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Indexa Capital: Getting Ready for a New Round of Capitalization

José Luis Suárez
Mariola Soriano

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Indexa Capital is the leading automated investment manager operating in Spain, and the one with the highest volume. An automated manager interacts with their clients via the Internet; the managers design portfolios and the rest of the operations are automated, which in Indexa's calculations saves an average of 82%[1] in costs and commissions compared to the average cost of traditional investment managers. Indexa's operations were based on index management, which consisted of diversifying its clients' portfolios through funds that replicated the profitability of different indexes, bearing in mind each client's risk profile.

Indexa entered the market in December 2015, and it had held two rounds of capitalization, one in November 2015 and the other in November 2016. In May 2017, the partners were negotiating a new round of financing with the primary goal of receiving capital inflow from All Iron, a family office that invests in start-ups. Given that Indexa was not actively seeking financing and was not planning to embark upon a new valuation process in the near future, the negotiation between the Indexa partners and the heads of the family office revolved around a convertible loan.

The Partners of Indexa Capital

The three founding partners of Indexa were François Derbaix, Ramón Blanco, and Unai Ansejo.

Derbaix, co-CEO, was an entrepreneur and co-founder of several start-ups. His first company, which he founded in 2000 with his wife, Marta Esteve, was Toprural, which he sold to HomeAway in 2012. Since then, he had invested in more than 25 online companies in Spain and Belgium. In2014, he was the first private investor chosen by the European Investment Fund (EIF) to co-invest in Spain

[1] As Indexa showed on its website, the total average costs of a traditional fund manager were 3.4%, whereas the cost of Indexa was just 0.60%.

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IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.
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(Isabel la Católica de Axis-ICO Fund, managed by the EIF). Derbaix was a management engineer with a degree from the Catholic University of Louvain (1997); he was his class valedictorian and graduated summa cum laude. He was also a former consultant with The Boston Consulting Group in Brussels and Paris (1997-1999).

Blanco, director of the company, had a bachelor's in economics and law from ICADE and an MBA from Harvard. He had also been awarded a Fulbright scholarship. In 1999, he founded Selftrade.es, whose parent company went public in France. In 2002, Selftrade was sold to Boursorama Banque (which belongs to the Société Générale group). In Boursorama Banque (€1-billion market cap), Blanco was the deputy CEO and director (France), chair of OnVista Bank (Germany), and deputy chair of Selftrade Bank UK. Moreover, Blanco was an investor in many start-ups (such as Idealista) and worked as a professor in the master's in banking and finance at Bufete Garrigues. Before founding his first company, he worked in marketing at Unilever and in investment banking in Banco de Santander.

Ansejo, co-CEO, had a traditional manager's profile, with more than ten years of experience managing pension plans and major assets. He had previously worked as an analyst for the BBVA front-office in Accenture. Ansejo had a bachelor's in physical sciences and a doctorate in economics from the University of the Basque Country; he was a CFA Charter Holder and a professor in the Inter-University master's in banking and quantitative finances.

The Forerunners of Indexa Capital: Bewa7er

In 2006, when he was in charge of Toprural, Derbaix wondered how more people could be allowed to invest in his start-up without making them partners in the company (which was legally set up as a limited liability corporation). In his opinion, having too many partners complicated the governability of a company, increased costs, and hindered board meetings and therefore the possible future sale of the company. Furthermore, the partners in a limited liability corporation in Spain had a preferential stock subscription right, which limited the liquidity of shares because it discouraged potential new external investors from negotiating a purchase. New investors could only purchase if the other partners did not exercise their preferential right, which usually only happened if the current partners thought that the price was too high (if the partners thought that the price was appropriate or low, they would exercise their preferential right). Therefore, the mere existence of this right was an obstacle to maximizing the price of a sales transaction.

Another reason to seek alternative forms of capitalization was the low liquidity of investments in start-ups. Derbaix had personally noticed that it was easy to invest but difficult to divest. In the majority of cases, no one left until the company was sold, either via a private sale or by going public, so Derbaix had found that the chances of selling were few and far between. Unlisted companies that were sold in Spain were usually older than 10 years.

In 2013, Derbaix found the solution to the problem when he discovered the existence of joint accounts. These accounts allowed for contracts in which economic rights could be given to certain shares, which encompassed their performance in both dividends and appreciation, without having to give them political rights.

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Thus, Bewa7er Market, S.L.[2] was founded, a platform selling economic rights in start-ups or unlisted companies in general. The platform resembled a market for start-ups, although technically it wasn't exactly. Bewa7er bought shares and later sold their economic rights to other investors by creating joint account contracts. The joint account contracts could be transferred from one investor to another freely, by just a single click, because they were not subjected to preferential acquisition rights (the shares were always owned by Bewa7er and never changed hands). Derbaix could not work full-time in a new start-up, nor was his background as strong in finance as the business required, so he looked for a partner who could lead it. Álvaro Ortiz, a friend of Derbaix, told him that Unai Ansejo, his partner in NVivo and a financial expert, might be the ideal person. Derbaix and Ansejo clicked immediately, and Ansejo took over the leadership of the project. Together they decided to round out the team with the support of Ortiz (UX Marketing, founder of Mumumío, and at that time the head of marketing at CartoDB) and Blanco (expert in banking and the financial sector, at that time CEO of a start-up, Etece) as directors. The name of the new company emerged from the idea of the business, bringing liquidity and transparency to the start-up financing market. A friend of Derbaix suggested the idea with the phrase "be water, my friend," while the "t" was replaced with a "7" in order to secure a domain on the Internet.

Derbaix and Ansejo launched Bewa7er in June 2014, but the business only lasted a short time. A few weeks after it was launched, the National Stock Market Commission (CNMV) sent them an information request. Despite being confident that the activity was legal (they had a legal opinion saying so from Baker McKenzie law firm) and not reserved—because joint accounts are not a security—together with the regulatory body, they decided to seek a way for the activity to fit within a regulated framework. The delays in the Bewa7er project led the partners to turn their sights towards managing the assets of third parties, or asset management.[3]

Based on his professional experience, Ansejo thought that much of the profitability coming from financial markets ended up in the hands of asset managers, through commissions, and that oftentimes they hindered clients' understanding of the management costs. His work with Itzarri EPSV, the social welfare plan of civil servants in the Basque government, which was a mutual benefit society, showed better alignment between the manager and the members, and the savings in commissions led to higher profitability for the investors. This was the source of the idea of spreading this kind of low-cost management and alignment of interests to all investors, but in order to offer truly low management commissions, they first had to solve the problem of the lack of scalability of traditional management models.

They then noticed that automated investment managers had just begun to appear in the United States a few years earlier; they were nicknamed robo-advisors, and they solved the problem of high management costs and the lack of scalability through technology. These automated managers were becoming quite successful. After checking that there was no similar initiative in Spain, Derbaix and Ansejo, along with Blanco, decided to launch the first automated manager in Spain in September 2014. In February 2015, they asked the CNMV for authorization to operate, and were given permission on December 11 of the same year.

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[2] "Bewa7er" is pronounced "be water." More information at https://francoisderbaix.com/2014/06/10/mi-nuevo-proyecto-bewa7er/.

[3] The activity was launched four years later as Bewater Funds (bewaterfunds.com), creating a fund manager (closed-ended investment management companies or SGEIC) that would manage different closed-ended capital investment funds, with each fund having a single company invested inside it.