ECOSYS4YOU

ENGAGING ENTREPRENEURIAL ECOSYSTEMS FOR THE YOUTH

EUROBILL:
Venture Biography

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Content

Disclaimer

The document presents a story of an existing startup prepared through desk research and a narrative interview with the founder. For reasons of data protection, the names of people, cities, support programmes and companies are exchanged with pseudonyms. The biography has been approved for publication by the startup and can be used for further research by citing it accordingly (see below).

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1 ID Card

Name of the startup (Pseudonym)	EUROBILL
Which ecosystem?	Slovenia
Founding date	Idea 2011, founding 2015
Sector	FinTech
No. of employees	16
(Expected) Turnover	200-300 mio EUR
Male/female founder	Male
Timeslots of start-up phases	
idea generation	2011-2013
incubation	2013-2015
consolidation	2016-onwards
Funding / financial support	Founders, Slovenian Enterprise Fund, foreign investment funds

2 Founder(s)' Background and Motivation

The story begins with a man named Bill, who was in his 40s. Throughout his career, he had been involved in the financial and investment sectors, both in brokerage firms and investment funds. During the formation of the company we are discussing, he sold some of his investments. It's worth emphasizing that he gained his financial knowledge abroad - specifically in America. Interestingly, the idea of founding such a company did not originate with him, but with his colleagues whom he knew from previous jobs and collaborations. Like him, they excelled in the field of finance and investing, and they too acquired their knowledge in this area abroad.

It all began in September 2008 when the financial crisis led to the liquidation of a foreign bank's branch in Ljubljana, where Bill's friends were employed. They began selling a portfolio of financial investments dealing with credits issued by credit companies. This was their first encounter with the unorganized market for debt sales. Recognizing the underdeveloped state of the Slovenian factoring market (4%) compared to the European average (10%), they conceived the idea of establishing an online platform for debt offerings. Motivated by this realization, they embarked on developing the concept of an online bulletin board for the sale of receivables, identifying the untapped potential within the Slovenian factoring market and envisioning opportunities for growth and advancement.

In 2011, the company EUROBILL was established, but in the initial phase, the project wasn't successful. Then, at the end of 2013, Bill's friends called and approached him, not only to join the project but also to invest in their idea. Bill took some time for reflection, and in 2015, he joined the project as a project developer and as an investor - a co-owner. Today, he is one of the three majority shareholders

3 Business Model

The key difference in Bill's perspective and perspective of others involved in the project was that they were thinking of expanding to the south, while Bill was considering expansion to the east. Eventually, only the expansion to Croatia (east) later materialized. After initial attempts and difficulties with the bulletin board, they decided to seek capital to establish a real exchange market for trading non-standard receivables. A key moment was the meeting with an investor who informed them that he cannot invest due to a non-compete clause, which did not deter them. They discussed and all of them invested capital in the company, which was formed as a joint-stock company. They hired a programmer who programmed for them for 12 months to set up a stock settlement system and an order book for the internal clearing depository company. In addition, they established a register of all claims, with which they then conducted delivery versus payment settlements. During the first year (2014/2015), besides hiring the programmer, they met every month for 2-3 hours for brainstorming sessions to create development ideas, search for the best possible settlement and working methods, and to discuss the system functionality and automation. They realized that the increase in turnover in factoring in Slovenia could only be achieved if they were cost competitive. This means minimizing transaction costs by maximizing automation of the entire process. They succeeded in achieving these goals in November 2015. And in 2018 the company reached a break-even point. Since than the product has not changed significantly and is the same today as it was then.

The company is structured as a joint-stock company, as it operates in the demanding financial sector, and although it is a smaller financial intermediary, risks need to be adequately hedged and sufficient capital must be available to cover them, which can be ensured in a joint-stock company with more diversified ownership. Initially, there were four shareholders in the company: in addition to the first three idea creators, there was also an IT expert. Later, the number of shareholders increased with institutional investors who supported the project, such as the Slovenian Enterprise Fund and larger foreign private investment funds.

Later, or after the COVID crisis in 2021, also other employees entered the shareholder structure, and today the company has 23 shareholders. Bill is the largest shareholder. The company also has a two-tier management system: a two-member management board and a supervisory board. Today, the company in Ljubljana employs 13 people, and in the subsidiary in Croatia, which they opened in 2017, they employ 3 employees. Bill has been involved in the operational management of the company since 2020 and takes care of its development, penetration of foreign markets and acquisition of investors and customers. The company today has a turnover of EUR 120 million, and its potential is estimated to EUR 200 - 300 million.

4 Start-up development

The main reason for setting up the company was certainly the global financial crisis which started in 2008 and caused the bankruptcy of banks and companies all over the world, and Slovenia was no exception, as everyone was looking for a way to survive. Coincidentally, two of the players in this story (and it was not Bill) saw the possibility of creating an unorganised market for receivables/payables for micro, small and medium-sized enterprises as a way to solve their financial problems by developing a suitable online platform. They realised that they did not have the knowledge or the ability to contact the right investors themselves, so they looked for Bill, who was strong in this area of expertise, and that's when their common story began. The following paragraphs tell the story of the company from the first idea to the present day.

4.1 Idea-Generation

"I would say that generating an idea has the greatest characteristic, excessive optimism, which is otherwise good because this idea would never be realised, but there is usually a certain naivety, especially with technological inventions, because to-be entrepreneurs don't know how to properly assess the cost of sales when budgeting and planning projects."

<u>The beginning: Fall 2008 to September 2011</u>

In September 2008, two of Bill's former business partners and friends were involved in the sale of the portfolio of the foreign subsidiary where they worked. The reason was the global financial crisis. Companies were in financial difficulties and, in the absence of stable sources of finance, many micro, small and medium-sized enterprises collapsed. The two friends concluded that it would make sense to help these small businesses with micro-financing by buying their receivables early and offering them to investors who would like to buy them for a reasonable return. The idea matured in 2011 when they set up EUROBILL, but it never really took off because they were unable to attract investors who perceived too much unsecured risk in the new offering.

<u>Test phase: October 2011 to February 2015</u>

The test period of setting up an unorganised claims market lasted two whole years (from 2011 to 2013) and was unsuccessful because there were not enough investors. As Bill was known to have contacts mainly with foreign investors from his time as a student in the USA and also from his past working experience, the idea promoters, his two friends, approached him and invited him to join the project and also to invest, as they knew that he had sold some of his projects and investments. The amount they considered sufficient to seriously start a company was EUR 150,000.

The deal did not happen immediately, but they agreed to meet regularly to develop all aspects of the idea, from the product, the way of selling, attracting investors, market penetration, IT support for the whole process, underwriting the risks. The arrangement lasted for a year. After one year, in 2014, they hired a programmer (IT specialist) who spent one year creating a proper online trading platform, which went live in 2015. This date is considered to be the serious start of the company's activities, notwithstanding the fact that it had been established much earlier.

4.2 Incubation / Founding

The decision to invest their own capital was made in early 2015. In March of that year, Bill took the initiative by investing EUR 150,000 in the company, thereby becoming its principal shareholder. While all stakeholders contributed their own funds to the venture, Bill's investment far surpassed the others.

Specifically, the remaining three shareholders each injected EUR 7,500 into the company, totaling three times that amount. Subsequently, in order to ensure smooth operations until November 2016, Bill injected an additional EUR 13,000 into the company. It was during this period that the Slovenian Enterprise Fund announced a financing opportunity for start-up development (SK200 2016 - Seed Capital - Convertible Loan for Business Start-ups) totaling EUR 100,000, which they successfully secured through a tender process. Additionally, a private foreign equity fund invested EUR 200,000, bringing the total capital raised for the business to EUR 465,000. Bill played a central role as the driving force and primary developer of the business, taking the lead in contacting potential investors and presenting the business opportunity. His efforts proved highly successful, leading to the official commencement of trading for micro, small, and medium-sized companies on the unregulated receivables market in 2015.

Initially, they relied on self-funding, with the Slovenian Enterprise Fund entering the picture only after they had already committed resources to developing the idea and demonstrated its sustainability and viability in the market. While Bill acknowledges the positive role played by the Slovenian Enterprise Fund, he notes its lack of seed (angel) capital. Slovenia faces a general scarcity of such early-stage funding, with some available through incubators, primarily in the form of free services. However, there remains a significant gap, as business angels are either ineffective or tend to provide minimal investments (ranging from EUR 10,000 to EUR 100,000), often shying away from funding the developmental phase of ideas altogether.

At the beginning, the leading clients were only wealthy Slovenians and wealthy Slovenian companies that had a surplus of liquidity. From 2019 onwards, about 45% of money comes from abroad (investment funds). The Slovenian funds did not show enough interest.

Bill asserts, "I've approached various funds, such as the one designated for the decommissioning of the nuclear power plant, but unfortunately, I didn't succeed. Without the support of foreign investors, we wouldn't have weathered the challenges of COVID-19."

Amidst the pandemic crisis in 2020, the company implemented wage cuts and offered workers a stake in the company. Consequently, the employees now hold a small ownership stake in the company, leading to increased motivation among them. As a result, the company currently boasts 23 shareholders.

4.3 Scaling-up / Consolidation

"And then everything seemed promising until COVID-19 hit, instilling fear across the board."

During the initial two years, the company incurred losses. However, in the final quarter of 2018, it turned profitable, a trend that continued, ultimately offsetting all previous deficits. By the close of 2019, EUROBILL had facilitated over EUR 160 million in financing to Slovenian businesses and sole proprietors via its online platform.

Following its success and expansion in Slovenia, EUROBILL ventured into the Croatian market in April 2019. In Croatia, it offers mutual financing services, including online sales of receivables and short-term loans. These services cater to companies seeking swift and convenient financing solutions, while also providing an appealing and secure investment option for those seeking higher returns compared to traditional bank deposits.

The company primarily leveraged social media platforms such as Facebook and LinkedIn for its marketing efforts, with a minor presence on Twitter. While LinkedIn provided some promotional opportunities requiring purchases, the company also utilized traditional media channels like the newspapers Delo and Finance, particularly through their online editions, which offered solid coverage.

At the onset of 2020, the emergence of the COVID-19 pandemic exacerbated economic conditions, initially leading to a slight reduction in market liquidity. Despite this, the company remained vigilant, continuously monitoring the situation and devising optimal strategies to ensure the seamless operation of its platform. However, in March 2020, the declaration of a global pandemic significantly impacted all economic sectors and populations worldwide. Investor confidence waned, leading to a cessation of fund investments amid uncertainty about the future. Concurrently, debtors faced challenges meeting their obligations, exacerbated by the non-functioning of courts, hindering legal resolution of claims. This tumultuous period resulted in a staggering 70% decline in turnover from February to April 2020, plunging the company back into a loss-making phase that endured for 15 months, from April 2020 to August 2021.

During the nadir of this downturn, the company's capital dwindled to a mere €60,000 from its initial €465,000. However, a subsequent recovery ensued, leading the company back into profitability. While many funding recipients succumbed to bankruptcy during this tumultuous phase, most were reimbursed. At the peak of the crisis, one-third of the company's portfolio encountered difficulties, with receivables experiencing delays of up to 90 days.

The intervention of the state to rescue struggling companies played a pivotal role in the recovery process, facilitating the restoration of a significant portion of the company's portfolio. Nonetheless, not all receivables were recovered, necessitating some write-offs.

By the close of 2019, investors enjoyed an average annualized return of 4.18%. However, the onset of the crisis in 2020 resulted in a negative return of -1.6% for investors. Such a downturn made it challenging to introduce new products and attract potential investors. Furthermore, after experiencing robust growth rates ranging from 30% to 40% in the initial two years, followed by even higher rates exceeding 100%, the growth trajectory came to a halt in the aftermath of the COVID-19 pandemic in 2020. Bill, however, views this stagnation as relatively manageable, considering that rapid growth in finance often entails heightened risks.

EUROBILL benefited significantly from the low-interest-rate environment, presenting itself as an attractive alternative investment avenue. Unlike bank deposits, which yielded negative returns for investors amid low-interest rates, EUROBILL remained profitable. In 2022, despite prevailing economic conditions, the company achieved a yield of 3.5%, which, while commendable, still fell below the inflation rate. The subsequent year, 2023, saw a similar return as in 2022, alongside a turnover of EUR 120 million.

Reflecting on the financial crisis, Bill notes the Slovenian government's program designed to aid struggling companies. Recognizing the need for funding to cover wages and procure replacement materials, EUROBILL seized upon this opportunity to support companies during their time of need.

Bill identified an opportunity to assist struggling companies by leveraging existing infrastructure. EUROBILL could facilitate the distribution of government funds earmarked for this purpose. With a comprehensive infrastructure already in place, EUROBILL proposed to the government to provide support to micro and small enterprises, a segment overlooked by banks due to the relatively small amounts involved. Their infrastructure encompassed essential processes such as registration, customer verification, anti-money laundering measures, and remote personal identification - crucial during the COVID-19 pandemic. However, their proposal received no response or cooperation from the government, despite pioneering efforts in several areas. They even had to petition the Supreme Court to recognize bills of exchange as effective security instruments in financial transactions, as banks refused to acknowledge them based on the differing stance of the Association of Slovenian Banks and the law.

The Slovenian Enterprise Fund provided support to the company within the entrepreneurial ecosystem. While programs such as SK 200, SK 75, and others were beneficial, they mainly catered to companies in later stages of development. The fund also offered mentoring services through these programs, yet the quality of mentorship was lacking. Many mentors appeared unmotivated, burdening entrepreneurs with bureaucratic reporting requirements and offering little proactive engagement. Bill advocates for a shift in the mentorship approach, urging the fund to motivate mentors, assign them more active roles, and better prepare them mentally for project involvement.

“It's imperative to identify mentors who possess foresight. We must recognize that within start-ups, there are young adults aged 20-25 with promising ideas eager to develop something meaningful. Often, these individuals, though skilled as engineers, lack knowledge in marketing or sales. Even as experienced financiers ourselves, we found it challenging to find mentors who could adequately support us. While we might have benefited from mentorship programs like SPS at the outset, unfortunately, none were available."

Another significant achievement was establishing a fiduciary account for client funds, distinct from our own assets. Initially, this privilege was limited to brokerage houses, real estate firms, and stock exchanges—categories which we did not fall under. However, leveraging an EU directive, we successfully advocated for this option to be extended legislatively, ultimately passing into law.

In general, legislative constraints surrounding financial intermediation have hindered our development. Early on, these regulations acted as a deterrent, adversely impacting our competitiveness.

"Allow me to address one more crucial point”, Bill said, ”While it's understandable for pension funds and insurance companies to adopt conservative investment strategies, given their responsibility to safeguard the savings of individuals over decades, I believe our legislation is overly rigid regarding their investment options."

EUROBILL, as a financial intermediary, is barred from servicing pension funds, insurance companies, or pension entities due to legal restrictions. Yet, such partnerships could provide excellent diversification opportunities, offering a risk-free option with a modest 1% return - a standard practice in risk diversification. Furthermore, investments in seed capital or angel capital often yield higher returns compared to government bonds.

Another idea shared by Bill: "Moreover, the significant decline in government bond values over the past year has led to substantial losses for pension funds, ranging from 10% to 20%. To address this issue, we should advocate for reforms by lobbying the Insurance Supervisory Authority and the Stock Exchange."

Another pressing issue is EUROBILL's abundant demand from entrepreneurs seeking to sell receivables. Despite a current turnover of EUR 120 million, this figure could potentially reach EUR 200-300 million if sufficient investors were available. Unfortunately, the domestic market lacks the necessary capital, necessitating ventures abroad.

"However, ample funds lie dormant in our bank accounts. Supporting the development of micro, small, and medium-sized enterprises (MSMEs) would bolster GDP growth. I advocate for state policies and regulatory reforms by the Insurance Supervisory Authority to facilitate the recycling and reinvestment of these funds, supplemented by tax incentives."

During the adoption of COVID-19 legislation aimed at mitigating economic fallout, the entire financial industry, including EUROBILL, was conspicuously excluded. As a young company grappling with a 70% drop in turnover, EUROBILL was unable to seek assistance. It was only during the third wave of legislation amendments that provisions were made to offer relief, allowing for reduced working hours. Struggling with diminished activity and revenue, the company found itself ineligible for other forms of subsidy support.

"However, we are not a bank; we operate as financial intermediaries. Therefore, it's crucial to recognize that legislation cannot be uniformly applied to both entities. This discrepancy suggests a lack of understanding among legislators regarding the nuances of our industry."

Bill perceives a significant issue within the start-up scene stemming from the reluctance of start-ups and entrepreneurs to enlist expertise in various fields such as sales, idea evaluation, and risk assessment. Oftentimes, entrepreneurs place unwavering confidence in their ideas and struggle to withstand even well-intentioned criticism.

"I receive numerous individual proposals for investment - ingenious inventions abound. However, while these individuals may excel as engineers, they often lack the foresight to comprehend the complexities involved. Effective budgeting, cash flow analysis, risk assessment, and market evaluation are essential skills. I once encountered a brilliant idea for an alternative to payment cards, yet the entrepreneurs behind it were ill-equipped to promote it effectively. While concepts may appear promising on paper, the absence of risk management expertise hampers their potential success," concluded Bill.

Imprint

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