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CONNECT 2021-2024

Connecting universities-industry through smart entrepreneurial cooperation and competitive intelligence of students in Moldova, Georgia and Armenia

Erasmus +, KA2,
Capacity Building in the Field of Higher Education
617393-EPP-1-2020-1-MD-EPPKA2-CBHE-JP

RAISE OF FUNDING AND GOVERNANCE

INTRODUCTION

Funding a new business, no matter if it is a startup or not, is always a challenge especially without any experience about the complexity of raising money and financing operations

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FUNDING

Funding steps are not the same for all types of ventures and at all stages of their lifecycle.

Buyable and Scalable startups are more likely to receive money from outside investors along with other financing types.

Grants, Subsidies, Bank Loans are more appropriate for non-investable types of startups

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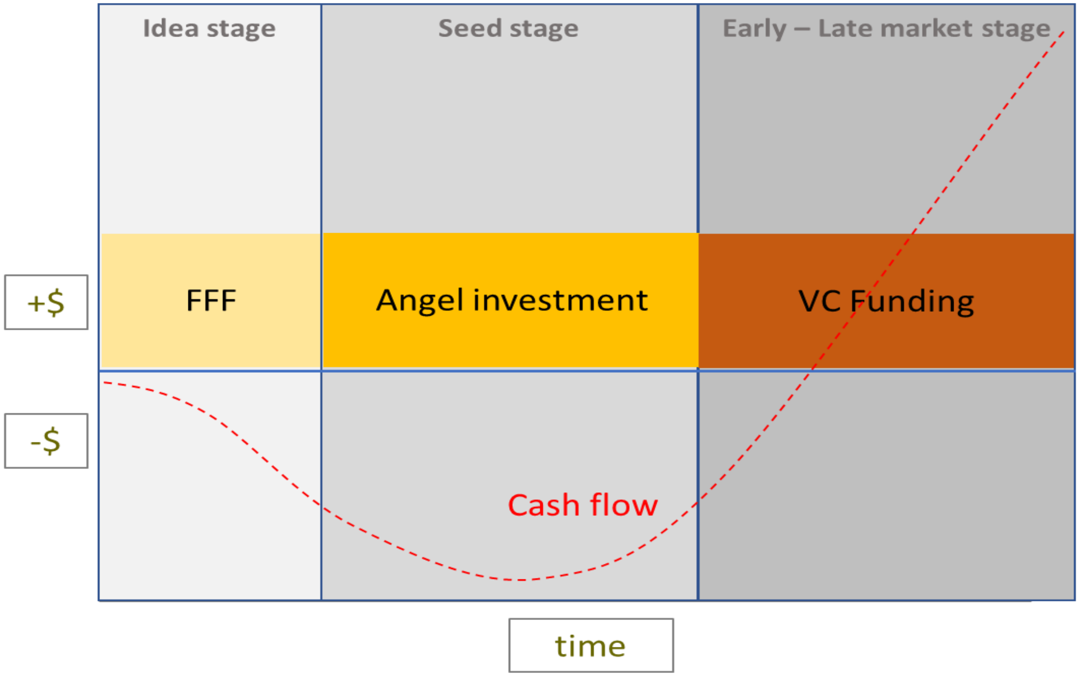
EARLY-STAGE FUNDING

Investing: Timing

Business Angels are often the first source of funding (outside of the founders') for startups. They fill a crucial investment gap between FFF and Venture Capital funds.



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EARLY-STAGE FUNDING

When in an “Idea Stage” or a having “Power Point Startup” status, it is almost impossible to get funding because ideas simply don’t get funded…

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EARLY-STAGE FUNDING

Early-stage investors will assess a few factors to decide if they will go ahead with placing their bet with the startup or not. These are mainly:

- ✓ The strength of the team
- ✓ The size of the market
- ✓ Competitive Advantage and Business Model
- ✓ Competition
- ✓ The prototype status
- ✓ Time to market
- ✓ Funding needs as derived from the business plan.
- ✓ Friction Points

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EARLY-STAGE FUNDING

Startup Investing: Funding at Startup Development Stages

Idea
Market Need Research

Product Need Research
Prototype draft Designs
Pre-Prototype
Business concept Draft
Investment Needs Draft

Business Angel Engagement

Prototype Development
Market Analysis & Tests
Business Plan development w/Go2market Plan '7 Financials
Investment Needs Validation and Proposal Ready

Alfa/Beta Testing
Need Validation
Go2market Plan Validation
Financial Plan Validation

Launch
MVP validation
Business Plan Amendments
Traction

Chances for Funding

VC Fund	**No**	**No**	**Very rare**	**Rare**	**Better**
Business Angel	**No**	**Rare**	**Low**	**Possible**	**Better**
Accelerator	**No**	**Low**	**Better**	**Possible**	**Better**
Public funding (e.g. H2020)	**No**	**Better**	**Better**	**Better**	**Better**

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EARLY-STAGE FUNDING

Startup Investing: Current Funding Options for European Pre-seed Startups	AVERAGE FUNDING	AVERAGE EQUITY	TRACTION REQUIRED
Startup Competitions & Events Provide mentoring, networking, and some of those (usually) small amounts of funding	€ 0-5k	0	No
Startup Accelerators Provide mentoring, networking, access to markets and investors, sometimes follow-on funding	€ 0-30k*	0-10%	Possibly
Startup Incubators Provide mentoring, networking, access to markets and space, services, sometimes funding	€ 0-50k*	0-10%	Yes
Business Angels, Angel Syndicates & Groups Provide very early stage funding in individual or syndicated investments, networking, expertise	€ 10-200k	1-20%	Depends
Early Stage Venture Capital Funds Provide very early stage funding in individual or syndicated investments and expertise	€ 30-300k	8-30%	Yes

*a portion of this is often provided as services

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Raise of Funding campaign dimensions

the value of the startup and the funding need.

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The “investment ask”

Is related to the Funding Need to facilitate the plan’s milestones with the desired liquidity

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“the **biggest determinant of your startup’s value are the market forces** of the industry & sector in which it plays, which include the balance (or imbalance) between demand and supply of money, the recency and size of recent exits, the willingness for an investor to pay a premium to get into a deal, and the level of desperation of the entrepreneur looking for money”.

Source: Seedcamp

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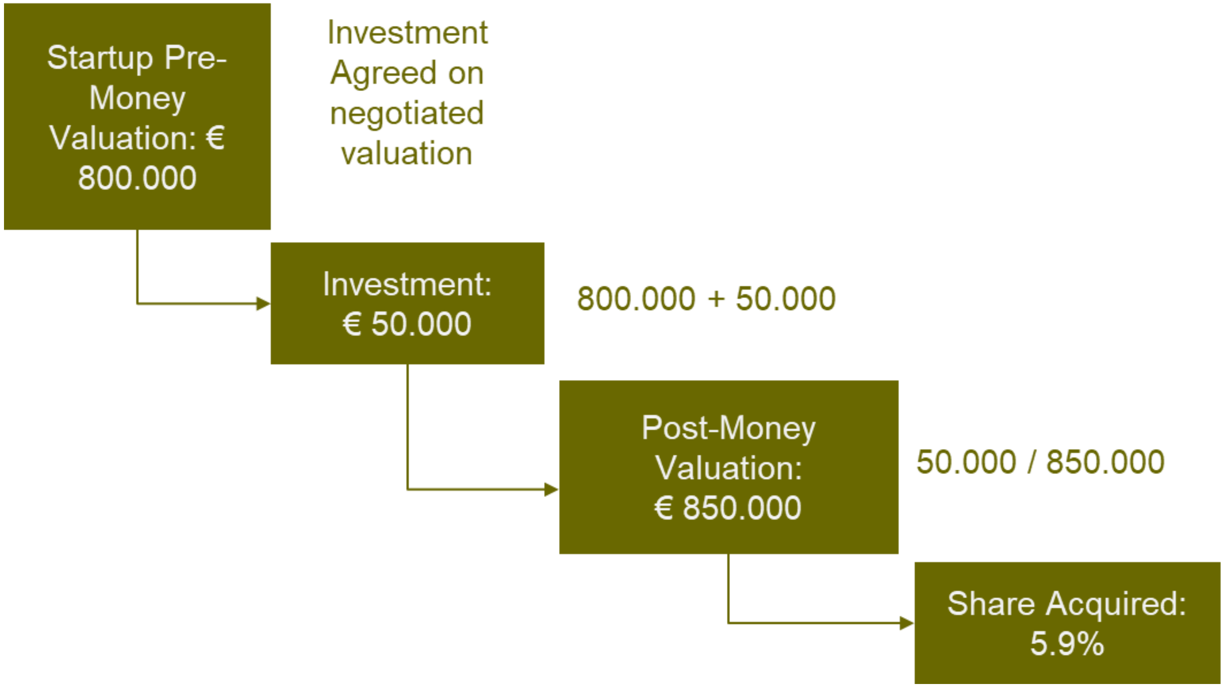
EARLY-STAGE FUNDING

We estimate acquired equity based on the **money ratio to the value of the company** after the investment is in:

Pre-Money Valuation: The value of the startup negotiated
Investment: the amount to be invested
Post-Money Valuation: Pre-Money + Investment
Equity Acquired: Investment/Post-Money Valuation



The elements of valuation

Calculations (Valuations) are usually combinations of market intel, known comparable market values and business plan metrics

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ScoreCard Method

Compare your company to similar deals done in your area using and apply some adjusting factors.

$1.000.0000 comparable deal*

Value Driver	Weight	Your Venture's Score	Factor
Strength of the Management Team	30%	75%	0,23
Size of the Opportunity	25%	75%	0,19
Product/Technology	15%	100%	0,15
Competitive Environment	10%	75%	0,08
Marketing/Sales Channels/Partnerships	10%	50%	0,05
Need for Additional Investment	5%	50%	0,03
Other	5%	50%	0,03
			0,74
	PRE-MONEY VALUATION		**$ 737.500**

*investors usually have access to this type of info

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Berkus Method

Uses both qualitative and quantitative factors to calculate valuation based on five elements by assigning a monetary value to each

Value Driver	Add to Pre-money Valuation		
Sound Idea (basic value)	0-500.000	200.000,00 €	
Prototype (reduces technology risk)	0-500.000	100.000,00 €	
Quality Management Team (reduces execution risk)	0-500.000	400.000,00 €	
Strategic Relationships (reduces market risk)	0-500.000	300.000,00 €	
Product Rollout or Sales (reduces production risk)	0-500.000	200.000,00 €	
	PRE-MONEY VALUATION		$ 1.200.000

Berkus thought that a company valued 2.500.000 today should bring a 20 X terminal value of 50.000.000 upon exit

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Risk Factor Method

Instead of assigning percentage weights and multiples, we assign the following ratings to each risk factor and do an adjustment to the average pre-money valuation per each rating

Value	Factor	Add to Pre-money Valuation
extremely positive	2	$500.000,00
positive	1	$250.000,00
neutral	0	$0,00
negative	-1	-$250.000,00
extremely negative	-2	-$500.000,00

Value Driver	Factor	Add to Pre-money Valuation	
Management risk	2	$500.000,00	
Stage of the business	0	$0,00	
Legislation/Political risk	-1	-$500.000,00	
Manufacturing risk (or supply chain risk)	-2	-$500.000,00	
Sales and marketing risk	0	$0,00	
Funding/capital raising risk	0	$0,00	
Competition risk	1	$250.000,00	
Technology risk	2	$500.000,00	
Litigation risk	-2	-$500.000,00	
International risk	-2	-$500.000,00	
Reputation risk	1	$250.000,00	
Exit value risk	1	$250.000,00	
		-$250.000,00	
	AVERAGE INDUSTRY VALUATION		**$ 1.000.000**
		ADJUSTMENT	**-$250.000,00**
		PRE-MONEY VALUATION	**$ 750.000**

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The VC Method

A 6-step quantitative method (also aspirational)

	Y1 PILOT	Y2	Y3	Y4	Y5
REVENUE	363.825,00 €	1.039.500,00 €	2.598.750,00 €	7.417.687,50 €	24.725.625,00 €
EBITAD	-120.428,55 €	41.095,58 €	548.466,94 €	2.427.783,53 €	9.515.408,53 €
CASH FLOW EoY)	-135.428,55 €	-124.332,97 €	424.133,96 €	2.801.917,50 €	12.317.326,03 €
CASH FLOW MIN	-192.260,54 €	-271.020,09 €	-300.849,71 €	-1.240,00 €	1.593.835,37 €
TOTAL FUNDING NEED	**-300.849,71 €**				

1. Forecast Startup Financials
2. Estimate the Investment Needed
3. Determine the Timing of Exit (IPO, M&A, etc.)
4. Calculate Multiple at Exit (based on comps)
5. Discount to PV at the Desired Rate of Return
6. Determine Valuation and Desired Ownership Stake

$$\text{Venture value} = \frac{E_t \text{ x (P/E Ratio)}}{(1+r)^t}$$

In this case with 9.5M net revenue at exit year (5) with a 100% Rate of Return for the Early Investors and a 300k Investment Need in Y1 and an investment multiple of 10, would produce a €2.668.000 Pre-Money Valuation and € 2.968.000 Post Money Valuation offering a 10% equity to the investors with an aim to maintain 5% at the Year of Exit to hit their investment Goal

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CAP TABLE

	CAP TABLE [SMART DOORS INC]			Vesting Schedule	Pilot Year (Year 1)	Year 2	Year 3	Year 4
	Team member	Role	Initial Shares					
Initial Founders	E	Founder	65,00%	NO	54,17%	43,33%	36,11%	36,11%
	R	Founder	35,00%	NO	29,17%	23,33%	19,44%	19,44%
	Business Angel GROUP	Investor		NO	16,67%	13,33%	11,11%	11,11%
	VC FUND 1 (SEED)	Investor		NO		20,00%	16,67%	16,67%
	VC FUND 2 (SEIRIES A)	Investor		NO			16,67%	16,67%

Total shares outside main founder's hold	0,00%		16,67%	33,33%	44,44%	44,44%
Total shares	100,00%		100,00%	100,00%	100,00%	100,00%

PRE-MONEY VALUATION	$750.000,00	$2.000.000,00	$5.000.000,00	
RoF	$150.000,00	$500.000,00	$1.000.000,00	
POST-MONEY VALUATION	$900.000,00	$2.500.000,00	$6.000.000,00	
NEW INVESTORS	16,67%	20,00%	16,67%	
			0,00%	

PITCHING

Pitching is a fast and accurate synthesis of main elements figured out and explored in your validation and business plan; usually presented to early-stage investors or other stakeholders. The main objective of a pitch is get some type of support

Types of pitching based on the audience:

1-Investors: You pitch to raise funding

2-Customers: You pitch for feedback

3-Sales: You pitch to introduce your product/service and ultimately sale

4-Employees: you pitch to recruit or motivate employees

5-Partners: you pitch to recruit or motivate partners

6-Competitors: You pitch to explore synergies

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Investors pitching:

- ✓ One-sentence pitch (‘value proposition’)
- ✓ 60-second pitch (‘elevator’)
- ✓ Competition pitch used in events (3-8 minutes)
- ✓ Investment pitch (20-40 minutes)

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A pitch-deck's basic structure

1. Company Overview
2. Mission/Vision of the Company
3. The Team
4. The Problem
5. The Solution
6. The Market Opportunity
7. The Product
8. The Customers
9. The Technology
10. The Competition
11. Traction
12. Business Model
13. The Go2Market Plan
14. Financials
15. The Ask

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Founders Agreement

A document signed between founders before Incorporation phase that:

- ✓ Paves the grounds for investment and startup governance
- ✓ is a product of their talks at the early stages of formation.
- ✓ A Founders' Agreement is a basically a contract for startups founders for the rights and responsibilities.

A Founders' Agreement details:

- ✓ Roles and Equity Distribution
- ✓ Adding team members
- ✓ Dealing with their shares
- ✓ Confidentiality
- ✓ Intellectual property
- ✓ Dealing with investors

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Strategy

- What goals does each of us have for the start-up? What goals do we have for ourselves?
- What are our respective timelines for these goals?

Ownership Structure

- Who gets what percentage of the company?
- What will we each contribute to the company? (e.g., duties, job descriptions, hour commitments, roles, and responsibilities).
- How much capital are we each contributing and for what?
- Is the percentage of ownership shares subject to vesting based on continued participation in the business?

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FOUNDERS AGREEMENT

Management

- Day-to-day decisions process
- Salaries (if any) are the founders entitled to
- Departing founders
- Selling the company – raising money
- Conflicts of interest/ Competition
- Performance

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INVESTORS PARTICIPATION

An investor can acquire/buy shares at nominal price or market value with a Stock Purchase Agreement (SPA) that is exercised at the time of purchase so that requires that the startup is finally incorporated.

Before that happens other types of documents like a S.A.F.E. (Simple Agreement for Future Equity), a Warrant or Convertible Note can be utilized as to document the agreed commitment terms.

INVESTORS PARTICIPATION

Straight Equity: It involves direct *exchange of company shares for an agreed upon investment* i.e., **€20.000 for 3%** of the company's shares. The investor gets his/her shares after buying them at a specified price/share rate.

Time of investment payment: Present
Time of shares acquisition: Present
Time of share price fixing : Present

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Combined In-kind and Monetary Investment: It *accounts in-kind and monetary contributions together* for a total % of equity. Equity materializes upon money contribution or later, using convertible notes, warrants or other investment vehicles

Time of in-kind investment payment: Present
Time of shares acquisition: Present or Future
Time of share price fixing : Present or Future

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INVESTORS PARTICIPATION

Convertible Note: a form of short-term *debt that converts into equity, typically in conjunction with a future financing round*; practically speaking, the investor would be loaning money to a startup and instead of a return in the form of principal plus interest, the investor would receive equity in the company. Typically, the investor buys at a discounted price/share and a valuation cap

Loan of € 20.000 for a period of 3 years with 4% interest. Conversion after maturity date with a 20% discount and a 2.000.000 valuation cap

Time of investment payment: Present
Time of shares acquisition: Future
Time of share price fixing : Present/Future

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INVESTORS PARTICIPATION

Warrant: A stock warrant represents *the right to purchase a company's stock at a specific price and at a specific date*. A stock warrant is issued directly by a company to an investor

A warrant holder has no voting, shareholder, or dividend rights and gets no say in the functioning of the company, even though they are affected by their decisions and policies.

Time of investment payment: Future
Time of shares acquisition: Future
Time of share price fixing : Present

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S.A.F.E. : (simple agreement for future equity) is an agreement between an investor and a company that *provides rights to the investor for future equity in the company similar to a warrant*, except without determining a specific price per share at the time of the initial investment.

Types of S.A.F.E.s

•Cap, no discount
•Discount, no cap
•Cap and discount
•no cap, no discount

Time of investment payment: Present
Time of shares acquisition: Future
Time of share price fixing : Future

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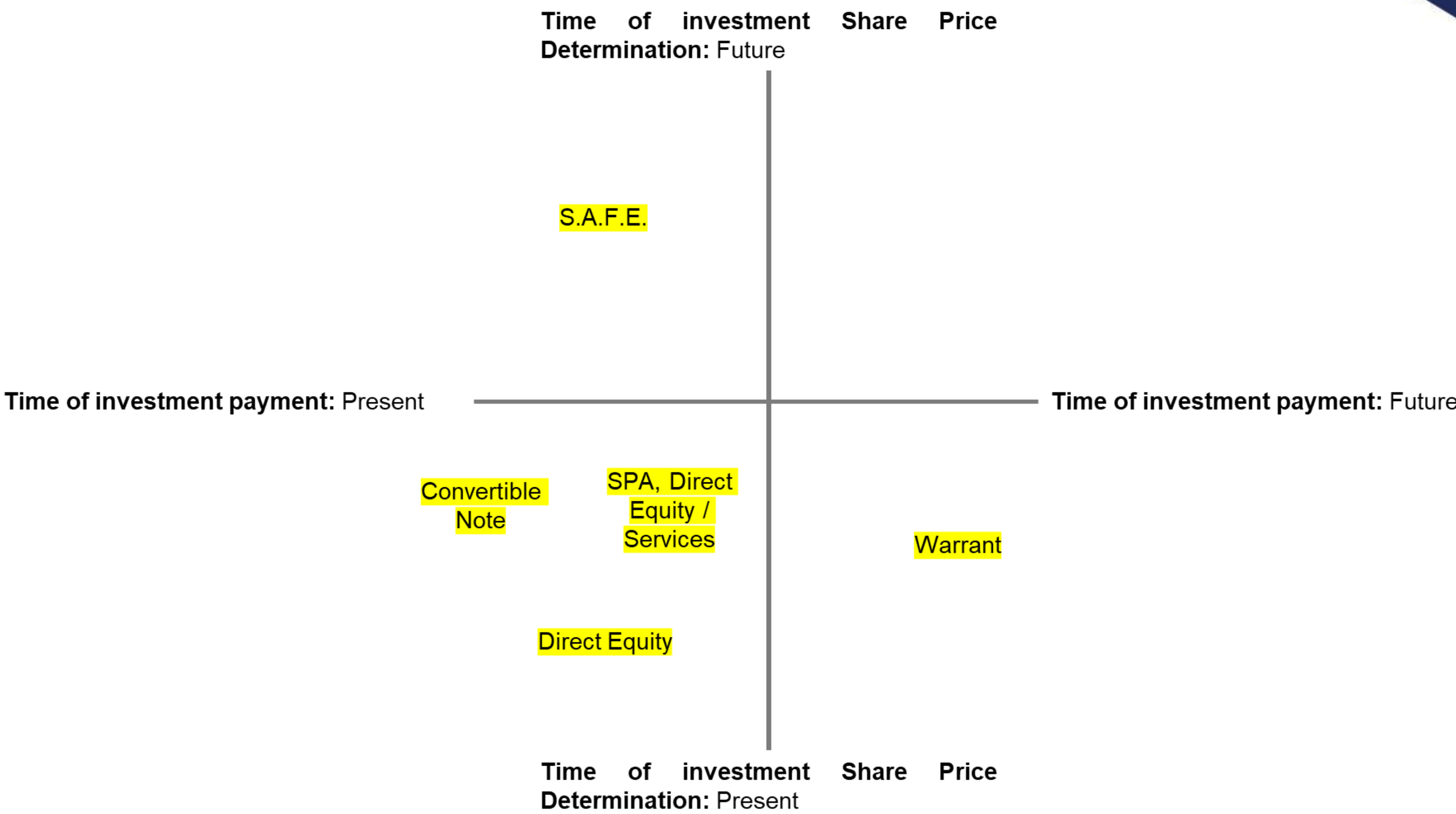
INVESTORS PARTICIPATION



The Term-sheet

A non-binding document and engaged parties may choose to withdraw from the deal before it concludes.

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INVESTORS PARTICIPATION

The Term-sheet

- ✓ Liquidation Preferences
- ✓ Veto Rights
- ✓ Anti Dilution
- ✓ Right of First Refusal/Right of Co-Sale (Take-Me-Along
- ✓ Drag Along rights
- ✓ Tag Along rights
- ✓ Redemption Rights
- ✓ Founders/Employees Vesting
- ✓ Conditions to closing
- ✓ Right to Participate Pro Rata in Future Rounds
- ✓ Matters Requiring Investor / Director (BoD) Approval
- ✓ Non-Competition and Non-Solicitation Agreements
- ✓ Non-Disclosure and Developments
- ✓ Employee Stock Options
- ✓ No Shop/Confidentiality

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