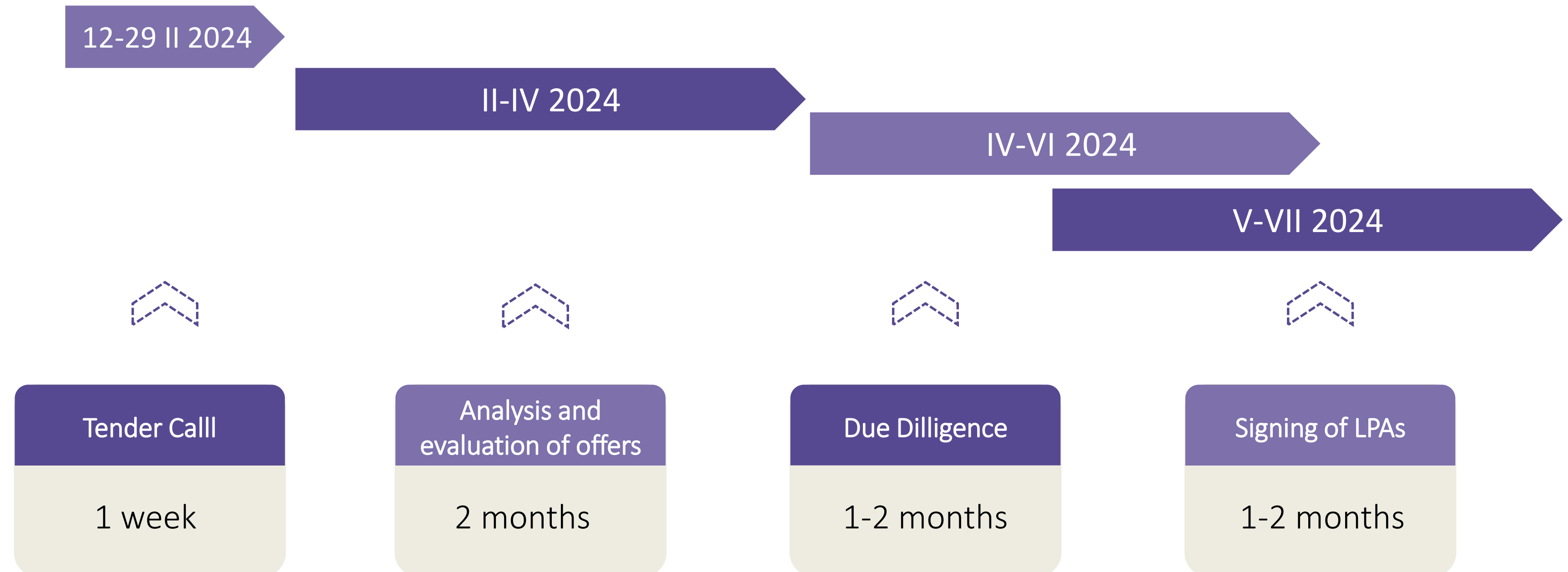
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# Call schedule for the Open Innovations program



# Q&A

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