



START-UP



Introduction to Venture Capital

Week 1

Course Introduction

School of Business and Economics

TIME Research Area | Innovation & Entrepreneurship Group (WIN)

Welcome to the Introduction to Venture Capital!

Let's get started!



You have started or want to **start a business**



You have developed an **idea** for your product



You have entered a market or have an idea on how you want to **enter the market**



You are ready to **grow your business**



But to do so you need **Venture Capital**

In this course you will get an introduction to Venture Capital

You will learn

- What Venture Capital is and how a VC fund works
- How the VC investment process works
- How to choose and how to get chosen by a VC
- How the crucial Term Sheet works and how to avoid common mistakes
- What happens when the VC gets on board and exits your business
- Lots of valuable first-hand inside knowledge from featured experts

In our course we will cover academic and practical knowledge

Academia

**Venture
Capitalists**

Entrepreneurs

So let's get started!



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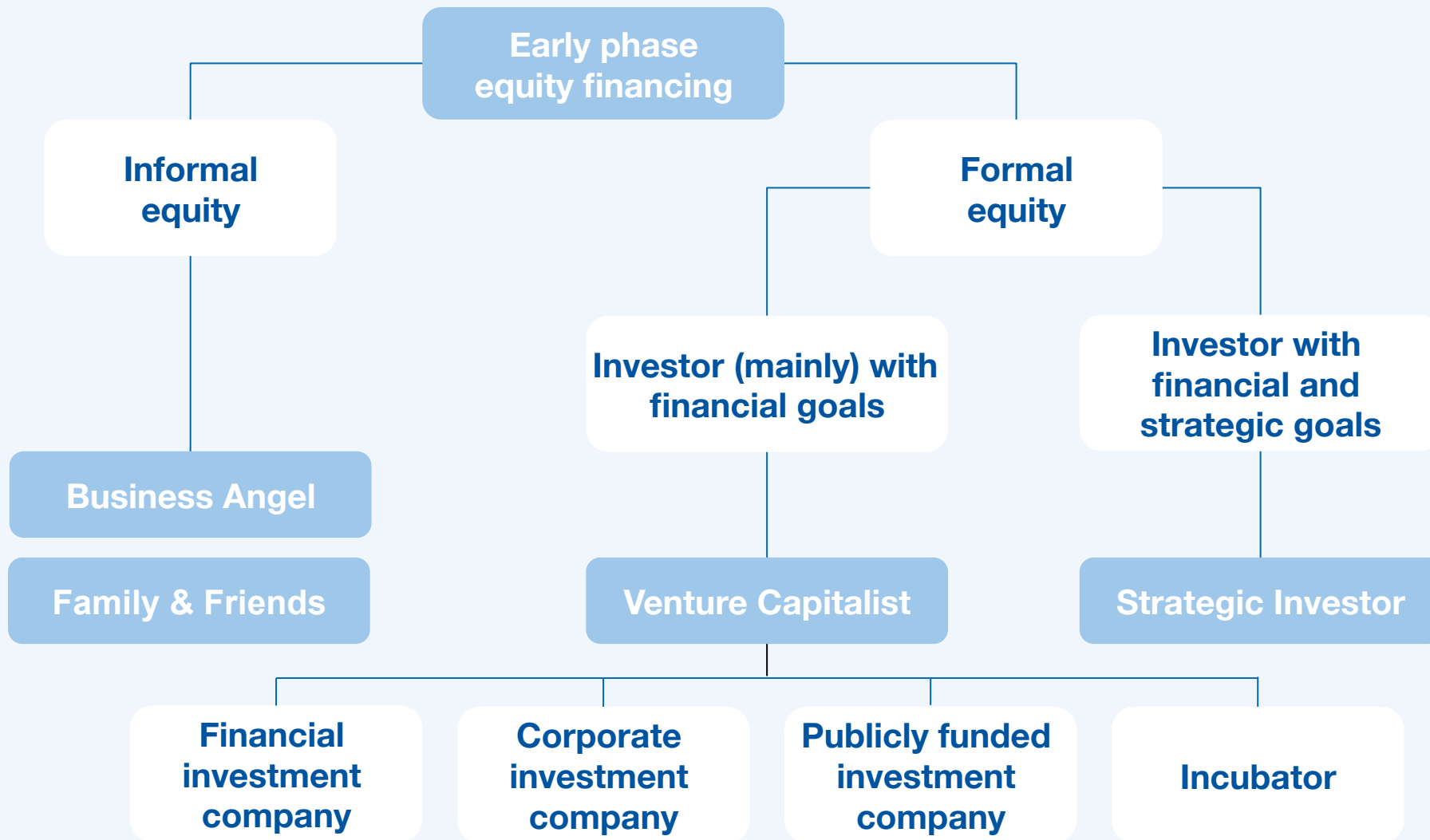
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What is Venture Capital?

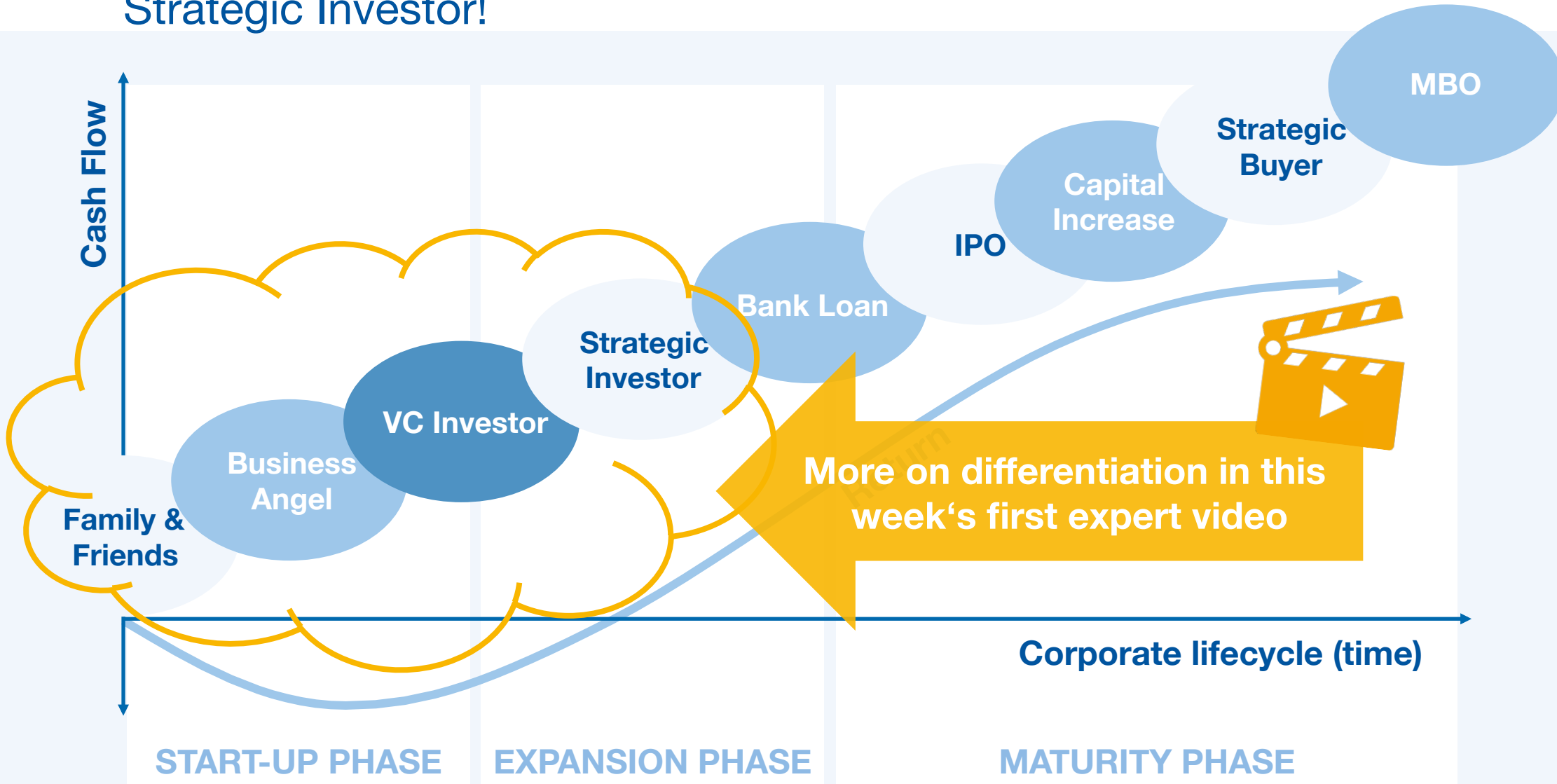
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There are many sources for early stage funding – this course will focus on institutional Venture Capital funds

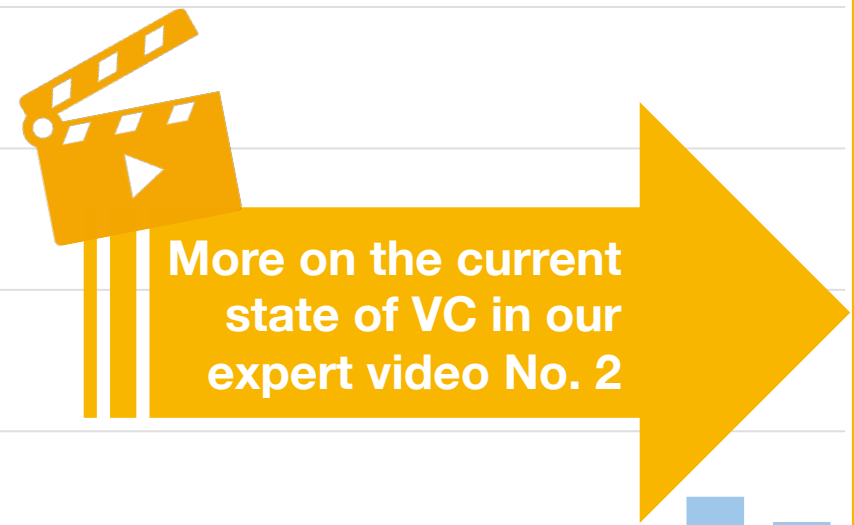
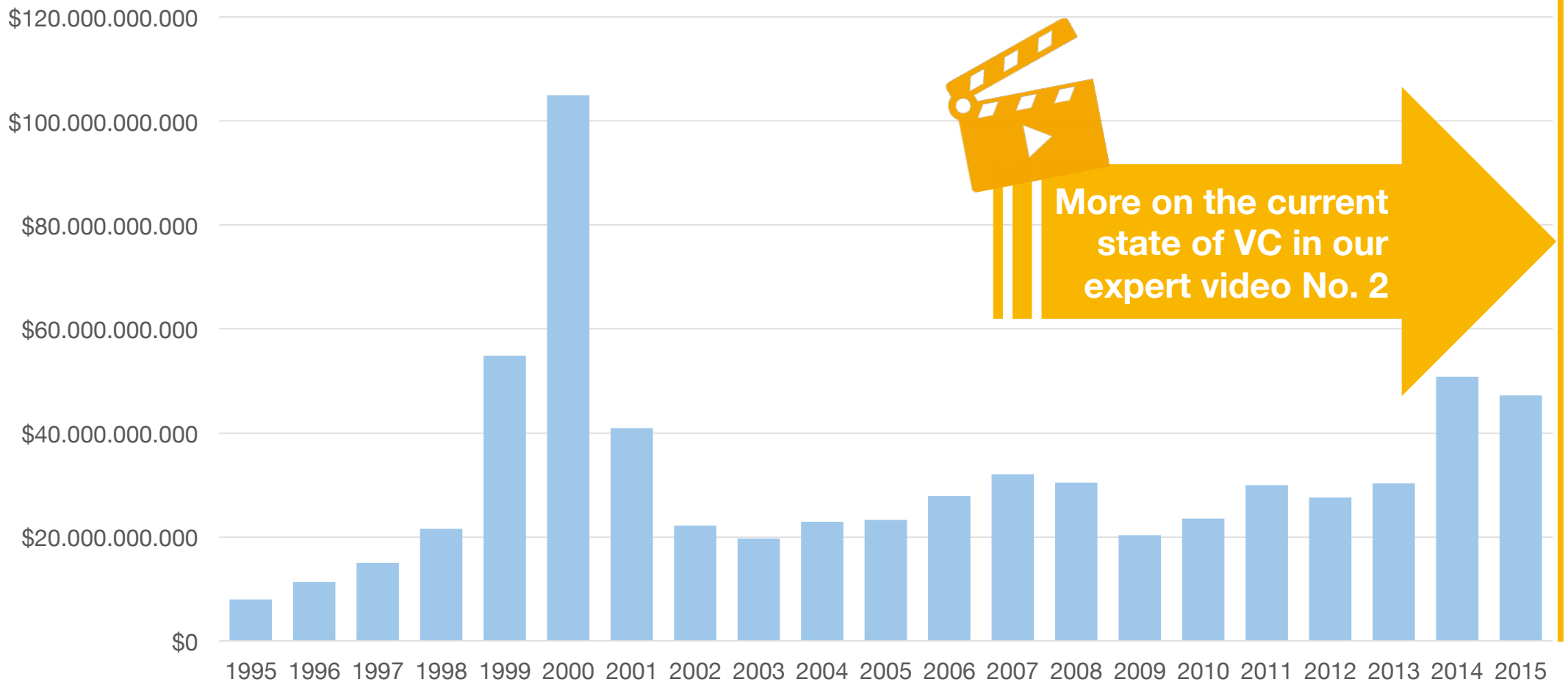


Every type of investor has a different focus and different goals – be aware that a VC is different than a Business Angel or Strategic Investor!



Overall Venture Capital plays a vital role in funding Startups

Total volumes of VC investments (US only) per year



Source: NVCA.org



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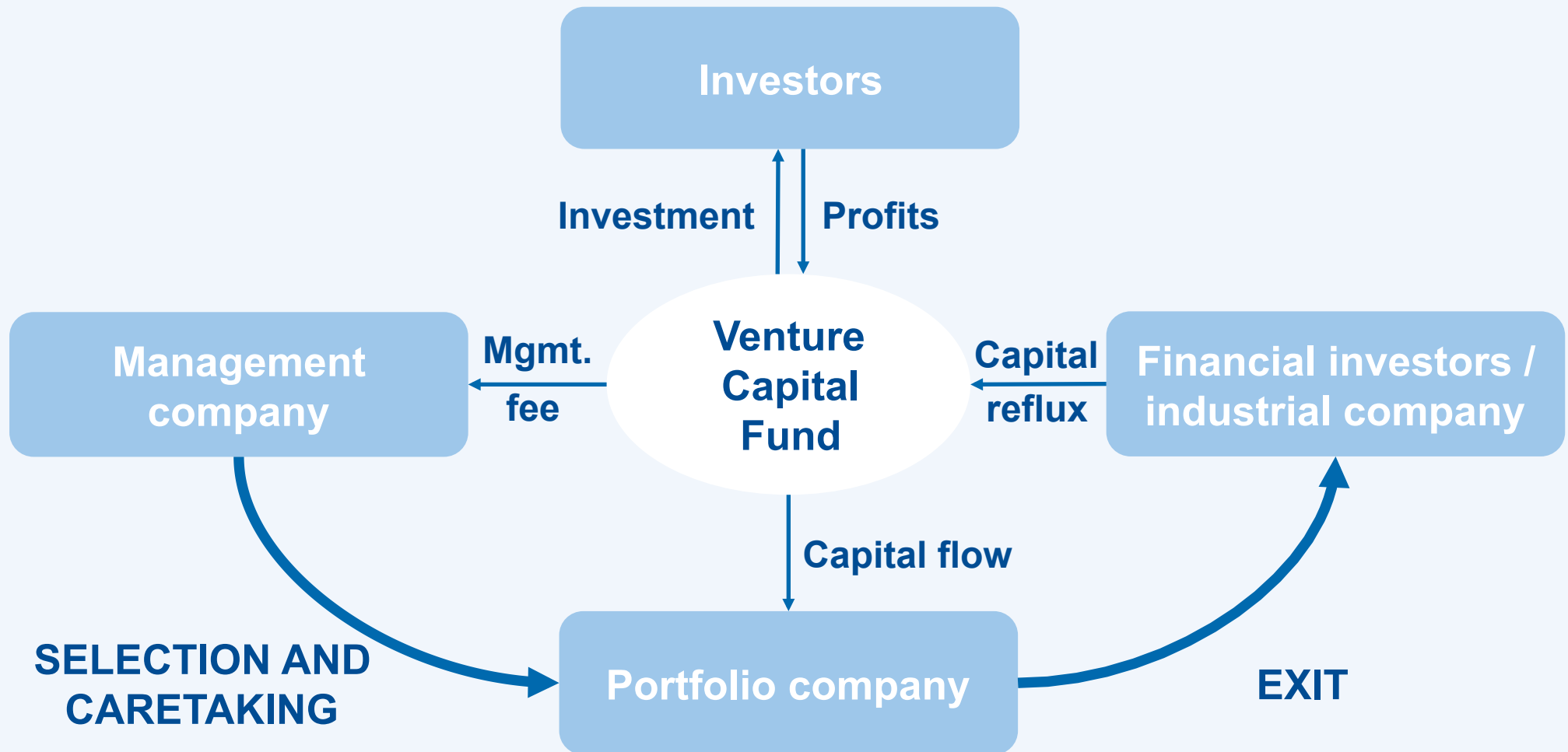
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The Venture Capital Fund

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To understand why a VC does what it does, it is important to understand how a VC fund works (a simple overview):



Source: Geigenberger (2000)

The Investors are the VC fund's source of capital



Investors

- Aka the limited partners of the fund
- Provide the capital for the VC
- Typically high net worth individuals, banks, pension funds, insurances, corporations
- Expect a high return to compensate for the asset class' risk



Venture Capital Company



Portfolio Company

Source: Bygrave & Timmons (1992), Icons designed by Freepik

The VC acts as a financial intermediary and invests the fund's money into portfolio companies



Investors

- Aka the limited partners of the fund
- Provide the capital for the VC
- Typically high net worth individuals, banks, pension funds, insurances, corporations
- Expect a high return to compensate for the asset class' risk



Venture Capital Company

- Usually two legal entities: the management company and the general partner of the VC Fund
- Raise funds
- Identify and screen opportunities
- Transact and close deals
- Monitor and add value to investments
- Harvest



Portfolio Company

Source: Bygrave & Timmons (1992), Icons designed by Freepik

The portfolio companies (i.e. the Startups, i.e. YOU) have to use the VC fund's money to create value



Investors

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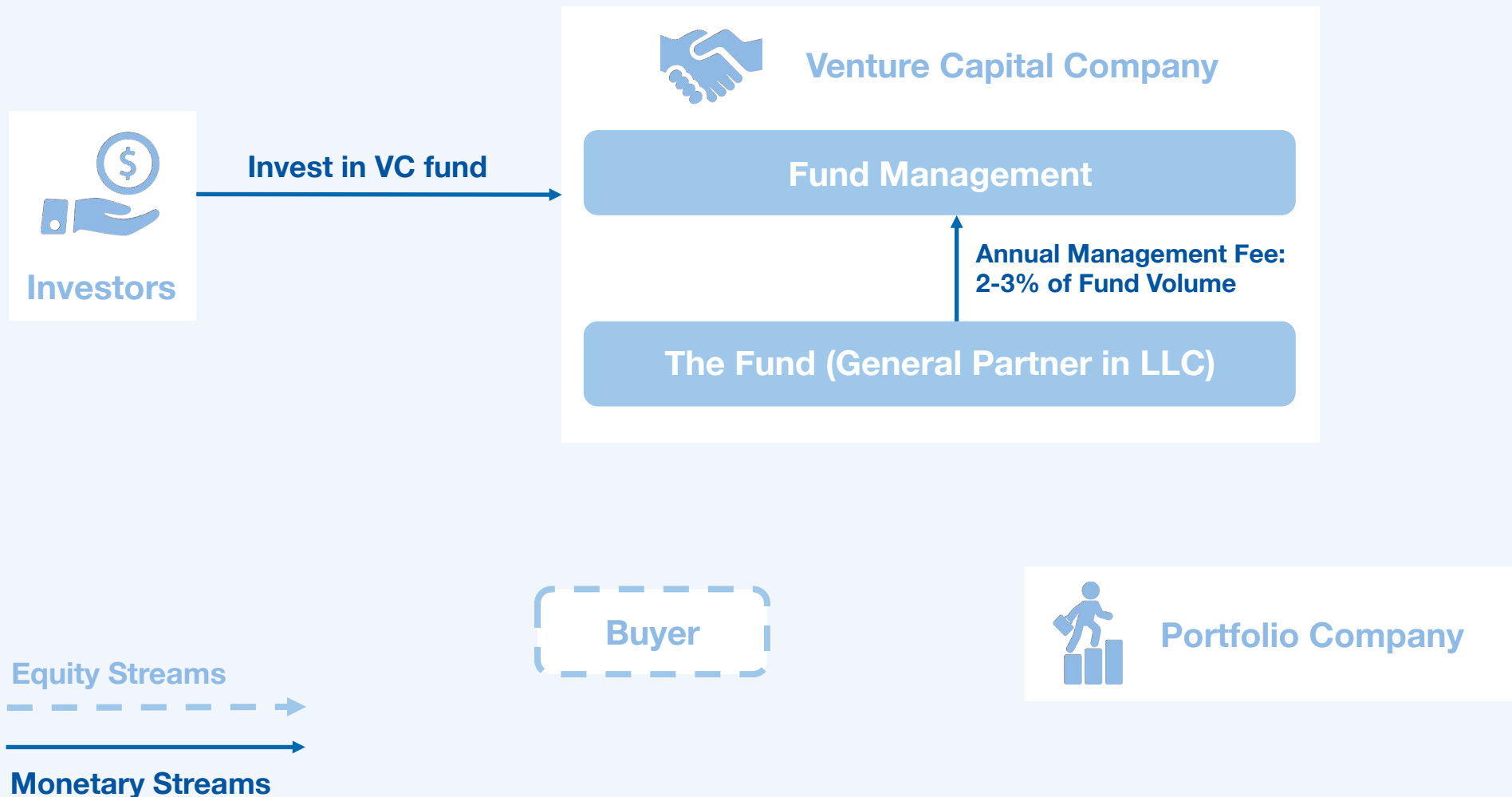


Portfolio Company

- Uses VC money to
 - Create, recognize and execute an opportunity
 - Develop products or enter markets
 - Push and scale into market-leading position
- Ultimately try to harvest the created value through an exit

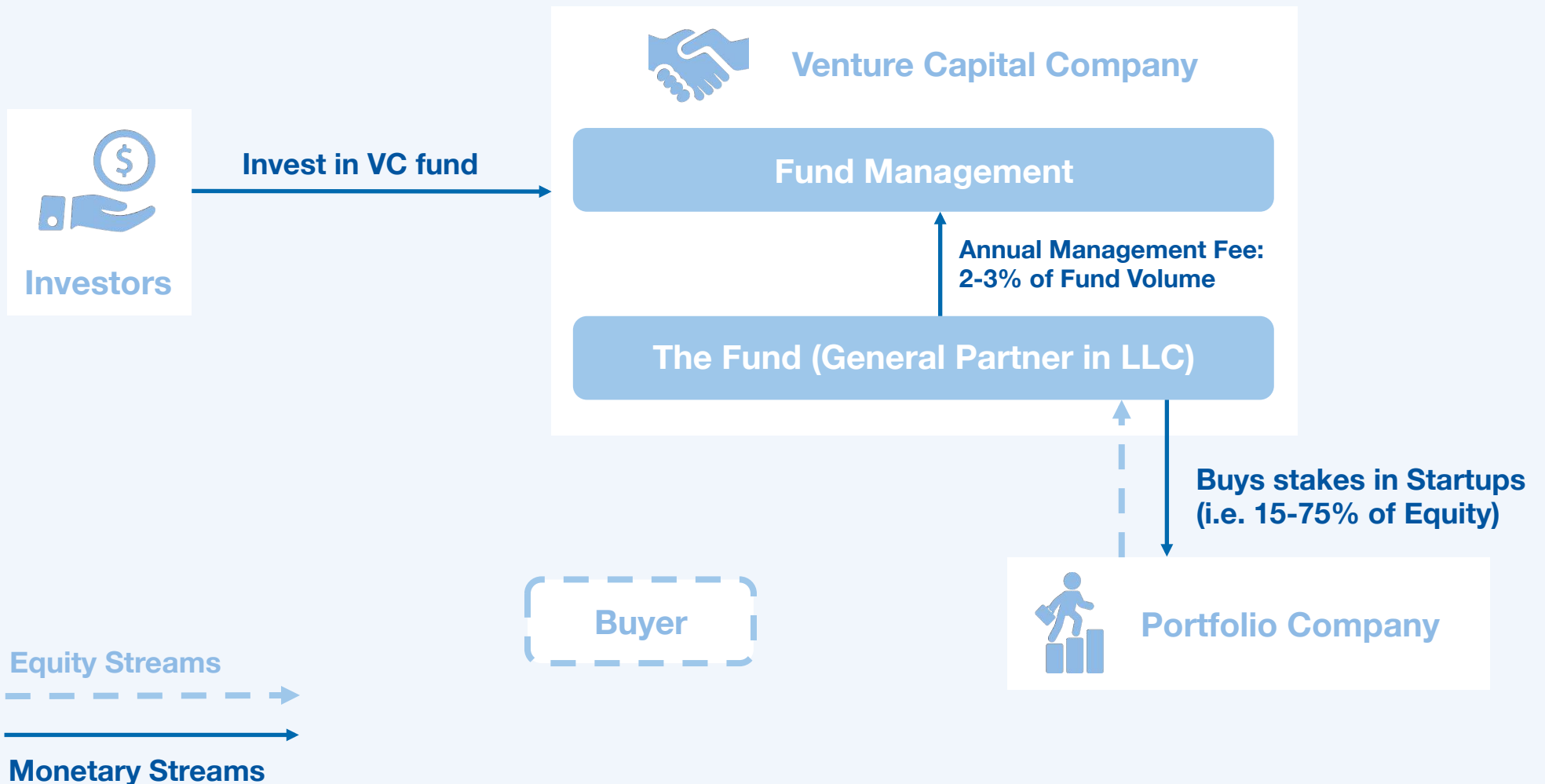
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So what's the flow of money?



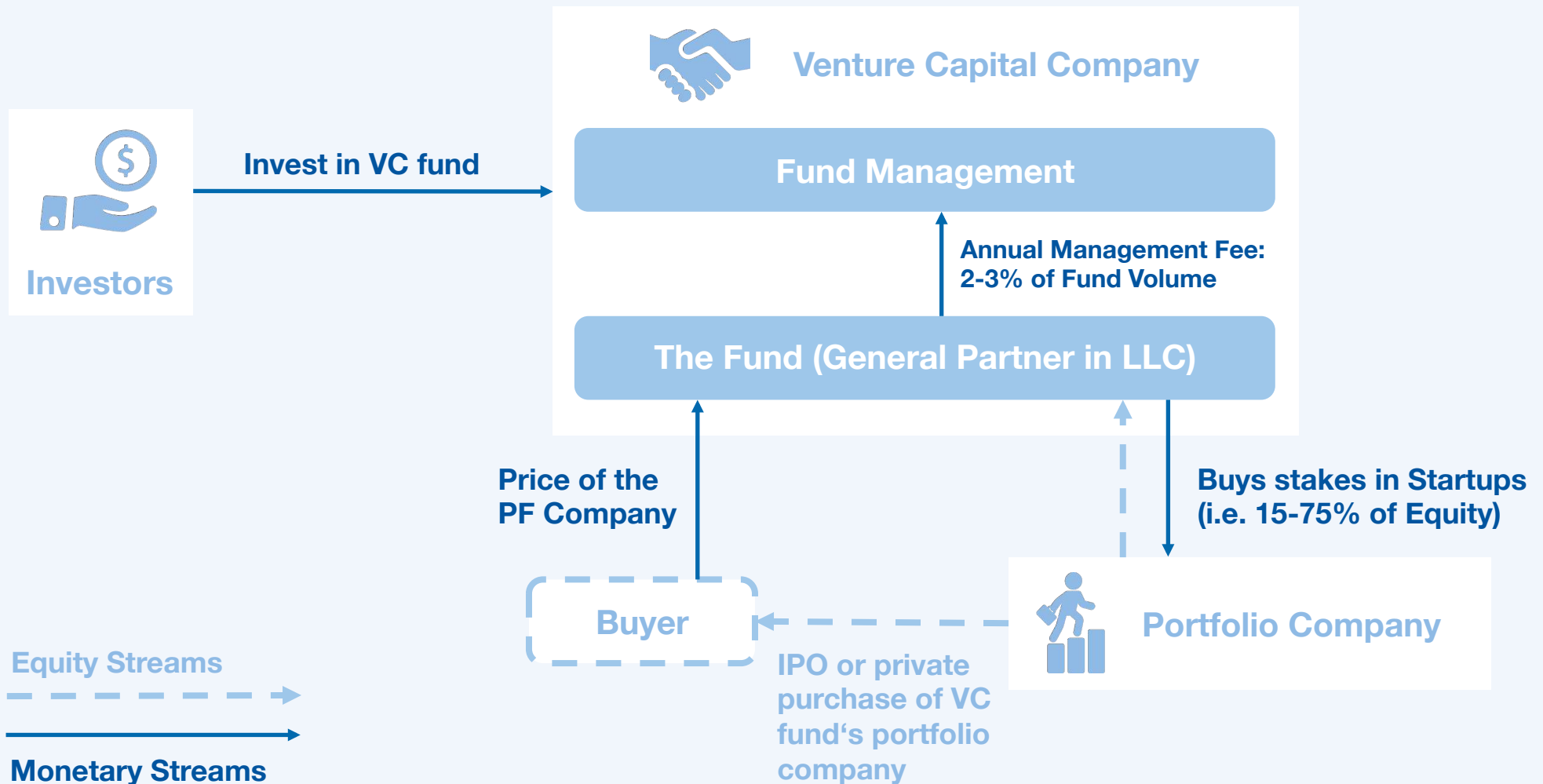
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First, the VC buys a certain stake of a target company...



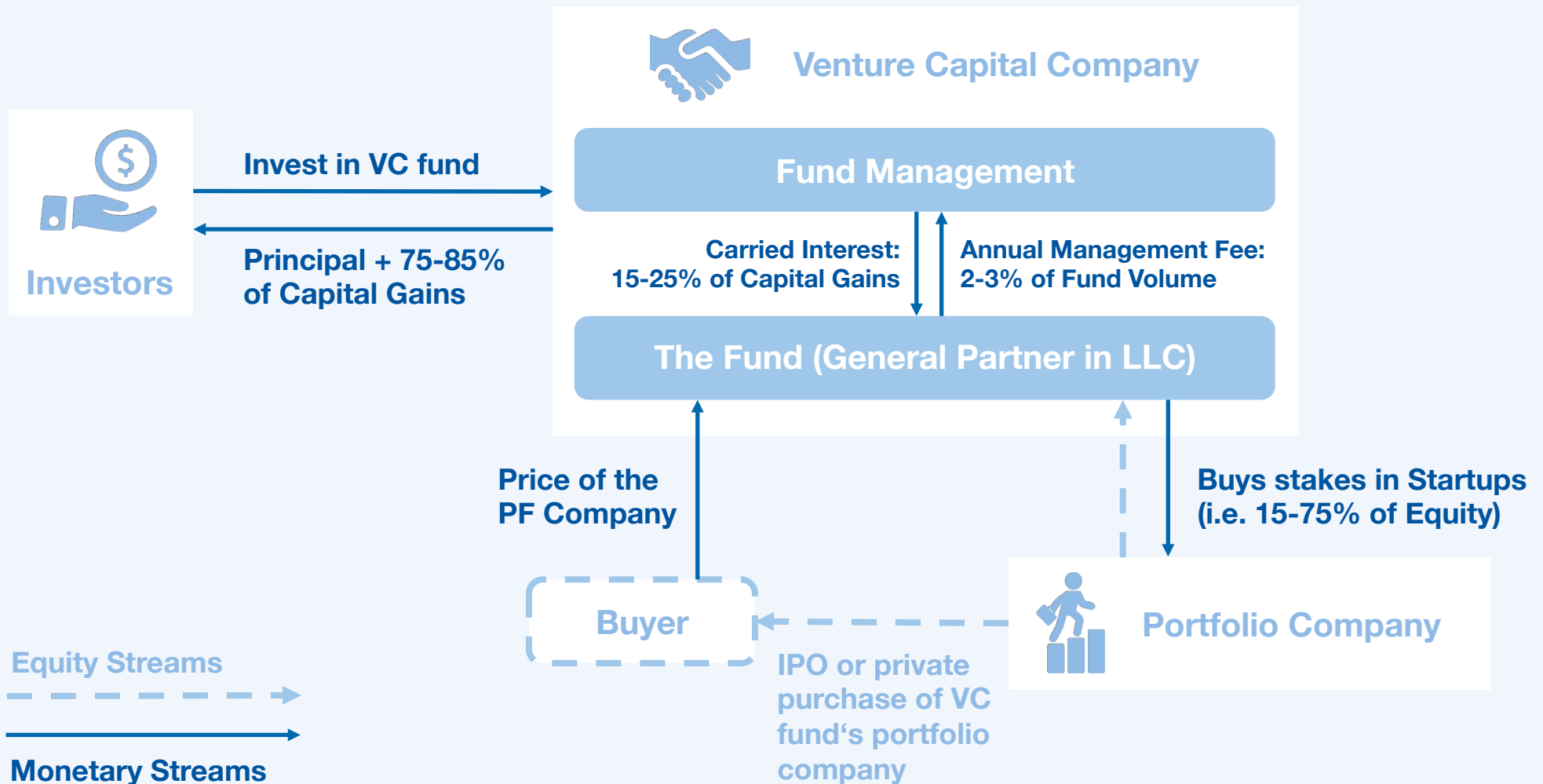
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After a certain holding period the VC tries to sell the company...



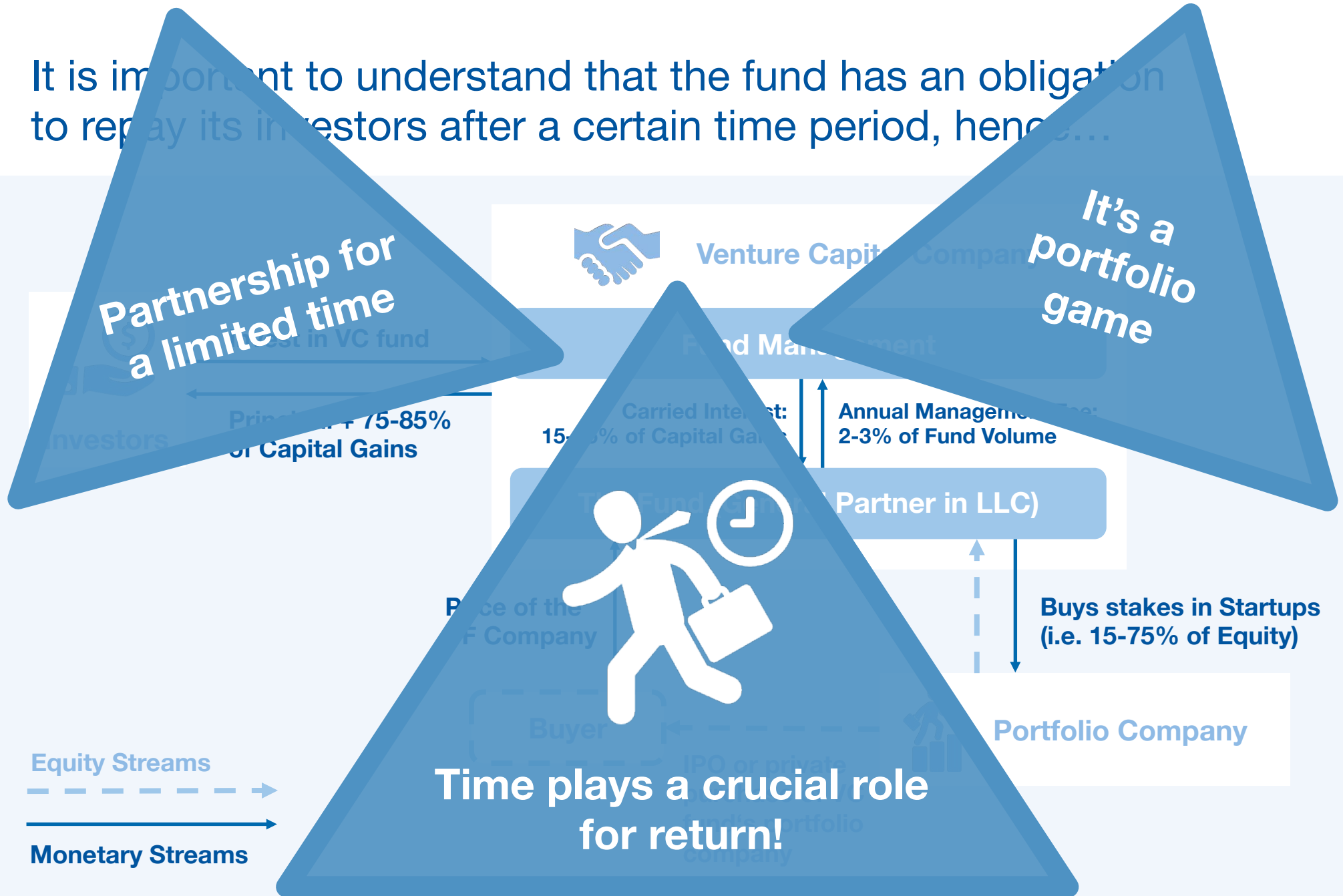
Source: Bygrave & Timmons (1992), Icons designed by Freepik

And most of the proceeds from the sale of the company are ultimately paid back to the VC fund's investors



Source: Bygrave & Timmons (1992), Icons designed by Freepik

It is important to understand that the fund has an obligation to repay its investors after a certain time period, hence...



Source: Bygrave & Timmons (1992), Icons designed by Freepik



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Added Value

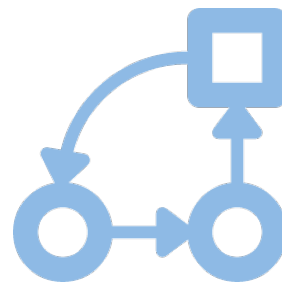
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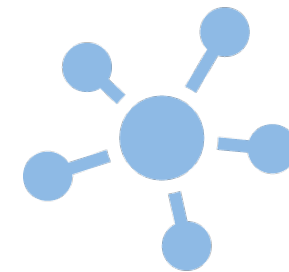
Venture Capitalists not only offer money. They also contribute to the creation of value through network and advice!



MONEY



**STRATEGIC
ADVICE**

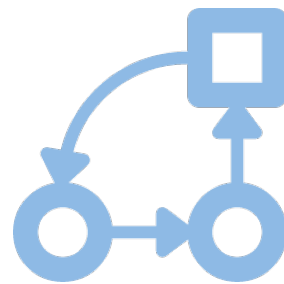


NETWORK

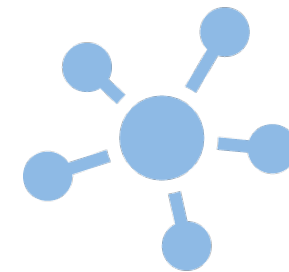
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MONEY



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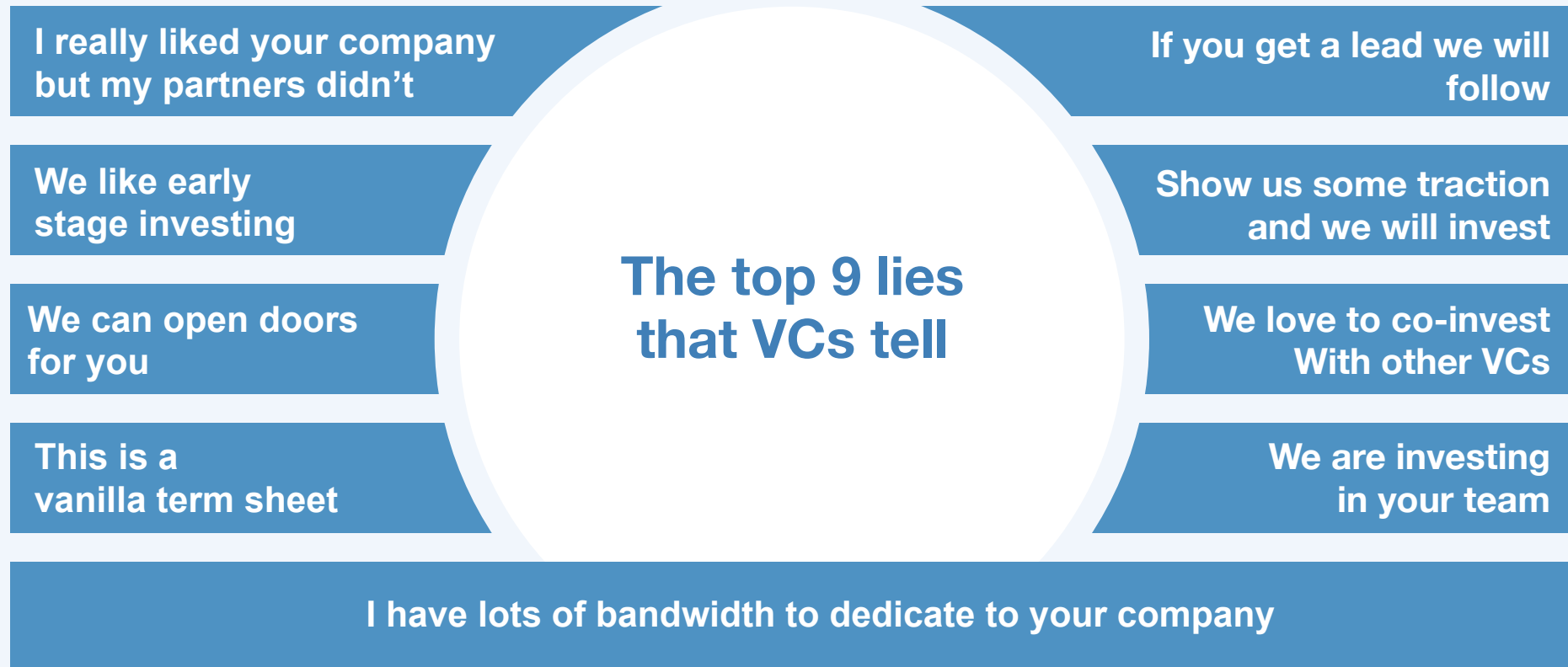


NETWORK



This week's last expert video will tell you more about the value-add of VCs

While Entrepreneurs (=YOU) can make many mistakes, one can be to blindly believe in the value adding potential of VCs



Source: Guy Kawasaki Blog

Venture Capitalists and added value – an ambiguous picture

„Who is the VC who is the most full of shit that you’ve ever heard?” TechCrunch asked.

“I would bet that 70-80 percent add negative value to a startup in their advising.”

“Maybe some percentage that’s substantially larger than 95 percent of VCs add zero value.”

Bottom Line: Carefully select and approach a VC!
 (Which will be the topic of next week)



The screenshot shows a TechCrunch article titled "Who is the VC who is the most full of shit that you've ever heard?" by Michael Arrington. The article discusses a poll where VCs were asked to name the VC they considered the most full of shit. The article quotes Vinod Khosla's response: "I would bet that 70-80 percent add negative value to a startup in their advising." and "Maybe some percentage that's substantially larger than 95 percent of VCs add zero value." The article also mentions that most VCs "haven't done shit" to know what to tell startups going through difficult times.

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FOUNDED 2004	WEBSITE http://www.khoslav.com
RECENT INVESTMENTS	
Plazza (2014), Quantus (2014), Granular (2014), Cvlance (2014).	

Source: TechCrunch