

TETRA

POST-INVESTMENT LIFE WITH INVESTOR

WEBINAR #36: 16 FEBRUARY 2022

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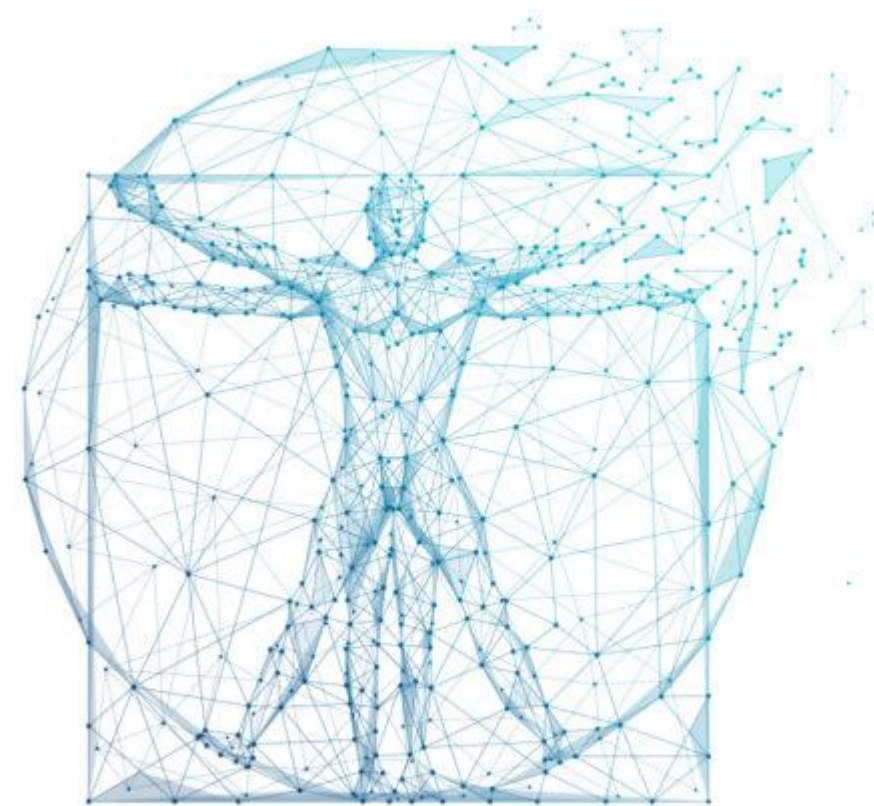
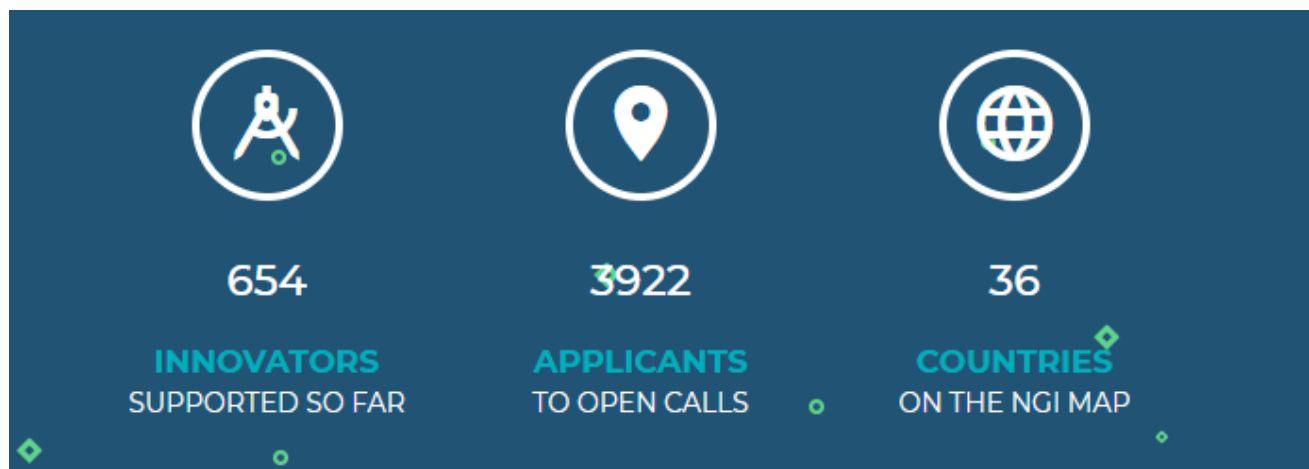


HUMAN INTERNET FOR A **BETTER FUTURE**

NGI.EU

NGI initiative is supported by:

- 11 Research and Innovation Actions (**Ledger, Dapsi, NGIAtlantic.eu, NGI Trust, NGI Pointer, eSSIF-Lab, NGI ZERO, Fed4FIRE+, ONTOCHAIN, NGI ASSURE, TRUBLO**)
- 5 Coordination and Support Actions (**NGI4ALL, Think Nexus, NGI Explorers, NGI Forward** and **TETRA**)
- 7 multilingual NGI (**BERGAMOT, COMPRISE, ELITR, EMBEDDIA, GOURMET, PRÊT-A-LLOD, European Language Grid**)



NGI TETRA

WHAT WE DO?

- **Coaching** during TETRA bootcamps
- **20 hours of mentoring** after TETRA bootcamps for the most promising businesses
- **Individual master plans**

More information:

<https://business.ngi.eu/>

TRAINING

Join our **bootcamps and webinars** on different topics such as intellectual property, sales and new markets, leadership skills, investments, financing and much more.

MENTORING

Reiceive **individual mentoring** from experts, startup founders and investors.

BUILDING NETWORKS

Get access to **Digital Innovation Hubs, connect with investors and corporations** for collaboration.

WHAT'S NEXT: ONLINE EVENTS FOR YOUR ACCELERATION

WEBINARS:

Open for public

- **23.02.2022** | Webinar#37:
GDPR Fundamentals:
Straight to the point!
- **02.03.2022** | Webinar#38:
Customer Journey Mapping
- **09.03.2022** | Webinar#39:
One step further on GDPR:
Privacy and GDPR tools

+ check our archive

Link: business.ngi.eu

PUBLIC FUNDING MASTERCLASS: Your gateway to public funding in Europe!

For NGI beneficiaries only

- **03.03.2022** | Webinar 1 “Understanding public funding options in Europe and how to decipher open call texts”
- **10.03.2022** | Webinar 2 “EIC Accelerator - lifecycle and stage 1 application”
- **17.03.2022** | Webinar 3 “(Secret) strategies on how to win a tender abroad”
- **24.03.2022** | Webinar 4 “Cascade funding”
- **31.03.2022** | Webinar 5 “Horizon Europe”

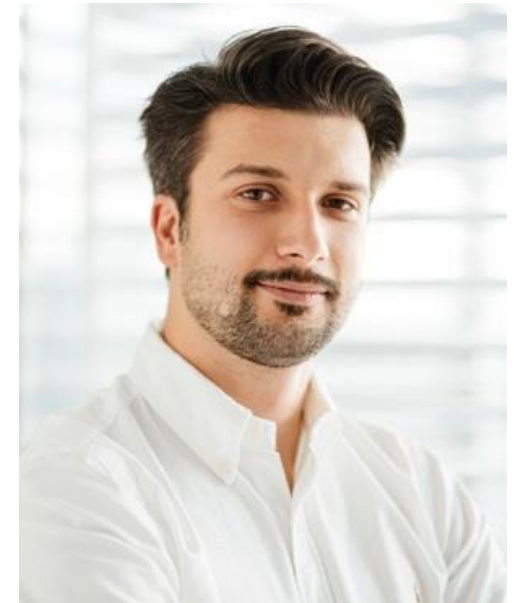
POST-INVESTMENT LIFE WITH AND INVESTOR ON BOARD

HI, MY NAME IS ANDREJ!

Investment Manager in **ZAKA Ventures**

- Early stage VC (pre-seed, seed stage)
- Helping our portfolio companies to leap from 0 to 1

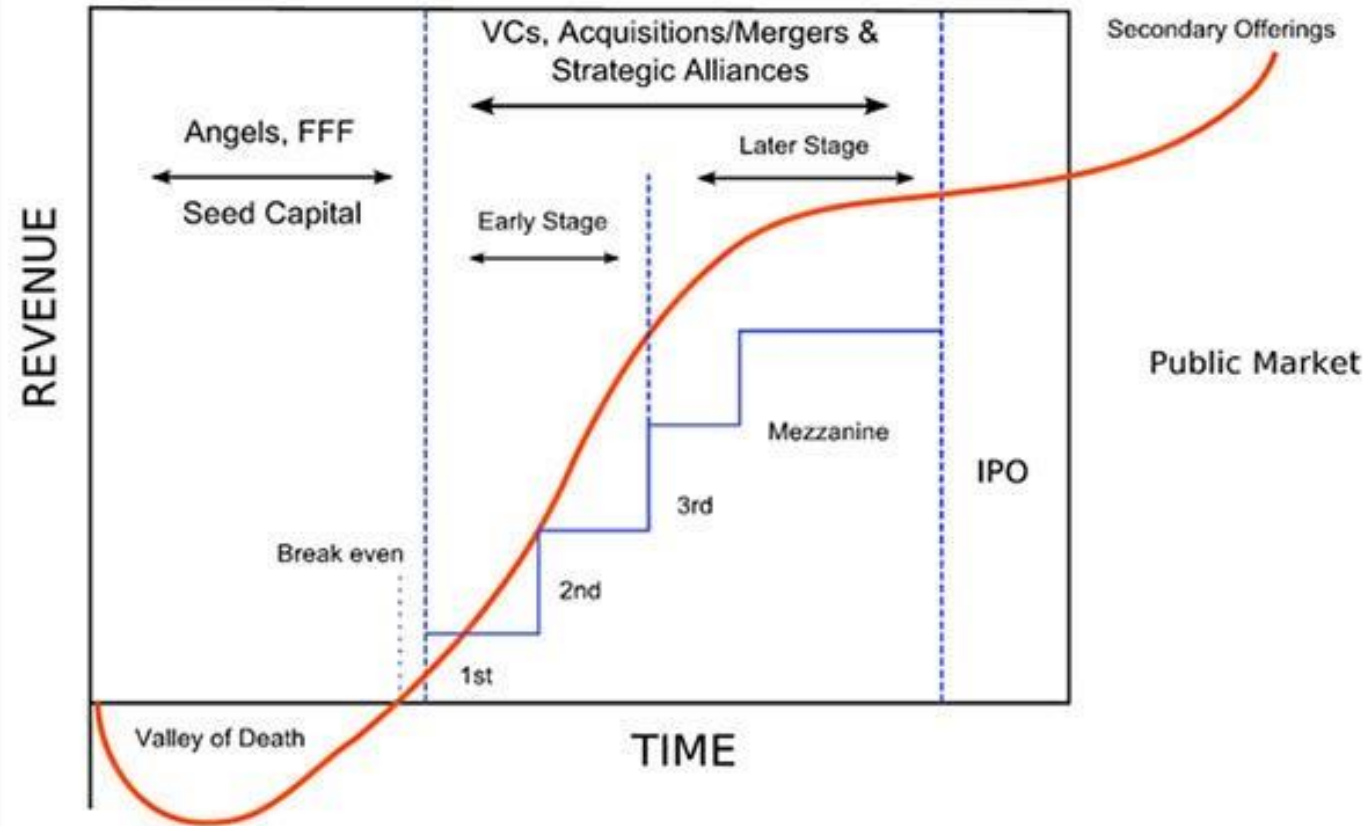
M&A and Strategy Consulting for **PwC** in Prague, Venture building in vertical AI startup studio **CEAi** in Prague.



TODAY'S AGENDA

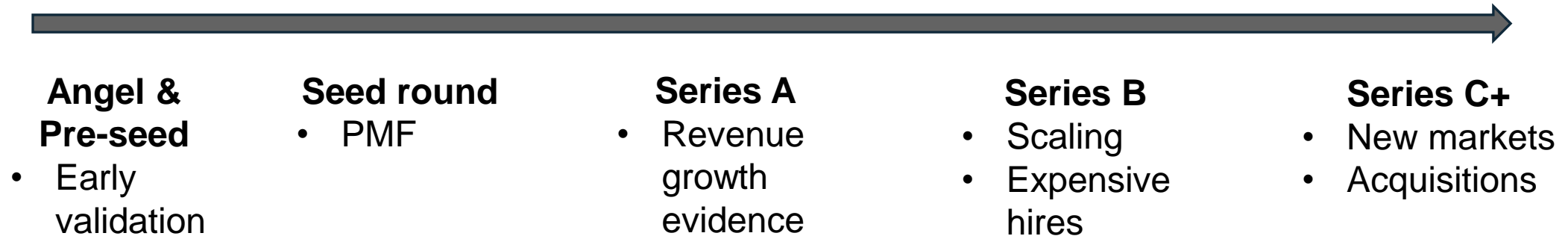
- Investment negotiations and governance
- What to expect directly after investment
- Interests of Investors, Founders and Employees
- Long-term cooperation with investor and reporting expectations
- How to leverage your investors know-how and contacts
- Next fundraising
- Q&A

Startup Financing Cycle



UNDERSTANDING THE CYCLE

Think long-term, focus on every next step



Investment size in ths. EUR for minority (5-25%) and runway

50-500 ths. EUR	250-2000 ths. EUR	1m-10m EUR	5m + EUR	10m + EUR
6-12 months	12-24 months	18-24 months	18-24 months	24+ months

DIFFERENCE BETWEEN ANGELS AND VCS

○ Angels

- Typically the first ticket at the lowest valuation, strategy of being first with the highest risk and highest return
- Usually investing across more deals to diversify
- No follow-on investment
- CLAs or SAFEs, equity rounds are unusual, too costly, valuation not set yet
- Common or preferred stock
- Usually very limited governance and control if any, smaller ticket smaller risk

DIFFERENCE BETWEEN ANGELS AND VCS

○ **Veture capital funds**

- Managing external capital of public and private LPs = need of professional management and reporting
- “Emergency brakes”
- Not the first investor, higher valuation but also a strategy of follow-on investments and possible exit
- Higher investment ticket = governance, reserved matters, reporting
- Founder’s vesting and ESOP
- Equity rounds and convertibles, depends
- Always preferred stock

DIFFERENCE BETWEEN EQUITY ROUND AND CONVERTIBLE ROUND

○ Convertible

- Faster process, CLA only, less costly
- Agreeing on the valuation cap of next round only, not current valuation
- Control of reserved matters through CLA
- Easier for investor if the company goes bankrupt
- Calculating accrued interest might be a bit complicated
- As with SAFE, opportunity to do a constant fundraising

DIFFERENCE BETWEEN EQUITY ROUND AND CONVERTIBLE ROUND

○ Equity round

- Costly and takes time (Shareholder agreement, Articles of Association, General Meeting approval, Commercial registry)
- Agreement on current valuation
- Control of reserved matters not only through SHA but also board seats (governance)
- Done in later rounds of investment, usually not in angel or pre-seed

INVESTMENT NEGOTIATIONS

- Find the right fit and smart money
- **Smart money**
 - industry, trends and competition know-how
 - contacts to future investors, customers, advisors, future hires
 - Strong PR capabilities
 - Financial, legal and accounting know-how
 - Reliable partner with standard documentation clauses
 - Ideally a fund capable of pro-rata investing in the future rounds

USUAL VC DEAL TERMS

- Investment tranches
- Liquidation preference
- Drag along and Tag along
- Founders Vesting
- Reporting
- Board seat and reserved matters for operative and general meeting decisions

TYPICAL RESERVED MATTERS. MINORITY HOLDING BUT BIGGEST RISK

- Changing the nature of preferred stock
- Issuance of new stock or change of the number of shares
- Debt issuance
- Exit, Sale, Dividend distribution
- Approving of business or financial plan and transactions over what was planned
- Change of the management or number of board seats
- ESOP
- IP sale

BOARD SEATS

Management board seat

vs.

Supervisory board seat

vs.

Advisory or virtual board seat

INVESTMENT NEGOTIATIONS

There are standard clauses and investment documents (SHA, CLA) in the VC market. Setting the standard in the beginning will help you in the future fundraising negotiations

Try to avoid investor's proposals of non-standard terms

What are the standard terms -> do your homework and get to know the VC investment clauses (Liq. Preference, Drag along, Tag Along, Founder's Vesting, Anti-dilution, Veto rights and governance)

THE WORST WHAT COULD HAPPEN

- Changing of management and potentially triggering bad leaver clause
- Investor deciding on alone whether to exit the company
- Too tight budget restrictions and micromanagement
- Investors blocking of the next fundraising round because he wants to invest at lower valuation and alone

INTERESTS OF INVESTORS, FOUNDERS AND EMPLOYEES

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Potential misalignment in the interests of all parties

- Investor's goal is to generate a bigger investment return either calculated per year as IRR or as total sum in Multiple of invested capital = not selling too soon
- Founder's interests are often aligned with VC's but they might be willing to sell earlier and gain an exit/capital gain next to the wages or stock options
- Employees are maximizing on wages, reputation/potential and will be aligned with the vision of VC's and founders with ESOP

LONG-TERM COOPERATION WITH INVESTOR AND REPORTING EXPECTATIONS

Typical set-up

- Investor is not micromanaging operations in detail, mainly only bigger deviations from approved financial plan (expansion, hires...)
- Usually a call once per month or per two weeks with a written report about what happened and where the start-up struggles and might need help
- More operationally focused VCs tend to offer more frequent calls or even external help with legal, PR, accounting, hiring or operations
- Professionalization in reporting and accounting to get to a controlling FP (plan vs. actuals)
- Most important value add from investor is during the next fundraising round

WHAT TO REPORT?

Written report should cover all important parts of the company, not only financials

1. Product, development and its updates
2. Traction, customers and revenue
3. Sales or marketing efforts
4. Hiring and team + operations
5. Financials and KPIs (plan vs. actuals)
6. Biggest struggles

WHAT TO REPORT – KPI

- Monthly cashburn
- Runway and cash in the bank
- Revenues, MRR or pipeline overview (pilots, unclosed deals and their reve potential)

Sector specifics KPIs

- Retention
- Customer acquisition cost
- Life time value of customers
- Engagement rates

HOW OR WHERE TO REPORT?

- Emails with attachments (controlling excels)
- There are many online reporting tools on the market widely used by startups and investors with an all-in-one overview of what's happening (quantitative and qualitative data)
 - Investory.io
 - Vestberry.com
 - Kushim.vc
 - Carta.com
 - Own custom templates/spreadsheets/forms

HOW TO LEVERAGE YOUR INVESTOR FOR YOUR BENEFIT?

LEVERAGING INVESTOR FOR YOU BENEFIT

Once the money issue is covered there are several more issues to be solved

- How to use it wisely and sustainably (in terms of hiring, growth, marketing channels)
- How to test your hypotheses and get to a PMF
- How to attract talent and how to set-up your company hiring process and structure to be able to attract talent also from abroad
- Monitoring the market and competitors to know where the trends go and to know what should be the product and commercial priorities
- What to achieve for the next fundraising and at which valuation are you aiming
- What is the big picture here?

LEVERAGING INVESTOR FOR YOU BENEFIT

Some of the open questions are **sector specific**, some are **generalistic** about the right operational and management setup/culture

Having an investor on board with sector know-how is a important value-add but you can not rely on it solely. Sector know-how is your job, contacts in the sector is the value add of an investor.

The more people on board, the more know-how and contacts for use of your start-up

RECOMMENDATION

My recommendation

- when fundraising, try to mix couple of investors together in the same round, combining couple of VC's with smaller angels with smaller tickets
- Even an angel with an 25ths. Eur ticket in a 0,5-1mil. Eur round can bring you more value-add in terms of time and help than a VC with broader portfolio of companies
- Usual set-up is that a **Lead investor** is controlling the governance and reserved matters over the company via a board seat representing other coinvestors of that round but the founder is in constant contact with all of the investors and leverages their networks and recommendations

NEXT FUNDRAISING

This is where the investor might be of biggest helping hand

- Calculating the base, best case and worst case valuation with help of different valuation methods as an argument base for the negotiations
- Preparing the documentation for the due diligence (partly already done if the previous investment documentation was a standard VC one)
- Every Investor or VC has a broader VC network and list of investors, warm intros are always better, even more if the investor has a good reputation on the market
- The pitch meetings will be covered by founders but getting to that pitch is also hard
- Backchannel negotiations

Questions & Answers Session

TETRA

**THANK YOU
&
GOOD LUCK WITH YOUR BUSINESS!**



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