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# **Venture Capital Funding**

**ICAI Tower – BKC, Mumbai  
21st May, 2016**

# Background

- Money provided by investors to startup firms and small businesses with perceived **long-term growth** potential.
- This is a very important source of funding for startups that **do not have access to capital markets.**

# Background

- It typically entails **high risk for the investor**, but it has the potential for **above-average returns**.
- Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships.

# Background

- This form of raising capital is popular among new companies or ventures with **limited operating history**, which cannot raise funds by issuing debt.
- Venture capitalists usually **get a say in company decisions, take a board seat** , in addition to a portion of the equity.

# Stages in Funding

Round	Sources	Company Stage	Capabilities Built/Utilization
Seed Round	Personal/family/friends/Angels	Incipient	R&D, Proof of concept and Salaries
Series A	Institutional/Venture Investors	Early	Progress development , Hire more , milestone achievement
Series B	Institutional/Venture Investors	Incipient	Operational development , Building Scale and Traction
Series C	Institutional/Venture Investors	Late	Profitability enhancement , develop additional revenue streams

# Preferred Areas



**Preferred  
Areas**

# Preferred Areas



Preferred  
Areas

# Value Proposition

**The post money valuation=**  
**Pre-money valuation + Investment**  
(transaction increases only cash balance)

**Price per share=**  
**Pre-Money value/Number of shares**  
**outstanding before transaction**



# The Pitch

- **Intro**
- **Team**
- **Opportunity**
- **Solution**
- **Competition**
- **Business Model**
- **The ask**

# Introduction

- » Give a brief history of the company, when it was started, how it's been funded.
- » Define **the company, business or product in a single sentence.**

# Introduction

- » Concisely state your core value proposition, including the target market.
- » Make sure your statement **clarifies why you are unique and necessary**
- » What **unique benefit** will you provide to what customers to address what they need?

# Team

## **State Briefly:**

- » Management - crisp & relevant experience on key players . Prior companies/startups . Educational backgrounds . Prior exits & IPOs
- » Board of Directors
- » Board of Advisors
- » Key future hires

# Team

## **Describe in Detail:**

- » Why you?
- » Describe team and advisors – their role relative to the plan, their relevant experience achieving similar results.
- » Focus on significant, relevant accomplishments for each person.
- » **Who's missing in the team?** Discuss hiring plans.

# Opportunity

**(CLEAR )PROBLEM  
+(LARGE) MARKET**

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**GREAT  
OPPORTUNITY**

# Opportunity

» State the problem; describe the pain.

» Why does the problem persist?

Define recent trends that make your solution possible. How is it currently addressed?

Why are we at an inflection point now?

» Identify the market size.

» How does this market change and grow over time?

# Solution

- » Demonstrate your solution.
- » Validate your differentiation.
- » Explain your IP / technology.
- » How is the new solution better?



# Solution

## **Emphasize upon:**

»What is your differentiator

»What is your competitive advantage

»What is your USP

»Explain how your solution is a company and not just a feature

# Solution

- » Clearly quantify **three or four key benefits** you provide, and who specifically realizes these benefits.
- » Highlight the **elements of your technology** that give you potential for leverage and scale as you grow.
- » Explain how your solution is a **company, not just a feature**.
- » Highlight **patents** or the status of **key regulatory approvals** (FDA, NSA, industry standards).

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# Competition

Help the VC understand  
who you compete with,  
why you have  
a better product or  
solution and how you  
can win.

# Competition

- » Competitive matrix with:
  - . Strengths & weaknesses
  - . Metrics
  - . Investors of competitors
  
- » Where do you play in the environment outlined above?
  
- » How does this market change over time?

# Competition

» Use a competitive quadrant matrix to reflect the market's requirements, and where you are positioned compared to your competitors.

» Where does your solution fit in the value chain or ecosystem of your target market? Do you **complement** or **displace** commonly used technologies?

# Competition

- » Do you **change business processes** or do them the **same** but better, **faster and cheaper**?
- » Do you **disrupt the current value chain** or fit into established channels?
- » Summarize the three or four key reasons why customers prefer your solution to other solutions.

# The Ask

The most important thing to convey is that you understand the economics and evolution of a growing, dynamic company, and that your vision is grounded in an understanding of practical reality



# The Ask

» How will you make money?

Revenue model & metrics

Pricing, average account size, lifetime value, churn, views, uniques, registered users, sub base, etc.

Sales & distribution model, customer pipeline, wins and metrics

» What milestones are you going to realistically hit with the new capital?

# The Ask

- » Financials, including prior backers, date(s) and amount of investments
- » **Valuation expectations**
- » Amount you are looking to raise
- » **Milestones** you will hit with the new capital
- » Your **burn rate**
- » How much **runway** will the new money buy
- » Post-money of the last round

# The Ask

- » How much are **you raising?**
- » What milestone will it get you to? Why is this **milestone the right milestone?**
- » Why is this the right amount?
- » Post-money of last round.
- » Amount of cash in the bank.
- » How much runway the new money will buy

# Stages in Fund Raising



# Perception

What start-ups think about Venture Capitalists:



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