

Start-Up Survey

Summary of the findings
of KPMG's 2013 Start-Up Survey

KPMG proudly supporting the Slovak Start-Up Ecosystem

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Introduction

The information, Communication and Technology Sector (“ICT”) is one of the few sectors to emerge from the recent Global Downturn relatively unscathed. In fact, in some respects, the drive to reduce costs, improve efficiency and increase innovation has contributed to its success. Technology continues to change the way we do business, communicate and spend our spare time. Business has always experienced periods of fundamental change but rarely has such change been experienced in such a short period of time and on such a global scale.

One of the most exciting features is the ability for small businesses to rapidly build scale and become global players. There has never been a more exciting time to start your own business. The chances of success however, are greatly increased when those businesses are supported by an appropriate Ecosystem, comprising many parties, all working together.

The examples of Israel and Ireland show that a country does not need to be a Global economic power in order to develop a world class Start-Up Ecosystem. Clever use of existing resources; a co-ordinated approach and the right attitude matter more. Slovakia has



an opportunity to develop its own world class Start-Up Ecosystem. The talent, resources and ambition are most certainly here. Our survey findings clearly illustrate this.

The purpose of our survey was to establish the Slovak Start-Up Ecosystem’s current status; the resources available, and identify the needs of the entrepreneurs. We have distilled our findings into 5 key recommendations. The benefits to entrepreneurs, young businesses and indeed the Slovak economy as a whole, means this is an opportunity not to be missed.

At KPMG we firmly believe in this opportunity and are committed to supporting entrepreneurs. We have established a dedicated business unit to do so. We want to share our experience and global network with exciting new businesses.

So if you have a young Start-Up, or indeed just have a bright idea, please contact us; we’d love to talk.

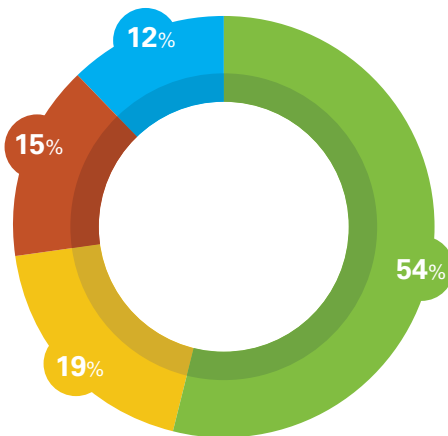
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Basis of Report

This report is a summary of the findings of KPMG's 2013 Start-Up Survey. The survey was carried out in **June and July 2013** and focussed on Innovation Driven Entities (IDE's). Each respondent was attributed to one of the **following categories**:

- Start-Ups
- Mid-size and Large Corporates
- Government Enterprise Support Agencies
- Private Enterprise Support Organisations



*The findings from our survey were supplemented with discussions with **key stakeholders**.*

A number of international studies, which included Slovakia, were carried out in 2012 and 2013 and some of their key findings have been included here:

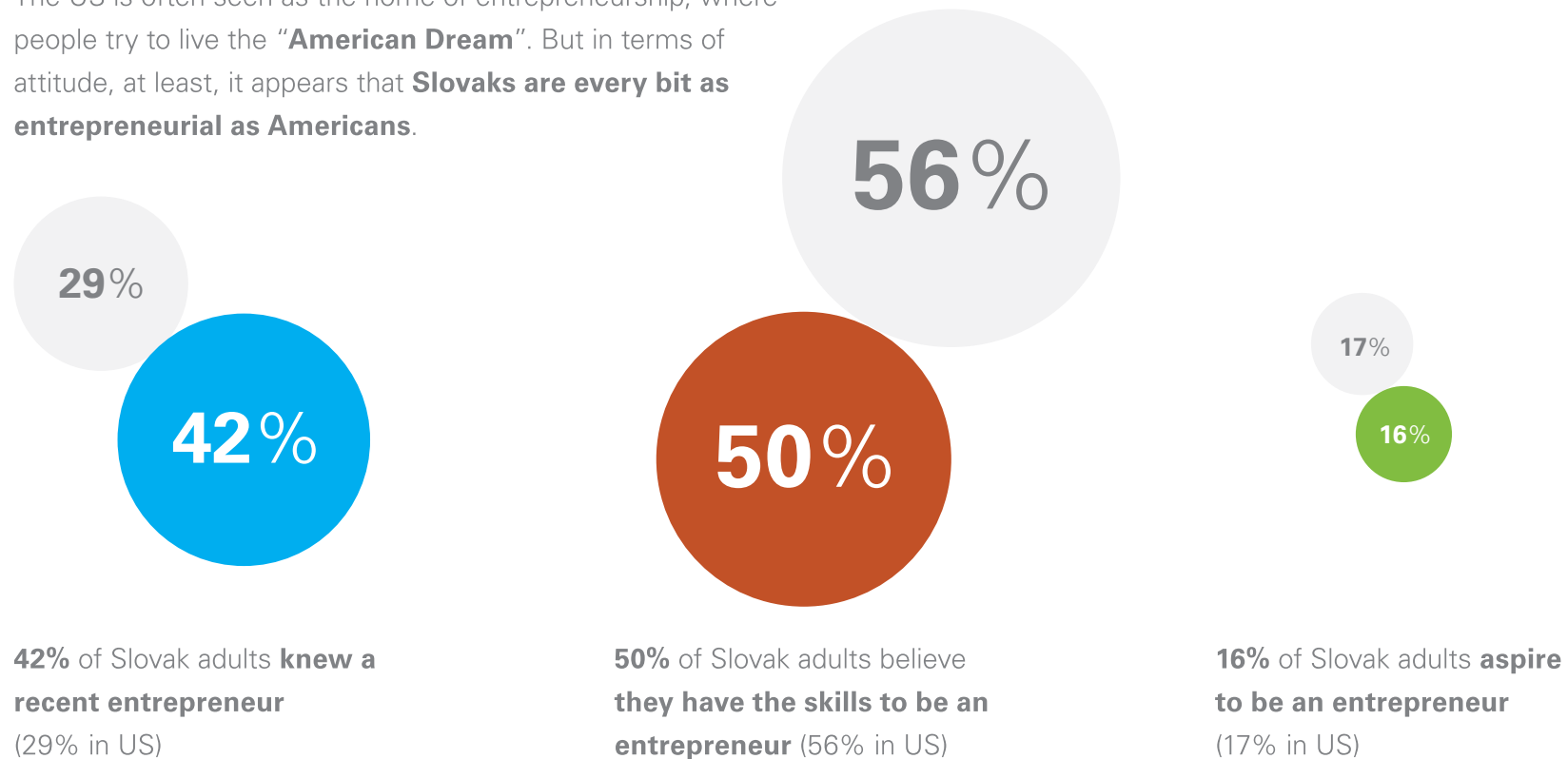
- KPMG Technology Innovation Survey (GEM), 2013
- Global Entrepreneurship Monitor Reports, 2012

Relevant terms used in this report:

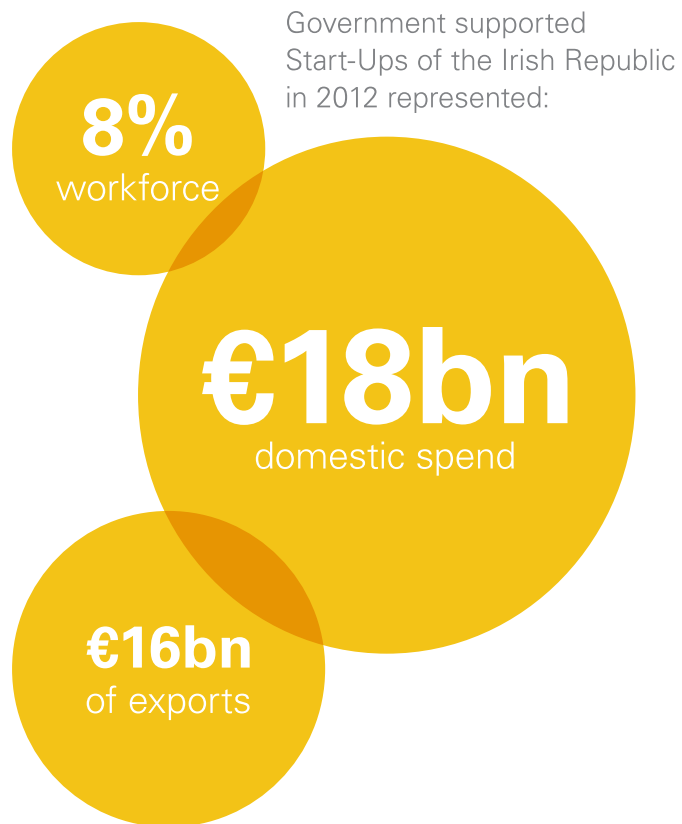
Innovation Driven Entity (IDE)	Ecosystem	entrepreneur	ship
KPMG defines IDE's as a company that uses innovative technology, disrupts existing business models and has a global outlook. We focussed on these types of companies because of their potential for rapid growth and wealth creation and because their needs are different and generally less understood than those of more traditional industries.	Most commonly used in an ecological context. Put simply an Ecosystem is a community of organisms that interact with each other and their environment. This can also be applied in an economic context when one considers businesses interacting with each other and the economic environment.	Derives from the French verb "enterprendre", apparently first used by an Irish-French economist, Richard Cantillon, in 1862 and means "to undertake".	Has Gothic origins and means "to create something of value, to invest". Applying this to an individual we can define an entrepreneur as someone who invests time and money into something with a view to creating value.

What does the Slovak Start-Up Ecosystem look like?

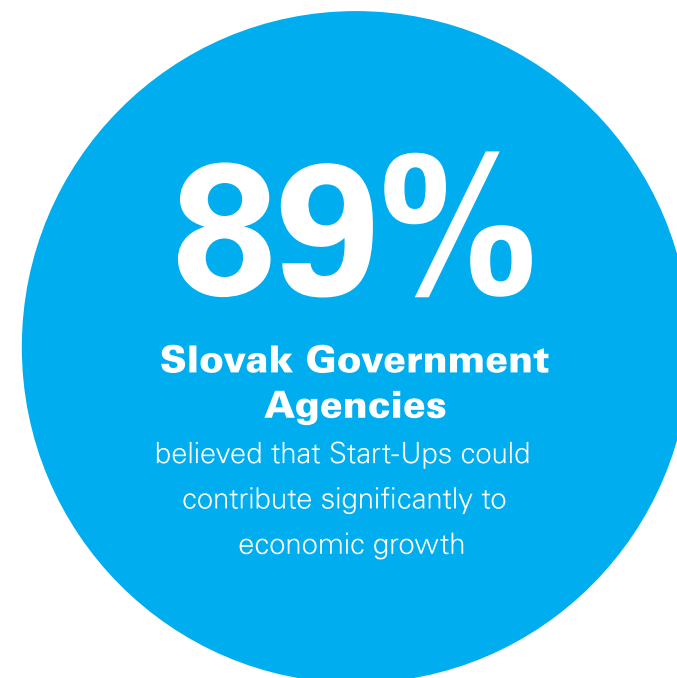
The US is often seen as the home of entrepreneurship, where people try to live the “**American Dream**”. But in terms of attitude, at least, it appears that **Slovaks are every bit as entrepreneurial as Americans**.



Why is it important?



*So while the Slovak Start-Up Ecosystem is still embryonic, this provides **opportunity** to build on best international practice and develop a **world class Start-Up Ecosystem**.*



Where is the Slovak Start-Up Ecosystem now?

It is clear to those involved with Slovak Start-Ups that the Ecosystem is still at an **early stage of development**. This is corroborated by the following survey findings:

- 78% of Government Enterprise Support Agencies have been supporting Start-Ups for 3 years or less
- 86% of Private Enterprise Support Organisations have been supporting Start-Ups for the same period of time
- 63% of Start-Ups have not yet generated revenues
- 63% of Start-Ups have also not yet raised finance

There is a track record of Slovak IDE's globalising and also of trade sales, albeit in small numbers. With support there can be many more. There have been no IPO's. There is interest amongst the Venture Capital community, and while activity is modest it is increasing.

KPMG is seeing **evidence of growing Angel Investor activity**. This is very important, as Angel Investors are a good match for early stage Start-Ups. Angel Investment is often referred to as "Smart Money" as in addition to cash, Angels also bring considerable experience and contacts to the table, crucial for a company in the early stages of development.

*So while the Slovak Start-Up Ecosystem is still embryonic, this provides **opportunity** to build on best international practice and develop a **world class Start-Up Ecosystem**.*

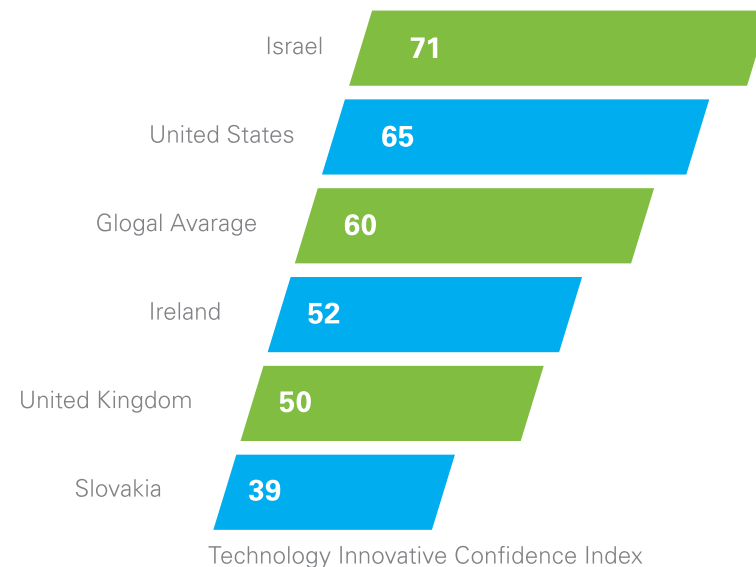
There is already evidence of activity so the seed has been sown and taken root. It is imperative that there are appropriate supports in place to maximise the potential of Slovak Start-Ups. These future success stories need to be nurtured.

What do Start-Ups require and what is available to them?

There is common consensus that a strong Start-Up Ecosystem will be an important element of Slovak economic growth. Whilst embryonic, there is still a strong Start-Up scene in Slovakia. Start-Ups have shown ambition, courage and resilience in getting to where they are today. These businesses can be an inspiration for others following, but it is clear that they are arriving at a critical juncture in their development and it is at this stage that assistance is most valuable.

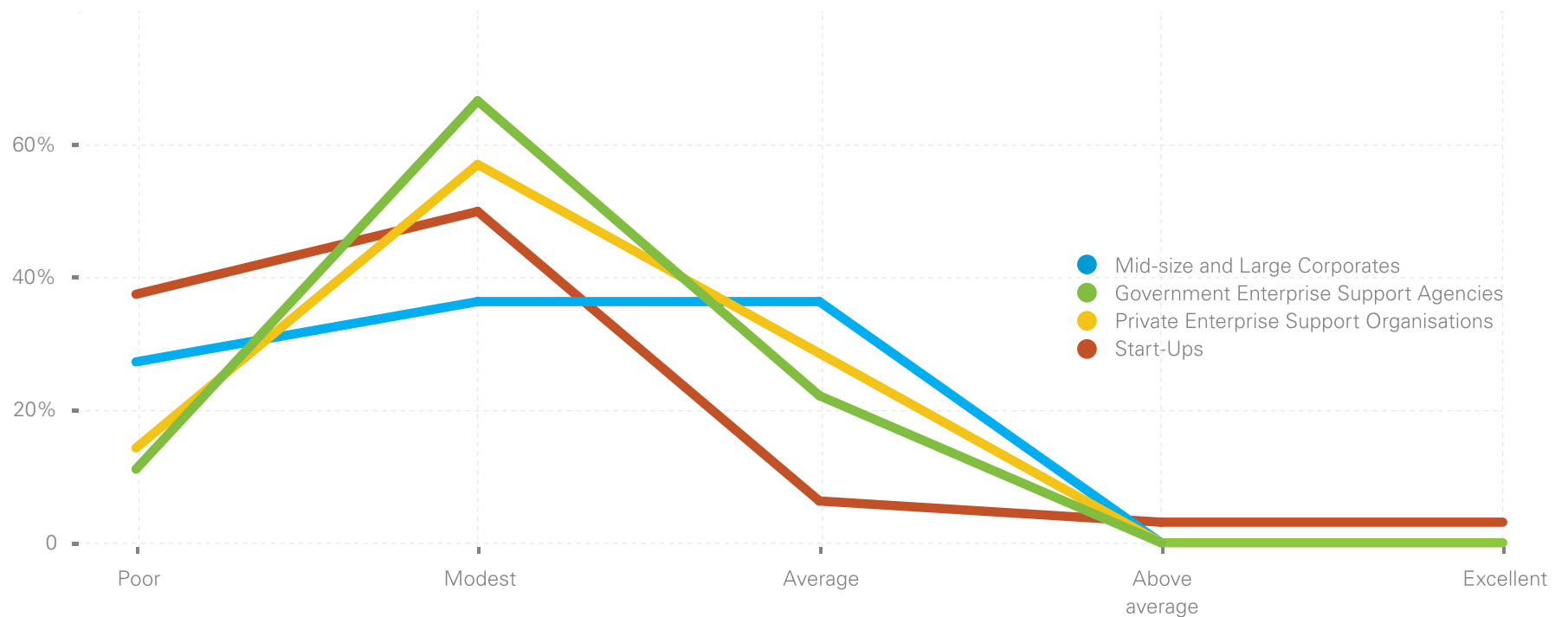
The relative youth of the Ecosystem provides Slovakia with challenges, but also an opportunity to apply best international practice in developing it.

The starting point is an honest assessment of the current situation. The common consensus amongst all stakeholders is that the current Ecosystem is not strong enough. Across all categories the assessment of existing supports was Poor to Modest. Indeed KPMG's Technology Innovation Survey showed confidence in the Slovak Ecosystem at 39. This compares with a Global average of 60. Respondents were of the view that Slovakia trailed in the areas of education and mentoring / networking in particular.



As the needs of the Start-Ups increase, and indeed as their numbers grow, the required supports will not be available.

Q *How do you rate the extent of supports available to Slovak entrepreneurs, when compared to economies of a similar size?*



What is inspiring Slovak Start-Ups?

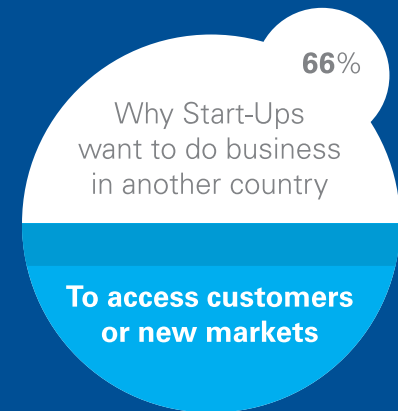
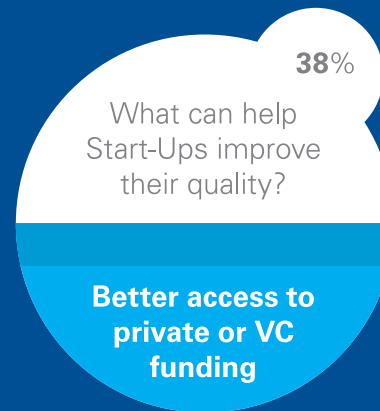
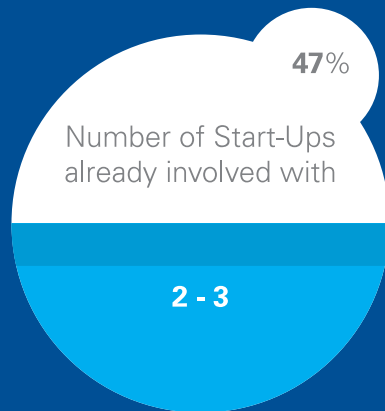
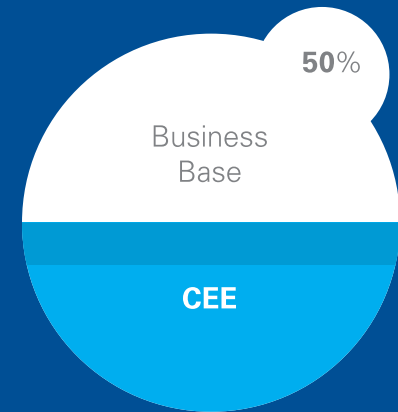
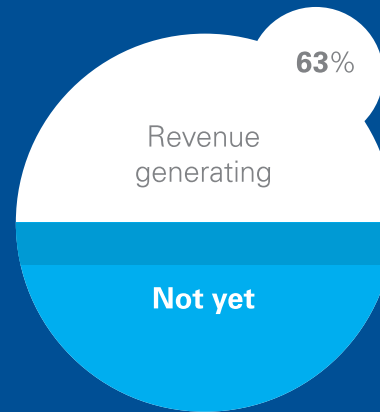
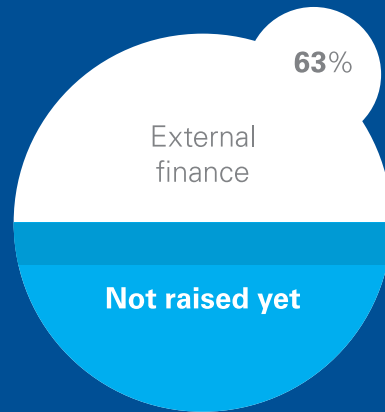
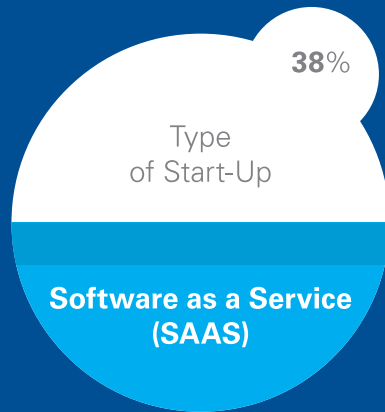
KPMG's Technology Innovation Survey, 2013 asked this question from a number of perspectives. Slovak respondents quoted Google as the company leading technology innovation. Google also led at a global level though slightly less emphatically (33% v 25%).

Interestingly, Elon Musk (of Tesla Motors) was seen by Slovak respondents as the top emerging global innovation visionary. On a Global level this accolade went to Bill Gates, with 12% of votes. Elon Musk won only 4% of the global votes. Role Models are important and the inspiration they provide can create a snowball effect. Slovak role models are required and should be encouraged.

38% of Slovak respondents believed that Mobile Technology will be the leading enabler of the next indispensable consumer technology in the next three years. This was consistent with the Global view (32%). However, Cloud Technology was only slightly behind at a Global level with 29% of the votes. In Slovakia it obtained only 14% of votes.

Potential for a snowball effect that could materialise with some Slovak successes

Typical Slovak Start-Up (based on most frequent answers):



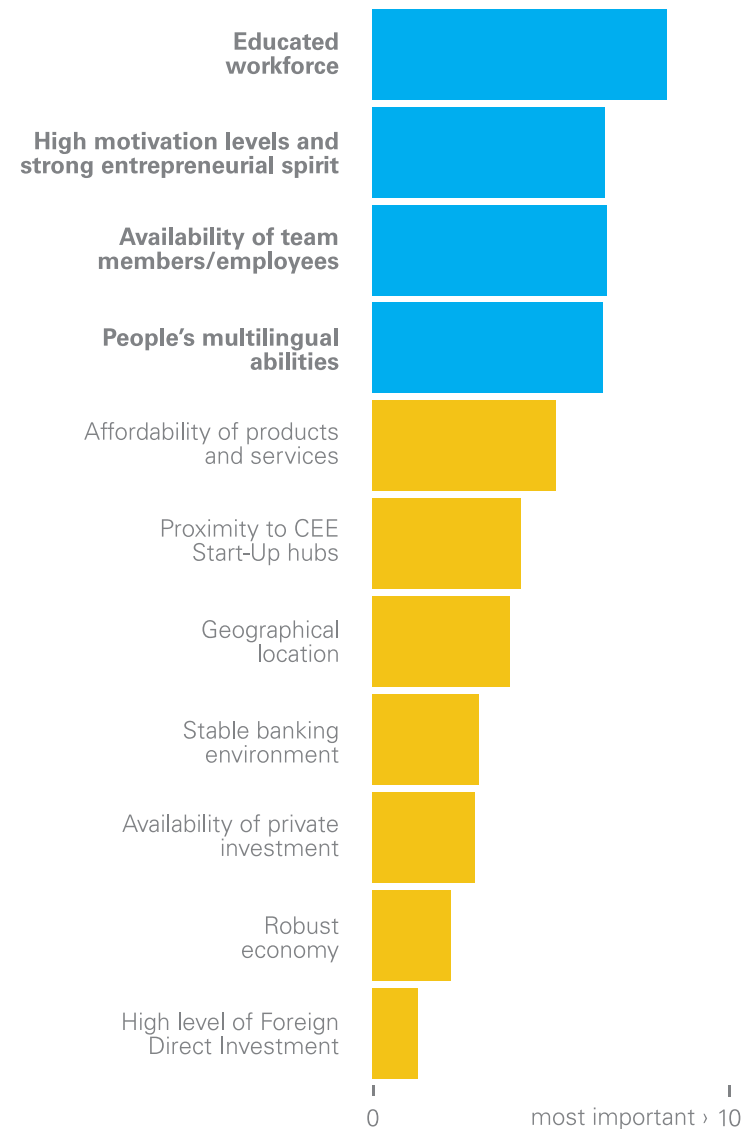
Q What do Slovak Start-Ups look like?

Slovak Start-Ups are very clear as to their **strengths** and **priorities**, and these are their people. Any investor will tell you that the building of a quality team is critical to the success of a Start-Up. In fact, many will admit that **they often invest in the team as much as the idea.**

Key strengths

identified by Start-Ups and supported by the other stakeholders were:

- Educated workforce
- High motivational levels and strong team spirit
- Availability of employees
- Multilingual abilities

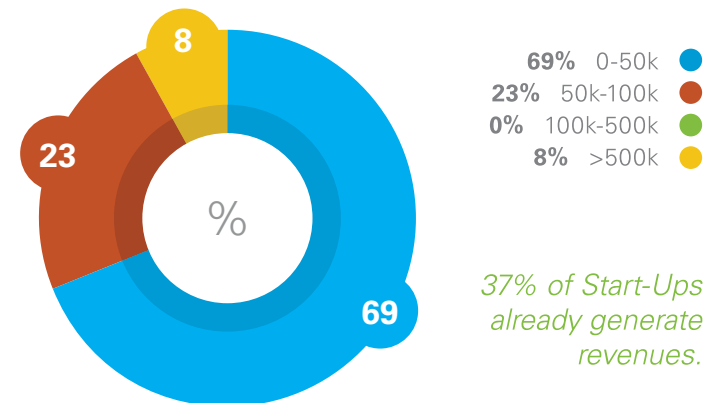


Our survey found that the typical Slovak Start-Up was:

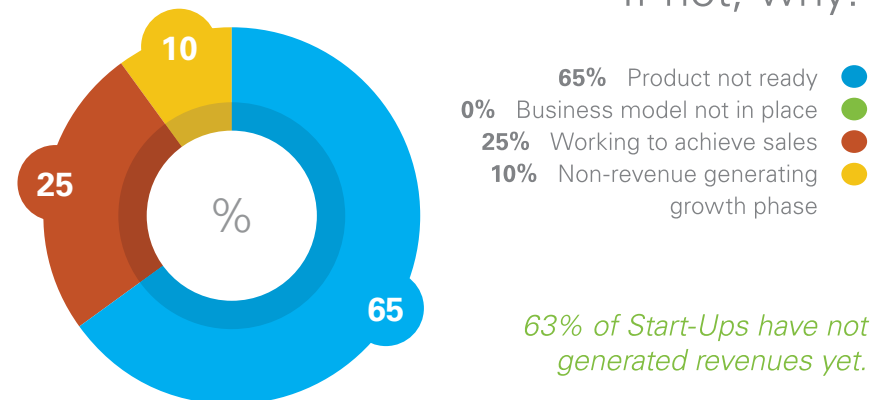
- Pre-revenue (63%) and of those that were revenue generating, 69% were generating less than €50,000 p.a.
- Pre-funding (63%) and where funding had been raised, in 64% of cases it was less than €50,000
- Already internationally focused (75%)
- Technology focused

Q Is your Start-Up **revenue generating**?

If yes, how much?



If not, why?

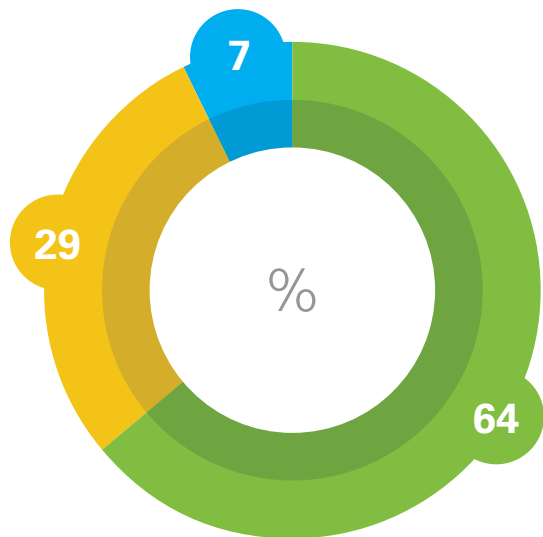


Q Have you raised external finance?

If yes, how much?

- **64%** 0-50k
- **0%** 50k -100k
- **29%** 100k-500k
- **7%** >500k

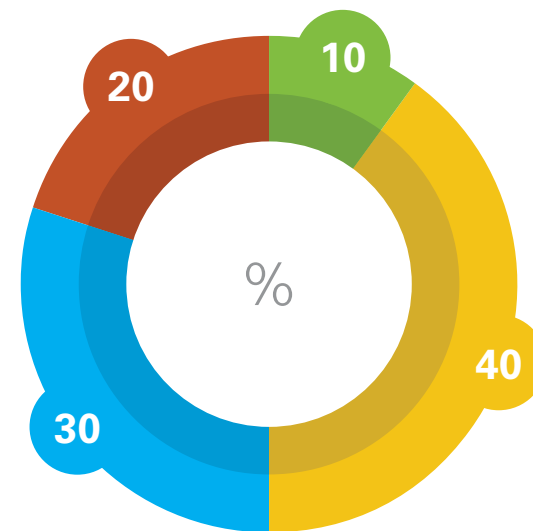
*37% of Start-Ups have raised finance.
Approx. €1.5M raised.*



If not, why?

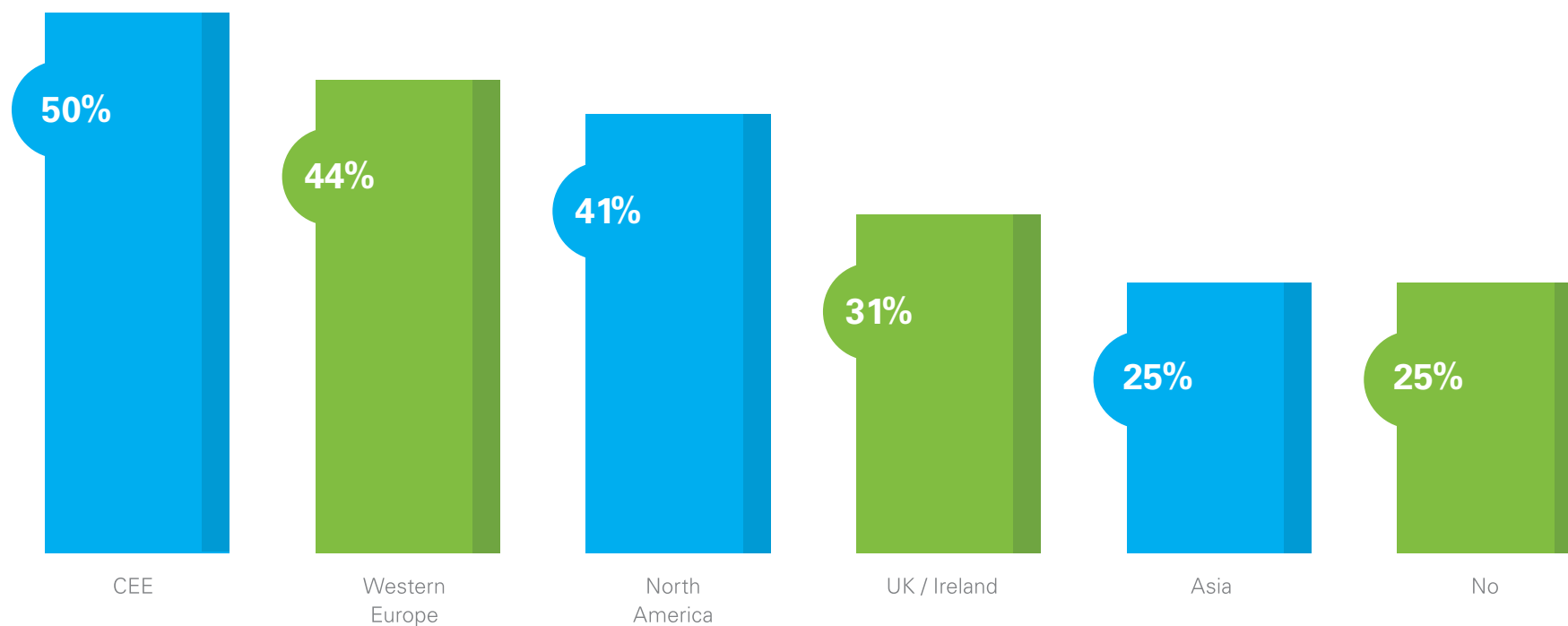
- **10%** Not interested in external financing
- **40%** Not investor ready
- **30%** In the process of raising finance
- **20%** Tried to raise finance without success

63% of Start-Ups have not raised finance yet.



Q Are you carrying out any business **outside of Slovakia?** If yes, where?

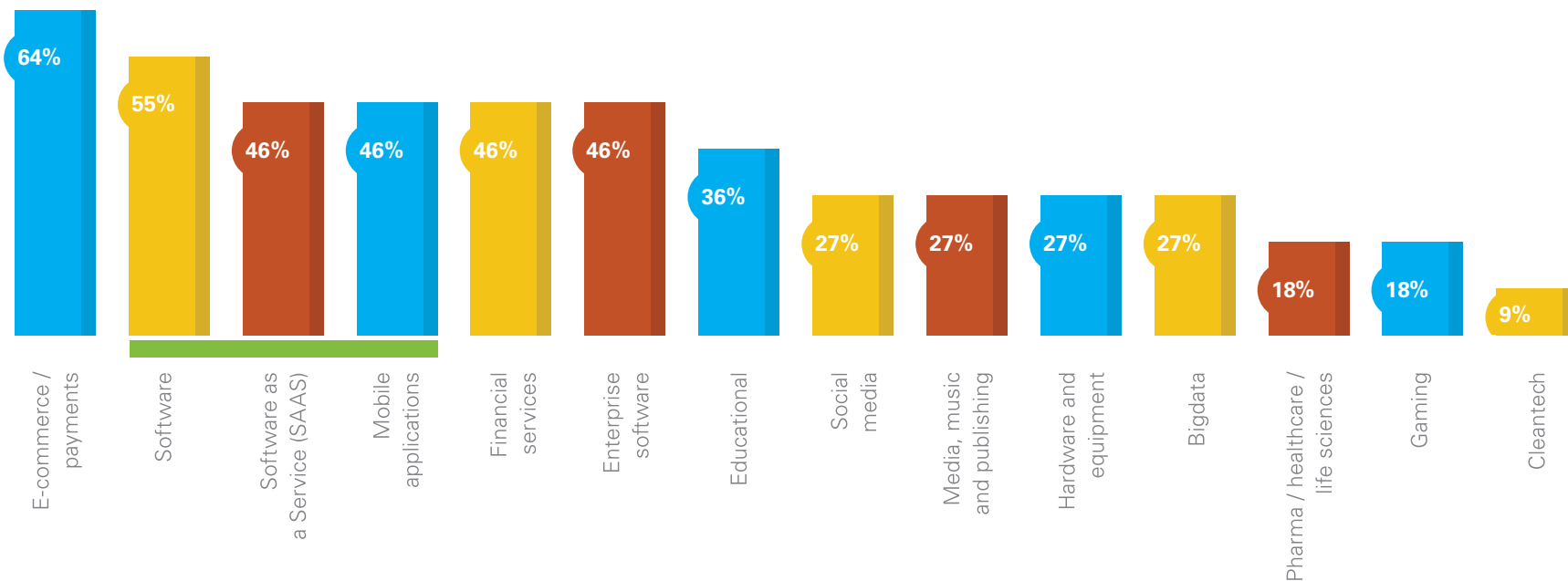
More than 75% of Start-Ups carrying out some business outside of Slovakia



Q **Common interests** between Start-Ups and Corporates

There was a significant overlap between the sectors of interest to Corporates and those in which Start-Ups were operating, as illustrated below:

3 of the top 4 sectors of interest to Corporates were actually the top 3 Start-Up sectors



Asked why their business was not generating revenue, 65% responded that their product was not ready, with a further 25% working on achieving sales.

Asked why they had not raised finance, 40% were not 'investor ready' with a further 30% in the process of raising finance.

It would appear that Slovak entrepreneurs have already acknowledged the need to expand beyond Slovakia in order to scale. These global ambitions are extremely positive, particularly in light of the generally more restricted outlook of previous generations.

Our findings illustrate that as with the Ecosystem as a whole, Slovak Start-Ups are at quite an early stage. Whilst monetary investment to date is quite low, it is clear that the time and effort invested is significant. The majority are already looking internationally in order to generate revenue and achieve scale. This potential growth in exports augers well for the Slovak economy.

*A window of opportunity
for funders to target
the Slovak market*

However, it is also clear that a requirement for funding will start to materialise soon. Start-Ups are fully aware of this and those who haven't commenced fundraising yet are likely to do so in the near future. This provides a window of opportunity for funders to target the Slovak market, before Start-Ups start looking abroad for funding.

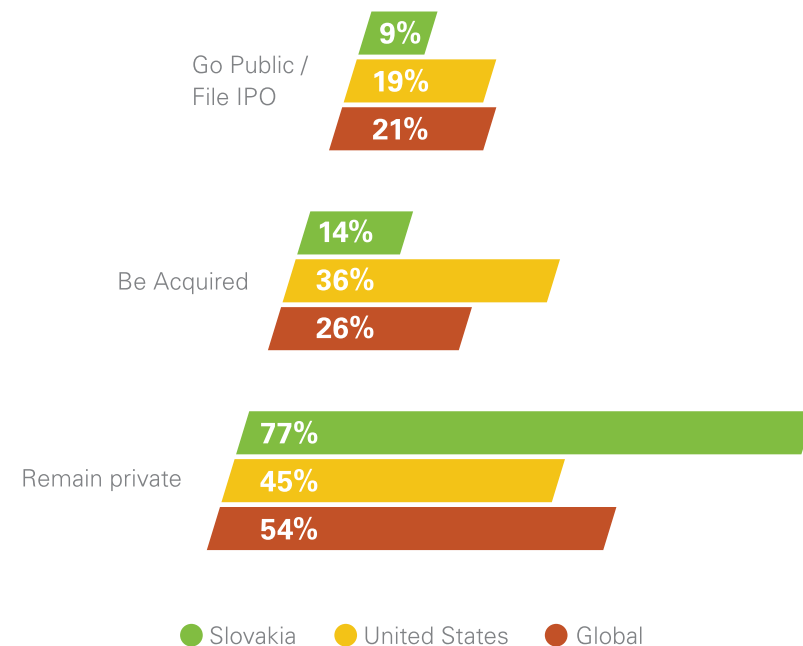
Profile of a Start-Upper

Earlier, we defined an entrepreneur. A Start-Upper epitomises an entrepreneur. What attributes typify a Start-Upper?

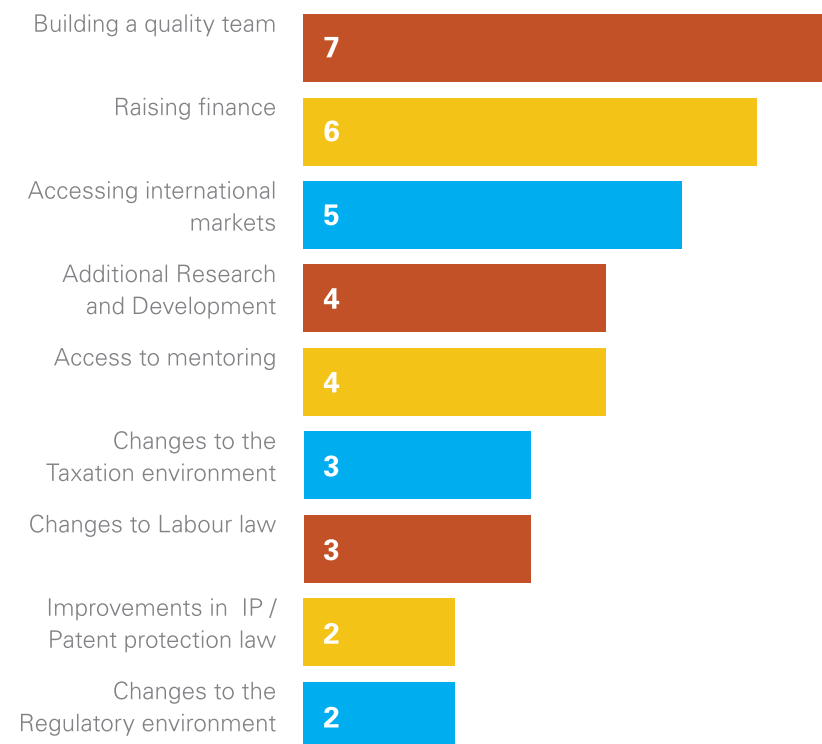
- Ambitious and driven
- Has a global perspective
- Forward thinking and innovative
- Collaborative
- Not afraid of failure

These attributes are evidenced by the effort being applied in businesses not yet earning revenues or attracting funding; the level of activity taking place outside of Slovakia; and the fact that 75% of respondents were involved with up to 5 other Start-Ups.

77% of Slovak respondents to the KPMG Technology Innovation Survey, 2013, expressed a preference for keeping their business private (rather than sale or IPO). This was even more emphatic than the Global average of 54% and reflects a deep commitment to their businesses.



Q Please rank the following, in terms of their role in helping your business be successful: (1 – not important and 9 – most important)



The findings illustrate a number of interesting facts:

- Factors under the direct influence of Government, such as laws, regulations and tax rank the lowest
- Raising finance, whilst important, is not the most important factor
- Accessing international markets ranks 3rd and is consistent with the fact that 75% of respondents are already exploring possibilities abroad.

Resources already available to Start-Ups

Other Start-Ups

- The survey indicates that a high level of interaction already exists amongst Start-Ups with 75% already involved in up to 5 other Start-Ups.
- Whilst unlikely to be a source of finance, interaction could lead to assistance with other needs indicated e.g. building a team, accessing international markets and mentoring.

Government Enterprise Support Agencies

- Government sees the value of Start-Ups to the economy and are making efforts to be involved.
- 67% of respondents indicated that resources allocated are currently underutilised. However a similar percentage intend to expand their services.

Private Enterprise Support Organisations

- Private Enterprise Support Organisations see a value in Start-Ups and are immersed in the existing Ecosystem. 85% are supporting more than 6 Start-Ups, with 29% supporting more than 16.
- Experiencing significant demand for their services, with 43% responding that demand exceeds resources.
- 57% intend on expanding their services, despite a narrow funding base (71% private).

Private Individuals

- The level of Angel Investment activity in the market is increasing. According to GEM 2012 report, 7.2% of Slovaks (5.4% in US) are informal investors and have invested, on average, €23,000 (€30,300 in US).
- Often referred to as 'Smart Money', Angel Investors usually act as mentors as well as funders.

Corporates

- 90% of Corporates expressed an interest in being involved with Start-Ups. The survey illustrated a significant overlap in sectorial interest between Corporates and Start-Ups.
- Corporates have expressed an interest in providing mentoring and market knowledge. Exposure to Corporates could provide Start-Ups with product validation. In addition, such supports would give Start-Ups access to experience; market and technical knowledge; and introductions to potential customers and distributors.

An analysis of other Ecosystems shows the effectiveness of a mix of Private, Public and 3rd Level Funding and Supports. Indeed, in times of scarce resources it makes sense to leverage all available resources.

Access to finance will be important in the near future. 40% of Start-Up respondents were not yet 'investor ready' with a further 25% currently attempting to raise finance. Initial funding requirements tend to be quite modest (in fact the majority of those who raised finance, raised less than €50,000) and fall within the realms of Angel Investors and Government grant aid.

It is interesting to note that all of the requirements identified by Start-Ups are being, or can be, offered by the Stakeholders surveyed.

Having identified Start-Up needs and what other stakeholders are willing to contribute, we are beginning to obtain a picture of how the resources available can be used to meet Start-Up needs and create a robust and well-resourced Ecosystem.

		Resources available		
Needs	Start-Ups	Corporates	Public sector	NPSO
	Build a team	N/A	89%	57%
	Raising Finance	36%	56%	14%
	Accessing international markets	13%	67%	29%
	Additional R&D	36%	44%	0%
	Access to Mentoring	91%	22%	43%



Serious facts



Opened since
May 2012



334
events

3900
Participants



62%
male



38%
female



650
participants of

educational programs
and events



200
hours of

educational video
content created



130

active members
of The Spot family



60

supported
Start-Ups



13

international competitions
attended



60

lecturers and mentors
from all around Europe

Fun facts



530
days opened



20500
cups of coffee



130
art pieces
showcased



400
books in the
library



172
Start-Ups' pivots



1600
table football
matches played

13

Years old,
youngest
member

72

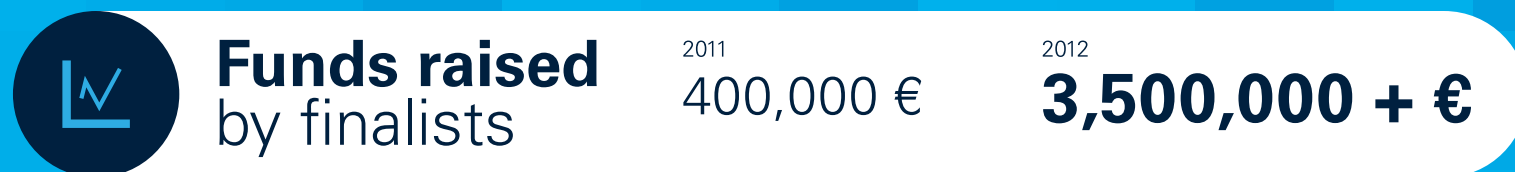
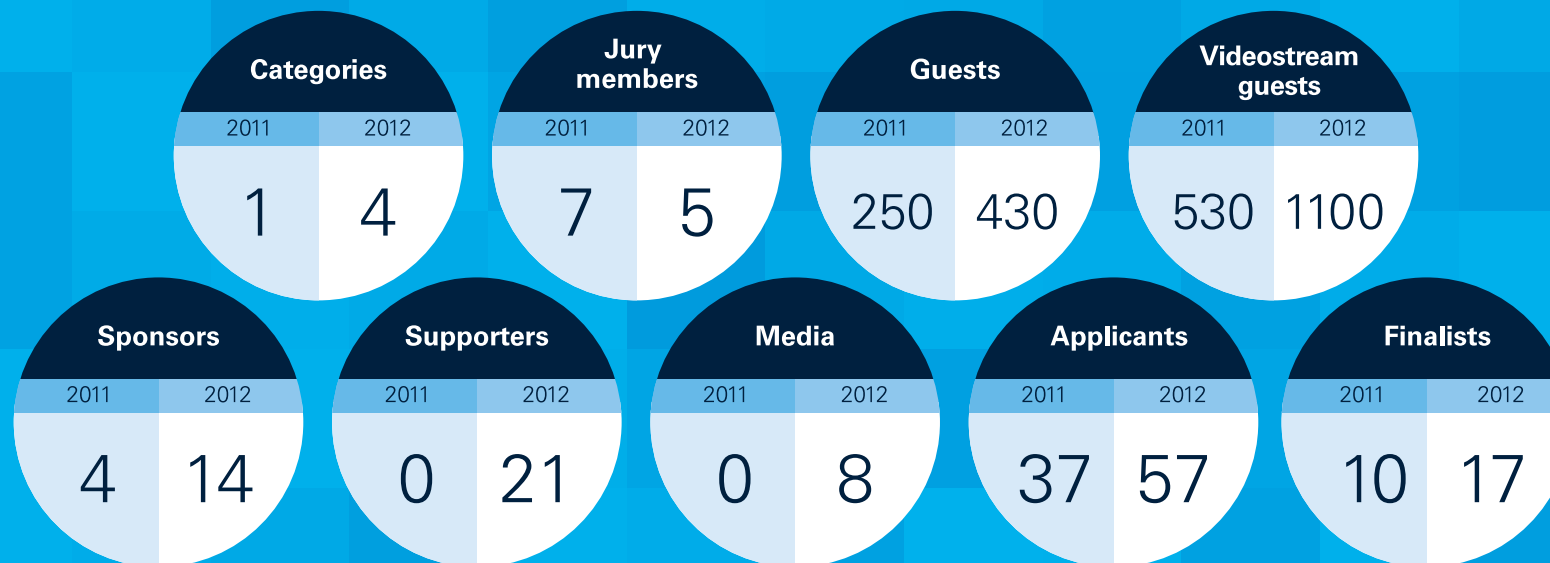
Years old,
oldest
member

1 cat, 3 dogs and 1 fish at The Spot :)

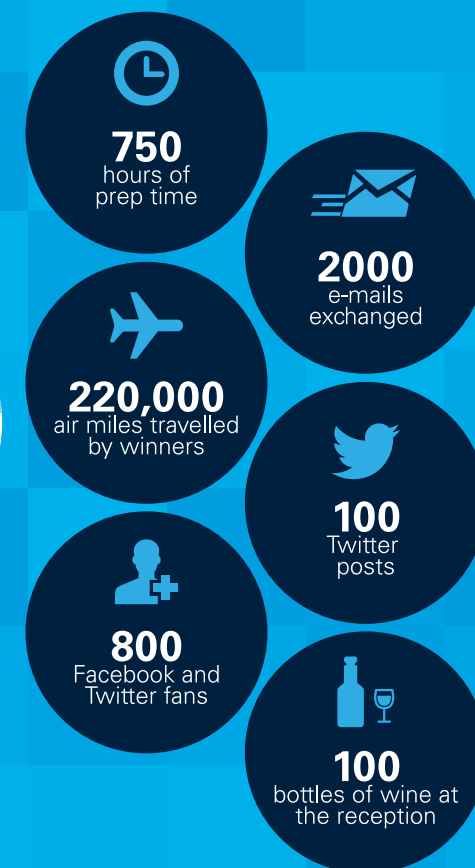
KPMG proudly supporting **The Spot**



Serious facts



Fun facts



Actions that can make a difference for 2014

This is an exciting time to be working on a Start-Up in Slovakia. The opportunities are there to **build successful global businesses** and we have seen that many are already on this road.

However, the Slovak Start-Up Ecosystem is at a crucial juncture. Many existing Start-Ups are approaching a crucial time in their development as they seek to raise finance and generate revenues. It is imperative for these to succeed that the necessary supports are there to help them. If the first wave of Slovak Start-Ups are successful, they will inspire others to follow. This will contribute to Slovak economic growth and international profile.





1

Improved cohesion through a stakeholder taskforce

- A Start-Up Ecosystem has many stakeholders. In order to succeed, all need to work together, leverage each other's strengths and work towards a common goal. A taskforce, comprising key stakeholders should be established. This taskforce would be responsible for the development of the Ecosystem and implementing the recommendations contained in this document.
- There is little evidence of communication between the various stakeholders, at present. In particular, Government Enterprise Support Agencies largely interact indirectly with Start-Ups. Direct communication should be facilitated.
- There is clear evidence around the world, in particular in similar sized economies such as Ireland and Israel, that a co-ordinated effort between Private and Public bodies is effective.
- In adopting a cohesive approach, resources could be aligned with capabilities. Duplicity or gaps in services could be avoided.
- Our results indicate that Start-Ups are not aware of all supports available, particularly those from Government Support Agencies. Improved communication is required. Social Media should be fully leveraged in engaging with the Start-Up community.
- Start-Ups also seem to lack a voice in shaping relevant policies. This taskforce can be a conduit into Government for discussion on relevant Government policies.
- The taskforce would provide those not currently engaged with the Start-Up Ecosystem with a doorway to doing so.
- Media should be encouraged to report on the Start-Up Ecosystem. Coverage of events, new initiatives and success stories should be sought. Consideration should be given to appointing a press officer from the taskforce to provide a communication link between the Ecosystem and the media.



2

Increase Corporate involvement through a formal mentoring program

- Our survey found that Corporates want to become involved with Start-Ups. There is also a significant overlap in sectors of interest to Corporates and those that Slovak Start-Ups are operating in.
- Corporates are interested in providing mentoring services. The need for mentoring was identified by our research. Accessing markets was also identified as a need and again Corporates could provide some assistance in this regard.
- A formal Mentoring program should be established. This would match the skills of pre-screened mentors with the requirements of individual Start-Ups.
- A greater involvement of Corporates will likely result in increased Angel Investment at a later stage, as Corporate executives become more knowledgeable and involved in the Start-Up Ecosystem.



3

Increased use of Private Enterprise Support Organisations and Universities, by Government

- Our survey found that Public sector supports were underutilised whilst demand for private supports exceeded resources. Government should consider channelling some of their resources into the Private Organisations and leverage their experience and reputation within the Start-Up community.
- Whilst Corporates were actively working with universities there was no evidence of other stakeholders doing so. Universities are a great source of talent and knowledge and this should be leveraged where possible, in particular by Start-Ups.
- Many universities throughout the world have a successful track record of 'spinning out' research projects into successful Start-Ups. Slovak universities should be encouraged to do likewise.



4

Creation of an Angel Network and Public / Private Partnership Investment Program

- Only a small proportion of Start-Ups have already raised finance. This reflects the embryonic nature of the Slovak Start-Up Ecosystem and will change. In the near future there will be a demand for finance and at present the infrastructure is not in place in Slovakia to meet the likely demand.
- Seed Capital is typically in the <€50k region and in other markets is quite often met through Government Funding and Angel Investors.
- Government should consider such a scheme. In order to maximise funding, in the context of limited resources, it should consider doing so in partnership with private funding. This private funding could come from the Slovak Banking Community or the Mentor Panel recommended earlier. Consideration should be given to working with EBAN (European Business Angel Network, established by the European Commission). The aforementioned Task Force could take responsibility for co-ordinating the network.



5

Assistance in accessing International Markets

- In order to scale, Start-Ups need to access international markets. It can be difficult for any foreign company to access a new market. The ability to access local knowledge and contacts can be the difference between success and failure. Similar sized countries such as Ireland, actively assist companies in this expansion. Much of this assistance is provided through their development agencies' international offices and their network of embassies.
- The Public sector should investigate the potential for their diplomatic missions and diaspora to provide a similar network for Slovak Start-Ups. Assistance from Corporates, with their network of overseas operations should also be sought.

KPMG overview and services

How KPMG can help

High-growth Start-Up companies will become the life blood of the next generation of the Slovak economy. New and innovative business ideas are craving validation, new customers, and valuable resources. Many companies are on their way to venture backed funding or are going global, but they are also experiencing classic growing pains.

KPMG assists emerging companies in Slovakia across the business life cycle.

We empathize with the anxieties of starting a business, from the regulatory red tape through to raising capital. We also understand the issues and dilemmas that owners face when exiting a business and many options to be evaluated.

We have a proven record in working with ambitious entrepreneurs and we understand the challenges and pressures faced by those looking to set up a business for the first time.

Our Start-Up clients value our ability to focus on what matters; the value we provide and our ability to help them hit the ground running. We also know that our success is measured by our ability to help entrepreneurs and investors deliver a measurable return in the shortest possible time.

If that sounds like the sort of experience and support you need – then we'd be delighted to discuss how we can help.

Our service offering

To maximise the value of your business we can provide timely and valuable advice across the lifecycle of your business:

Start-Up stage

- Project valuation
- Business model validation
- Project pitching assistance
- Financial and commercial forecasting
- Stakeholder tax and corporate structuring
- Seed fund raising

Growth and maturity stage

- Funding assists in emerging
- Development of financial reporting processes
- Tax compliance
- State aid advisory
- Audit service
- Access to global industry experts within our network of contacts

Mergers and acquisitions stage

- Target search
- Financial, tax and commercial due diligence
- Transaction management

Exit stage

- Stakeholder option analysis
- Preparing business for investor entry
- Business valuation
- Investor search
- Refinement of stakeholder tax and corporate structuring
- Transaction management
- IPO support

We understand that cash is tight when establishing a new business. We can agree flexible and affordable fee arrangements to suit circumstances. We are willing to invest time in your business and grow together.

We look forward to hearing from you.

Get in touch

If you would like to know more about how we can help visit www.kpmg.sk for further information or contact:



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