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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?



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**

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?

» Demonstrate your solution.

» Validate your differentiation.

» Explain your IP / technology.

» How is the new solution better?

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

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

» 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?

» 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?

» Do you change business processes or do them the same but better, faster and cheaper?

» Do you **disrupt the current value chain o**r fit into established channels?

» Summarize the three or four key reasons why customers prefer your solution to other solutions.



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

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

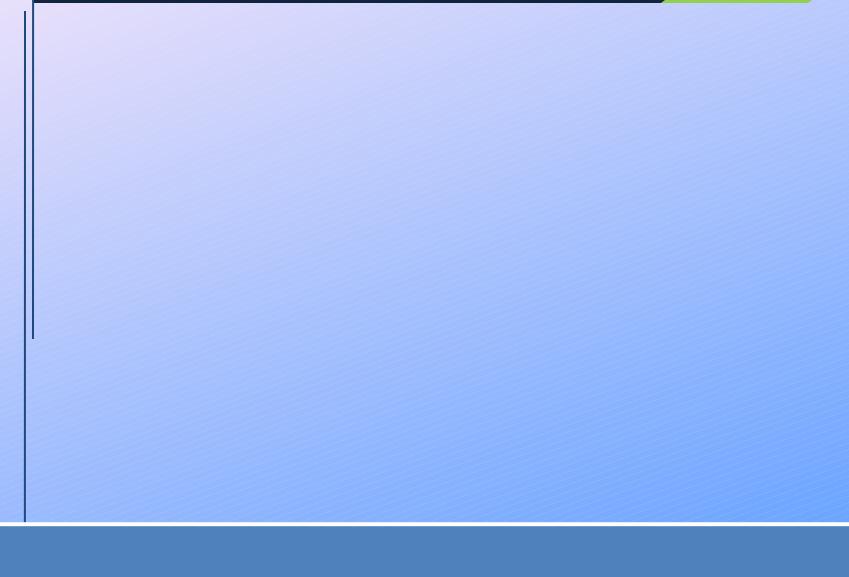
» Financials, including prior backers, date(s) and amount of investments

- » 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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