Venture Investing Rules of Success

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Beginners

This session is for beginners who are exploring venture investing first time

Venture Investing is mostly just a collection of stories

It's never been more important time to educate yourself.

Entrepreneurs build future & it feels magic when it makes it big

Startup investing business is the business of Seeing into the future


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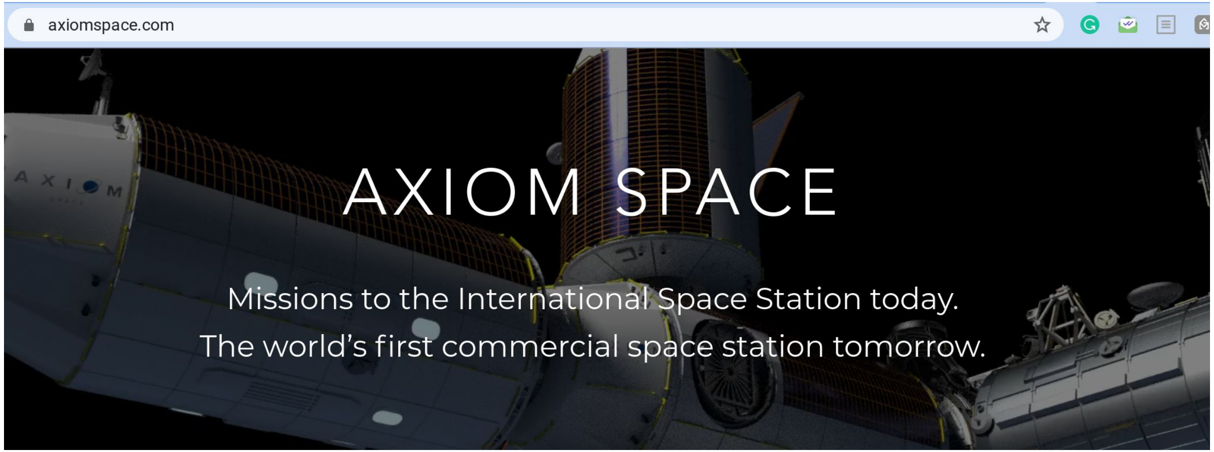
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How Big is Small Bets for Angels

Facebook

Thiel became Facebook's first outside investor when he acquired a 10.2% stake for $500,000 in August 2004. ... As an investor,

Exit Value of Peter Thiel in FaceBook

He became a Facebook investor in 2004 with an initial investment of $500,000 at a $5 million valuation.

When Zuckerberg took the company public in 2012, Thiel sold 16.8 million shares at the IPO for about $640 million.

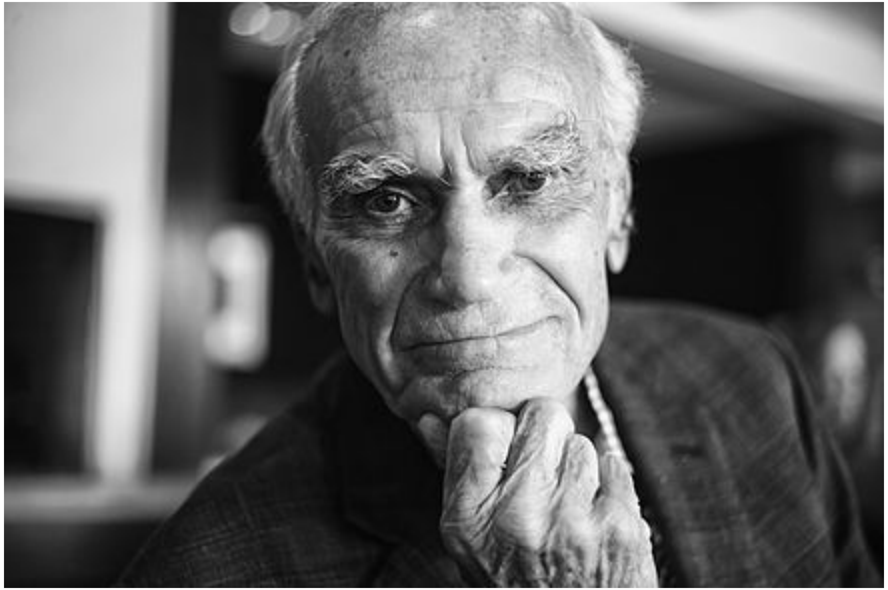
Later the same year, he sold roughly 20 million of his remaining 26 million shares for $400 million after the expiry of a lockup.

He hit the market once again in 2016 to sell a little less than 1 million shares for about $100 million. He still holds around 60,000 shares. FB Share price ~240/-

Bill Draper invested in Skype at 74

Draper say's: It was 2002, and I have to admit that it was a thrill to be pioneering a new kind of telephony with technology in Estonia driven by a Dane overseen by a Swede in a company based in London.

Zennstrom and Friis had no business plan for Skype. I put $100,000 of seed money into the company.



Skype

Within 18 months, Skype had 40 million users. They started charging for calls that went to or from standard telephones. By 2005, with 53 million users and still growing, they were acquired by eBay for $2.6 billion. This made Skype the biggest hit Draper ever had, a return of 1,000 times his initial investment.

3.6 L to 1814 Cr

Guess the startup name where an investment of 3.6Lacs

made the investors nearly 1814 Crores of exit value

$5,000 into nearly $25 million

Chris Sacca invested $300,000 in Uber's angel round in 2009.

(He also helped the startup buy the name "Uber" from Universal Music Group.) Sacca currently owns four percent of Uber, which could be worth up to $36.6 billion.

INVESTOR	AMOUNT INVESTED	TODAY'S VALUE	NOTABLE
Garrett Camp	$220,000	$1,092,412,800	Mr. Camp invested some of the money he made from selling StumbleUpon to eBay in 2007. His overall stake based on Uber's IPO price is worth about $3.7 billion.
Founder Collective	$95,000	$372,661,200	Entrepreneur Bill Trenchard invested from a Boston-area seed fund made up of money from founders. He is now a partner at Uber investor First Round.
Mitchell D. Kapor Trust	$75,000	$372,412,800	Mr. Kapor is a pioneer of personal-computer software as the founder of Lotus. He later made headlines for speaking out against Uber's "toxic" culture in 2017.
Cyan and Scott Banister	$50,000	$248,275,800	The married entrepreneurs learned of Uber on their way to the airport in a livery cab whose driver explained the order-by-app and gave them Mr. Graves's business card.
Joshua Spear	$30,000	$148,964,400	The blogger and brand strategist is an angel investor who had also previously backed Mr. Camp's StumbleUpon.
The Hit Forge	$25,000	$124,137,000	Mr. Ravikant, who invested from his past seed fund, is known in Silicon Valley circles for running the angel-investment platform AngelList.
Jason Port	$25,000	$124,137,000	An early Sportsline.com employee during the dot-com boom, Mr. Port now works at growth-equity firm Lead Edge Capital.
Shawn Fanning	$25,000	$124,137,000	Mr. Fanning is an icon of the dot-com boom-and-bust, having founded music-sharing site Napster, which reshaped the record industry.
Jason Calacanis	$25,000	$124,137,000	Sequoia Capital gifted entrepreneur Mr. Calacanis the money as part of a secretive scout program designed to give the firm insight into up-and-coming startups.
Mike Walsh	$5,000	$24,827,400	The founder of a business software startup and an early investor in Salesforce.com, Mr. Walsh is now the general partner at seed fund Structure Capital.
Oren Michels	$5,000	$24,827,400	The entrepreneur co-founded a software startup called Mashery and sold it to Intel in 2013.

Note: Some investors may have sold some of their shares.

Source: WSJ analysis of investor documents

Oyo Rooms - Oravel Stays

The buyback, which had lead investor Softbank's blessings, happened at whopping Rs 3.21 lakh per share. Remember, the early-stage investors had picked up shares in OYO for around 1,200 rupees three years back

OYO Rooms, the fast-growing Gurgaon-based technology start-up has bought back shares worth Rs 60 crore from its existing investors, reports CNBC-TV18. The buyback has seven early-stage angels smiling all the way to the bank, having made returns of 250 times in 3 years.

It's being billed as a blockbuster exit for angel investors in the Indian start-up space. Budget hotels aggregator OYO Rooms, founded by 22-year old Ritesh Agarwal and backed by the likes of Softbank and Sequoia Capital has bought back over 1,800 shares from its early-stage investors. Start-up accelerator venture Nursery has tendered its shares in the buyback along with angels Vinod Sood, Ashok Damani, Bharat Banka, Bharat Mehta and Sadeesh Raghavana.

Born Entrepreneur

Becoming a VC was never part of my life plan

Alternative Asset Class

Who is a Venture Capitalist

What is an incubator

What is Crowdfunding

What is a accelerator

What is a Family Office Investor

What is a Syndicate

What is a CVC

What is an Angel Network

The Power of Aggregation

- Aggregating investment dollars
- Aggregating knowledge, experience
- Aggregating network of connection
- Aggregating high quality deal flow
- Collective due diligence

To be successful startup investor your must:

1. Find a strategy that works
2. Validate it
3. Do it

1. Proprietary Sourcing
2. Filter & Do the Picking
3. Engage & Help Portofolio

Potential Risks

- Startup investing is riskiest asset class, seed stage is even higher
- It is an unregulated market
- It is filled with uncertainty
- Multiple variables leads to failure
- This is India (Regulation & Policy)
- Untested ideas
- Undeveloped markets
- Cannot follow others unlike other asset classes

Venture capital is a services business where we are providing a service to the entrepreneurs.

Success is boundless

Become the few who do versus the many who talk.

Risk is 1X

Upside is Unlimited

Uncommon success is rarer than failure.

Major success in minority stakes

A VC is as good or as bad as the portfolio

Living through a failure and its consequences on people's lives is sobering.

Investors have to enjoy both the process of investing and the hard work of adding value.

No instant gratification

All potential investments should be considered guilty until proven innocent.

Mistakes First Time Investors Make

As a novice investor, you want to avoid the common mistakes made by many first-time angels:

1. Investing in one of the first deals they see.
2. Not doing thorough due diligence.
3. Investing outside their domain of experience.
4. Investing at too high a valuation.
5. Investing on an uncapped convertible note.
6. Signing the company's documents without having a lawyer review them.
7. Not reserving additional capital for the inevitable follow-on round.
8. Investing in fewer than 20 deals.
9. Becoming an angel without a long-term (10 years or more) commitment.
10. Dragging out the investment process unnecessarily.

Evaluating Startup is not a postmortem

Evaluation of a startup is not the study of a dead body.

It is not similar to an autopsy.

It is the assessment of things and relationships. They are very much alive and constantly changing. It is the study of something very much alive which falls or breaks up unless constantly pushed ahead or improved. It is the study of founders and founder’s work, of their hopes and aspirations. The study of the tools and methods they selected and built. It is the study of conceptions and creations, imagination, hopes and disillusions.

Access To Information Gives You Competitive Advantage In Venture Capital Business

Time to revisit all your beliefs

Be Curious

livemint

Sanjay Mehta, Angel investor

Anti-Portfolio | 'Nothing is more expensive than a missed opportunity'

1 min read . Updated: 20 May 2019, 09:01 PM IST

Sanjay Mehta

- Missed out on investing in an AI platform Haptik that has now processed 2 billion interactions
- Can’t take investment decisions in a hurry, so had to pass the deal a third time on Haptik in two years

Be so helpful to entrepreneurs that they can’t ignore you

Venture capital is NOT:

- Rich people spreading money in outlandish and risky ideas, yes there are multiple investment failures
- Corporations seeking out ideas to steal and build on their own, yes large businesses do acquire adjacent businesses
- Highly structured financial transactions, yes venture capital is difficult to understand but is not complex
- Debt or buyout equity capital with majority ownership, yes venture capital end up owning majority of the company but they are not keen to run the business.

VCs are the first filters of the future economy

Who Can Be a Startup Investor?

Angel investor means any person who proposes to invest in an angel fund and satisfies one of the following conditions, namely, Net tangible assets of at least INR 2 cr excluding value of his principal residence, and who: has early stage investment experience, or has experience as a serial entrepreneur, or is a senior management professional with at least ten years of experience.

Who Should be a Startup Investor

Characteristics of a startup investor:

- Long-term view (measured in years, if not decades)
- Strong economic base and the ability to tolerate losses
- High tolerance for risk
- High tolerance for failure
- Even temperament
- Strong people skills (to deal with Type-A entrepreneurs)
- Self-discipline
- Willingness to learn
- General love and respect for entrepreneurs and startups

In the world of Venture Capital

- Decision of being right with half data / half information
- Focus on outcomes not on the process
- Venture Capital business is a confidential business
- Loss of trust is loss of deal opportunity
- In future you will be acting like KingMakers so think ethics on each decision
- You will get lot of opportunity to make money but do not take shortcuts
- Legally it may be right but think ethical on everything you do
- Keep a check when does outsmarting the system cross the line into cheating.

Building Investment Thesis

Learn the how to build your investment thesis

Investment Thesis

Your goals are unique to you and don't need to look like anyone else's.

An investment thesis is a reasoned argument for a particular investment strategy, backed up by research and analysis. In the financial world, an analyst may prepare a formal document outlining an investment thesis for presentation to potential investors or an investment committee - Investopedia

Investment thesis

Setting an investment thesis helps trigger new behaviors, gets you aligned into new networks, helps guides your focus and helps you sustain that investment momentum to build a winning portfolio.

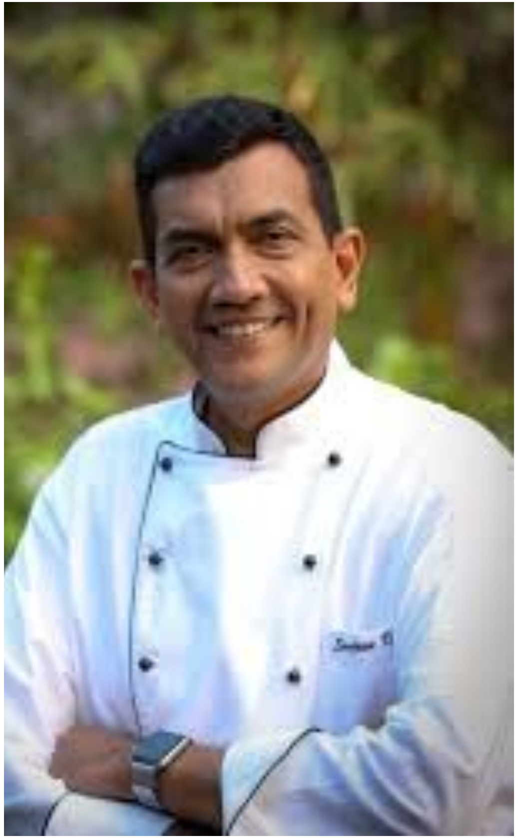
It tells us to put our present cost into the future and our future benefit into the present.

It is a living statement that guides you and should be constantly revisited and updated periodically.

Types of Startup Investor

1. Opportunistic - Everything and Anything Interesting
2. Thesis-driven - Within Boundaries
3. Sector Expertise - TMT, Healthcare etc
4. Trend Focused - Crypto, FinTech, EdTech

Identify The Chef & The Cook



Stage = Risk

- Product Risk - Pre Seed Round
- Team Risk - Seed Round
- Business Risk - Angel Round
- Execution Risk - Pre Series A
- Scale Risk - Series A
- Growth Risk - Series B
- Valuation Risk - Series C

Steps to investment decision making

1. Define your messaging for startups and ecosystem
2. Define what kinds of startups or entrepreneurs you will invest in
3. Set a timeline for when and how many investments will be made
4. Estimate when all investments need to be exited
5. Establish an advisors or investment committee
6. Establish auditing and financial tracking processes
7. Identify how much, if any, fees need to be paid out on deals
8. Set size of investments to be made and the follow on
9. Find a consultant who understands startup documentation and compliance

Developing Own Thesis Would Display

- Your knowledge of a particular sector,
- Your investment perspective and way of thinking, and
- Your interest in venture investing.

Your thesis is your market strategy.

Investment Thesis Template

“[Fund Name] is launching a [XXX Crores] [Stage] venture fund in [Country / City] to fund [Geography] [Sector / Market Companies] [with Secret Sauce]”

Individual Investment Thesis

I want to invest in companies raising ____________ rounds, that are __________________ , and targeting the ________________markets. Bonus points if they are _____________.

I want to invest in companies raising **seed, early, growth, or secondaries rounds**, that are **pre-revenue, post-revenue, or profitable**, and **targeting the AI / ML, Adtech, Consumer, Enterprise, Finance, Food / Beverages, Hardware, Health, Home Services, Logistics, Non Tech, Real Estate, Retail, SaaS, Transportation, Travel, or VR / AR markets**. Bonus points if they are **blockchain-based, in emerging markets, or moonshots.**

Everybody has dealflow—the challenge is getting in the good ones

Dealflow and access are not the same thing.

Goal

is find the next big thing

Proprietary Deal Flow

As a startup investor you want to feel like you have "proprietary sources" of deal flow. Otherwise you're a stock picker, which in this business isn't a good thing.

The common perception is that some high-quality deals are made in exclusivity, and the more access to these deals the investors have, the better investments they will have in their portfolio. This, in turn, will generate higher returns to LPs, build firms' reputation, and expand the proprietary deal flow, going full circle and creating a positive feedback loop.

You Lose 100% Of The Deals You Don't See

5%

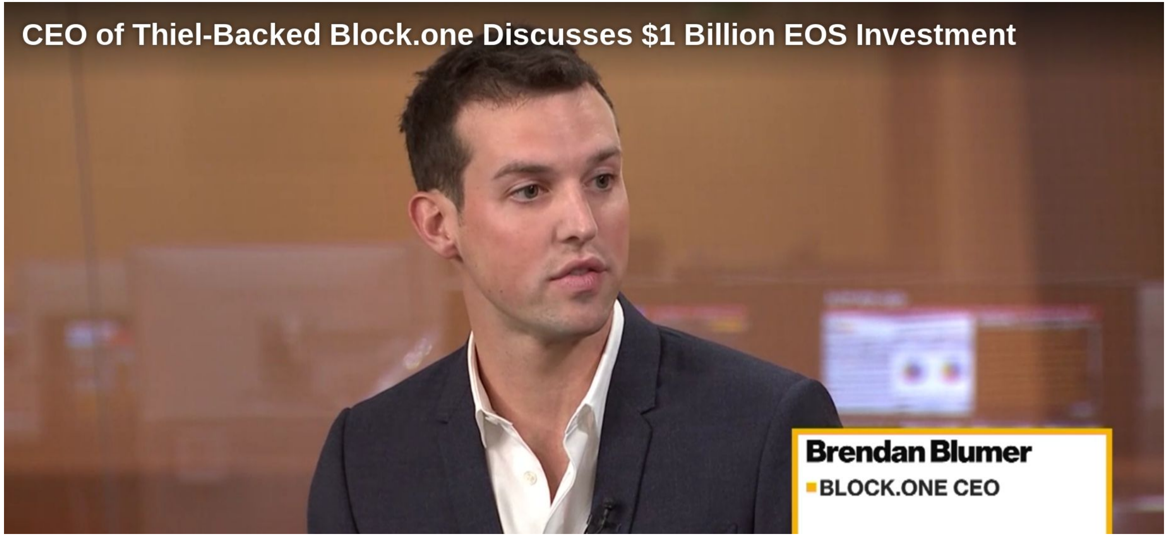
5% of the deals define success for any startup investor

Get access into top 5% of deals or Have enough capital to accelerate your invested portfolio to be part of the top 5% of deal

Cryptocurrencies

Peter Thiel-Backed Crypto Startup Pays Out 6,567% Return

After raising $4 billion in a record token sale, Block.one gives some back to shareholders.



Don’t Let Deals Pass on You

When you get cut out of hot deals, that’s a sign you’re going to perform poorly as an angel investor.
You need to do whatever it takes to up your access.

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Sanjay Mehta, angel investor, partner and founder, 100X.VC.

Automation startup LogiNext gives 16-fold exit to angel investor

1 min read . Updated: 31 Jan 2020, 07:11 AM IST

Ridhima Saxena, M. Sriram

- Sanjay Mehta sells his entire stake in the firm to New York-based investment firm Tiger Global Management and Steadview Capital
- Mehta says he would stay away from companies with solo founders as they are difficult to scale up

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Why CleverTap is in angel investor Sanjay Mehta's anti-portfolio

1 min read . Updated: 07 Aug 2018, 02:27 PM IST

Sanjay Mehta

Losing out on Wizrocket aka CleverTap is a $100 million lesson, says angel investor Sanjay Mehta

Anti-Portfolio | 'Nothing is more expensive than a missed opportunity'

1 min read . Updated: 20 May 2019, 09:01 PM IST

Sanjay Mehta

- Missed out on investing in an AI platform Haptik that has now processed 2 billion interactions
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Focus on 4 activities

- Hunting
  - Involves lot of outbound scouting activity and hard work to engage with complete ecosystem to create a deal flow
- Trading
  - You get deal flow, exchange it with other investors and trade deals. Always share good deals never dud deal to build relationship.
- Trapping
  - Direct deals, Inbound activities of getting founders to reach out to you for funding
- Farming
  - Strike relationships with Investors, Accelerators, Incubators and VCs to get winning deals

Where are you as an investor

- Committed to being right
- Defensive
- Closed
- Works only for success
- Need all data points
- Thinks Past & Present
- Believes there is not enough time, money, love
- They are stuck to an opinion

- Committed to learning
- Curious
- Open
- Failures route to success
- Work with unknown
- Thinks Future
- Believes there is enough opportunity, partnership, trust
- Constantly challenge beliefs

Think as investor not buyer

You may be tempted to, but try not to give advice yet, mostly ask clarifying questions with investment perspective.

For initial meetings, simply focus on building the relationship and digging information to understand the opportunity.

Cutting Through Weeds

Investing in seed stage startups can be exhilarating and highly lucrative, but it can also be incredibly risky, hard work and time consuming.

- Random Deals:
  - 500 Deals, 50 Meeting and 5 Investments
- Validated Deals:
  - 100 Deals, 50 Meetings and 10 Investments
- Referred Deals:
  - 50 Deals, 50 Meetings and 20 Investments

Deal Evaluation Sheet Scores

- Management Team 0-30%
- Size of Opportunity 0-25%
- Product & technology 0-15%
- Marketing/Sales channels 0-10%
- Competitive Environment 0-10%
- Other 0-10%

Assess the founders hunger for investments and resource to grow

Hear money 3 times

Founders Talk	What VCs hear
Unmet need, Market Size Solution	Is there money to be made
Team, , Execution Financial Projections	Are these people who can make me money
Terms of Investments & Exit	How much money I can make

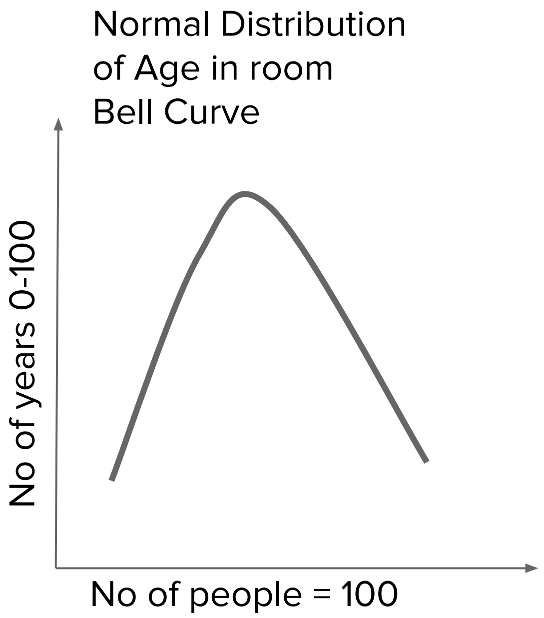
Failed investments don't matter.

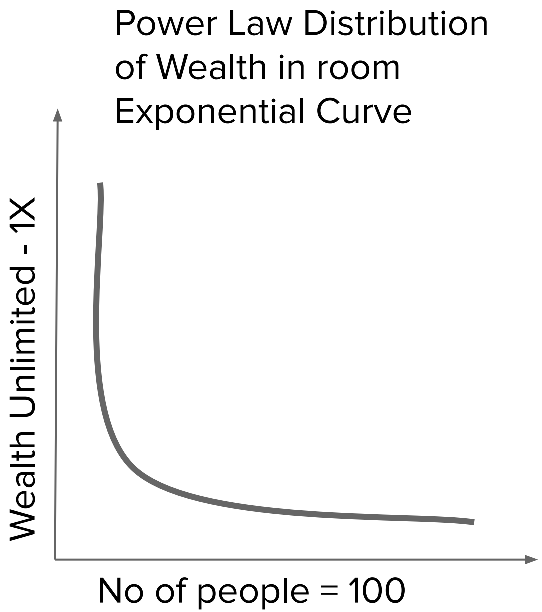
- Home Runs Matter – Invest in each deal in isolation as if it's your last.
- Finding Home Runs – Is there a science to this, or is it an art?
- Following-on is critical – Feed the winners

As long as you are right more times than you're wrong, you will end up with good returns result

Power Laws

Understanding Power Law of Distribution in Venture Capital





Take a room full of 100 with diverse people. if you find the age of the room you will get normal distribution. If you find the wealth in the room you will get a power law distribution if there is Bill Gates in the room.

If you decide that you're going to invest in only the things you know are going to work, you're going to leave a lot of opportunity on the table.

Feed the winners
Starve the losers

Focus is on magnitude of success and not the frequency of success

Great investors not only have more home runs, they have home runs of greater magnitude

The best investors don’t just have more failures and more big wins—they have bigger big wins

Where will you invest

Where will you invest

GINGER

An IHCL Brand

OYO

ROOMS

Where will you invest

SWIGGY

SMOKIN' JOE'S™
FRESH PIZZAS

Ventures Done Right Is Not Gambling

How much to invest in startups

Most experts will suggest that because of the risk and volatility of private investments, one should devote no more than 10 percent of your investment portfolio to this asset class.

Taking as your goal a portfolio of at least 20-25 companies (minimum), that means one will make at least five investments every year. And because every startup always needs more money, one would want to reserve an additional amount to participate in 50% of the follow on rounds.

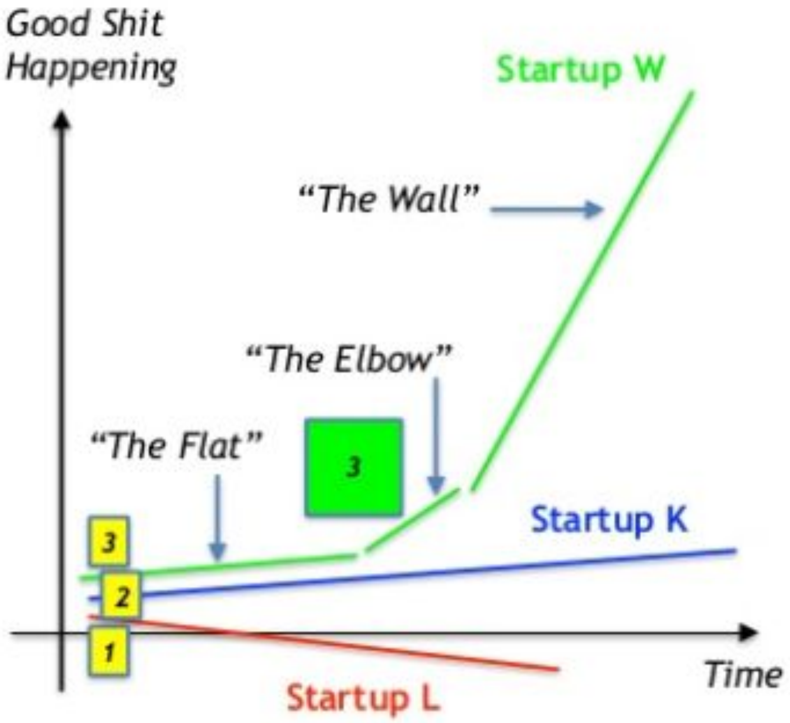
Budgeting 2 Crore Investment

Simple allocation of capital over 5 years

- 50% capital for first cheques / 50% reserve cheques for follow on
- 20 Companies First Cheque = 5 Lacs - 1 every quarter
- 5 Companies Second Cheque = 20 Lacs - 1 every year

The Flat, The Elbow & The Wall

1. Invest @ The Flat When prices are low
2. Double down when you see the elbow (if the valuation isn't crazy)
3. Don’t invest at the wall unless you have infinite capital



How do investors value startups?

It depends

My learnings

- 1st rule : there is no rule
- Rule of thumb
- More an art than a science
- Price is not (always) the value

Ownership Method

Investors need to own a material enough piece of a company in order to generate the appropriate returns.

1. Market - Demand & Supply, Is the sector hot with lot of momentum. Does it have tailwinds.
2. Cost of Reaching to the next MileStone - How much money will be required to prove the product market fit, to scale revenues to become attractive to being able to raise the next round of funding. You can determine the valuations with 20 to 35% equity dilution.
3. Capital required to sustain business for 24-36 months - First 12 months deployment of capital and 6 months to see the outcome and start the next round funding process which would take another 6-12 months time.

Understanding Pre, Post Money Valuations

- Pre-money is the valuation of your business prior to an investment round.
- Post-money is the value of your business after an investment round.

Valuation Math Example

1. Founders own 100% of the company.
2. Founders & Investor both agrees to value company at 10 Crore
3. Investor agrees to invest – 2.5 Crore
4. If the 10 Crore Valuation is Pre-Money, then Post Money is 12.5Crore so the equity ownership now is 80% with founder and 20% with investor.
5. If the 10 Crore Valuation is Post Money, then the Pre Money is 7.5 Crore so the equity ownership now is 75% with founder and 25% with investor

iSAFE Notes (India Simple Agreement For Future Equity)

Primary

The money invested to buy the equity goes into business growth

Secondary

The money invested to buy equity goes to other investor selling the equity

Define Exit Before Entry

- **VC Exit**
- **Corporate**
- **Acquihire**

Exits are arbitrary, but still it requires full time efforts to see the success.

Startup IPOs now happening in India

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Thank You