

VCIC Executive Summary

VENTURE CAPITAL Investment Competition®



DEAL SNAPSHOT	
Pre-Money Valuation	\$ 37.5M
Dartmouth Ventures Investment	\$ 5.0M
+ Syndicate Investment (?)	\$ 5.0M
= Total Series A	\$ 10.0M
Post-Money Valuation:	\$ 47.5M
% Ownership by Team	10.10%

THIS PAGE IS FOR JUDGES ONLY (not entrepreneurs)

Top 5 Reasons We are Investing

1. AI geometric analysis engine enables 50% faster quotes and greater functionality than closest competitors, an IP gap that will take years to eliminate
2. 20% MoM revenue growth to \$1.5M ARR, 0% churn rate, and great unit economics (LTV/CAC 24x, 46x, and 40x for growth, professional, and enterprise respectively) proves strong product-market fit and sales team
3. Custom parts value chain creates cross-selling opportunities that can spur growth; allows for a 10x exit with several options (PE, IPO, strategic acquisition)
4. Sticky customer base due to the company's strong customer relationship management and the inconvenience of switching to a new quoting platform given software familiarity and personalization
5. Founding team has strong technical expertise with a thorough understanding of key customer pain points

Top 5 Reservations

1. Proposed pre-money valuation makes our fund disproportionately dependent on the success of this investment
2. Small customer base of most machine shops crimps total addressable market while increasing the need for efficient sales to reach substantial market segment
3. Software requires personalized implementation for manufacturers of all sizes, resulting in loss of time and high cost of human capital
4. Industry trends toward additive manufacturing may result in disruption to core subtractive manufacturing market and may devalue the need for advanced geometric analysis
5. Uncertain ability to maintain sustainable competitive advantage over pre-existing and future solutions tailored to machine shop niche

Your Overall Investment Decision:

Dartmouth Ventures proposes a 10M on 37.5M investment with Paperless Parts, supplying \$5M of the overall \$10M while acting as the lead investor. Paperless Parts' ability to provide a well-needed product that targets the long-term pain point of an outdated quote and ordering process for custom parts makes a 10x return a very real possibility. Its end-to-end platform dedicated to supporting the custom parts manufacturing process, including marketing, CRM, and price quoting, makes it a sticky solution for the current low-tech, high-friction landscape. Paperless Parts' advanced geometric analysis engine is able to accurately recommend quotes 50% faster, helps increase customer win rate by 50%, which is a strong point of differentiation amongst competitors. The data insights provided on manufacturing and sales will aid in rapid future customer acquisition while facilitating continuous development of the core product. We expect the company's development to help move their software up the value chain and allow for potential upselling and cross-selling. This fuels robust, growing cash flows and unique in-house competencies that can attract a large strategic acquisition in the near future.

Given these strong future projections, Dartmouth Ventures is placing Paperless Parts at a pre-money valuation of \$37.5M rather than their proposed valuation of \$85M. Paperless Parts has only achieved \$1.5M in ARR and has delayed its development of its sales force. 20% MoM growth cannot justify a 56x valuation multiple on revenue. Dartmouth Ventures believes Paperless Parts has earned an impressive 25x revenue multiple that values the company at \$37.5M. Dartmouth Ventures also proposes that Paperless Parts raises a \$10M round instead of a \$15M round to increase Paperless Parts' capital efficiency, reduce founder dilution in this round and raise larger future rounds with nine-figure pre-money valuations supported by an aggressive post-Series A growth strategy.

Valuation:

The company has previously raised a \$3 million seed round with a post-money valuation of \$15 million. The company is currently looking to raise an additional \$15 million Series A with a pre-money valuation of \$85 million. The company's proposed valuation represents a 5x step up from the Seed round and a 57x sales multiple on \$1.5 million of ARR.

While Dartmouth Ventures believes the current financing ask and valuation are too high, we propose a smaller pre-money valuation of \$47.5 million. This is still a 320% increase over Paperless Parts valuation of \$15 million 4-months ago and represents a 20x ARR multiple which appears more reasonable when factoring in Paperless Parts strong growth trajectory. Dartmouth Ventures plans to invest \$5 million representing half of the round while syndicating out the remaining portion of the deal. We plan to let the current seed investors fill their full pro-rata. This round values Paperless Parts at a \$47.5 million post-money valuation and should give them enough runway for another 18 months.

Expected Return:

Dartmouth Ventures expects Paperless Parts to exit through acquisition by a strategic buyer in six-years or by a larger player who operates upstream in the custom parts value chain. We believe companies like Autodesk and Dassault Systems are examples of such buyers.

Base Case:

In our base case, we assume Paperless Parts captures 7.8% of Dartmouth Ventures estimated global TAM of \$1.8 billion with an ARR of \$143 million at exit. Given the currently underserved market, we believe that Paperless Parts can continue to grow quickly and reach this number within 6 years. Assuming a strategic acquisition at an 8x multiple (8x multiple is determined using a public comparable set and precedent transactions), Paperless Parts would be acquired for a valuation of \$1.145B. Given the small initial ownership and \$6 million of reserve funds, we believe Dartmouth Ventures can fulfill their pro-rata and we predict an ownership at exit of 10%. With a 10% ownership at exit, Dartmouth Ventures would return \$114M representing a 10.4x multiple on invested capital.

Bull Case:

If the Paperless Parts is able to add additional products and cross-sell their customers across the custom parts value chain, we Predict Paperless parts would be able to realize a global TAM of over \$7 billion. By addressing a larger market, we believe Paperless Parts will be able to achieve faster and more sustainable growth and exit for a higher \$1.3B valuation.

Key Modeling Assumptions:

- Assumed 19,238 machine shops in the United States
- Assumed international market is 4.5x the number of machine shops in the US with a similar distribution
- Used weighted average for manufacturing market split as described in Paperless Parts deck
- Using current Paperless Parts pricing as decided on website

Due Diligence:

Team

- Walk me through how you plan to build out the sales team needed and who are your key hires that you will be needing to add on?

Product

- What are the unit economics for your software, particularly on % margin, LTV/CAC?
- What do you think your core product offering will look like five years from now?
- What is your current gross profit margin?
- Walk me through product development will flow through to subscription price expansion over time.?
- How will you defend your IP lead in automated geometric analysis?
- How are the pie charts for support by industry determined? Personal experiences servicing people or ability to apply technology based on some set of generic formats?
- Greater competitive landscape and advantages
- What does the founder and team see as long-term existential threats to the platform?

Market

- Of your chief competitors, how many of them are venture-backed startups and how many are run as lifestyle businesses?

- What percentage of the manufacturing software market would spend money on this specific software?
- Can you explain to me how you plan to sustain 20% MoM growth going forward?
 - How is churn calculated?
 - How long does initial onboarding take with customers? Most customers are starting to quote with paperless parts within one week of using the platform.
 - Average deal size? Biggest deal? Market strategy going forward? Selling method?
- Which customer segment are you currently targeting currently? When will you expand to other segments?

Fund fit

- What is your idea of a successful exit? What valuation?
- How much do existing investors own, how much ungranted, type of stock?

Finance

- How much do existing owners and founders own?
- What are the terms of past financing including the convertible note raised a couple of months ago?
- How much is in the option pool and ungranted options?
 - How is burn rate so low with amount of human capital necessary (customization for machine shop, sales)?
- How much capital do you currently have left?

Valuation

- What milestones did they hit pre-seed investment to warrant a \$15M seed investment?
- What warrants an \$85 million pre-money valuation? What progress has been made and milestones hit since the seed round?
- Would you be willing to raise money at a lower valuation to help prepare for a larger exit?

Because Intelligence

Top Reasons For Not Investing	Opportunities and Strengths
<ul style="list-style-type: none"> • Unclear pathway to a sustainable competitive advantage • LinkedIn recruiting strategy used by founder unlikely to build strong organic ties within founding team • Shaky market definition - weak segmentation of total market and unclear on size or nature of total market • Lack of fund fit due to high technical risk and premature product development timeline • High-touch salesforce combined with lengthy 6-9 month sales cycle will require heavy need for human capital 	<ul style="list-style-type: none"> • Passionate female founder with robust marketing experience and long-term vision • Machine learning algorithm and network effects can provide early differentiation needed to close major enterprise clients • High social impact potential to accelerate CSR and belief-driven buying if Because takes off • Large market enjoying secular growth driven by the rise of belief-driven buying and CSR • Has the opportunity to become a leading analytics platform on organic marketing which becomes another major revenue stream
<p>Brief Explanation: The biggest question we looked to answer was whether the value of the Because platform to get matched to the right influencers justified its cost to businesses. At this time, we believe that the Because platform is too early stage in its product development, GTM, and uncertainty surrounding customer adoption to satisfactorily address this question. Furthermore, we do not feel comfortable in backing the team the founder has put together as they were largely sourced from various social networking platforms such as LinkedIn. Finally, a high-touch sales process will likely be required to acquire core customer set of mid-market and enterprise. This combined with a lengthy sales cycle and onboarding process will also require heavy deployment of human capital. This combined with an unclear path to developing a sustainable competitive advantage is problematic as customers may likely churn after all the efforts dedicated to acquiring them.</p>	

Boston Surface Railroad Company

Reasons For Not Investing	Opportunities and Strengths
<ul style="list-style-type: none"> • Founder focus on sustainable profitability through high yields is inconsistent with venture focus on exit returns 	<ul style="list-style-type: none"> • Bypasses traffic/faster arrival time due to traveling through rails instead of roads

<ul style="list-style-type: none"> • Most likely strategic buyers may be too financially distressed to consider a major acquisition along with no planned exit opportunity by the company • The company's past "strategic" bankruptcy reveals large and growing political risk with state governments • Customer success enjoyed by MVP bus route offering proves threat of entry from future busing competitors • Competitive pressures can make it difficult to sustain the operating margins needed to meet return expectations 	<ul style="list-style-type: none"> • Strong team with relevant experience in the railroad and infrastructure industry • Strong initial traction from MVP offering • Promising strategic partnership with lead investor of current round • Impressive IP stack that can power future expansion
<p>Brief Explanation: While BSRC could make an interesting growth equity deal, BSRC simply is not a fit for a \$125M venture fund. The railroad industry is highly capital intensive with significant operating leverage -- the company does not expect to return even 1x for the next five years and has no plan or desire for an exit, which would be necessary to justify investment from a venture capital fund. Although BSRC has a green-field opportunity to capitalize on an untapped regional market by leveraging existing infrastructure and federal subsidies, this deal cannot fit with the targets of a venture fund.</p>	

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Team's Investment	\$ 5.0M
+ Syndicate Investment (?)	\$ 5.0M
= Total Series "VCIC"	\$ 10.0M
Post-Money Valuation:	\$ 47.5M
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VCIC Term Sheet Summary

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Pre-Money Valuation	\$37.5M
Series "VCIC" Investment	\$5.0M
Option Pool	6% option pool
Board Structure	2 board seats for founders, 1 board seat for previous VC-backer, 1 board seat for Dartmouth Ventures, and 1 board seat for independent expert
Closing Conditions	Completion of due diligence Completion of legal documents to the satisfaction of Investors
Liquidation Preference	1x preference plus any undeclared dividends, pari passu, non-participating
Dividends	5% non-cumulative, payable if and when declared by board
Anti-Dilution	Broad-based weighted average adjustment
Key Dates	<ul style="list-style-type: none"> - 30 days: due diligence completed - 45 days: key documents signed
Other Key Terms	<ul style="list-style-type: none"> • No-shop agreement for first 45 days of signing • Payment of legal fees up to \$20k by entrepreneurs if a deal is agreed upon • Proprietary Information and Inventions Agreement • Right of First Refusal • Standard information rights to investors • Founders shall devote 100% of professional time to the Company. Any other professional activity shall require approval of the board. • Standard redemption rights • Double-trigger acceleration with one-year acceleration schedule for ESOP • Co-sale rights to investors • Standard restriction on sales for common stock • Company indemnification of board members

Growth Forecast							
Financials	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Revenue ARR							
Dartmouth Ventures	1.5	6.0	14.4	31.1	60.7	103.1	157.8
Management	1.5	14.9	48.0	101.6	158.2	221.4	287.8
Bear	1.5	3.8	7.5	13.9	24.3	37.6	50.8
Drivers							
Dartmouth Ventures		300%	140%	116%	95%	70%	53%
Management		892%	223%	111%	56%	40%	30%
Bear		150%	100%	85%	75%	55%	35%

Comparables			
Summary			
Method	Weighting	Median Multiple	Mean Multiple
Public Comps	25%		
Vertically Aligned SaaS	33%	9.4x	12.5x
CRM Software	33%	6.7x	9.7x
Manufacturing & Analysis Design Software	33%	9.1x	10.4x
		12.3x	17.3x
Private Comps	75%		
Vertically Aligned SaaS	33%	6.0x	6.0x
CRM Software	33%	7.5x	7.2x
Manufacturing & Analysis Design Software	33%	6.1x	6.4x
		4.4x	4.4x
Weighted Average		6.8x	7.6x
Paperless Parts FY19 Revenue (in mm): \$ 158			
Dartmouth Ventures Valuation (in mm) \$ 1,080 \$ 1,201			

Valuation and Exit Valuation

Return Analysis	
Dartmouth Venture Invested Capital	\$ 5,000,000
Follow-On Capital	\$ 6,000,000
Total Capital Invested by Dartmouth Ventures	\$ 11,000,000
Current Revenue ARR	\$ 1,500,000
Revenue Multiple	25x
Current Round Pre-Money	\$ 37,500,000
Total New Investment	\$ 10,000,000
Current Round Post-Money	\$ 47,500,000
Dartmouth Ventures Ownership	10.1%
Exit Revenue	\$ 157,757,933
Revenue Multiple	8x
Exit Valuation	\$ 1,262,063,462
Dillution Assumption by Exit	15%
Current % Ownership	10.1%
% Ownership at Exit	8.6%
Value at Exit	\$ 108,348,148
MOIC	09.8x

Sensitivity Analysis							
	2x	4x	6x	8x	10x	12x	14x
\$ 122,757,933	1.9x	3.8x	5.7x	7.7x	9.6x	11.5x	13.4x
\$ 127,757,933	2.0x	4.0x	6.0x	8.0x	10.0x	12.0x	14.0x
\$ 132,757,933	2.1x	4.1x	6.2x	8.3x	10.4x	12.4x	14.5x
\$ 137,757,933	2.2x	4.3x	6.5x	8.6x	10.8x	12.9x	15.1x
\$ 142,757,933	2.2x	4.5x	6.7x	8.9x	11.1x	13.4x	15.6x
\$ 147,757,933	2.3x	4.6x	6.9x	9.2x	11.5x	13.8x	16.1x
\$ 152,757,933	2.4x	4.8x	7.2x	9.5x	11.9x	14.3x	16.7x
\$ 157,757,933	2.5x	4.9x	7.4x	9.8x	12.3x	14.8x	17.2x
\$ 162,757,933	2.5x	5.1x	7.6x	10.2x	12.7x	15.2x	17.8x
\$ 167,757,933	2.6x	5.2x	7.9x	10.5x	13.1x	15.7x	18.3x
\$ 172,757,933	2.7x	5.4x	8.1x	10.8x	13.5x	16.2x	18.9x
\$ 177,757,933	2.8x	5.5x	8.3x	11.1x	13.9x	16.6x	19.4x
\$ 182,757,933	2.9x	5.7x	8.6x	11.4x	14.3x	17.1x	20.0x
\$ 187,757,933	2.9x	5.9x	8.8x	11.7x	14.7x	17.6x	20.5x
\$ 192,757,933	3.0x	6.0x	9.0x	12.0x	15.0x	18.1x	21.1x

Proposed Cap-Table

	Pre-A Shares	Series A (Preferred)		Total Post A		
		Shares	Investment	Shares	%	Value
PREFERRED						
Seed	5,000,000	1,533,333	\$ 2,500,000	6,533,333	21.6%	\$10,652,174
Convert Note		1,150,000	\$ 1,500,000	1,150,000	3.8%	\$1,875,000
Dartmouth Venture - Series A		3,066,667	\$ 5,000,000	3,066,667	10.1%	\$5,000,000
Series A		1,533,333	\$ 2,500,000	1,533,333	5.1%	\$2,500,000
COMMON						
Founders	15,000,000			15,000,000	49.5%	\$24,456,522
New Options						
Options Ungranted Pre-A	1,800,000			1,800,000	6%	\$2,934,783
Options Granted Pre-A	1,200,000			1,200,000	4%	\$1,956,522
Total	23,000,000	7,283,333	\$10,000,000	30,283,333	100%	\$47,500,000
		Pre-Money: \$37,500,000		Post-Money ↑		
		New Share Price: \$1.63				