

## IT-Translation Investment Fund at Inria

**CRITICAL AREA OF FOCUS 3:** “Accessing finance and interacting with financial stakeholders”

**BEST PRACTICE FOR:** “Investment readiness activities”, “Matchmaking events and network of interaction with investors”, “University seed funds”

**AIMED AT:** TTOs, PROs **TTO:** INRIA, French National Institute for Computer Science and Applied Mathematics

**UNIVERSITY/RESEARCH INSTITUTION:** French National Institute for Computer Science and Applied Mathematics



### The context:

Established in 1967, Inria is the French National Institute for computer science and applied mathematics, a public science and technology institution placed under the supervision of the French Ministries of Research and Industry. Inria has 2700 employees, including 1800 scientists, and is organized in 178 project teams which bring together researchers with complementary skills to focus on specific scientific projects. The Institute has 8 research centres located throughout France. It is currently managing a portfolio of 390 patents and has established 34 start-ups since 2010. Inria transfers expertise and research results to companies (startups, small and medium enterprises and multinational companies) in fields as diverse as healthcare, transport, energy, communications, security and privacy protection, smart cities and the factory of the future.

Inria’s two main missions are research and tech transfer and the Technology Transfer Office (TTO) (now called Transfer and Industrial Partnerships Department) have been running since the establishment of the institute. It now has a staff of 50 people half of which are innovation and business development experts. The TTO covers the whole range of tech transfer activities for all research centres, including filing patents, software protection, licensing, contract research, joint labs with businesses (collaborations) and programmes for entrepreneurial education. Two years ago, the TTO was re-organized and technology co-developers (70 people working in the 8 research centers of Inria), who were previously working as a separated unit, were included in the same department as the TTO to promote development and transfer of technologies towards the creation of start-up companies.

### The problem:

In the experience of Inria, software technologies developed at lab scale typically need further investment for 12-18 months in order to be turned into new products ready for the market and the return on investment may usually be expected in 7-8 years’ time. At the beginning of its activity, Inria generally developed the software technologies internally by hiring engineers dedicated to specific projects, but it was very difficult to access finance to create start-ups, and, in particular, it was not possible to easily find support of traditional seed funds or VCs. Although the French Government has been investing in creating seed funds, these funds usually did not invest in technological projects originating from research labs that have a medium or long-term return on investment. As a public body, it was also very difficult for Inria to invest directly in start-up equity, because the process was long and complicated, and several authorizations were needed from the Ministry.

### The solution:

In 2011 Inria, together with CDC Enterprises (now part of Bpifrance, the French public bank for investment) and the European Investment Fund (EIF), established the first-stage seed fund “IT-Translation”, to enable researchers obtaining funding sufficiently early to transform their cutting-edge technologies into products and services which are innovative and marketable. The fund currently amounts to 30 million euros, with each investor covering one third of the fund. It is managed by a professional team of 5 managers. The share invested into the fund by Inria came from a successful divestment of shares of a previous company owned by the Institute. IT-Translation can invest not only in start-ups and spin-offs generated from Inria, but also in start-ups from other public and private research organizations. The only two requirements are that such companies operate in the digital technology sector, and that their expected products are based on research results.

The investment process starts with Inria TTO’s scouting of potential commercialization projects through their innovation experts, working in close collaboration with researchers in the 8 research centres. Projects are submitted to an internal review process and to a selection committee that is also attended by experts from IT-Translation. For selected projects, Inria’s TTO appoints 1-2 engineers in charge of developing the technology over a 12-18 month period. In parallel, the project team works together with the managers of IT-Translation to develop a business plan (in around 6 months).

The business plan is then submitted to the investment committee of IT-Translation, that may decide to invest a “standard” amount of 300.000€ for each project. The selection is based on multiple criteria, such as a qualitative analysis of the commitment of the entrepreneurial team in launching the company and of the inventors of the technology in commercializing it, the level of maturity of the technology, and the existence of strong IP. IT-Translation also has an agreement in place with a bank, so that projects eligible for the IT-Translation fund also have the opportunity to be granted a loan of the same amount. IT-Translation, as a founding partner, typically takes a 15% stake at company incorporation time which increases to 30% when investing the 300k€.

At a later stage, it supports the investee companies in raising the additional capital needed. This later round also triggers leveraged loans, allowing a total financing amount of up to one million euros. As co-funder of IT-Translation, Inria is committed to submitting all projects to the fund but the decision on whether to invest or not is up to IT Translation. If IT-Translation decides not to invest in the project, Inria tries to identify other potential investors, such as startup studios, or, in the worst case, abandons the project.

Currently, 50% of the start-ups launched by Inria researchers are funded by IT-Translation. Inria’s TTO has established collaborations with a network of other VCs and investors that may decide to co-invest with IT-Translation in the same projects. The strategy adopted by the TTO to access finance for start-up creation is based on the involvement of investors from the very early stages of project development to make them aware of potential opportunities. The early involvement of potential investors offers to Inria also the opportunity to have the projects challenged at a stage where strategic decisions are still to be taken. Inria’s TTO partnership with investors is strengthened also by the direct participation of the Director of Inria Transfer and Industrial Partnerships in the investment committees of 3 investment funds.



### Alignment to PROGRESS-TT:

In the last few years Inria has established 10 start-ups per year. In the last 30 years, Inria's start-ups have shown a survival rate of 75%. When IT-Translation was established, its target was to finance 50 start-ups in 7 years (the fund will be running until 2018 in the investment phase). IT-Translation's current portfolio includes 25 companies, half of which were established to commercialize digital technologies developed by Inria researchers in various sectors: digital media, big data, the Internet of Things, software factories, security and collaboration. Given the recent establishment of the fund, it is still too early to assess its impact. The Fund has however significantly enhanced the growth trajectories and investor readiness levels of Inria start-ups and spin-offs.

This case is a good illustration of the best practice. It relates to "University seed funds" and "Partnership with VC firms and financial investors", included in the PROGRESS-TT Critical Area of Focus 3 "Accessing finance and interacting with financial stakeholders". In this respect, the case of IT-Translation presents several interesting insights. The IT-Translation business model is rather unique in France and applied in Europe to only a few other funds. As a co-founder, IT-Translation is the start-up's first business associate; a dedicated partner team is involved in the everyday development of the business, working on an ongoing basis and offering a wide range of tools and methodologies which suit the pace and needs of the business leaders. The dedicated partner is a resource to help translate the technology into a product (finding usages and product/market fit), and to lead the researchers into the world of business (building the business plan, contributing to the company's organization and providing operational support). The project teams bring a strong mix of industry, entrepreneurship and research knowledge, experience and culture; decisions are taken in close cooperation at each stage. In this regard IT-Translation is a very interesting case because it combines the features of an investment fund with those of a co-founder and it is therefore not only in charge of monitoring the investment but it also supports the creation and development of the new business.

One critical issue that emerges from the experience of Inria is the importance of the management team in the newly created companies. In terms of technologies, Inria has the potential to create more start-up and spin-off companies, but they sometimes lack an adequate entrepreneurial team, because not all researchers are suitable or motivated to undertake business. To tackle this challenge Inria has established collaborations with a network of consulting companies that can support the building of the project team for the start-ups.

The experience of IT Translation suggests that the involvement of public research organizations into seed funding activities might be an important instrument to fill the funding gap, but its level of transferability in other contexts depends on a series of prerequisites that should be carefully considered. Critical prerequisites to directly engage in such type of activities include: an attractive pipeline of high-quality projects for the fund to choose from; an efficient scale of the fund to fuel up the growth of VC-backed ventures; significant business development and financial skills within the TTO and the management team of the fund; long-term vision and trust between the management team of the Fund, the TTO and the PRO management; an important commitment of key public and private stakeholders operating in the tech transfer ecosystems.

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