

Denis Kalyshkin

A global VC perspective



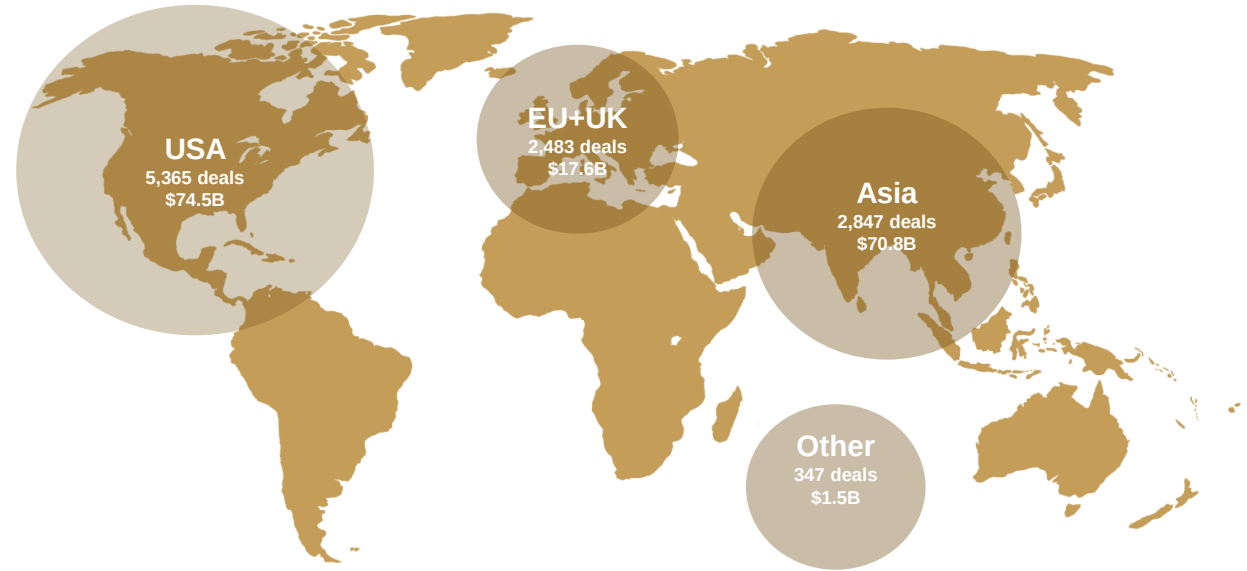
About



- **Joined I2BF Global Ventures in 2014. Prior to I2BF Denis held various positions in sales, analytics and risk management**
- **Founded and failed a Russian startup OOHmap.ru (outdoors advertising marketplace, 2012-2013)**
- **Expert in AI, IoT, AR/VR, Robotics/Drones, SaaS, Healthcare IT**
- **Cover wide range of tasks starting from sourcing to closing deals and managing portfolio**
- **Education: MIPT (Aero space), HSE (Corporate finances)**

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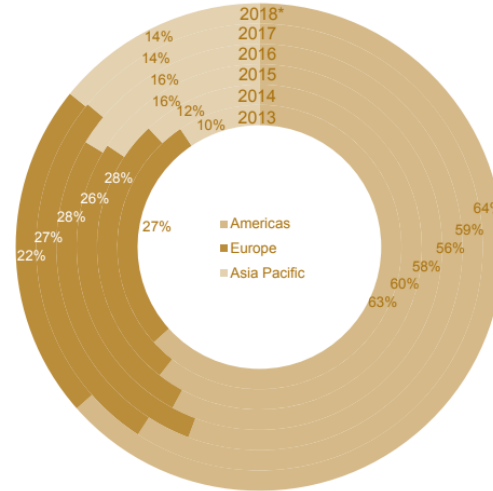
Global VC market



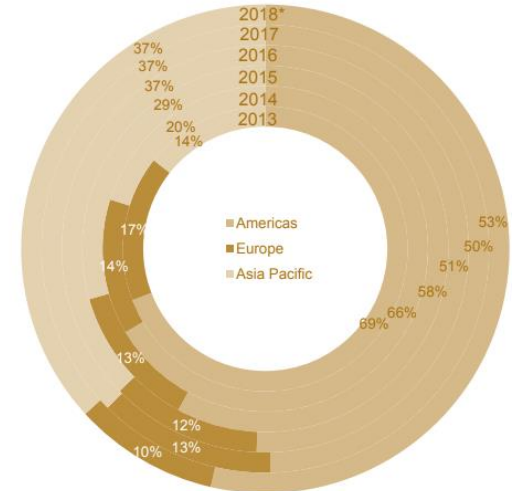
Global VC market reached ~11k deals in 2017. 50% of them are coming from the US. The EU (the UK, Germany, France, Israel) and Asia (mainly China) are other big players. India, Singapore, LatAm, Africa are interesting but emerging markets.

VC market dynamics

Financing of VC-backed companies by region
2013–2018*, number of closed deals



Financing of VC-backed companies by region
2013–2018*, VC invested (\$B)



Asia grew from 10% to 14% in terms of the number of deals and from 14% to 37% in value of dollars invested. The growth was fueled by late stage mega-rounds.

<https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/01/kpmg-venture-pulse-q4-2018.pdf>

Deal stages in the US

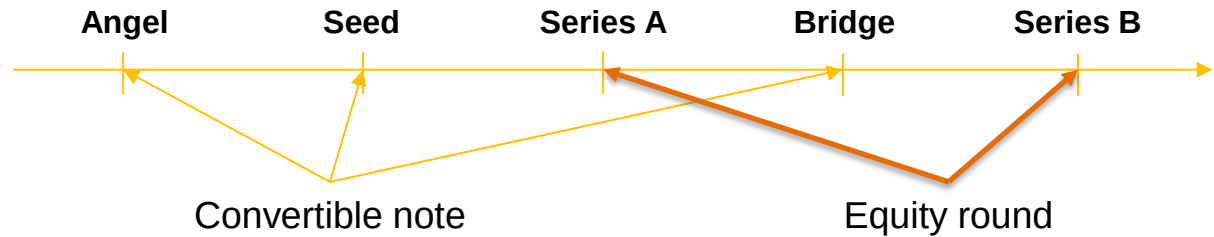
Angel / pre-seed

- No or first sales/ MVP/idea
- Startup operates less than 2 years
- Team: 1-10 empl.
- Round: up to \$1M, typically \$50-500k

Seed

- Sales ~\$500k/year, beta- or commercial version
- Startup operates 1-3 years
- Team: 10+ empl.
- Round: \$1.5-2M

Deal structure by stage



- Debt instrument (~5 page doc)
- Market cap – upper level for pre-money at the equity round
- Discount to the equity round (~20%)
- interest rate (5-7% per year)
- Maturity date
- Preferred shares (50+ page doc)
- Pre-money valuation
- Liquidation preferences
- A wide set of other conditions (tag, drag along, anti dilution, etc.)
- Board of directors

Convertible note is a more simple instrument to negotiate. You don't need to price the company at the moment. There are also SAFE, KISS which are standard forms of YC and 500 Startups. They are not technically a debt, but they are relatively new and not all investors like to use them.

How VC's find startups



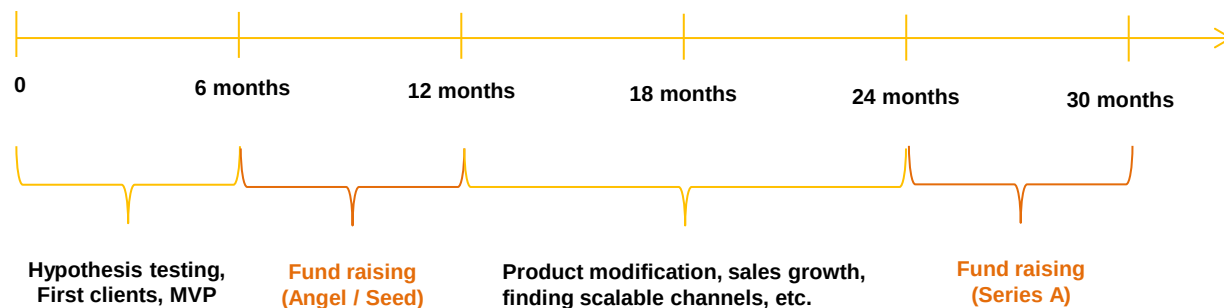
- Founders of current portfolio startups
- Other VC's and business angels
- Accelerators, incubators & other ecosystem players
- Demo-days, pitch competition & other events
- Startup data bases (Crunchbase, PitchBook)
- News, startup ratings, Google search
- Inbound e-mails without intro
- Finders, consultants, etc.

VC requirements

Necessary traction:

1. Startups fit in **investment focus of a VC** in terms of business model, stage & financial traction, geography, technology stack, etc.
2. Each VC has its own requirements in terms of traction, but typically to raise a Seed round you need **\$30k+** MRR
3. Startup should have **«a healthy» cap table**, i.e. angels and current investors hold ~5-10-15% share of the company, key team members are motivated
4. Startups in developing countries should have **Global ambitions** (first sales in other countries, or participate in a good international acceleration program)

Fundraising timing



Fundraising is a time consuming process. You need to reserve 6+ months for that and plan your traction accordingly. If you have more traction and wider run rate you can negotiate better terms. You should also keep in mind that VC's like to get to know you and keep tracking you for some time, so a good practice is to meet for the future.

What a startup need to know about a VC

1. What is their investment focus
2. At what stage of investment cycle is the VC? Is the fund active? How much money is left in the fund?
3. What is the investment strategy of the fund? How much do they reserve for follow-on investments
4. What reputation does a VC have. Do your KYC on the fund, talk to their current portfolio companies
5. How does their investment process look like? What is the timing, next steps? Who are the decision makers?

VC investment process

First meeting,
Business DD,
Q&A, client
interviews, etc.

First meeting, getting to know each other, Q&A session, market, competition research, etc.

Deal negotiation,
investment
committee, term
sheet signing

Broad business due diligence, term sheet negotiation, investment memo preparation, investment committee.

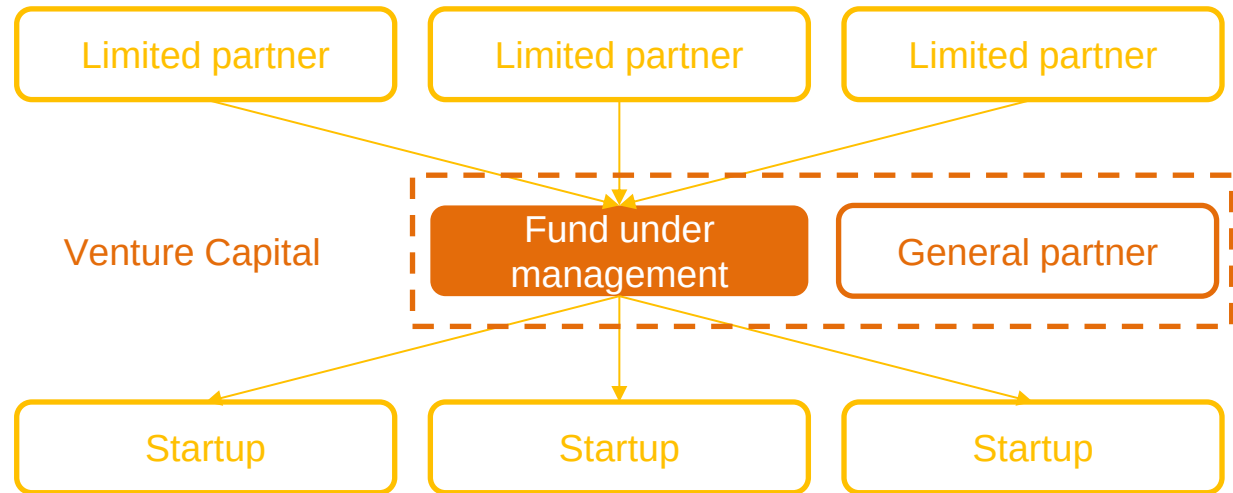
Legal & financial
Due Diligence
(DD), drafting
documents

Legal & financial DD, drafting Share purchase agreement, convertible note other transactional documents based on Term sheet

Final decision
based on DD
results, signing
documents,
capital call

Final decision based on DD results and identified risks (Investment or management committee). Sometimes additional terms could be negotiated if some new risks arise.

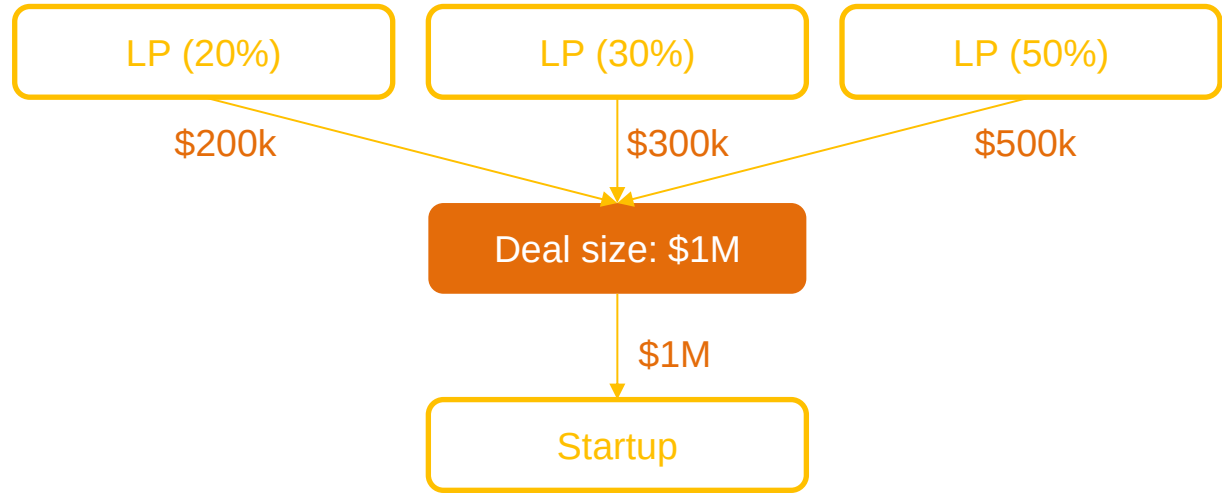
VC structure



Limited partner – investors in VC (pension funds, insurances companies, family offices)

General partner – Management Company that screens startups, closes deals and manages portfolio

Capital call



Capital Call – GP request to LP's for transacting money for the deal or several deals. It typically takes 2 weeks.

Exits



- ✓ **90% number of exits is M&A. Founders should be ready to loose control after 5+ years.**
- ✓ **IPO is an exceptional event in the US. Only top funded companies reach it.**
- ✓ **The exit opportunities in Russia are very limited so investors rely on alternative opportunities (put options, management buy out, dividend model)**
- ✓ **In case of fail (or sale for “undisclosed amount”) investors usually get minor cash for IP or technology sales (if any).**

Typical mistakes

- **A startup raised \$1M at the angel stage and gave up 51% share of the company.** The current structure is not typical especially in the US. This will scare off some investors and make unnecessary complications for the following rounds. Startups typically give up ~10% share at angel round and ~20-30% at each VC round.
- **A startup gave up 15% share to their corporate lawyer for the help with legal documents.** They weren't doing Legal Tech so the share for the team member was higher than acceptable since his contribution is not mission critical. During their first fund raising VC's began to ask questions and the team had to re-negotiate the terms.
- **A startup has got a high pre-valuation at the previous round.** Since current investors push them to raise at a higher valuation they scare off a lot of VC's at the current round. Since top tier investors usually get discounts for their brand the startup could raise only from investors with lower quality.

Decomposition method for market size valuation

- If we don't know **the true value of a variable** we should decompose it as a multiple of other variables we could assess more reliably, for example

$$\text{Revenue} = \text{website visits} * \text{conversion rate} * \text{Avg rev. per user}$$

- Typically most of the multiples could be easily found in the internet or assessed based on your common sense or previous experience, perhaps you need to gather additional data for only **1-2 variables**
- You can easily assess **90% confidence interval** by randomly asking 5 people
- You can easily train an expert to reliably assess the true value of the meaningful variable
- In VC market estimation with **2x error** is a good estimate
- Measuring a variable costs money. Sometimes precision doesn't matter that much compared to the raw and quick estimate

A good book: <https://www.ozon.ru/context/detail/id/4572833/>

TAM for OOHmap

- **42 bln. Rub.** is the size of Russian OOH market (grew +10% in 2018). This number accounts not only renting billboards but also advertising agencies services
- **63k** - number of billboards in Russia in 2018 (a decrease from 68k in 2017)
- **15k rub** – average cost for renting a billboard for 1 month (based on cold calling a couple of agencies and all-billboards.ru)
- **32k** billboards owned by RussOutdoor, **13k** by Gallery, **18k** by others
- Our service will focus on smaller agencies with lower client base, we can take **10% fee** and we will address **10% of their inventory**
- There were **2** other marketplaces in Russia in 2012

$$18k. * 12 * 15k \text{ rub} * 10\% * 10\% = 32M \text{ rub}$$

SOM for OOHmap was 32M rub and TAM ~300-600M rub. The only way to build a big business is to become an agency (as other competitors) or expand from Russia.

Why you will always have competitors?

- Wright timing is mission critical for startups (see the story of VR or neural networks). If you are ahead of your time your startup will die. Always ask: “Why now is the right time?”
- Analogy from programming: market is a Class, competitors are objects of this Class. You have the necessary internet penetration, number of smart phone users in a country, etc. Then millions of people worldwide start thinking of some ideas and statistically there should exist at least several people thinking in the same direction.
- Competition is not the same service. It is the way people think and solve addressable problem now.
- If you didn't find competitors, perhaps they all are dead (and for a good reason, there is no need for such service, the solution is not feasible, or there some barriers)
- If you have competitors make sure that you're not “competing with Google” (it's hard to beat players holding 50%+ market share). If you have a big competitor explore why you are 10x better for some parameter critical for your target audience.
- Ideal competition is 2-5-10 companies more or less on the same stage with you (perhaps they even raised \$5-10M, non of them holding a big stake on the market, you were founded more or less simultaneously).

Why monopoly is good?

**Perfect
competition**



Net income is zero

Oligopoly



Various cases

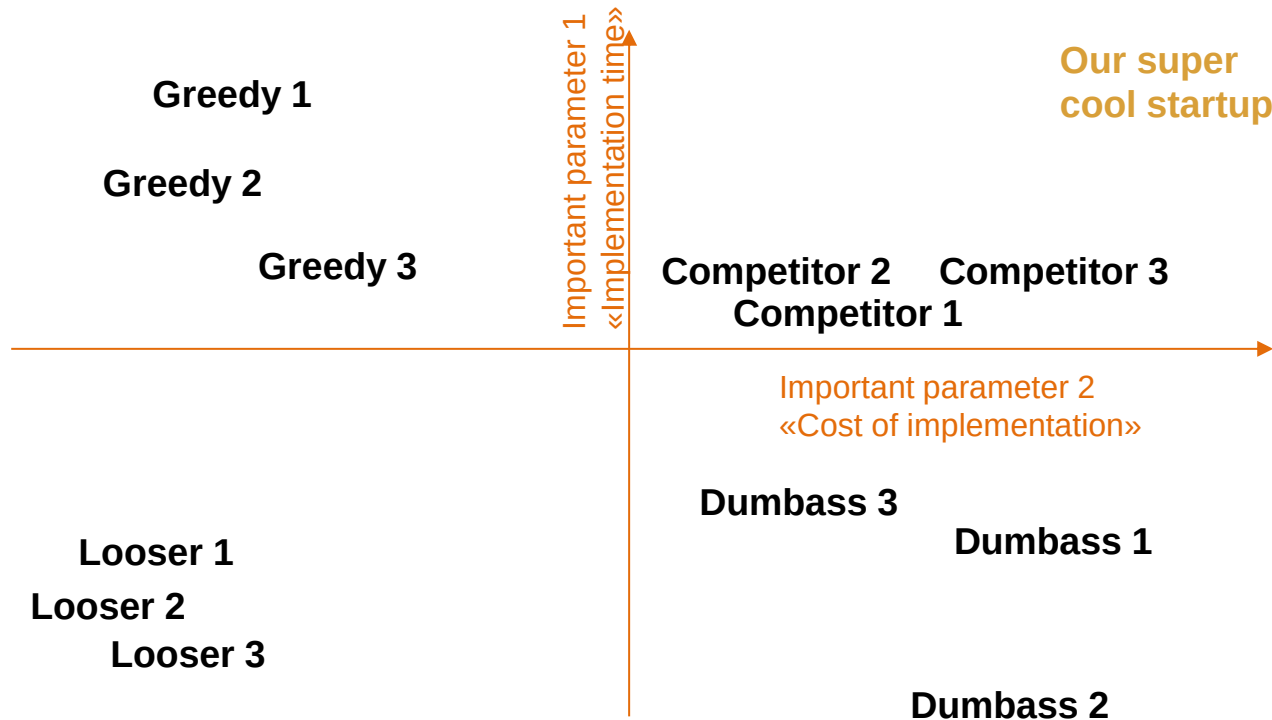
Monopoly



Net income is maximum

That is why you shouldn't say that the market is so big that there is a room for many players. You should become a monopoly at least at some subsegment. The winner takes all the money.

Poor competitor analysis



A VC can't understand from this slide what is the size of your competitors, how long they are on the market, how you are different, etc.

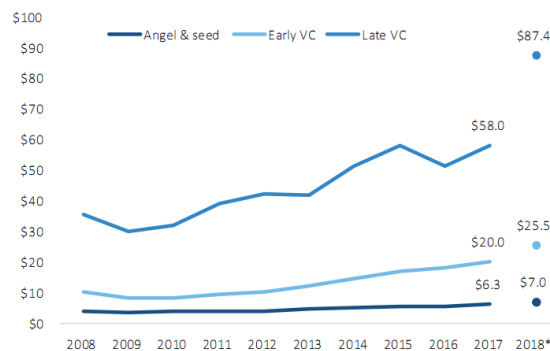
Good competitor analysis

	Our startup	Competitor 1	Competitor 2	Competitor 3	Competitor 4	Competitor 5
Oneliner	SaaS for segment A	SaaS for segment B	On-premise solution for segment A	Direct competitor	SaaS for segment A with AI	SaaS for segment B with AI
Founding year	2017	2011	2013	2013	2009	2013
Invesments, \$	\$3M	\$3M	\$30M	\$72M	\$250M	\$18M
Revenue, \$	\$0.4M	N/A	\$3M	\$5M	\$12M	\$2M
Price, \$/mo	99	199	399	1000+	300	25
Cloud based	✓	✗	✗	✗	✗	✗
Processing time	●	◐	◑	◑	◐	◐
Flexibility	●	◐	◑	◐	◑	◐
Implementation cost	●	◐	◑	○	◑	◐

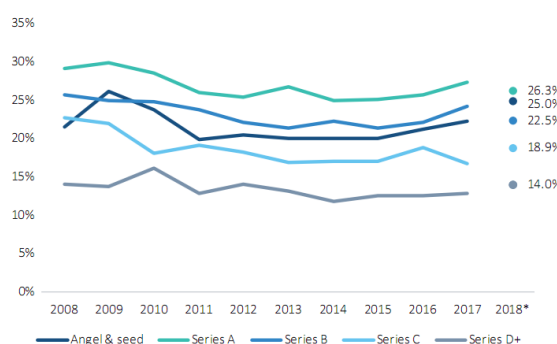
Many stress on technical advantages, but you should show business and positioning advantages first and show that you can win clients over the competitors. You should show not only direct competitors, but also client alternatives (like do something in-house or use Excel).

Global startup valuation statistics

Median US VC pre-money valuation (\$M)



Median US VC equity stake acquired (%)



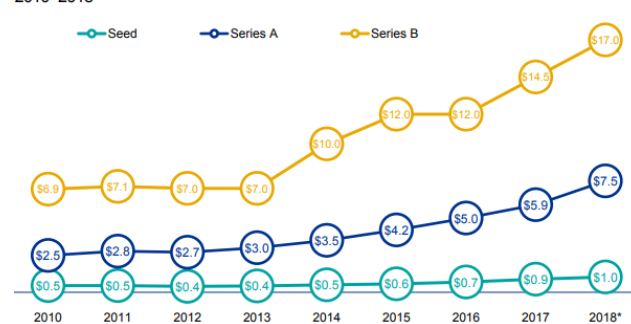
Sources:

<https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/01/kpmg-venture-pulse-q4-2018.pdf>

<https://pitchbook.com/news/reports/3q-2018-vc-valuations-report>

Global median deal size (\$M) by series

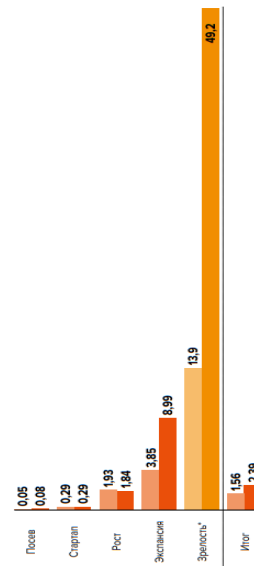
2010–2018*



- Valuation is defined in negotiation. VC compares your startup with other investment opportunities.
- Valuation can increase: experienced team, hype, broader market and potential upside, etc.
- Startups with revenue in the US get ~2x higher valuation
- You should give up ~20-30% of your company at each round. Otherwise it will cause problems for the future rounds.

Russian VC market statistics

2017 2018	# of deals	Deal volume, \$M	Avg deal size, \$M
Pre-seed	97 139	4,6 11,0	0,05 0,08
Seed	90 76	26,1 21,7	0,29 0,29
Series A	75 61	144,8 112,4	1,93 1,84
Series B	26 14	100,1 125,9	3,85 8,99
Series C	14 9	195 443	13,9 49,2
Total	302 299	471,3 714,7	1,56 2,39
Exits	16 17	142,2 95,5	



[https://www.ey.com/Publication/vwLUAssets/ey-venture-russia-2018/\\$FILE/ey-venture-russia-2018.pdf](https://www.ey.com/Publication/vwLUAssets/ey-venture-russia-2018/$FILE/ey-venture-russia-2018.pdf)

Deal examples

Country	Pre-money	Round	Comments
US	\$15M	\$3M	A pre-revenue US startup in AI with experienced founders (Exited previous startup for \$100M+)
US	\$8M	\$2M	Year revenue – \$500k, Russian founders, Top US accelerator alumni
CIS	\$0.9M	\$0.1M	First sales, didn't participate in accelerators
Russia	\$0.5M	\$0.04M	First revenue, typical round structure for one of top accelerators in Russia

Exits in Russia in 2018

Список сделок выхода

Дата	Цель	Инвестор	Сумма, \$ млн	Сегмент компании
янв.18	Gambit Esports	MTC	10*	Games
янв.18	Pay-Me	Альфа Банк	5*	Payments
янв.18	Larixon Jobs Network	Hearst Shkulev Media	8	Content Management
фев.18	Dealway	Epicstars	0,5*	Advertising & Sales
фев.18	Handybank	InfoWatch	4	Finance
фев.18	Timepad	Сергей Солонин	10	Event Management
мар.18	Brandspotter	Youscan	3*	Advertising & Sales
мар.18	Dialog	Сбербанк	1*	Communication
апр.18	33 Слона	Mail.ru Group	3*	Rent
апр.18	Амулекс	iTech Capital II	2	Legal
апр.18	Налогия	Европейская Юридическая Служба	1*	Legal
апр.18	Tranzaptor	amoCRM	0,5*	Payments
май.18	Solar Security	Rostelecom	23	Security
июл.18	Skillaz	Сергей Солдатенков, Анна Серебряникова	0,4*	HR
июл.18	Платинус	Сбербанк	1*	Advertising & Sales
авг.18	Топливо в бак	Яндекс Драйв	3*	Other
сен.18	Gett	Da Vinci Capital	20*	Transport & Logistics
окт.18	Едадил	Yandex	3*	Advertising & Sales
окт.18	Партия Еды	YandexTaxi	3*	Transport & Logistics
окт.18	НайТакси	YandexTaxi	0,5*	Business Software
ноя.18	Aizei.ru	Genom Venture	2*	E-commerce
ноя.18	Интерком	Сбербанк	17*	Business Software
дек.18	Kakprosto.ru	Рафаэль Нагапетьянц	2,5*	Social Media
дек.18	Justlady.ru	Рафаэль Нагапетьянц	2,5*	Social Media
дек.18	Teleport	Snap	8	Software & hardware

* предположительный объем сделки

[https://www.ey.com/Publication/vwLUAssets/ey-venture-russia-2018/\\$FILE/ey-venture-russia-2018.pdf](https://www.ey.com/Publication/vwLUAssets/ey-venture-russia-2018/$FILE/ey-venture-russia-2018.pdf)

Useful materials

My other webinars:

Market and competition: https://vk.com/sfeducation?w=wall-32342123_81425

Current VC situation: https://www.youtube.com/watch?v=BIZ9drl_zqM

Top 15 books for entrepreneurs:

<https://www.iidf.ru/media/articles/lifehacks/15-glavnykh-knig-dlya-it-predprinimateley-ot-ekspertov-i-trekerov-frii/>

Typical documents:

<https://rb.ru/docs/>

A book about VC:

<https://www.alpinabook.ru/catalog/investments-stock/5571-reviews/>

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