RISING STAR MONITOR

Providing insight into remuneration and founding team composition of young, high-potential Belgian ventures

Results 2016

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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.

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ACKNOWLEDGEMENTS

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

INTRODUCTION

AN EXPERT PERSPECTIVE

Welcome to the first edition of the Rising Star Monitor, which provides a snapshot of the trends and challenges involved in young, high-potential ventures in Belgium.

Our insights are based on data gathered from 170 young, high-potential Belgian ventures with 370 founders in a wide cross-section of industries. For a more detailed understanding, we have –where relevant– split up our results for high- versus low-growth ambition ventures (HGV versus LGV). Indeed, even though all sampled ventures show some indication of having high growth potential, only around one third of our respondents also indicated having a high growth ambition in terms of their aspired future company size. This group corresponds to what is now often referred to as scale-ups. Hence, potential does not necessarily equal ambition.[1]

In this Monitor, we pay special attention to the topics of founding team composition, their equity split and remuneration.[2] As such, it is the first study to provide insight into questions such as how many founders young, high-potential Belgian ventures have, where co-founders are found, how founding teams split their equity and what equity stake they retain. We also provide detailed information on founders' cash remuneration (e.g., as related to company size and industry).

Overall, the key insights from our study are:

- **Growing by working together** – most high-potential ventures are founded by teams, consisting of prior co-workers. Professional familiarity among co-founders ensures a more realistic and critical look at one another's strengths and weaknesses.
- Founders often adopt a "**we're in this together**" mindset when it comes to structuring their founding teams. Practices such as assigning C-titles to all founders, having co-CEOs, taking strategic decisions in consensus and splitting the equity equally occur frequently. Yet, these practices may be dangerous as they may signal a reluctance to discuss and take difficult decisions among co-founders.
- Half of the teams include a **dynamic aspect in their equity agreements**, mostly in the form of founder buy-out terms, which is encouraging as it helps account for the uncertainty inherent to young ventures' future. Vesting schedules, however, are seldom used.
- **Founders' remuneration package** mainly consists of an annual base salary – variable pay is rare. Starting entrepreneurs need to be realistic though; around 40% of scale-up founders do not pay themselves any kind of cash remuneration in the founding year. Two years later this is still 23%.

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 23.
[2] Throughout this report, *founding teams* refer to teams consisting of at least two founders, unless we explicitly mention otherwise.

"Our goal is to scale-up"

David is the lead founder of Geniefacts and together with his co-founders, Benoît and Brian, he built a platform for data analysis and visualisation. He explains the ambition he has for his venture: "We foster the mind-set of 'thinking big'. It's our belief that this mind-set helps to get the project of the ground faster. We started our company in 2013 and by the end of this year we hope to reach the tipping point for our venture, moving from start-up to scale-up. In particular we will launch an innovative platform to connect, analyse and publish data in a way that is new to the entire world. After the launch, our goal is to grow 10% week by week in terms of number of users. Such radical innovation involves certain risks. We are currently working on the scalability so that our platform is able to support an increased user flow. There are also constraints which need to be taken into account, of which networks and money are the most important ones. Therefore, in parallel with launching our platform online, we hope to attract smart money. We are looking for U.S. investors as 70% of our market is situated over there. This should also help us in further expanding our network that we started to build during our incubation phase at the Founders' Institute (a Silicon Valley incubator). We are not so concerned about copy-cats. The main reason is that our platform is built from the ground up with an architecture and user experience that targets an unaddressed and emerging market of users that seek a better solution for data publication. We continuously anticipate how the market will further evolve and focus on our next goals. The ambition to grow is definitely present in our venture."

FOUNDING TEAM COMPOSITION

One of the earliest decisions entrepreneurs need to make when starting their own business is how to compose their founding teams. This includes deciding on whether or not to look for co-founders, where to look for co-founders and how to divide roles and responsibilities among co-founders.

THE MAJORITY OF YOUNG, HIGH-POTENTIAL VENTURES ARE FOUNDED BY TEAMS OF TWO

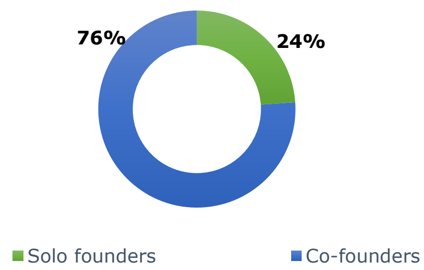
The vast majority of young, high-potential Belgian ventures found their ventures in teams (76%). For most, the advantages of adding more people to the founding team (e.g., diversity and amount of knowledge, network, money) outweigh the costs of doing so (e.g., higher chance of conflict). In a related study of U.S. start-ups, a similar – though slightly higher- percentage of founding teams was found (84%).[3]

Founding teams are especially prevalent in ventures with high growth ambitions (HGV) (85% versus 71% in LGV). This may indicate that the advantages of having co-founders are especially valuable in settings where ambitious ventures operate; the faster and more complex one's environment, the faster one may need access to the additional resources team members bring.

Having two co-founders is most common, regardless of the ventures' growth ambitions. On average, Belgian ventures have 2.3 founders, whereas U.S. start-ups tend to have 2.6 founders. Excluding those who are founded by a single person, teams with multiple founders have 2.7 founders (2.8 for HGV and 2.7 for LGV). Whereas for LGV around 80% of the ventures is founded alone or by duos, for HGV the vast majority tends to be founded by two or three co-founders. In this sense, Belgian HGV follow the pattern of U.S. start-ups more closely than LGV.

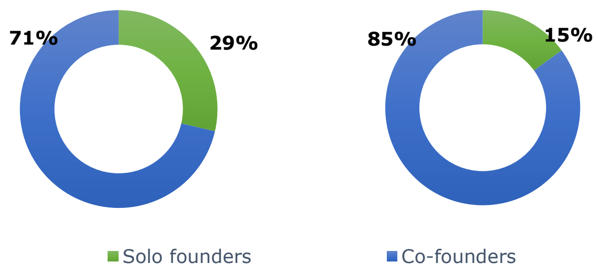
When founding their ventures, entrepreneurs are on average 37 years old. The majority of them are male (85%) and have never founded a venture before (61%). At founding, they on average have 6 years of management work experience and 7 years of work experience in the same industry as the current venture. Entrepreneurs are well educated with one quarter (24%) holding a bachelor's degree and nearly half (49%) holding a master's degree. By the end of 2014, 17% of founders were no longer actively involved in their ventures.

OVERALL, 1 IN 4 VENTURES IS FOUNDED ALONE



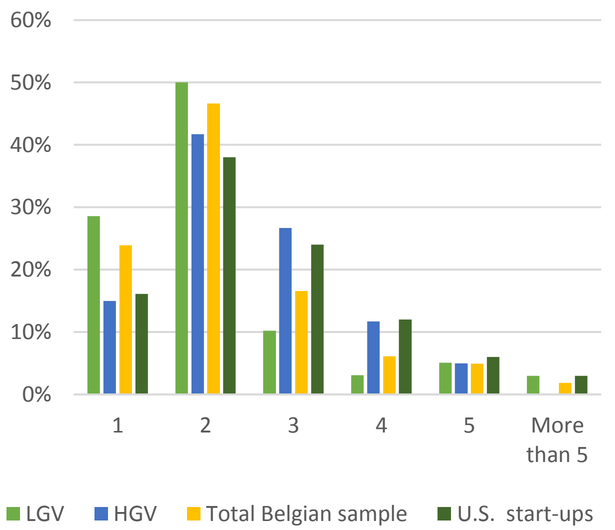
FOUNDING TEAMS ARE MORE PREVALENT IN HGV

% LGV respondents *% HGV respondents*



DUOS ARE MOST POPULAR

% of respondents



[3] Wasserman, N. 2012. *The Founder's Dilemmas*. Princeton University Press, Princeton, NJ.

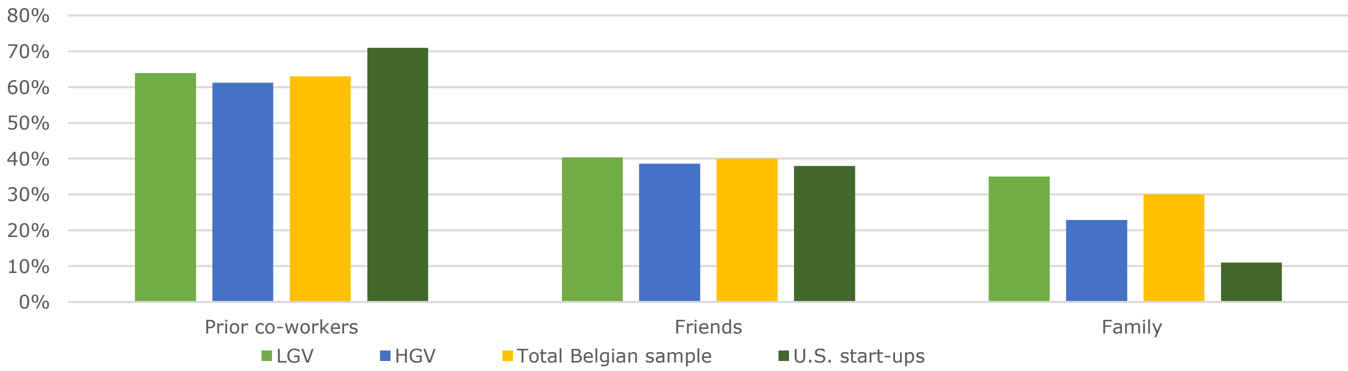
FAMILIARITY RULES WHEN CHOOSING CO-FOUNDERS

Knowing that most ventures are founded by teams, the next question to ask is "Where do people find their co-founders?". The answer, in a nutshell, is: close by. In a staggering 91% of the founding teams there was some kind of prior relationship between at least one pair of co-founders. Prior co-workers, friends and family are the primary sources for finding co-founders. Conversely, this means that 9% of the founding teams are exclusively composed of relative strangers, i.e. people who have not yet worked together or who do not consider themselves as friends or family prior to founding a venture together. Going for familiar people when choosing co-founders is not surprising; there is a basic level of trust and sense of comfort with one another, which are important considerations to make when embarking on the risky venture of founding a start-up.

Among the three familiar options for choosing co-founders, prior co-workers are most popular: 63% of teams have at least one pair of co-founders who have previously worked together. About one third of those have even co-founded a venture prior to starting the current one. This is positive as having worked together before tends to imply a more realistic (and critical) look towards each other's skills and a higher likelihood of having navigated through difficult professional situations before (e.g., work-related conflicts). In all of this, young, high-potential Belgian ventures are no different than U.S. start-ups.[4] Interestingly, HGV are more likely to be founded with prior co-founders than LGV (26% versus 19%), but less likely to be founded with family members (23% versus 35%). This would suggest a more thoughtful stance towards composing founding teams in HGV, i.e. thinking more critically about who the best possible co-founder is versus who the easiest option is.

PRIOR CO-WORKERS ARE THE MAIN ROUTE FOR FINDING CO-FOUNDERS

% respondents



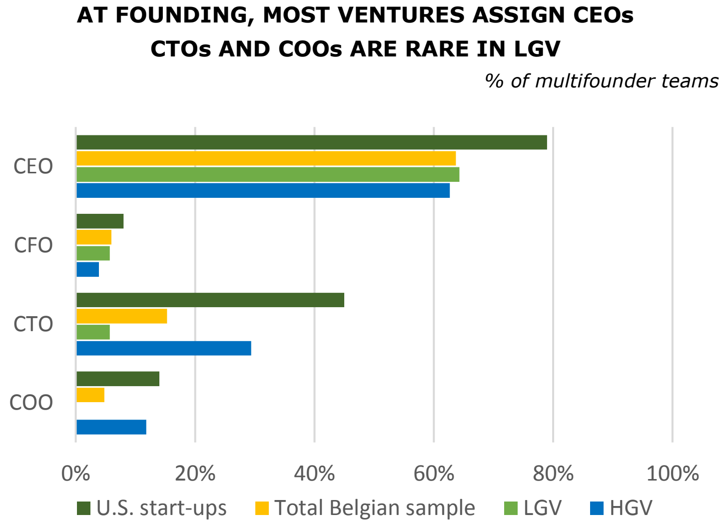
[4] Numbers based on Hellmann, T. & Wasserman, N. 2016. The first deal: The division of founder equity in new ventures. *Management Science*, forthcoming.

“You know your colleagues’ capabilities and reactions”

Luceda, a venture specialized in software and services for engineering teams creating photonic chips, was founded by three prior colleagues together with three people they didn’t know prior to founding. Pieter talks about their decision to found their own venture: “Wim and myself had been working with each other for more than ten years, while Martin joined our team just a few years ago. The three of us had the entrepreneurial mindset. We wanted to do something more with the software we developed during our PhD. Although we had a worldwide network, our market experience was limited to a research perspective so we decided to take additional partners on board. Compared to the co-founders we didn’t know, it’s easier to know your colleagues’ capabilities, to anticipate how they will react to certain events, and to communicate openly. But at the same time, founding a venture is an emotional adventure which means that you cannot that easily draw comparison with previous working relationships. For example, previous roles and seniority might no longer apply once you launch the venture which might take some time getting used to. Specifically in our case where both prior colleagues and new partners joined forces, it’s important to create a level playing field so that everyone has the same understanding. The way to establish this is to communicate as openly as possible.”

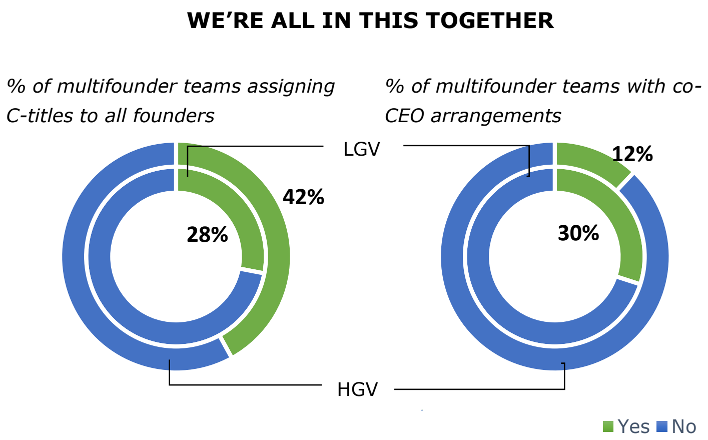
THE MAGIC OF THE C-TITLE

With the founding team in place, the next challenge founders face is deciding on who will take on what role. Quite frequently this translates to: who will get what title? Our survey shows that founders are quite fond of C-level titles: 66% of multifounder teams have at least one founder with a C-level title at the time of founding. 64% have a CEO, 15% have a CTO, 6% a CFO and 5% a COO. Despite Belgian founding teams being keen on handing out C-titles, they are still more conservative in doing so than U.S. founding teams: 89% of U.S. multifounder teams have at least one founder with a C-level title.[5] Compared to LGV, HGV have appointed significantly more COOs and CTOs at founding. This may reflect the relatively more innovative nature of these ventures.



WE'RE ALL IN THE SAME BOAT

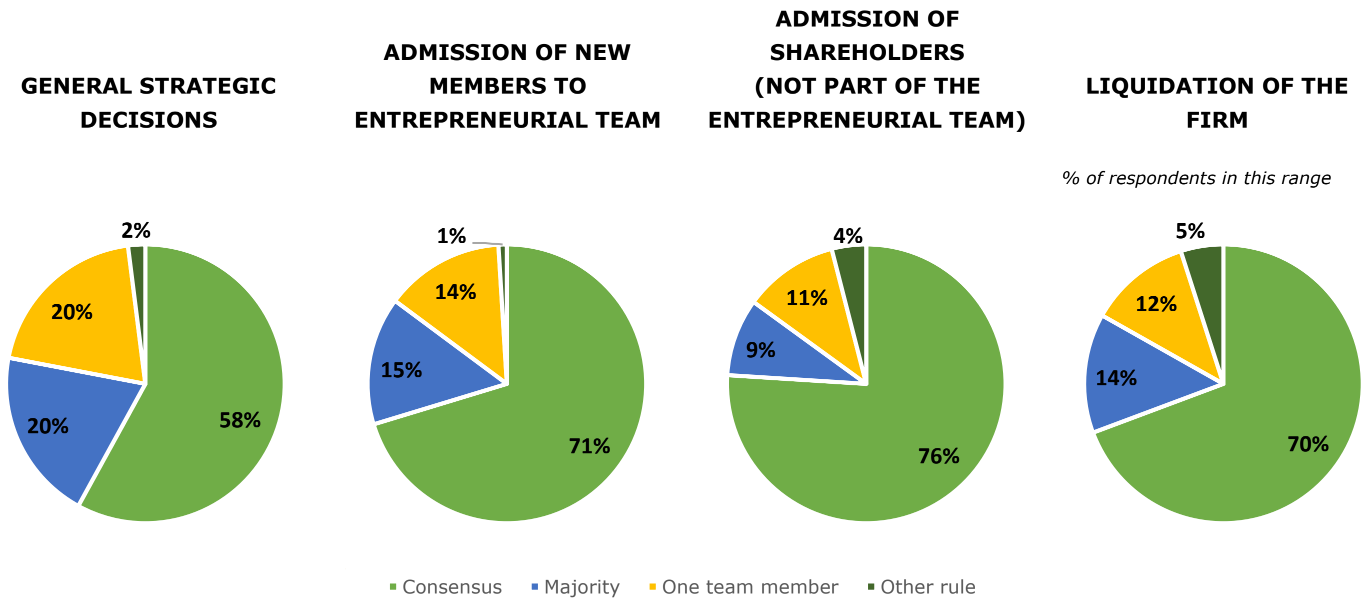
Not only are C-titles for founders widespread, when founders do assign titles, 36% of teams assign C-titles to *all* founders and 22% even assign two CEOs. Interestingly, HGV tend to assign C-titles to all founders more often than LGV (42%), while having two CEOs is relatively more prevalent in LGV (30%). Founders often explain these choices as reflecting "we're all in this together" or because they see no clear reason to differentiate between founders (e.g., based on skills or experience). However, both choices may also signal avoidance towards discussing who should be the boss.



Investors often warn against overusing "C" titles or dual CEOs in young ventures in general. The early stages of a venture's development are so uncertain founders can rarely be sure they will all be able to make the transition to the next phase in the scaling process. Moreover, once titles have been handed out, they are very hard to take away without resulting in conflict, frustration or demotivation. Our survey confirms this as there is relatively little change in titles between founding and 2014.

[5] Wasserman, N. 2012. *The Founder's Dilemmas*. Princeton University Press, Princeton, NJ.

The processes used to reach strategic decisions further support the idea that entrepreneurs tend to stick to their "we're all in this together" mentality. By the end of 2014, most entrepreneurial teams still take strategic decisions by consensus regardless of the type of decision under consideration. Moreover, HGV teams adopt consensus decision-making more often than LGV teams.



"Better to take a (bad) decision than no decision at all"

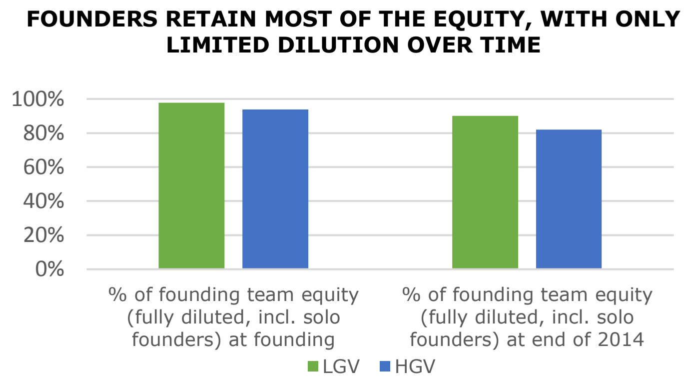
Ismael and Pieter are the co-founders of Ilumen, specialized in products that increase solar panel efficiency on solar plants. Ismael explains how their decision-making process evolved away from consensus decision-making over time: "Initially, we discussed and decided everything together. But as our venture matured, we decided to give each other the necessary decision autonomy within each of our areas of expertise. It increases the clarity of our strategy towards internal and external stakeholders and increases the speed of decision making. Speed of decision making is an absolute necessity to be able to compete in our market. Also, on a personal level, this way of decision making allows us to focus on those topics we feel most passionate about. At the same time, we are aware that our decision process also entails certain risks. One of them is subjectivity, which we try to prevent by consulting each other informally and by involving external experts throughout the process. In the end though, we prefer to take *a* decision rather than no decision at all, even if afterwards the decision turns out to be wrong. Afterwards, we will always reflect and evaluate those decisions, yet there is always the mutual trust that we both act in the best interest of our venture."

FOUNDING TEAM REMUNERATION

Once founders have decided on how to compose their teams, the next challenge they need to resolve is how to reward themselves. In Belgium, and by extension in Europe, notoriously little is known on how founders of young, high-potential ventures split the equity and are remunerated. These decisions are more often based on intuition and what subjectively feels right rather than on benchmarked, objective data. To address this gap, we provide a detailed overview of different types of founder remuneration – of which equity and cash are the most important ones.

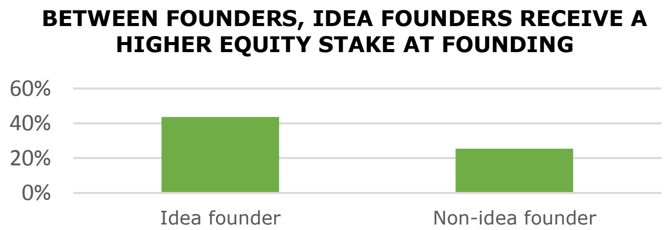
THE FOUNDING TEAM REMAINS IN CONTROL OF THE VENTURE'S EQUITY

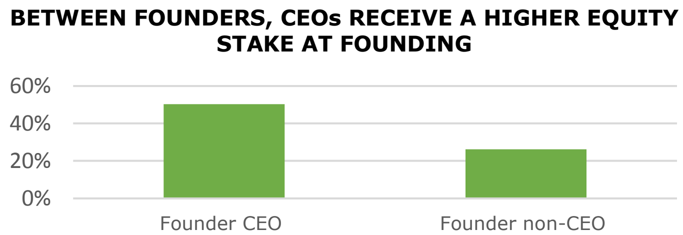
A first important decision is what equity stake to retain. In 80% of the LGV and 66% of the HGV, the founding team retains full ownership. Founding teams retain on average 98% of the equity for LGV and 94% for HGV. By the end of 2014, founding team ownership percentage has decreased to 90% (LGV) and 82% (HGV), with 73% of the LGV and 40% of the HGV teams retaining full ownership. Founders of HGV need to part with a relatively larger slice of their pie than LGV. This may reflect a higher need for external resources for HGV (e.g., equity finance provided by external investors or expertise provided by hired executives). While part of the venture's ownership moves to non-founders over time, founder equity dilution is still relatively limited.



SLICING THE EQUITY PIE BETWEEN FOUNDERS BASED ON PAST AND FUTURE CONTRIBUTIONS

For multifounder teams, deciding on equity stakes also implies deciding on how to split the equity pie among co-founders. In Belgium, the average founder holds 42% of the venture's equity at founding, decreasing to 37% by 2014. How much equity a founder receives is mainly related to his or her past and future contributions to the venture: coming up with the *idea* to start the venture, contributing more founding *capital*, and holding the *CEO* title are linked to having higher equity stakes. Idea founders hold, on average, 44% of the venture's equity, while non-idea founders hold around 25% of the venture's equity at founding. With every additional 10,000 EUR contributed in founding capital, founders receive on average 1% more equity. CEOs hold, on average, 50% of the venture's equity compared to 26% for non-CEOs.





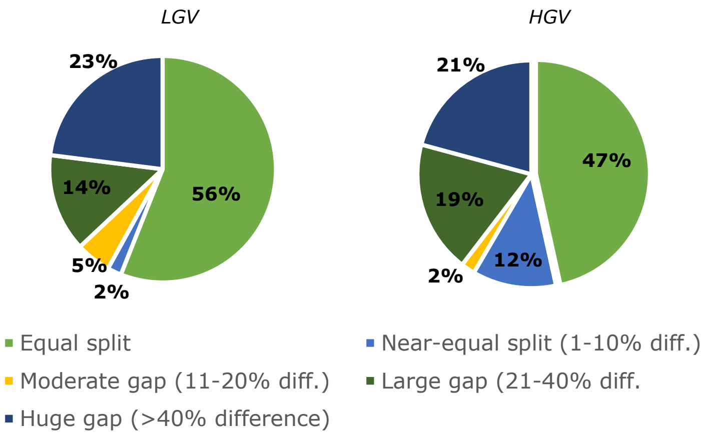
The importance of founders' past and future contributions in determining equity stakes is similar to what was found in U.S. start-ups. In contrast to U.S. start-ups, however, founders' experience (i.e. entrepreneurial, management or industry experience) does not impact equity stakes. This signals a relatively lower concern in Belgium for other key criteria such as founders' opportunity costs when determining equity splits.

EQUAL EQUITY SPLITS ARE COMMON PRACTICE

Belgian founders tend to slice the equity pie based on their contributions to the start-up. As founders likely differ in terms of the contributions (to be) made to their ventures, one would also expect relative divergence in their individual equity stakes.

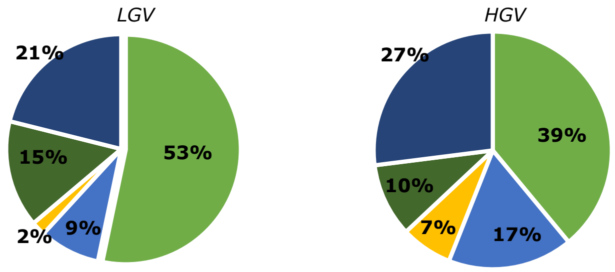
However, in reality, approximately half of the founding teams split their equity equally among co-founders (56% for LGV, 47% for HGV). Almost 60% of all founding teams, regardless of the ventures' growth ambitions, have equal or near-equal splits (i.e. where the difference between the founder with the largest stake and the one with the smallest stake is between 1% and 10%). Belgian founding teams go for (near-) equal splits more often than U.S. teams, where only one in three have equal splits and one in two equal or near-equal splits.[6] This may reflect Belgian founding teams being more homogeneous than U.S. teams or having a more conflict-avoidant mindset. Recent research on U.S. start-ups suggests that equal splitting is more likely among teams where founders are more similar to one another in terms of idea generation (i.e. they came up with the idea together), prior entrepreneurial experience and founder capital contributed.[7] In those cases where founders are relatively similar to one another, the cost of engaging in possibly lengthy and tension-fraught negotiations does not weigh up against the benefit of the simplicity that equal splitting entails.

(NEAR-)EQUAL EQUITY SPLITS ARE PREDOMINANT



By 2014, the proportion of equal splits decreases in HGV, while the proportion of near-equal splits and huge gaps in equity stakes increases. These changes may reflect HGV experiencing more frequent changes in team composition (e.g., founders leaving the venture, reducing their commitment or taking on different roles) as a result of the faster-paced environments in which they operate.

EQUAL SPLITS DECREASE IN IMPORTANCE OVER TIME, MAINLY AMONG HGV

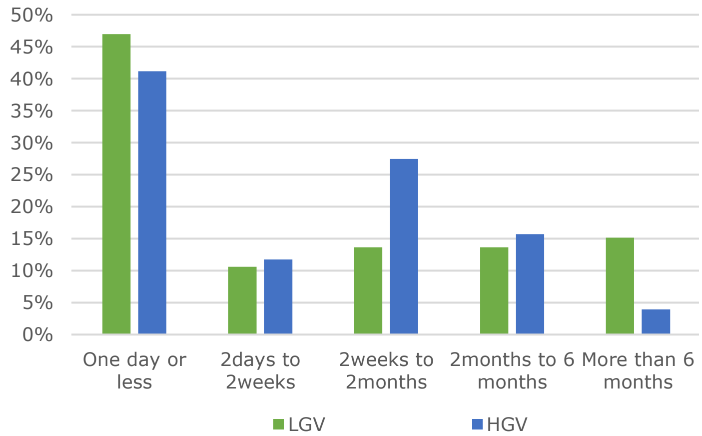


[6] Wasserman, N. 2012. *The Founder's Dilemmas*. Princeton University Press, Princeton, NJ.
[7] Hellmann, T. & Wasserman, N. 2016. The first deal: The division of founder equity in new ventures. *Management Science*, forthcoming.

SPLITTING THE EQUITY IS DONE QUICKLY

The observation that simplicity rules in the founder equity-splitting process is further illustrated by the limited time founders spend on negotiating their equity splits. 44% of teams do this in one day or less (41% for HGV, 47% for LGV). This quick decision-making process reflects that splitting the equity is not often discussed at length. For instance, a quick equal split is justified when founders feel that they are all relatively similar in terms of past and future contributions to the venture. But also the insight that quite different equity stakes should be assigned may come quickly when there are clear and big differences between founders in terms of their inputs.

MAJORITY OF FOUNDING TEAMS SPEND LESS THAN 2 WEEKS NEGOTIATING THEIR EQUITY SPLIT



However, a quick equity-splitting process does not always reflect a carefully thought-through decision. Especially HGV seem vulnerable to the trap of going for quick handshakes. Whereas 41% of all HGV founding teams negotiate their equity splits in one day or less, this increases to 45% for those HGV teams who split their equity equally (as compared to only 39% for unequal splitters). As quick equal splitting has been associated with receiving lower pre-money valuations in first financing rounds, founders should be careful not to fall into this trap.[8] This being said, quick handshakes are significantly more common in U.S. start-ups: 60% of U.S. equal splitting teams do so within one day or less, as compared to 39% for unequal splitters. This bodes well for young, high-potential Belgian ventures.

FOUNDER EQUITY AGREEMENTS ARE NOT SET IN STONE, BUT THERE IS ROOM FOR IMPROVEMENT

When reading advice to founders on how to go about the equity splitting process, one often recurring piece of advice is to think about the future, rather than just focusing on the past. While founders' past contributions are easier to assess, it is important to recognize that the future is uncertain – both for the venture and for the individual founders concerned. Over time, for instance, a venture's core idea and underlying business model often change. This may require new, previously absent skills in the venture's leadership, but may also make other, already present skills of founders obsolete or less important. Similarly, personal circumstances of founders may change (e.g., becoming ill or losing one's passion for the venture). These uncertainties need to be taken into account when initially splitting the equity among founders.

Using dynamic equity agreements is an important tool founders can rely on to deal with such uncertainties. Specifically, dynamic agreements include provisions, such as buy-out terms and vesting schedules, which allow founders to take into account possible changes the venture and the team may go through.[9] Like their U.S. counterparts, just over half of young, high-potential Belgian ventures includes some type of dynamic aspect in their founder equity agreements. This is good news, but also shows clear room for improvement.

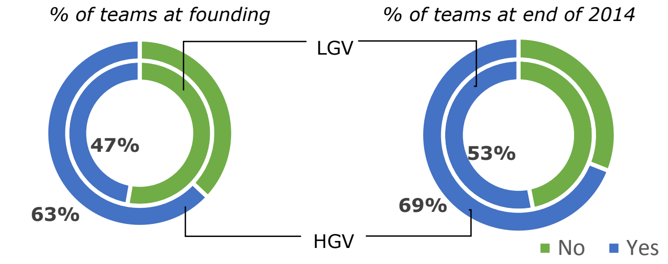
[8] Hellmann, T. & Wasserman, N. 2016. The first deal: The division of founder equity in new ventures. *Management Science*, forthcoming.
[9] Note that these provisions may also apply to shareholders in general, but for this report we focus on founders only.

BUY-OUT TERMS – refer to terms regarding the transfer of founder shares, such as in the case of a founder leaving the venture (voluntarily or forced) or taking on a different role in the venture. At founding, half of the multifounder teams include such terms in their equity agreements. For HGV, this percentage even goes up to 63%. Two to three years later (i.e. by 2014) slightly more teams include such terms. Buy-out terms are mostly included on the initiative of founders themselves (79%), but sometimes also on the initiative of external advisors such as accountants or notaries (23%) or external investors (11%).

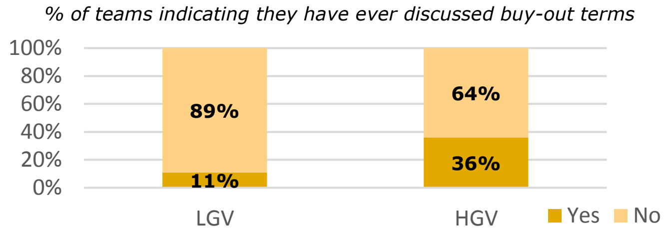
While founders can add buy-out terms later on, it is still preferred to do so as quickly as possible – i.e. ideally when deciding on the initial split. The earlier founders have these discussions the less there is at stake and the easier it should be to negotiate these terms. Think of discussing divorce terms. While always unpleasant, they are typically easier to discuss when one is just about to get married than later down the road when one might already feel things going haywire. Taking this into account, it is worrying that among those teams that do not have buy-out terms, the vast majority has also never even discussed including them (89% for LGV, 64% for HGV).

VESTING SCHEDULES – Vesting schedules imply that founders become entitled to the benefits of ownership over time, i.e. they earn their equity stake over time. This may take the form of options or warrants to acquire shares that only become exercisable over time (time-based vesting) or by achieving pre-defined milestones (performance-based vesting). While highly recommended as an incentive for all founders to keep on contributing and as a safeguard against potential free-riding behaviour, vesting is hardly ever used in Belgium. Only three (HGV) founding teams use vesting schedules at founding. While some more introduced them by the end of 2014, their number is still negligible. Like with buy-out terms, of those teams that do not have vesting schedules, 94% also never discussed potentially including them (98% for LGV, 88% for HGV). When founding teams do use them, vesting schedules are typically introduced on the initiative of investors.

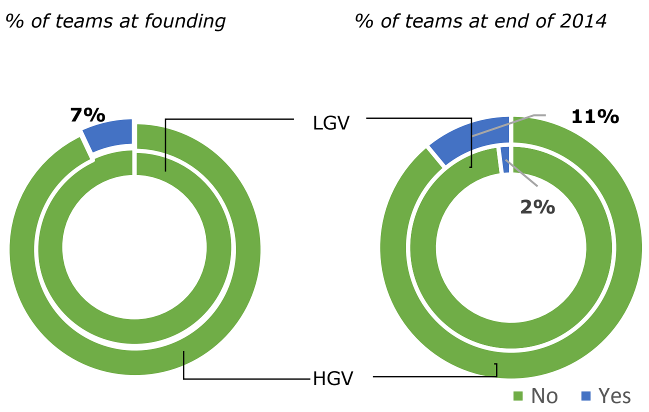
BUY-OUT TERMS ARE MORE COMMON AMONG HGV



TEAMS WITHOUT BUY-OUT TERMS ALSO TYPICALLY DO NOT DISCUSS INCLUDING THEM



MOST VENTURES DO NOT USE VESTING



Of those founding teams that do use vesting schedules by the end of 2014, one relies on performance-based vesting only, two on time-based vesting only, and the rest on a combination of both. Those relying on time-based vesting usually install a vesting period of four years with a fraction of the granted equity becoming exercisable with each passing year (i.e. *graded vesting*). Those relying on performance-based vesting combine financial and non-financial milestones. Examples include achieving sales targets or successfully expanding into new cities.

In summary, on the bright side, half of young, high-potential Belgian ventures include some type of dynamic aspect in their founder equity agreements – most typically in the form of buy-out terms. However, a significant other half does not include any type of dynamic option and -even more problematic- rarely even discusses the possibility of doing so. This signals a lack of consideration or awareness of the importance of taking into account the uncertain future when deciding on founders' equity agreements.

"Good agreements make good friends"

Christoph Michiels, partner at Laga, shares his advice as a lawyer focusing on early stage ventures: "Relatively few teams bother about legal documentation at founding. They rather focus their energy and passion in chasing and hopefully realizing their dream. You cannot blame them: what is the purpose of having waterproof legal documentation without a viable project. This being said, one would be surprised about the number of promising projects that do get frustrated due to a lack of understanding and some basic legal framework amongst the founders. Therefore, I recommend all founding teams to discuss at least a minimum agreement without making it overly complex or detailed. One of the key topics that should be addressed is the allocation of shares and the (non-) transferability of the shares. Although shareholders stability is the primary goal, any share transfer arrangement will typically also include buyout terms just in case a founder would decide to leave or be forced to leave, by the others or due to unexpected circumstances such as illness or death. These arrangements are also referred to as "good leaver" or "bad leaver" provisions. It is up to the founders to define what is "good" and what is "bad" and how this will affect the price of the shares. Buyout provisions can be combined with vesting schedules which can be time or performance based. As an example: a founder receives 100 shares at incorporation. If s/he leaves in the first year then the buyout terms apply to all shares, but if s/he leaves in the second year then the buyout terms only apply to 75 shares. This means that the founder can keep 25 shares if s/he wishes. There are numerous ways to tailor these provisions to what the founders believe is right for them. In any case, having a clear agreement not only offers a solution in case of conflict but more importantly I am convinced that it decreases chances of conflict and signals to investors the capability of management to tackle tough problems."

"All founders should at least talk about vesting before founding"

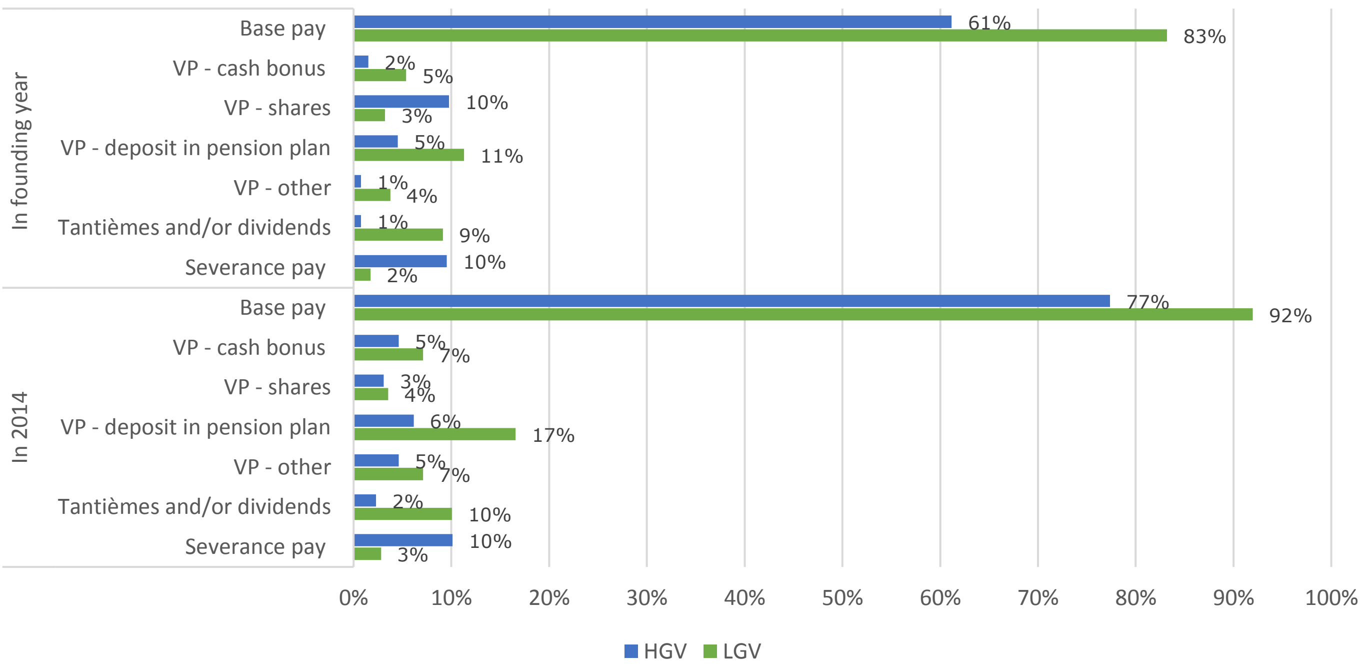
Dieter, Jonathan and Martijn are co-founders of Datacamp, an online learning platform for data science. Before founding their venture, upon the advice from experts to develop a dynamic equity agreement, they included buyout and vesting provisions. Dieter explains: "we want to avoid the situation that someone leaves the venture while still holding one third of company's equity. If someone would leave then we would need to buy that person out for the percentage of equity that he has vested. Fortunately, we haven't applied this yet as the three of us are still active in the venture. Nevertheless, we already experienced other advantages of having such provisions, in particular in our search for and negotiations with equity investors. If you are able to present such equity agreement it creates a perception of professionalism, for sure! I can't think of a single disadvantage, except for the lawyers' costs which you need for the technicalities. But the benefits by far outweigh the costs. A take-away for other founders is to at least have this conversation before founding. Simply talking about it might reveal the true motivations of co-founder(s)."

GOING BEYOND EQUITY: FOUNDER REMUNERATION PACKAGE MAINLY CONSISTS OF BASE PAY, YET MANY FOUNDERS DO NOT EVEN HAVE THAT

Next to equity compensation, founders may get an annual remuneration in different forms. If anything, most founders of high potential ventures simply receive a base pay; variable pay (VP) is rarely used. Even when it comes to base pay though, about 40% of HGV founders and 15% of LGV founders do not receive anything in the founding year. Two years later (i.e. in 2014), still 23% of HGV founders do not pay themselves a base salary. This finding is consistent with young ventures typically being cash-constrained in their early years and hence founders simply not being able to pay themselves a salary. Instead, most founders count on (or have to count on) their equity stakes as their main source of *future* uncertain financial reward.

Variable pay, if used, mainly comes in the form of shares or pension plans. One in ten HGV founders receives shares as variable pay in the founding year, whereas 11% of LGV founders receive a deposit in their pension plan. The latter also increases in popularity as ventures mature. Directors' fees or dividends are used by one in ten founders of LGV ventures, which might be driven by a potential higher short-term profitability of LGV ventures or to HGV founders preferring to reinvest any profit they make into their ventures. Finally, severance pay is more often used among HGV founders: 10% of HGV founders are entitled to severance pay from the founding year onwards. The number of months' severance pay ranges from one to twelve months (with an average of five months).

BASE PAY RULES OVERALL. IN THE FOUNDING YEAR, AROUND 40% of HGV FOUNDERS DO NOT TAKE ANY BASE PAY.

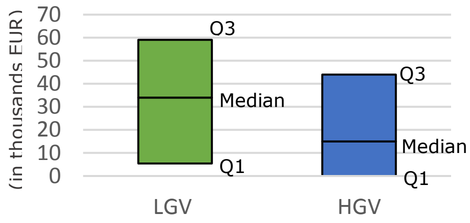


VALUE OF BASE PAY IS LOW, BUT HIGHER FOR LGV FOUNDERS THAN HGV FOUNDERS

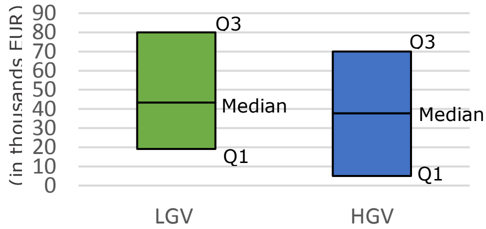
As the main remuneration for founders is base pay, the next important question is: how much do they receive? On average: not much. While LGV founders pay themselves approximately 44,000 EUR in the founding year, HGV founders only get 31,000 EUR.[10] Moreover, half of the founders (i.e. median in the graph on the right) pay themselves less than 34,000 EUR in LGV and 15,000 EUR in HGV. Even more extreme, 39% of HGV founders have no base pay at all. For both LGV and HGV founders the minimum base pay is 0 EUR at founding. The maximum base pay is higher for LGV founders (250,000 EUR) than for HGV founders (180,000 EUR) in the founding year.

From founding to 2014, base pay increases to 61,000 for LGV founders (i.e. three years after founding on average) and 45,000 EUR for HGV founders (i.e. two years after founding on average). Median base pay in 2014 is 43,000 EUR for LGV founders and 38,000 EUR for HGV founders. Although the minimum base pay for LGV and HGV remains 0 EUR in 2014, the maximum base pay is now higher for founders in HGV (540,000 EUR) than it is in LGV (330,000 EUR).

IN THE FOUNDING YEAR, LGV FOUNDERS PAY THEMSELVES A HIGHER BASE PAY THAN HGV FOUNDERS



FOUNDERS' BASE PAY INCREASES OVER TIME



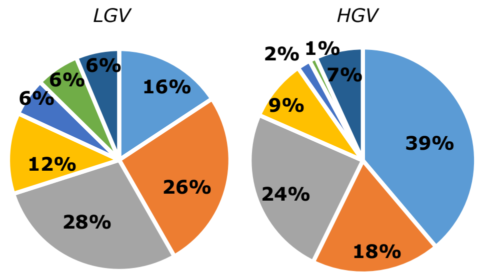
FOUNDERS' TOTAL CASH REMUNERATION FOLLOWS THE SAME PATTERN AS BASE PAY: INITIALLY LOW, BUT INCREASES OVER TIME

Next to founders' base pay, we also examine their total cash remuneration package.[11] In line with the overall composition of founders' remuneration package (page 17), about 40% of HGV founders and 15% of LGV founders do not receive any kind of cash remuneration in the founding year (i.e. neither base pay or other forms). Around three quarters of LGV and HGV founders remain under the 50,000 EUR threshold. These results are similar to those for founders elsewhere in the world: 66% of founders in Silicon Valley, 72% in Berlin, 74% in London, and even 79% in Toronto pay themselves less than 50,000 USD.[12]

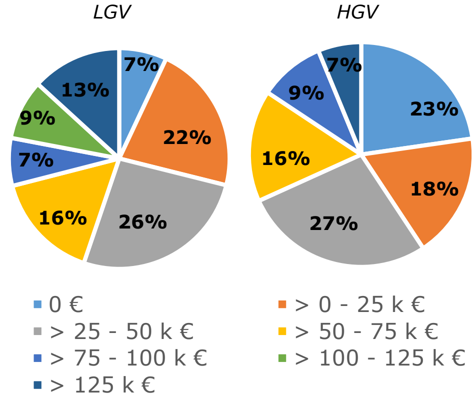
As with base pay, total cash remuneration increases over time. The percentage of founders who receive no cash remuneration decreases significantly. However, still 14% of founders in young, high-potential ventures (23% in HGV and 7% in LGV) do not receive any kind of cash remuneration two to three years after start-up.

There is also a small, but remarkable, percentage of founders with high amounts of total cash remuneration - especially in LGV. 12% of LGV founders pay themselves more than 100,000 EUR in the founding year. This percentage increases to 22% in 2014. In HGV only around 7% of founders reward themselves with similarly attractive cash remuneration packages. Again, these relatively low percentages correspond to results found elsewhere in the world: the percentage of founders paying themselves more than 100,000 USD amounts to 16% in Silicon Valley, 4% in Berlin, 6% in London, and 4% in Toronto.[13]

IN THE FOUNDING YEAR, ¾ OF FOUNDERS RECEIVE LESS THAN 50K EUR IN TOTAL CASH REMUNERATION



BY 2014, AVERAGE TOTAL CASH REMUNERATION INCREASES, YET STILL 14% RECEIVES 0 EUR



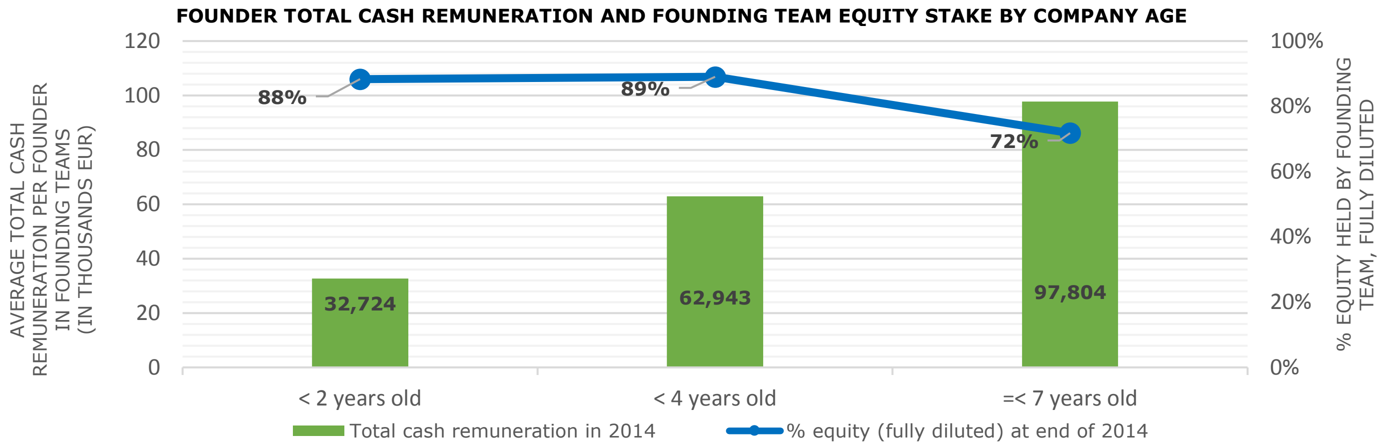
[10] The value of base pay is calculated on a yearly basis in full-time equivalents. This base pay can either take the form of a fee billed to the founder's management company or the sum of the gross base pay and fringe benefits (if any) the founder receives (as an employee). Bonuses are excluded.
[11] Total cash remuneration is calculated on a yearly basis in full-time equivalents. It represents the sum of all founders' base pay, cash bonus, deposits in pension plan and tantièmes or dividends (if applicable).
[12] Source: http://thenextweb.com/insider/2014/01/14/salary-founder-favorite-startup-get-probably-high-one/#gref
[13] Source: http://thenextweb.com/insider/2014/01/14/salary-founder-favorite-startup-get-probably-high-one/#gref

FACTORS INFLUENCING FOUNDING TEAM REMUNERATION

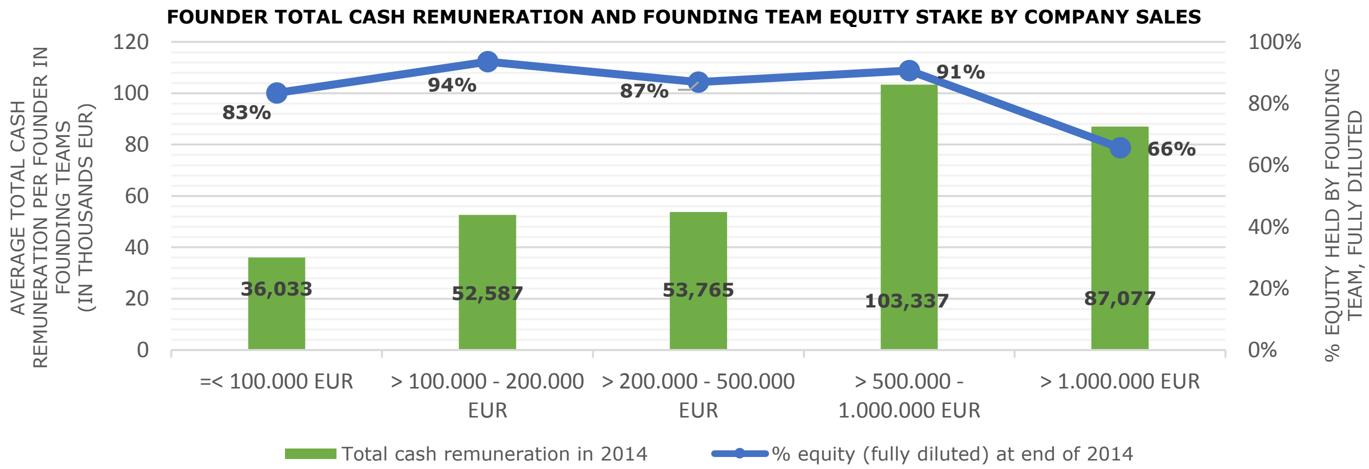
Having provided a crucial first insight into founder remuneration in Belgium, this section will dig deeper and explore factors that explain variations in both equity and cash remuneration across young, high-potential ventures. Company age, sales, type and industry are all related to founding team remuneration. No prominent differences exist in these patterns for HGV versus LGV. Independent of these factors, an overall pattern that clearly appears is a compensatory effect between total cash remuneration and equity stakes: founding teams with higher levels of cash remuneration have typically lower equity stakes.

CASH REMUNERATION INCREASES, BUT EQUITY STAKE DECREASES WITH COMPANY AGE AND SALES

As ventures mature, the total cash remuneration of an average individual founder increases, while the founding team's equity percentage decreases. The figure below illustrates that founders of the youngest ventures receive on average 33,000 EUR in total cash remuneration, while those of the oldest ventures receive almost three times as much (98,000 EUR). Whereas founding teams in the youngest ventures retain 88% of the venture's equity, the oldest teams only retain 72%.

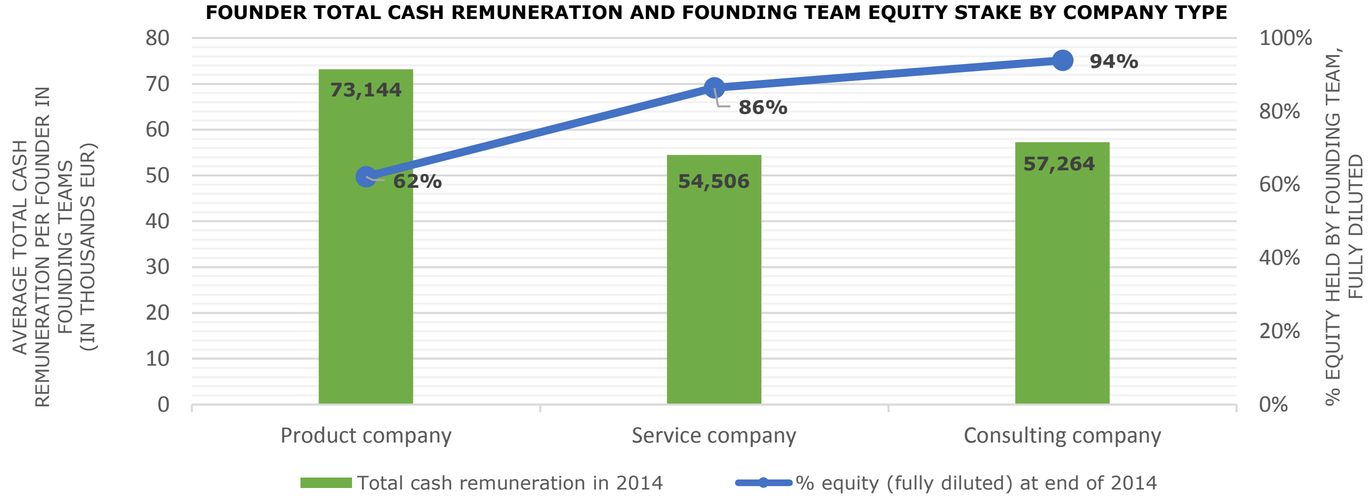


A similar pattern occurs when companies grow in size: as sales increase, founders tend to pay themselves more, but the founding team's equity stake tends to decrease. Founders of companies with sales between 500,000 EUR and 1,000,000 EUR earn three times as much (103,000 EUR) as those with 100,000 EUR in sales or less (36,000 EUR). Interestingly, founders in companies with sales of more than one million EUR earn a bit less, on average only 87,000 EUR. Founding teams active in companies with sales below 1 million EUR are able to retain more than 80% of their equity. Yet, when sales grow larger, founders' equity drops to 66% on average.



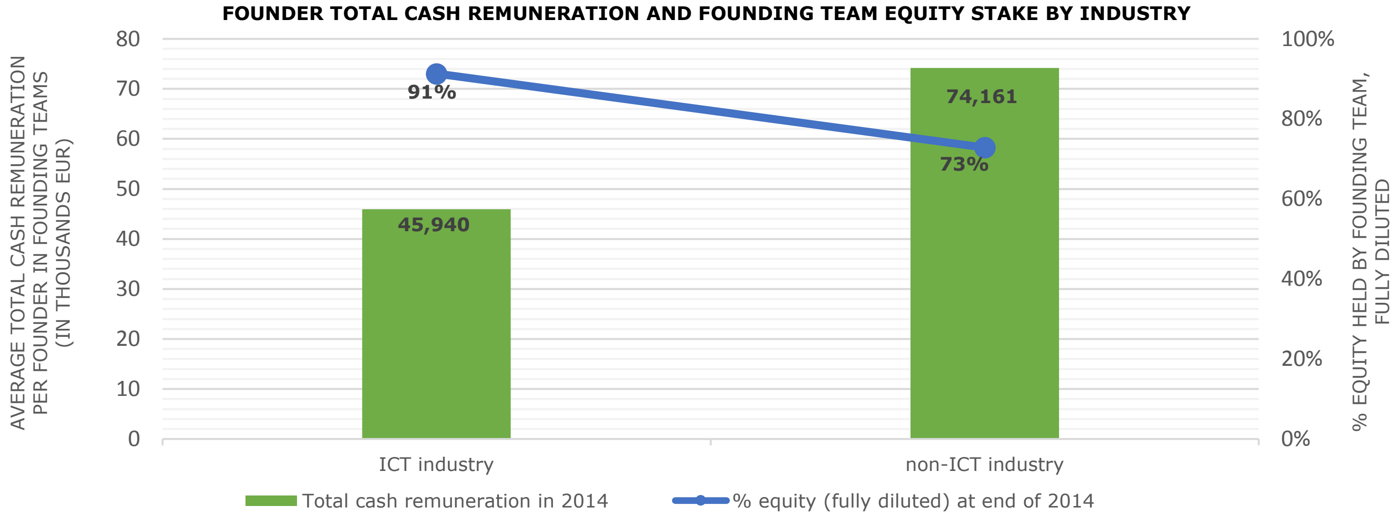
FOUNDERS OF PRODUCT COMPANIES EARN THE MOST, BUT HAVE THE LOWEST EQUITY STAKES

Founders in product companies, i.e. those with at least 50% of their sales stemming from products, have a significantly more attractive total cash remuneration package of 73,000 EUR than those of consulting or service companies (57,000 EUR and 55,000 EUR, respectively). Just like with sales and age, a seesaw effect is in effect for cash versus equity remuneration: whereas founding teams of product companies have the highest cash remunerations, they also have the lowest equity stakes. Founding teams of consulting companies retain 94% of the company's equity at the end of 2014, compared to 86% in service companies and only 62% in product companies.



FOUNDERS IN THE ICT INDUSTRY PAY THEMSELVES LESS THAN THOSE IN OTHER INDUSTRIES

While ICT founders earn on average 46,000 EUR, non-ICT founders earn on average 74,000 EUR. In exchange though, non-ICT founding teams release on average 30% of their company's equity to non-founders by the end of 2014 as opposed to only 9% for ICT founders.



OPPORTUNITIES AND CHALLENGES

Starting a venture is one thing; moving that venture beyond the start-up stage into the stage of rapid growth is quite another. Deciding on founders' remuneration packages is one key issue young ventures have to deal with on their path to rapid growth. The decisions must be fair and transparent to all individuals concerned; if not, they will likely cause frustration and conflict and may lead to founders drifting apart. Moreover, careless decisions in this department may also create an impression of unprofessional and naïve behaviour on the part of potentially important outsiders, such as investors.

A highly commendable practice among young, high-potential Belgian ventures is the fact that half of them have made dynamic arrangements on co-founders' equity stakes, that take into account the uncertain, and potentially less rosy future. Ventures change course, but also co-founders may decide later down the road that they want to embark on another adventure, or take on a different role or prefer getting paid in cash rather than holding onto equity. Discussing such scenarios and what each would consider fair in those circumstances early on and writing that down is appropriate.

Our study, however, also reveals some practices which require attention. For instance, when ventures do assign titles they tend to hand them out to *all* founders. However, one should consider to what extent all founders really merit that particularly title from the get-go. For example, a technical co-founder responsible for the initial coding of the core software of the venture, while crucial to the start-up, is not necessarily the person who will lead and build up the technology roadmap of the venture along with putting in place the required infrastructure to do so. Nor will this person necessarily want to do so. Both cases would warrant caution in assigning that person the CTO title at founding. Figuring this out requires open and frank discussions about how each founder sees his or her contribution to the future growth path of the venture.

It also requires a discussion about how co-founders see the decision-making culture in their venture. Combining the prevalence of consensus-based decision making with practices like having two CEOs or assigning all founders with a C-title hints at some teams preferring to avoid assigning a clear decision-maker. Yet, there can be lots of people in the kitchen, but there can only be one head chef. Especially once ventures scale up, others (like employees and investors) need to know who to turn to as the final and key decision-maker. This is not to say that equalitarian decision-making structures in founding teams never work; it might, but it requires a frank, open discussion on the reasoning behind this setup early on.

Jokingly, founders will often say they feel like real entrepreneurs now that they are not getting paid. Indeed, Peter Thiel, famous co-founder of Paypal and early investor in Facebook (a.o.), considers a low CEO salary as one of the best predictors of start-up success as it avoids unnecessary early cash burn. It gives an indication of what the real mission of the venture is: collecting cash versus building an innovative product. Two years after founding, around 70% of scale-up founders still earn less than 50,000EUR per year – of which, 23% even earning nothing at all. When embarking on a venture, founders should be aware that for most a flood of money gushing their way is still far away.

To provide more detailed information, a series of research briefs will be published covering the following topics:

- **Founder exit**: *when, why and how do founders leave their venture?*
- **Female entrepreneurship**: *how many women entrepreneurs are there and what type of ventures do they (co-)found? What is the pay gap between male and female entrepreneurs?*
- **New venture hiring**: *when, why and whom to hire? How much equity and cash remuneration do non-founding executives earn?*
- **Titles**: *which founder gets a c-level title and how much do c-level founders earn?*
- **Family start-ups**: *how do they differ from non-family start-ups?*

These briefs are available on
www.vlerick.com/risingstarmonitor

FINAL THOUGHTS

We hope that this first edition of the Rising Star Monitor is helpful to entrepreneurs who would like to start a business and are ready to scale up. In this first edition of the Rising Star Monitor we tried to create insight in answers on the most frequent questions we get from entrepreneurs of fast growing companies.

The study confirms that a great idea is not sufficient to build a great company. The (founding) team is crucial for the success of the company. Hence, it is also very important to organise the team optimally. The study shows that prior co-workers seem to be a good start for professional success. However, the decision process should be flexible and pragmatic in order to ensure quick but solid decisions. This also accounts for how the equity agreements are agreed amongst founders in order to prevent dilution and / or blocking minorities. Finally, founders should be realistic about their salary expectations in the early days of their venture.

This study will definitely help Deloitte in better answering these questions from high potential entrepreneurs.

Nikolaas Tahon

Managing partner of Deloitte Accountancy

APPENDIX I : METHODOLOGY AND SAMPLE CHARACTERISTICS

METHODOLOGY

We conducted a survey among young, high-potential ventures in Belgium between October 2015 and February 2016. The questionnaire resulted in 170 participating ventures, with data on 370 founders.

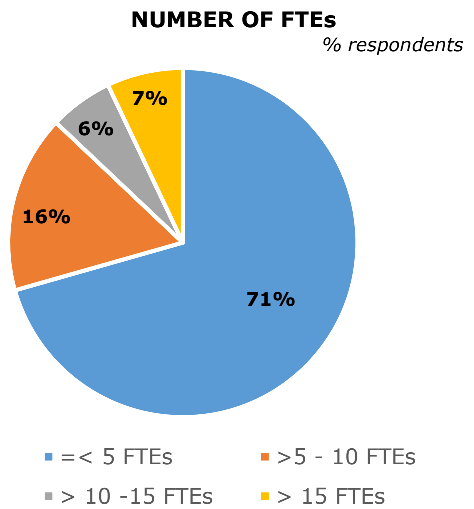
To identify active young, high-potential ventures we used several criteria. Young implies that ventures had to be less than seven years old at the end of 2014 (01/12/2014). High-potential ventures were selected based on -among others- the venture's industry (e.g., IT, life sciences, and energy) and/or its financing sources (e.g., received funding from business angels, venture capital, or crowdfunding).

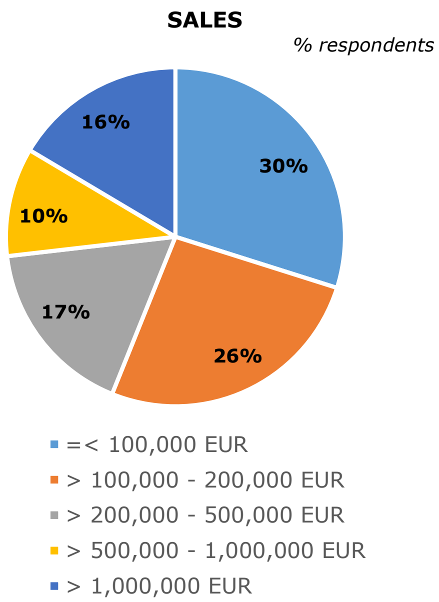
We received 363 responses of ventures from all over Belgium. We removed a.o. those responses with less than one full-time employee if the company is older than 3 years, and those with extremely low growth ambitions – giving us 170 responses in total[14].

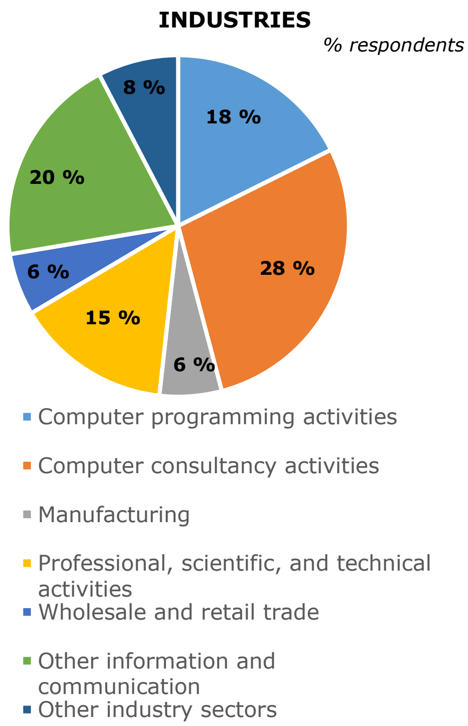
ABOUT THE RESPONDENTS

85.7% of our respondents are the CEO of their venture and 94.1% are founders. By the end of 2014, the ventures in our sample, on average:

- Were 2.6 years old
- Covered a wide variety of industries
- Had 6.5 full-time employees, of which 2.2 were self-employed yet substantially involved in the venture
- Realized approximately 670,000 EUR in sales







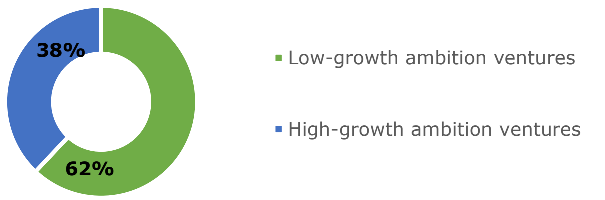
[14] The actual number of respondents may be lower for certain questions, because some questions were left open, or questions do not apply for certain ventures.

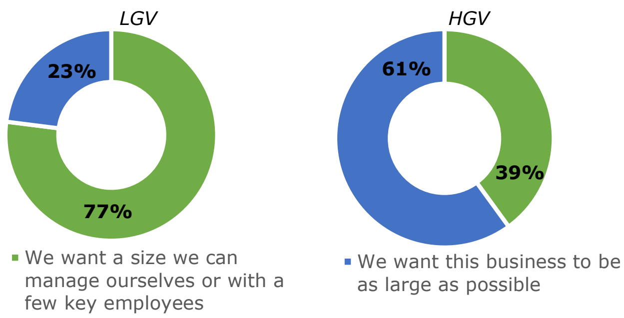
GROWTH POTENTIAL DOES NOT NECESSARILY EQUAL AMBITION

While we sampled our Belgian ventures on having high growth potential, we found that ventures with high growth *potential* do not necessarily have the *ambition* to become high-growth ventures. On average, our respondents aim to hire 18 new employees and increase sales with 5.3 million EUR in five years from now. Based on a median split of the relative difference between aspired and current company size, we split our respondents into high- (38% of the sample) versus low-growth ambition (62%) ventures (HGV versus LGV).[15]

Further supporting the validity of our split-up between HGV and LGV, we see that 61% of entrepreneurs of HGV want their business to be as large as possible, whereas this is only 23% for entrepreneurs of LGV. The vast majority of the latter category rather prefer a business size they can manage themselves or with a few key employees.

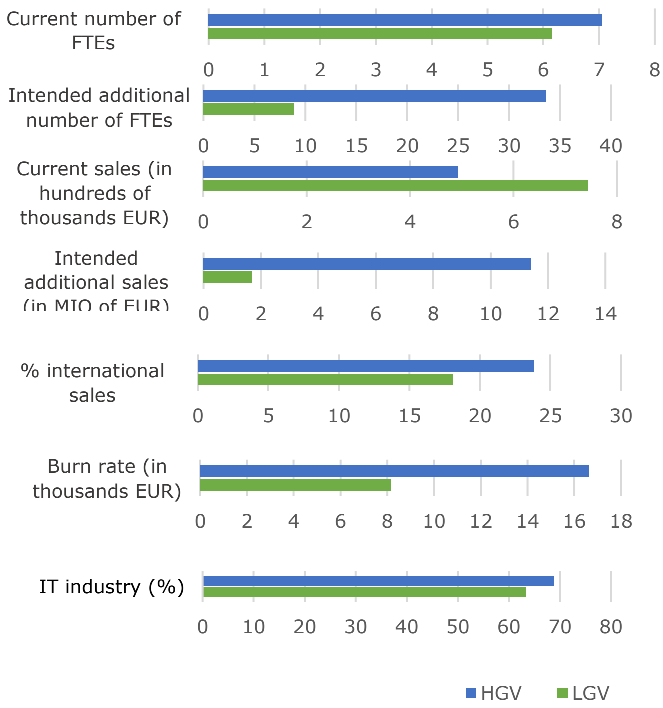
ABOUT 1/3 OF HIGH-POTENTIAL VENTURES ALSO HAVE HIGH GROWTH AMBITIONS





COMPANY CHARACTERISTICS OF HGV AND LGV

- **CURRENT AND INTENDED EMPLOYEE SIZE[16]** - HGV have one more full-time employee than LGV (7 versus 6). Five years from now HGV want to grow their employee base with another 34 people (versus only 9 for LGV).
- **CURRENT AND INTENDED SALES SIZE -** whereas current sales for LGV and HGV are relatively similar (around 500k EUR for HGV versus 750k EUR for LGV), HGV want to increase their sales with a staggering 11.4M EUR in five years from now (versus only 1.7M EUR for LGV).
- **INTERNATIONALISATION** – HGV are more international than LGV; they currently realise 24% of their sales internationally versus only 18% for LGV.
- **BURN RATE** – HGV are more cash-intensive than LGV as their monthly average burn rate is twice as high.
- **INDUSTRY** – both LGV and HGV are mainly active in the IT sector.



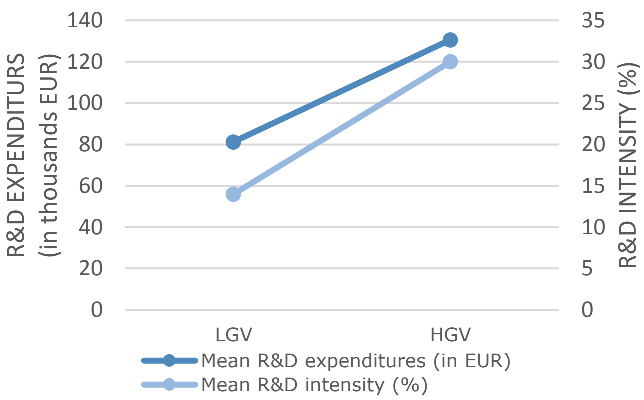
[15] Median values are 1.33 and 3.70 for employee and sales growth ambition, respectively. All companies scoring higher than or equal to the median for both employee and sales growth ambition are categorized as high-growth ambition companies. All other companies are categorized as low-growth ambition companies.
[16] Current refers to the venture's situation at the end of 2014. Unless noted otherwise, we report averages.

HGV ARE MORE INNOVATIVE THAN LGV

HGV are clearly more innovative than LGV; they have higher R&D expenditures, higher R&D intensity, introduce more new products and services and have a more innovative business model.

- **R&D EXPENDITURES/INTENSITY** - HGV have substantially higher R&D expenditures (approximately 130,000 EUR) than LGV (81,000 EUR). Their R&D intensity (R&D expenditures/ sales) is also twice as high (30% for HGV versus 14% for LGV)

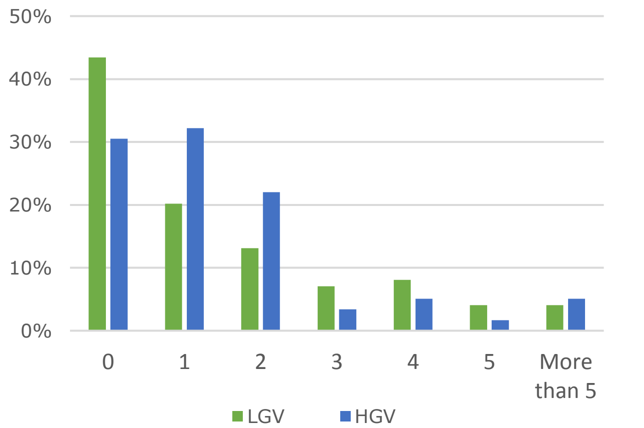
HGV SPEND MORE MONEY ON R&D AND DO SO MORE INTENSIVELY THAN LGV



- **NEW PRODUCTS/SERVICES** - the majority of young, high-potential ventures (61%) introduced at least one new product or service in 2014. However, HGV introduced far more new products or services (7.3) than LGV (2.9).

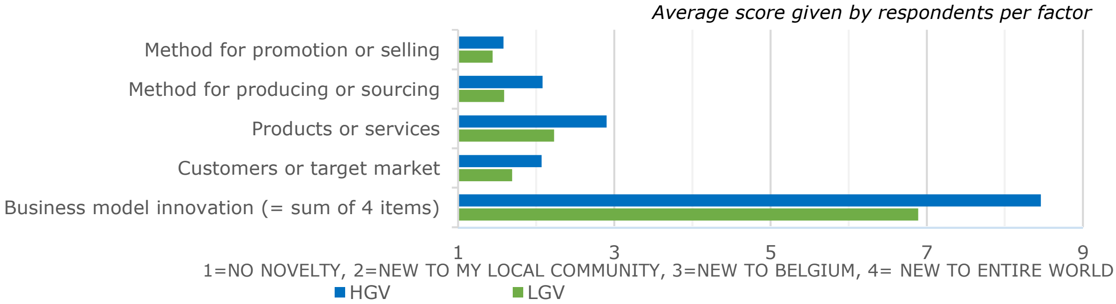
HGV INTRODUCE FAR MORE NEW PRODUCTS AND SERVICES THAN LGV

% respondents



- **BUSINESS MODEL INNOVATION** – regardless of the specific business model dimension considered, HGV consider themselves more innovative than LGV. Additionally, 56% of HGV - compared to 22% of LGV – state that they introduce novelty to the entire world for at least one of the business model dimensions.

Average score given by respondents per factor



LOOKING OUTSIDE: BRINGING INVESTORS INTO THE VENTURE

LGV and HGV also differ in their financing structures. First, each individual founder invests more personal money in HGV compared to LGV (30,000 EUR versus 18,000 EUR). Second, HGV more often rely on external financing sources; most notably, HGV rely on subsidies and external equity investors more often than LGV. Overall, the results indicate the following trends in the financing landscape for young, high-potential ventures:

FAMILY, FRIENDS, FOOLS - remain an important source of money for young, high-potential ventures, even more so for HGV than for LGV. Moreover, in line with tradition it also remains one of the earliest sources of money.

BANKS – the average venture receives bank financing within one year after founding, indicating a strong interest of banks in financing young, high-potential ventures. Interestingly, more LGV receive bank financing than money from family, friends or fools.

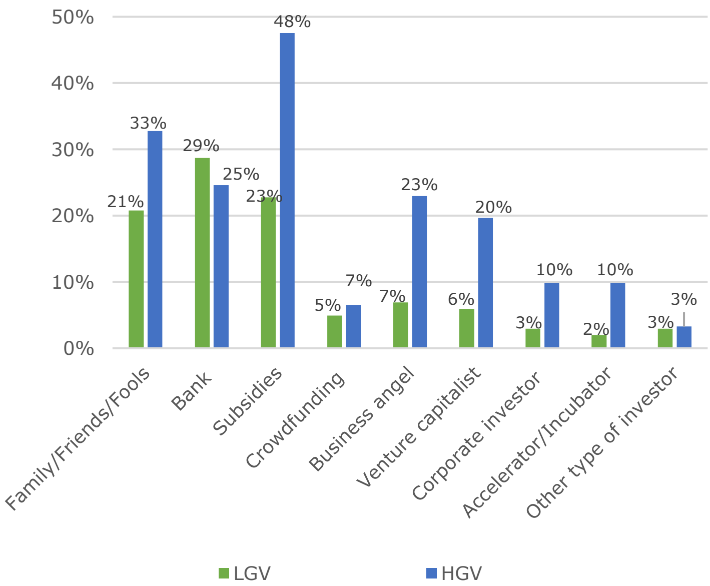
SUBSIDIES - substantially more HGV obtain financing through subsidies than LGV. For those ventures receiving subsidies, this is raised within their first two years of existence, i.e. later than when bank financing is raised.

CROWDFUNDING - a small percentage of ventures rely on crowdfunding. Interestingly, while HGV opt for crowdfunding during their second year of incorporation, LGV only do so in their fourth year of incorporation.

EQUITY – unsurprisingly, a higher percentage of HGV receives equity investments from business angels, venture capitalists, corporate (or strategic) investors, and accelerators (or incubators) than LGV. HGV receive investment from incubators and accelerators shortly after incorporation. Our data also confirm that business angels are an important source of seed money: 23% of HGV firms indicate having received angel money within the first year of founding. Financing received from corporate investors and venture capitalists occurs on average during the second year of incorporation.

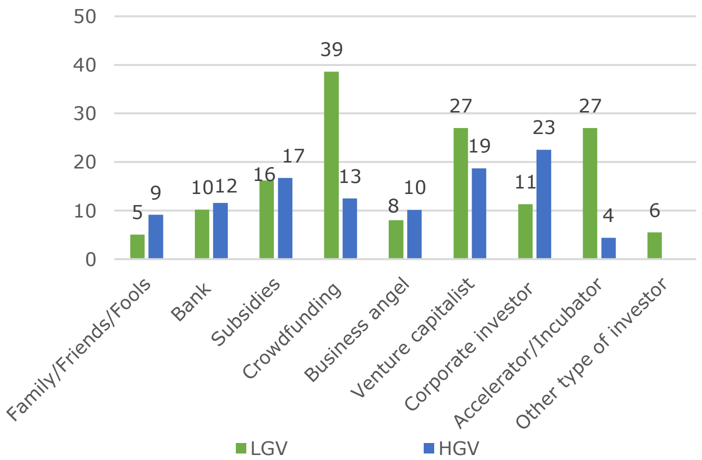
TYPES OF EXTERNAL FINANCING SOURCES

% respondents that received money from financing source



AGE AT WHICH FINANCING WAS INITIALLY RECEIVED

average age in months



DO YOU KNOW OF 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 30 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.

For more information, please email veroniek.collewaert@vlerick.com .

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