INTRODUCTION TO ENTREPRENEURSHIP

PERSPECTIVES ON STARTUP FINANCING

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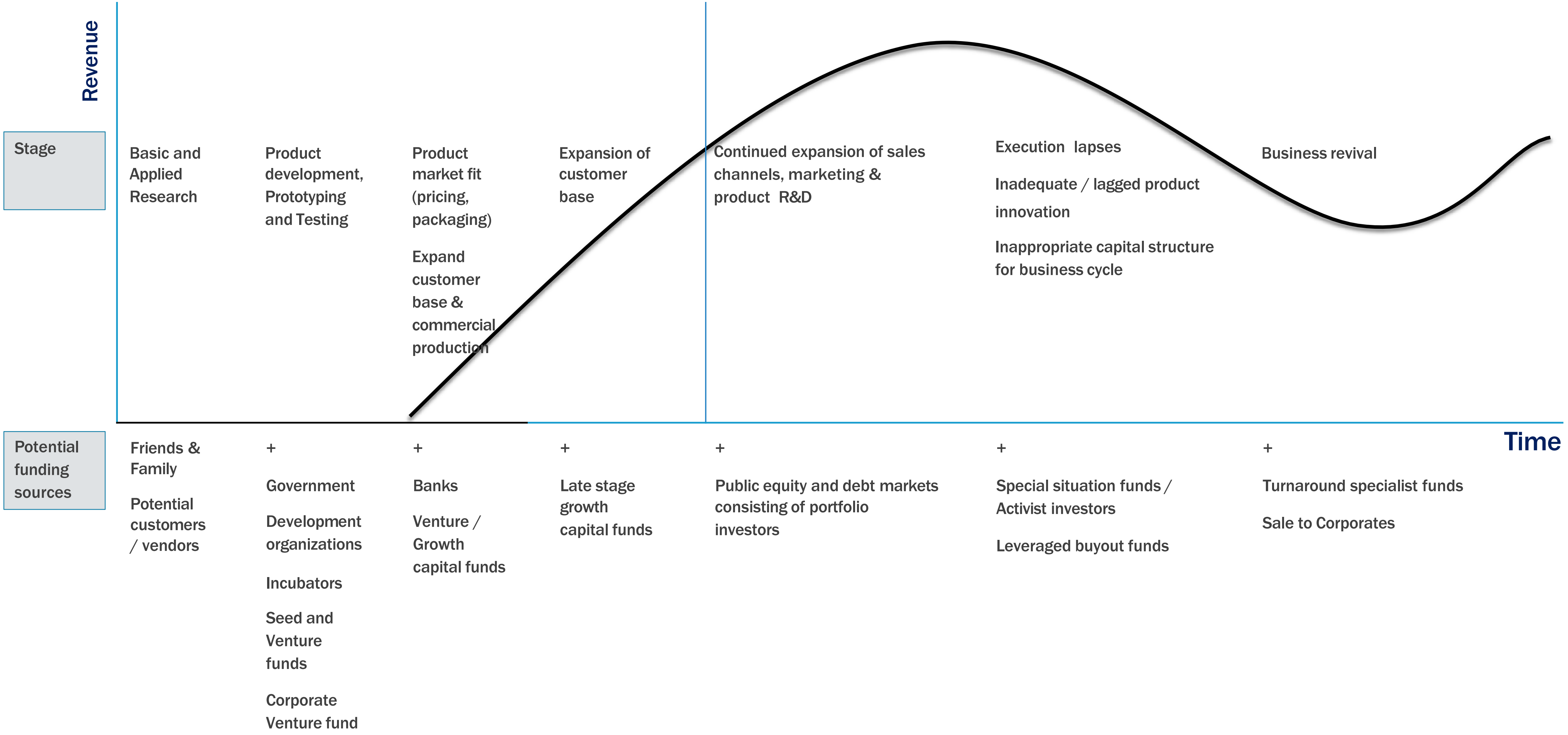
KEY MESSAGES

- Dynamic economies enable frictionless intermediation of capital from savers to enterprises creating relevant products.
- The capital intermediation role has evolved over the past century from being played by the state & community banks to banking institutions and finally by de-centralized capital market participants (insurance & pension funds, mutual funds, venture & PE funds et. al.).
- Thoughtful organizations & startups can access funds from multiple sources – government, customers, vendors, development organizations, banks, credit funds, equity funds, public markets.
- Different sources of funds are relevant for organizations depending on their mission, business model and stage.
- The fund-raising story / thesis needs to align with the objectives of the funding source & risks clearly defined.
- Value creation potential is measured by addressable market's gross margin pool which is a function of addressable market size, sustainable product differentiation, adoption & exit costs and resultant pricing power.
- Evaluation framework of investors / funding sources is to assess the risk-reward potential of the proposal (including embedded options) and their ability to influence the outcome of risks & rewards.
- Demystifying equity valuation of technology-led enterprises – valuation an exercise to forecast the future value creation potential of the enterprise based and the resultant ability of the enterprise to generate "sustainable" free cash flows. This consists of financial assumptions and subjective assessment on sustainability (e.g. market structure, management quality, regulations, governance). Each investor has a different assessment of value creation and sustainability, along with different costs of capital which then creates a vibrant market for investors to trade (buy/sell) based on their different assessments.
- Durable value creation may get disconnected from "valuation" during market / business cycles and several other factors

LIFECYCLE OF AN ENTERPRISE



SOURCES OF FUNDS - 1/2

	Funding mandate / objective	Typical fund-raise amount	Typical term horizon / return expectations	Key investment / risk considerations
Government organizations (e.g. – DST)	▪ Grants to promising technologies focused on solving social / national issues	▪ $50 – 200K	▪ NA	▪ Quality of research and technology
Customers / Vendors	▪ Investments, Advances, Loans to technologies that can benefit their business	▪ $50k – 200K	▪ 7 – 10yrs ▪ Licensing rights, contractual commitments with some exclusivity	▪ Relevance of the innovation to the core business of the customer / vendor ▪ Value of the licensing, commercial commitment to them
Incubators / Seed & Angel funds	▪ Invest equity in great product ideas	▪ $50k – 1mn	▪ 7 – 10yrs ▪ >20x returns (due to high expected loss ratio)	▪ Quality and experience of product team ▪ Feedback from anchor customers and / or quality of data from pilots
Venture Capital Funds	▪ Invest in great product ideas with early signs of good product market fit	▪ $1 – 10mn	▪ 7 – 10yrs ▪ >10x returns (due to high expected loss ratio)	▪ Quality and experience of product and ops execution team ▪ Quality of product vs. incumbent choices and ability to generate gross margin ▪ Feedback from anchor customers and / or quality of data from pilots

SOURCES OF FUNDS - 2/2

	Funding mandate / objective	Typical fund-raise amount	Typical term horizon / return expectations	Key investment / risk considerations
Growth Equity PE Funds	▪ Invest in companies with established product market fit and early signs of good sales / marketing execution	▪ $10 – 200mn	▪ 3 - 7 years ▪ 3 – 5x returns	▪ Quality of product, sales, marketing and ops team ▪ Total Addressable Market ▪ Established gross margin and contribution margin metrics ▪ At least one well established sales channel ▪ Board and certain veto rights (partial influence)
Banks	▪ Project Loans ▪ Working Capital Finance ▪ Secured (with collateral)	▪ $1 – 50mn	▪ 1 – 4yrs ▪ 8 – 14% Returns (IRR)	▪ Established P&L with profits ▪ Ability to generate free cash flows to service debt ▪ Assets on the balance sheet ▪ Covenants on several metrics
IPO / Public Market Investors	▪ Portfolio investments	▪ $5 – 300mn	▪ 1yrs + ▪ 12 – 18% Returns (IRR)	▪ Established P&L with profits and track record ▪ Ability to generate Free Cash Flows and pay dividends in the near future ▪ Expected volatility to business cycles ▪ Partial influence on select matters as per the regulations protecting minority investors
Buyout / Special Situation Investors	▪ Leveraged Buyouts	▪ $100 – 500mn	▪ 2 – 5yrs ▪ 2 – 3x Returns	▪ Controlling stake with board & management rights (full influence) ▪ Quality of Intellectual Property & value of Assets ▪ Free Cash Flows ▪ Quality of Turn-Around-Plan and Team

VALUE CREATION POTENTIAL - KEY FACTORS

	Digital Advantage
Large Addressable Market	
10x Better Product / Service (in solving pain points) vs. Incumbent	
Switching-in / Adoption cost	√
Pricing Power / Gross Margin	
Intellectual property or network effects to sustain pricing power / gross margin (Porter's forces) vs. Incumbents' reaction (Switch-out costs)	√
Ability to reduce marginal cost of selling / acquiring customers	
Ability to reduce marginal cost of production / delivery for new products / customers	√
Ability to create relevant cross-sell / up-sell products and services to customers (embedded options)	√
Timing	√
Value of product / technology for other large enterprises to enhance their propositions and / realize value of embedded options in their business model	

DEMYSTIFYING EQUITY VALUATION OF ENTREPRISES – "MOBILE APP-BASED FOOD DELIVERY" COMPANY CASE EXAMPLE – ILLUSTRATIVE

Financial Projections

- 30% Urban Household Penetration @ INR 350 Order Value with 5 orders/month/HH
- Improved delivery productivity to 20 deliveries / day given growing density of demand
- Resultant sustainable contribution margin per order or INR 20 / order
- Low volatility of demand to business / market cycles as staple consumption

Sustainable competitive advantage of business model / enterprise

- Two player market (with last two players exiting) and high cost of entry into the market. Should result in low competitive intensity
- Customers have high switching costs (due to brand)
- Ability to cross-sell / up-sell several other services e.g. grocery delivery and generate more business from engaged customers at negligible additional cust. acquisition costs

Investor's mandate

- Cost of capital: 15% (with ability to sustain limited MTM loss)
- Term horizon: 6 months – 1 year
- Exit trigger: One poor quarter of performance or evidence of structural change
- Liquidity: Ability to exit within 10 days of decision

Invest at up to $6bn enterprise value (incl. embedded option value) and monitor quarterly performance on mgmt. guidance

Financial Projections

- 20% Urban Household Penetration @ INR 300 Order Value with 3 orders/month/HH
- Stagnant delivery productivity to 12 deliveries / day given low density of new demand
- Resultant sustainable contribution margin per order or INR 10 / order
- Cyclical demand driven by volatility in discretionary income of blue collar workers

Sustainable competitive advantage of business model / enterprise

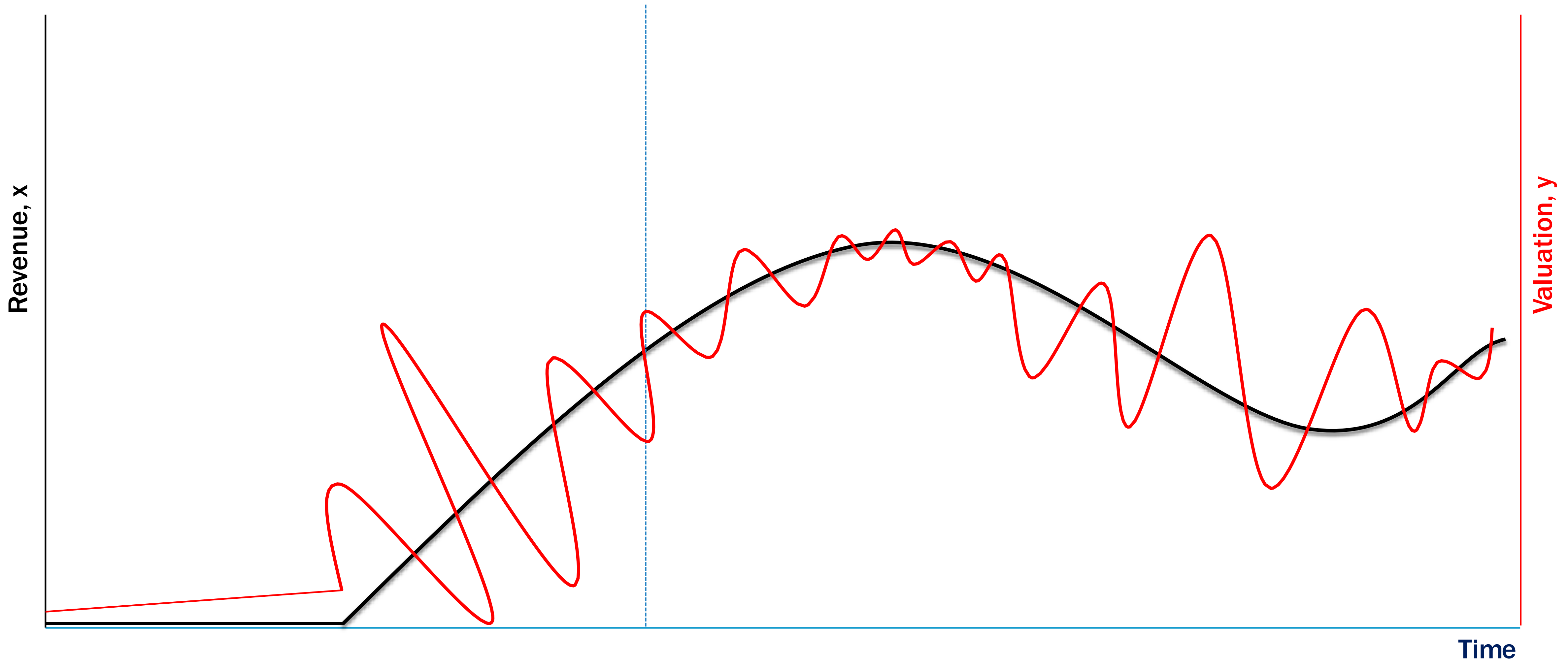
- Several new entrants into the market with reduced commissions for restaurants / kitchens. Unbundled bike delivery services available as a commodity service now.
- Customers will switch for better discounts or if their favorite restaurants shift loyalty
- Limited marginal gross profit in cross-selling other delivery services as marginal cost of pick-up and delivery doesn't change in high density catchments

Investor's mandate

- Cost of capital: 25% (ensuring <5% loss ratio – i.e. loss of principal)
- Term horizon: 3 – 5 years
- Exit trigger: Achievement of investment thesis milestones (e.g. margins, FCF); Influence / assist management during periods of underperformance.
- Liquidity: Ability to influence liquidity event and exit within 1 year of decision

Invest at up to $3bn enterprise value and agree on a 18 month execution priorities with mgmt.

DURABLE VALUE CREATION AND VALUATION MAY BE DISCONNECTED OVER BUSINESS / MARKET CYCLES AND DUE TO OTHER FACTORS



Q&A

APPENDIX – PORTER'S 5 FORCES

Source: "How Competitive Forces Shape Strategy" by Michael E Porter, HBR – 1979