

# Talking to Investors

Learn How to Convey Your Message

Startup Management (IPIRI 63749B), Aleš Špetič, 2023

# Recap Lecture 7

## Finance

- **Mastering Key Financial Concepts:** Income statements, balance sheets, and cash flow projections are fundamental tools.
- **Financial Planning and Forecasting Techniques:** Accurate forecasting guides strategic decision-making.
- **Explore budgeting, expense control:** Effectively managing finances ensures stability and growth.
- **Expense Management and Optimization:** Differentiate between variable and fixed costs.
- **Key Financial Metrics for Evaluation:** ROI, Gross Margin, and Burn Rate provide actionable insights.

# Learning Objectives

## Understanding the Investment Dynamics

- Importance of Funding for Startups
- Overview of Key Topics:
  - Funding
  - Venture Capital
  - Process and Contacts
  - Presenting to Investors
  - Startup Deal Structure
  - Company Management
- Goal: Equip You with Insights for Successful Investor Conversations

# Sources of Funding

## Funding Options

	labour	debt	equity	subsidies
cost	health/family	interest	exit/dividend	taxes
benefit	freedom	no dilution	limited risk	free money
scalable	no	limited	yes	no

# Types of Investors

## Who Invests in Startups?

	strategic	long term	venture	4F
motive	partnership	dividend	exit	insanity
cost	innovation	growth	safety	social
benefit	market	hands off	potential	access

# Venture Capital

## Main Source of Funding for Startups

- **Partners and LPs:** Who are the players?
- **Size:** Considerations for the size of investments
- **Rounds:** Seed, Series A, B, C, etc.
- **Exits:** How and when do investors exit?
- **Lifespan:** Duration of the investment relationship

# Venture Capital

## Who is Who?

- **Limited Partners (LP):** investors into the fund
- **General Partners:** people who make the investment decisions
- **Partners/Analysts/Associates:** the team who makes the ground work
- **Entrepreneur in Residence:** a friendly startup founder without a startup

# Venture Capital

## Economics of a VC Fund

- LPs commit the funds, and pay in when needed. Sum of commitments is the **fund size**.
- LPs pay GPs for their service, e.g. 2% annually + 20% success fee (**carried interest**).
- **Lifespan of a fund**: they operate for a number of years (typically 10).
- During the time they need to invest, and recuperate their investment, so realistically their active **investment horizon** is 5 years.



# Venture Capital

## Investments size

- Startup: an investment should give **12-18 months** of runway
- VCs:
  - an investment should be **meaningful**
  - the size of a **ticket** should be reasonable for our size
  - we should divide the the risk by forming or joining a syndicate
- An investment is usually funding of the company for a 25-35% of shareholdings.

# Economics of a VC Fund

## Why do VC Chase Unicorns?

	I	II	III	IV	V	...	#	Exit
Failed	3	4	5	4	3		19	0
Returns 1x	1	1	2	1	2		7	7
Successful 5x	0	0	1	2	0		3	15
Unicorn 50x	0	0	1	0	0		1	50

A VC fund invested 30mio in 5y, after disinvesting they had 19 failed investments, 7 that returned their money, 3 that returned 5X and 1 that returned 50x.

During the lifespan of the fund, it returned 2,4X of the investment amount. After deducting fees and carry, the fund returned less than 2X to investors.

# Venture Capital

## Exits

Why are the businesses bought:

- **Financial:** discounted cash flow
- **Market:** share of the market
- **Technical:** technological advancement
  
- **IPO:** initial public offering

# Venture Capital

## Investment process

contact

meetings

due diligence

partner

managing partners

lawyers

pitch

deck

term sheet

contract

exit

dating

mating

engagement

marriage

# Presentation

## How to Present Your Startup

- **Teaser:** A brief introduction to capture interest
- **Deck:** Comprehensive presentation covering key aspects
- **Business Plan:** Detailed documentation supporting the pitch

# Presentation

## What to Cover in Presentation

- **Team:** Background, skills, and roles
- **Product:** Features, distribution, technology
- **Market:** Size, competition, defensibility
- **Business Model:** How are we making money?
- **Competition:** Analysis and positioning

# Choosing Investors

## What to Expect?

- **Reputation:** Building a positive image
- **Network:** Leveraging connections
- **Experience:** Gaining insights and guidance
- **Money:** Financial support and investment capital

# Startup Deal

## Term Sheet

- **Price** - determining value
- **Stocks** - equity allocation: common and preferred stocks have distinct rights.
- **Options** - employee incentives: dilution vs team motivation.
- **Dilution** - ownership impact
- **Liquidation Preferences** - multiples of investment return before common shareholders.
- **Information Rights** - transparency requirements
- **Anti-dilution** - mechanism to protect investors from dilution in future funding rounds.
- **Pro-rata rights** - investors' rights to maintain their ownership percentage in subsequent financing.
- **Vesting** - Founder Commitment: Gradual ownership accrual over time (Reverse Vesting!)



# The Startup Deal

## Simplified Capitalisation Table

		Angel	Seed	Series A	Series B	Comment
<b>Peter</b>	50%	45%	31,5%	18%	11,3%	Start of the company
<b>Ana</b>	50%	45%	31,5%	18%	11,3%	
<b>Angels</b>		10%	7%	4,0%	2,5%	First angels in
<b>Seed</b>			20%	20,0%	15,0%	Seed follows up in the Series A
<b>VC group 1</b>				25,0%	25,0%	First VC group follows up in the Series B.
<b>VC group 2</b>					20,0%	
<b>Employees</b>			10%	15,0%	15,0%	Employee equity is issued every round.
<b>Total</b>	100%	100%	100%	100,0%	100,0%	
<small>*in 1000s</small>						
<b>Investment</b>		100	1.000	5.000	30.000	
<b>Valuation</b>		1.000	5.000	20.000	150.000	
<b>Founders</b>		450	1.575	3.600	16.875	

# Company Management

## Governance Structure

- **Executive Directors:** Involved in day-to-day operations and decision-making.
- **Non-executive Directors:** Provide external perspectives and strategic insights.
- **Voting Rights:** Execs and Non-Execs participate in board decisions, voting power could be non-linear.
- **Signing Rights:** Determines who can sign legal agreements on behalf of the company. Typically held by the CEO or designated executives.

# Conclusion

## Talking to Investors

- Understanding the roles and dynamics of investors
- Investment essentials, grasping the complexities of VC investments
- Navigating the funding rounds
- Company governance