18. 11. 2019

VENTURE FINANCING

Venture -> new company, startup facing a challenge.

Nowadays -> hype on digital / startups ...

Is there a direct or indirect connection between a country's welfare and and companies' growth?

taxes

Countries are willing to have companies with their legal premises there, because this way they pay taxes

- people get payed and then spend money
- money is brought to the country with investments and thanks to expats who send money back

eg. EIT Digital wanted by the European Commission to improve the economy of Europe (Italy, Austria, Germany, France ...)
- Ventures based in US / China

policy for creation of start-ups (maybe also in Trento)

-> eg. CIBIO startups
- Alia Therapeutics
- Sibillo Biotech

getting finance

- CORPORATIONS (20 First C. in ICT): image

  Few European big ICT companies (Siemens, Deutsche Telekom, Telefonica, Vodafone)

- Fortune Global 2012 - 2013 - 2014
  - HP ↘
  - Apple ↗
  - Microsoft: quite stable, ~ 100^{th} position
  - Amazon ↗
  - Google ↗
  - Nokia: didn't follow innovation trends, it was the best at the beginning but now not anymore

- World Top 5 historical data: Turnover of Traditional + Tech companies companies

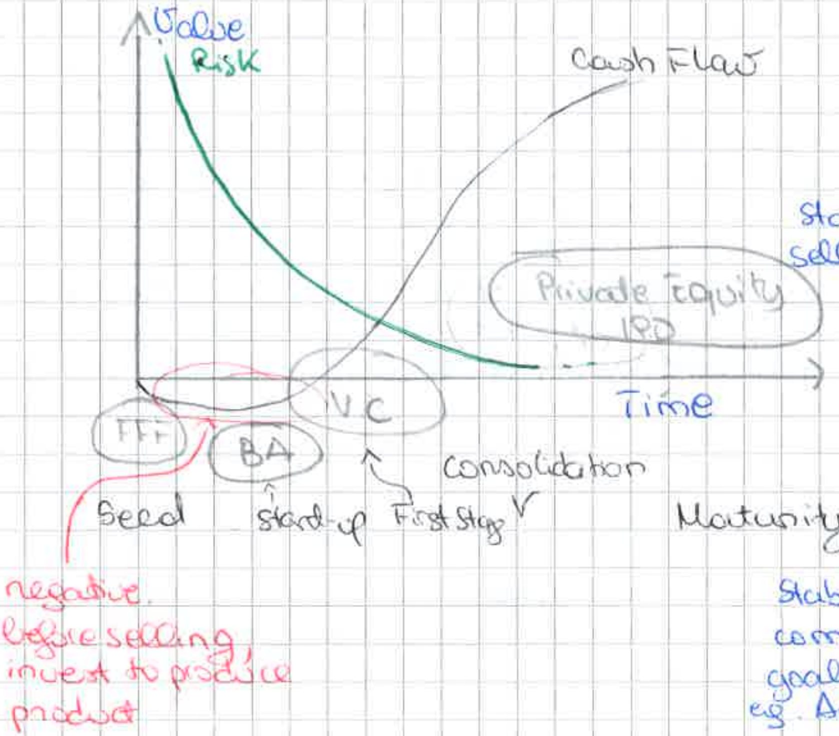
  Tech: even more successful than oil. 30 years ago they were start-ups, now corporations

- 2014 Start-ups -> only Spotify in first 20 positions (as European company)

  not into public stock exchange

  Spotify disappeared from first 20 in 2018; other companies are growing faster.

VENTURE FINANCING



Where does the money come from?

Start selling / sell more:

FFF
(Family, Friends, Founder / Fool)
(also Public Funds)
↓
Business Angels (wealthy people, connections)
↓
Venture Capital (help w/ management, internationals)
↓ (private firms)
Private Equity, Bank, IPO stock exch. (strategic changes)

Stable company goal reached eg. Airbnb

At the beginning, the cash flow is negative because for the product you need (both for physical and digital products):

- -> project
- -> materials
- -> human resources
- -> time

digital: has the advantage of not being capital intensive (eg app), but still negative cash flow because you invest time

When you get IPO (Initial Public Offering), the company is on the stock exchange. Until then, you have acquired different stakeholders, which invested in you and also participated in the management of the company.

eg. Amazon, FB...

The people who invest in you want a return, based on the capital invested and on the risk.

RISK -> at the beginning very high: you are not sure if idea will be successful, but you convince your peers
-> then, start selling and attract investments.

INVESTMENTS in EARLY STAGE (see slide)

Seed	$\xrightarrow[\text{BA, Accelerator}]{\text{FFF}}$	Start-up	$\xrightarrow[\text{Accelerator}]{\text{BA, VC}}$	1st stage	$\xrightarrow{\text{VC}}$
- Idea, MVP (demo: Minimum Viable Product) office...		- Prototype - Service/product launch		- Selling: improve / through expansion development	
- Structural costs & intangible assets (Intellectual property)		- Structural costs / working capital - Tangible / intangible costs		} -> as well - High investment	

Amount of investment (in the Expansion stage):

- BA: € 100'000, 200'000, up to 250'000

  eg. CEO of IBM Italia

- VC: also sindicate of investors (BA), up to € 1 million

First big investment (€ 1mln): Round A (in first stage), then Round B and then Round C.

DEBT CAPITAL (see also slide)

Lender $\xrightarrow{\text{gives money to}}$ Receiver

Receiver $\xrightarrow{\text{gives back money + interests}}$ Lender

- Temporary funding with contractual basis
- Foreseen debt renumeration

  eg. 50'000 € → €50'000 + 5% back

The credit provider does not have any operational power; they only want their money back, with interests.

eg. bank gives you money if you have a project, but can't come to you to see ~~how~~ / intervene in the management of your business

RISK CAPITAL

Stable form of funding coming from a governance agreement.

The capital provider enters the company as a co-owner/stakeholder and has the right to participate in the enterprise governance.

Their money comes back through the dividends of the profits.

PRIVATE EQUITY

Private capital that coinvest in your company → BA, VC } not always seen as P.E. → Corporate investors

- Business Angels → private investors, physical, usually retired from executive positions: strong business network
  → want to sustain you and make money
  → should have experience in a certain domain
  → allocate a fraction of capacity they have & provide expertise
  → diversification of the risk: 50'000 x 10
  → know technological domain to understand your idea and the risk

  ↓

  Return on investment ≥ 20% per year

  €50'000, in 5 years € 100'000

~ It's a high risk capital → They do they because of your enthusiasm

ESTIMATION OF VALUE : paper value when you don't send us balance sheet

- Venture Capitalists → usually financial operators (companies) legal person 99% of time ~ exceptions: families which have a vehicle (company) eg. Agnelli
  → invest in risk capital / SME's with capabilities to grow
  ↳ eg. electric motors

Also Private Equity funds (larger amounts)

Venture Capitalists and Private Equity funds collect money from different sources and create a fund to be invested into startups.

~~Objective~~

→ Objective: promote market growth of company (firms are already selling)
⇒ Bring firm to IPO

→ they want a high CAPITAL GAIN at disinvestment time (when company goes to IPO)

→ work closely with management and know people ⇒ they are competent

→ Stronger in US (high-tech) than EU

V.C receive an equity on total shares + seats in the Board

HISTORY

d i g i t a l   Unix-based machines, purchased by Oracle

first venture of ARDC introduced by Georges Doriot. He invented this fund to invest in ideas, supporting soldiers coming back from Europe (1946)

ORIGINS of CONCEPT: Islamic culture Middle Ages
↳ partnership between investor & entrepreneur ("mudarabah")

The big tech companies are examples of VC investments

HOW DO THEY SELECT IDEA?

- Market opportunity → big market? competitors?
- Value proposition → what makes you different, your competitive advantage
- Management Team → skills

  This is most important: execution more than idea (Even on a not so good idea)

- Financials (Business Plan)

3 rounds :

1) FIRST REVIEW

≈ 100 business plans per year
◦ only 10% gets through

2) SECOND REVIEW

◦ critical review of BP
◦ only 50% survives

3) DUE DILIGENCE

◦ they are more convinced about you
◦ look into the business more in particular
◦ company visit ...
◦ 1% gets funds !

SUCCESS STORIES

- Amazon

◦ Jeff Bezos , 1994
◦ FFF 1995 +2BA
◦ 1996 20 BA
◦ 1997 IPO
⋮

- Airbnb

◦ 2007
◦ Not everyone believed in idea