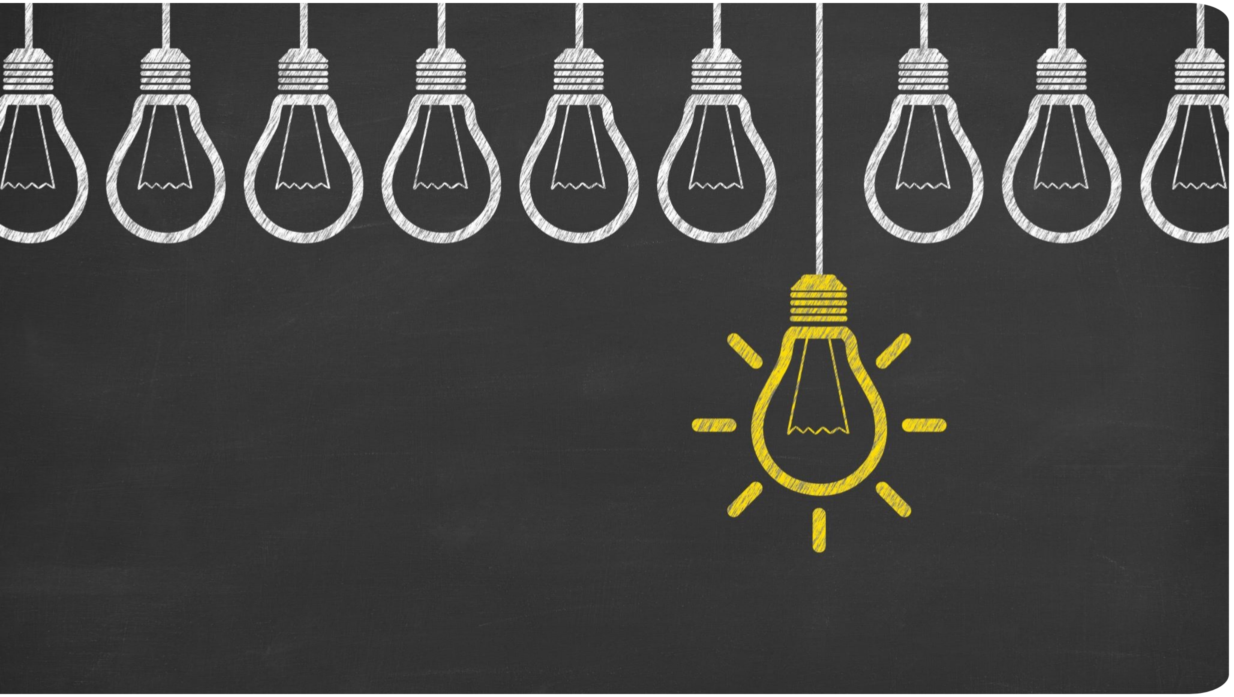

Venture Funding

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Corso: ICT Startup

June 2023

About Ruggero Frezza

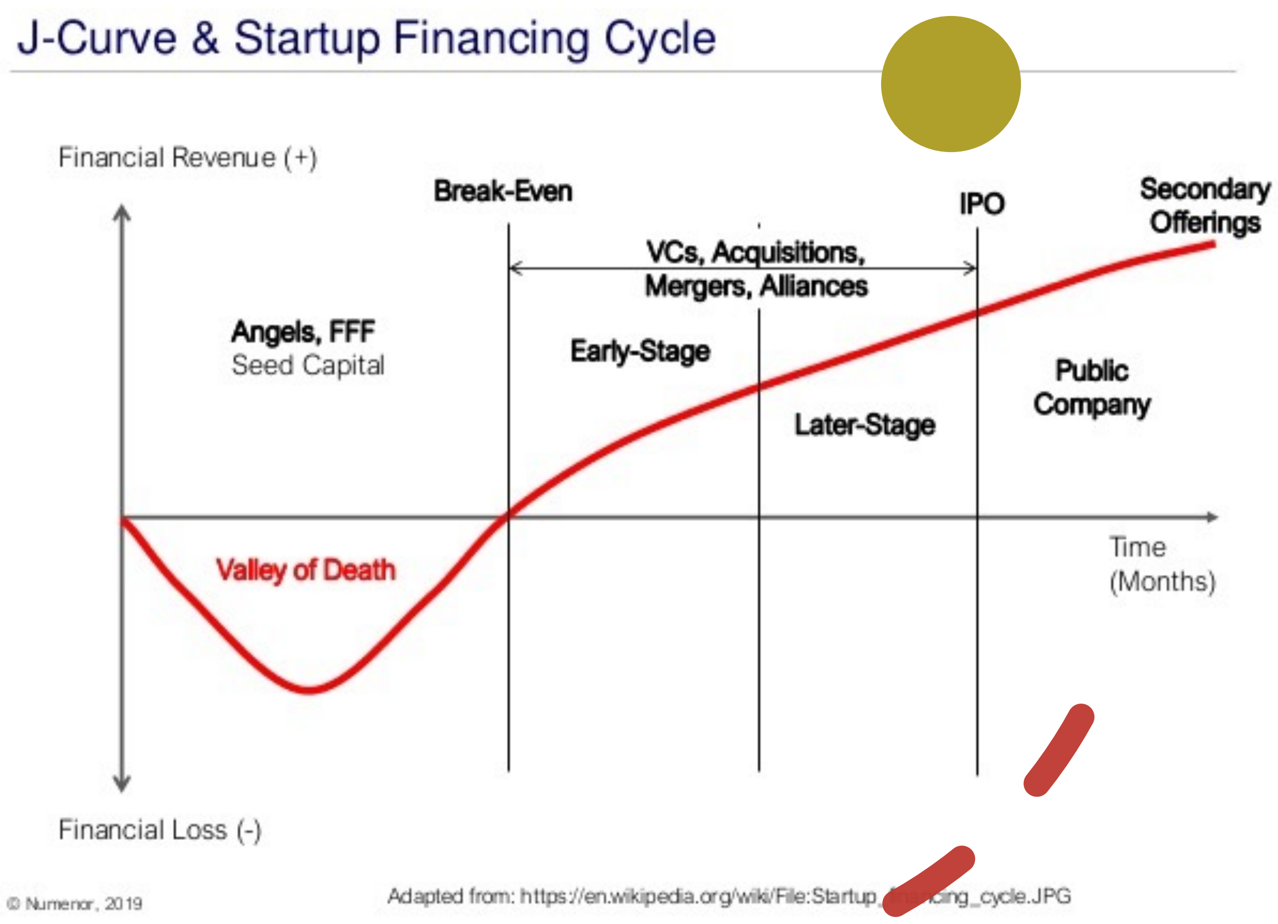
He is not a venture capitalist, but he did raise money for a number of startup companies which he has contributed to launch:

- https://www.btsbioengineering.com/it/
- https://www.vi-grade.com/
- https://www.m31.com/
- https://www.centervue.com/
- https://www.adaptica.com/
- https://www.zehus.it/
- https://www.hypersurfaces.com/
- http://adant.com/
- https://www.uqido.com/
- …

Why does a startup need funding?

Cash flow dynamics:

- Startup costs
- Early stage losses
- Working capital (Capitale Circolante/Operativo definito come Attività Correnti – Passività Correnti)
- Cash liquidity buffer
- R&D investments
- Inventory investments
- Customer acquisition investments
- Accelerating growth



Raising Capital

- Bootstrapping
- Friends, Family and Fools
- Business Angels
- Crowdfunding
- Grants
- Accelerators/Incubators
- Subsidies / Gov Programs
- VC, CVC

Self-Funding / Bootstrapping

Some startuppers prefer to invest their own money into the company initially, without having to resort to other means of investment. Bootstrapping normally happens with initial customers supplying the startup at very specific conditions.

- The company is normally very tight on cash since self-investments are normally low and cover just a limited operational time.
- Startuppers putting the investment normally trade a portion of the company equity on this (but watch out for the real long-term value of such an investment).

The Three Fs

Family/Fools/Friends are often a very common way to obtain initial funding.

- No predetermined amounts even if this is normally a bootstrap amount (few k€).
- There are no rules.
- It is quite common that there is little or no need to payback such investment and they may ask for quite some unstandard conditions.
- They normally bring “only” the money.

Business Angels

Money

Experience

Network

Advisory

Reputation

Business Angels Networks

In Italy there are some of the best Business Angels Associations of Europe. Their investments fall in an approximate range between

250 K – 2 mln

In Italy in 2019 Business Angels have invested 53 milions on 88 deals.

Venture Capital Monitor, AIFI

How does a BAN work

- Yearly membership fee
- Investments are made through Special Purpose Vehichles
- The network creates a legal entity which hires an operative team responsible of managing:
  - The selection process
  - The network events
  - Collect information on the investments
  - Manage the SPV's
  - Manage the alert levels: yellow, red

BAN: the selection process

1. The deck is sent to the BAN operative team which is responsible of the first screening
2. The proposals that pass the screening are sent to members of the network who are expert of the specific areas
3. Those proposals that are approved by the members are sent back to the operative team
4. The operative team calls the proposers and together with the network members who chose them prepare the pitch to the assembly
5. The pitch is presented to the assembly and soft commitments are collected
6. If the soft commitments are sufficent to cover the required investment a champion is nominated and the negotiation starts
7. If the negotiation ends positively, the due diligence starts
8. If the due diligence ends positively, the investment contract and the shareholder agreement is prepared signed
9. The SPV invests and the champion follows the investment

Crowdfunding

- Equity crowdfunding

  It is quite different than a BAN investment

- Backers crowdfunding (Kickstarter, Indiegogo)
  - B2C
  - Costly
  - Declining (On average, Kickstarter only achieves success at a rate of 37 percent for all the projects funded on its site.)

Venture Capital

Typical investment size:

Early stage 500 K – 5 mln

Later stage 3 mln – 10 mln

In 2019 in Italy Venture Capital invested 597 milion Euro on 148 deals.

Venture Capital Monitor, AIFI

Venture Capital /2

How does it work?

General partners manage the fund. They own a carried interest. They share the risk by investing a small portion of the fund.

Limited partners invest. They own a liquidation preference. Sometimes they can fire the fund managers.

Corporate Venture Capital

Big, well-established companies sometimes have their own venture capital arms that invests in startups which are aligned with their strategic goals.

- They can supply very good networking / market knowledge
- They may act as a “captive market”
- They may put some special clauses in the investment contract in order to force the alignment to their interests.
- They can supply strategic resources and partnerships which could be otherwise unreachable to a startup

Grants

A grant is a financial award for a business issued by a government, corporate, a non profit entity or other entities.

- They are “gifts” – no need to be repaid
- Quite/Very/Extremely competitive
- Often requires re-aligning your strategy to the entity issuing the grant.
- There may be limits on how you use the funds.
- They may be very aligned to specific objectives (es. Green economy).

Accelerators/Incubators

There are a lot of entities substantially investing in your startup in exchange for equity and providing initial funding and eventually other kind of support.

- They may or may not ask for equity in return.
- The funding vary (normally between 25 and few hundred k€.
- They may offer significant networking / visibility.
- They may offer formation & training / mentorship.
- They may offer incubation services.
- Sometimes you are limited to buy their services with the money they give you.

Government Programs / Subsidies

There is a plethora of government programs (either at European level, national level or even regional level) or subsidies linked to very specific industries/objectives.

- Big number of programs.
- Very diverse range of investment / mechanisms – they may mix grant money and loans at very special interests.
- Will have very specific investment conditions (ie specific TRL).
- They may require very high effort in building the proposal or the partnership (ie with universities) and in managing the project and all records).
- They normally have tight rules and allowing conditions.

Terms of Investment Contracts

In setting up investment contracts, the negotiation typically pivots around:

- Valuation (pre-money, fully diluted)
- Staged funding (when do you get the money)
- Protective rights (bad/good leaver, tag/drag, call/put, liquidation preference)
- Governance and control rights (auditor, nomination of board members, selection of the C level executives)
- Information rights (board observers)