

LINDCOM

CASES/f. course 42435 and 42705: **Knowledgebased Entrepreneurship**

Monday, February 28, 2011

Background

LindCom A/S was established in 2005 and resides at Scion-DTU in Lyngby in a high-tech, dynamic entrepreneurial environment. In 2007 the company developed its technology with capital from a private foundation, and in 2009 the company could present the first products ready for sale and implementation. LindCom provides data on the state and history of large storage tanks to allow customers to optimize logistics and management of their storage facilities.

App. 8 months after a private fund in 2007, had invested a significant amount of mio dkr. to accomplish a set of milestones, the CEO Flemming Lind informed the board, that the milestone specifications could not be met and that the company would run out of money within app. 7 months. Flemming Lind explained what had gone wrong according to the original plan, and presented a plan for acquiring additional funding.

Company Description:

LindCom A/S 2009 is a limited company (A/S) with a solid capital base, that allows it to develop new products and services to the customers. The company has three products built from the same technology platform. All solutions are effectively EU-patented. The company has several customers in Denmark. The near term goal is to roll out the products/solutions in the largest international markets.

LindCom delivers solutions that are based upon Pervasive Technology or M2M or machine-to-machine communication. This means technically that the IT systems allow machines to communicate with each other over the Internet.

Based on the data that the LindCom IT systems acquire, customers are informed about the conditions of their storage tank facilities. Further, simultaneous counseling via the Internet on how the customer should act in relation to the information transmitted is offered. In this way LindCom A/S refines the distribution of commodities and their storage on behalf of its customers.

What was the issue:

The first round of financing from the initial pre-seed investor did not last as long as planned for the following reasons:

- LindCom developed problems in cooperating with its S/W supplier and consequently decided to develop its own software platform. This decision resulted in additional, significant expenses as well as extended development time
- LindCom hired a sales person who did not perform according to expectations.

LindCom realized the need for additional financing app. 7 months in advance, allowing it to identify and approach new investors.

But “bottom line”: LindCom sooner than expected, needed additional funding to bring the products to the market.

The Challenge, the process and the conclusion:

Prior to initiating the fund raising process the following issues were a concern:

- The existing investors were not willing, at this time, to accept dilution of their ownership which again would be a consequence of taking in a new equity investor.
- Valuation of the company at this early stage and in this specific situation was low, indicating a severe dilution would be the consequence of taking in equity capital.
- Obtaining a bank loan instead of Venture Capital, meant avoiding dilution of ownership, but it would increase the company’s debt resulting in:
 - Higher financing expenditures (interest)
 - The company had to provide significant collateral/security.

What was the final action:

- LindCom A/S applied for – and was granted a “Vækstkaution” (a public 50% collateral/security from the ministry of finance) to cover a loan of dkr. 2.0 mio.

This allows LindCom A/S to:

- Pursue and complete its market strategy (go beyond test customers)
- Further develop the products to prepare for “real” sales
- Initiate the production process and,
- Build the organization

Next steps:

LindCom A/S realizes and plans toward a new Venture/financing round in the future enabling the company to expand internationally. At this time the valuation of the company will have increased significantly, reducing the dilution of the original shareholders.