INSERO

Workshop #7 – Kapitalfremskaffelse

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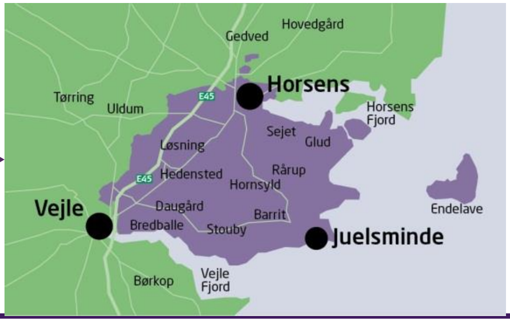
Introduktion til Insero



Insero er en venture investor.

Vores investeringer skal:

- Give et økonomisk afkast
- Skabe vækst og udvikling i vores lokalområde

Vi er en "evergreen fond", og det betyder:

- Konservativ forvaltning af vores egenkapital
- Risikovillige investeringer i iværksættere
- Positivt afkast af vore investeringer bliver geninvesteret
- Årligt ny-investeringsbudget 15-20 MDKK, hertil kommer reserveret kapital til opfølgningsinvesteringer

- Fokus på IT og energiteknologier
- 8 aktive porteføljeselskaber
- Modtager: 110-130 anmodninger/ forretningsplaner per år, oftest uopfordret
- Gennemfører: 1-3 investeringer per år
- Beløb: 3-10 mkr. per ny-investering
- Varighed: Der går typisk 4-6 måneder fra første kontakt til Closing

EmaZys Technologies
TEGnology
MUNIN SPOT TECHNOLOGY
brainreader ApS
Miitors smart meters - clever people
klima bevidst
AC-Sun
ECOMOVE

John F. Dascher

- B.S. in Applied Physics & an M.B.A. in finance
- 1 year as an aerospace engineer & 17 years as a seed & venture capital investor on the US East Coast & Texas
- Chairman of TEGnology ApS; Acting CEO of AC-Sun ApS; Vice Chairman of EmaZys Technologies; Board member of Brainreader.

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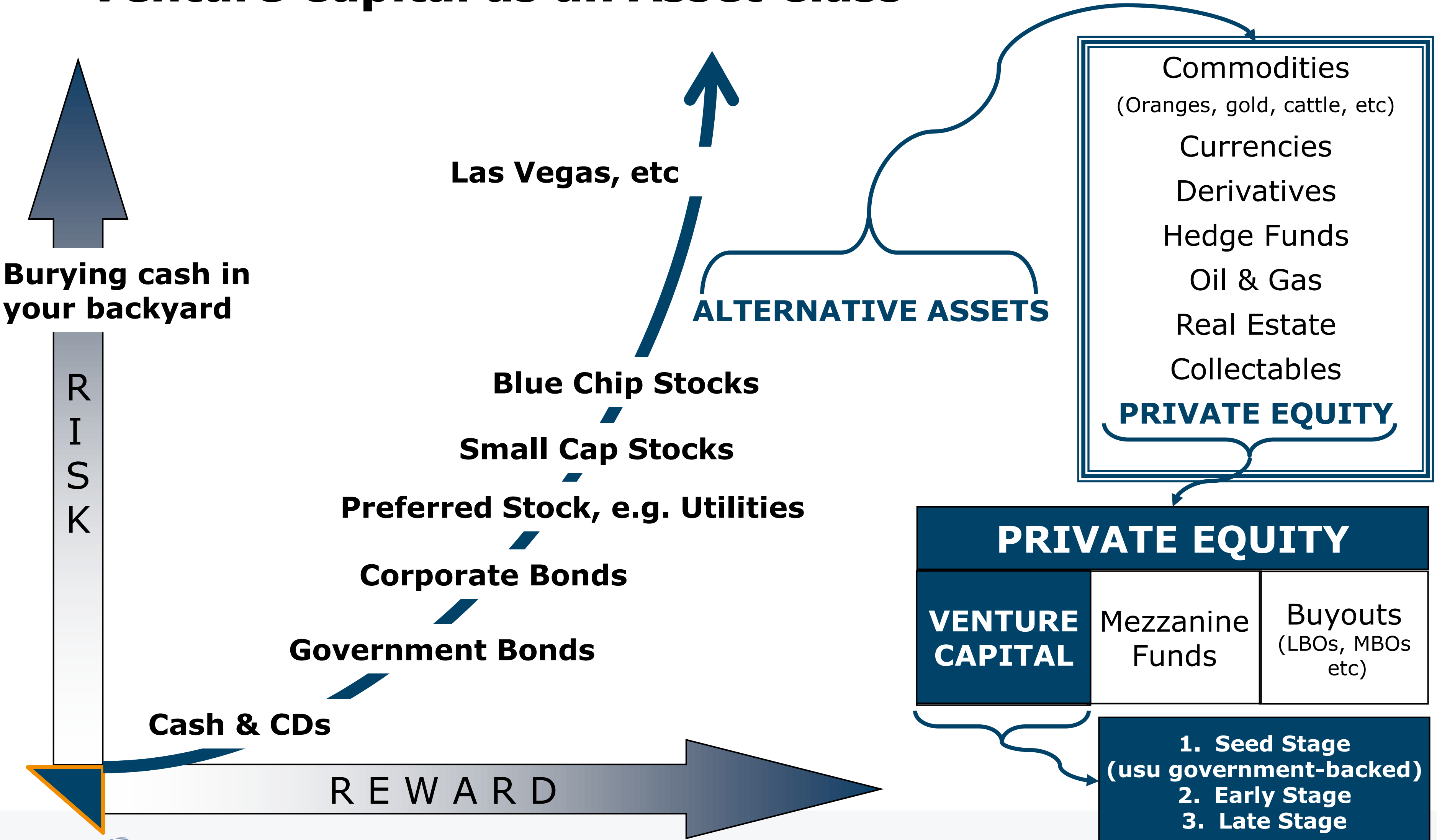
Venture Capital as an Asset Class



Typical Structure of a DK VC Fund

Komplementar

Limited Partners

Banks, pension funds, universities, insurance co's., wealthy individuals, fund-of-funds, governments, etc invest capital into the venture fund based on the strength of General Partners' ability to invest it as described in a ***PPM – Private Placement Memorandum***

Bestyrelse

The Fund's board of directors picks the management company and is often the partners themselves

LPs make commitments at closing then pay $ into the fund when "called" by the partners

Management Co.

A corporation created by the partners which is paid an annual fee by the fund of 2% – 3% of total capital to operate the fund.

Yearly Management Fee

"XYZ Ventures I" (K/S)

After 5 years (if the fund is successful) the partners raise XYZ Ventures II. After 10 years Fund I is closed down

Key Point: Investment Decision should be with the partners, but is not always

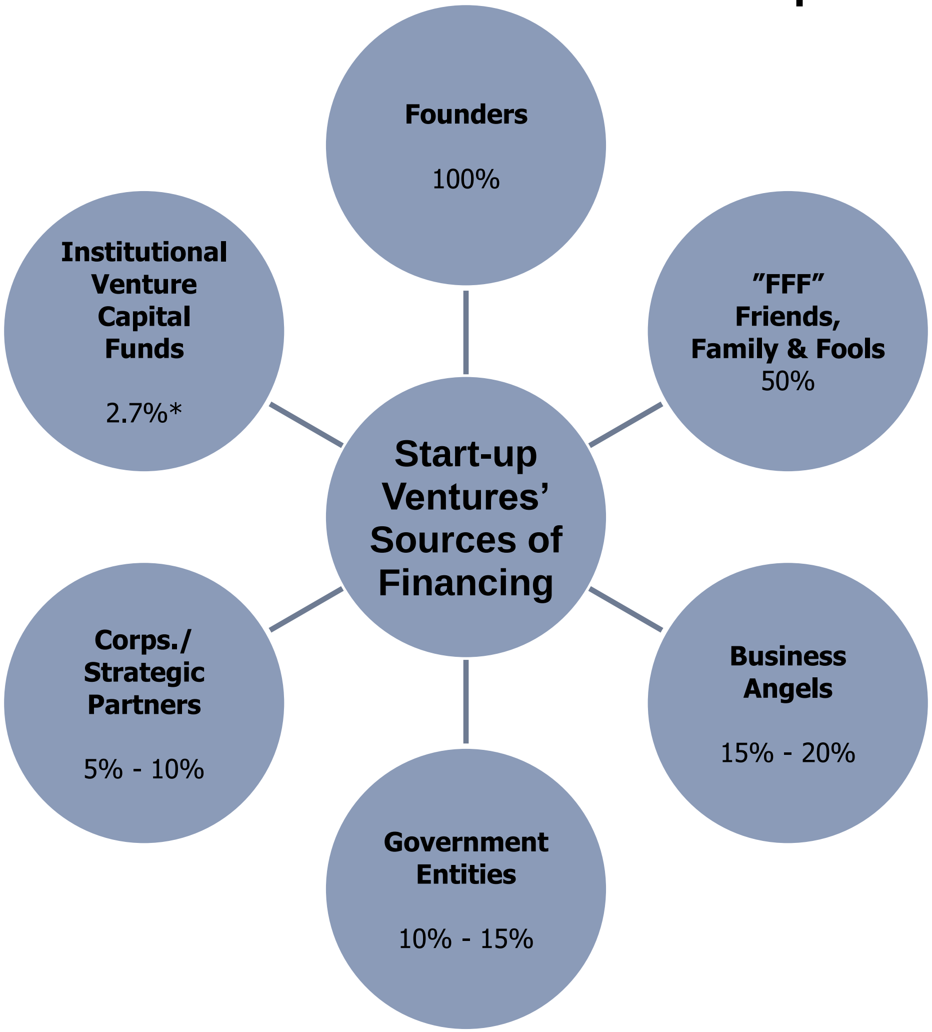
The Fund invests cash into Portfolio companies

$ Returns to the fund when portfolio companies have exits

Portfolio Companies

The General Partners and the Management Company invest the money contributed to the fund by the LPs in companies as described in the PPM for the first 4 – 5 years. Then, successful portfolio companies are sold or go public (i.e. an "exit" or "liquidity event") and the funds earns a capital gain. These gains are returned to the LPs and after they have gotten their capital back plus a small return , the rest of the gains (i.e. profits) are split 80% to the LPs and 20% to the partners.

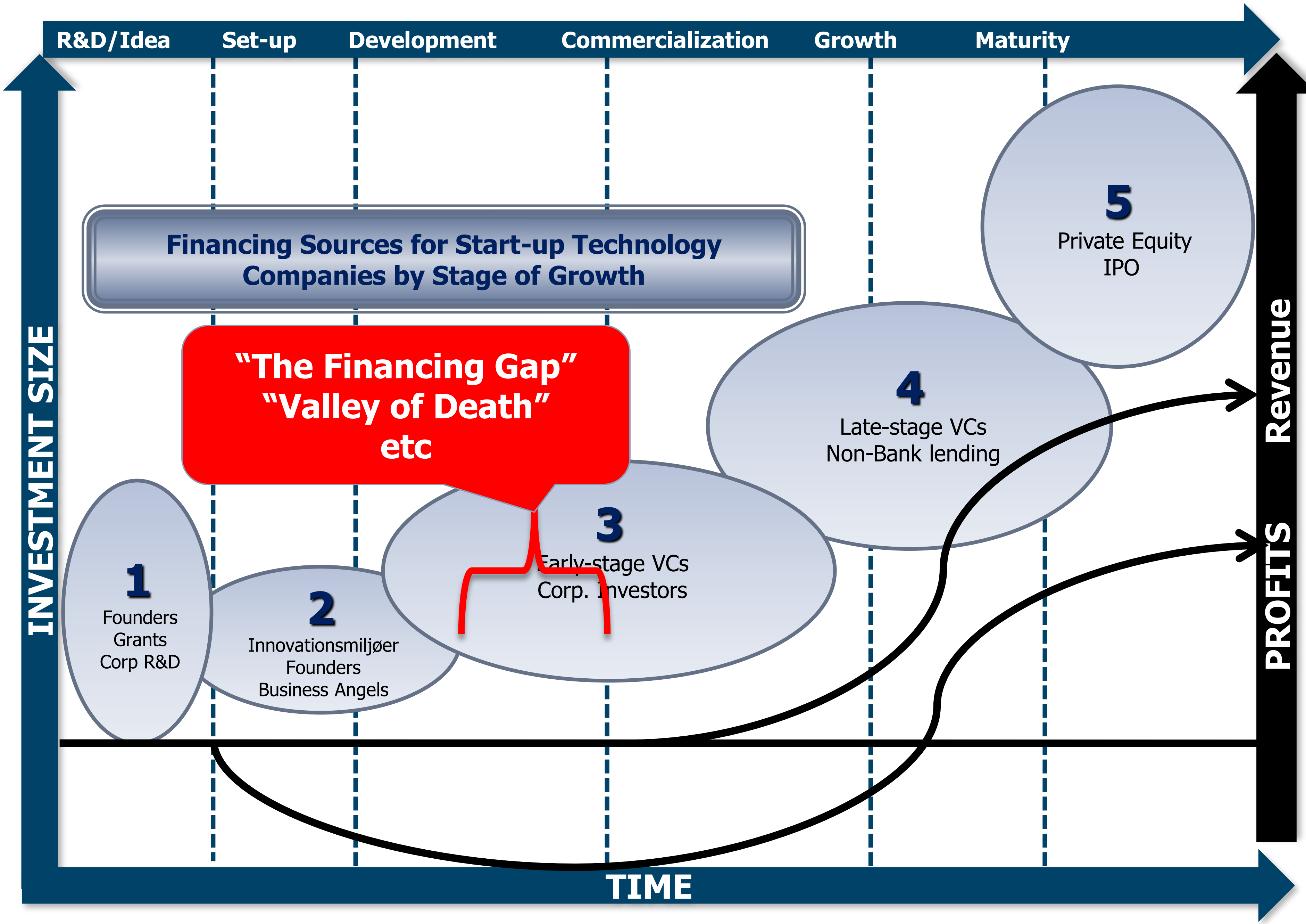
Sources of Venture Capital



* Source: Center for Venture Research, Univ. of New Hampshire

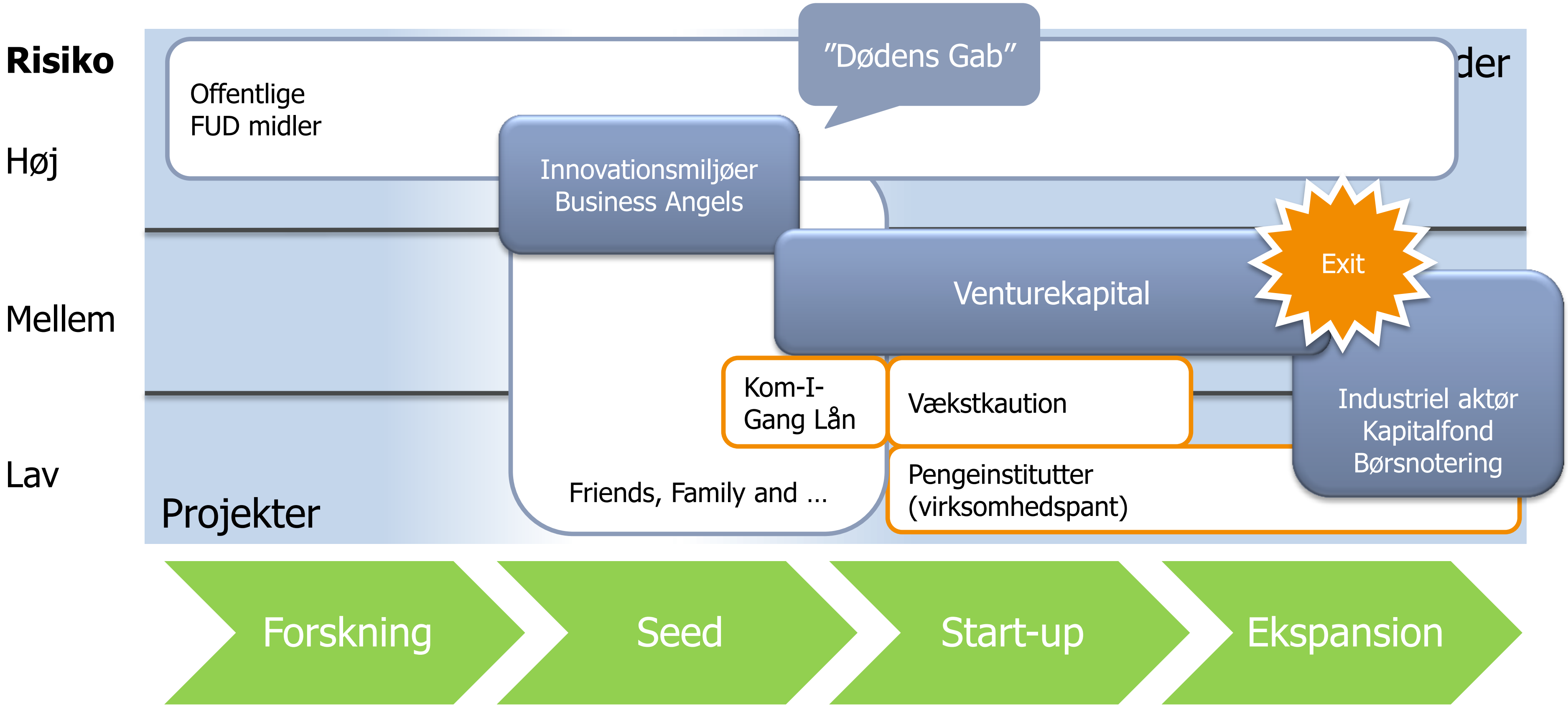
Source	Know What Motivates Your Investor (Other than ***R***eturn ***O***n ***I***nvestment)
Founders	Making their dream a reality
FFF	To support someone they care about… (or get them off their back)
Business Angels	A sense of "giving back" To be involved in something
Government	Scientific discovery/development for society's greater good Economic development & job creation
Corp/Strat Partners	Synergy with core business
VCs	Nothing but ***ROI***… from portfolio companies that match their investment profile

A quick word about banks - The business model of a bank is not designed to fund a start-up company, so do not get angry at your banker if he or she cannot lend start-up capital.



R&D/Idea
Set-up
Development
Commercialization
Growth
Maturity
Financing Sources for Start-up Technology Companies by Stage of Growth
“The Financing Gap”
“Valley of Death”
etc
1
Founders
Grants
Corp R&D
2
Innovationsmiljøer
Founders
Business Angels
3
Early-stage VCs
Corp. Investors
4
Late-stage VCs
Non-Bank lending
5
Private Equity
IPO
INVESTMENT SIZE
Revenue
PROFITS
TIME

Finansieringsmuligheder for iværksættere



- Forskning
- Udvikling

- Proof of Concept
- Første omsætning

- Produktudvikling
- Break-even

- Ekspansion til nye markeder
- Stigende vækst
- Produkt-differentiering
- Positive vækstrater

Venture Capital FAQs

1. Should you even raise VC $$$?, i.e Bootstrapping vs. Fundraising

2. What are some of the characteristics VC are looking for in an investment opportunity? / Why do VCs reject business plans?

3. What are some advantages and some disadvantages to VC funding?

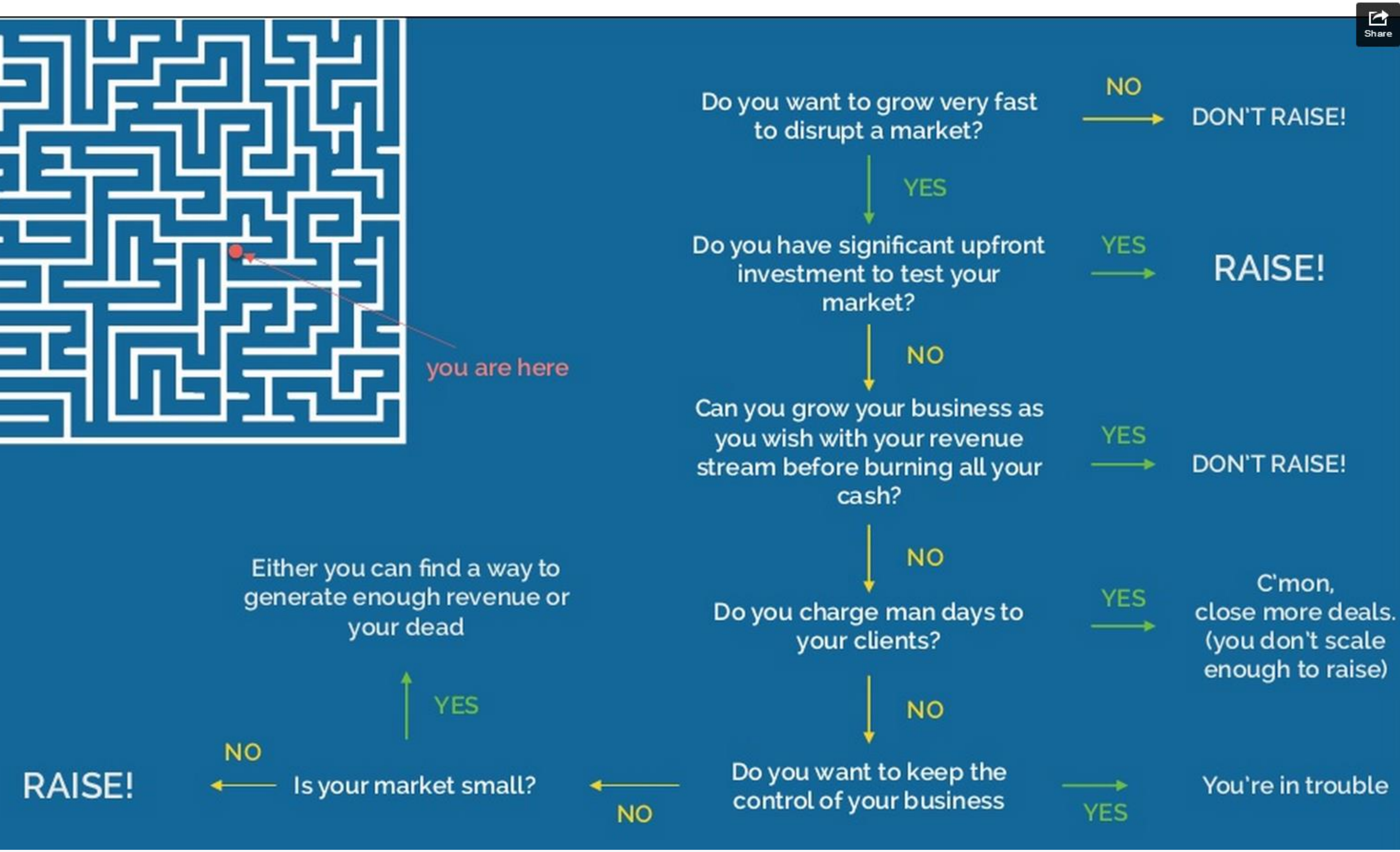
4. How do you find a VC and get her/him to read your business plan?

5. What do the terms “pre-money valuation” and “post-money valuation” mean? How are the terms related?

6. How does a VC arrive at either a pre-money or a post-money valuation for a firm?

7. Others???

Bootstrapping or fundraising?



Courtesy of France Digital, Feb18 2014

What are some of the characteristics VC are looking for in an investment opportunity? / Why do VCs reject business plans

Management

- Honest
- Entrepreneurial
- Ambitious
- Intelligent
- Relevant experience
- Open minded
- Skilled in both technology & business

Market

- Huge / International
- Addressable
- Growing
- Have a demand
- Willing to pay a premium for the product
- Sustainable

Deal

- Reasonable valuation
- Terms that protect investors
- Exit opportunity in 3 – 7 years

Technology

- Innovative
- Protectable
- Scalable

- Give the company a competitive advantage by creating a barrier to entry
- Have a compelling value proposition

A venture fund's PPM describes, among other things, the fund's Investment Philosophy:

1. Geography
2. Industries
3. Stage
4. Number & size

If your company meets the fundamental criteria described here, but does not fit a fund's Investment Philosophy, you will not get funded.

A venture fund's age also determines its investment behavior. If a fund is just beginning, it is more likely to invest in a very early-stage deal because it has more time to develop the company. As a funds get later in its 5-year investment period, it will start doing deals that require less time to reach an exit.

What are some advantages and some disadvantages to VC funding?

Advantages	Disadvantages
Growing a business without capital is damn near impossible, despite the feel-good stories we read about in magazines	You no longer have 100% control & ownership of your company -> At the board level, & -> At the management level (Yes, you can be fired & it happens often) -> *Smaller piece of a larger pie*
Hyper focus on creating value & exiting	Less flexibility to change strategies or generally make important decisions Potential change in future interests, f. eks: -> You may want to keep your company -> Your investor's#1 goal is to sell it -> You may want a big bonus if profitable -> Your investor wants to reinvest profits
Access to: -> Expert knowledge -> Network/partners/customers -> Follow-on capital & exit sources	Less ability to build your own team, external and internal
Instant credibility & prestige	

How do you find a VC and get her/him to read your business plan

1. **Do NOT send unsolicited business plans**

   Get a qualified referral to send your plan to a VC, e.g. Innovation Center, Lawyer, Business Angel, etc.

   Use social media resources like LinkedIn to find these connections. Personal referrals are taken more seriously and read carefully by investors. Unsolicited plans are rarely taken seriously.

2. **"Get in the Game"** – Go to every networking function and B-plan competition you can. Use resources like use CONNECTDenmark & Væksthusene.

3. **Do NOT hire a professional fundraiser**

   Raise the money yourself or through your board. VCs prefer to work directly with entrepreneurs; professional fundraisers are not trusted and usually get in the way.

   Exception "Capital Coach" program

What do the terms “Pre-money valuation” and “Post-money valuation” mean? How are the terms related?

- **Pre-Money Valuation**

  The valuation of a company prior to a round of investment. This amount is determined by using various calculation models, such as discounted P/E ratios multiplied by periodic earnings or a multiple times a future cash flow discounted to a present cash value and a comparative analysis to comparable public and private companies.

- **Post-Money Valuation**

  The valuation of a company immediately after the most recent round of financing.

  Post-Money = Pre-Money + New Money

- **Up-round vs. Down-round vs. Flat-round**

  Up-round is an additional round of financing with a higher pre-money valuation than the previous round. Down-round is lower. Flat-round keeps the same valuation.

How Does a VC Arrive at a Valuation for Your Company When Making an Investment?

- **Theory**

  DCF model + Comparable model + Asset vale, and/or an index of all 3

- **Practice**

  There is a ”going rate” in the VC community for certain companies at certain stages of growth. This value is known only among VCs.

- **Best practice**

  Work backwards:

  1. Start by estimating an exit value based on comparable transaction
  2. Estimate the total financing needed and how much you can invest
  3. Determining whether the amount of ownership you’ll need for a healthy IRR (apx. 10X)
  4. That equals you pre-money

- **Reality**

  It is heavily negotiated and not independent of the amount invested

  - Objectively by the VC (although egos have been known to show themselves in this proces)
  - Emotionally by the entrepreneur (more on this later)

Common Mistakes To Avoid When Raising VC Money

1. **Asking for a signed NDA before sending a business plan**

   Investors only sign NDAs when going into due diligence. Requiring this sets the relationship off on the wrong foot from day one and shows the VC you are not knowledgeable.

2. **Lacking a business plan**

   Send an executive summary to get their interest (a VC can determine in <3 min from an ES if they are) and have a full B-plan ready to keep it.

3. **Forcing an investor to act quickly**

   Being pressed for time compromises due diligence and increases risk. Most VCs walk away even if they are interested.

   A. Start fundraising long before you need capital; you'll get a better deal too.

4. **Being dishonest, no matter small or trivial**

   VCs usually find out everything, so getting caught in a lie or even an exaggeration kills a deal.

5. **Having unrealistic expectations on valuation**

   Find out what valuations other start-ups similar to your stage of growth are raising money at because that's close to what you'll get. Valuation gets personal quickly & this kills deals.

Just for Fun - Case Study: Google

January 1996 – Google began as a research project by Stanford Ph.D. students Larry Page and Sergey Brin

Sept 15, 1997 – google.com domain is registered

Sept 04, 1998 – Google is incorporated as a company

June 07, 1999 – Google raises $25m from 2 top-tier venture funds by selling 20% of the company

Google valued @ $125m = DKK 711m

August 19, 2004 – Google goes public ("børsnoteret") @ $85 / share

Google valued @ $1.667m = DKK 9.481m

July 15, 2013 – Google reaches an all-time high stock price of $925 / share

Google valued @ $307.939m = DKK 1.752.050m

	Google	**S&P 500**	**Nasdaq**	**C20**
June 7, 1999 – VC investment	-$12.500.000	-$12.500.000	-$12.500.000	-$12.500.000
August 19, 2004 – IPO	$166.642.942	$10.222.716	$9.012.176	$16.174.343
July 15, 2013 – Max Google Value	$1.812.859.553	$15.761.774	$17.864.451	$32.500.000
IRR/"Interest" on Investment @ IPO	64%	-4%	-6%	5%
IRR/"Interest" on Investment @ Max	42%	2%	3%	7%

Spørgsmål?

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