A road map for innovators to “start-up “an idea in Greece

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The year 2021 set a new record for the growing Greek start-up ecosystem concerning the amount of capital raised by start-up companies in the Greek market. Over the last decade, the number of Greek start-ups that accomplished material financing by external investors has risen significantly, while reports show that the number will keep growing year by year. Greece is becoming a tech destination for both innovators and investors.

The examples of Beat, Viva Wallet, Skroutz, Blueground, and many other start-ups that managed to attract the eye of lots of investors from Greece and abroad have created a sense of optimism and confidence in the Greek Start-up ecosystem. In addition to that, governmental initiatives such as EquiFund (co-financed by the EU) and Elevate Greece have undoubtedly accelerated the matchmaking between newly established start-ups and investors.

Although the Greek start-up ecosystem is growing day by day and has undoubtedly developed a solid ground for new entrepreneurs when it comes to successful financing of a start-up the challenges are many.

This article aims to highlight the **key legal concerns** when launching a new start–up in the Greek market.

Which type of company should I choose?

The most common company types used for the establishment of a start-up in Greece are the capital companies, i.e., entities with either the legal form of a Private Company (P.C.) (in Greek “I.K.E.”) or a Société Anonyme (SA) (in Greek “A.E”). These two types have the advantage that the company alone is responsible for its debts with its assets, while the shareholders/founders are held liable only up to the amount they have invested. Sociétés Anonymes require a minimum initial capital of 25,000 Euro, while Private Companies being more flexible require a minimum initial capital of only 1 Euro. At this stage, the founders need to determine the details of the business relationship with the co-founders either in the Statutes of the Company or in a Shareholder or Partnership Agreement so as to avoid disputes down the road. In addition, the founders should make sure that the name they chose does not have trademark or domain name issues.

Who will invest in my start-up?

Bootstrapping, besides unusual and difficult, is risky as well. Hence, start-ups try to seek external financing, while investors try to find this secret gem start-up with the greatest potential to grow to invest their monies. To begin with, “seed funding” is the first official equity funding stage that will help to grow the business in the early stages. The so-called “angel investors”, usually wealthy individuals with experience in the business, and sometimes venture capitals, are the most common investors during these early stages. Once the business has developed some track record, venture capitals and probably private equities or more angel investors may opt to invest in the company via the “Series A funding” stage, which hopefully may be followed by more Series of funding if the business keeps doing well. Of course, start-ups may take advantage of any funding provided by the state or several bodies which are directly or indirectly controlled by the state (e.g., grants, tax exemptions, ESPA, development laws, etc.).

How do investors invest in the company? How do investors safeguard their rights?

Investors wish for start-up businesses to develop and succeed not only because they believe in innovation and support entrepreneurship but also because they aim to make a profit. If the business idea is successful, the start-up company and its partners will be rewarded accordingly with high profits. For that reason, investors’ participation in the ownership of the company is a condition precedent of their investment.

The participation of investors in Greek start-ups can take place either by a share transfer and acquisition of existing company shares or by a share capital increase funded by the so-called venture capitals and “angel investors”. The issuance of convertible bond loans to preferred shares by start-ups and the subscription for and purchase of such bonds by investors is another way of raising funds. In any case, a Subscription and Shareholders’ Agreement is a necessary condition for the investors to join the start-up company.

For investors to secure their investment and funds, their participation may be subject to various forms of “securities and collaterals”: (a) extensive due diligence and anti-money laundering checks, (b) preliminary agreements regarding the company's business plan and budget, (c) issuance of preferred shares meaning preferential participation in future rounds of financing or dividend payment, liquidation preference, pre-emption rights, and anti-dilution protection, (d) reserved matters for key decisions, (e) participation in the company’s management or appointment of a “Board Observer”, (f) founders “lock-up period” regarding the disposal of their shares during the investment, (g) “reverse-vesting” clauses with

customary good/bad leaver provisions, (h) co-sale (tag along) and drag-along rights, (i) non-compete clauses etc.

How do founders safeguard their rights?

On the other hand, founders are reluctant to lose control of the start-up company that incorporates their unique and innovative idea, their "baby". To protect their interests, founders negotiate their status in the company by retaining their role in the executive and managerial team along with free decision-making in day-to-day transactions. To ensure their ownership in the company, founders also negotiate the establishment of vesting terms by earning stock over a period of time depending on their performance and commitment to the company's goals. Last but not least the creation of a formal incentive plan by which the company shall grant securities to its key executives, the so-called "stock options", produces a motivated pool of executives willing to increase the company's goodwill and consequently the founders' profit. In fact, the Greek state recently introduced a new favorable tax regime for stock options with any benefits being taxed at a favorable 5% rate.

What matters in the Growth Stage

At this stage among the main legal concerns of the start-ups are employment issues when hiring or firing employees as well as the protection of the intellectual property rights and the establishment of a solid privacy policy for the company.

No matter which growth stage of a start-up robust legal support is a key factor to success.

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