

Venture Financing

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Lesson 18/11

1 What is Venture Financing? Venture capital/Investing in ventures?

Is the traditional way in which we invest in a company.

Why is it relevant to talk about investments in ibict course?

1.1 Is there a direct/indirect relation between country welfare and companies growth?

There can be ways in countries with special taxation cases, but in general, countries tries to have more startups because they pay taxes in the country and have a direct relation to country welfare.

EU commission try to have more startups (setup favorable conditions for new companies) in Europe because most are in USA/China.

2 Top Companies Trend

2.1 Top Corporations Provenance



Figure 1: Top Corporations Provenance

Arrows shows European based companies. If you see global 150 in 2014, just 4 are Europeans.

2.2 Tech companies growth

2.2.1 Trend of the Top Companies

Fortune Global 2012		Fortune Global 2013		Fortune Global 2014	
20	Samsung Electronics Co., Ltd.	14	Samsung Electronics Co., Ltd.	11	Samsung Electronics
21	Nippon Telegraph & Telephone Corporation	19	Apple, Inc.	13	Apple
22	Heureka-Peacock Company	20	Hon Hai Precision Industry Co., Ltd.	22	Hon Hai Precision Industry
23	AT&T Inc.	21	Nippon Telegraph & Telephone Corporation	24	AT&T
24	Hitachi, Ltd.	22	AT&T Inc.	25	Verizon Communications
25	Hon Hai Precision Industry Co., Ltd.	23	Heureka-Peacock Company	26	Heureka-Peacock
26	Siemens Aktiengesellschaft	24	Verizon Communications Inc.	27	Nippon Telegraph & Telephone
27	Verizon Communications Inc.	25	Siemens Aktiengesellschaft	28	China Mobile Communications
28	Apple, Inc.	26	Hitachi, Ltd.	29	Siemens
29	International Business Machines Corporation	27	International Business Machines Corporation	30	International Business Machines
30	Panasonic Corporation	28	China Mobile Communications Corporation	31	Hitachi
31	China Construction Bank Corporation	29	Panasonic Corporation	32	Deutsche Telekom
32	China Mobile Communications Corporation	30	Sony Corporation	33	Microsoft
33	Sony Corporation	31	Headlight	34	Sony
34	Deutsche Telekom AG	32	Deutsche Telekom AG	35	Panasonic
35	Toshiba Corporation	33	Microsoft Corporation	36	Telefonica
36	Vodafone Group Plc	34	Vodafone Group Plc	37	Amazon.com
37	Microsoft Corporation	35	Toshiba Corporation	38	Software
38	HP Inc.	36	Comcast Corporation	39	Vodafone Group
39	HP Inc.	37	Amazon.com, Inc.	40	Topline
40	Fujitsu Limited	38	América Móvil	41	Comcast
41	Comcast Corporation	39	Dell Inc.	42	China Telecommunications
42	Intel Corporation	40	France Télécom SA	43	América Móvil
43	Nokia Corporation	41	China Telecommunications Corporation	44	Boji
44	US Electronics Inc.	42	Intel Corporation	45	Orange
45	Amazon.com, Inc.	43	Fujitsu Limited	46	US Electronics
46	Mitsubishi Electric Corporation	44	Boji Inc.	47	IRE
47	KDDI Corporation	45	Clas Systems, Inc.	48	China United Network Communications
48	China Telecommunications Corporation	46	US Electronics Inc.	49	Clas Systems
49	Canon Inc.	47	KDDI Corporation	50	Fujitsu
50	Clas Systems, Inc.	48	Canon Inc.	51	KDDI
51	Telecom Italia S.p.A.	49	Mitsubishi Electric Corporation	52	Mitsubishi Electric
52	Software Corporation	50	Software Corporation	53	Honeywell International
53	Vivendi	51	China United Network Communications Ltd.	54	Huawei Investment & Holding
54	NEC Corporation	52	Nokia Corporation	55	Lenovo Group
55	Google Inc.	53	Telecom Italia S.p.A.	56	Canon
56	Quanta Computer, Inc.	54	Vivendi	57	Amor International Group
57	Oracle Corporation	55	Oracle Corporation	58	Oracle
58	Royal Philips Electronics N.V.	56	NEC Corporation	59	Telecom Italia
59	Telefonaktieselskabet Uf Ersson	57	Sprint Nextel Corporation	60	Vivendi
60	Sprint Nextel Corporation	58	Huawei Investment and Holding Co., Ltd.	61	L.M. Ericsson
61	China United Network Communications Ltd.	59	Quanta Computer, Inc.	62	Royal Philips
62	Huawei Investment and Holding Co., Ltd.	60	Lenovo Group Limited	63	Regatron
63	Schneider Electric SA	61	Telefonaktieselskabet Uf Ersson	64	DirectTV
64	Sharp Corporation	62	Royal Philips	65	China Electronics
65	AT&World, Inc.	63	Telefonaktieselskabet Uf Ersson	66	Telefonaktieselskabet Uf Ersson

Figure 2: Trend of the Top companies in 2012, 2013, 2014

Looking at HW Companies, like HP and Nokia they are going down year by year. Microsoft is interesting because he is stable keeping putting on the market new products that attract the consumers.

Looking at SW Companies, Google, Amazon, ... They keep growing.

2.2.2 World Top 5 Trend

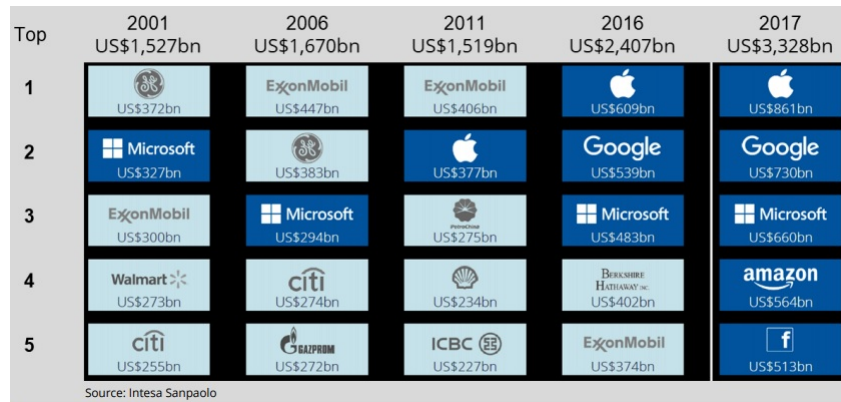


Figure 3: Top 5 Companies Trend

2001: General electrics / Microsoft / Oil & Gas / Walmart / Bank
 Slowly Tech companies are getting the market
 2017: 5/5 Tech companies

2.3 Top startups development

	Company	Latest Valuation	Total Equity Funding	Last Valuation
1	Uber	\$68.0 billion	\$12.9 billion	June 2016
2	Didi Chuxing	\$50.0 billion	\$15.1 billion	April 2017
3	Xiaomi	\$46.0 billion	\$1.4 billion	December 2014
4	Airbnb	\$31.0 billion	\$3.3 billion	March 2017
5	SpaceX	\$21.0 billion	\$1.5 billion	July 2017
6	WeWork	\$20.2 billion	\$4.4 billion	July 2017
7	Palantir	\$20.0 billion	\$1.9 billion	October 2015
8	Lufax	\$18.5 billion	\$1.7 billion	December 2015
9	Meituan-Dianping	\$18.3 billion	\$4.4 billion	January 2016
10	Pinterest	\$12.3 billion	\$1.5 billion	June 2017
11	Flipkart	\$11.6 billion	\$5.9 billion	August 2017
12	Lyft	\$11.0 billion	\$3.6 billion	October 2017
13	Dropbox	\$10.0 billion	\$607 million	January 2014
14	DJI	\$10.0 billion	\$576 million	September 2016
15	Stripe	\$9.2 billion	\$460 million	November 2016
16	Theranos	\$9.0 billion	\$750 million	February 2014
17	Spotify	\$8.5 billion	\$1.0 billion	April 2015

Figure 4: Top startups

Do you see any European? Just Spotify.
 Those companies are not in Stock Exchange, they are still startups.
 NB: In 2018 Spotify went down! No EU companies in top 20!
 EU is trying to improve the number of startups in his regions!

3 Venture Financing Life cycle

3.1 Venture Financing Cycle

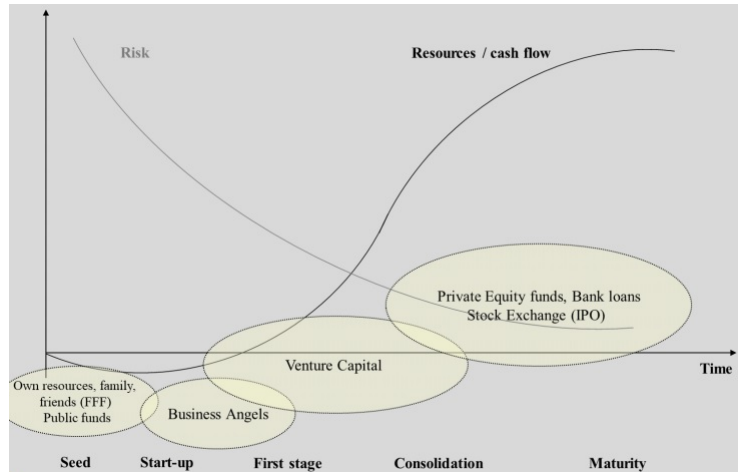


Figure 5: The Venture Financing Cycle

The graphic shows the risk and the value of the company (incomes, incomes-cost, revenues, ...) along time. At the beginning the value is below zero, because to sell a product you have to produce it!

Who put the resources in the first phase? FFF (Family, Friends, Founders), and Public Funds! Check for contests to apply on to get money. Check for Incubators!

Then, at a certain point, you start selling, you start getting some money back, and you may be spotted from a Business Angel, a private that believe in your idea and wants to invest his money on you (or introduce you to someone influent in your field).

Then, if your project is appreciated, you start to sell more, and some private companies may want to invest in your project too (Venture Capital). They usually give helps not just in terms of money but in management too (Internationalization of the company).

Then, at a certain point Private Equity Funds may want to aggregate to your startup, putting a lot of money and also helping with strategic changings to the development of the startup. They just enter if you are already selling a lot.

The final step, is the entering in the Stock Exchange (Become a Public Company), with the IPO (Initial Public Offer). You reached the point! (If you are still in the company, because the previous investors will want some power too with the incomes)

The Risk line is higher at the beginning when you have no clue on how your project will perform on the market, and is at his lowest when you become a public company, and everybody knows how good you are.

3.1.1 Example: Chair

To build a chair, at first you need to design it, you don't get money!

Then buy the materials (wood, metal), you don't get any money!

Then you need to build it and bring it to the customer, to sell it and then get money!

3.1.2 Example: Digital Project

Let's suppose to develop an App, you need just a PC! We don't need much materials as we do to build a chair! ICT is not Capital Intensive! Is a very strong advantage! But we still go negative at the beginning, we are still investing resources (time, ...).

3.2 Investment needs in (early) stages

	Investment focus	Investment type and nature	Investment extent	Risk level	Interested investors
"Seed"	Idea / project fine tuning, MVP	Structural costs Intangible assets	Restrained	Very high	"FFF", Incubator, Accelerator, Business Angel
Start-up phase	Prototype, service or product launch	Structural costs / working capital Tangible / intangible assets	Substantial	High	Accelerator, Business Angel, Venture Capitalist
First stage	Market expansion, further development	Working capital / structural costs Tangible / intangible assets	High	Medium-high	Venture Capitalist, banks

Figure 6: The Needings in each stage

Depending on the stage you are in, you have different needings (Requirements).

The "seed" stage is when you are developing the MVP (like a demo, something more than a mockup).

def. MVP - Minimum Viable Product.

The Startup-phase is when you have a prototype that works well.

The first stage means that you are selling already, but you need to fine tune to sell more (solve bugs you had and didn't declared before).

3.3 Venture Life cycle

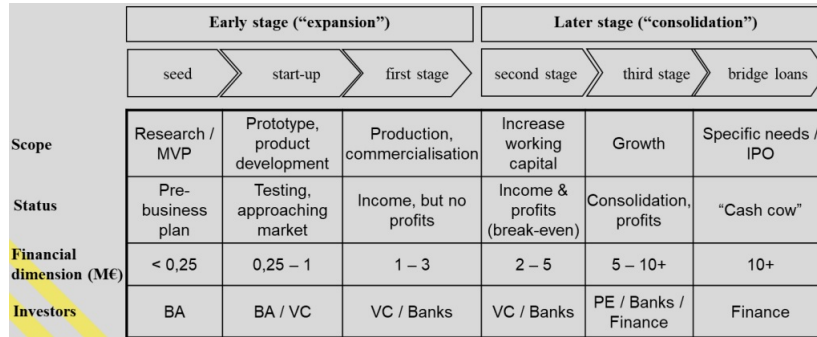


Figure 7: The Venture Life Cycle

Shows early stages and also later stages.

When you get a very big investment (1M) from a Venture Capitalist is usually called Round A. The second is called Round B and so on...

4 Venture Financing Definitions

4.1 Debt Capital

Temporary form of funding provided through a contractual basis. It foresees a specific debt remuneration plus the capital reimbursement. Credit provider (lender) does not have any operational power or status in the enterprise governance.

The lender gives money to the receiver, then the receiver gives it back with interests.

4.2 Risk Capital

Stable form of funding provided through a company governance agreement (unlimited duration). It does not foreseen contractual remuneration but only dividends (profits distribution among shareholders). Capital provider (co-owner) has the right to participate and have an active role in the enterprise governance.

4.3 Private Equity

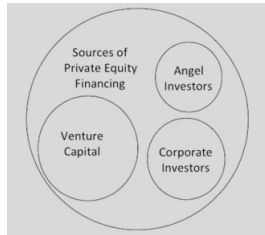


Figure 8: Private Equity Financing

Equity of Private capitalists that invest in your project, is related to the last part of the graph discussed previously, when big amounts of money are given to develop a company.

- **Business Angel:** Private investor with limited financial capabilities, a strong business network, solid management capability, long-standing experience in a certain domain (i.e., former entrepreneurs, managers, commercial experts, ...)

Objective: support the economic growth of an enterprise, the innovation cycle and the job creation in his pertinent or relevant sector

- **Venture Capitalist:** Financial operator (physical or legal person but usually legal, i.e. a company) who invests in the Risk Capital of start-up or relatively new companies, especially SMEs. Private Equity funds are special operators who collect savings into large deposit siloes to be used in Risk Capital investments

Objective: promote the market, dimensional and economic growth in the medium-long term, in order to favor the company listing

- **Corporate Investors**

4.4 Business Angels

Physical person(s) or specialised company who privately intervene in a start-up Capital. They help start-ups to growth (management expertise, market knowledge, technology). They allocate a fraction of their financial capability, in order to invest in more ventures and diversify the risk. Usually they know the start-up technological domain and especially the reference market. Typical investment is from 50 kEuro up to 250 kEuro. Typical expected return on investment is above 20 % per year.

All of them, none excluded, do this job because they believe in entrepreneurship and in young talents, apart from economic interest.

They want a high return due to the risk involved.

4.5 Venture Capitalists

Financial entities, but also physical person(s), specialised in Risk Capital investments in innovative or promising companies not yet listed. Based on investment amount, they receive a certain equity on total shares based on enterprise estimated value, and one or more seats in the Board of Directors. They put money in highly risk companies but aim at earning big profits (capital gains) at disinvestment time. They work closely with the management and provide their professional expertise for diminishing the default risk. They are usually competent in the enterprise industrial domain and reference market. Medium to long term period strategy. Quite a difference between Europe and US, where VCs are more oriented towards high-tech companies.

Their aim is to do capital gains with disinvestment.

5 History

Venture capital originated in medieval age from Islamic culture where the partnership between investor and entrepreneur (“mudarabah”) was preferred to loans.

The first modern VC is Georges Doriot, cofounder in 1946 of the “American Research and Development Corporation” (ARDC).

ARDC first venture was Digital Equipment Corporation (DEC).

Investment of \$ 70,000 in 1957.

Valued over \$ 355 million after the company’s Initial Public Offering in 1968.

Representing a return of over 5,000 times on investment and an annualized rate of return of 101 % (ROI).

Other examples of VC investments: HP, Apple, Sun Microsystems, Intel, Microsoft, Google, Facebook, ...

6 How to get financing

6.1 Venture Capitalists criteria to select ideas

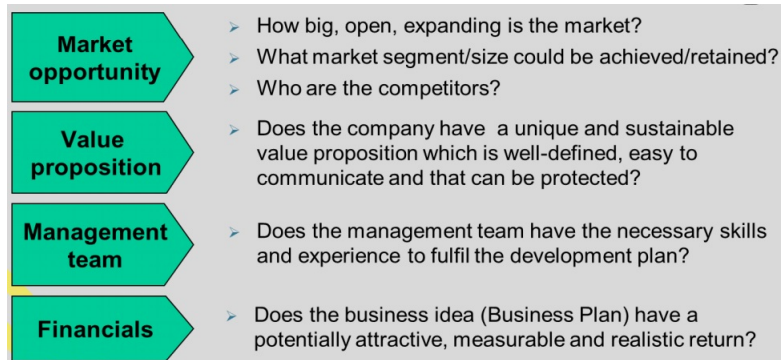


Figure 9: Criteria of selection

6.2 % of financed projects

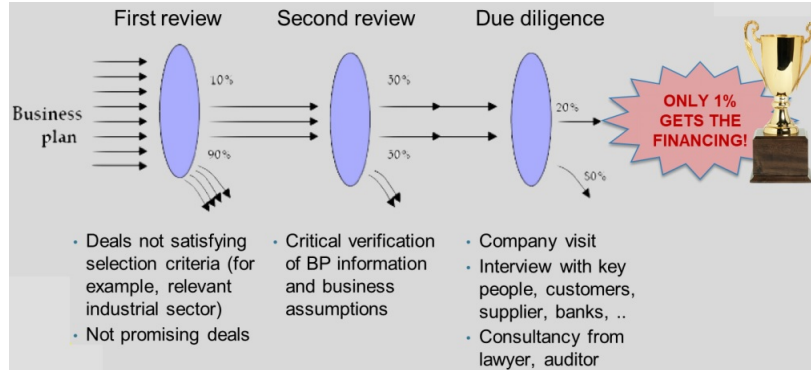


Figure 10: How many gets the financing?

7 Successful Examples

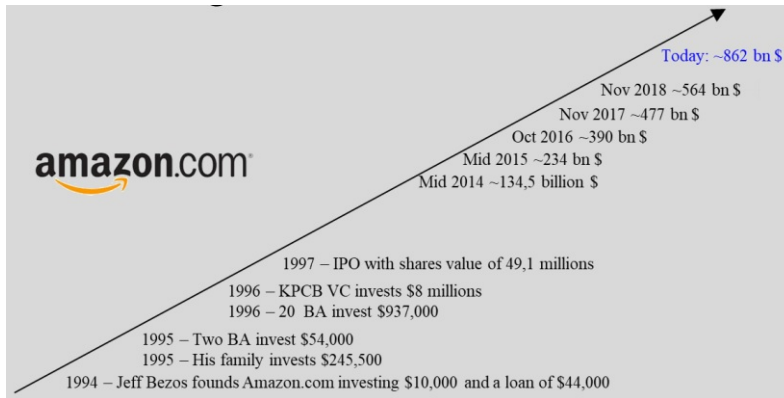


Figure 11: Stages of Amazon during the years

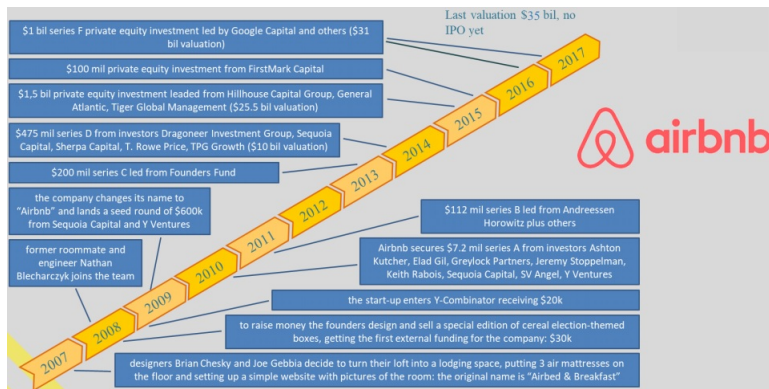


Figure 12: Stages of Airbnb during the years

8 Investments comparison

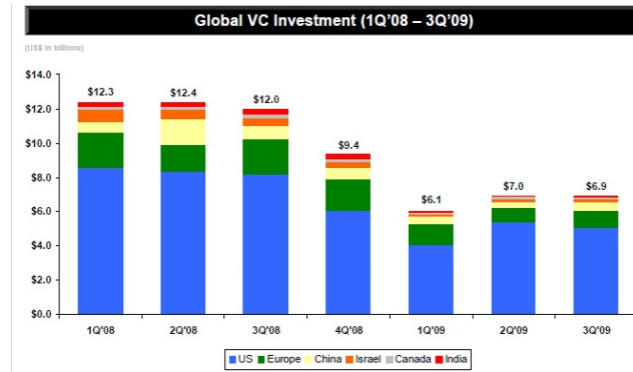


Figure 13: Global VC investments

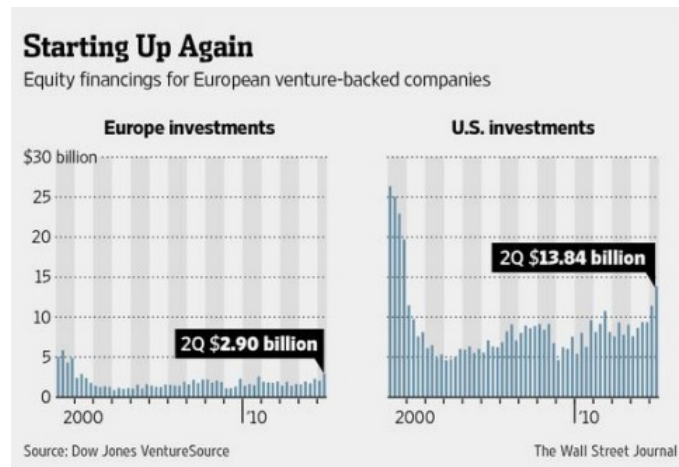


Figure 14: Equity Financing EU vs. USA