

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Management**



**Diploma Thesis Abstract**

**Business Start Ups**

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## Summary

The aim of diploma thesis is to evaluate possibilities, how to finance a start-up company based on historical context of this type of businesses and interaction between presented possibilities. Basic types of financing are connected with the start-up environment and these types are described based on a defined phases of start-up life cycle.

The theoretical part of diploma thesis describes key terms, basic ideas, different opinions and facts connected to start-ups. The author also uses historical examples, which allow better understanding to the given topic. The main sources for this part are mainly taken from the Internet, because of the topicality of the information, and professional literature. The author often also uses opinions of renovated entrepreneurs and investors from the Czech Republic and abroad, to give a better insight to the issue.

The practical part compares the start-up environment and possibilities of financing in the United States of America and Europe. Based on the listed types of financing available for start-up companies, from the theoretical part of diploma thesis, the author presents real opportunities in both regions and tries to come up with valuable results which would explain why the United States of America is a leading country in the numbers of start-ups and funding options, and what options there are of improving the start-up environment in Europe.

## Keywords

Start-up, venture capital, angel investor, business incubator, dot-com bubble, enterprise.

## Objectives of the thesis

The aim of this diploma thesis is to evaluate possibilities, how to finance a start-up company based on a historical context of this type of businesses and interaction between presented options. Basic types of financing are connected with the start-up environment, and these types are described based on a defined phases of the start-up life cycle. The main aim of the practical part is to prove or reject the following hypotheses:

- *Is financing of the start-up companies easier in the United States than in Europe?*
- *Is ICT the most dominant sector regarding investment financing?*

## Methodology

The first part of the diploma thesis contains the theoretical basis of literature and internet sources study. The theoretical part observes key terms, basic ideas, different opinions and facts connected to start-ups. The main sources of information for the theoretical part were mainly the internet, because of the topicality of the information, and professional literature.

The second part is formed by the comparison of financing options available for start-ups in the United States of America and in Europe. Practical part links real financial support to various phases

of start-up life cycle. Based on the listed types of financing available for start-up companies, from the theoretical part of the diploma thesis, the author presents real opportunities in the USA and Europe and presents valuable results that explain the current situation in both geographical areas.

## **Summary of the results**

Based on the observations, supported by the data received from the interested associations and organizations, it can be seen that the start-up companies have stronger position and a higher chance to raise needed finance to support their innovative ideas and growth in the United States at all of the stages of their life cycle. This fact is backed by the undisputable highly developed base of the different types of investors.

Business angels on the market of the United States invested, in the year 2013, \$18.58 billion more than what was invested in Europe for the same year. The same trend can be observed in venture capital, private equity and crowdfunding investments. The venture capital investments in the United States were greater by \$25.7 billion than in Europe. Private equity individuals and organizations, the investment platform with the highest funds invested into the start-up companies and entrepreneur projects had annually even greater gap between the USA and Europe in the terms of total investments. The private equity investments were bigger in the USA by \$391.2 billion, in the year 2013 than it was in Europe. An interesting fact, that was discovered, is that none of the above-listed ways of financing reached its pre-crisis peak of volume invested on the market of the USA or Europe. This fact shows how big an impact the economic crisis of 2008 had on the market. In total numbers, the three most dominant ways of financing listed in previous lines shows, that the investor groups and individuals invested, in the United States' market, \$435.48 billion more than in the market of Europe.

The European start-up environment is experiencing its growth in ways of how to finance new projects and innovative companies in the future. According to the author of this thesis, the growth should be due to more participation from the site of the countries that were, in the past, part of the Eastern Bloc. Based on the historical events, these countries, their entrepreneurs and investors are just now exploring the opportunities that come with the support of start-up companies and their ideas. This development should support the growth of the start-up scene in Europe and help to get closer to the situation that is present now in the USA.

The dominance of the ICT sector among the most financed start-ups and projects, that would be mostly financed by different types of funds, were not been confirmed. The ICT sector is mostly popular among the investors such as business angels; thus the companies are more likely to be

funded in their first stages of their life cycle. As it was discovered, the business angels in the United States and Europe prefer to invest at this stage into the companies that are operating in the ICT industry. More specifically, in the United States, 23% of all business angel investments went to the companies that focused on software development in the year 2013. The situation in Europe was moving in the same direction. In the same year, 32% of all angel investments were invested to support companies involved in the ICT industry. But there is a demonstrable diversion from the trend in the later stages of a start-up life cycle. The whole 37% of the venture capital investments in the United States, for the year 2013, went to the ICT industry. On the other hand, it can be observed that the European market played a significant role in the support of start-up companies that were focused on the field of the life sciences. This trend is noticeable in the chapter devoted to the venture capital and shows that the ICT industry was losing its dominance among other sectors. Europe, based on the analyzed data, is considered as the place where the start-up companies and innovative projects focused on the life sciences industry should aim. As presented in the practical part, the life sciences industry was the most funded industry among other sectors for venture capital investments in the year 2013. The share of the business investments in mentioned year was 37, 1%. Even in the areas supported by private equity investments, the life sciences industry received the third highest share of the investments, 13.1%. This only confirms that mentioned industry is strongly supported in Europe by alternative ways of financing. For the start-up companies that are involved in the life sciences industry might be beneficial to focus their effort to be funded on the market of Europe than the USA.

It can be also claimed that the investors in Europe are slightly more willing to take risks regarding their invested money into start-up companies. This fact is mostly visible in the case of venture capital investments and their willingness to invest in the companies, which are in their first round stage of development. The companies fulfilling this criterion raised the share of 32.75% of all of the investments. This difference is suggesting that European venture capital investors are interested in the companies in their riskier stage, where return on invested funds is less guaranteed but the profit can be much higher. This is a different approach compared to the market of the United States where the share of the venture capital investments at the first round stage of development of the start-up companies was only 17.71%.

## Selected resources

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