

Ganpat University – Institute of Computer Technology

Course on: Entrepreneurship Development (2HS309)

Start Up Finance and Valuation

By Akashdeep Howladar,
For, Innodesk Designovation Services

एक कदम #आत्मनिर्भर भारत की ओर...

1



Disclaimer

Any/All content of this presentation including texts/images/videos etc. protected by IP are solely used only for information and education purpose only ("fair Use").

- For academic discussions only
- Data and information are indicative
- Some items are reproduced from copyrighted sources and the same are hereby duly acknowledged

This presentation is property of **Innodesk Designovation Services** (except given references). Further posting, copying, or distributing without written permission is copyright infringement.

2

Spdeaker Profile

Akashdeep Howladar has completed his M. Sc [Engg.] from Coventry University U.K.

He has presented paper at the International TRIZ Futures Conference at Bergamo, Italy, along with Prof.D.Cavallucci.

Nowadays, he applies Extended Kalman Filters in his proprietary Pairs trading set up to manage options and futures on the NSE. In addition to pairs trading, Akashdeep attends various Pitch decks presented by Start-ups seeking angel funding as part of Inflexion Point ventures and as such he is on the lookout for investing in start-ups. He invests internationally on the NYSE and NASDAQ.

He is the co-inventor of “Finger Fracture Detection using Radeon Transform” Patent along with P.Shankpal et al. He is consulted as a subject matter expert to vet the technology stack of various start-ups seeking angel funding.

3

Contents



- 1 Idea to Market to Growth strategy
- 2 Funding sources
- 3 stages of funding
- 4 various methods of collaborations
- 5 disinvestment, winding company

4

Cheaper or Riskier?

- Debt vs Equity
- Debt if serviceable is always better than equity dilution
- Equity dilution leads to loss of controlling rights
- Debt if unserved leads to bankruptcy

Characteristics of Investment	Equity Financing	Debt Financing	Grants
Nature	No component of repayment of the invested funds	Invested funds to be repaid in stipulated time with interest	No component of repayment of the invested funds
Risk	Risk factor for the investor is higher	Risk factor for the investor is lower	There is no risk factor for the <u>startup</u> as no collateral is involved
Pressure for Repayment	Less pressure to adhere to repayment deadline, but added pressure to achieve targets	More pressure to adhere to repayment deadline, hence more pressure to generate cash flow	No pressure for repayment as grants are form of monetary support
Return to Investor	Capital growth for investors	Interest payments	No return
Involvement in Decisions	Equity fund investors involve themselves in decision making process	Debt fund investors has very less involvement in decision making process	No direct involvement in decision making
Sources	Angel investors, Family and Friends, Crowd funding, Incubators, Venture Capitalists	Banks, Non-banking Financial Institutions, Government Loan Schemes	Central Governments, State Govt., Corporate Challenges

<https://graffersid.com/effective-ways-to-raise-funding-at-various-stages-of-startup/>

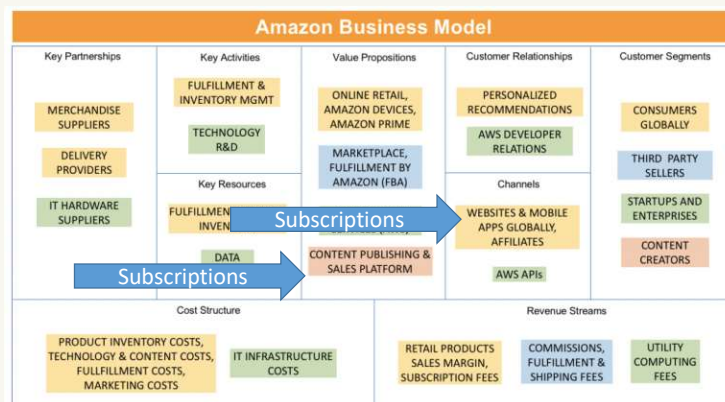
5

Best Funding for any startup *is the customers funds*

Apple, Amazon, Facebook, Reliance all have one common denominator:

Subscription Revenue.

These can be from customers or from advertisers and content creators



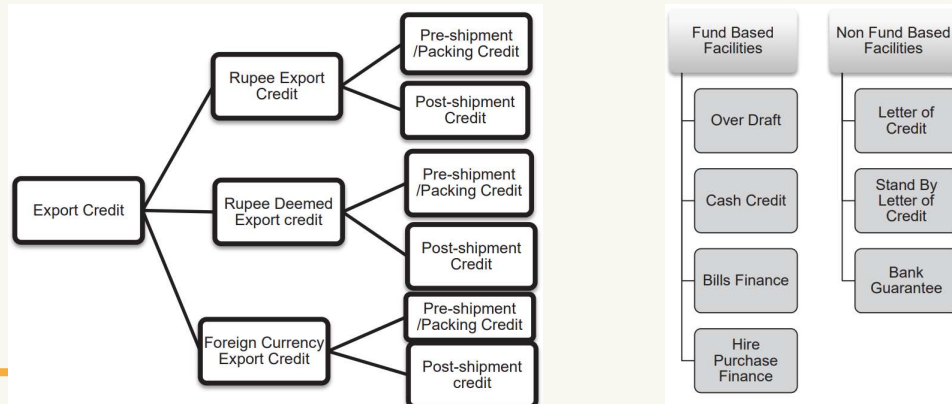
Business Model Analysis by: [Analytixtwo.com](https://www.vervelogic.com/blog/wp-content/uploads/2019/05/amazon-business-model-over-canvas-768x444.png)

Business Model Canvas Template by: [Strategyzer.com](https://www.vervelogic.com/blog/wp-content/uploads/2019/05/amazon-business-model-over-canvas-768x444.png)

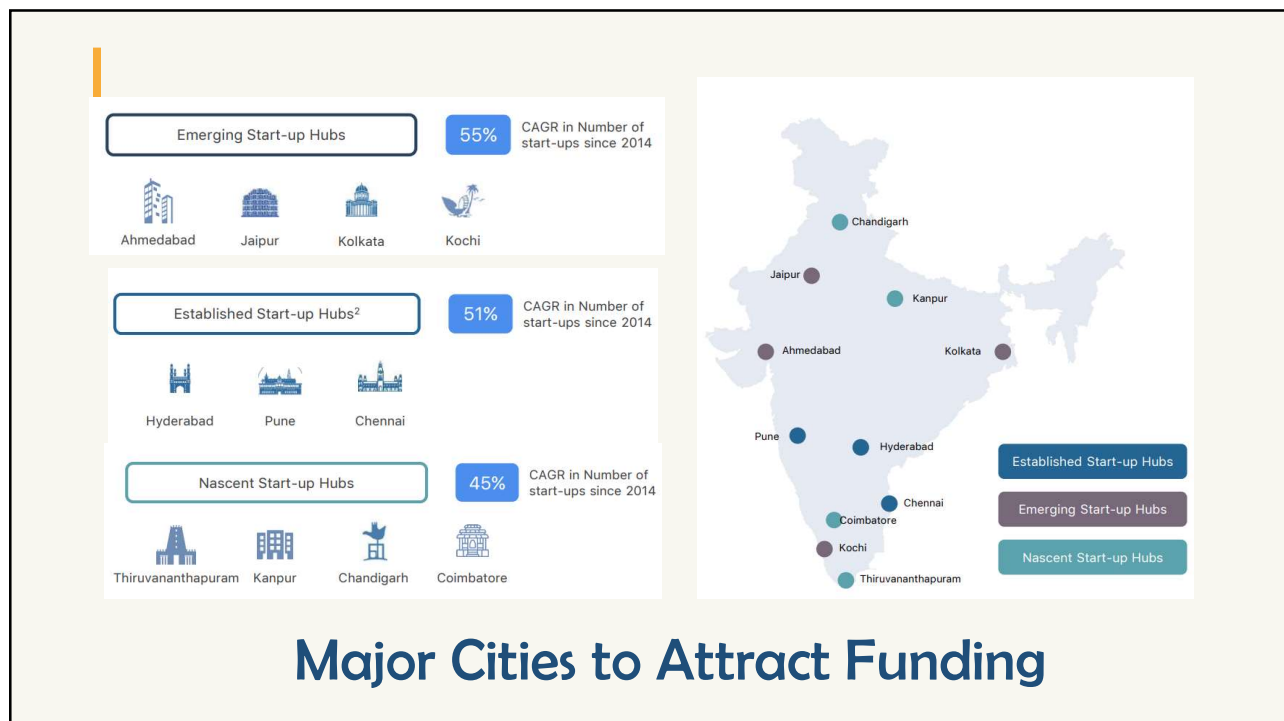
<https://www.vervelogic.com/blog/wp-content/uploads/2019/05/amazon-business-model-over-canvas-768x444.png>

6

Purposes of Debt available to export centric startups



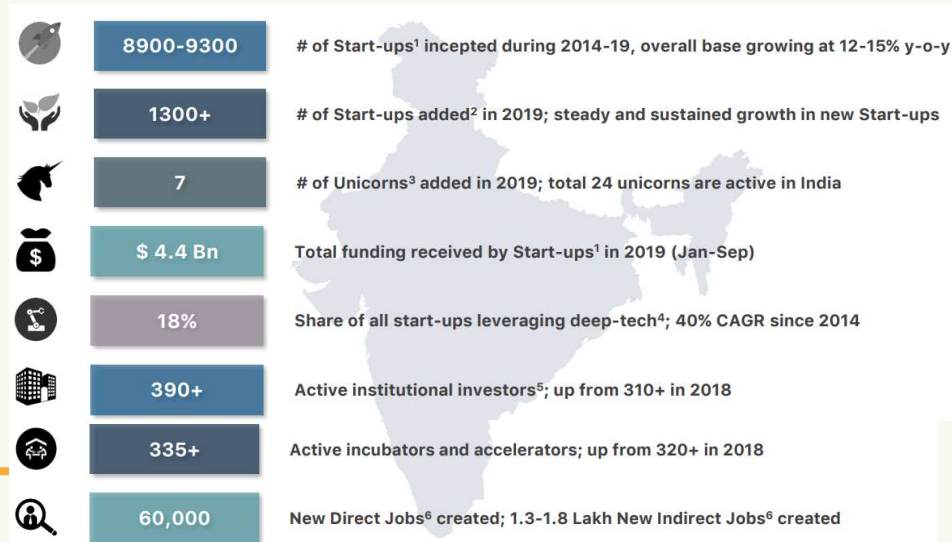
7



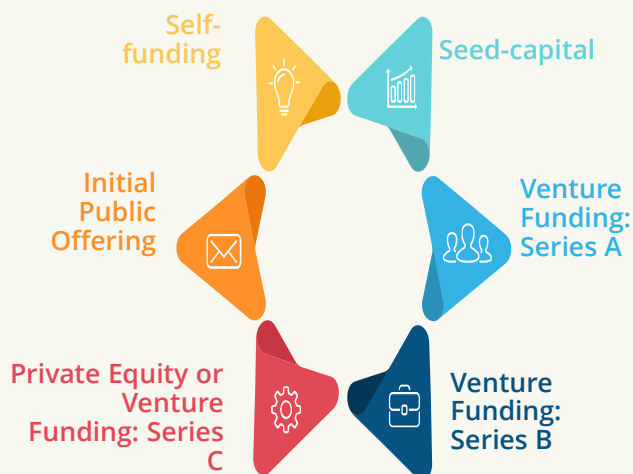
Major Cities to Attract Funding

8

Indian start-up 2019 Funding status



9



Rounds of Fund raising

10

Start up funding levels

• Self-funding 0-10,00,000 INR

- contribute from his/her own pockets.
- Assess all of your investments and savings kept in multiple accounts and approach your friends and family.
- Your friends and family maybe ready to lend at a cheaper rate. Self-funding or bootstrapping is apt if your startup requires a little investment earlier.

• Seed-capital (Minimum Viable Prototype stage) 0 – 5 Cr

- High Risk investment made at the preliminary stage of the startup.
- Attract Lead Investor Angel to validate Founders' Vision
- Funds raised to tune in to Product market fit

[source](#)

11

Start up funding levels

Venture Funding/ Private Equity

Products or services reach the market, venture , establish demand and revenues.

Products' profitability high or low, this stage can have multiple rounds of funding:

Series A 5 Cr to 15 Cr

- ✓ Used for Performance marketing ,raising brand outreach, accessing new regions to grow business.

Series B 10 Cr to 150 Cr

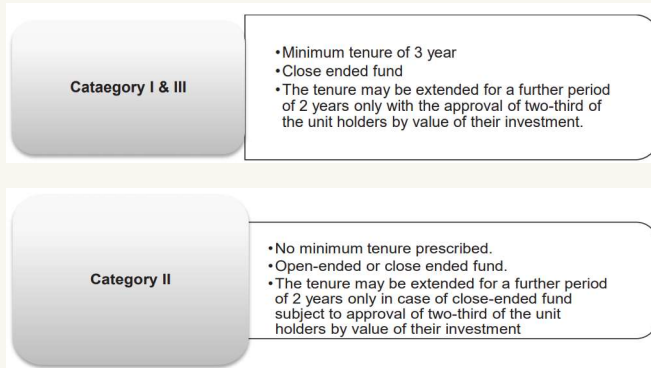
- ✓ Product marketed right, and the customers are actually using the product or service
- ✓ Acquire Key Talents , Infrastructure upgrades and establishing it as a globally valued player.

Series C/ Private Equity (Pre-IPO) 1 Cr to 800 Cr

- ✓ Can receive as many rounds of investment as possible, no certain restriction on it.
- ✓ Series C investment, happens only if existing share holders have no other way out as it dilutes all prior parties significantly

12

How VCs and Angels are approved under SEBI

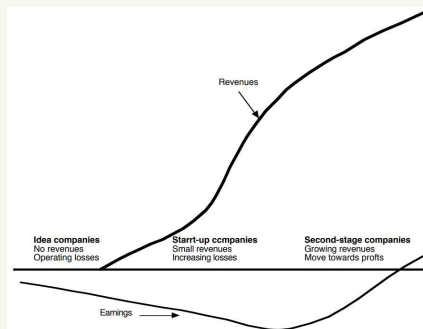


In the *absence* of consent of unit holders, the Alternative Investment Fund shall fully liquidate within one year following *expiration* of the fund *tenure*

[source](#)

13

Early Stage life-cycle



$$\text{Equity Value today} = \frac{\text{Equity Value at end of forecast horizon}(n)}{(1 + \text{Target rate of return})^n}$$

$$\text{Proportion of equity to new capital provider} = \frac{\text{New Capital Provided}}{\text{Post Money Valuation}}$$

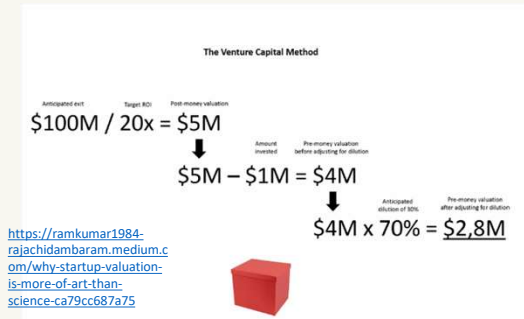
<http://people.stern.nyu.edu/adamodar/pdfiles/papers/younggrowth.pdf>

14

Early Stage life-cycle

Proportion of equity to new capital provider = $\frac{\text{New Capital Provided}}{\text{Post Money Valuation}}$

<http://people.stern.nyu.edu/adamodar/patiles/papers/younggrowthn.pdf>

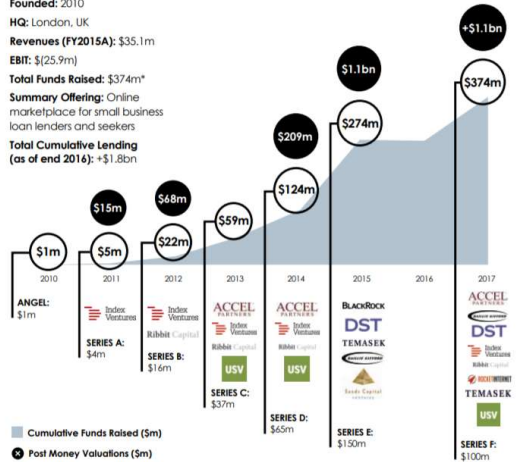


Funding Circle - The road to \$1 billion



Founded: 2010
HQ: London, UK
Revenues (FY2015A): \$35.1m
EBIT: \$(25.9m)

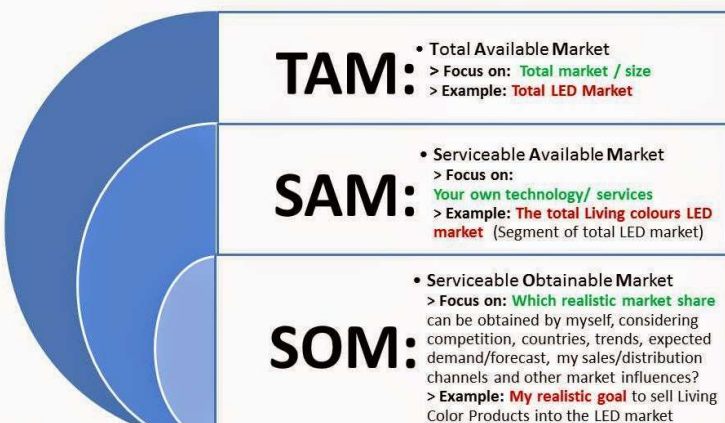
Total Funds Raised: \$374m*
Summary Offering: Online marketplace for small business loan lenders and seekers
Total Cumulative Lending (as of end 2016): +\$1.8bn



GP Bullhound Research
 Source: Company data, Capital IQ, Mergermarket, CB Insights (US data), PitchBook, press articles, GP Bullhound analysis as of March 2017
 *not including debt financing

15

TAM SAM SOM Market Evaluations - Easily Explained



Market sizing as pre-cursor to Fund selection

▪ [Reference](#)

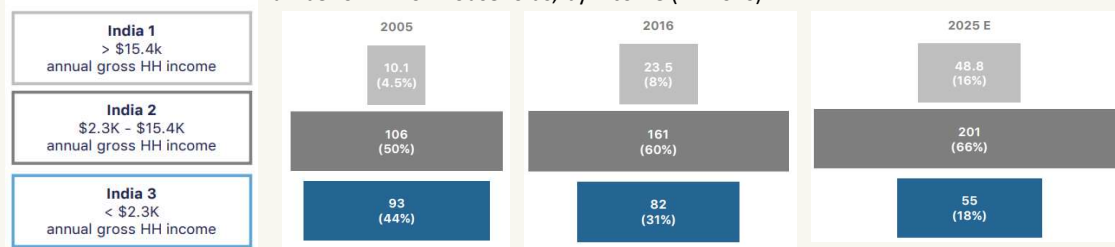
16

The growing target addressable market in India

- Income segments are shifting and connectivity improving, offers huge boos

600Mn Est. Number of connected consumers by 2019 3X Expected growth in per-capita income by 2025 46% Share of internet users from rural areas by 2019E

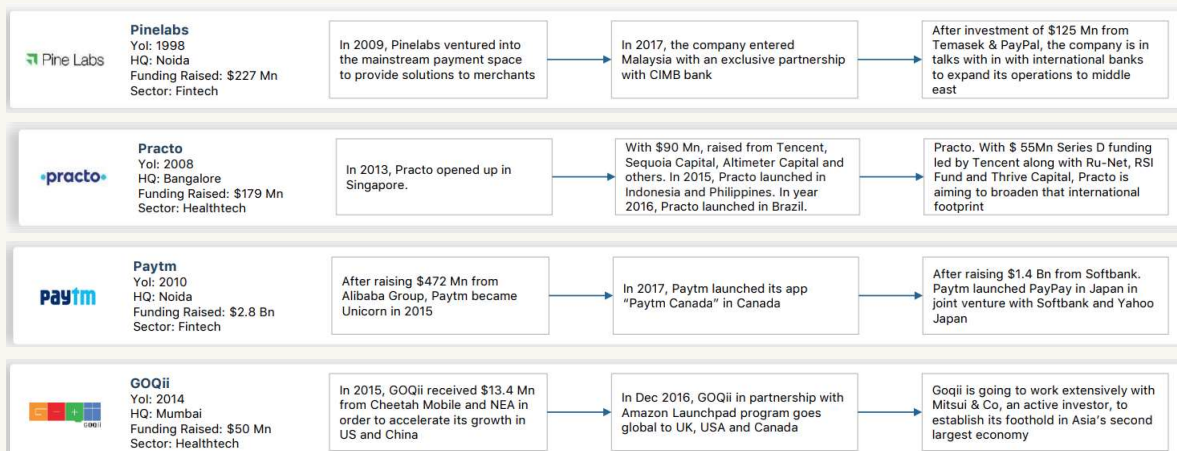
Number of Million households, by income (Millions)



17

IndiaN start-ups going global

- Journey of start-ups foraying into global markets

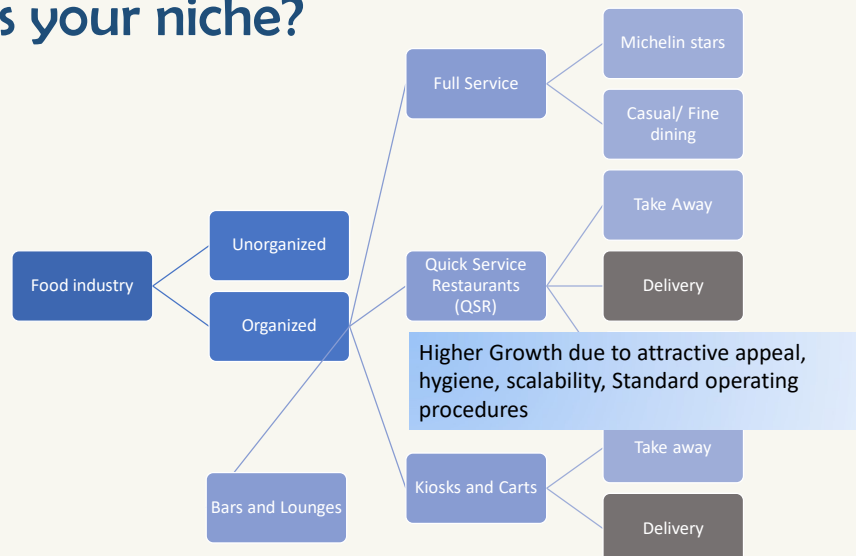


18

Total food market in India
=
43,000+ Cr

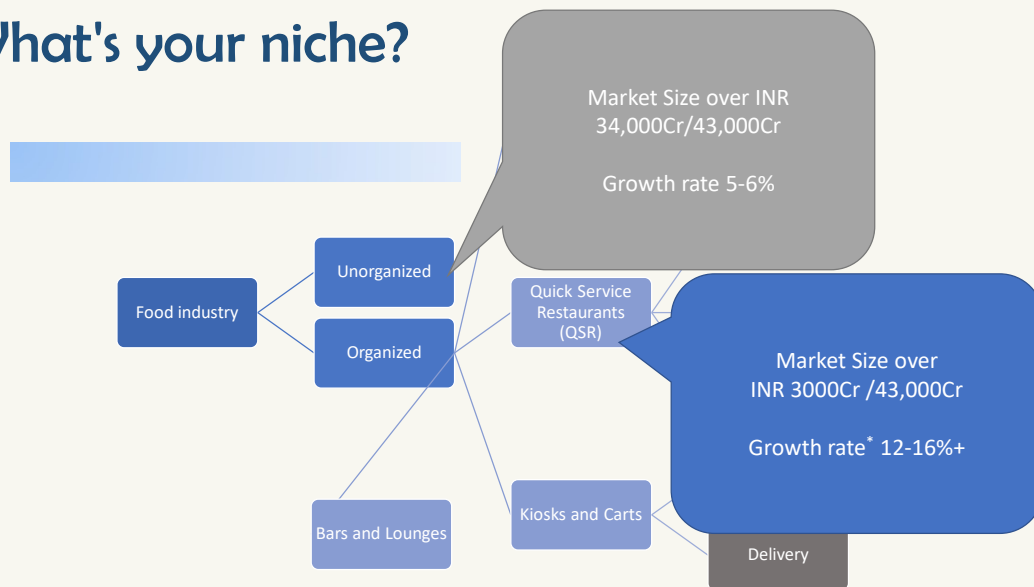
19

What's your niche?



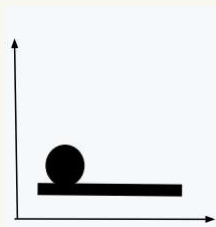
20

What's your niche?

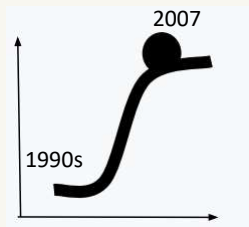


21

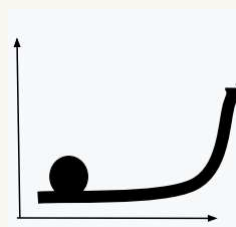
Ecosystem To piggyback on?



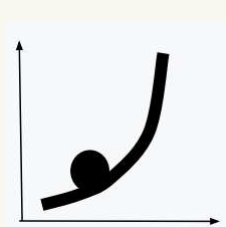
- 1970s: Intel just founded
No Robots to Assemble in large factories
- Computer assembly a sought-after skill and necessity
- Slow flattish trajectory until transistor counts started doubling



- 1990s: Internet and PCs in most American households
- Just the right confluences for Amazon to take off
- 2007-8 US Ecommerce players largely saturated



- 2014s: Toyota invents first hydrogen cell car
- Cost not suited for mass market
- 1958: GM prototypes real first driverless car, due to poor sensor resolution and computing power never saw mass market adoption

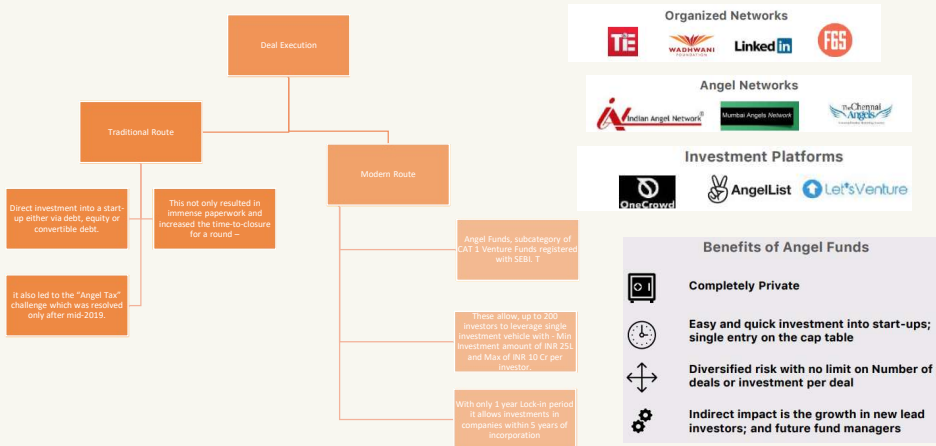


- 2007-8 Bansal brothers quit amazon to start their own Flipkart noticing the same confluence in Indian Households
- 2015: Niche Market Growing still, like subscription commerce e.g., Shopify

<https://www.320x.vi/static/documents/presentations/Proventor%20Communications%20and%20Relationships%20for%20Funding.pdf>

22

Angel investors Networks



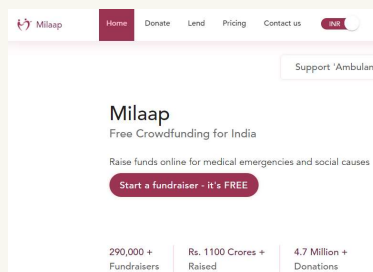
23

Equity/Early access Crowdfunding



6 widely known International Crowdfunding Platforms

Best Overall:	Indiegogo
Startups:	SeedInvest Technology
Nonprofits:	Mightycause
Investing:	StartEngine
Individuals:	GoFundMe
Creators:	Patreon

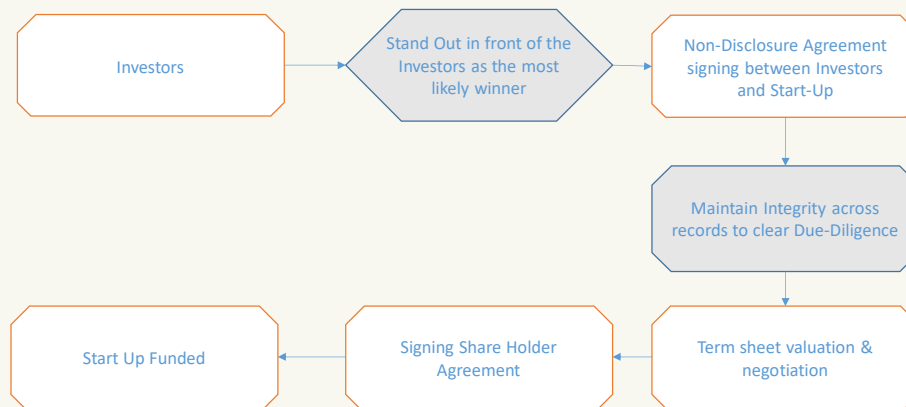


<https://milaap.org>



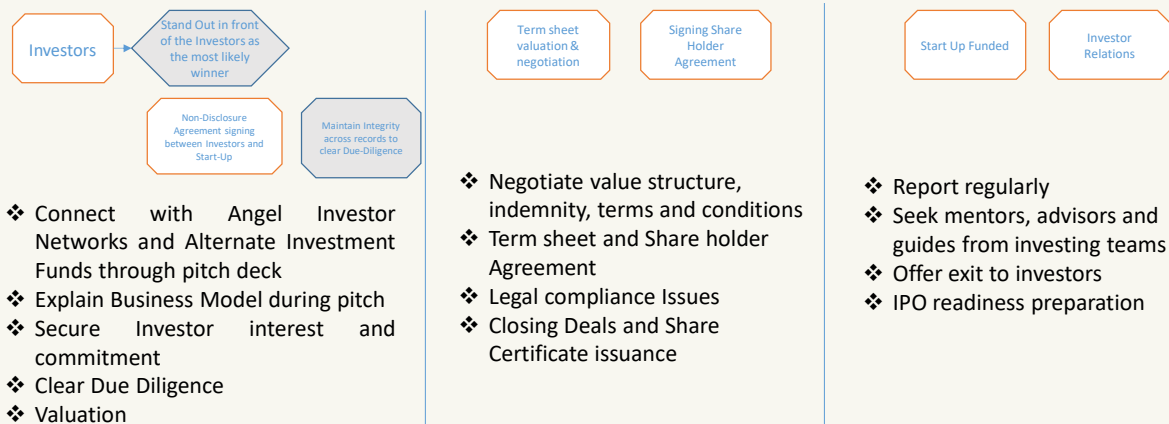
24

Overview of Fund-raising process



25

Key phases in detail



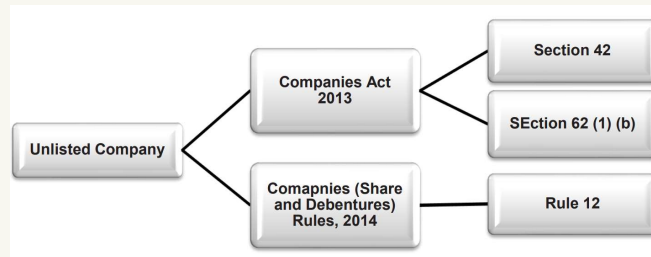
26

Sweat Equity



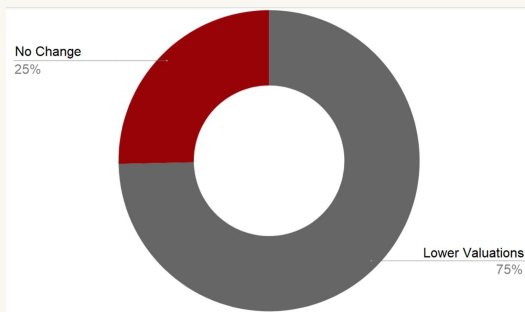
[source](#)

A company whose equity shares are listed on a recognized stock exchange may issue sweat equity shares in accordance with Section 54 of Companies Act, 2013 and these Regulations to its



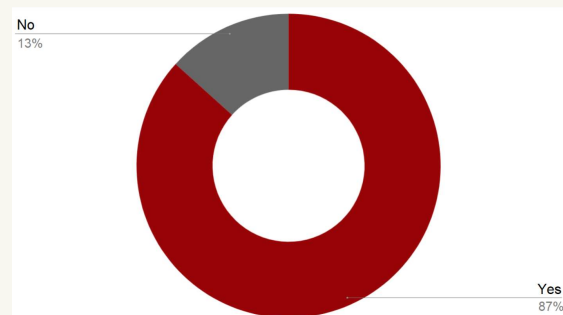
27

Impact of 2020 on valuations



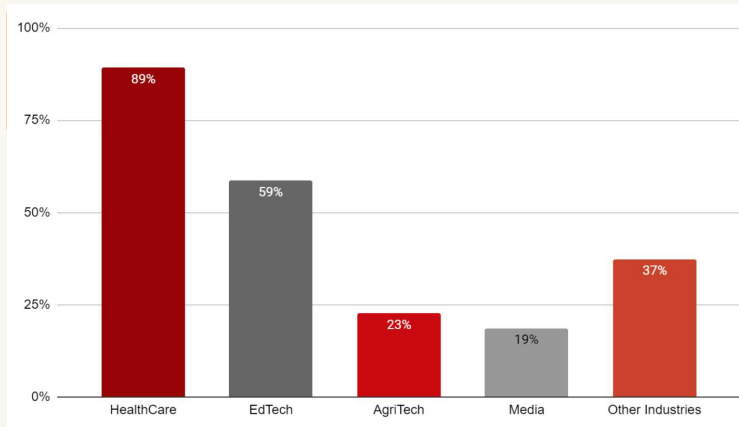
Change in Valuations from Investors

[Source](#)



Investor Interest in Crisis Benefiting Sectors

28

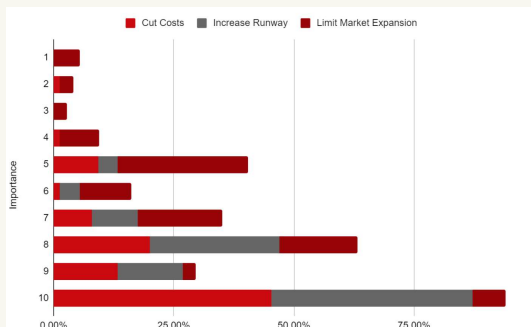


What
sectors
have VCs
Funded?

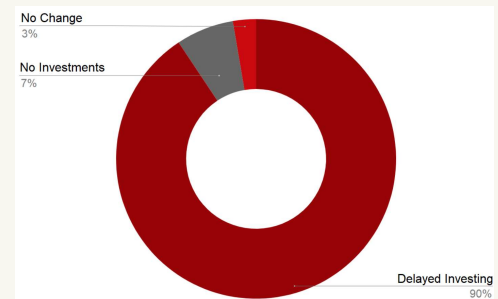
Source: <https://www.100x.vc> Research Survey 2020

29

Timing and Priorities



Investor directives to founders



Time to raise funds

30

Common pitfalls when fund raising

- Founders working on **highly techie idea**
- **Not understood** by persons not in said domain
- Too **fixated on HOW To** Instead of *Why??*
- **Core Technical Complexity** Is Barrier to Competitors Copying it
But also **Stops Investors** from Catching On the Prospective Returns and Merits

31

Reinventing wheels

- Delays in 1st release **as doing all from scratch**
- **No Faith in Forming** partnerships, so effort duplication
- Too **fixated on Custom DIY** Leading to Lags in MVP Launch
- **Doing it all from 0** **Slows down Feedback** From Customer!
- **TIME lost in features not wanted by customer is a big red flag to any investor**

32

past star performer, may not have needed hunger

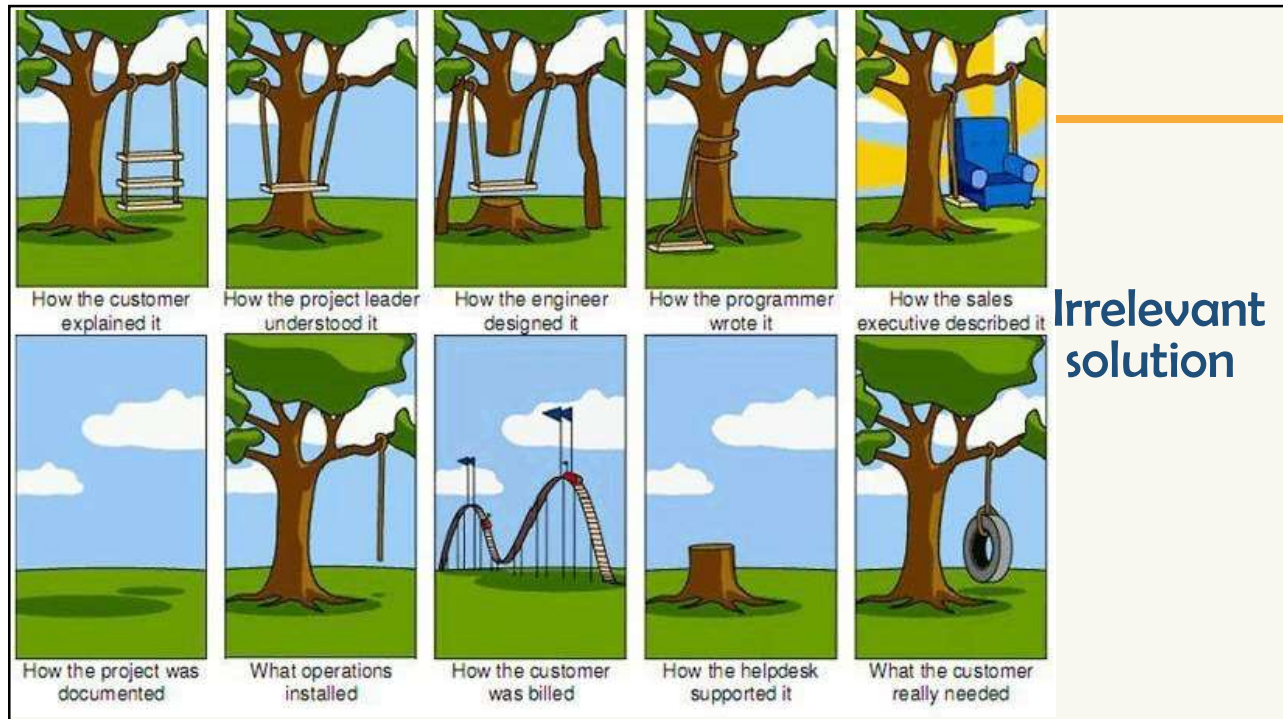
- Work Experience matters
But not at the cost of ZEAL
- Too experienced folks
Have prior commitments, tie-ups, limitations, health constraints
- Early-Stage Hires
Makes or breaks Future!

33

Over funded under delivered

- Raising capital
must go hand in hand with building value
- More money is like more ammunition,
So, founders chase features not core to their Target Audience
- Mindset lulled in to
False security Reducing team's urgency
- Just right/Slightly underfunded startups
Choose Thriftily and wisely from the get-go.

34



35

Overspending/Casual Founders

- Do not value or get severity of cash flows, finance and tight budget use of money
- Start showing off wealth in the *wrong items* like fancy office, parties, roadside banner ads
- *Unable/Unwilling to plan the future and live the plan, consider their CXO status means for them NO accountability*

36

Whale too soon, capsizes the ship

- The large demanding customer can drain too much resources of the start up.
- Starving the co. from making its offering scale-able/appealing to wider markets
- If start-up's Solution is so customized to just one client, then no one else might need it!
- Resulting in vendor lock-in as seen with automotive ancillary suppliers.

37

key man co.

- Founders are solo snipers.
- Team collaboration appears as a hindrance. Having doubts on others ability to deliver.
- Unable to delegate.
- Even the most productive of founders are prone to fatigue!
- Only way the co. works when founder sleeps is via delegation.
- Not having chain of command and secondary leaders, limits growth of team which limits out-reach to new customers and markets.

38

Mismatched investor profile

- Investor searching is difficult.
- Raising from predatory investors compounds the difficulty.
- Early-stage firms need investor mentoring, networking and involvement.
- Casually selecting uninformed investors who think of venture capital as a kind of pledged-debt agreement dooms the start-up.
- First/Lead investor selection must arise from prior successful exits of the investor(s) and the feedback of investee founders.
- Quantum of investment must not be main selection criteria.

39

Income generation vs. *generational wealth*

- Financial discipline and sustainability of the start-up trumps spending dreams of the founders
- Salaries must keep in mind the firms goals and not the founders family's goals
- Founders' pool of equity gets diluted as more investors keep joining the board.
- But The Lessening Over-all Equity Percentage Keeps Getting Higher In INR Terms.
- Only the subsequent rounds of funding truly validate the equity appreciation, in addition to start-ups improving financials.
- But if no new investors are attracted due to founders' poor fund use, then the equity fails to appreciate.

40

Scatter shot = 0 monopoly

- Too many revenue streams from the get-go, is a big No No.
- Blindly copying large MNCs to generate multiple SBUs when barely having the resources to set-up one target customer base is a sure shot way to bankruptcy.
- True fans stick with the start-up even through product recalls and bug reports.
- Chasing many big whales causes spreading thin already scarce manpower and missing out on connecting with the most loyal few customers.
- But if done right through organic growth can end up like Zerodha, India's only bootstrapped unicorn
- Or get forgotten as one of the many countless failures.

41

Angel Investors look for MVP not World-class product

- In anticipation of impressing investor, founders get caught up in perfectionism traps.
- They blindly assume that only they know what customers need.
- Instead, founders should take semi-finished, barely functioning prototype back to customer for repeated feedback and improvements.
- Traction-less prototype is not viable.
- Viability comes when pilot customer is so delighted with prototype that their testimony gets 2 new customers.
- Only validating prototype from uninformed investor is a road to failure.

42

Weak pricing, duplicatable offering= short lived startup

- *Until the right customer group is not discovered, billed and payables received, start-up is still in incubation phase.*
- *Bright founders and novel ideas are prone to sudden death in incubation phase.*
 - *Only copying a unicorn to eat up its market share causes challenges in retaining loyal customers, cause if the discounts stop, the customers vanish to the superior offering*
- *No amount of investor capital can stop perpetual loss-making machines from going bankrupt.*
- *Path to profitability needs to be clear and tangible within set timeframe.*

43

Narrow/No moat=Red Ocean

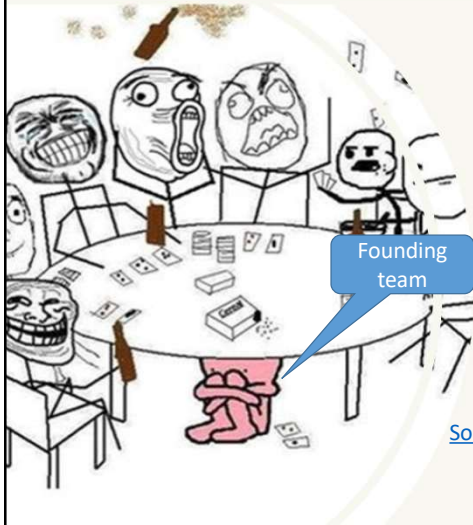
- *Me-too and copycats of the start-up should not be doable easily .*
- *IF too easy to copy then the market share gets divided amongst too many competitors.*
- *Strategic use of Intellectual property such as Trademarks, Copyrights and Patents limits loss of market share.*
- *Path to profitability needs to be clear and tangible within set timeframe.*

	A	B	C	D	E	F	G	H	I	J
Intangible Assets		★			★	★		★		
Switching Costs	★		★	★				★		
Network Effects		★	★							
Cost Advantage				★		★			★	★
Scale	★	★				★		★	★	★
Total Score	Narrow	Wide	Narrow	Narrow	Narrow	Wide	None	Wide	Narrow	Narrow

[Source](#)

44

Crowded cap table



[Source](#)

- VCs and angels stay away from capitalization table having too many nonstrategic share holders.
 - Not just any consultant can be allowed entry to Cap-table willy nilly.
-
- Strategic use of knowledge-able, well connected investors attracts other investors.
 - Share buy-back clauses are not known to novice founders who end-up losing their say and significance due to early dilution to trivial parties.

45



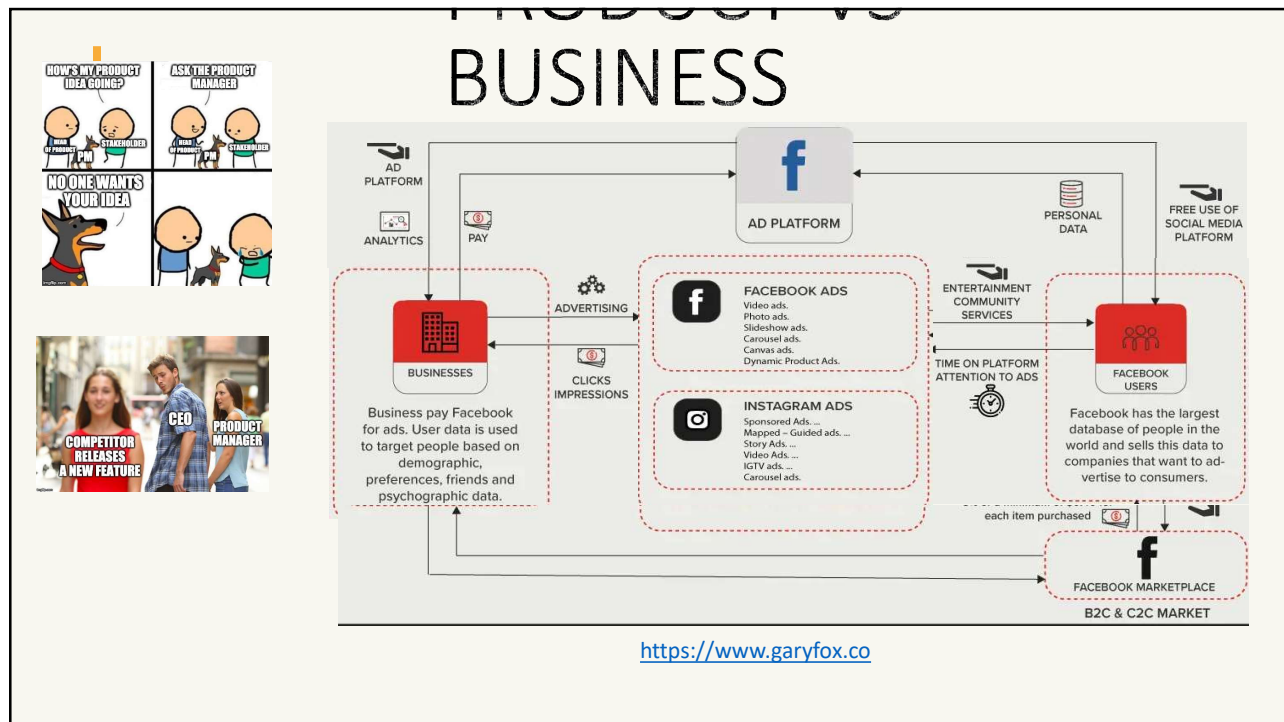
https://www.giphy.com/memes/7qzdxr-AN69Gt540mTjph_5d914009xat_50q8fvaRm8&uqsr=CAU

Elevator Pitch

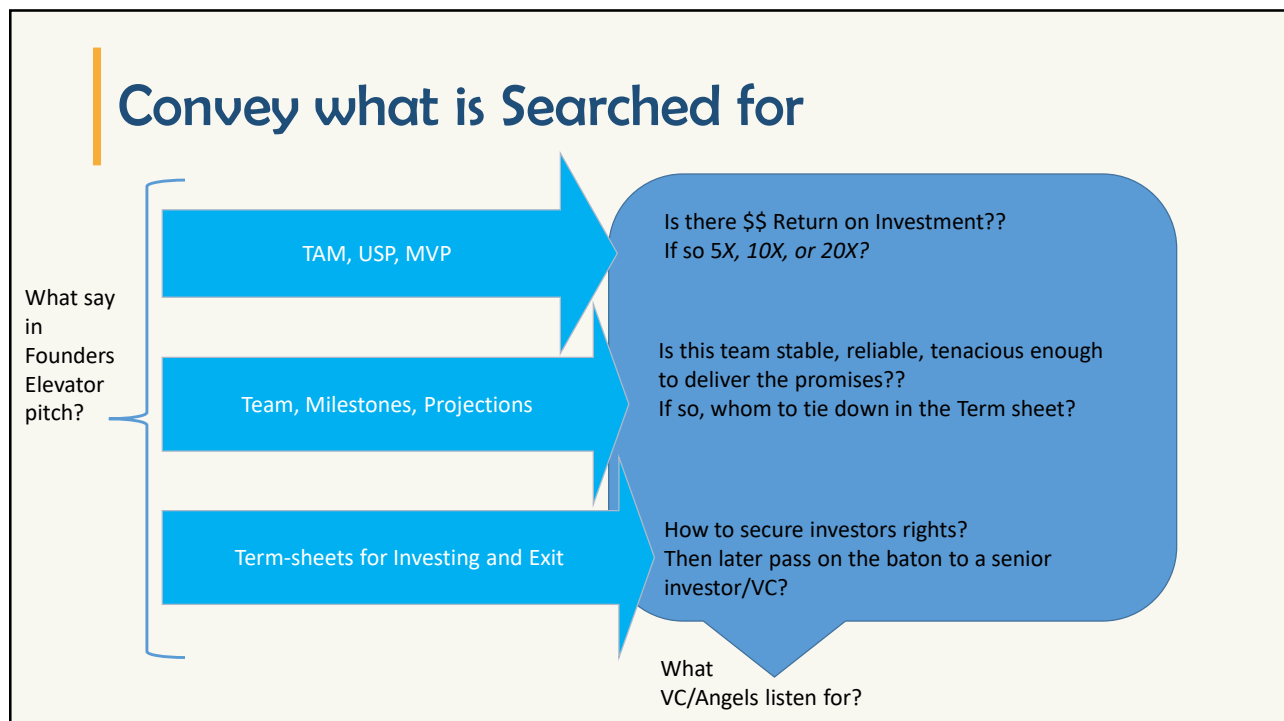
MyOffering.Com <Benefit verb> <Target Users> <Resources improved> by <Unique ability> of <Problem domain> to <desired outcome>

MyOffering.Com *saves marketers time* by *eliminating the tediousness* of *data-gathering and formatting* to *create beautiful marketing reports in less than 30 seconds.*

46



47




48

Due Diligence


- » Total addressable market
- » Porters five forces analysis
- » Founding team credibility
- » Customer acquisition
- » Lifetime value and other economic metrics to sense business viability

- Financial statement analysis- past and present
- Statutory documents, Prior Share holder agreements
- Bills of materials
- Contracts with vendors, employees, customers


- Mapping due diligence discoveries to transaction papers
- Risk management via limiting liabilities
- Use of Warranties over Guarantees, Force majeure clauses to protect company from outbreaks, earthquakes
- precedent conditions, insurances and indemnities



Business / Operational DD



Financial and Legal DD



Documentation to DD & Vice versa

49

Term Sheet

What

- Frequently used in pre-money stage
- Conditionally binding i.e. To curb overheads, retain exclusivity, privacy and resolve disputes

Why need term sheets?

- Surfaces latent expectations
- Important issues emerge at early stages
- Improves deal success rate

Key focus?

- Valuation of firm, capitalization table
- Investor rights
- Dividend payable if any
- Preferences when liquidating
- Share types
- Clauses for/against dilution

Shortcomings

- Narrowed and shewed so limited future flexibility for negotiating
- Efforts more spent for limited benefits
- Double effort needed when new investors are sought

50

Term sheet data

Data on all parties involved

- Start-Up and its brands
- Promoters , Founders
- Key managerial talents
- Addresses and other contact info
- Business addresses
- Investors

Investment data

- Valuation pre-money
- Amount of sought investment and currency
- Types of shares or loans and their prices

Founder Obligations

- Key man exclusivity, Non-compete and non-solicit
- Promoters lock on share transfer
- Founder limits

Investor rights

- Terms of Pre-series , A1 CCPS
- Share Rights such as Dividends, conversion, Voting, Protection Information and Inspection authority
- Board Seat
- Pre-emptive rights and Rights of first refusal
- Liquidation preferences
- Right to Exit
- Buy-backs, Tag-along, Drag along
- Reserved matters

Representation and Warranties

Waivers and indemnities

Miscellaneous.

- Survivorship
- Confidentiality

51

Clauses matter

Exclusivity Clause

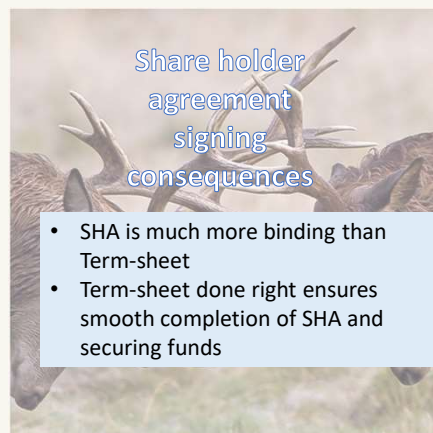
Term
sheet
signed



Share holder
agreement
signed

Restriction on startup from seeking other investors in the same fund round till legal and financial due diligence is done or SHA is signed or time limit finishes

Share holder
agreement
signing
consequences



- SHA is much more binding than Term-sheet
- Term-sheet done right ensures smooth completion of SHA and securing funds

52

Share holders agreement features

Describe ALL the concerned parties

- “Deemed to Include its successors and assigns” terms must be used to define parties

Inclusion of Start-up post incorporation

- If the Pvt. Ltd. Formation happens after the funding round during the signing of SHA, then Deed of Adherence to be executed for inclusion, happens during Joint-ventures or acquisitions

Parent companies

Of shareholders could be party to SHA for ensuring obligations of founders

Recitals

- Business, its share capital and share holding pattern to be described
- Prior agreements and arrangements between parties
- Objectives of why sign the SHA

53

SHA features contd..

Definitions

Key words needed to used attentively

- ‘Business’ definition needs to carefully draft in the “territory” and “subject-matter”, since non-compete restrictions on signatories will be linked to ‘Business’
- Ensure terms across SHA hold agreeable meanings to all parties
- Capitalized terms need to remain in capitals all throughout

Interpretations

- Dispute resolution stems from how SHA is agreed to be *Interpreted*
- *Not all Interpretation* clauses may be applicable to each startup

Information Rights

- Venture capital firms require information rights
- This makes reporting of start-up metrics mandatory over agreed upon frequency and format

54

SHA features contd..

Management Rights

Key words needed to be used attentively

- Board size & member determination rights
- Key personnel appointment rights such as MD, CFO, COO
- Quorum standards and requirements to be maintained at board and shareholder level
- Procedure setting for Board and Shareholder meet
- Notice period, set up of consequences for absence at meets
- Right to Information of Shareholders
- Shareholder controls in the event of Foreign direct investment

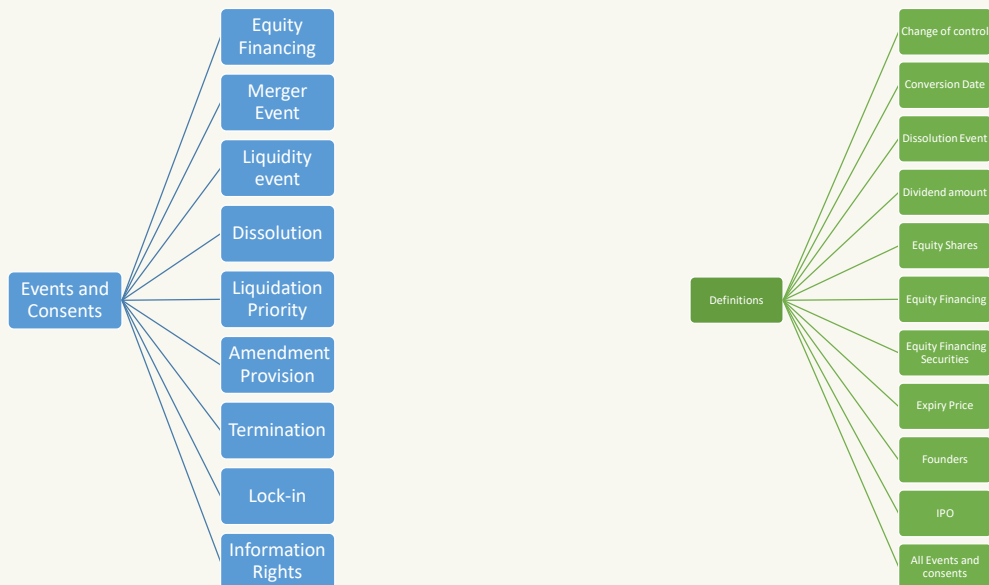
Affirmative/Reserved vote matters

- Matters or decisions that investee or start-up needs consent of the investors
- Operation matters as deemed by lead angels or VCs
- Policy matters

55

Simple Agreement for Future Equity (“iSAFE”)

<https://www.100x.vc/static/documents/Sequel%20iSAFE%20-%20MFN.pdf>



56

“

“Design Thinking
is a **human-centered** approach to innovation
that draws from the designer's toolkit to
integrate
the **needs of people**,
the **possibilities of technology**,
and the **requirements for business success**.”

—Tim Brown, President And CEO Of IDEO

Source: <http://www.ideo.com/pages/design-thinking>

”

57



A slide with a yellow and white background. On the left, a large blue circle contains the text "Thank you". To the right of the circle, the innodesk logo is displayed. Below the logo, contact information is provided: an email icon followed by "innodesk1@gmail.com" and a mobile phone icon followed by "91 - 909 909 0464". At the bottom right, the text "Follow us on:" is followed by icons for Facebook, Instagram, Twitter, and WhatsApp, with the handle "/innodeskzone" in red text.

Thank you



 innodesk1@gmail.com

 91 - 909 909 0464

Follow us on:

    /innodeskzone

58