Start-ups & Venture Capital Funds

Presentation Overview – Schedule

Section 1	Section 2
Broad view on Start-ups and VC Funds	Start-ups fundraising process with VC Fund

SECTION 1

PART 1 - START-UPS

START-UPS - LIFE-CYCLE

1. BOOSTRAPPING STAGE

PRODUCT-MARKET FIT

The purpose of this stage is to position the venture for growth by demonstrating **product feasibility** and its **market fit**. Here, you want to resolve our **product and market uncertainties.**

- Individual effort
- Family and friends support
- Low investment (BA)

2. SEED STAGE

GO TO MARKET FIT

During this stage, start-ups should find a strategy to reach its target market in a scalable and profitable way. Here you want to resolve the **go-to-market strategy uncertainty**.

- First investments
- Team consolidation

3. CREATION STAGE

SCALE-UP

In that stage, the strat-up is using its go to market strategy at scale. The start-up is also looking for new markets to cover, resolving the **market size uncertainty.**

- High investments
- Corporate structuring

Source: Aidin Salamzadeh

START-UPS - BUSINESS MODELS

1. B2C

BUSINESS TO CONSUMER

B2C business model focus on selling products or services directly to consumers.

Pros

- Full control over every element of the business structure from manufacturing to consumer

Cons

- B2C models involve costs all over the supply chain (warehousing, design, supply chain operations & marketing)
- Must contend with global competition

2. B2B

BUSINESS TO BUSINESS

B2B business model focus on selling products or services to other businesses. Mostly service-based companies, as opposed to product-based companies.

Pros

- Larger orders and more security during the sales process

Cons

- Slow enterprise sales pipeline
- Difficult lead generation over the long term

3. B2B2C

BUSINESS TO BUSINESS TO CONSUMER

Using a B2B2C model, a business will sell a product or service to another business and leverage the access to consumers that the second company already possesses.

Pros

- Direct access to consumer data, crucial to capitalize on network effects and scale (better, more accurate services and products)
- Strong brand recognition over time

Cons

- Difficult to set up mutually-beneficial relationships over the long-term

Source: FullStack

START-UPS - MONETIZATION MODELS

Recurring price at regular intervals for access to a product or service

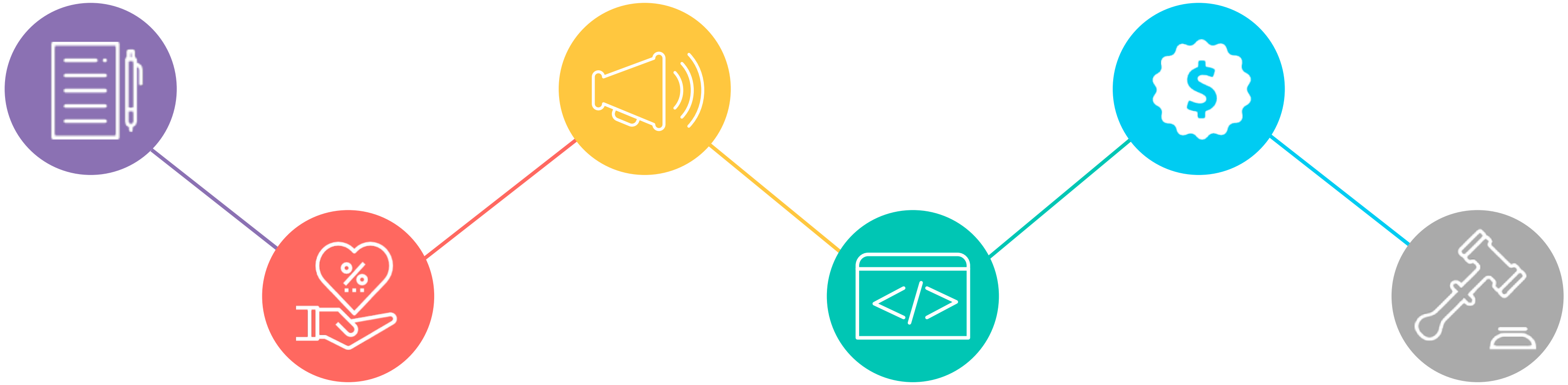
SUBSCRIPTION

Sale of advertising as a major source of revenue

ADVERTISING

Sale of a product or service directly to consumers

DIRECT SALE



COMMISSION

Fees for every transaction/action it mediates between two parties

LICENSING

Permission to manufacture its product for a specified payment

ECOMMERCE

Oneline sale of a product or service

Start-ups - Monetization models examples

Subscription

NETFLIX

Spotify

Commission

airbnb

deliveroo

Advertising

YouTube

Licensing

IBM

ORACLE

Direct sale

TESLA

eCommerce

amazon

jet

Section 1

Part 2 – Start-ups financing

Start-up Financing - Financing options

1. Loans (Debt)

The money is **borrowed** and **need to be paid back with interest** by the start-up. No equity stake is given away. You can get a loan from friends or family, a bank and sometimes the government.

2. Equity

The start-up receive money in exchange of **equity stake** based on the valuation of your company. Equity-based investment is possible in every stage of your company.

3. Convertible Note

The note is a **loan that converts into equity** at a discounted price when the company is acquired or is raising a normal equity round. It is basically an investment in equity, but with no valuation at first.

Source: Leapfunder

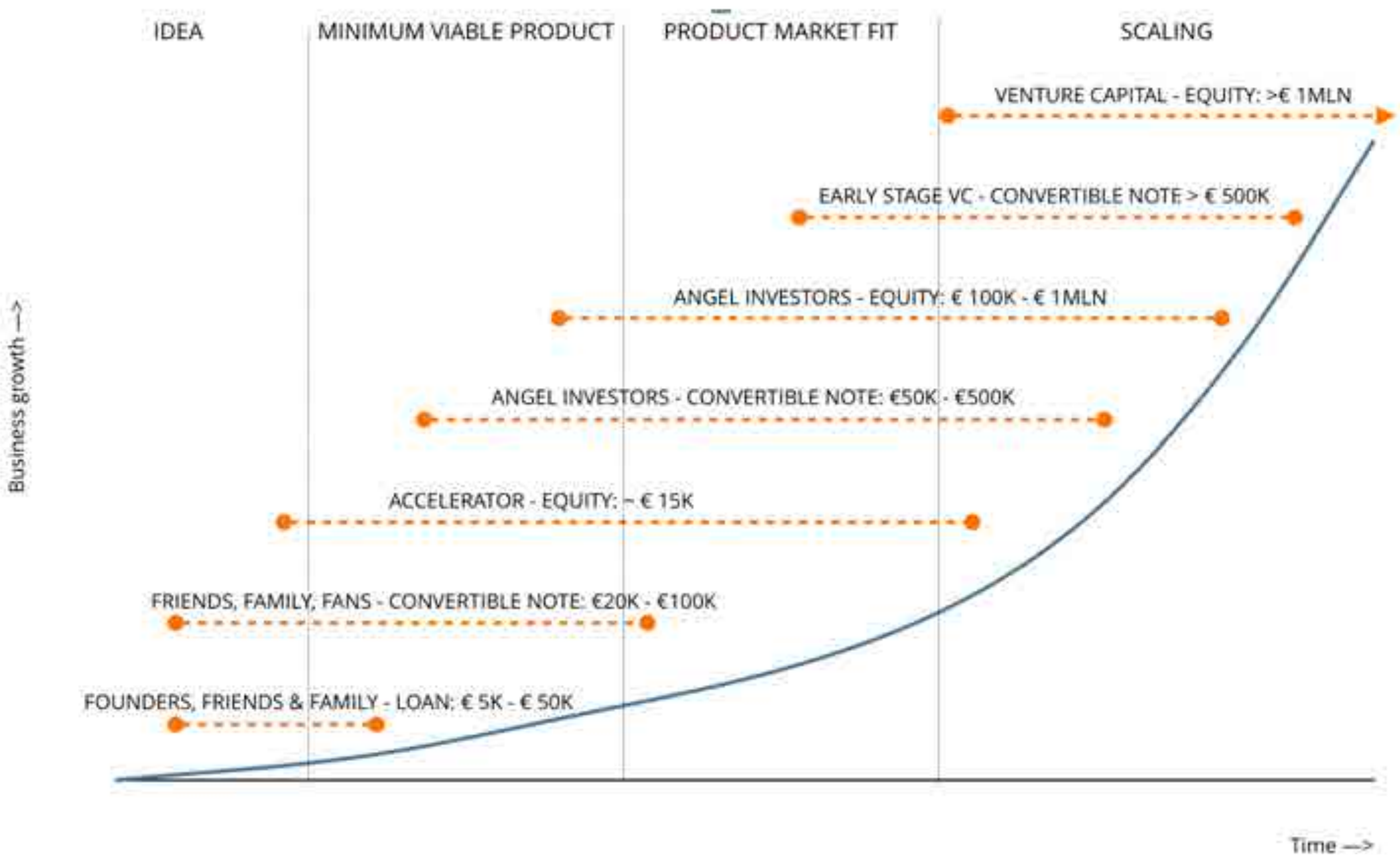
Start-up Financing - The different funding rounds

	SEED	SERIES A	SERIES B	SERIES C
Purpose	Figure out the product it is building, the market it is in, and the user base. Typically, a seed round helps the company scale to a few employees past the founders and to build and launch an early product	1. Figure or scale distribution 2.Scale geographically of across verticals 3. Figure out a business model	The Series B is typically all about scaling: 1. Scale the business model 2.Scale the user base 3. Make acquisitions	To accelerate what it is doing beyond the Series B: 1.Continue to grow fast 2.Go international 3.Make acquisitions
Amounts	**$250K-$2 million** (median today of probably $750K to $1million)	**$2m-$15million** with a median of $3-$7 million	From **$7million to tens of millions**	**Tens to hundreds of millions**
Investors	Angels, Super Angels, and early stage VCs	Traditional venture funds	Traditional venture funds and Corporates	Venture funds, Corporates and Private Equity funds

Source: Elad Gil

Start-up Financing - Early-stage financing

Financing Options along start-ups life cycle



When the **bootstrapping phase** comes to an end, start-ups have different financing options including **loans**, **equity** or **convertible notes**.

These early stage financing options include **Friends & Family**, **Accelerators**, **Angel Investors** and **Venture Capital Funds**.

Raising seed capital has changed in the past few years as new technologies have unlocked new ways to raise money for start-ups (ie. Crowdequity, pre-sales)

Source: Leapfunder

Start-up financing – Equity story

Equity story example

What is the right balance that keeps everyone motivated, and makes the startup attractive to investors?

Some startups decide to **bootstrap** and self fund their businesses with early revenues. If you can do this, this is a great option! Otherwise entrepreneurs should:

- Choose their cofounders wisely
- Only take friend's and family's money if everyone understands the risk
- Bring on advisors who can actually help get the job done
- Choose 'FounderCentric' VC firms

Source: Nate Sowder

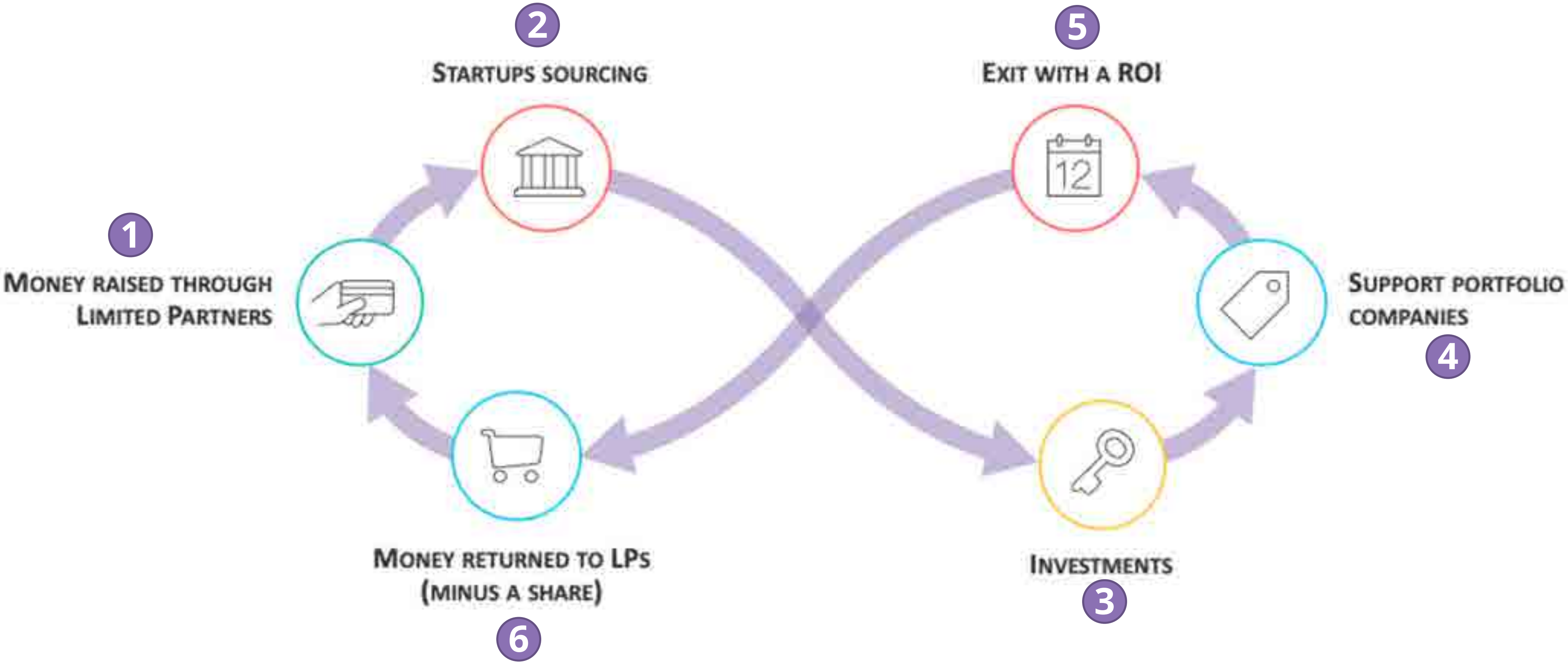
Section 1

Part 3 – Venture Capital

Venture Capital – What is it?

Boris Golden (Partech)

"Venture Capitalists spot, fund & support very specific companies : high potential start-ups"



Venture Capital – Who are the limited Partners ?

Public Pension Plans	Endowments
Corporations	Sovereign Wealth Funds
Family Offices and High Net Worth Individuals	Fund of Funds

Venture Capital – Key objectives of VC funds

1. Raise Funds

Raise & management of funds from LPs (Individuals, Institutionals, Corporations)

2. Develop a Network

Create a strong **network** and get involved in the **start-up ecosystem**

3. Select the Best Start-ups

Thanks to their network, **source** and **select** the **most promising start-ups**

4. Help start-ups Succeed

Be of a valuable **help for the success of their portfolio companies** (Network, expertise, funds, etc)

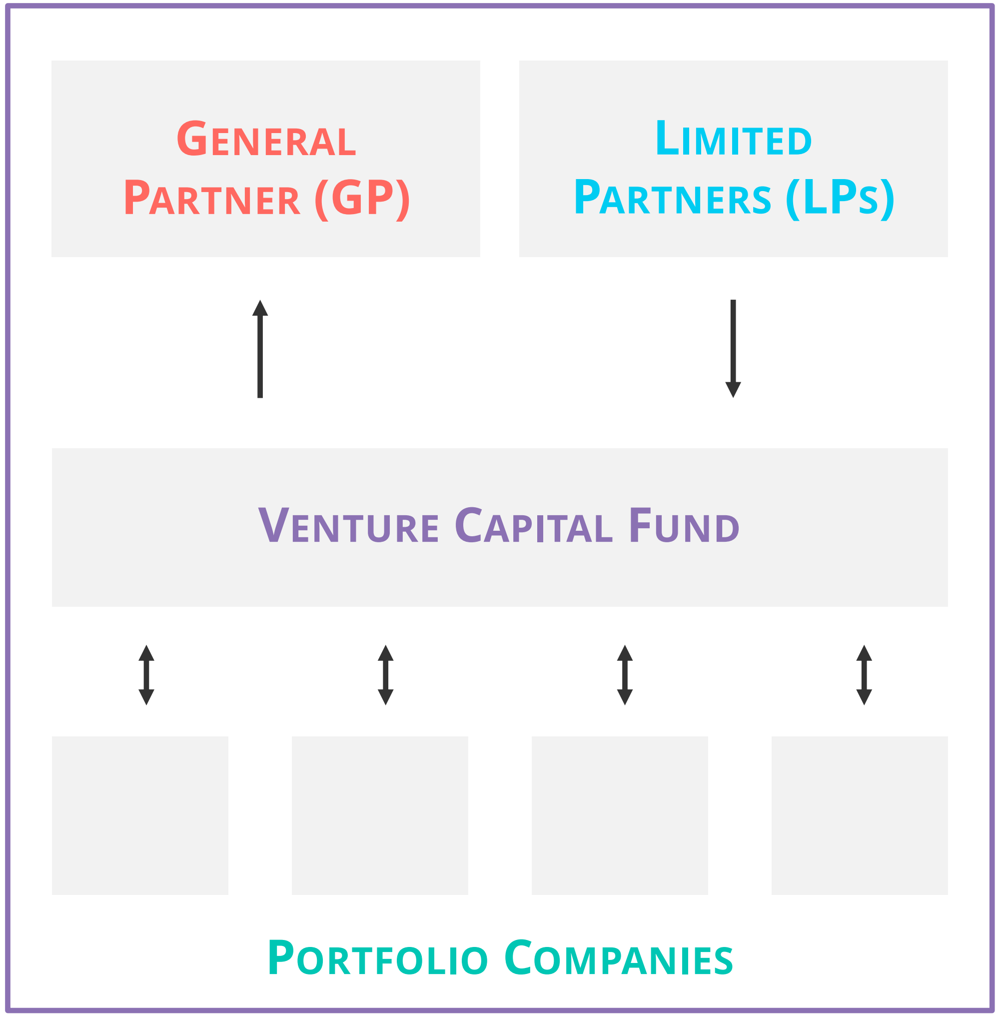
5. Exit

Facilitate the exit of your portfolio companies at the **right time and price**

Learn, Repeat and Share!

Source: Boris Golden

Venture Capital – VC fund structure



General Partner (GP)

Venture capital partner of the management company. GPs **raise and manage** venture funds.

Limited Partners (LPs)

Investors committing capital to the venture fund. Mostly institutional investors or high net worth individuals.

Portfolio Companies

Start-ups that receive financing from the venture fund in exchange for **shares** of **preferred equity**.

Venture Capital Fund

Investment vehicle used for venture investing. (lifetime of usually **7–10 years**) It pays out profit sharing through **carried interest** (about **20% of the fund's returns).**

Management Company

The management company receives the **management fee** from the fund (about **2%)** and uses it to pay the overhead related to operating the venture firm, such as rent, salaries of employees, etc. It makes **carried interest only after the Limited Partners have been repaid**.

Source: Medium, Pocket Sun

Venture Capital – How are returns generated?

Share Purchase

A buyout of an investor’s position via a **new investor** looking to buy ownership or the company repurchasing stock.

Acquisition (M&A)

Strategic acquisition by a corporation for the start-up technology, user base, IP, or synergetic value. PE funds can also be potential acquirers.

Initial Public Offering (IPO)

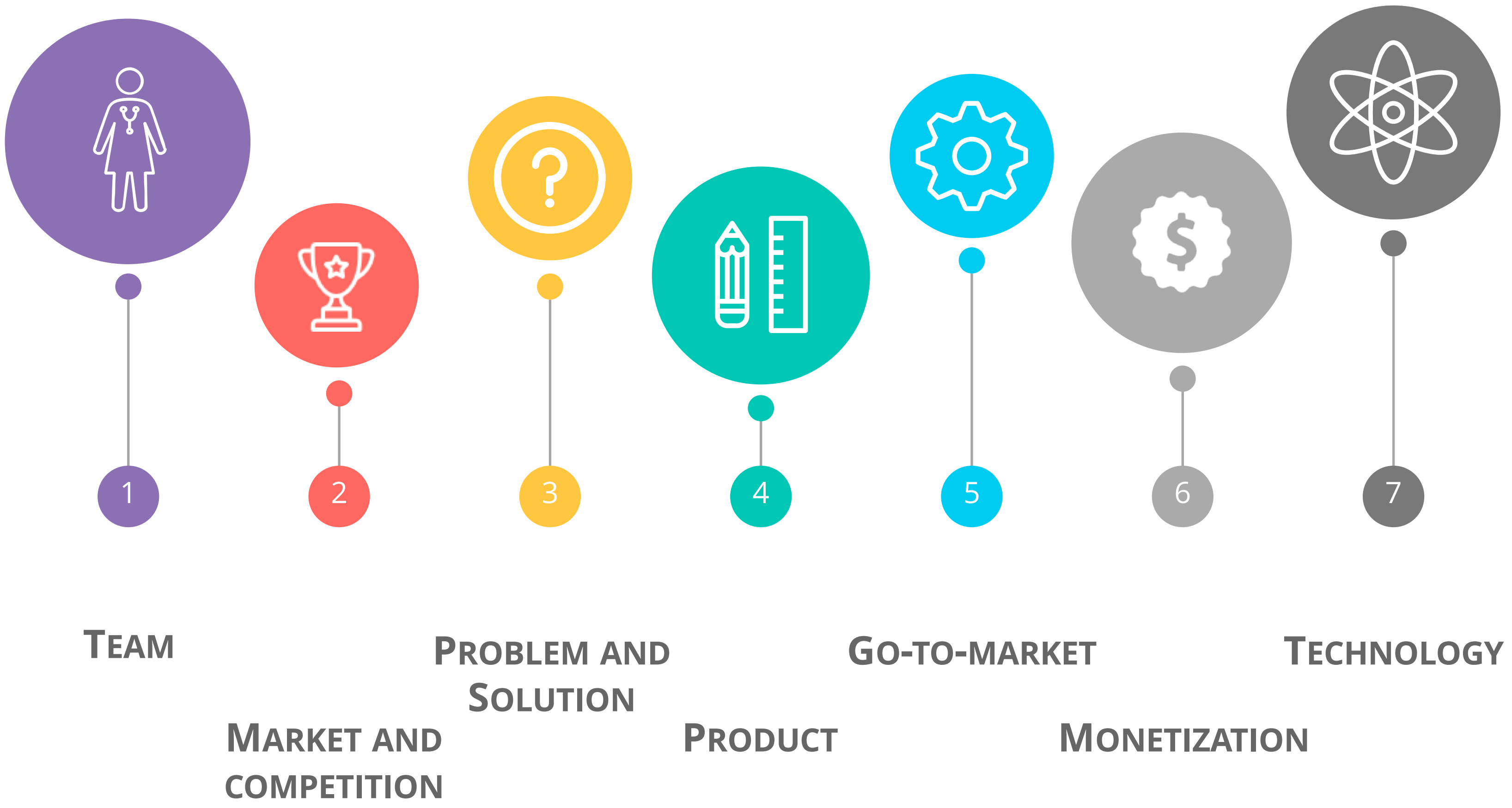
Large stand-alone businesses with **stable customer base**, **product strategy** and **growth potential.**

Source: Medium, Pocket Sun

Section 2

Part 1 – What the VC Fund are looking for?

Venture Capital – How do venture funds assess start-ups?



Venture Capital – How do venture funds assess start-ups?

4Ms is an interesting framework to analyse early stage start-ups

MARKET

1. Specific people with real needs
2. Competitive positioning
3. Large & attractive market

MODEL

1. Efficient go to market strategy
2. Profitable monetization
3. Scalability & defensibility

MANAGEMENT

1. Experience, skills & network
2. Ambitious and devoted team

MOMENTUM

1. Clear strategy to scale & win
2. Credible growth plan

Source: Boris Golden (Partech)

VENTURE CAPITAL – HOW DO VENTURE FUNDS ASSESS START-UPS?

VENTURE CAPITALISTS ANALYSE VENTURE PROJECTS' BUSINESS PLAN MAKING SURE THE START-UP IS BASED ON AN AMBITIOUS BUT CREDIBLE GROWTH PLAN:

1

ASSUMPTIONS

- Revenues
- Direct costs
- HR expenses
- Operating expenses (OPEX)
- Capital expenditures (CAPEX)

2

OUTPUTS

- Profit & Loss statements (P&L)
- Cash-flow statement
- Balance sheet

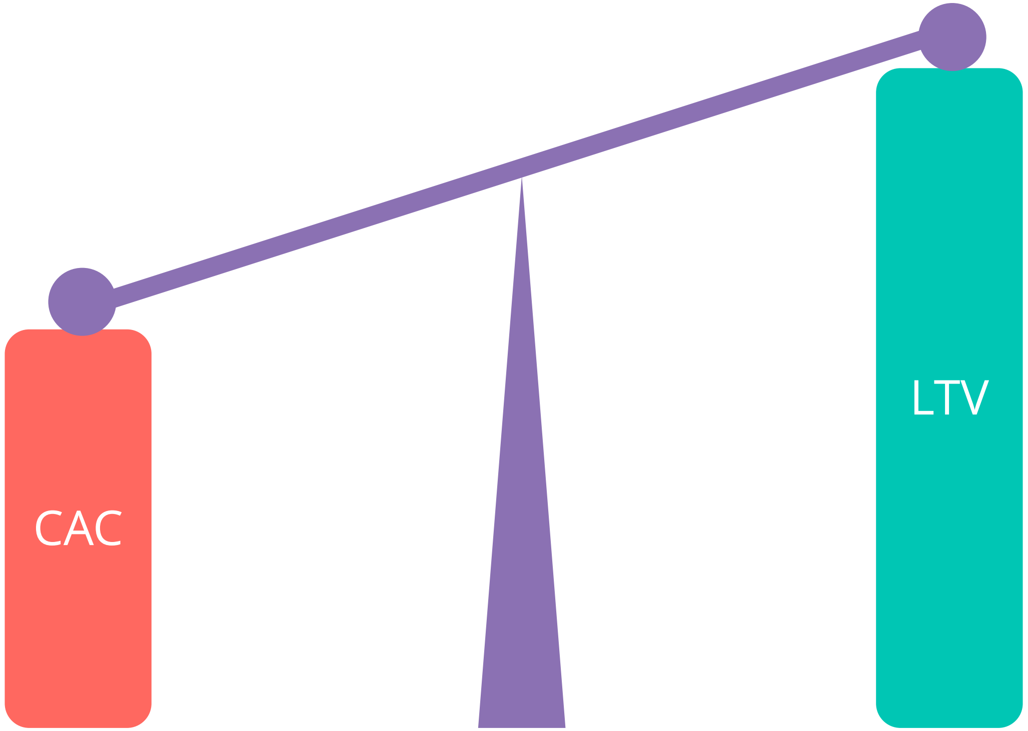
How ?

Competitors data – **Market research** – **Internet** – **Database** – **Sectorial reports**

VENTURE CAPITAL – HOW DO VENTURE FUNDS ASSESS START-UPS?

LTV/CAC RATIO

The **cost of acquiring a customer (CAC)** must always be **lower** than its **lifetime value (LTV)** to have a sustainable and scalable business model. The ability of the company to control its CAC will be a **key success factor.**



Source: Forentrepreneurs

NOT EXHAUSTIVE

VENTURE CAPITAL – HOW DO VENTURE FUNDS ASSESS START-UPS?

OTHER MAIN KPIs

Revenues

Burn rate

EBITDA Margin

Churn rate

ARR

SPECIFIC KPIs

SAAS/SUBSCRIPTION

Monthly recurring revenue

Average revenue per user

Billings

LTV/CAC ratio

MARKET PLACE

GMV

Buyers growth rate

Suppliers growth rate

Average order value

Retention rate

COMMISSION

Revenues growth

Sales vs. forecasts

GMV

Buyers/sellers growth rate

Section 2

Part 2 – Understanding the Fundraising Process with Venture Capital Funds

Fundraising process – Why partner / not partner with a VC fund

Advantages	Costs
Expertise	Equity
Industry network	Liquidity expectations / ROI
Credibility	Control
Next financing rounds	Fundraising Time Period

Fundraising process - timeline

The process can be divided into two parts with their own phases

Non-binding phases	Binding phases
Get the **pitch deck**	**Term sheet** negotiation & signature
Call/Coffee catch-up with a dedicated Partner of the VC Fund	**Due diligences**
Your partner discusses your start-up at the weekly Investment Meeting	**Shareholders Agreement** negotiation
Follow-up from the Investment Meeting	**Responsibilities & Warranties** negotiation
You'll pitch the full investing team and you get • A no • A yes	**Closing – Money – Portfolio member**

Investment Process – Focus on the Term Sheet

What you should have in mind

Every fundraising has a **price for your start-up**:

- you are going to give to the investors a [X]% of equity
- you are going to give-up business & strategic rights

Investor are going to invest following a **valuation of your company**:

- valuation is complex to determinate in seed stage
- the importance of right valuation
  - high valuation – bad consequences: pro-investor clauses, high KPIs asking + risk of down round)
  - low valuation – less gain

You negotiate this sell through the Term-Sheet

Your pitch-deck has to demonstrate the fund assessments below with the following **combination**:

- An execution;
- A knowledge;
- A vision.

You have to **seduce the VC**:

- researches about the partners;
- typologies of portfolio;
- typologies of the founders.

Investment Process – Focus on the Term Sheet

First standard document given by the fund, containing the main standard clauses of the planned fundraising.

Founder vesting clause

As a founder, you have to stay shareholder of the start-up for a 5years period. Good and bad leaver clause

Board decisions and composition

The most engaging decisions should be taken during special meetings aka board

Preferential Liquidation

One of the major clause which has a direct impact on what everyone gets the day the company is sold

Ratchet

A protection asked by the fund in case of a new financing with a down round valuation

Ratchet Clause:

*In 2019, VC#1 invests $50K in a **start- up valued at $ 450,000**.*

VC#1 got 10% of the capital of a $450,000 valuated (50,000 / (450,000 + 50,000)).

*In 2020, the start-up is doing bad, burnt all its cash and has to do a new fundraising, with a 50% down round, and values the start-up at **$250.000***

In this case, the value of *VC#1*'s shares would only be $25,000 (50% discount due to the new down valuation).

But, VC#1 negotiated a ratchet clause in its term-sheet which enable it to have the right to be **allocated new shares** to still maintain a $50,000 valuation of his total holding.

In order to maintain a valuation of the total of his participation at $50,000 (i.e. 20% of $250,000), he will have to be allocated 10% of the shares taken **from the founders**.

Liquidation Preference:

In 2019 VC#1 invested $2M in a $10M valued start-up. From this, VC#1 get 20% of the capital of the start-up.

In 2021, the CEO decides to sell the company for 12 millions.

***Without clause**, VC#1 will get:*

- *20% of the sale -$12M- : <u>$2,4M in total</u>*

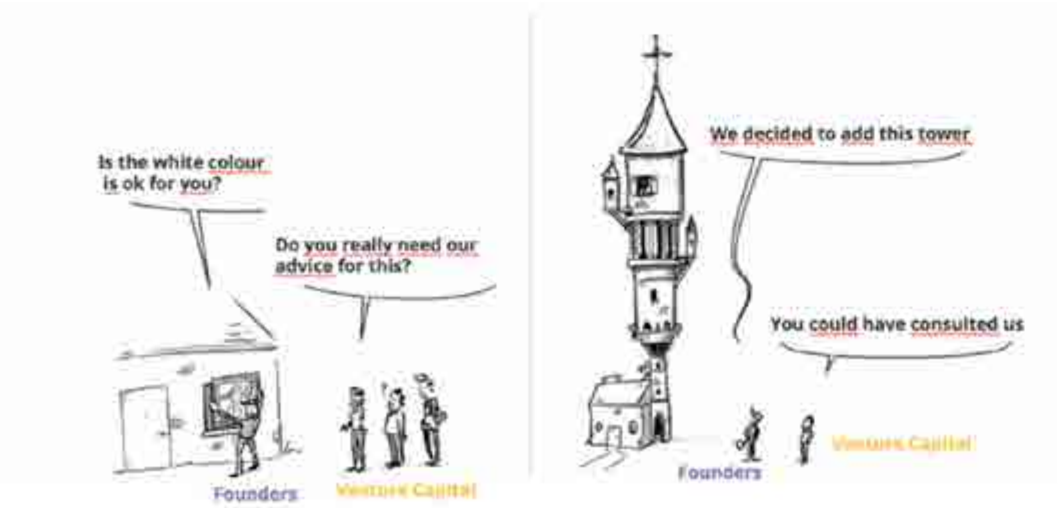
*With a **liquidation preference clause**, VC#1 will get*

- *first, before anybody, the amount of its $2M investment*
- *Second, sharing with everybody -the 10M remaining- 20% of it : $2M*

So, <u>$4M in total</u>

Board decisions and composition:

The most engaging decisions should be taken during the board



Subject: To discuss the strategic orientation of the startup, and its vision.

Composition:
- Co-founders
- C-levels
- Investors (VC)

Decisions:
- Every two months.
- Decisions taken by simple majority and decisions with a qualified majority (=veto right for the investor).
- Examples:
  - adoption and modification of the annual budget;
  - any material change in the activity, development of a new activity and cessation of activity;
  - any indebtedness in excess of USD100,000
  - any recruitment, dismissal or revocation of an employee with an annual gross compensation in excess of USD 100,000, a Manager.

Investment process - Term Sheet vs Shareholder Agreement

Term Sheet

Informal version of a Shareholders Agreement, **pre-contractual document** for any sort of **commercial relationship**

Cover the **major aspects of the deal** between the **founders** and **investors** to minimise any risk of a future misunderstanding

Opportunity to negotiate and ensure that all the terms of the deal are agreed before the deal is formalized and shares are issued to investors

Shareholder Agreement

Completed once the due diligence processes are passed and if investors and entrepreneurs wish to go ahead with the deal

The relationship between the founders and investors is **now legally binding** and investors will now get **shares of the company**

Generally, a Shareholders Agreement is more **lengthy and extensive** than a Term Sheet

Thank You

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