KNOWLEDGE SESSION

INTRO **TO VC** & CHALLENGES

EPFL Fellowship

QUICK SURVEY
Your answers about VC

What comes to mind when you think about Venture Capital?

MONEY?

TECH?

SPAC?

WHAT THE FU...NDS?

Negotiation
Funds
Partners
Career
Debt
Risk
Finance
Equity
Associate
Companies
Venture
Due Diligence
Capital
Valuation
Investing
Return
Startups
Growth
Business
Innovation
Founding
Private markets
Technology

VENTURE CAPITAL
What you may hear

General perception

Greedy
Venture Capitalists take as much as they can.

Finance heavy
Venture Capitalists spent all their days creating financial models and looking at balance sheets.

Shark tank
Venture Capitalists “grill” entrepreneurs.

Short-termism
Venture Capitalists go for quick wins rather than building sustainable companies.

Exclusive boys club
Venture Capitalists are exclusive “deal maker” networks of wealthy men.

VC VOCABULARY

Termsheet

Describes the overall terms of a planned investment, non-binding agreement between startup and investors.

Shares

Can come in many forms (common/preferred, convertible loan, etc), express how an investor owns part of the startup after an investment.

Valuation

How much a company is worth, i.e. what percentage of a company an investor gets for the invested money. Not an objective measurement or calculation, but negotiated.

VC VOCABULARY

SHA

=Shareholders' Agreement

Binding legal agreement among all shareholders of a company, describing their rights and obligations, describes how the company is run and governed.

Exit

The moment when a company is sold or goes public, when investors make a profit on their investment. The size of the profit is called "multiple".

HOW STARTUP FUNDING WORKS

A hypothetical startup goes from idea to IPO

Meet the players

Founder/ Co-Founder
Start the company

Friends/Family
Invest before anyone else at lowest price.

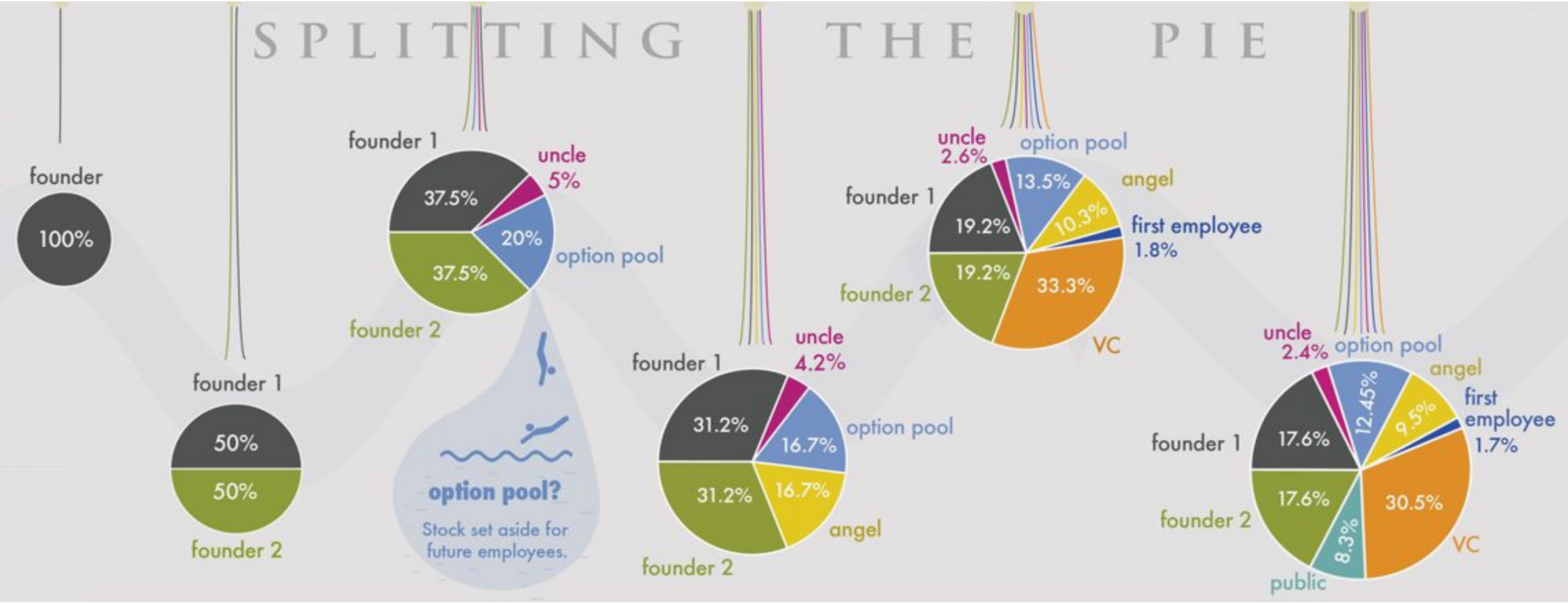
Angel Investor
Wealthy individual, invests own money

VC
Persuades other people to put money in their fund, invests that money

Early Employee
Gambles on success of company by accepting low salary plus some stock/options.

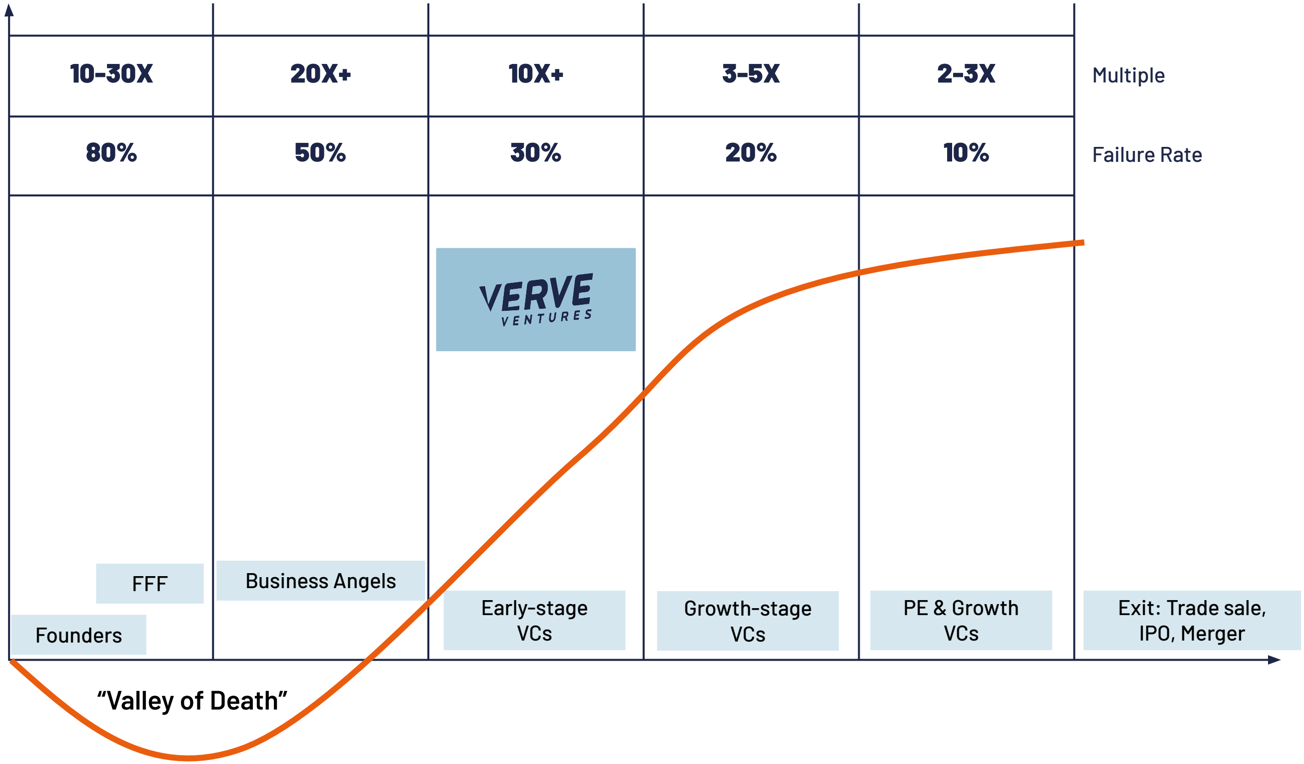
Anyone
After an IPO, anyone in the world can invest in the company

SPLITTING THE PIE
Dilution



INVESTOR TYPES AND THEIR EXPECTED ROI

ROI = Return On Investment



HOW IS A VC FUND WORKING?

- Raise **20-500 mio** from investors to build the fund (Process of 1-2 years time)
- People investing in the fund **(LP - limited partners)** are not active in the funded startups
- **General partners (GP)** of fund are deeply involved in portfolio companies (e.g. board member)
- Usually **focused on specific industries or stage**
- Makes money from yearly **management fees (2%)** and a **share of exit profits (20%)**
- Bound to a **fund lifetime** 2y (fundraising) +4+4+2y.

THERE ARE MANY WAYS TO INVEST IN STARTUPS

And of course Verve Ventures

VC FUNDS

Passive investment
Fixed time horizon
High minimums
(250k+)

ANGEL INVESTORS

Time incentive
DIY Due Diligence
Investment ticket
50 k

CROWD INVESTING

Easy Access
No pre-selection
Very low
investment tickets

FRIENDS & FAMILY

Rare opportunities
Trust-based
investing
Very early stage

SOME EXAMPLES YOU WILL COME ACROSS

And of course Verve Ventures

- Redalpine
- Lakestar
- HTGF
- B-to-V
- Sequoia
- Balderton
- Wingman

VC FUNDS

- SICTIC
- Business Angels Switzerland (BAS)
- GoBeyond
- Start Angel Network
- B-to-V
- VentureKick

ANGEL INVESTORS

- "One of my friends has…"
- "My cousin is founding…."
- "Some colleagues from university are…"

FRIENDS & FAMILY

verve.vc

WE SYNDICATE

From a broad investor network and several investment vehicles

We invest 500K to 4m in a first investment

VERVE VENTURE FUND I

CONSTRUCTIVE VENTURE FUND

VERVE DIRECT INVESTMENTS (SPV)

SEED

SERIES **A**

SERIES **B**

SERIES **C**

PRE-IPO

EARLY STAGE

GROWTH STAGE

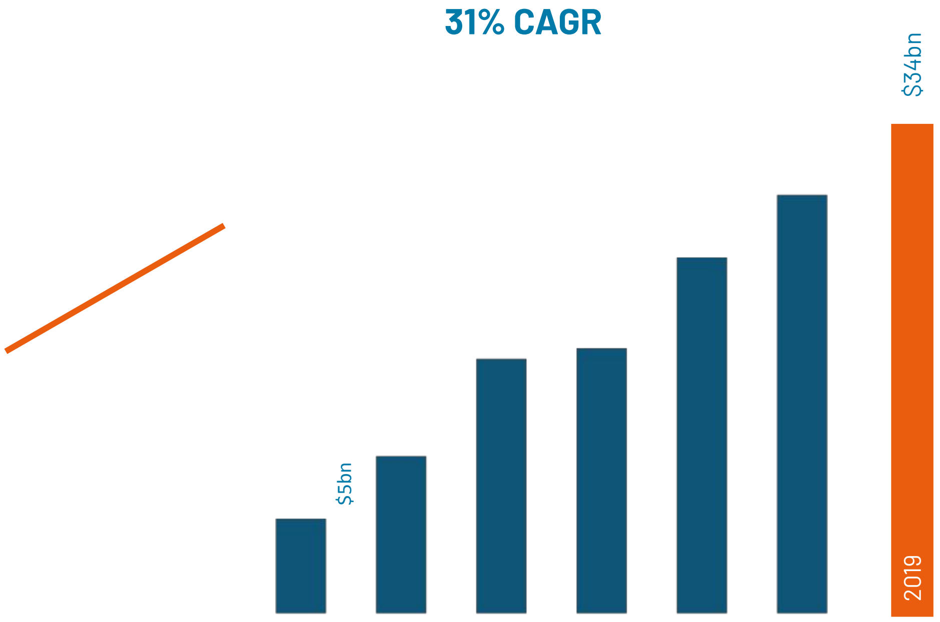
BUT HOW IS VERVE DIFFERENT TO VC FUNDS?

TRADITIONAL VC FUND	VERVE VENTURES
Raise 20-500 mio from investors to build the fund (Process of 1-2 years time)	Find investors for each deal from a community of accredited investors (1-4 weeks)
People investing in the fund (LP - limited partners) are not active in the funded startups	Verve can leverage active investors that benefit the startup through their network or knowledge/experience
General partners (GP) of fund are deeply involved in portfolio companies (e.g. board member)	Verves involvement in startups is focused on leveraging investor/corporate community
Usually focused on specific industries or stage	Hightech, digital, life sciences
Evaluate a startup and then give the startup the investment money directly	Evaluate a startup, then present it to the investor community which then invests the money
Makes money from yearly management fees (2%) and a share of exit profits (20%)	Make money from management fees (upfrong payment 5 years) and a share of exit profits (15%)
Bound to a fund lifetime 2 (fundraising) +4+4+2y.	Technically, no time limitation.

VENTURE CAPITAL IS AN INCREASINGLY ATTRACTIVE ASSET CLASS

Especially in Europe

- Startups **drive innovation**, it's never been so cheap to found and to quickly address global markets
- Venture investments are increasingly seen as a **"normal" part of asset allocation**
- More and more **corporate** innovation strategies include investing in / partnering with startups
- Increasing **demand from private investors** to participate in this asset class



svb Background

- 06.03. SVB had a market cap of 16B and a balance sheet of 212B
- 09.03. Bankrun Starts
- 13.03. US SVB Bank rescued, UK SVB bought for 1 GBP by HSBC, German SVB closed by BAFIN

Root Causes

- 2021 StartUp “Bubble”, SVBs deposits doubled in 12 months to 124B
- Bad risk management, SVB paid 2,33% while having a lot of money in 10 Year US Treasury bonds & MBS for around 1%
- Interest Rates rose very quickly to combat inflation
- Lost Trust, Bankrun

Longer Version

Joseph Gentile

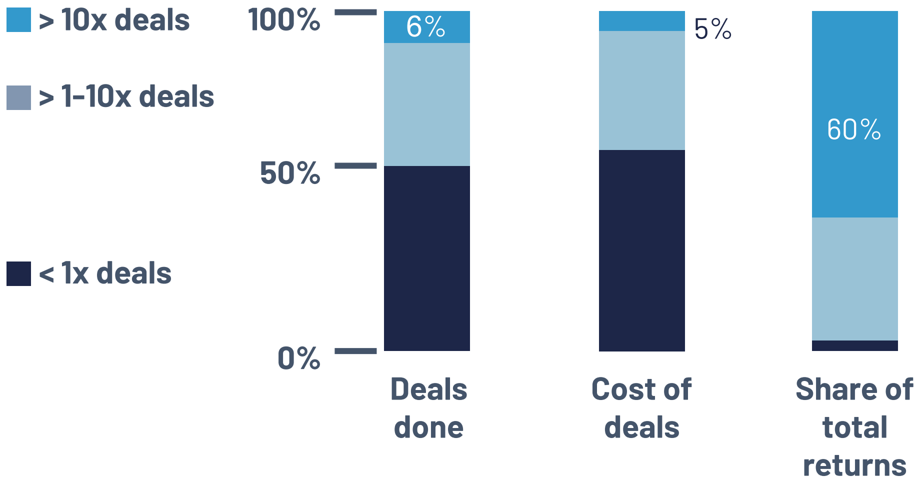
Chief Administrative Officer

Joseph Gentile is the Chief Administrative Officer at SVB Securities.

Prior to joining the firm in 2007, Mr. Gentile served as the CFO for Lehman Brothers' Global Investment Bank where he directed the accounting and financial needs within the Fixed Income division. Prior to that, he served as CFO of the Global Corporate and Investment Bank at

BUT NO MATTER WHAT THEY TELL YOU...

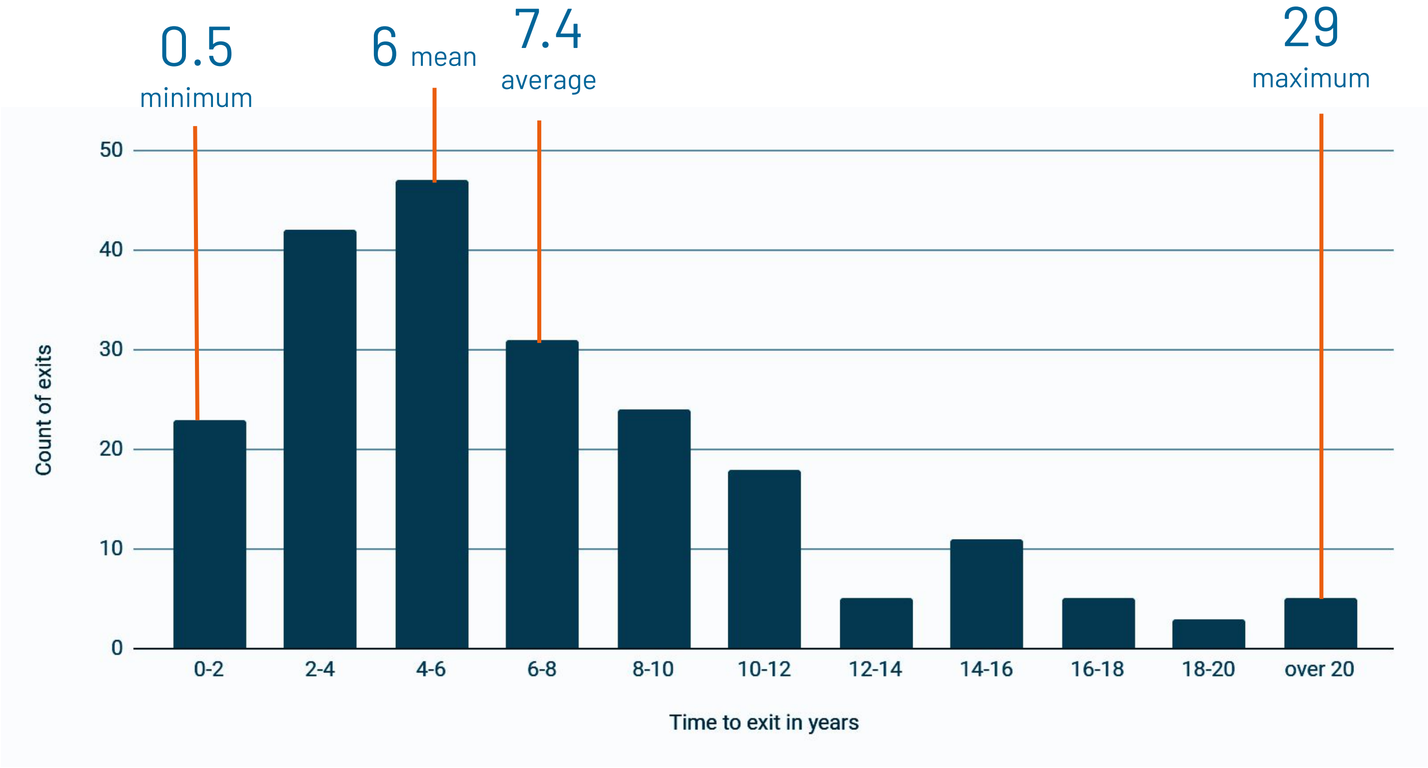
- ➔ ...most startups fail...even if they don't, chance of success is small
- ➔ ...the best investment is worth as much as all the rest combined
- ➔ ...startup investments are illiquid, and shares are difficult to trade
- ➔ ...time to exit often takes up to 10 years



Source: Horsley Bridge Partners

IT TAKES TIME TO BUILD A SUCCESSFUL STARTUP

Time to exit for Swiss startups in years



CHALLENGES OF
STARTUP INVESTING

VERVE VENTURES

RISKS OF INVESTING IN STARTUPS

- Most startups fail
- Exits take time
- Startup investments are illiquid
- Returns are unevenly distributed

WE REGULARLY ASSESS OUR PORTFOLIO OF 149 COMPANIES

Verve Portfolio Performance Overview - Q3 2022

	STARTUPS
Exit	**15**
Upround > 5x	**4**
Upround < 5x	**39**
Stable - 2022 vintage 1x	**11**
Stable - 2021 vintage 1x	**28**
Stable - pre 2021 1x	**34**
Downrounds <1x	**5**
Write Off 1x	**13**

BASIS FOR MULTIPLE CALCULATION

VALUATION INCREASES

- Follow-on rounds only
- Price points objectively defined by third parties
- New valuations only available every 1-3 yrs

VALUATION DECREASES

- Follow-on rounds with lower valuations than we invested
- Subjective mark-downs of investments in which positive return outcomes did not seem likely

INFORMED
DECISION-MAKING

AVAILABILITY OF INFORMATION

Public vs. Private Markets

PUBLIC COMPANIES

- Public Reports
- Significant press coverage and research by analysts
- Publicly available stock price with history of development
- Possibility to buy and sell shares at any time

STARTUPS

- Reporting shared with shareholders
- Coverage of past financing rounds (not always disclosed).
- No access to stock price and its development
- Possibility to buy shares at time of financing round only IF startup agrees. Very difficult to sell shares.

ACCESS TO INFORMATION: TIME AND EFFORT

Choosing the right company

- Thousands of startups are fundraising at any given moment
- Dealflow: startups that cross your path vs actively screening the market
- Primary information: Pitch deck
- Additional research beyond the deck: market, competition, technology.
- Identifying experts to talk to
- High upfront costs of due diligence: sunk cost fallacy.

STARTUP DUE DILIGENCE

Verve Ventures vast startup due diligence expertise from 150+ financing rounds

- Problems & Needs
- Solution, product & technology
- IP & other protection
- Market size & target
- USP
- Competition
- Business model
- Go-to-market strategy
- Traction & KPIs
- Team & BoD
- Financing strategy
- Use of funds & milestones
- Company valuation

+400 work hours

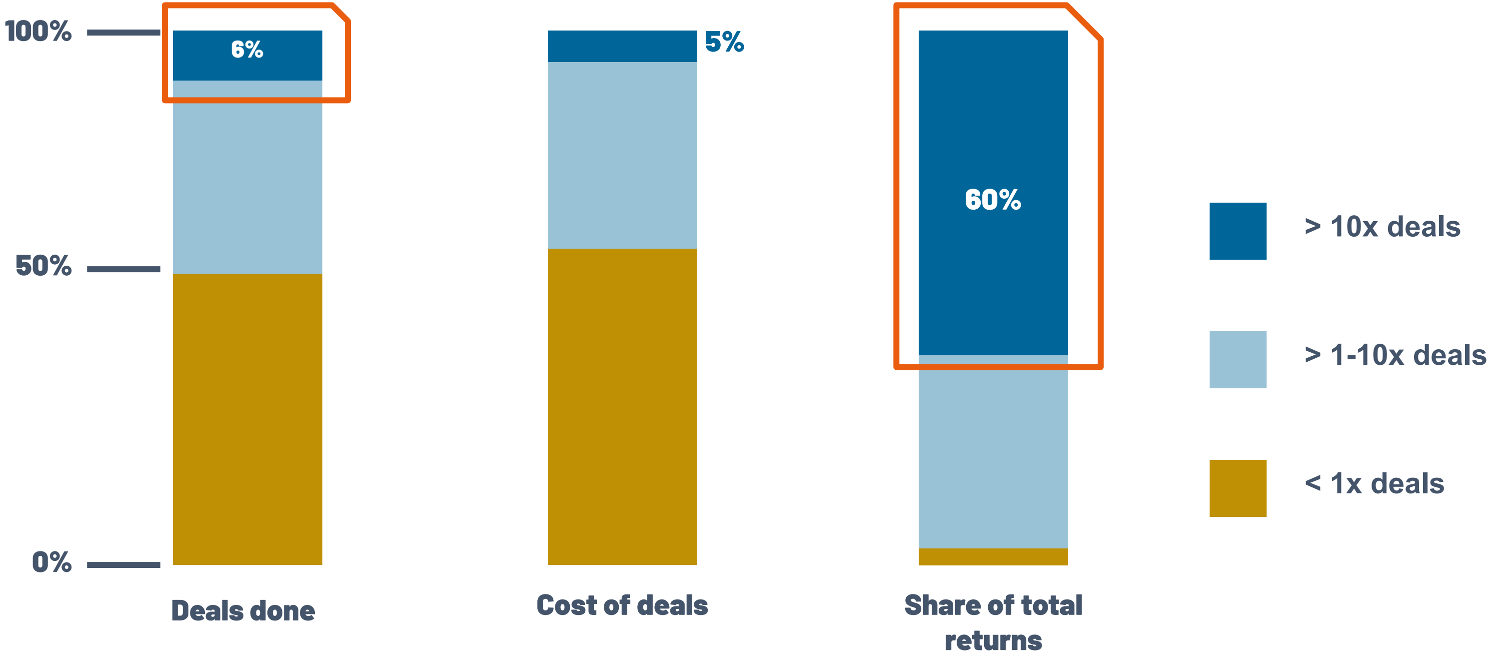
Expert interviews

Terms negotiation

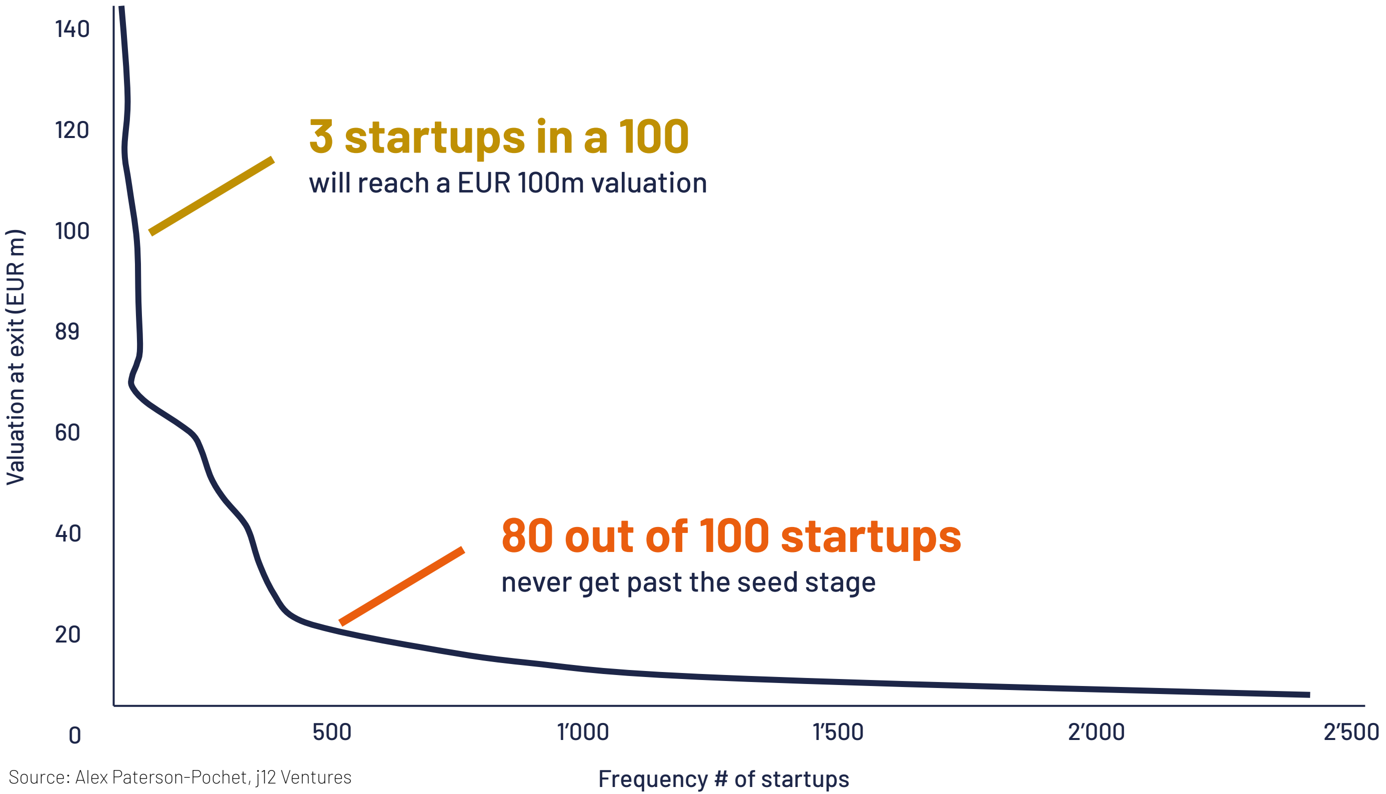
WHY **DIVERSIFICATION** MATTERS

THE BEST DEALS ARE WORTH MORE THAN THE REST COMBINED

US venture investments 1985-2014



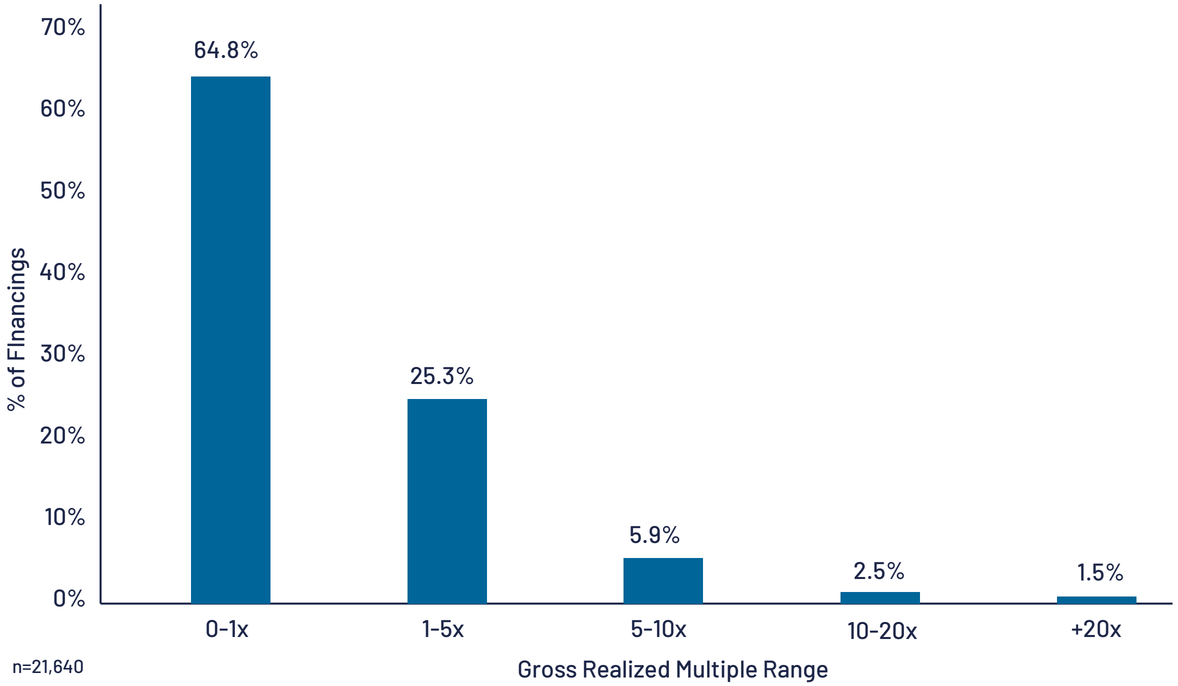
THE POWER LAW CURVE OF VENTURE CAPITAL



Source: Alex Paterson-Pochet, j12 Ventures

RIGHT-SKEWED DISTRIBUTION OF U.S. VENTURE RETURNS

By companies going out of business, acquired or IPO 2004-2013



n=21,640

PUBLIC COMPANIES ARE
NOT SUPPOSED TO FAIL...

ACCEPTING FAILURES
IN A STARTUP PORTFOLIO IS
NECESSARY TO BEGIN WITH.

THE DYNAMICS OF VENTURE CAPITAL MAKE **DIVERSIFICATION** A **NECESSITY**, NOT AN OPTION.

APPROACHES TO **DIVERSIFICATION**

VERVE VENTURES

APPROACHES TO DIVERSIFICATION

How many investments?

- Several small investments vs a few larger ones
- Staggered approach
- Percentage of wealth earmarked for VC
- 1st investment period

APPROACHES TO DIVERSIFICATION

Diversify by......

- Industry
- Geography
- Stage

GETTING **ACCESS**

GETTING ACCESS

Challenges to getting into the best deals

- The most promising startups can choose their future shareholders, not vice versa
- Efficient fundraising and the importance of ticket size
- Limited investable space
- Direct access only at the seed stage

AS AN **EARLY INVESTOR**, DO I MAKE A **GOOD RETURN** IN CASE OF AN **EXIT**?

CHALLENGE THE **ASSUMPTIONS** IN THE BUSINESS PLAN

SCENARIO ANALYSIS

Challenge the assumptions behind the financials.

What impact does this have on development of the business? What if...

- Company is delayed by 12-18 months?
- Customer acquisition costs are higher than expected?
- Company needs more cash than expected?

DON'T **UNDERESTIMATE** THE IMPORTANCE OF **SUPPLY & DEMAND**

IN SUMMARY

What is Venture Capital?

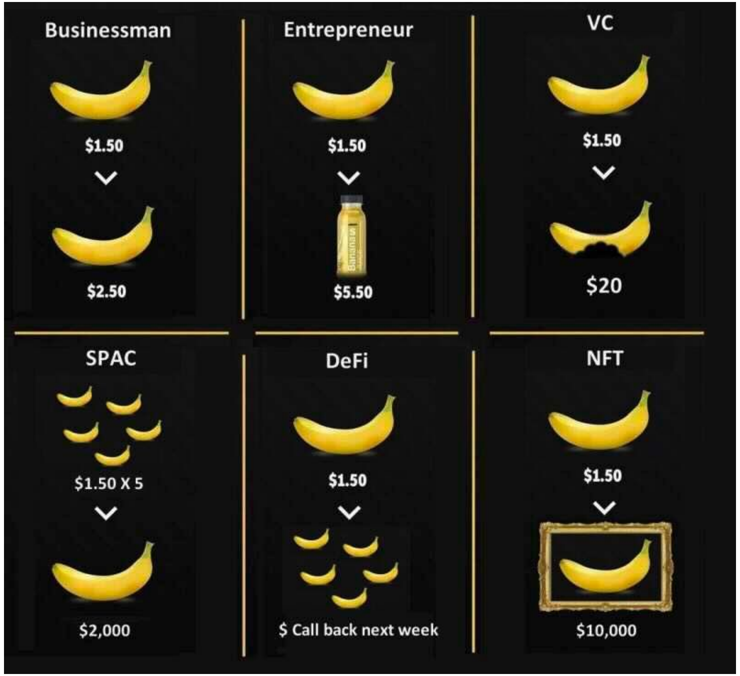
Capital invested in (very) young companies – most of them still not profitable but aspiring to grow

Investors are either institutional (strategic/financial) or wealthy private individuals

For their capital, investors get a share of the company in return, usually associated to voting and other rights

If the company gets sold for a higher price than the investor paid for initially, investors realize their ROI

VENTURE CAPITAL
What we really do



A good VC should be

Considering the big picture
Venture Capitalists need to make sure that a company is ready for the "next stage" and consider the interest of all stakeholders.

Creating value
Venture Capitalists need to provide value and support founders to build a successful venture.

Protecting the LPs interests
Venture Capitalists also need to keep their LP's interests in mind and conduct a rigorous due diligence.

Having a long term vision
Venture Capitalists work on a better future and this requires time.

Following a collaborative approach
Venture Capitalists need to have a good network with other founders, mentors, other investors, corporates etc.