RISING STAR MONITOR

The many faces of growth

Results 2018

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TABLE OF CONTENTS

PAGE 4 INTRODUCTION
PAGE 6 GROWTH AMBITIONS: INCREASING THE BAR
PAGE 7 ACHIEVING GROWTH: HOW
PAGE 7 ACHIEVING GROWTH: AT HOME OR ABROAD
PAGE 11 ACHIEVING GROWTH: THE NON-ORGANIC WAY
PAGE 17 FOUNDING TEAM REMUNERATION
PAGE 22 APPENDIX I: METHODOLOGY AND SAMPLE CHARACTERISTICS

ABOUT ENTREPRENEURSHIP 2.0

The Rising Star Monitor is part of the Entrepreneurship 2.0 initiative. Entrepreneurship 2.0 was launched by Vlerick Business School in collaboration with Deloitte Belgium to develop state-of-the-art knowledge about the key issues young, high-potential ventures struggle with. It also runs knowledge and community-building programs for entrepreneurs who are in the midst of tackling important scaling challenges with their ventures.

DELOITTE BELGIUM – PRIME FOUNDATION PARTNER FOR ENTREPRENEURSHIP 2.0

Deloitte offers value added services in audit, accounting, tax & legal, consulting and financial advisory. Deloitte Belgium has more than 3,500 employees in 11 locations across the country, serving national and international companies. Our vision is to be the standard of excellence, providing consistently superior services that differentiate us in the marketplace. It is realised through being highly respected by our broad community of stakeholders, and being the first choice of the world's most coveted talent and the most sought-after clients. Innovation and entrepreneurship are important for Deloitte. Belgium is a relatively small and economically mature country. Hence, if Deloitte wants to create growth for society, it will have to help new ventures to be successful by providing its expertise and trusted solutions. With this study and the programmes it runs, Deloitte wants to support entrepreneurship and help companies to scale up and grow internationally, in line with its vision.

ACKNOWLEDGEMENTS

This report was prepared by Veroniek Collewaert, Professor in Entrepreneurship at Vlerick Business School, Sophie Manigart, Professor in Entrepreneurial Finance at Vlerick Business School, and Marjana Subotic, researcher at Vlerick Business School. The authors thank the following organisations for their cooperation: Agentschap Innoveren & Ondernemen, AWEX, BAN Vlaanderen, Be Angels, Brussels Invest & Export, Flanders Investment and Trade, imec, KU Leuven, Liaison Entreprises-Universités, UGent and Vrije Universiteit Brussel. The authors also thank all survey respondents for their participation, the members of the Entrepreneurship 2.0 Steering Committee (Nikolaas Tahon, Sam Sluismans, and Frederik Falepin), prof. dr. Xavier Baeten (Vlerick Business School), entrepreneurs Mike Coeck (Cybernetic Walrus), Dries Berckmans (SoundTalks) and Louis Jonckheere (Showpad), Zoë Imhof (Vlerick Business School) and Aurelie Cresens, Laura Gielis, Pierre-Olivier Hocquet and Enisa Selimovic for their contributions.

Please direct your questions and comments about this report via email to **marjana.subotic@vlerick.com** .

INTRODUCTION

AN EXPERT PERSPECTIVE

Welcome to the third edition of the Rising Star Monitor, where we again provide a snapshot of the trends and challenges involved in young, high-potential ventures in Belgium.

Our insights are based on data gathered from 162 young, high-potential Belgian ventures with 253 founders in a wide cross-section of industries. For a more detailed understanding, and for comparability to our previous editions, we have -where relevant- split up our results for high- versus low-growth ambition ventures (HGV versus LGV).[1] Belgian ventures continue to raise the bar in terms of their growth ambitions, now wanting to add 55 employees and 11M EUR in sales five years from now for the average scale-up.

For this year's edition, we dedicate particular attention to how high-potential ventures actually set out to achieve growth. In particular, we address questions such as to what extent they have international sales and, if they do, what the internationalization process looks like as well as any other international activities they may have. Further, we also explore to what extent young, high-potential ventures set out to grow in non-organic ways, i.e. through acquisitions, licensing and strategic alliances. Like last year, we also report on founding team remuneration, including both equity and cash, to provide an objective benchmark for founders trying to determine a fair wage and equity split.

Overall, the key insights from our study are:

- Compared to the previous editions of the Rising Star Monitor (RSM), we note remarkable **consistency in the profile** of Belgian high-potential ventures as well as in the **key equity and remuneration conclusions.** For example, across all editions, the average base pay founders pay themselves remains around 38,000 EUR at founding and 55,000 EUR 2.5 years later.

- **Half** of young, high-potential ventures in Belgium have **international sales**. For young scale-ups, international sales represent about one third of their overall sales. Together, HGVs exported for 23 million EUR and LGVs for 9.8 million EUR. Further, 40% of all Belgian young, high-potential ventures go international within their first year after founding. As such, they can be described as **born globals,** doing business with a global view on their markets from inception onwards. Top three countries ventured into are the Netherlands, France and Germany with the order of entry mostly determined by organic demand from those countries.

- In terms of non-organic growth, **acquisitions** are rare with only five companies having done an acquisition so far. Hybrid modes of growth such as licensing and alliances are more popular: one in three young scale-ups engages in **licensing** and one in four sets up **strategic alliances.** Engaging in these growth activities is typically done on the **founders' initiative** as a way to access knowledge, new product markets, customers or suppliers. Five years from now, all Belgian young high-potential ventures aim to engage in substantially more of these activities.

We hope you find these insights valuable.

Veroniek Collewaert
Professor in Entrepreneurship
Vlerick Business School

[1] For more detailed information on our sample we refer to our Methodology section on page 22.

Growth ambition and internationalization: two sides of the same coin?

Louis Jonckheere is one of the co-founders of Showpad. Back in 2011, they started their company based on the idea of using iPads for sales presentations in the field.

Louis shares his thoughts about scaling up: "In my opinion, growth ambition and internationalisation are closely connected. Entrepreneurs who want to become market leaders with their company will need to think about internationalisation from the start. It is a crucial strategy to increase economies of scale and, in particular for Belgian companies, to increase your market. In that respect, I am not surprised that many Belgian start-ups are 'born globals'. I also believe Belgian founders have some advantage when it comes to internationalisation because we adapt quite easily to other cultures. In the case of Showpad, around 8 of our first 20 customers were from the US market. So it was clear from the beginning that there was huge market potential in the US. Once it's clear there is international growth potential, it's up to the founders to commit themselves to realize this growth. In our case, I moved to San Francisco.

This allowed me to immerse myself in the culture, which helped to open remote offices and put together an executive team. The advantage of the US is that the operational implications are somewhat limited because it's a big market with one language, one culture and one legislation. Whereas expanding to countries of European Union implies taking into account different cultures and different languages. Yet, I don't advise all founders to enter the US market; founders should determine where there customer potential is the largest and then enter that market.

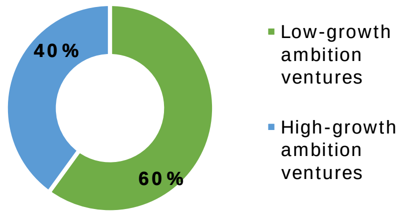
When it comes to internationalization, my advice to founders would be to take things one step at a time. We have always realized our growth organically, while more recently we acquired an American tech start-up. The reason for this acquisition also has brand benefiti; it helps us to be recognized as a US, and even global, leader in the market and, as such, opens up new opportunities. The fact that young Belgian firms rarely do acquisitions doesn't surprise me. First, it requires huge investments that may not easily be obtained from investors. Second, it requires ambition and vision to become a market leader and, as this study illustrates, Belgian entrepreneurs sometimes lack this ambition. The operational implications of doing an acquisition cannot be underestimated; on the technical side, you need to integrate products and on the people side, you need to deliver on a massive change management plan. Communication is key to achieving a successful integration, but it is much more than, for example, changing company websites. Our ambition with Showpad is clear: we want to be and remain in the position of being a market leader, while keeping an open strategy and perspective on what the future might bring."

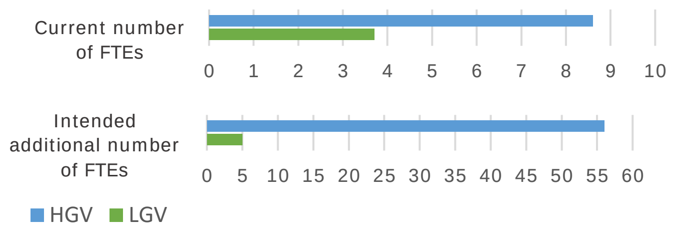
GROWTH AMBITIONS: INCREASING THE BAR

A consistent observation in all of our Rising Star Monitors is that a majority of high-potential ventures do not have high growth ambitions.

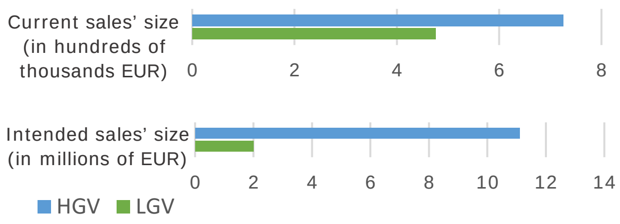
Indeed, around 40% of young ventures with high growth potential also have high growth ambitions - which is similar to the percentages reported in previous years.[2]

MAJORITY OF HIGH-POTENTIAL VENTURES DO NOT HAVE HIGH GROWTH AMBITIONS





Interestingly, the growth ambitions as such though tend to be higher compared to previous years. For instance, HGVs want to employ an additional 55 employees five years from now, which is a substantial increase compared to the additional 29 of last year and 34 the year before (this despite their current number of employees being quite comparable across editions (around 8).



In terms of sales, HGVs intend to increase their total sales with 11M EUR, whereas for LGVs this is limited to 2M EUR in sales. This is comparable to results in previous RSM editions. This is, however, the first time that HGVs report a higher current sales level than LGVs (approximately 725,000 EUR vs. approximately 476,000 EUR).

Combined, this shows that the bar young Belgian high-potential ventures set keeps on moving up!

[2] On average, our respondents aim to hire 25 new employees (in comparison to 18 in the 1st RSM and 14 in the 2nd RSM) and increase sales with 5 million EUR in five years from now (in comparison to 5.3 million EUR in our 1st edition and 4.8 million EUR in our 2nd edition). Based on a median split of the relative difference between aspired and current company size, we split our respondents into high- versus low-growth ambition ventures (HGV versus LGV). Median values for the employee and sales growth ambition are 1.5 and 5.3 respectively. Ventures scoring higher than or equal to the median for both employee and sales growth ambition are categorized as high-growth ambition ventures. All others are low-growth ambition ventures.

ACHIEVING GROWTH: HOW?

Growth has been a focal topic of the Rising Star Monitor for many years now. Yet, having growth ambitions is one thing, realizing that growth is quite another. Indeed, when ventures do aim to grow, there are multiple ways of achieving that growth; they can achieve growth at home or abroad, they can do so organically or via acquisitions or via more hybrid modes of growth, such as licensing and strategic alliances. In this year's edition, we therefore dig a bit deeper into these different ways of achieving growth.

ACHIEVING GROWTH: AT HOME OR ABROAD?

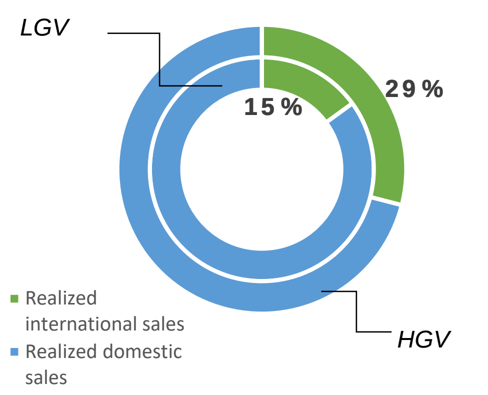
HALF OF HIGH-POTENTIAL VENTURES HAVE INTERNATIONAL SALES

As the world becomes more connected and globalized, internationalization to many firms no longer seems like an option, but a must. Some would even suggest it is a precondition to competitive advantage, firm growth and survival.

Advances in communication, transportation, financing possibilities, and international experience and mobility of people have created a new reality wherein internationalization is no longer seen as something just for large, mature corporates – but is also within reach for younger ventures with limited resources. Something we see confirmed in our data: overall, 46% of the ventures sells outside of Belgium, with the percentage being slightly higher for HGVs than LGVs (53% versus 39%). Ventures with international sales tend to have more sales overall, more growth in those sales and are more innovative, all of which are considered typical drivers of internationalization.[3]

While the difference between HGVs and LGVs in the proportion of firms that export is limited, the scale of international sales is substantially larger for HGVs. Whereas HGVs realize 29% of their sales abroad, LGVs only realize 15% of their sales abroad. This also translates to overall larger volumes of international sales for HGVs: they realized around 400,000 EUR in sales abroad last year compared to around 110,000 EUR for LGVs. Jointly, HGVs have exported for around 23.3 million EUR, while LGVs have exported for around 9.8 million EUR. So, while young firms with high growth ambitions are not that much more likely to expand internationally than firms with lower growth ambitions – when they do, they do so more extensively. Combined, whereas export propensity is rather similar, export intensity is substantially different between HGVs and LGVs.

Distribution of total sales being international versus domestic at the end of 2017

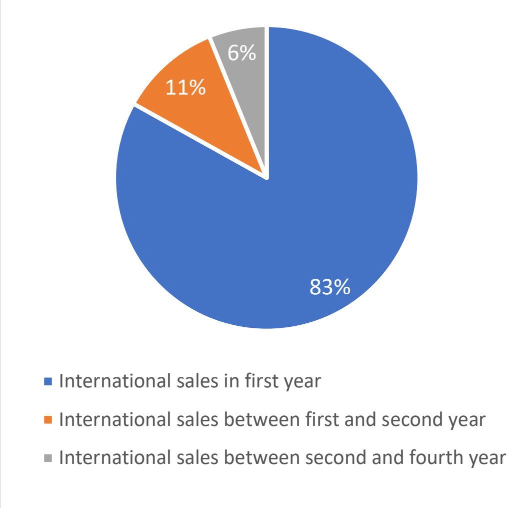


[3] Reuber, R. 2018. *International Entrepreneurship*. JIBS Special Collections.

INTERNATIONAL BELGIAN YOUNG, HIGH-POTENTIAL VENTURES ARE BORN GLOBALS

Regardless of growth ambitions, the vast majority (83%) of young, high-potential ventures that go international realize their first international sales within their first year after founding. This means that about 40% of *all* young high-potential ventures in Belgium can be considered 'born globals', which compares favorably to the European average of 20%.[4] Moreover, all international high-potential Belgian firms generate international sales within four years after start-up. Being 'born globals', Belgian firms that decide to go international hence immediately do so with a global view of their markets (in contrast to a more step-by-step, incremental process of going international). Young firms mainly aspire to sell internationally because the domestic market is too small; increasing globalization and digitization has likely also strengthened this trend.

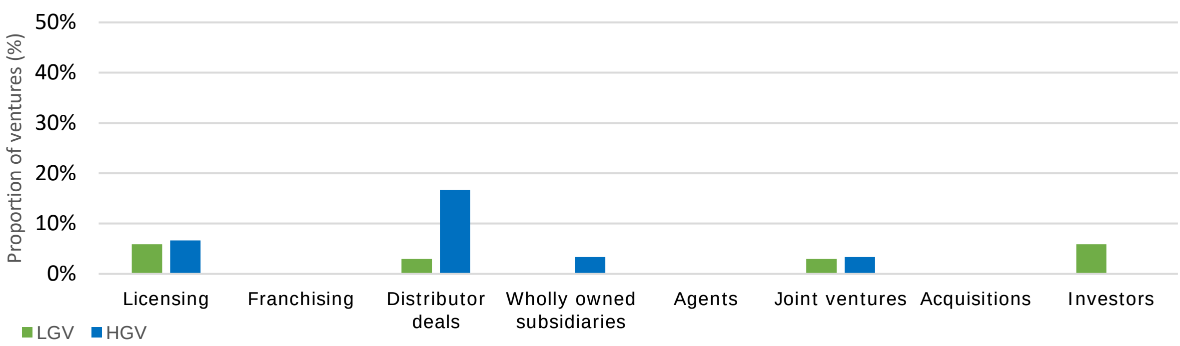
Majority of international ventures enter their first international market within the first year after founding



INTERNATIONAL VENTURES DO NOT TEND TO RELY ON FOREIGN DIRECT INVESTMENTS

The fact that young, high-potential ventures internationalize much faster compared to the older, more traditional model of approaching this step-by-step, does not mean they take substantially more risks when doing so. For instance, selling internationally does not necessarily entail owning foreign assets. Indeed, we see that neither HGVs nor LGVs tend to rely on foreign direct investments such as wholly owned subsidiaries, joint ventures or acquisitions. Instead international HGVs and LGVs go for international distributor deals (17%) and licensing (both around 7%). While one could think of the born global approach towards internationalization as a somewhat riskier approach compared to the older, step-by-step approach, combining it with international licensing and distributor deals does seem to imply ventures choosing to do this in a less resource-intensive manner. Finally, noteworthy is that none of the international ventures rely on franchising or agents.

Selling internationally goes hand in hand with international licensing and distributor deals[5]



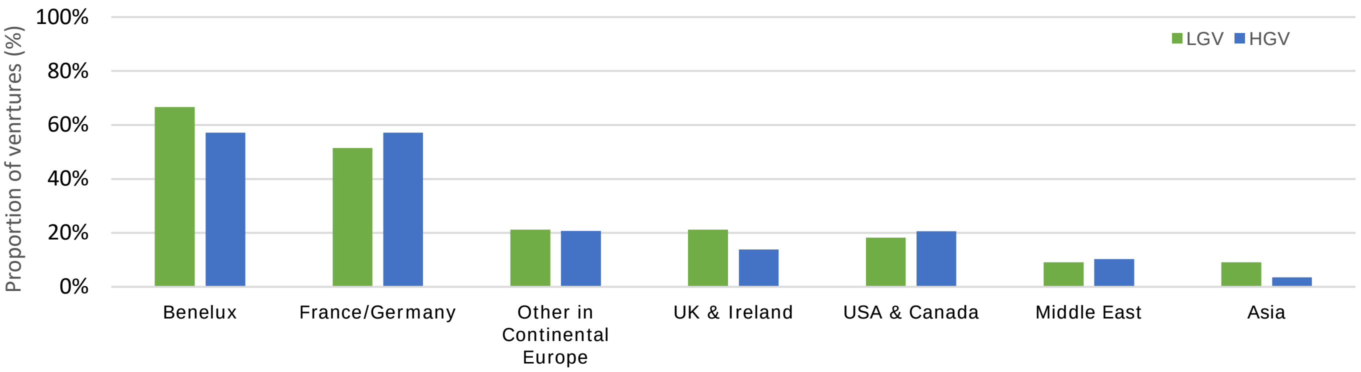
[4] https://www.eurofound.europa.eu/born-globals-young-firms-that-internationalise-rapidly

[5] These questions were only answered by those respondents who had any international sales.

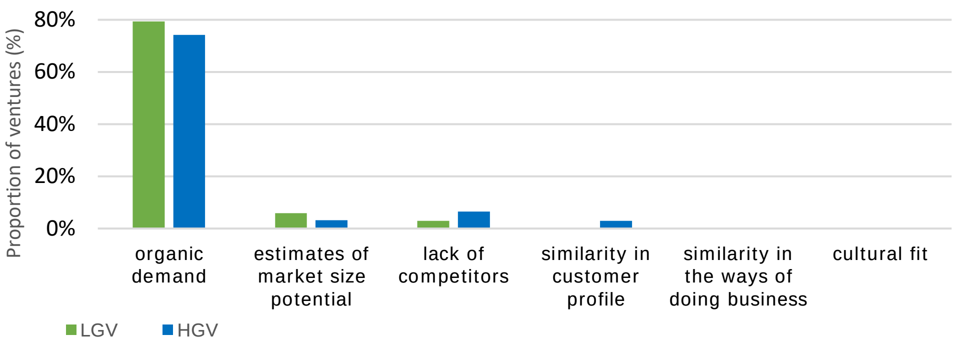
CLOSE NEIGHBOURS ARE THE MOST POPULAR OPTION FOR INTERNATIONAL SALES

At an average age of 2.5 years old, our international ventures are active in 11 countries outside of Belgium. Regardless of their growth ambitions, 63% of high-potential ventures are present in more than one country, while 3% of the ventures have worldwide sales (most commonly through online platforms such as Amazon). The Netherlands is by far the most popular country to be active in by the end of 2017: 54% of HGVs and 64% of LGVs have sales there. The Netherlands is closely followed by France (39% of HGVs, and 42% of LGVs) and Germany (32% of HGVs and 18% of LGVs). Then comes the USA (14% of international firms), the UK (13%), Luxembourg and Spain (both 9%), Switzerland and Ireland (both 4%) and Italy, Canada, Israel and Poland (all 3%). Noteworthy is that differences overall between LGVs and HGVs are negligible in terms of the countries they are active in.

Majority of international high potential ventures operate in the Benelux region and neighboring countries[6]



ORDER OF ENTRY IS MOSTLY DETERMINED BY ORGANIC DEMAND



Close to 80% of founders decide to enter a specific foreign market based on the organic demand in the country concerned. In other words, international customers contact the venture themselves.

A small number of ventures also base their decision on which international market to enter next on estimates of market size potential. This is a more calculated risk, thinking about the potential there might be. Further, they occasionally also enter a market simply based on a perceived lack of competitors. It is noteworthy that almost none of the ventures base their entry decisions on similarity in markets, whether in customer profile, way of doing business or culture. Combined, this is consistent with a born global vision, where less attention is paid to a gradual process of entering foreign markets one at a time – preferably starting with the ones that are closest in profile to the home market. Instead, born globals prefer to internationalize more rapidly, attacking multiple countries at once. In a B2B country like Belgium, customers are everywhere in the world, which can explain the popularity of relying on a pull from customers' demand.

[6] Benelux only includes the Netherlands and Luxembourg.

"In the gaming industry thinking globally from the start is a must"

Mike Coeck is a co-founder and managing partner at Cybernetic Walrus. He started his company in 2017 with three co-founders, focusing on games and gamification projects. Their first own IP game is Antigraviator and their company is a part of imec's start-up portfolio. Mike shares his views on the importance of knowing your industry, thinking globally and finding the right partners: "The gaming industry is an industry where the market is global from the start. Considering that games are distributed digitally, it makes most sense to create a game for everyone from the very beginning and not just target the local market. To get our product to that global market, we needed a publisher platform. Selecting which firm that would be was a crucial decision. When making that decision, it is important to take enough time to talk to people and to consider other factors, such as whether that partner can actually market your product, whether they have reach towards ads and influencers. For me it was very important to see what marketing plan they had behind our game and who we would be working with."

ACHIEVING GROWTH: THE NON-ORGANIC WAY

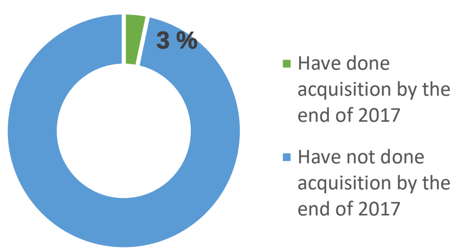
Ventures can grow organically, through acquisitions or through more hybrid modes of growth. Distinguishing between these different modes of growth is important as it places quite different demands on managers, but also has implications on a more macro-economic level. For instance, whereas organic growth likely implies more job creation, growth via acquisition entails moving jobs from one firm to the other in a first phase. It will also affect the growth pattern of a firm, with organic growth typically resulting in a smoother growth pattern than growth via acquisition.[7] Hybrid firm growth includes licensing and strategic alliances. These models of growth are positioned somewhere in between organic and acquisitive growth as they combine elements of both. It involves establishing a contractual relationship with external actors while maintaining a desired level of ownership and control over how assets are used.[5]

To be able to fully capture the many different faces of growth, we dive into the non-organic modes of growth more deeply in what follows.

ACQUISITIONS ARE RARE

Acquiring another company can be beneficial when companies have exhausted their own opportunities or lack the abilities to expand through organic growth, or the latter not providing the required or desired speed for scaling. With acquisitions, ventures can increase their set of opportunities, obtain novel resources and knowledge and open up new opportunities to grow. However, many young ventures have limited resources making it more difficult to engage in acquisitions. This is confirmed for our Belgian young, high-potential ventures:

Almost no acquisitions by the end of 2017

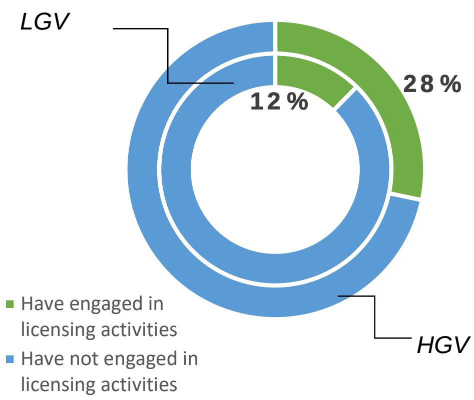


Only 3% of young, high potential ventures (or five firms in our sample) have done an acquisition by the end of 2017. On average, those ventures have acquired one company each, with a maximum of three acquisitions. Those companies that have acquired others tend to be substantially larger (in terms of sales and employees) and more innovation-oriented (in the form of R&D expenditures).

[7] McKelvie, A., & Wiklund, J. 2010. Advancing firm growth research: A focus on growth mode instead of growth rate. *Entrepreneurship Theory and Practice*, March, 261-288.

ABOUT ONE THIRD OF HGVs ENGAGE IN LICENSING

HGVs have engaged in licensing more often than LGVs

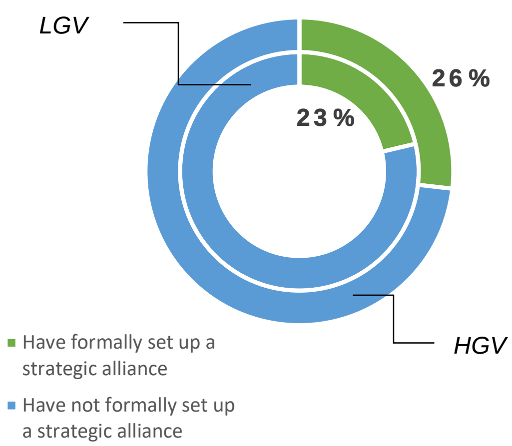


Through licensing, ventures sell the rights to a licensee to use a particular piece of intellectual property (for which they receive royalties in return). By the end of the 2017, 28% of HGVs have engaged in licensing, compared to only 12% of LGVs. Hence, relying on licensing as a growth strategy goes hand in hand with a venture's growth aspirations: the higher its aspirations are, the more likely it is to rely on licensing. Like with acquisitions, the larger, more innovative and older ventures are more likely to engage in licensing activities. The importance of licensing among innovative HGVs is not surprising given this tactic allows them to more quickly leverage their tested technologies without heavy investments in manufacturing, marketing, and/or distribution.[8]

ONE IN FOUR YOUNG VENTURES HAS SET UP AT LEAST ONE STRATEGIC ALLIANCE

Another hybrid form of growth is through a strategic alliance, which involves a collaboration between multiple firms to build on one another's resource bases rather than having to develop these independently. Growing through strategic alliances is far more popular than growing via acquisitions. This is not surprising as it is a less risky and less costly strategy to grow compared to acquisitions. One in four ventures has set up a strategic alliance by the end of the 2017, regardless of their growth ambitions. While the proportion of firms setting up alliances is similar for HGVs and LGVS, HGVs do set up *more* alliances than LGVs. On average, HGVs establish 2.4 alliances, while this is 1.6 for LGVs. Again, mainly larger and more innovative ventures rely on this growth tactic.

1 in 4 ventures has set up a strategic alliance by the end of 2017



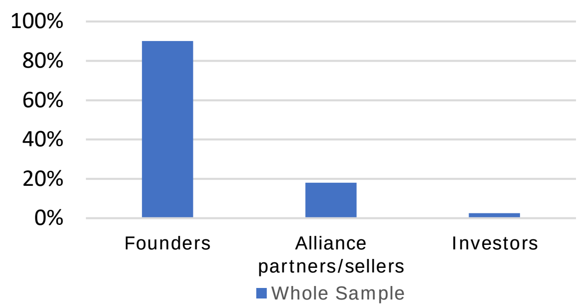
[8] McKelvie, A., & Wiklund, J. 2010. Advancing firm growth research: A focus on growth mode instead of growth rate. *Entrepreneurship Theory and Practice*, March, 261-288.

ACQUISITIONS AND ALLIANCES: DIVING DEEPER

Observing the choice for acquisitions and alliances, other important questions are who initiates the alliance or acquisition, why ventures engage in these tactics and who the most likely partners are.

ENGAGING IN ALLIANCES OR ACQUISITIONS IS A FOUNDER DECISION

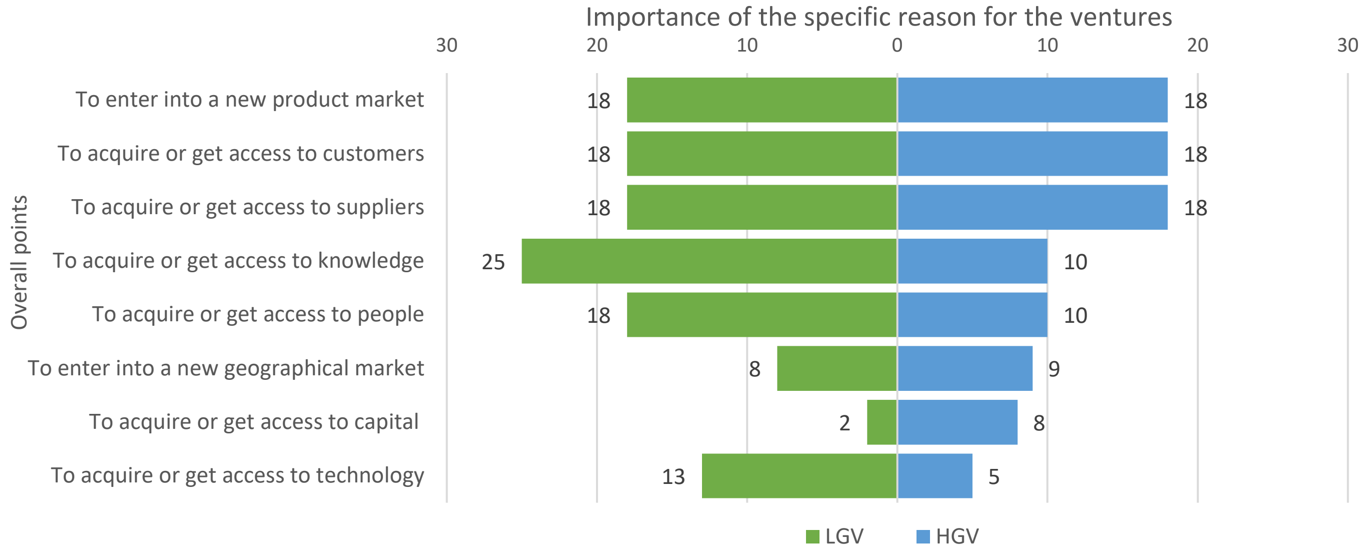
Strategic alliances or acquisitions are mainly done on founders' initiative



When young ventures with high growth potential engage in non-organic growth strategies, they do so mainly by the initiative of the founders themselves: in 90% of the cases where ventures have engaged in alliances or acquisitions, this activity was initiated by the founders. In about one fifth of those cases, the contractual relationship was initiated by the partner firm. Interestingly, investors, while often perceived as the ones pushing for a more efficient growth trajectory, are rarely the ones taking the initiative.

WHY DO VENTURES ENGAGE IN ALLIANCES OR ACQUISITIONS?

HGVs and LGVs aspire to engage in alliance or acquisitions for different reasons[9]



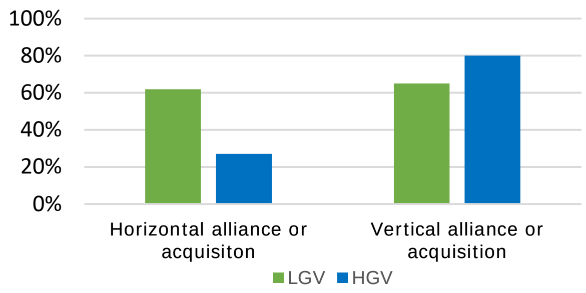
HGVs and LGVs have different reasons as to why they engage in strategic alliances or acquisitions. For HGVs, three reasons are equally important: entering a new product market, getting access to customers and getting access to suppliers. Interestingly, these three same reasons are equally important to LGVs. For LGVs, however, the most important reason is to access new knowledge.

[9] This overall classification was conducted by ranking the three most important reasons for forming a strategic alliance or having done an acquisition by the end of 2017. Reason 1 received 3 points, reason 2 2 points and reason 3 1 point. The highest overall points represent the combination of weights for each reason's rank in terms of the strategic importance as communicated by the companies in the survey.

HGVS PREFER ALLIANCES OR ACQUISITIONS WITH SUPPLIERS AND CUSTOMERS RATHER THAN COMPETITORS

Ventures can decide to engage in alliances or acquisitions horizontally (i.e. with competitors) or vertically (i.e. with suppliers or customers). HGVs have a clear preference for vertical partnerships; whereas 80% of those that engaged in alliances or acquisitions did so with a supplier/customer, only 27% did so with a competitor. For LGVs, both options are equally popular (around 60%). When going for a vertical alliance or acquisition, HGVs are equally split between doing so with a supplier or customer, whereas LGVs tend to go for suppliers.

HGVs prefer vertical alliances or acquisitions

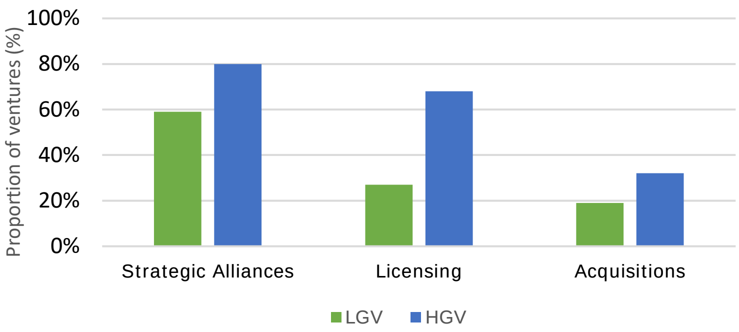


LOOKING INTO THE FUTURE

Given the different ways ventures achieve their growth, it is also interesting to take a look at their future plans.

SUBSTANTIALLY MORE VENTURES ASPIRE TO ENGAGE IN HYBRID MODES OF GROWTH

HGVs aspire to engage in hybrid modes more than LGVs

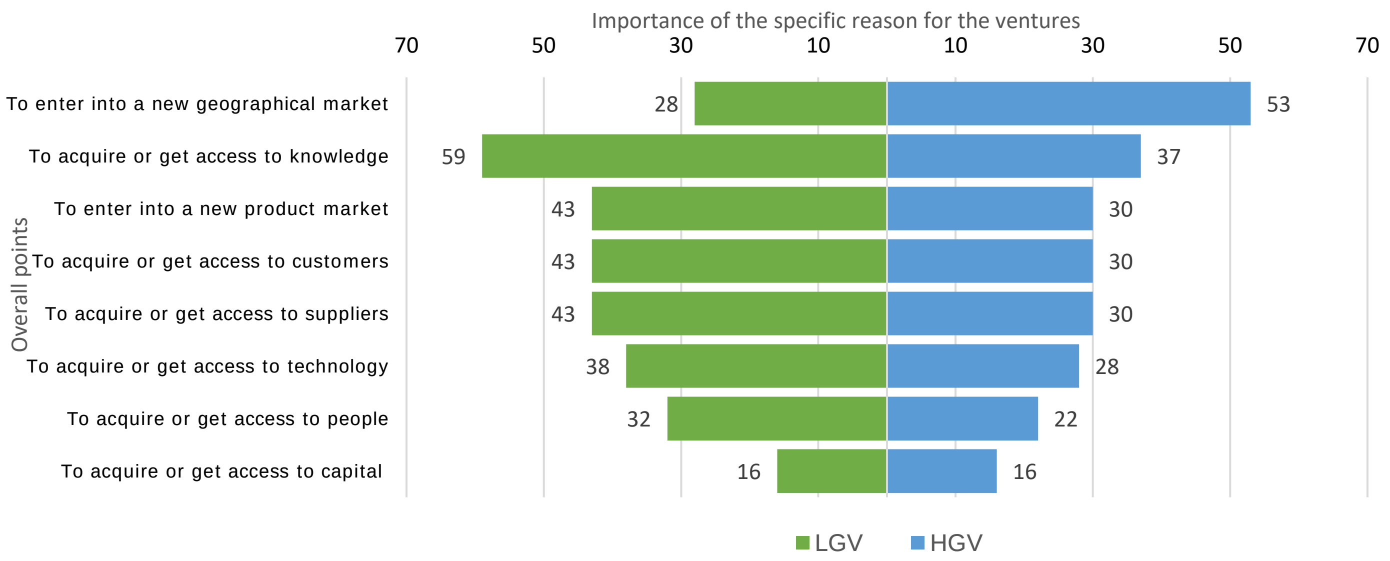


Growth ambitions are even more strongly reflected in ventures' plans for hybrid modes of growth: 80% of HGVs and 59% of LGVs aspire to form strategic alliances in the next five years and 68% of HGVs and 27% of LGVs aspire to engage in licensing activities in the next five years. While at the end of the 2017, only 3% of young, high-potential ventures had already engaged in acquisitions, 32% of HGVs and 19% of LGVs have plans to engage in acquisitions in the next 5 years.

STRATEGIC REASONS TO ENGAGE IN ALLIANCES OR ACQUISITIONS DO CHANGE

While LGVs still see alliances and acquisitions as a key way to access knowledge moving forward, HGVs' plans to engage in such activities do have a different strategic reason compared to their alliances and acquisitions done in the past: whereas past alliances and acquisitions were mainly done to get access to customers, suppliers and new product markets, future alliances and acquisitions will mainly be done with an eye to entering new geographic markets.

The most important reasons to form a strategic alliance or engage in acquisitions in the next five years



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"Internationalization activities develop gradually"

Dries Berckmans is a co-founder and managing partner at SoundTalks, a company that delivers automated solutions for the monitoring of animal health and welfare. Dries shares his views on his internationalization process: "Our main goal was to grow steadily as a company and with a long term vision in mind, we learned quickly that we needed to internationalize. We started by entering the Dutch market as this was geographically close and we spoke the same language. When thinking about the possible ways to achieve growth, in the beginning we did not consider acquisitions as a viable option due to our capital constraints at the time – although we probably should have considered it faster. Now, acquisitions are on our radar, although probably not to be acted upon in the short term.

Since the Belgian market is too small, our strategy to immediately internationalize was in fact one of the main drivers for setting up a strategic alliance. It was a natural consequence. One of the reasons we engaged in this particular alliance was the distribution channels this alliance would allow us to use. In the beginning our business model was to serve the end customers directly, since they were the ones contacting us. However, we quickly learned that that was not a viable business model for achieving growth in the long term – it would not allow us to scale. For that reason we chose to partner up with a big company that would allow us to scale faster as they had their own people in different countries, which substantially simplified the internationalization process for us (for example, overcoming language barriers).

As of next year, we will also start selling service licenses. Licensing of our hardware worked well in some countries, yet we are sure that this change will work even better. We learned through our journey that targeting the right customer is crucial for successful licensing.

Overall, the decision for internationalizing was mostly driven by our ambition to grow. As an advice, I would say that it is important to remember that you can plan some of your growth options, but reflecting back on our journey, I would say that you learn a lot during the process itself by actually trying out different options. Sometimes it works well, sometimes it does not and then you need to learn from your mistakes."

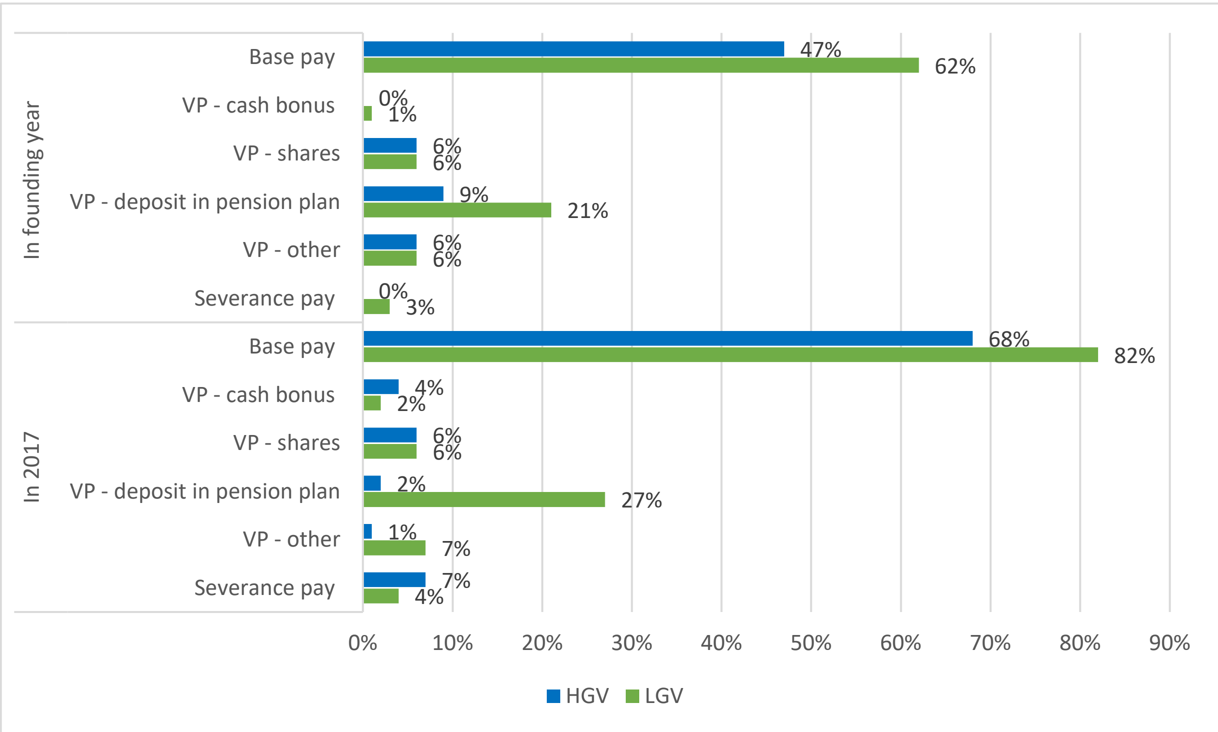
FOUNDING TEAM REMUNERATION

Consistent with the prior editions of the Rising Star Monitor[10], the vast majority of young, high-potential ventures is founded by teams (67%). In line with our previous editions, we report the key remuneration numbers of founders in these ventures.

REMUNERATION: CASH IS STILL KING, BUT MANY FOUNDERS DO NOT RECEIVE ANY BASE PAY

Founders can receive remuneration in the form of cash, consisting of base and variable pay. As in the past, high-potential ventures still rarely use variable pay (VP) and most commonly use base pay. Notable differences do exist between HGVs and LGVs; almost half of HGV founders do not receive any base pay in the founding year. For LGVs, 38% of founders do not receive any base pay in the founding year. About 2.5 years after founding, the proportion of founders paying themselves something increases quite substantially for both HGV and LGV. Yet, still around 30% of HGV founders and 20%of LGV founders do not receive any form of base pay.

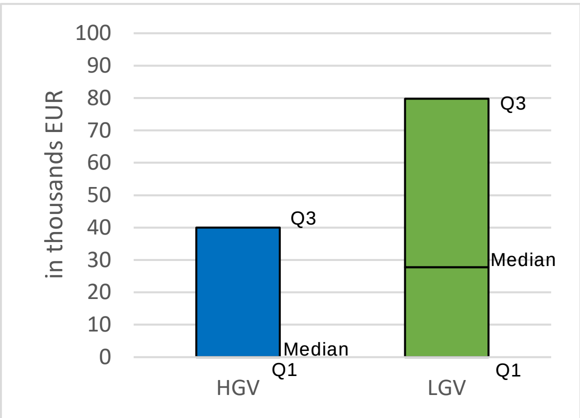
MOST OF THE ANNUAL FOUNDER REMUNERATION IS STILL BASE PAY



[10] Collewaert, V., Manigart, S., Imhof, Z. *Rising Star Monitor 2016*. Freely downloadable from https://www.vlerick.com/en/research-and-faculty/research-in-action/entrepreneurship/entrepreneurship-2-0/research
Collewaert, V., Manigart, S., Subotic, M. *Rising Star Monitor 2017*. Freely downloadable from https://www.vlerick.com/en/research-and-faculty/research-in-action/entrepreneurship/entrepreneurship-2-0/research

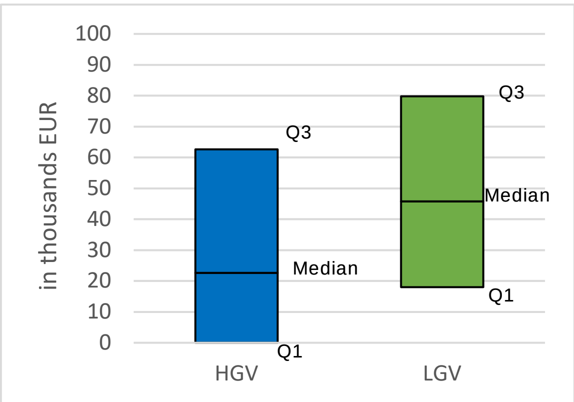
VALUE OF BASE PAY REMAINS LOW, YET INCREASES OVER TIME

BASE PAY AT FOUNDING



On average, founders of young, high-potential ventures pay themselves 34,000 EUR at founding[11]. Whereas LGV founders pay themselves approximately 40,000 EUR, HGV founders only get 26,000 EUR. Even stronger, half of HGV founders do not receive any base pay at founding (median of 0 EUR in the graph on the left), while half of LGV founders receive less than 28,000 EUR (median in the graph on the left). For both HGV and LGV founders, minimum base pay is 0 EUR at founding. The maximum base pay is higher for LGV founders (600,000 EUR) than HGV founders (375,500 EUR) in the founding year.

BASE PAY AT THE END OF 2017



From founding to 2017, overall average base pay increases to 55,000 EUR, which is similar to what we observed in the previous RSM edition (56,000 EUR). For HGV founders, base pay increases to 39,000 EUR, whereas for LGV founders this increases to 67,000EUR. Median base pay is 23,000 EUR for HGV founders and 44,000EUR for LGV founders.

Minimum base remains 0 EUR for both LGV and HGV founders. As for the founding year, maximum base pay is slightly higher for LGV founders (513,000 EUR) than for HGV founders (250,000 EUR).

Across all editions of the Rising Star Monitor (see table below), we see a remarkable consistency in average and median base pays for founders – both at founding and at 2.5 years of company age. More variation is noted in maxima base pays observed, reflecting some outlier companies.

[11] The value of base pay is calculated on a yearly basis in full-time equivalents. This base pay can either take the form of a fee billed to the founder's management company or the sum of the gross base pay and fringe benefits (if any) the founder receives (as an employee). Bonuses are excluded.

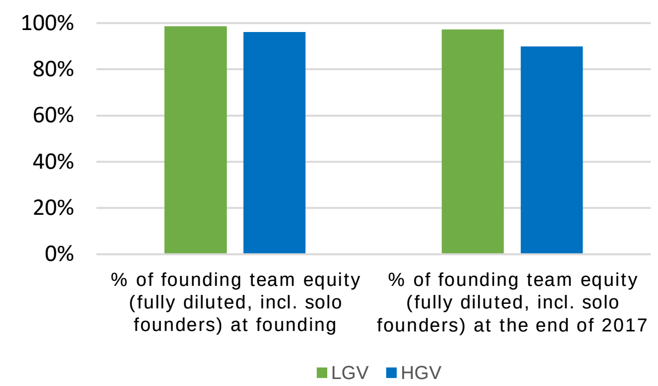
Evolution of the base pay at founding, across all three RSM editions

Edition	Average Base Pay	Median Base Pay	Minimum Base Pay	Maximum Base Pay
1^{st}	38,180	26,507	0	252,500
2^{nd}	38,825	22,000	0	250,000
3^{rd}	34,123	11,318	0	600,000

Evolution of the base pay at 2.5 years old, across all three RSM editions

Edition	Average Base Pay	Median Base Pay	Minimum Base Pay	Maximum Base Pay
1^{st}	54,274	40,000	0	540,000
2^{nd}	55,858	40,000	0	266,667
3^{rd}	54,852	35,200	0	513,178

FOUNDERS RETAIN MOST OF THE EQUITY



In the early stages, ventures are usually constrained with cash. Many founders are not able to pay themselves any cash remuneration, which is also reflected in our results. However, there is another form of remuneration that founders rely on as a source of future (although) relatively uncertain financial compensation – the equity stake they hold. Consistent with the previous RSM editions, founding teams remain firmly in control. At founding, the founding team retains on average almost all equity regardless of growth ambitions (98% in LGVs, 96% in HGVs).

Further, 93% of LGVs retain full ownership at founding. For HGVs, this is 83% which is substantially higher than what was reported in previous RSMs (around 67% in both prior editions). This increasing trend in retaining full ownership of the equity for HGVs at founding may reflect a higher desire for control amongst founders. On average those that do not retain full ownership at founding, retain around 79% of the equity for the HGVs. Half of HGVs retain less than 85% of the equity, with a minimum equity retained of only 12% and maximum equity retained of 99%. For LGVs, the ventures that do not retain full ownership at founding retain on average 81%. Half retains less than 85%, with a minimum equity retained of 50% and a maximum equity retained of 99%.

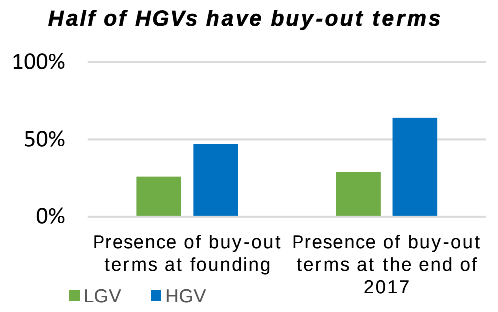
By the end of 2017, equity percentages decrease, with the decrease being more substantial for HGVs: 88% of LGVs and 68% of HGVs retain full ownership. The latter percentage though, in line with the equity percentage at founding, does remain much higher compared to what we found in prior editions (40% in the 1^{st} edition and 43% in the 2^{nd} edition). Those ventures that do not retain full ownership by the end of 2017 have given up, on average, 35% of the equity for HGVs, and 30% of the equity for LGVs.

Like in the past, about half of the founding teams decide to split their equity equally amongst founders at founding.

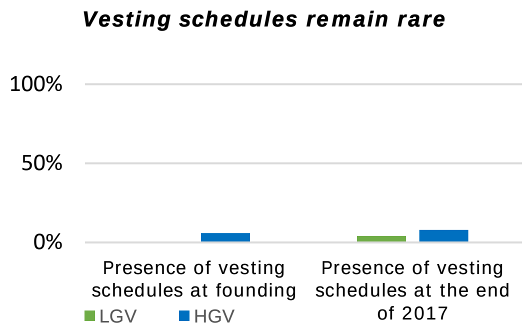
DYNAMIC EQUITY AGREEMENTS: MORE WORK REMAINS TO BE DONE

Across all RSM editions, we have emphasized the use of dynamic equity agreements. As both ventures and founders face substantial uncertainty, splitting the equity in a static way may lead to substantial problems later on. Two possible instruments founders can rely on to do so are buy-out terms and vesting schedules.

Consistent with previous editions, almost half (47%) of HGV teams include buyout terms, mostly on the initiative of the founders themselves. Founders of HGVs do become more aware of the importance of including such terms over time as by the end of 2017 64% of HGV teams have buyout terms. LGVs use buy-out terms substantially less at founding (26%).



Also consistent, vesting schedules are still rarely used at founding (max. of 6% of teams using it). In particular, at founding 6% of HGVs include such provisions, while 0% of LGVs include them. Over time, we see a slight increase in using such provisions, with 8% of HGVs and 4% of LGVs including such provisions, but it still remains a minor percentage of ventures. As with buyout terms, the initiative to include these schedules mostly comes from the founders.



Taken together, it shows that more work remains to be done in reminding founders of discussing and considering the option to include more dynamic terms in their founder equity agreements.

FINAL THOUGHTS

This third edition of the Rising Star Monitor has the aim to help founder teams of young ambitious companies to tackle important questions of the early days.

The evolution over the past years, with this year a remarkable increase in companies' growth ambitions, shows us the eco-system is gaining maturity. The young companies have an increasing growth ambition, however remain modest in the salary they pay themselves, and are focusing on internationalization as from the start. This year we have seen that startups also gain maturity in the way how they want to create growth. Instead of trying to do everything themselves, we now noted that scale-ups focus more on strategic alliances and licensing.

Furthermore, the Rising Star monitor creates insight in how founder teams should organize themselves when it comes to remuneration. The actual cash wages for founders remain low – the goal is to create a high added value on their shares later on. This potential obviously is larger if the company grows fast.

Every year we encounter very high quality pitches of Belgian technology companies in our Rising Star contest with unique and splendid technology that definitely has high growth potential. Also this edition has brought us a number of valuable insights to better assist ventures.

Sam Sluismans

Partner of Deloitte Accountancy

APPENDIX I: METHODOLOGY AND SAMPLE CHARACTERISTICS

METHODOLOGY

Between February and May 2018, we conducted the third edition of our Rising Star Monitor survey among young, high-potential ventures in Belgium. The questionnaire resulted in 162 participating ventures, with data on 253 founders.

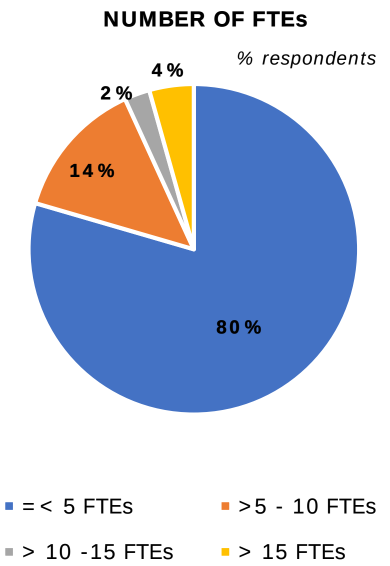
Companies that were selected had to be less than 7 years old by the end of 2017. To identify high-potential ventures, we used -among others- the venture's industry (e.g., IT, life sciences and energy) and/or its financing sources (e.g. received funding from business angels, venture capital, or crowdfunding). This resulted in 392 responses from ventures from all over Belgium. Excluding a.o. ventures of more than three years old but having less than one full-time employee, and those with extremely low growth ambitions, provided us with 162 responses in total[12]. This methodology remained the same compared to previous editions to ensure comparability of results.

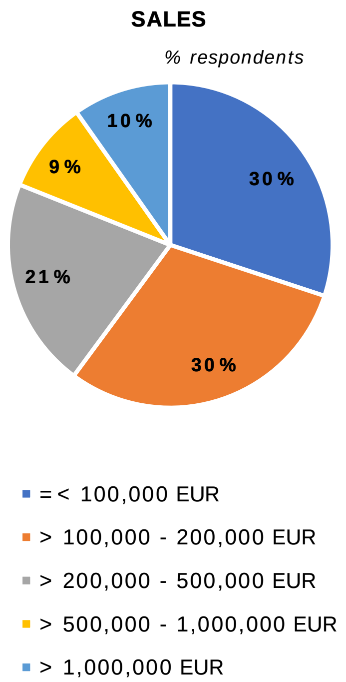
ABOUT THE RESPONDENTS

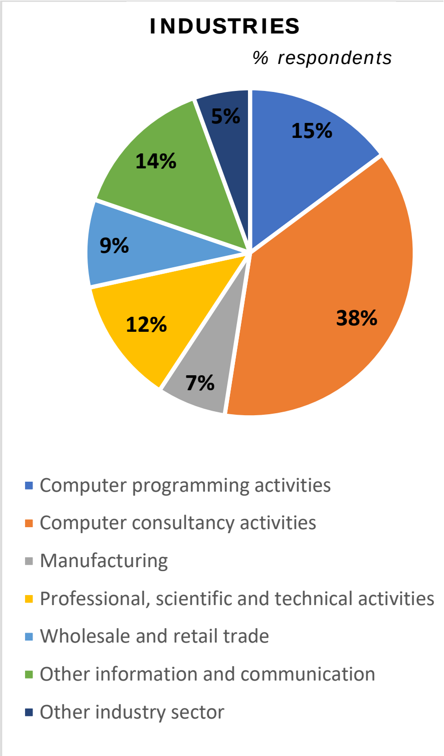
88.2% of our respondents are the CEO of their venture and 95.1% are founders. By the end of 2017, the ventures in our sample, on average:

- Were 2.3 years old
- Covered a wide variety of industries
- Had 5.6 full-time employees, of which 1.8 were self-employed yet substantially involved in the venture
- Realized approximately 598,000 EUR in sales

Together, this shows remarkable consistency in the average profile of young, high-potential Belgian ventures.







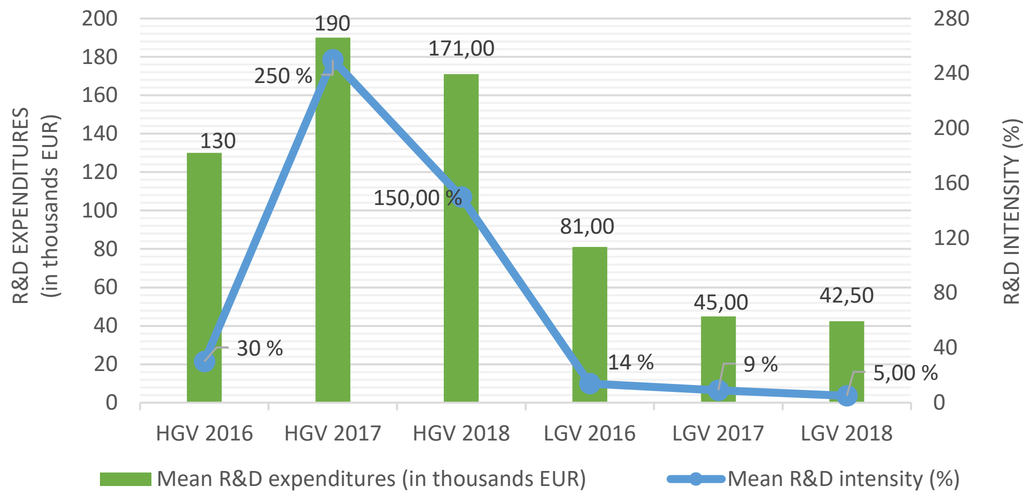
[12] Total number of responses can vary for some questions, since some questions were left open or questions do not apply for certain ventures.

HGVs ARE MORE INNOVATIVE THAN LGVs

Consistent with past editions, HGVs are more innovative than LGVs; they score higher in terms of R&D expenditures, R&D intensity, and their business model innovation.

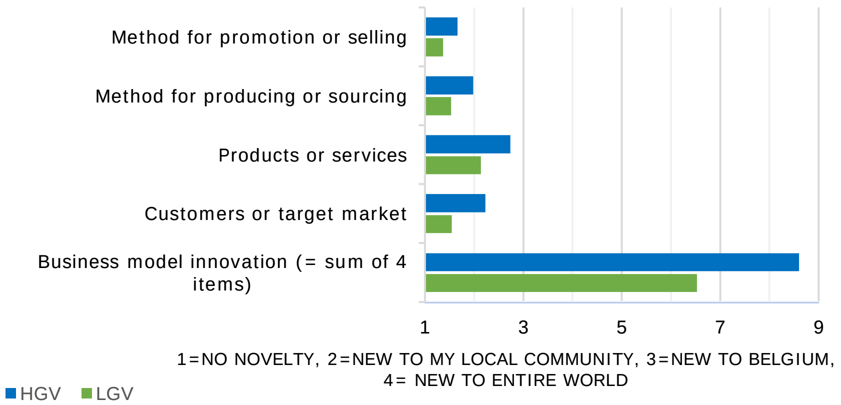
- **R&D EXPENDITURES/INTENSITY**

HGVs have substantially higher R&D expenditures (around 171,000 EUR) than LGVs. R&D intensity is also remarkably higher for HGV than LGV. While differences do appear from year to year, the overall pattern comparing HGVs to LGVs remains similar.



- **BUSINESS MODEL INNOVATION**:

HGVs consider themselves to be more innovative in terms of their business model in comparison to LGVs. They position themselves as being more innovative than LGVs on all four dimensions: method for promotion or selling, method for producing or sourcing, products or services and customers or target markets.



DO YOU KNOW THE ENTREPRENEURSHIP 2.0 ROUNDTABLES?

Every year the Entrepreneurship 2.0 initiative organizes a series of 4 one-day workshops with a group of around 20 selected participants around some of the key challenges young, high-potential ventures face ranging from topics such as financing, internationalization, professionalizing your HR to strategy and negotiation.

We also provide the opportunity to submit a company-specific problem once a year to a panel of experts to get tailored advice. As such, the Roundtables offer a great opportunity to meet, learn from and with like-minded scale-up entrepreneurs. Take a look below at who has participated in the past and follow in their footsteps – join our Entrepreneurship 2.0 community!

For more information, please email veroniek.collewaert@vlerick.com or check our website https://www.vlerick.com/en/research-and-faculty/research-in-action/entrepreneurship-2-0

Jan-Willem Rombouts - Restore

"A lot of entrepreneurs face the same challenges when they want to upscale their business, whether it's recruitment, corporate culture or a well-oiled sales department. Entrepreneurship 2.0 is an effective forum where entrepreneurs can share their experiences via workshops during which you can gain real insights. "

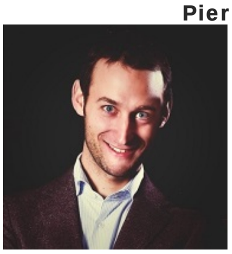
Katrien De Clerck - Teamleader

"Entrepreneurship 2.0 is a great support for Teamleader on many levels. Not only is it a fantastic platform for gaining access to relevant and high-quality expertise, you also meet other passionate entrepreneurs. You learn from one another and share recipes for success."

Dries Berckmans - Soundtalks

"Entrepreneurship 2.0 is the ideal environment for like-minded young entrepreneurs to meet and discuss every aspect of running a business."

Pierre Buffet - Domobios



"You address the main challenges facing scale-ups together with experts and CEOs from other scale-ups."

Wouter Uten - UgenTec

"The round table discussions during the workshops are the perfect mix of both theoretical and practical insights needed to ramp UgenTec up into a higher gear. The clear focus on scale-ups brings together a group of related entrepreneurs to share their experiences and learn from each other's strengths and weaknesses."

ISBN-NUMBER: 9789492002112
D / 2018 / 6482 / 03

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