

Venture Capital Fundraising: Understanding Your Audience

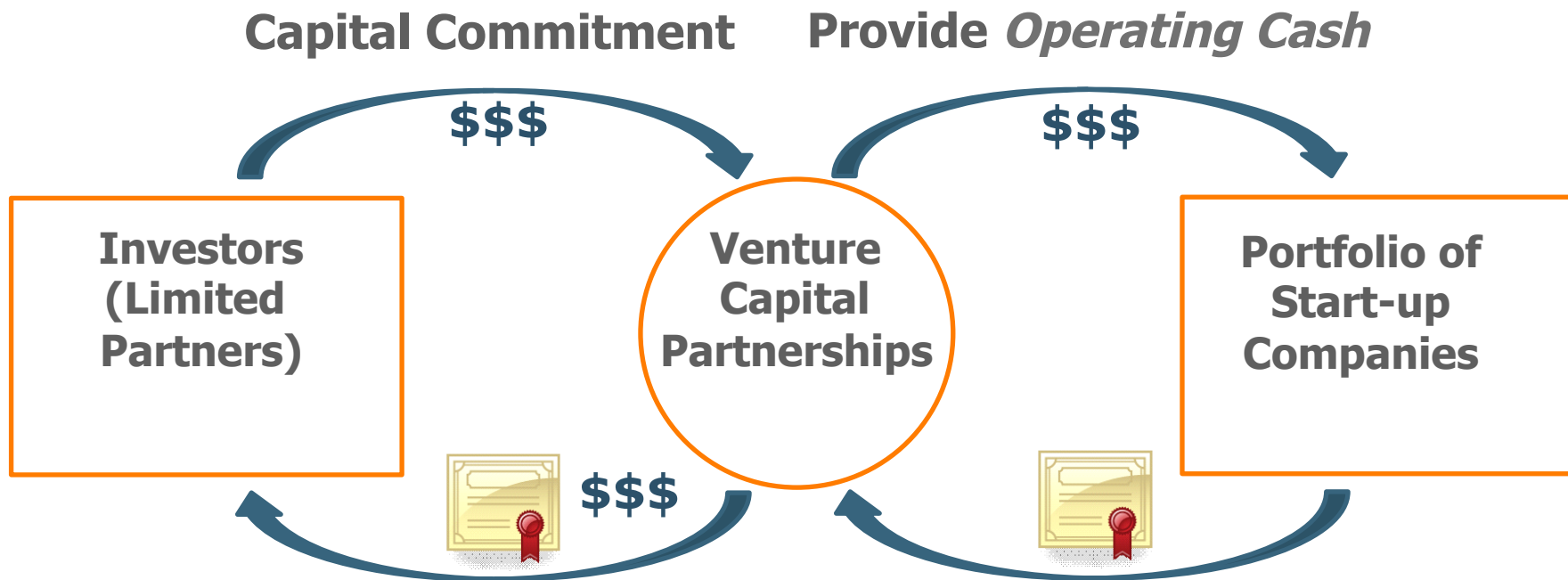
April 2, 2018
John Glushik

Overview

- Venture Fund Structure and Economics
- Venture Capital Decision Making
- Fundraising Guidance

Fund Structure and Economics

The VC cycle



Structure of a Venture Fund



Economics of a \$125 million Venture Fund

Investment	Outcome	Distributed
\$10	Home Run	100
\$10	Home Run	80
\$10	Triple	50
\$10	Double	30
\$10	Single	15
\$10	Single	15
\$10	Sacrifice Fly	5
\$10	Strike Out	5
\$10	Living Dead	0
\$10	Total Loss	0
\$100		\$300

Summary

Distribution: \$300

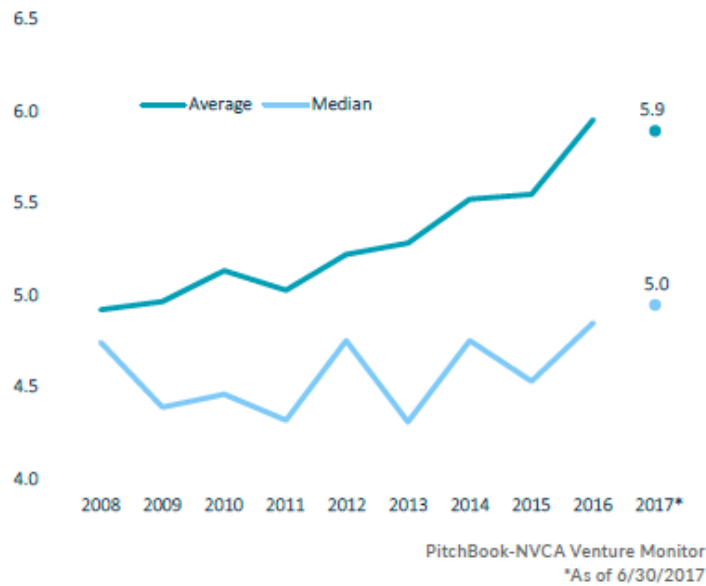
Expenses: (25)

Carry: (35)

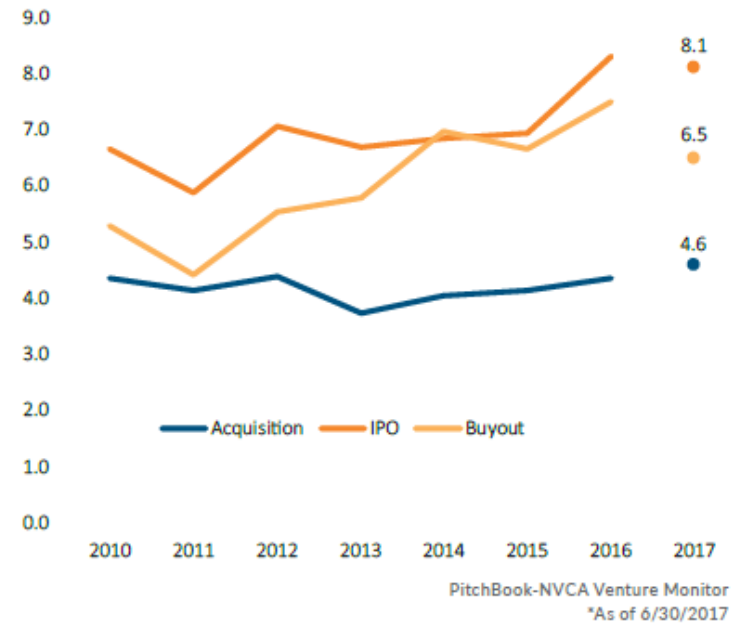
Net to LPs: \$240

Time to Liquidity

Median and average company age (years) at time of exit



Median time to exit (years) from first VC financing by type



Venture returns:

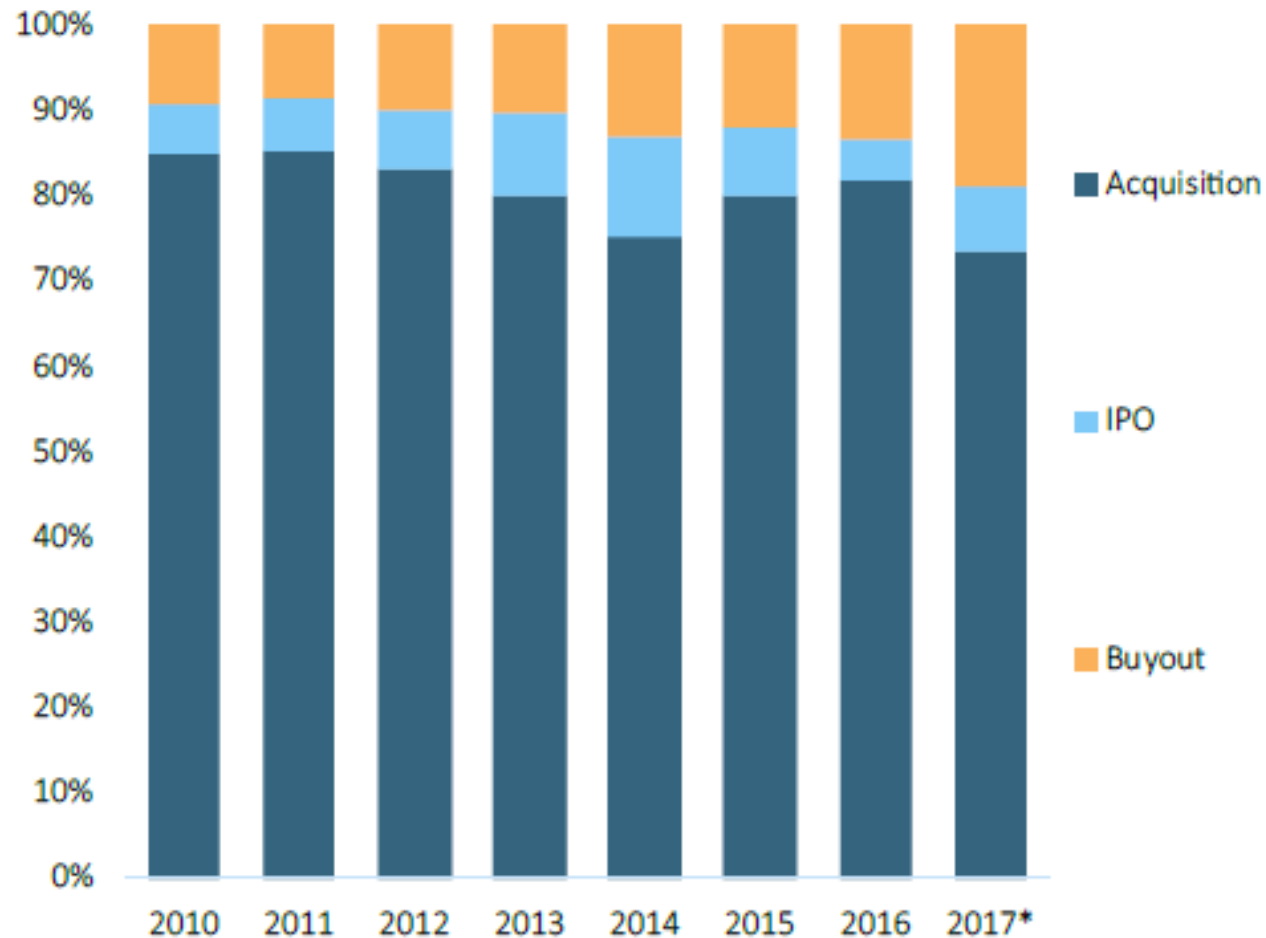
the time value of money

Years to return

	X	1	2	3	4	5	6	7	8	9	10
	1	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	2	100%	41%	26%	19%	15%	12%	10%	9%	8%	7%
	3	200%	73%	44%	32%	25%	20%	17%	15%	13%	12%
	4	300%	100%	59%	41%	32%	26%	22%	19%	17%	15%
	5	400%	124%	71%	50%	38%	31%	26%	22%	20%	17%
	6	500%	145%	82%	57%	43%	35%	29%	25%	22%	20%
	7	600%	165%	91%	63%	48%	38%	32%	28%	24%	21%
	8	700%	183%	100%	68%	52%	41%	35%	30%	26%	23%
	9	800%	200%	108%	73%	55%	44%	37%	32%	28%	25%
	10	900%	216%	115%	78%	58%	47%	39%	33%	29%	26%
	20	1900%	347%	171%	111%	82%	65%	53%	45%	39%	35%
	100	9900%	9000%	364%	216%	151%	115%	93%	78%	67%	58%

Multiple

US venture-backed exits (#) by type

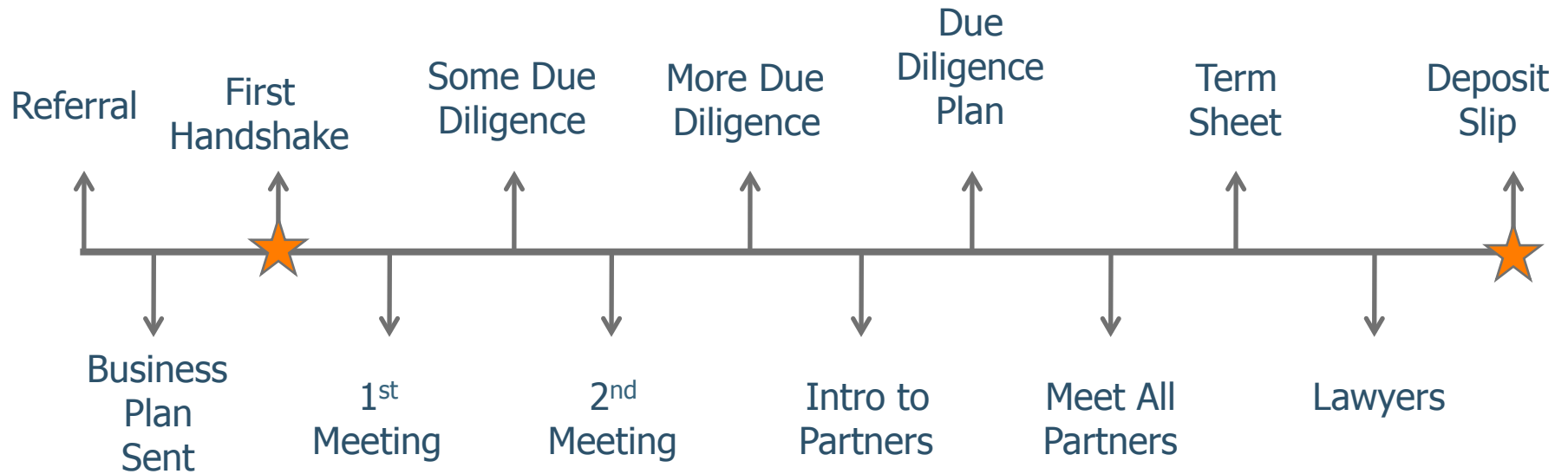


PitchBook-NVCA Venture Monitor

*As of 6/30/2017

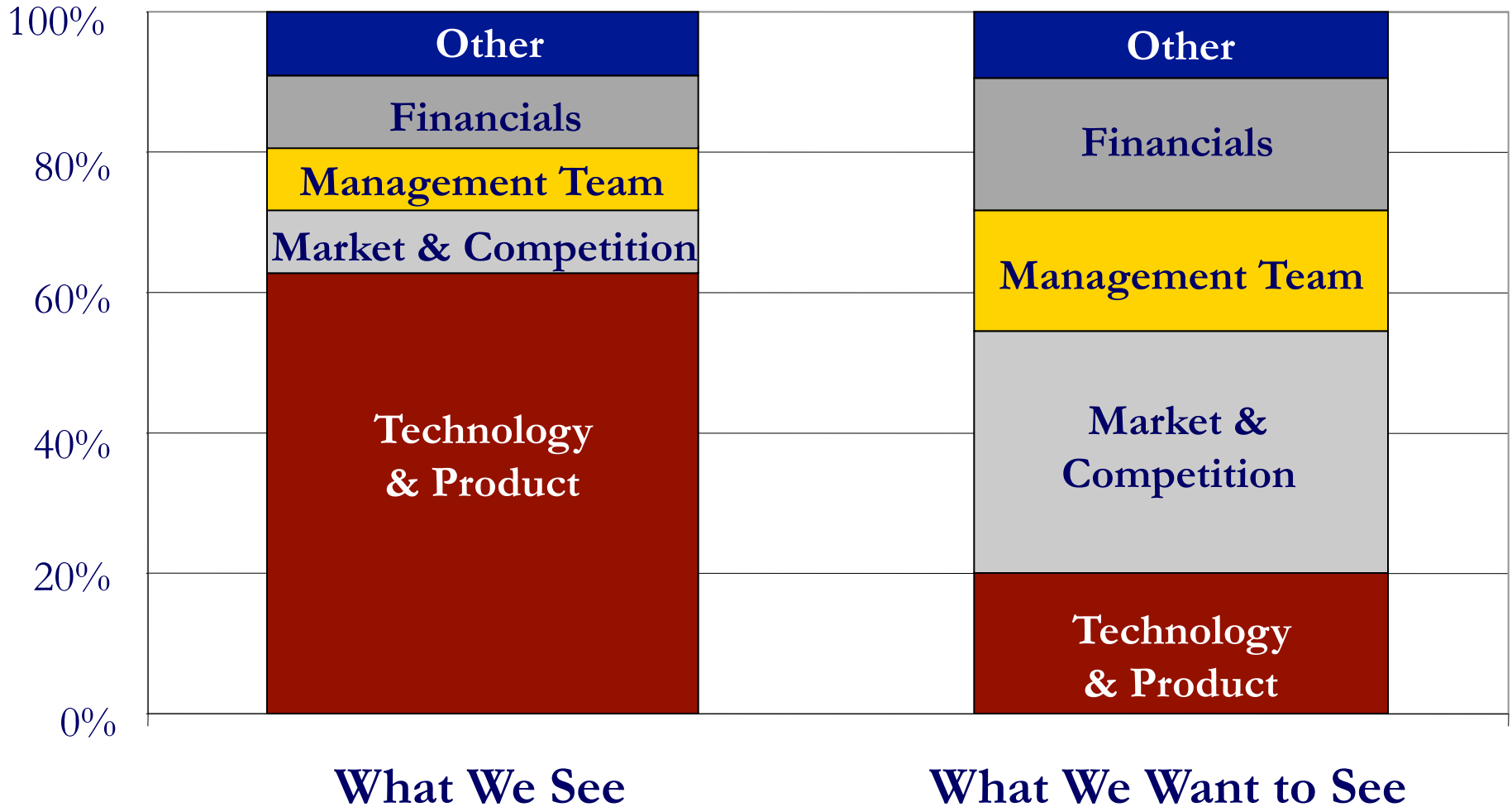
Venture Capital Decision Making

The investment process

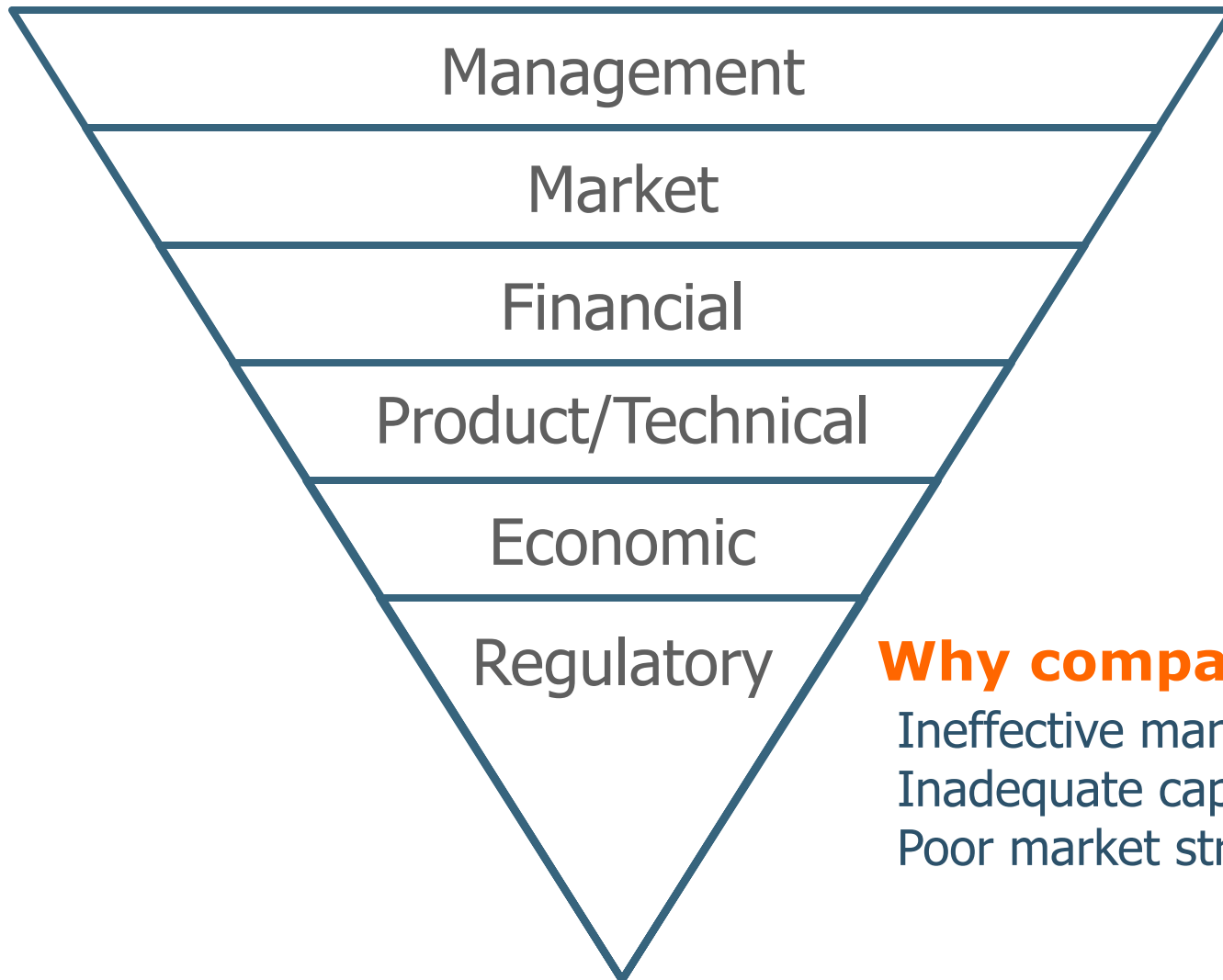


Content of plan, summary, slides

Percent of Content by Category



Evaluating opportunities



Why companies fail

Ineffective management
Inadequate capitalization
Poor market strategy

Management drivers/risks

- > Entrepreneurial leadership
- > Completeness and depth
 - » Right player at right position
 - » Ability to attract additional talent
- > Relevant experience
 - » Industry experience (domain knowledge)
 - » Entrepreneurial experience
- > Marketing & sales orientation
- > Comfort with ambiguity and change
- > Integrity

Market drivers/risks

- > Available size and growth
- > Timing
- > Business model
- > Sales & marketing strategy
- > Competition

Financial drivers/risks

- > Valuation
- > Value creation model
- > Total capital requirement
- > Financing strategy
- > Syndication
- > Exit value and timing

Product & technical drivers/risks

- > Stage of development
- > Technical feasibility
- > Maintenance and support
- > IP protection

Regulatory and Economic Drivers/Risks

> Regulatory

- » FDA, SEC, FTC, EPA (and foreign counterparts)
- » Changing rules/timelines/capital requirements

> Economic

- » Susceptibility to recession or cyclical
- » Reliance on other macro economic events

Fundraising Guidance

Know Your Audience: Fund Profile and Strategy

- > At what stage do they invest?
- > How much (\$) do they like to invest in each portfolio company: first round, all-in
- > What sectors do they focus on?
- > Do they have a geographic preference or limitation?
- > Do they normally lead or follow?
- > Will they be active or passive?
- > Any additional preferences? e.g. proprietary technology

Before Engaging

- > Create “required” overview materials
 - Executive summary
 - Presentation slides
 - Detailed financial forecasts
- > Consider writing a business plan
 - Reasons to write a plan
 - » To make sure you’ve thought through all aspects of the business
 - » To be prepared for all the questions you’ll get from potential investors
 - Reasons not to write plan
 - » You were taught in school that you should write a plan
 - » To show the investors that you can write a good business plan (we don’t care)
- > Develop a parallel (not serial) process for approaching investors – use referrals
- > Arrange for resources to delegate other tasks – fundraising will take most of your time

General Advice

- > Start treating potential investors like partners from the beginning
- > Be persistent
- > Do diligence on them
- > Assume that you are always being evaluated ... because you are

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