



Venture financing

Andrea Guarise

Innovation and Entrepreneurship Basics, Academic Year 2017/18

Reasoning on sustainable growth



A macro-economics' question:



direct or indirect relation between country welfare and companies' growth?



Corporations



Fortune Global 500 2014: 20 first corporations in the ICT domain		
13	Samsung Electronics	
15	Apple	
32	Hon Hai Precision Industry	
34	AT&T	
42	Verizon Communications	
50	Hewlett-Packard	
53	Nippon Telegraph & Telephone	
55	China Mobile Communications	
58	Siemens	
71	International Business Machines	
78	Hitachi	
99	Deutsche Telekom	
104	Microsoft	
105	Sony	
106	Panasonic	
109	Telefonica	
112	Amazon.com	
135	Softbank	
141	Vodafone Group	
145	Toshiba	



Fortune Global 2012

20	Samsung Electronics Co., Ltd.
29	Nippon Telegraph & Telephone Corporation
31	Hewlett-Packard Company
32	AT&T Inc.
38	Hitachi, Ltd.
43	Hon Hai Precision Industry Co., Ltd.
47	Siemens Aktiengesellschaft
50	Verizon Communications Inc.
55	Apple, Inc.
57	International Business Machines Corporation
66	Panasonic Corporation
77	China Construction Bank Corporation
81	China Mobile Communications Corporation
87	Sony Corporation
89	Deutsche Telekom AG
97	Toshiba Corporation
105	Vodafone Group Plc
119	Microsoft Corporation
125	PepsiCo, Inc.
147	Dell Inc.
166	Fujitsu Limited
167	Comcast Corporation
175	Intel Corporation
174	Nokia Corporation
186	LG Electronics Inc.
206	Amazon.com, Inc.
214	Mitsubishi Electric Corporation
220	KDDI Corporation
221	China Telecommunications Corporation
224	Canon Inc.
237	Cisco Systems, Inc.
244	Telecom Italia S.p.A.
253	Softbank Corporation
257	Vivendi
271	NEC Corporation
277	Google Inc.
299	Quantum Computer, Inc.
300	Oracle Corporation
307	Royal Philips Electronics N.V.
309	Telefonaktiebolaget LM Ericsson
328	Sprint Nextel Corporation
333	China United Network Communications Ltd.
351	Huawei Investment and Holding Co., Ltd.
353	Schneider Electric SA
354	Sharp Corporation
358	BT Group plc
370	Lenovo Group Limited
372	Pegatron International, Ltd.
378	Accenture Plc

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53	Siemens Aktiengesellschaft
54	Hitachi, Ltd.
62	International Business Machines Corporation
71	China Mobile Communications Corporation
83	Panasonic Corporation
94	Sony Corporation
97	Telefonica
102	Deutsche Telekom AG
110	Microsoft Corporation
124	Vodafone Group Plc
126	Toshiba Corporation
144	Comcast Corporation
149	Amazon.com, Inc.
153	América Móvil
165	Dell Inc.
170	France Télécom SA
182	China Telecommunications Corporation
183	Intel Corporation
186	Fujitsu Limited
189	Google Inc.
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214	Cisco Systems
222	Fujitsu
249	KDDI
273	Mitsubishi Electric
288	Honeywell International
285	Huawei Investment & Holding
286	Lenovo Group
292	Canon
295	Amer International Group
306	Oracle
319	Telecom Italia
323	Vivendi
335	LM Ericsson
370	Royal Philips
375	Pegatron
379	DirectTV
382	China Electronics
387	Schneider Electric
392	Nokia
401	Accenture
408	IBM



Start-up (Nov 2015)



	Company	Latest Valuation	Total Equity Funding	Last Valuation
1	Xiaomi	\$ 46.0 billion	\$ 1.4 billion	December 2014
2	Uber	\$ 41.2 billion	\$ 2.8 billion	December 2014
3	Palantir	\$ 15.0 billion	\$ 1.0 billion	September 2014
4	Snapchat	\$ 15.0 billion	\$ 815 million	March 2015
5	SpaceX	\$ 12.0 billion	\$ 1.1 billion	January 2015
6	Pinterest	\$ 11.0 billion	\$ 1.1 billion	March 2015
7	Flipkart	\$ 11.0 billion	\$ 2.5 billion	November 2014
8	Airbnb	\$ 10.0 billion	\$ 800 million	April 2014
9	Dropbox	\$ 10.0 billion	\$ 607 million	January 2014
10	Theranos	\$ 9.0 billion	\$ 400 million	June 2014
11	Didi Dache-Kuaidi Dache	\$ 8.8 billion	\$ 828 million	April 2015
12	Spotify	\$ 8.4 billion	\$ 921 million	April 2015
13	Meituan	\$ 7.0 billion	\$ 1.1 billion	January 2015
14	Square	\$ 6.0 billion	\$ 495 million	August 2014
15	WeWork	\$ 5.0 billion	\$ 569 million	December 2014
16	...			

Start-up (Oct 2016)



	Company	Latest Valuation	Total Equity Funding	Last Valuation
1	Uber	\$68.0 billion	\$12.9 billion	June 2016
2	Xiaomi	\$46.0 billion	\$1.4 billion	December 2014
3	Didi Chuxing	\$33.0 billion	\$8.6 billion	September 2016
4	Airbnb	\$25.5 billion	\$2.3 billion	June 2015
5	Palantir	\$20.0 billion	\$1.9 billion	October 2015
6	Lufax	\$18.5 billion	\$1.7 billion	December 2015
7	Meituan-Dianping	\$18.3 billion	\$3.3 billion	January 2016
8	Snapchat	\$17.8 billion	\$2.4 billion	May 2016
9	WeWork	\$16.9 billion	\$1.7 billion	October 2016
10	Flipkart	\$15.0 billion	\$3.0 billion	April 2015
11	SpaceX	\$12.0 billion	\$1.1 billion	January 2015
12	Pinterest	\$11.0 billion	\$1.3 billion	February 2015
13	Dropbox	\$10.0 billion	\$607 million	January 2014
14	Theranos	\$9.0 billion	\$750 million	February 2014
15	Spotify	\$8.5 billion	\$1.0 billion	April 2015
16	...			

Start-up (Nov 2017)

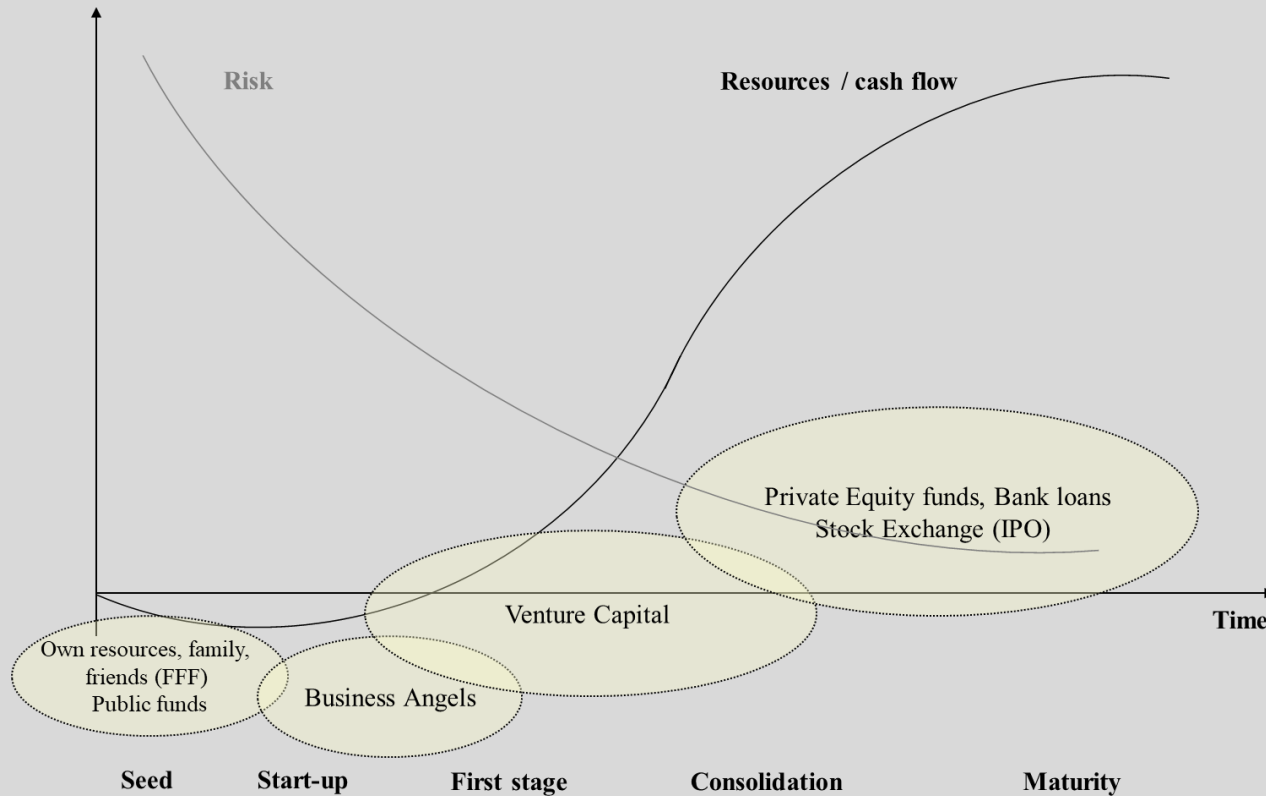


	Company	Latest Valuation	Total Equity Funding	Last Valuation
1	Uber	\$68.0 billion	\$12.9 billion	June 2016
2	Didi Chuxing	\$50.0 billion	\$15.1 billion	April 2017
3	Xiaomi	\$46.0 billion	\$1.4 billion	December 2014
4	Airbnb	\$31.0 billion	\$3.3 billion	March 2017
5	SpaceX	\$21.0 billion	\$1.5 billion	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



FINANCING CYCLE: FROM A START-UP TO A PUBLIC COMPANY

Financing cycle for ventures

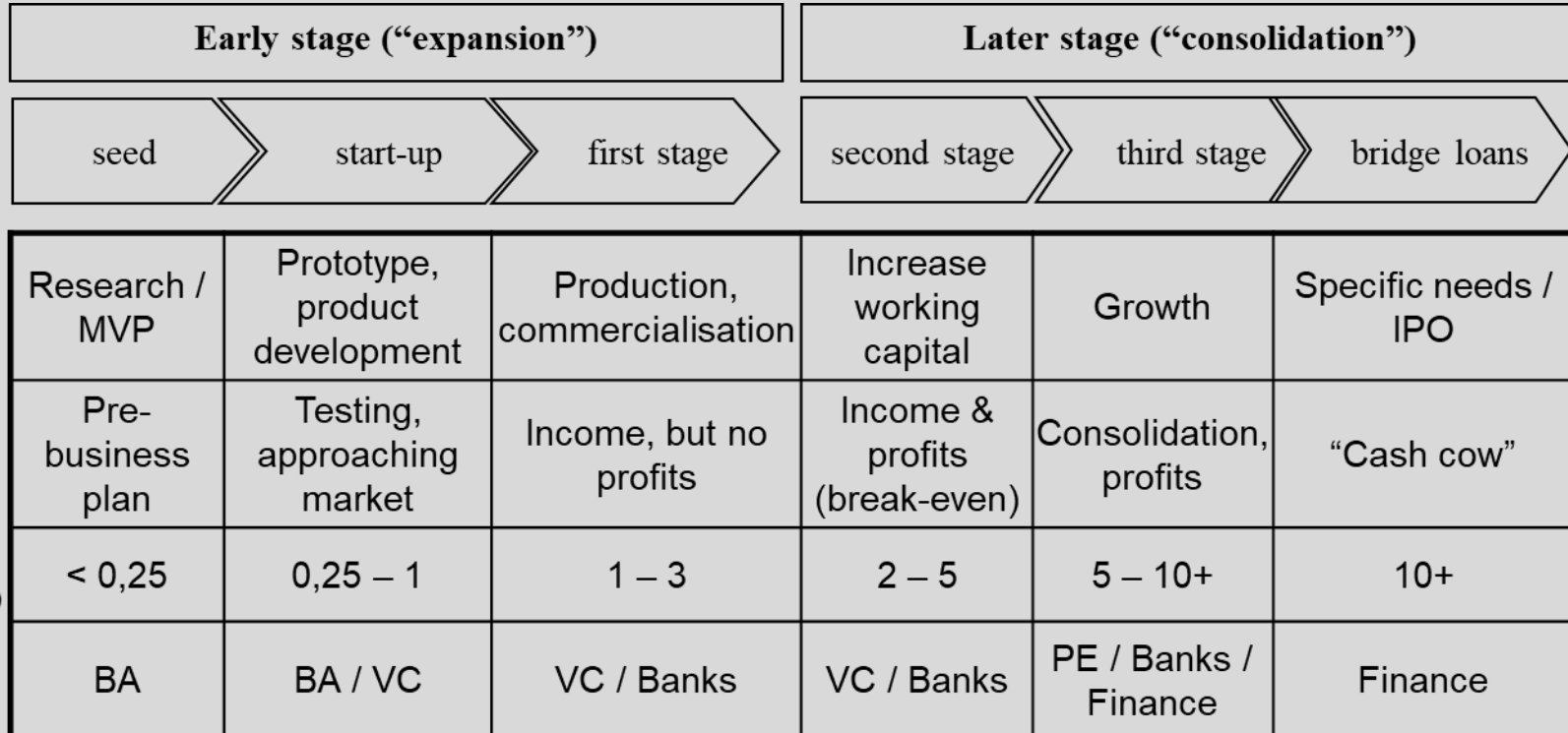




Investment needs in early stage

	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

Venture life cycle



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

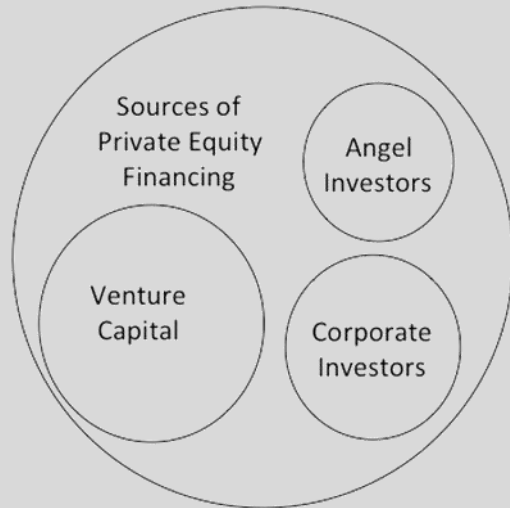
Risk Capital



- **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



Private Equity



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) 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

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**



Venture Capital



- 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

History

digital



- 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, co-founder 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: Hewlett-Packard, Apple, Compaq, Sun Microsystems, Intel, Microsoft, Google, Facebook, ...



VC criteria to select ideas

Market opportunity

- How big, open, expanding is the market?
- What market segment/size could be achieved/retained?
- Who are the competitors?

Value proposition

- Does the company have a unique and sustainable value proposition which is well-defined, easy to communicate and that can be protected?

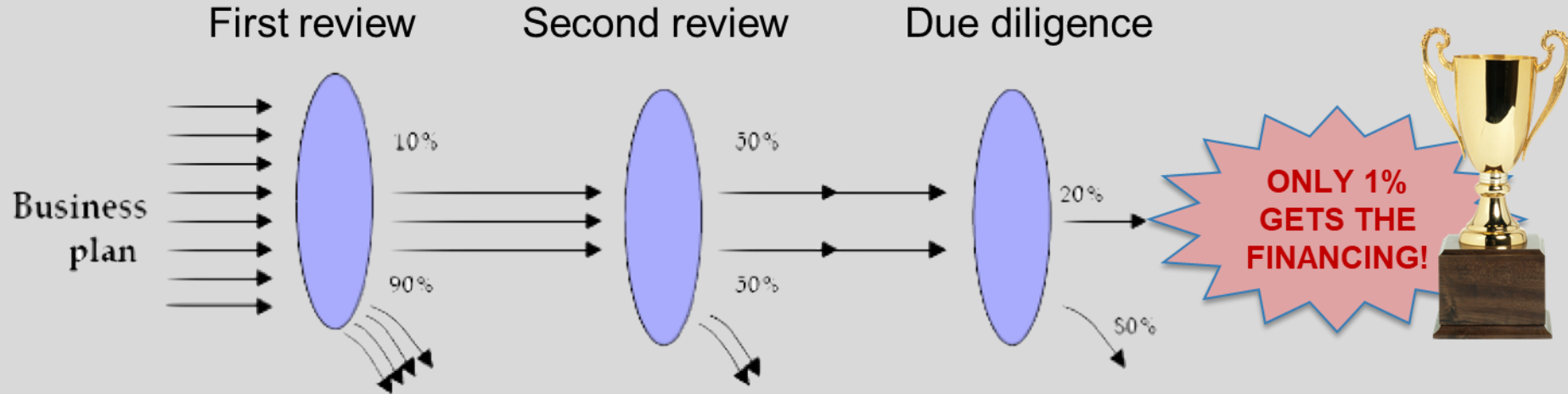
Management team

- Does the management team have the necessary skills and experience to fulfil the development plan?

Financials

- Does the business idea (Business Plan) have a potentially attractive, measurable and realistic return?

Not an easy job!



- Deals not satisfying selection criteria (for example, relevant industrial sector)
- Not promising deals

- Critical verification of BP information and business assumptions

- Company visit
- Interview with key people, customers, supplier, banks, ..
- Consultancy from lawyer, auditor

BA success stories

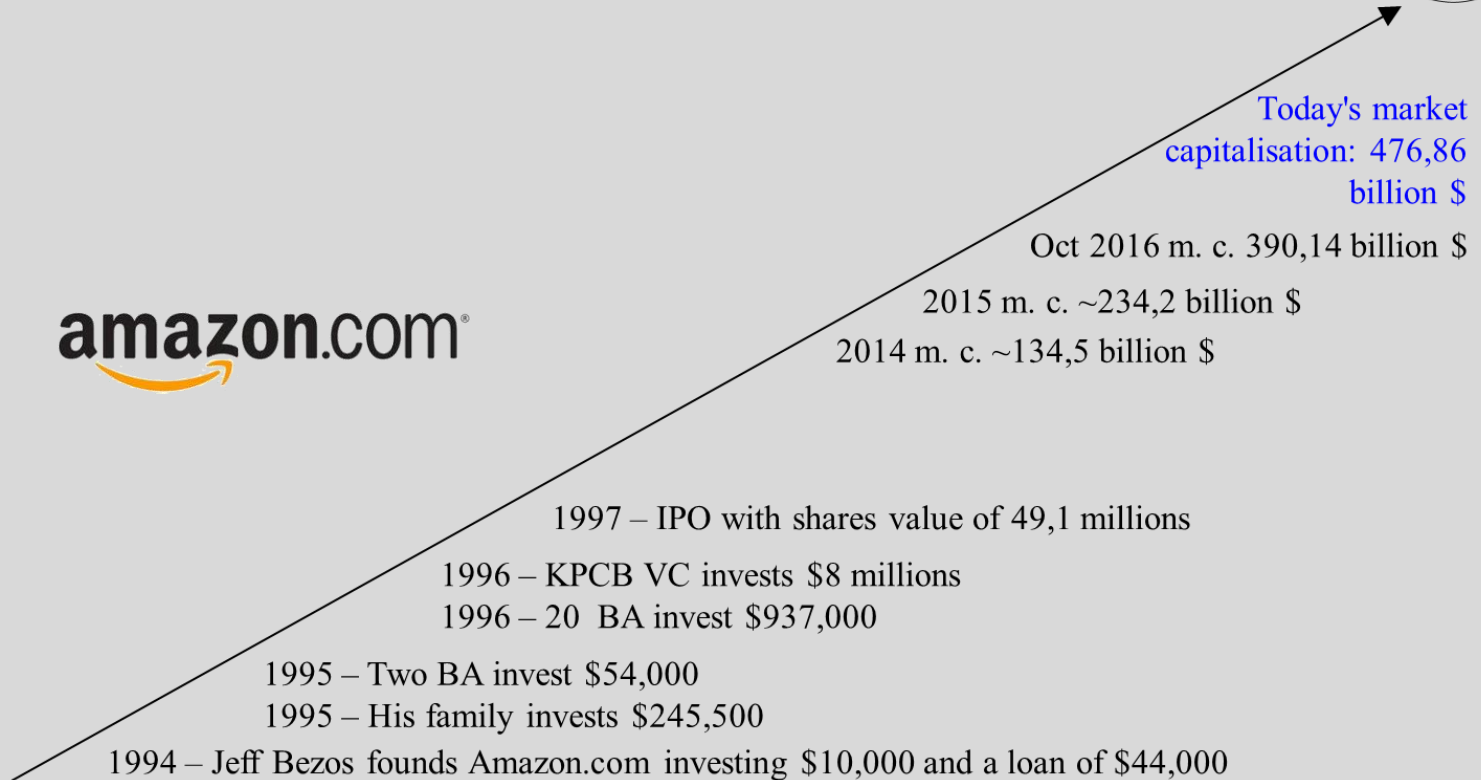


Company Name	Angel Investor	Business	Investment	Value at exit
Amazon.com	Tom Alberg	Online bookshop	\$ 100.000	26 mil
Apple computer	Mike Markkula	Hardware	\$ 91.000	154 mil
Body Shop	Ian McGLinn	Beauty products	£ 4.000	42 mil
ML Laboratories	Kevin Leech	Pharma	£ 50.000	71 mil

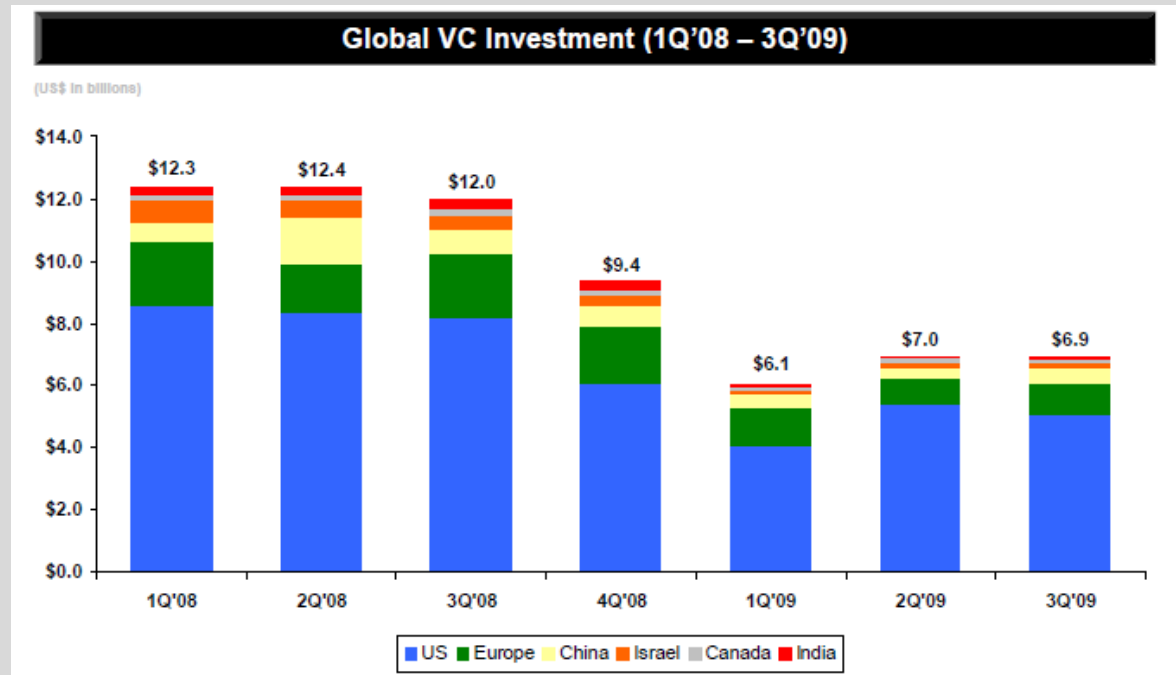
The Amazon.com example



amazon.com[®]



VC investment geography



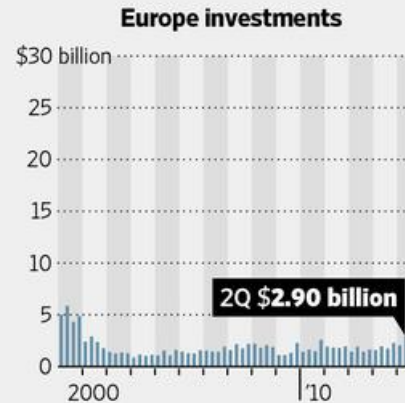
Source: Innogest Capital

Equity financing: EU vs. US

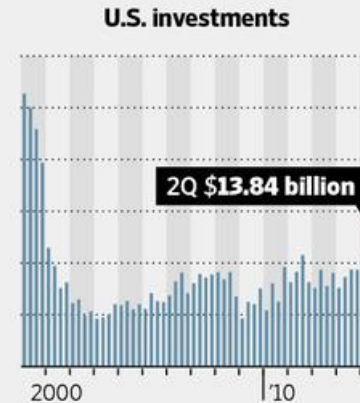


Starting Up Again

Equity financings for European venture-backed companies



Source: Dow Jones VentureSource

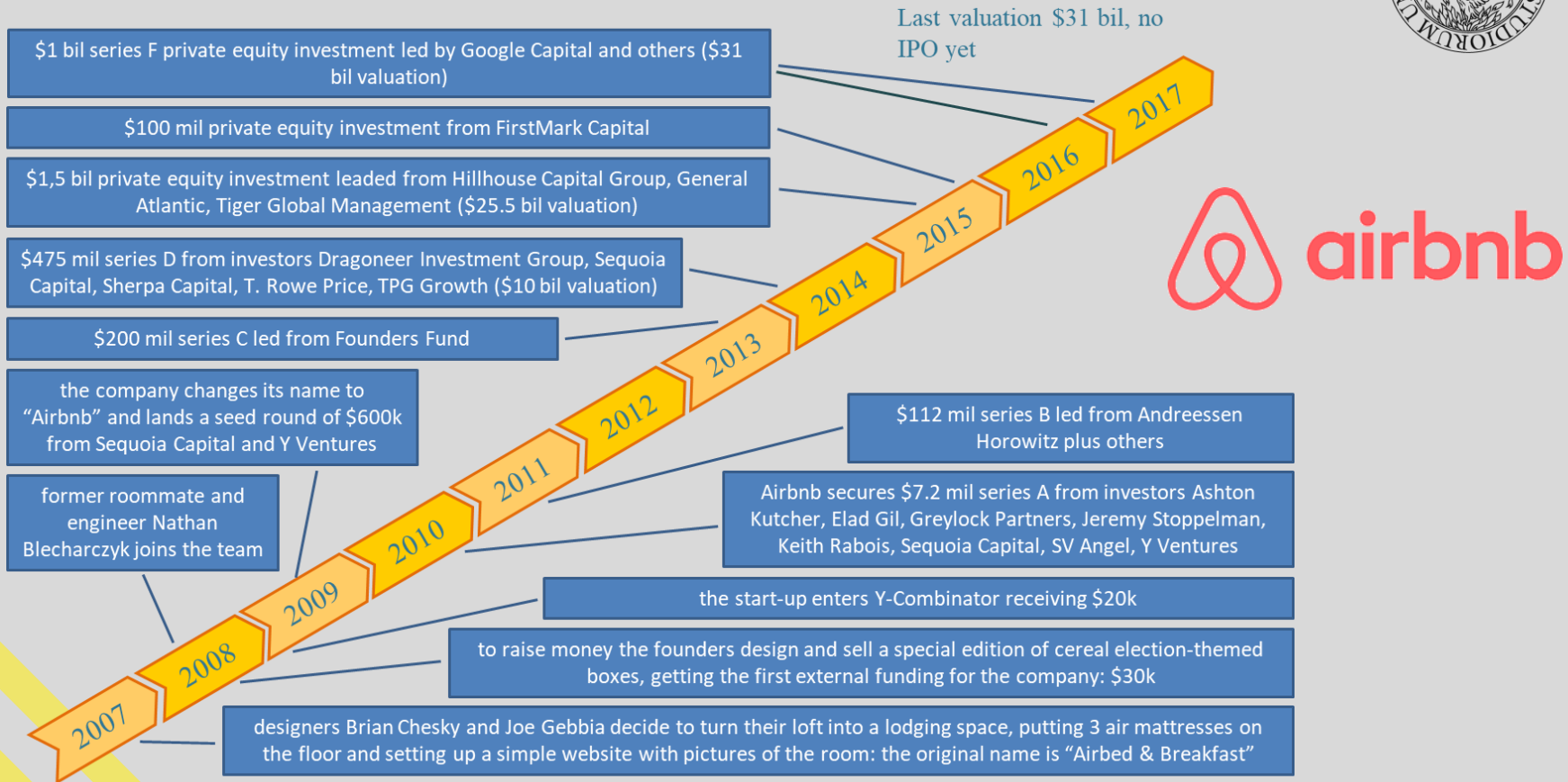


The Wall Street Journal



HOMEWORK: SUCCESSFUL START-UP STORIES

The Airbnb example, or the “sharing economy”



Believers..



AirBed&Breakfast
idsa connecting '07

Two designers create a new way to connect at this year's IDSA conference.

NEWS AB&B will be blogging live from the conference floor!

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35 Hotels in Sierra (17)
Book your stay in Sierra online. Great availability and great rates!
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"Do things that don't scale," Chesky says, a sentiment that would be considered blasphemy at Google or Facebook. "We start with the perfect experience and then work backward. That's how we're going to continue to be successful."



Ovunque vai, vivici
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Cerca tra oltre 2 milioni di case in più di 190 paesi

Days? Check in → Check out Where

Esplora il mondo

Parigi, Roma, Los Angeles, Lisbona, Tokyo

..and not

Not everyone was as impressed with Airbnb's business model, however, and the young start-up was also notoriously rejected by Fred Wilson and Union Square Ventures - a decision Wilson now admits wasn't a good one.





Thanks!

Questions?





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