



equity fingerprint
the business°

SKYPE – a case study.




All information from searching on Google and
estimates



The beginnings...




-  was started in 2002 by the founders of Kazaa P2P file sharing program:
 - Nikalas Zennstrom (1966, Swedish)
 - James Friis (1976, Danish)
 - Jaan Tallin (1972, Estonia)



The beginnings...



-  was invented in 2000
- Kazaa is a *file sharing* program
- 2003: 315 million downloads : the “*most downloaded program in the world in 2003*”
- Had problems with music industry due to piracy
- Global free market for music, video etc etc



Funding



- 2002 \$2M
 1st Angel round
 3 Angels + Tom Draper
 Tom Draper Investment Co. (VC)
- 2004 \$18M
 2nd VC round
 Draper Fisher Jurvetson
 Bessemer Venture Partners
 Index Ventures
 Mangrove Capital Partners



Milestones and Product



- Easy to install
- Easy to use (5 minutes after installation)
- No firewall issues
- Reliable connection and good sound/video
- “*Worked 100x better than anything else we had seen*” – Rob Stavis of Bessemer.



Business model



- Charging for
 - Voicemail
 - Connection to a landline
 - Reselling arrangement with ISPs

Multibillion \$\$\$ potential



Making the Exposed Facility (EF) – Some Data



- The Economist – “*Giving Ideas Wings*”

16th September, 2006

“The earliest investors (*i.e. from 1st Angel round*) saw a huge return, **350 times or so**, on their estimated \$2M investment”

- VC’s return **40 times** on \$18M investment.

(Estimate - PSB)

-  sold to  for \$2.6BN in 2005 and to Microsoft for \$8BN to in 2011



Making the EF



- Final equity:

	Buy-out ebay	\$2,600M
Less:	Angels (\$2M x 350)	\$700M
	VCs (\$18M x 40)	<u>\$720M</u>
So:	Founders + Team	\$1,180M

Approximate ;-) but remarquable ... 😊



Equity split



	Control of equity (millions)	Percentage ownership		
		At buy-out	After Angel round	initial
Founders + team	\$1,180	45 %		
Angels	\$700	27 %		
VCs	\$720	28 %		
TOTAL	\$2,600	100 %	100 %	100 %



Equity split



	Control of equity (millions)	Percentage ownership		
		At buy-out	After Angel round	initial
Founders + team	\$1,180	45 %	62 %	
Angels	\$700	27 %	38 %	
VCs	\$720	28 %		
TOTAL	\$2,600	100 %	100 %	100 %



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After 1st Angel Round...



- From the table above, we can find pre- and post-money valuations for the company:
\$2M brought by the Angels 38% of  :

So, post-money valuation is

$$\$2\text{M} \times 100/38 = \$5.3\text{M}$$

And pre-money valuation is

$$\$5.3\text{M} - \$2\text{M} = \$3.3\text{M}$$



After 2nd VC Round...



- Again, we can find pre- and post-money valuations for the company:

\$18M brought the VCs 38% of  :

So, post-money valuation is

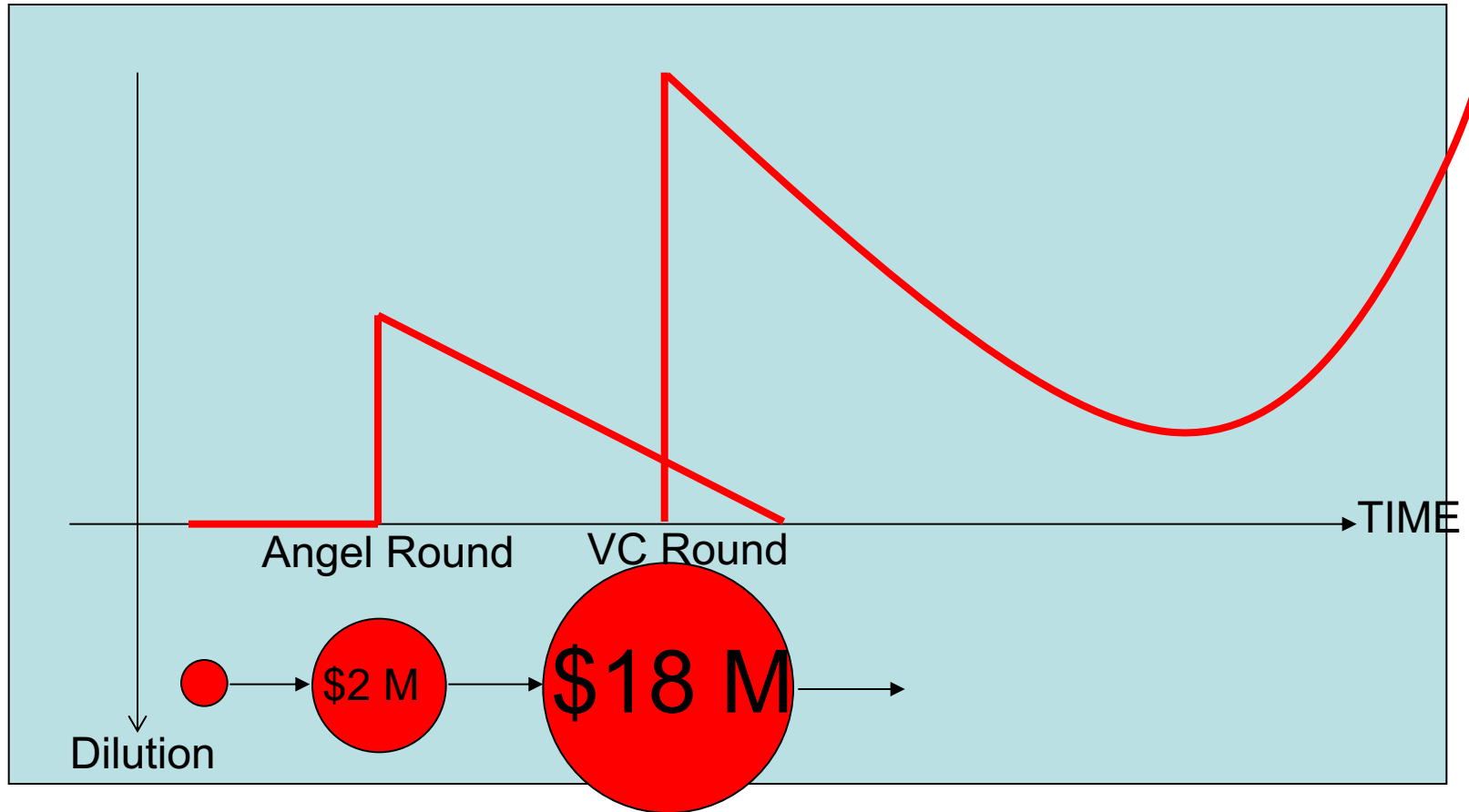
$$\text{\$18M} \times 100 / 38 = \text{\$47M}$$

And pre-money valuation is

$$\text{\$47M} - \text{\$18M} = \text{\$29M}$$

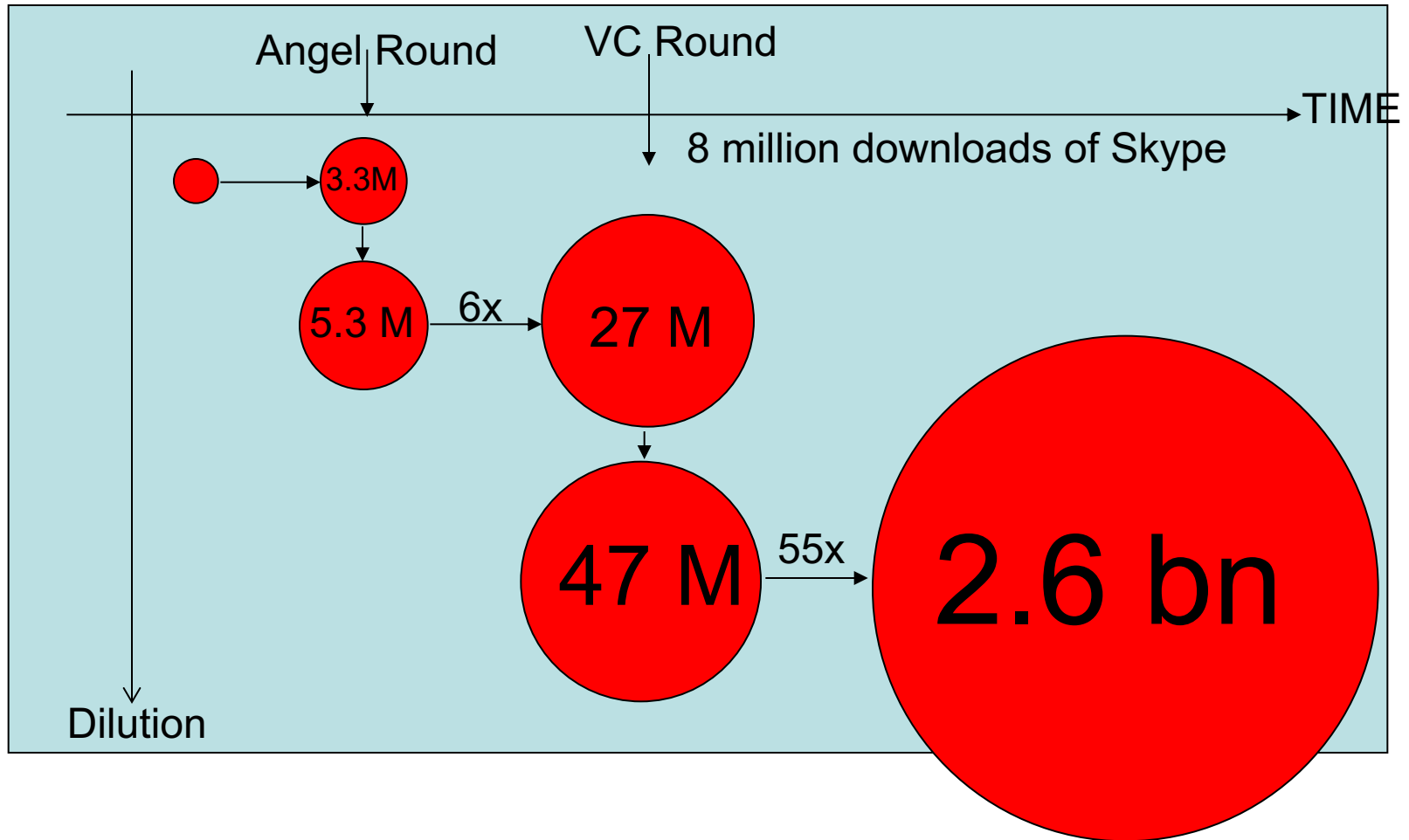


Equity Fingerprint



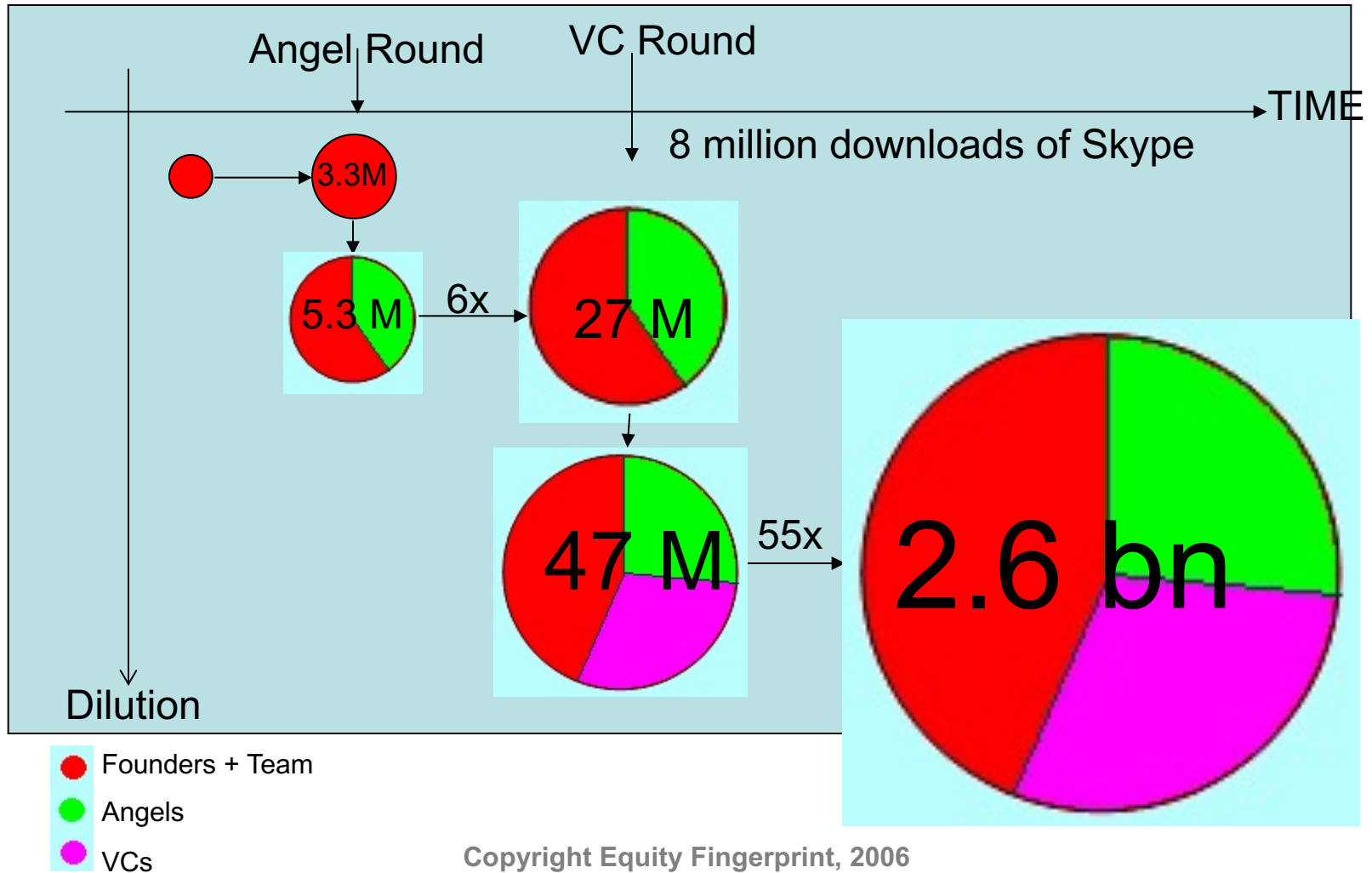


Equity Fingerprint





Equity Fingerprint





So, who are the winners?



- Founders and start team

Zennstrom	40%
Friis	40%
Team	20%
Total	100%

This is typical of
the equity split of
a start up
company



So, who are the winners?



- Angel investors first round

Tom Draper	12.5%	\$250k
Angel 1	12.5%	\$250k
Angel 2	12.5%	\$250k
Angel 3	12.5%	\$250k
Draper Investments Co.	50%	\$1M
Total	100 %	\$2M



So, who are the winners?



- VC second round

4 VC investors	25% each	Total
	\$4.5M each	\$18M



So, who are the winners?



Final equity split:	Share	Equity / millions \$	Invest- ment / millions \$	20% VC cut / millions \$	Returns / \$
Founders	45 %	1,180	0	n/a	1,180
Zennstrom	18 %	472	0	n/a	472
Friis	18 %	472	0	n/a	472
Team	9 %	236	0	n/a	236
Angels	27 %	700	2	n/a	698
Tom Draper	3 %	88	0.250	n/a	87.75
Three Angels	13 %	263	0.750	n/a	262.25
VC (Draper Investment Co.)	14 %	350	1	70	279
VCs	28 %	720	18	144	558
VC1 (Draper Fisher Jurvetson)	7 %	180	4.5	36	139.5
Three VCs	21 %	540	13.5	108	418.5
TOTAL	100 %	2,600	20	n/a	2,590



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Tom Draper: $87.75 + 70 + 36 = \$200\text{M} + \text{any money invested in his own VC company, as is normal!}$