

# Investors - Expectations and Wants

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## Before we begin...

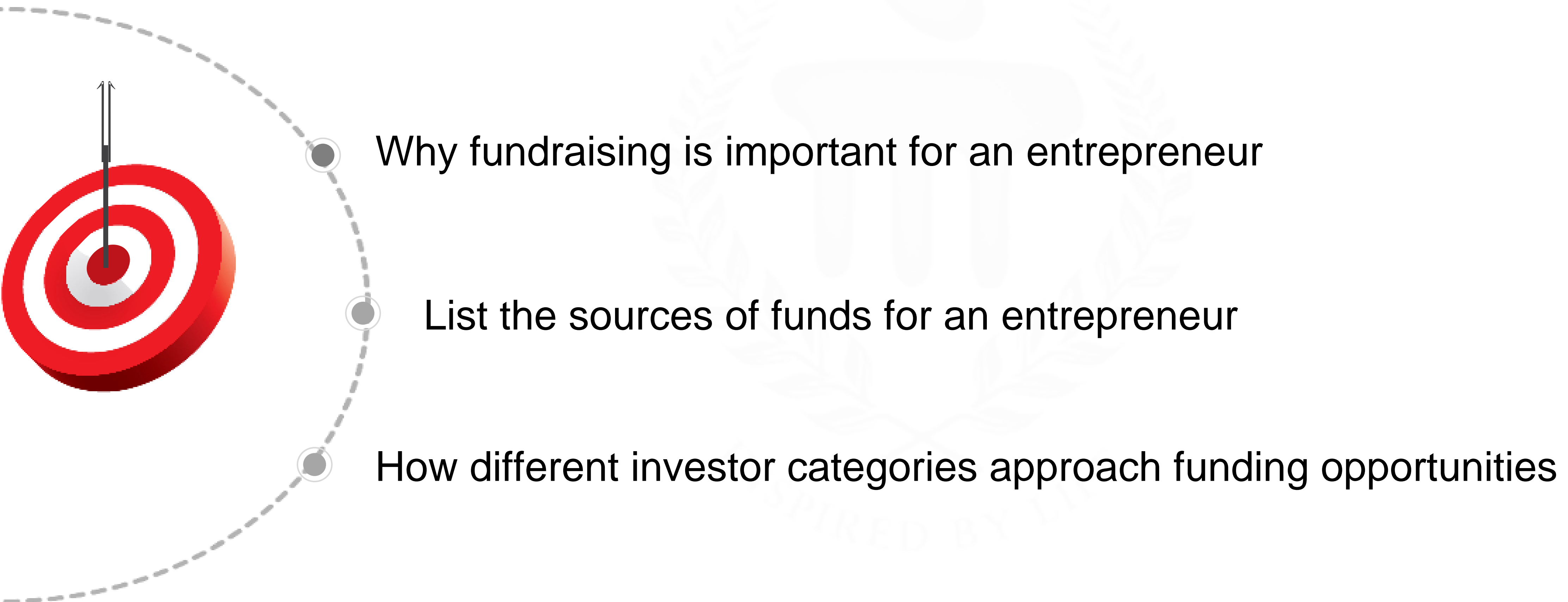
- ☑ Keep your video on as much as possible.
- ☑ Mute your audio except when speaking to the rest of the class.
- ☑ Participate actively and honestly in the classroom activities.
- ☑ Make notes as you go through each class.
- ☑ Please enter your question(s) in the chat box.
- ☑ When sharing experiences/viewpoints in class, keep them short and focused on the topic of discussion.





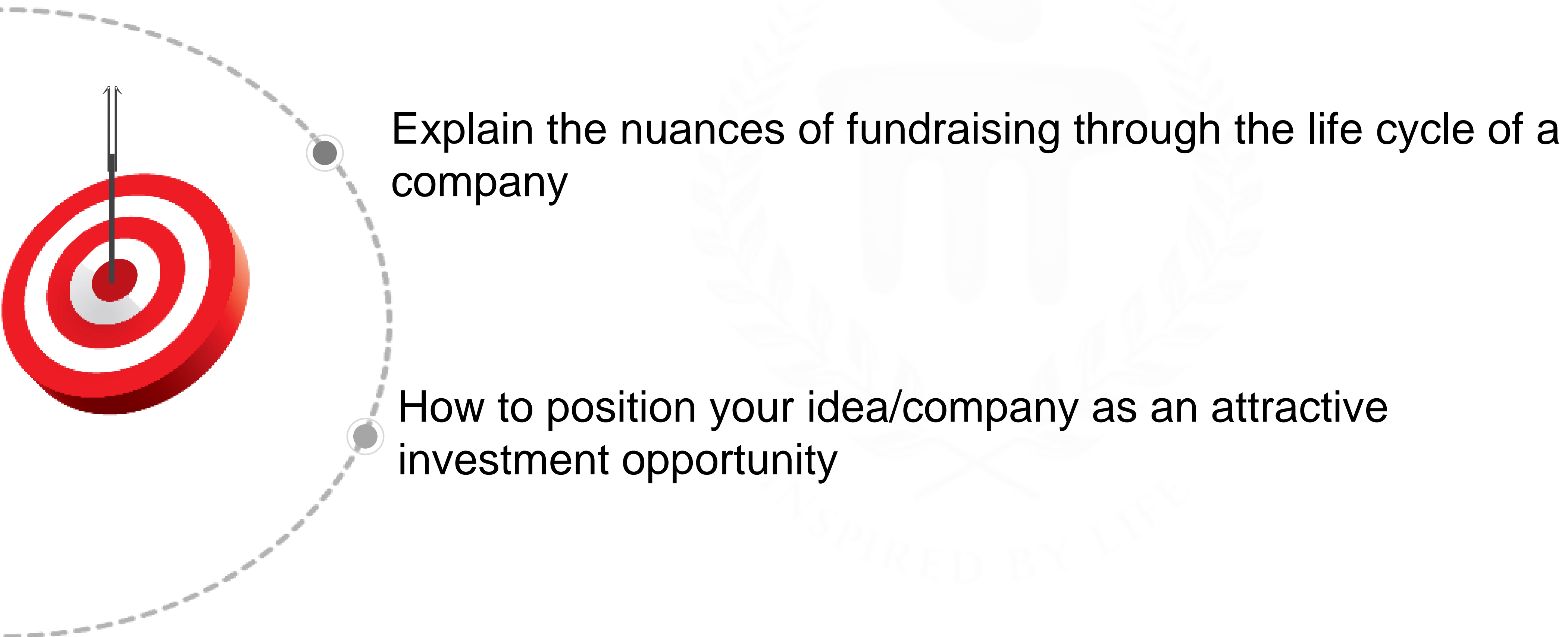
# Learning Objectives

At the end of this course, you will be able to understand:

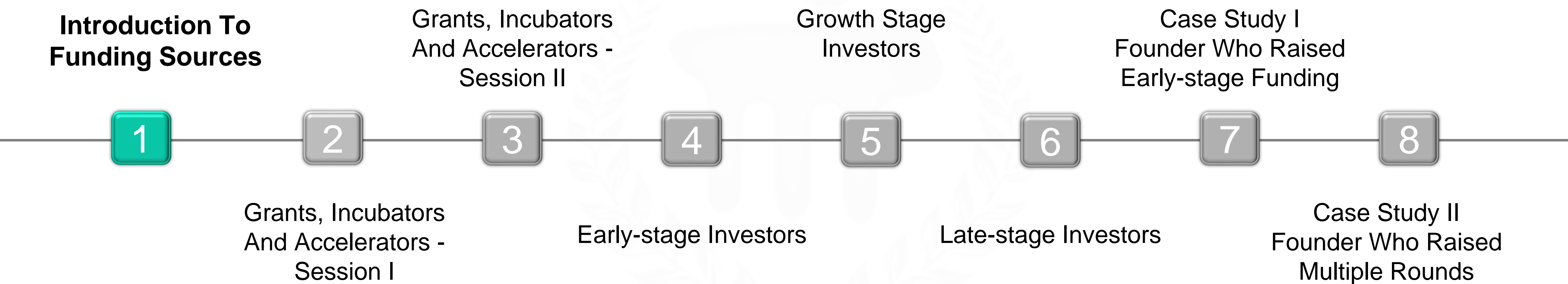


# Learning Objectives

At the end of this course, you will be able to understand:



# Session Plan: Investors - Expectations and Wants





# Introduction to Funding Sources - What We Will Cover

- 📄 Why raise funding
- 📄 Sources of funding
- 📄 Fundraising process
- 📄 What investors look for
- 📄 The 5Ws of fundraising
- 📄 Challenges with fundraising
- 📄 Key dos and don'ts in fundraising

A hand in a suit sleeve pointing upwards towards the word 'FUNDING'.

FUNDING





# WHY RAISE FUNDING?



## Activity 1

Why raise funding?





**What are the words that come to your mind when you hear the following question :**

Why should any start-up or existing company raise funding?

Please enter all words that come to your mind on the poll.





Quick Poll





# Why Raise Funding?

## Access to Capital





-  Incubation - turn idea into reality
-  Mitigate financial risk of founders
-  Fuel next phase of growth
-  Build cash cushion for survival/pivot





# Why Raise Funding?

## Build Credibility



-  Validation of idea/business
-  Attract and retain talent
-  Marketing and branding
-  Reassure suppliers





# Why Raise Funding?





## Mentoring and Networking

-  Leverage experience/expertise of funders/other portfolio companies
-  Leverage the network of investors to access newer customers, markets and geographies



# Why Raise Funding?

## Valuation Benchmarks




-  Benchmarks for following rounds of funding
-  Currency for M&A activities
-  Champions for subsequent rounds of funding
-  Provide exit opportunities for early backers





# Why Raise Funding?

## Build for Future

-  Adopt best practices
-  Strengthen controls and systems
-  Get IPO ready







# SOURCES OF FUNDING?



# Sources of Funding

## Inception to Early Stage

		Personal Funds	Friends and Family	Grants	Incubators and Accelerators	Crowdfunding
Investor	Source of funds	Own	Own	Govt, Non-profits	Institutional / Govt	Public at large
	Risk appetite	High	High	High	High	Moderate
	Return expectations	High	High	None, Low	Moderate	Moderate
	Engagement	Self	Passive	Mentoring	Mentoring	Passive
Company	Company stage	Start-up, Very early	Start-up, Early	Incubation, Early growth	Incubation, Early growth	Incubation, Early growth
	Funding size	Small	Small / Medium	Small	Small	Small / Medium
	Dilution	None	High, Moderate	None, Low	Low, Moderate	Low, Moderate
	Advantages	Full control	Flexible terms, Easier to access	Non-repayable	Strong networks, Mentoring	Large pool, Small ticket
	Limitations	High risk, Limited capital	Potential for strained relations	Highly competitive	Time commitments	Strong reach required, Highly uncertain
	Appropriate for	Initial set-up; Own wealth	Access to HNIs in network	Social impact businesses	More hand-holding desired	Mass appeal products

# Sources of Funding

## Early Growth to Late Stage

		Angel	Venture Capital	Private Equity	Strategic	IPO
Investor	Source of funds	HNIs	Institutional	Institutional	Corporate	Institutional, Public
	Risk appetite	High	High	Moderate	High	Low
	Return expectations	High	High	Moderate	Moderate	Moderate
	Engagement	Self	Passive	Mentoring	Mentoring	Passive
Company	Company stage	Early growth	Early to mid-growth	Late growth	Early to late growth	Liquidity event
	Funding size	Small to medium	Medium	Large	Medium to large	Variable (Pri/Sec offering)
	Dilution	High	High, Moderate	Moderate, Low	Moderate, High	Variable
	Advantages	Mentorship, Ind. connect	Mentorship, Ind. connections	Ind. Connections, M&A	Corporate access	Visibility, liquidity, branding
	Limitations	High return expectations	Pressure for growth	Pressure to list	Potential loss of control	Market volatility, market timing
	Appropriate for	High growth potential	Start-ups in high growth industry	Pre-IPO companies	High entry barrier sectors	Profit making, Strong systems



# Rounds of Funding - Pre-seed to IPO

Funding Round	Description	Range (₹ Cr)	Average (\$ M)	Investor Type	Equity Dilution	Purpose	Indicative Names
<b>Pre-seed</b>	Incubation	0.1-2	N/A	Friends, Family, Incubators, Angels	High / Moderate	Start-up capital, Proof of concept	Mumbai Angels, Accel Atoms
<b>Seed</b>	Early-stage funding	2-20	1.6	Friends, Family, Angels, Early VC	High	Proof of concept, Product dev.	Ah! Ventures, Blume
<b>Series A</b>	Early growth	20-100	11	Venture Capital	High	Scaling business, Market expansion	Kalaari, Accel, Stellaris
<b>Series B</b>	Expansion funding	100-300	27	Venture Capital	Moderate	Market consolidation, R&D	Nexus, Norwest, Sorin
<b>Series C</b>	Further scaling	300-800	49	Venture Capital	Moderate	Growth, Valuation, M&A	Peak XV, A91 Partners
<b>Series D+</b>	Late stage	800+	140	Private Equity, Hedge Funds	Low	Preparing for IPO, Valuation	Warburg Pincus, GA Partners
<b>IPO</b>	Public offering	Variable	N/A	Public Mkt Funds, Retail	Low/ None	Liquidity, Business expansion	FIIIs, DIIIs, HNIs, Retail

- Deal size ranges are indicative; can vary significantly depending on sector, founders, investors etc.
- Avg. deal sizes are for the year 2022 (source : Indian VC Report 2023, IVCA/Bain & Co., page 15)
- Many VCs span Seed funding & Series A-C, hence there will be many common names across these categories

# Loans - Limited Options for Early-stage Start-ups

Government Schemes

Venture Debt

Equipment Financing

Bank Loans

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# Loans - Limited Options for Early-stage Start-ups

## Government Schemes

- **Pradhan Mantri Mudra Yojana (PMYY):**  
Collateral-free micro-loans (up to ₹10 lakhs)
- **Stand Up India:**  
Loans for under-represented categories  
(₹10 lakhs to ₹1cr)
- **Start-Up India:**  
Collateral-free loan guarantee cover for loans  
provided by banks/NBFCs (up to ₹10 Cr)





# Loans - Limited Options for Early-stage Start-ups

## Venture Debt

- Usually available to start-ups that have already raised venture capital funding
- Lenders evaluate based on company's valuation and growth potential, rather than cash flows





# Loans - Limited Options for Early-stage Start-ups

## Equipment Financing

- Equipment manufacturers might provide easy financing (for companies that have already raised VC funding)
- Equipment itself serves as collateral against the lending





# Loans - Limited Options for Early-stage Start-ups

## Bank Loans

- Challenging for start-ups due to lack of credit history, cash flows and collaterals
- Viable option for growth-stage companies with some track record of revenues and profits







# FUNDRAISING PROCESS

12%

# Fundraising Process - Three Stages to Closure

## Prepare

- Build a solid business plan
- Identify funding need
- Appoint investment banker (mid-late stages only)
- Develop financial model
- Create pitch deck

## Engage

- Identify potential investors
- Make initial contact and pitch
- Negotiate term sheets
- Undergo due diligence

## Close

- Sign shareholder's agreement
- Receive funds
- Issue shares or debentures
- Execute to plan
- Engage as decided (periodic meetings, updates and reports)







# What Investors Look For?





# Founders - Most Critical Factor for Investors



## Skills and Expertise

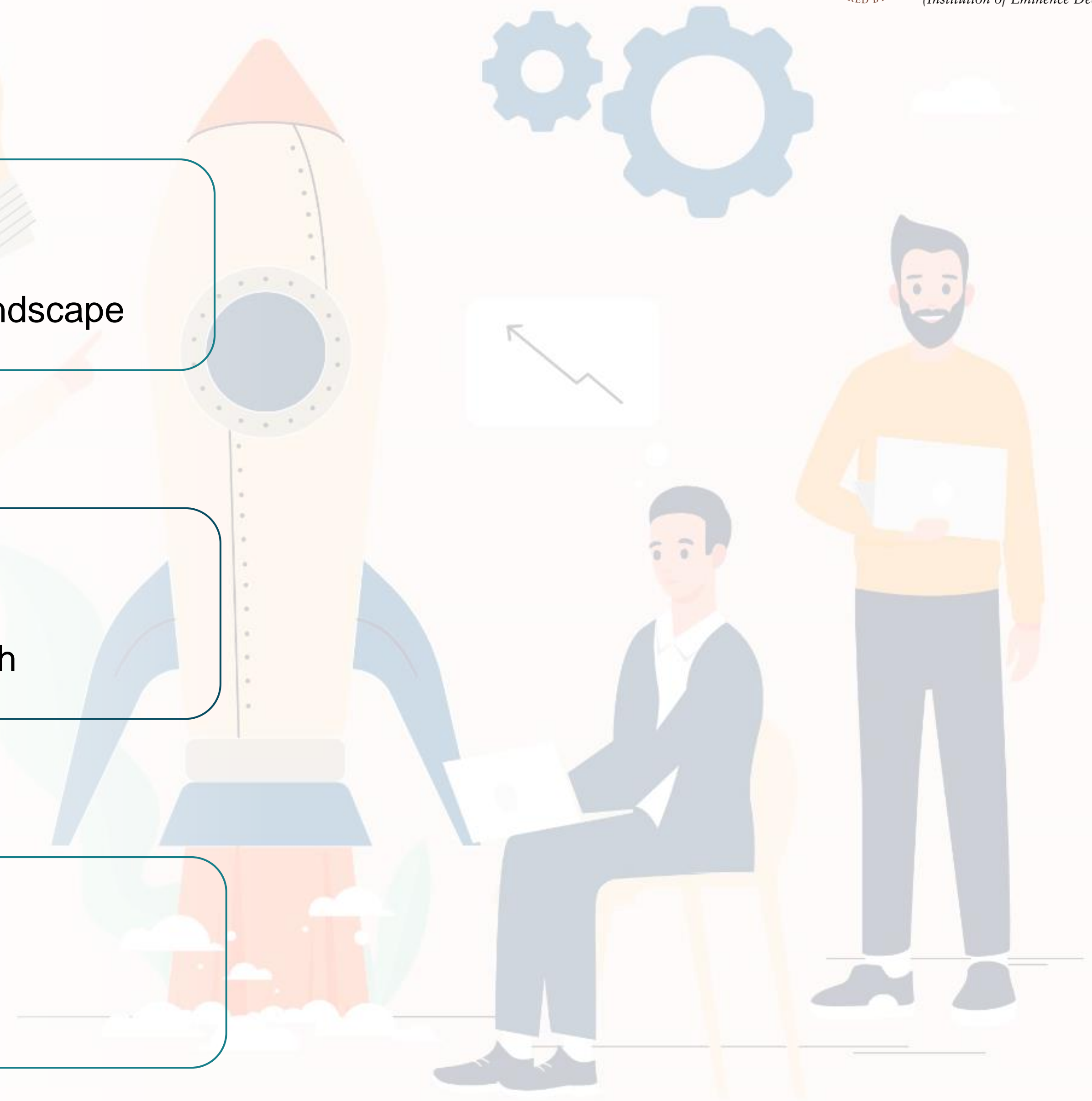
-  Sectoral and technical knowledge/experience
-  Understanding of market space and competitive landscape

## Vision and Passion

-  A clear vision for the start-up
-  Passion for problem-solving and hands-on approach

## Leadership and Execution



-  Ability to lead team and scale business
-  Demonstrated execution track record







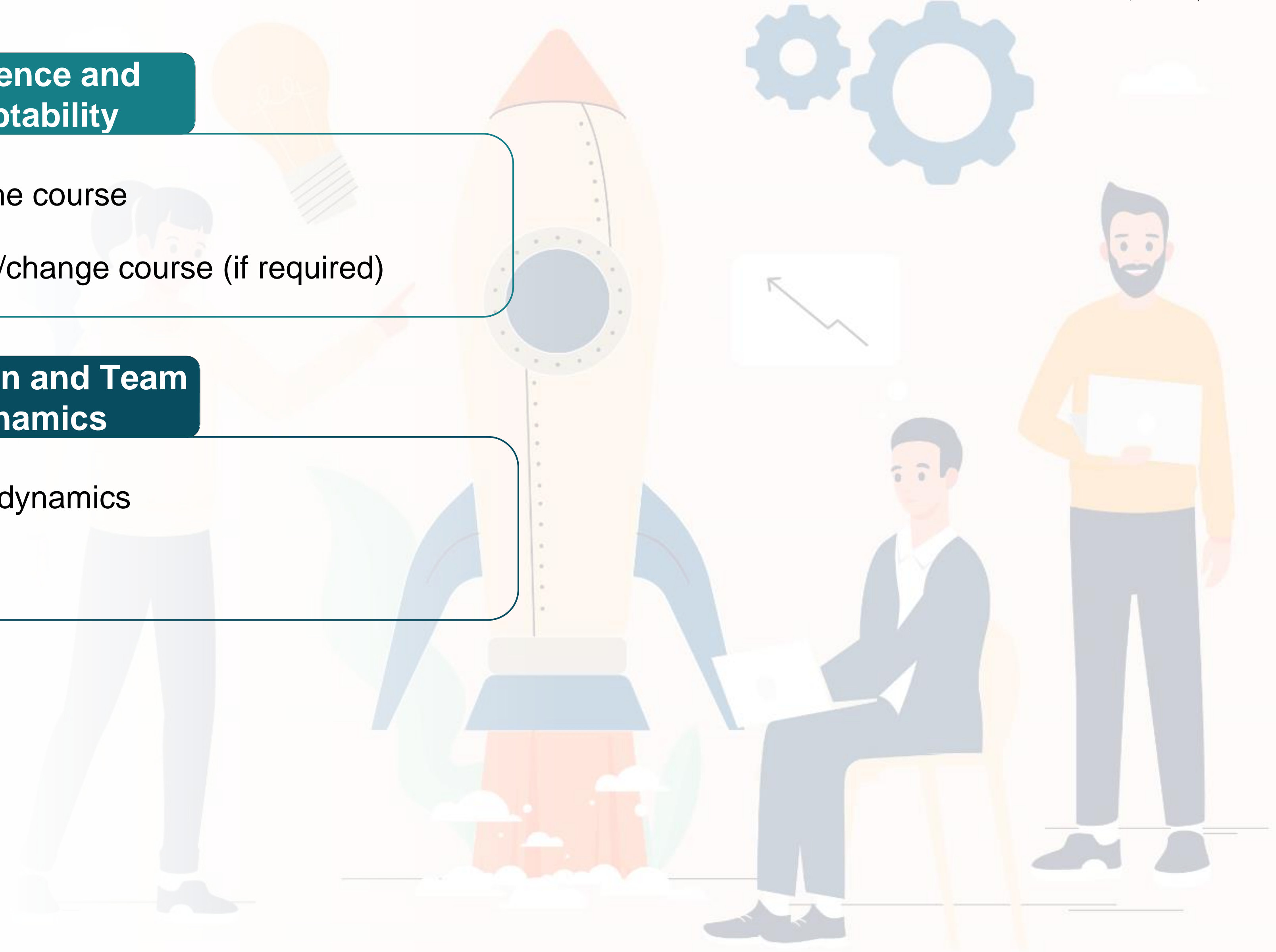
# Founders - Most Critical Factor for Investors

## Resilience and Adaptability

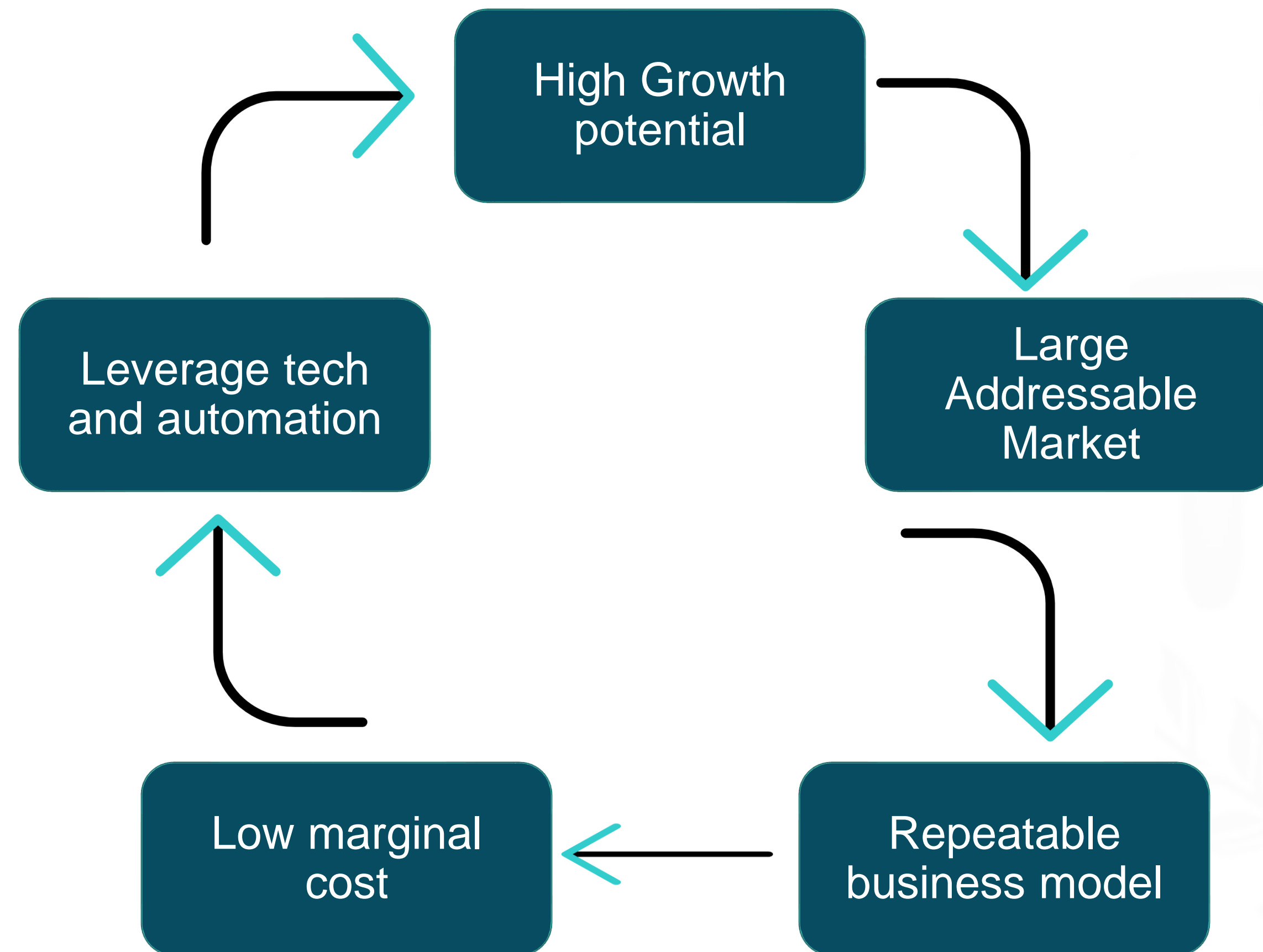
-  Grit and resilience to stay the course
-  Flexible and nimble to pivot/change course (if required)

## Cohesion and Team Dynamics

-  Strong inter-personal team dynamics
-  Complementary skillsets



# Investors like Scalable Businesses



- **Large TAM** (Total Addressable Market)
- Easily **replicable** in newer markets with minimum customisation
- Revenue growth **without a proportional rise in the costs**



# Beyond Money - What Drives Investors

## Passion

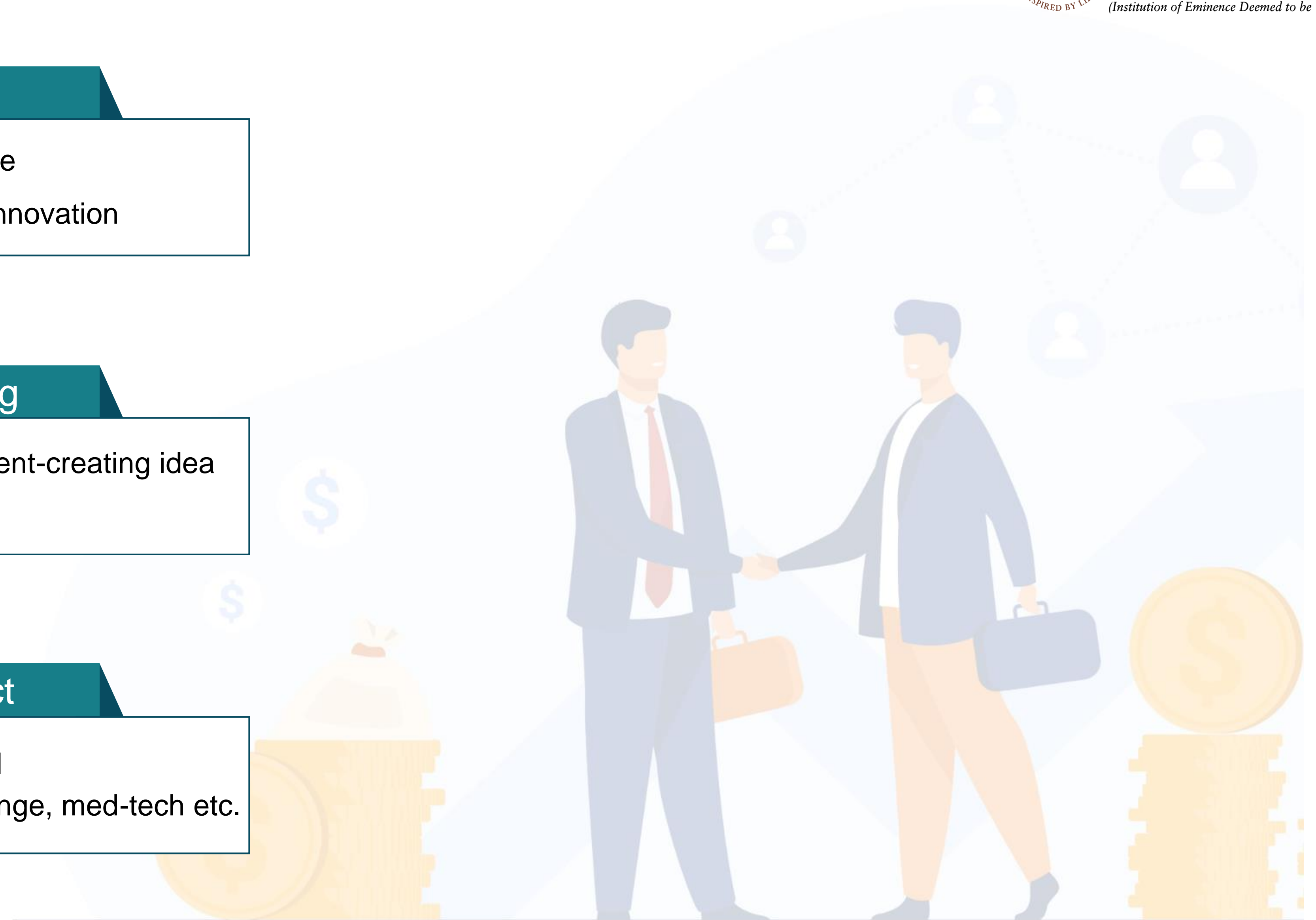
- Champion a technology or cause
- Opportunity to back disruption/innovation

## Legacy Building

- Potential association with segment-creating idea
- Mentoring a high-potential team

## Societal Impact

- Making a difference to the world
- Impact in areas like climate change, med-tech etc.



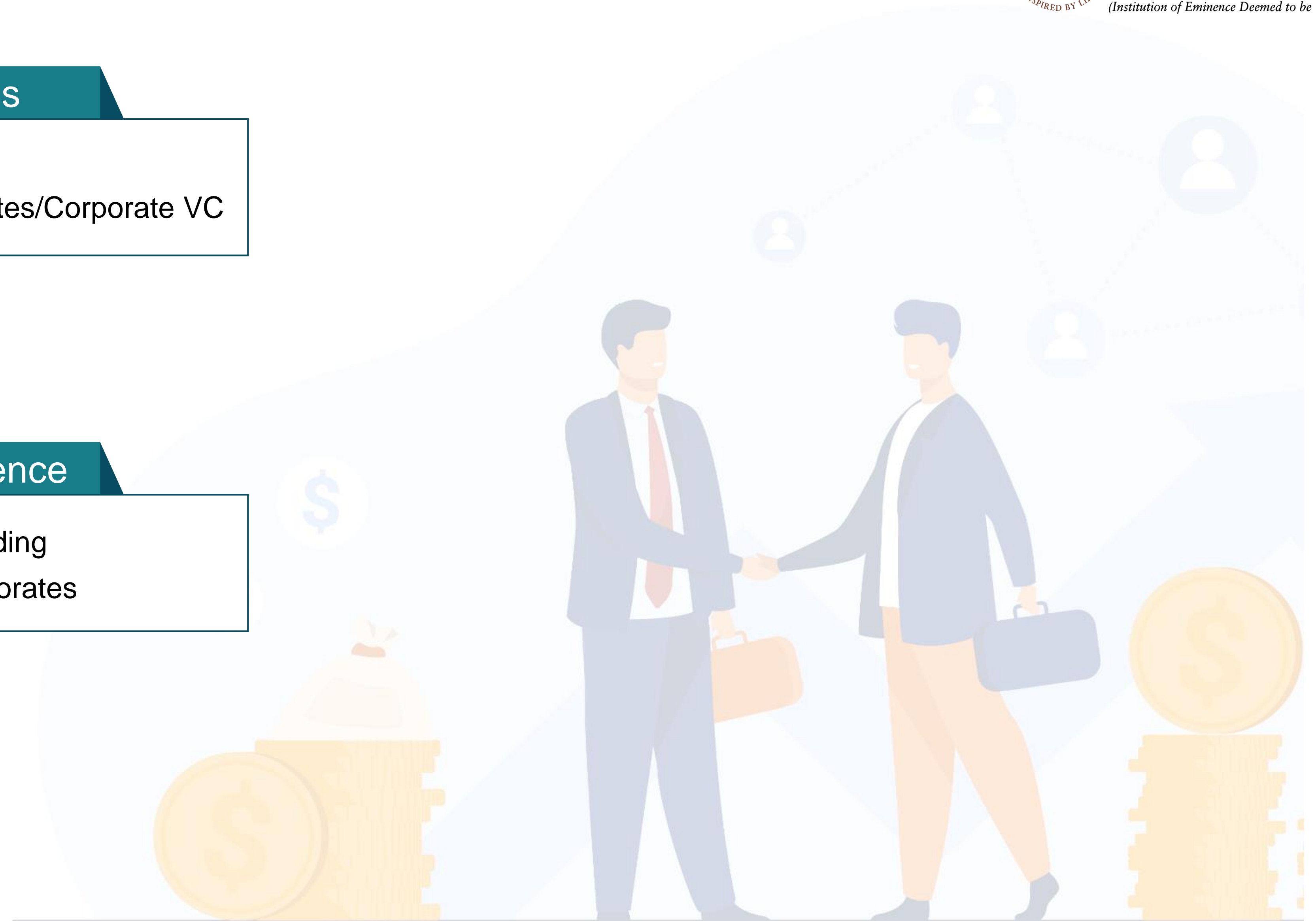
# Beyond Money - What Drives Investors

## Strategic Needs

- Filling gap in the portfolio
- Adjunct businesses for Corporates/Corporate VC

## Circle of Competence

- Leverage domain of understanding
- Apt for Family offices and Corporates







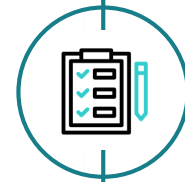
# The 5Ws of Fundraising



# 5W Checklist for Fundraising

## Who

are the founders



## What

is the “market gap” being addressed



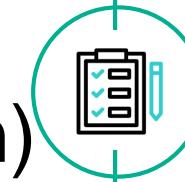
## Why

is this product/service superior to other solutions



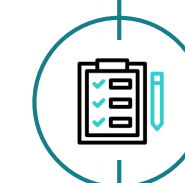
## Where

is the marketplace (geographical, online/offline, D2C, so on)



## When

is the product/service/campaign proposed to be launched  
(an idea/proof of concept/already selling)



- Practice a **2-min elevator pitch** covering these 5Ws
- Write a **1-page investment note** covering all 5Ws



# YouTube - Seed and Series A Funding Investment Note

## Investment summary

Founded by three early PayPal employees. Two engineers, one designer. Seed-stage investment opportunity. Top 10,000 internet site within two months of launch.

- **Business**
  - o YouTube's goal is to become the primary outlet for *user-generated video content* on the internet. The company provides a very easy-to-use interface for users to upload, share, and browse their content.
  - o Every digital camera now ships with digital video recording capability. But consumers have no easy way to share their personal video content – files are too large, hosting and bandwidth is expensive, and there are no standardized video file formats.
  - o Users upload videos to YouTube. The encoding backend converts uploaded videos to Flash Video, which works on ~98% of web browsers. The streaming format means that no file downloading is required.
- **Market**
  - o YouTube provides a platform and community for video self-publishing. We've seen similar self-publishing emerge for text (blogs), photos (flickr, webshots, hotornot), and audio (podcasting). This presents interesting advertising revenue opportunities.
  - o There are also interesting vertical market opportunities: eBay auction videos (e.g., autos), real estate videos, etc.
- **Financials – TBD**
  - o The company currently serves 100,000 videos per day, at an all-in hosting cost of \$4,000 per month.
  - o The team has developed a software abstraction layer that enables it to use very inexpensive hardware and bandwidth to deliver videos.
- **Competition**
  - o Big players: Google Video Search, Ourmedia.org, Open Media Network
  - o Small players: DailyMotion, Vimeo, Putfile
- **Team**
  - o Steve Chen. UIUC, CS. Recruited as one of PayPal's earliest engineers
  - o Chad Hurley. PayPal's first designer, responsible for site design and logo
  - o Jawed Karim. UIUC, CS. Graduate CS student at Stanford. Also one of PayPal's earliest engineers
- **Proposed terms**
  - o Two-stage, milestone-based financing: \$1m seed stage, \$4m Series A.
  - o SC to own ~30% after Series A.
  - o Proposed Series A milestones:
    - Develop comprehensive business plan, including financial plan
    - Develop self-serve advertising product
    - Sign up at least five (5) advertisers who place \$5,000 or greater advertising orders
    - Ensure platform scalability to handle at least one million video views per day
    - Recruit a VP of Business Development

## Investment summary of Sequoia Capital's seed & Series A investment in Nov 2005

- ✓ Confidential information which was later released due to lawsuit between Viacom and YouTube over copyright infringement with hosted videos

### The investment summary covers all 5Ws

- ✓ **Who** - The team section covers the 3 founders
- ✓ **What** - The business section covers the “market gap” being addressed
- ✓ **Why** - Business & Market sections cover how the offering is superior to others
- ✓ **Where** - Business & Market sections cover where the offering will be available
- ✓ **When** - The opening para indicates that the product is at the early stages; proposed terms also cover milestones for Series A funding

# YouTube - Sequoia made 44X returns in 1.5 years

## FOR IMMEDIATE RELEASE

### Media Contacts:

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## YOUTUBE RECEIVES \$3.5M IN FUNDING FROM SEQUOIA CAPITAL

*Internet Commerce Pioneers from PayPal Reunite to Make Videos Fast, Fun and Easy for Consumers to Create Their Own Personal Video Network*

MENLO PARK, Calif. – November 7, 2005 – YouTube, a consumer media company for people to watch and share original videos through a Web experience, today announced it has completed a \$3.5M round of private equity funding from Sequoia Capital. YouTube, founded by Internet commerce pioneers from PayPal, has developed a new service that allows people to easily upload, tag, and share personal video clips through [www.YouTube.com](http://www.YouTube.com) and across the Internet on other sites, blogs and through e-mail. The service also allows users to create their own personal video network.

This investment will be used to accelerate the company's rapid growth, enhance product development and expand sales and marketing efforts.

"With more and more people carrying around devices that capture video—from digital cameras to cell phones—YouTube is set to become an essential destination for watching and sharing these experiences," said Chad Hurley, CEO and co-founder of YouTube. "We are very pleased by the support of Sequoia Capital. Since our public preview, we are already moving 8 terabytes of data per day through the YouTube community – the equivalent of moving one Blockbuster store a day over the Internet."

Prior to YouTube, it was not easy for people to make video available on the Web. The burden was on the user to support all the media players and the 100s of multimedia

## Sequoia invested \$11.5M for ~ 30% stake

- Nov 2005 (Seed+ Series A) : \$3.5M
- Apr 2006 (Series B) : \$8M

## Google acquired YouTube in Mar 2007

- Total value paid \$1.65B
- Sequoia got approx. \$500M for its ~30% stake
- Incidentally Google was also a Sequoia investee company

## Sequoia made ~ 44X returns in 1.5 years

## YouTube is currently valued ~ \$455B

- Google's best investment - 275X in 17 years!
- YouTube is a subsidiary of Alphabet (Google's parent)
- Needham & Co. (an independent investment bank) attributes a value of \$455B to YouTube (source: Bloomberg, Jul 2024)





# Challenges with Fundraising

# Challenges with Fundraising

## Access



- Limited access to potential sources of funding
- High competition for funding

## Dilution



- High dilution too early in company's life cycle
- Reduced control over company

## Time



- Time consuming process
- Diverts management attention

## Complex



- Complex due diligence process
- Legal and regulatory constraints

## Pressure



- Pressure for rapid growth
- Pressure for early exit/liquidity event





# Key Dos and Don'ts of Fundraising

# Takeaways - Five Dos and Don'ts for Successful Fundraise

DOS	DON'TS
Identify fund needs appropriately (add a little cushion for exigencies)	Raise too little or too much money (either case leaves little wiggle room later)
Research and approach appropriate investors	Optimise for valuations early (focus on getting “good” investors & right amount of money)
Think like an investor and pitch accordingly	Underestimate time commitment (start fund raising process well in time)
Close committed money quickly (money in the bank is what counts)	Let expenses grow too fast after fund raise
Execute to plan (huge credibility booster for next round of fund raise)	Over-promise and under-deliver



The background features a smooth gradient from a light tan on the left to a dark brown on the right. Large, semi-transparent circular shapes are layered across the background. On the left, a light tan circle and a white circle are partially visible. On the right, a dark brown circle and a solid orange circle are partially visible. The text 'HAPPY LEARNING!' is centered in a bold, white, sans-serif font. Below it are three small orange dots.

**HAPPY LEARNING!**

