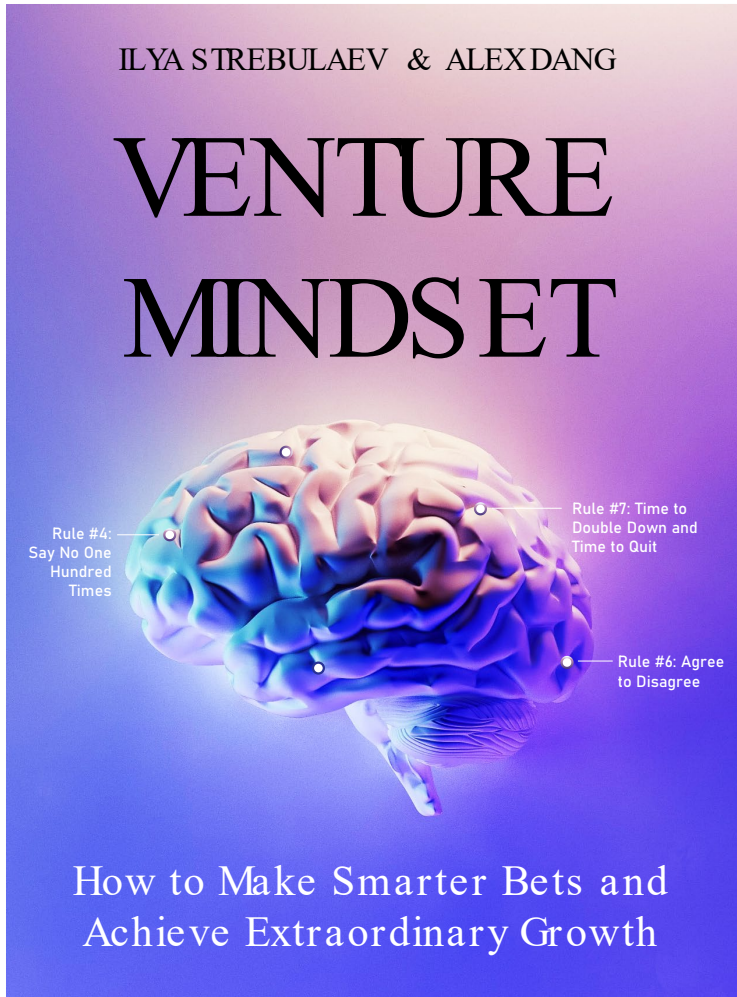




Angel & VC Funding Basics and Tricks

PROFESSOR ILYA STREBULAEV

TO GET THE SIGNED BOOK COPY



(a book cover mockup)

Pre-order will open in the Fall of 2023, but by getting on the list now you will get a signed copy when you pre-order.

Email ilya@strebulaev.com and mention IGNITE



WELCOME TO

STANFORD GSB VENTURE CAPITAL INITIATIVE

Change lives. Change organizations. Change the world.



Venture Capital: a disproportionately high impact thanks to a unique skill to spot innovation

VC-BACKED COMPANIES AS A PERCENTAGE OF PUBLIC U.S. COMPANIES FOUNDED SINCE 1979

43%

Total Number

57%

Total Market
Capitalization

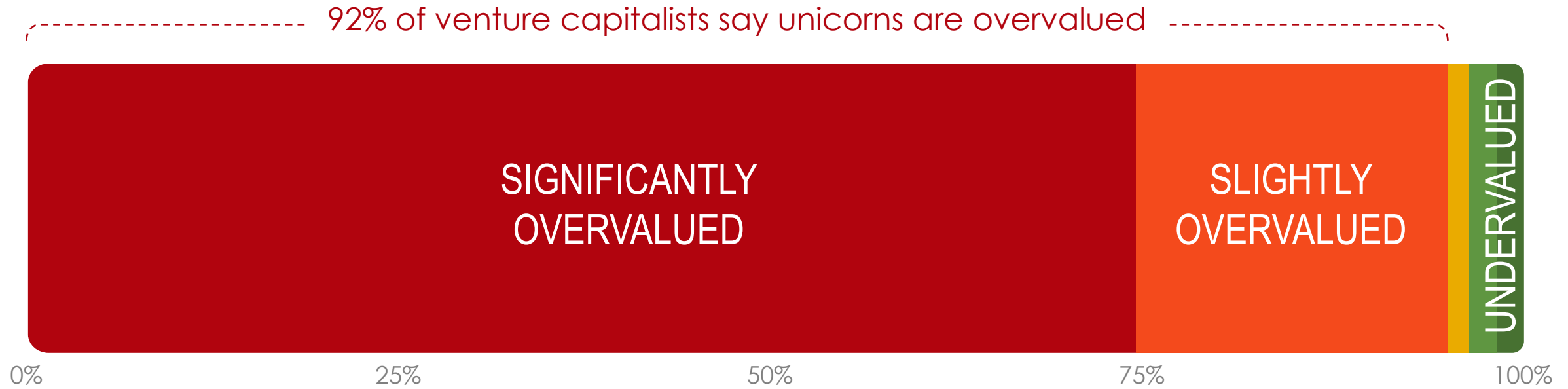
38%

Total Employees

82%

Research &
Development

Do you believe in Unicorn valuations?



So, who invested in unicorns?

93%
of all VCs

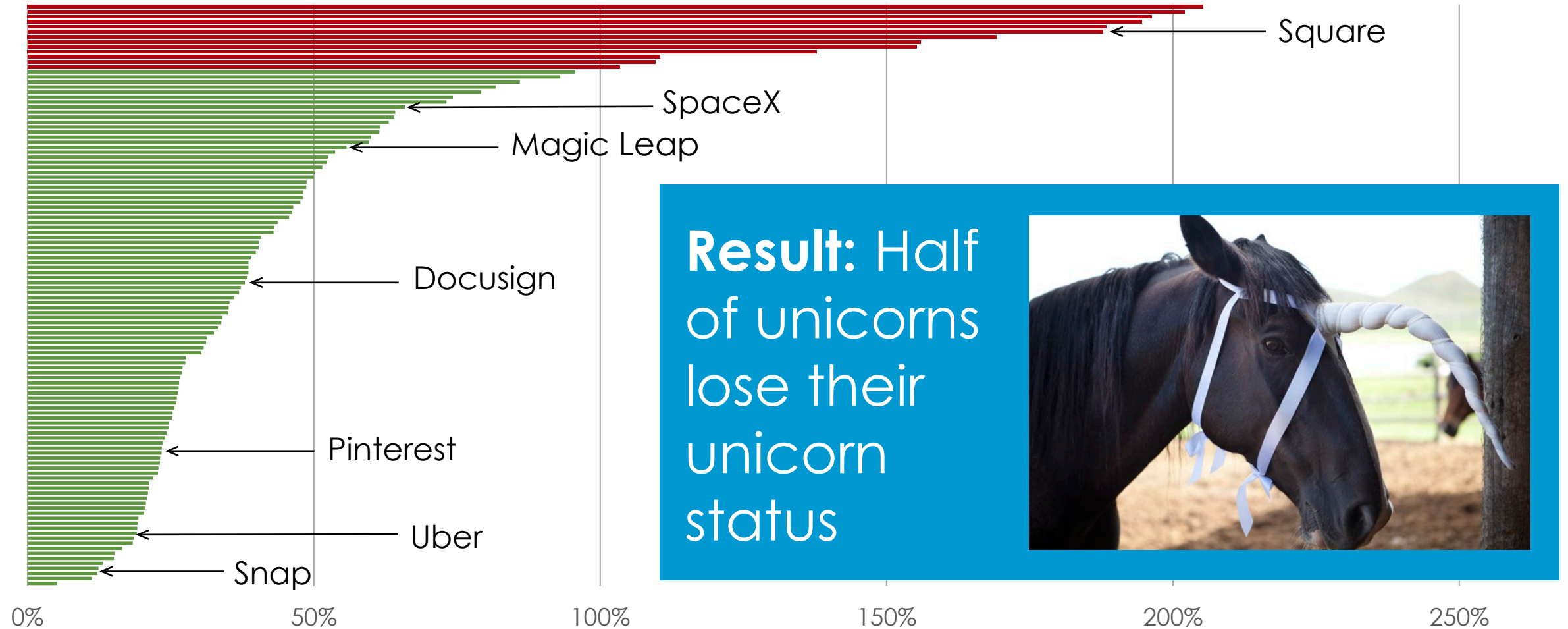
87%
of IT VCs

92%
of top VCs

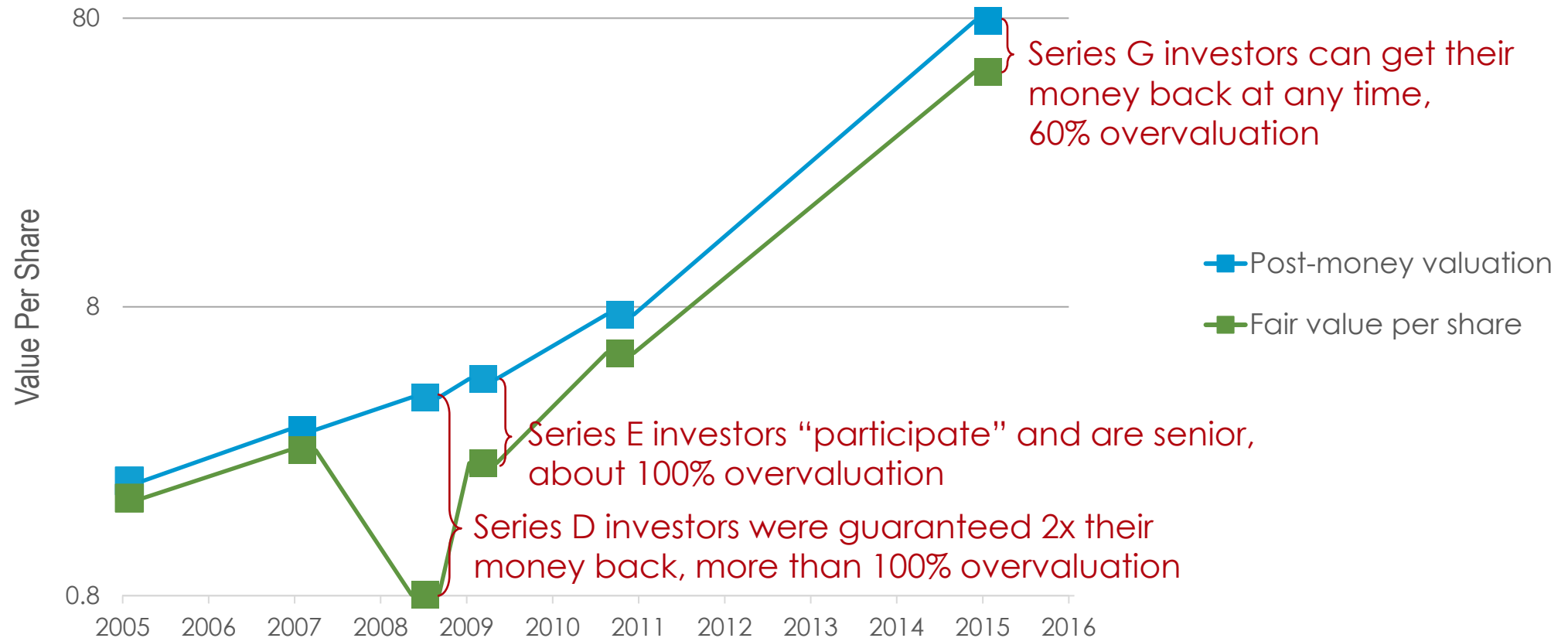
90%
of California VCs

93%
of late-stage VCs

Overvaluation of each unicorn



Preview: SpaceX Post-Money Value vs. Fair Value



The New York Times

How Valuable Is a Unicorn? Maybe Not as Much as It Claims to Be



Andrew Ross Sorkin
DEALBOOK OCT. 16, 2017



THE WALL STREET JOURNAL.

MARKETS | YOUR MONEY | JOURNAL REPORTS: FUNDS & ETFs

Why Those Startup Valuations Might Be Way Off

The price of shares sold in later financing rounds distorts values, a study says



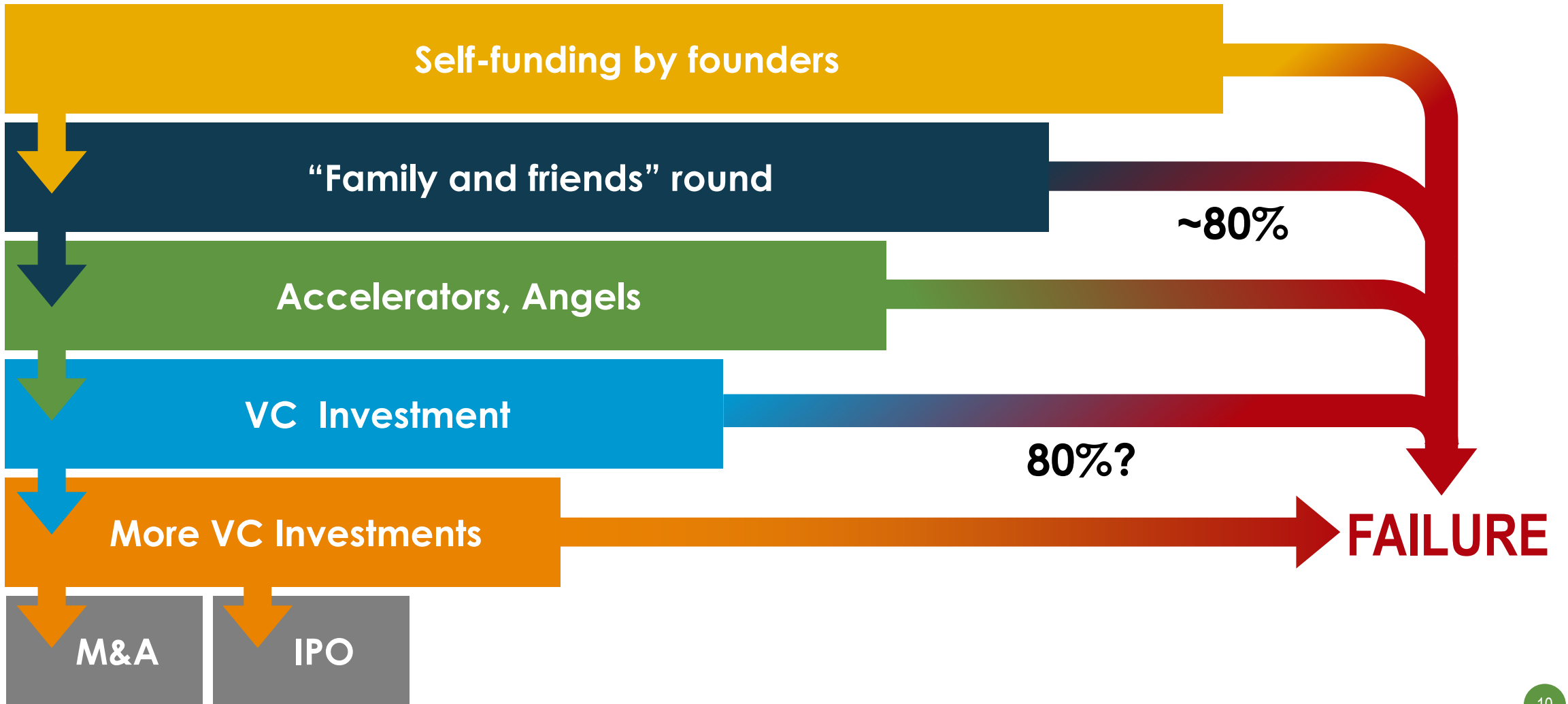
BUSINESS
INSIDER

YAHOO!
FINANCE

Nearly half of tech 'unicorns' rely on tricky math to land imaginary valuations

VENTURE CAPITAL CYCLE

The Venture Capital Cycle



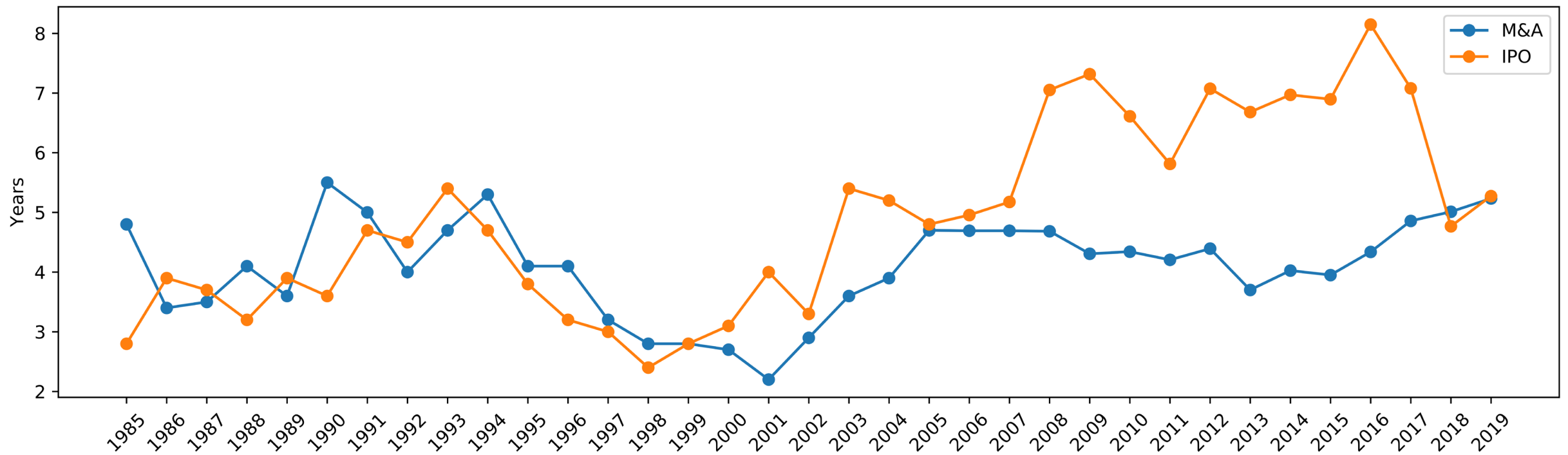
VC/ANGEL-STYLE
INVESTMENT

VS.

PUBLIC FINANCIAL MARKETS

Horizon of VC investments

Average Years to Exit By Type



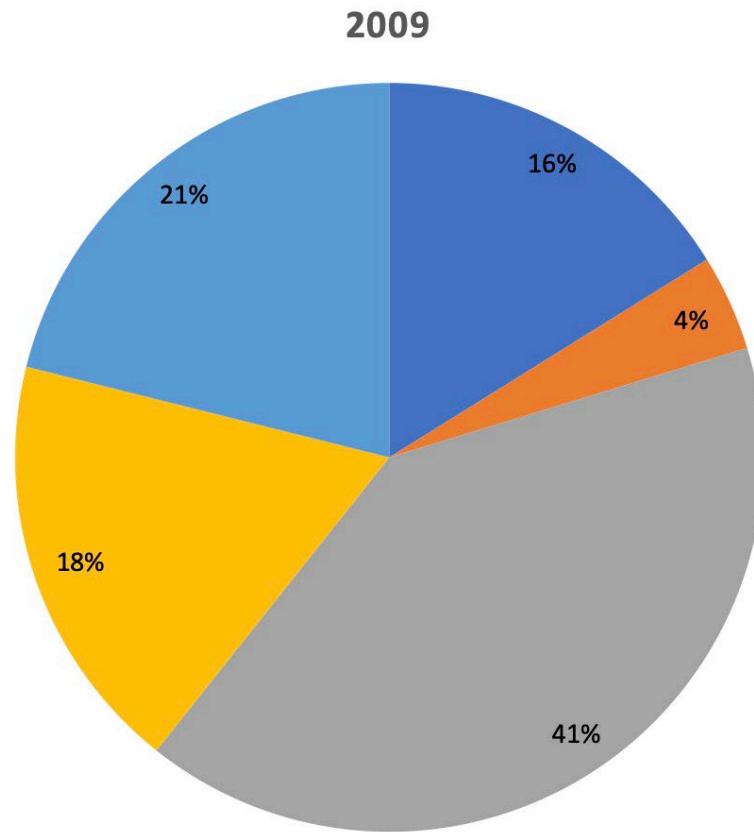
What Angels and VCs need



VCs sell their whole stake



Uncertainty



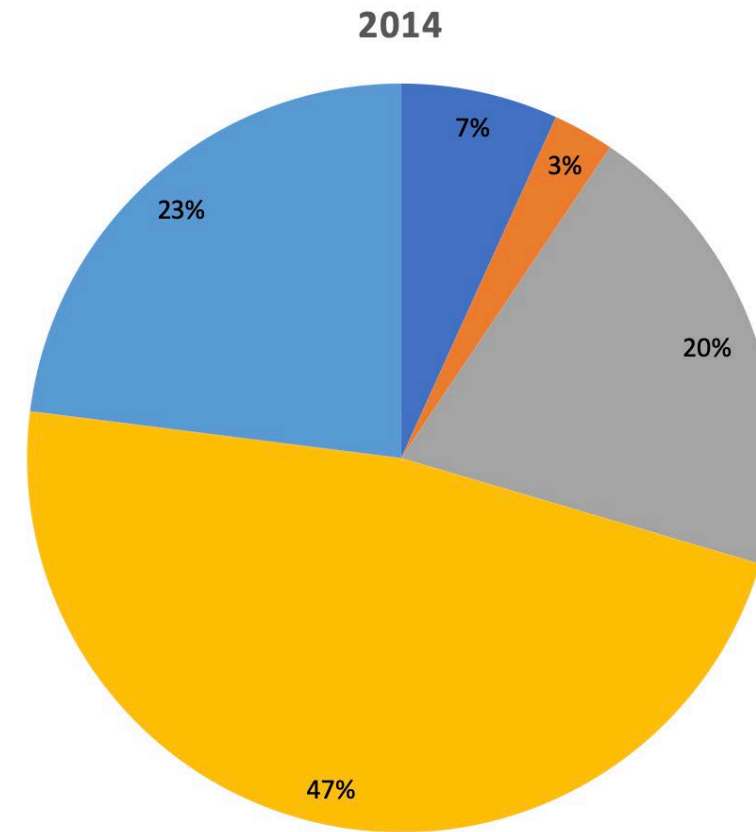
Failed

IPO

Acquired

Received Recent Funding

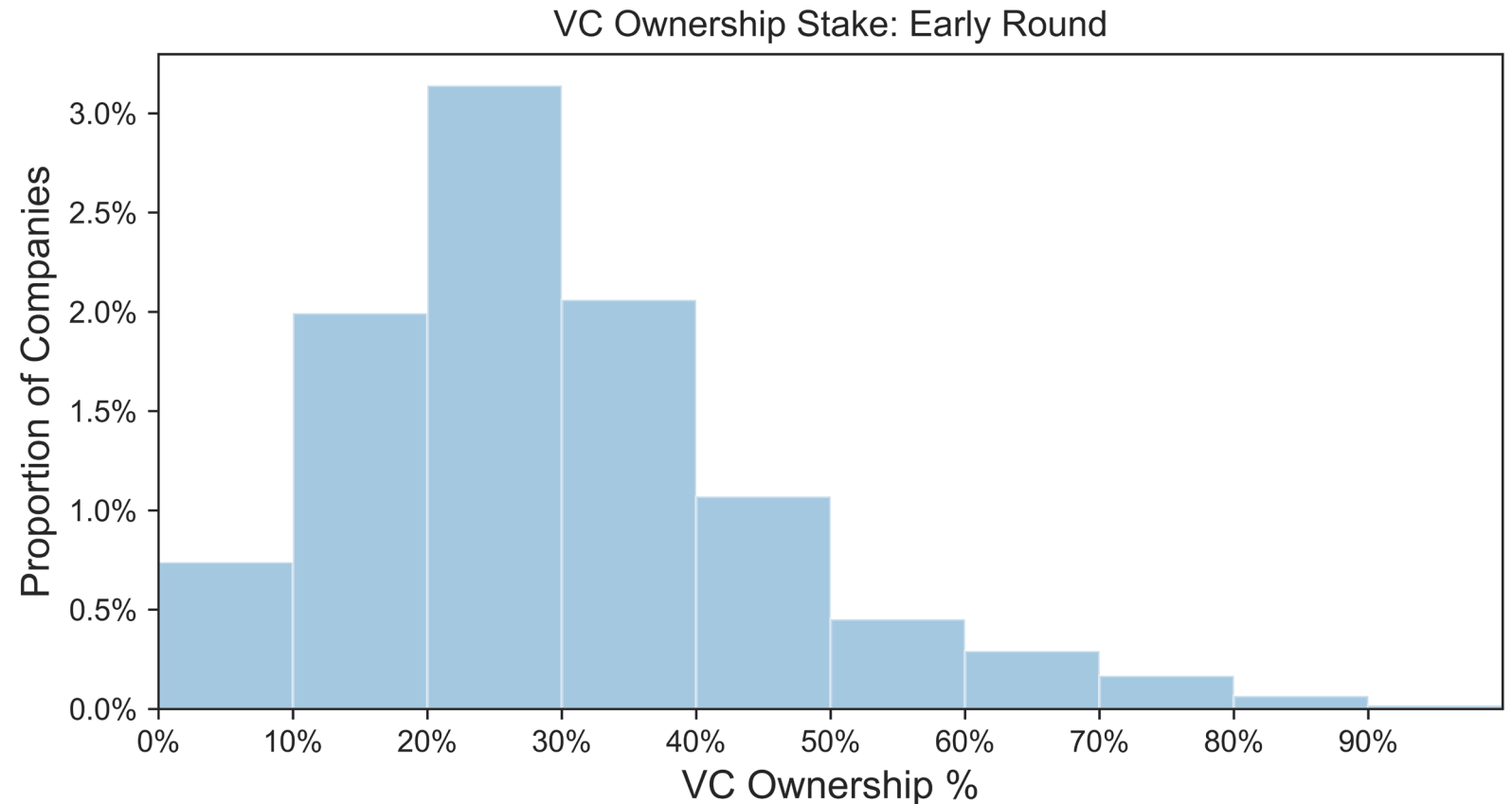
No Recent Funding



Stake (Early Rounds)

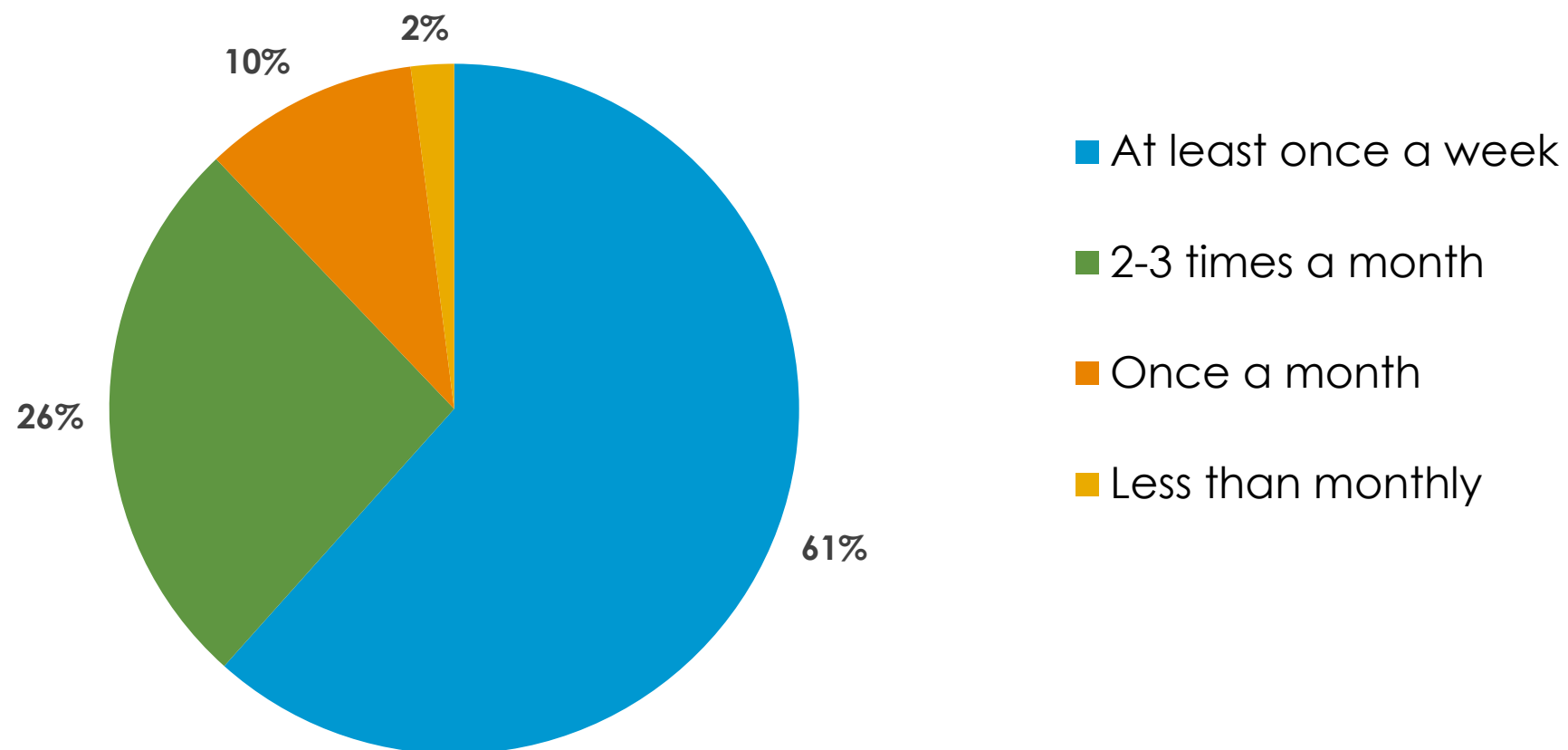
VCS usually take between 15% and 35% of startup in the 1st round...

...but there is a huge variation



Governance

% of VCs Who Interact with Their Portfolio Companies at Each Frequency

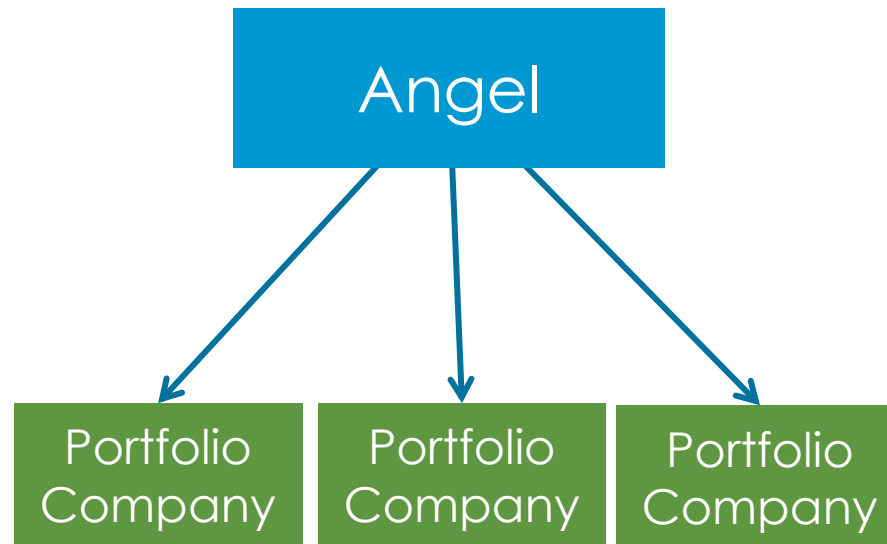


VCs

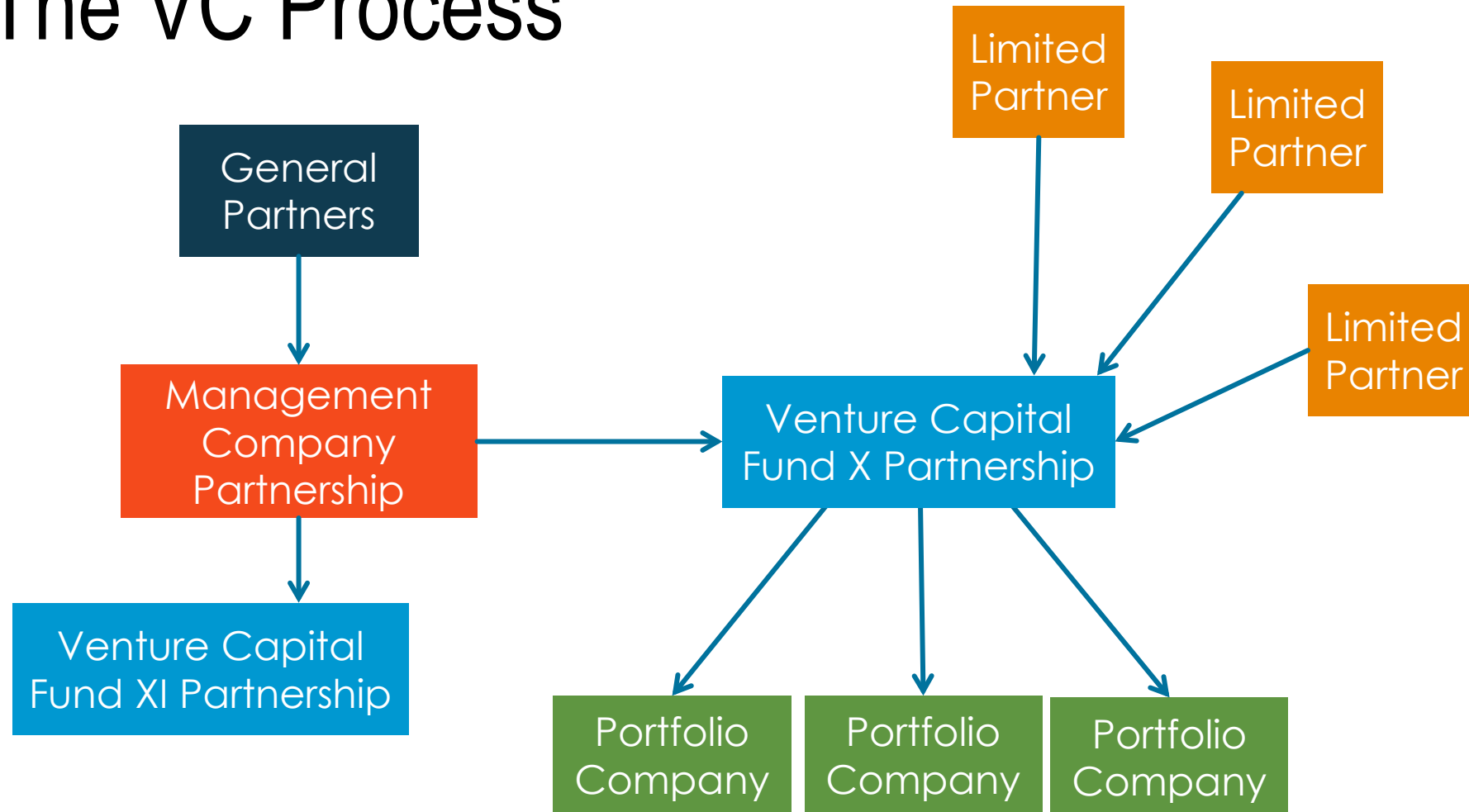
vs.

ANGELS

The Angel Process



The VC Process



Angels vs. VCs



Timing of decisions

Angels tend to make decisions quicker



Way of contracting

Angels contract more informally



Niche

Angels can invest in niche industries

Fill the funding gap unlikely to be provided by VCs



Financial capacity

Angels have more limited financial capacity

Angels vs. VCs



Control rights

Angels typically have weaker control rights



Governance

Angels are less actively involved in the firm and often do not provide operational or strategic help

Angels are less likely to seat on the Board



Profit-seeking

Angels may have non-financial expectations and thus are ready to accept lower returns

VCs have fiduciary duty to maximize returns

ANGELS

Some types of early stage investors

Individual angels



Ron
Conway



Peter
Thiel

Angel clubs



Superangels / Seed angel funds Micro VC funds



Accelerators / incubators



Comparing angel types



**Individuals,
Angel groups**



Superangels

Whose money do they invest?

own

own plus other people's

What are their goals?

non-financial goals
are important

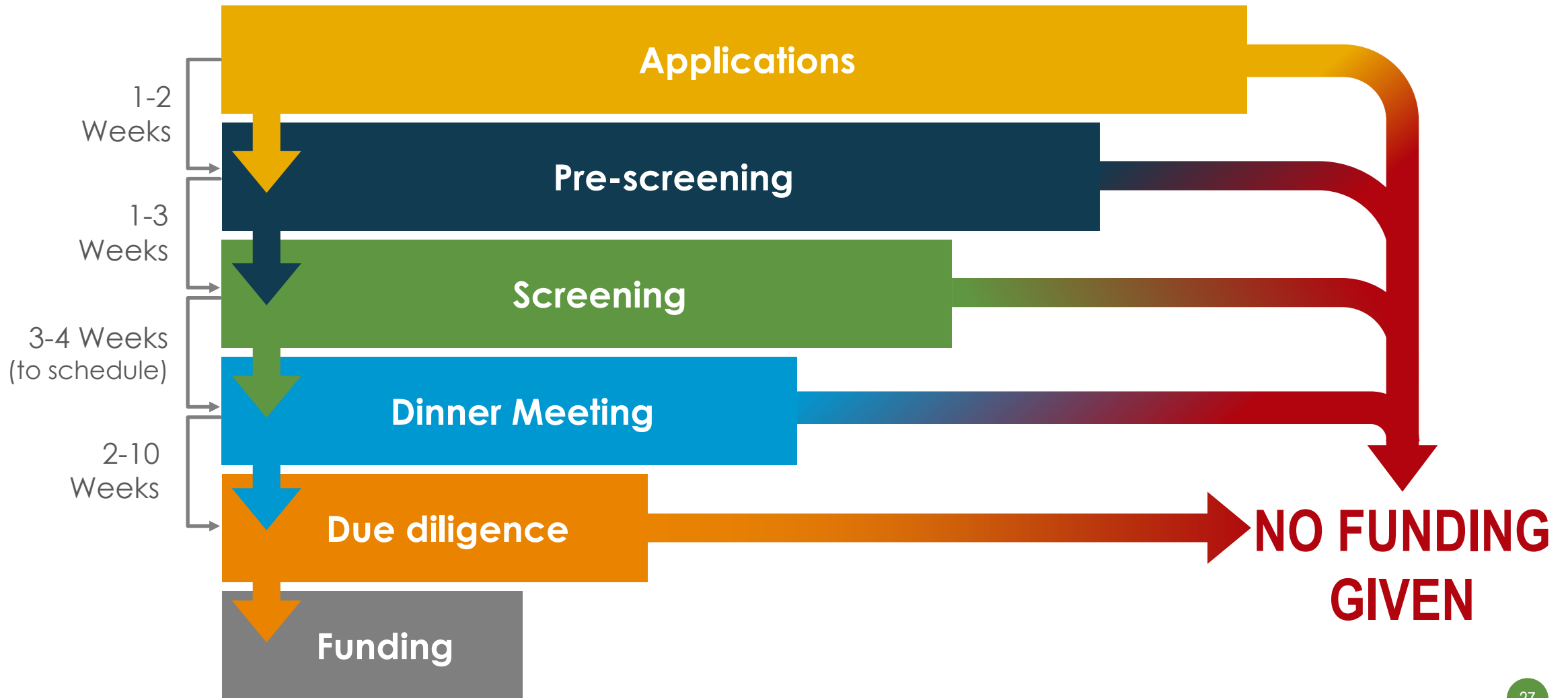
- Sharing expertise,
social networking

financial goals are
paramount

Why to join an angel club?

- Sharing **expertise**
- **Diversification** of risks
- Investing in **larger deals** by pooling money
- Accessing larger **deal flow**
- **Fun** interacting with other angels

Selection process: Example of angel groups



Questions to ask: Accelerators & Incubators

- Are they **non-profit** or **for profit**?
- Do they require **cash upfront**?
- Do they take **equity upfront**?
- Do they take **equity later** in the game?
- What **services** do they provide?
- *Most importantly:* How **successful** are they?

Money: Questions to ask

- What is the **financial capacity** of this angel?
- What is the **typical check size** that this angel writes?
- Will this angel be able to provide **most funding** for the round?
- Will this angel have enough money to **invest again**?



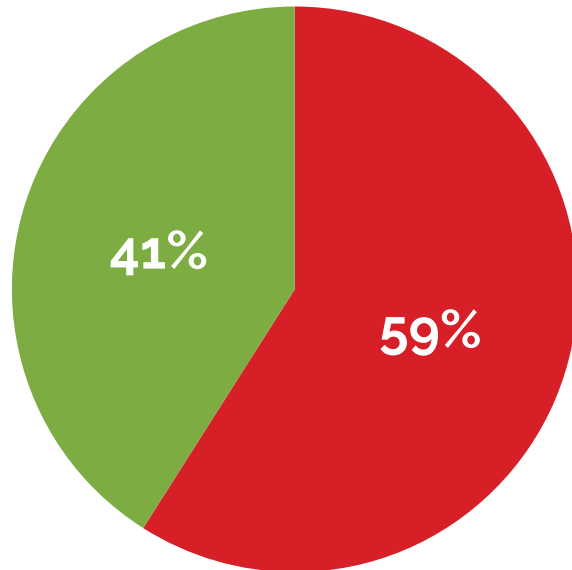
| Only money
| matters?

NO!

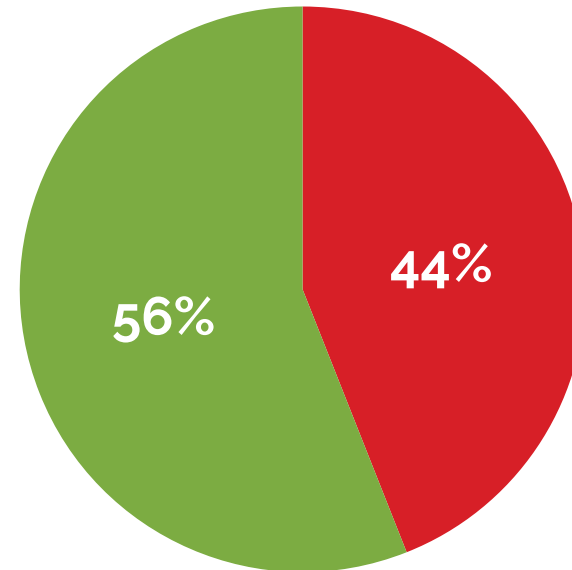
Experience

Outcome of Angel Investments by Investor Experience

Investor Has No Prior Experience



Investor Has Some Prior Experience



Successful Investments



Failed Investments

Experience: Questions to ask

- What is the **prior experience** of this angel?
Previous investments
Industry expertise
- **How many investments** did this angel do?
In the past 24 months?
In the same space?

Mentoring



Mentoring: Questions to ask

- **What kind** of advice / mentoring can this angel give?
Product? Team? Industry? Funding?
Introductions to customers?
Hiring?
- Does this angel have **time/desire** to give advice?
- Is this advice going to be **useful** to us?

Reputation: Questions to ask

- How many companies this angel invested in had **follow-on rounds**?
- **Who invested** in these follow-on rounds?

Some of the stated non-financial goals angels have



Stay in touch
with the recent
industry trends



Help young
entrepreneurs



Have an
impact on
the world

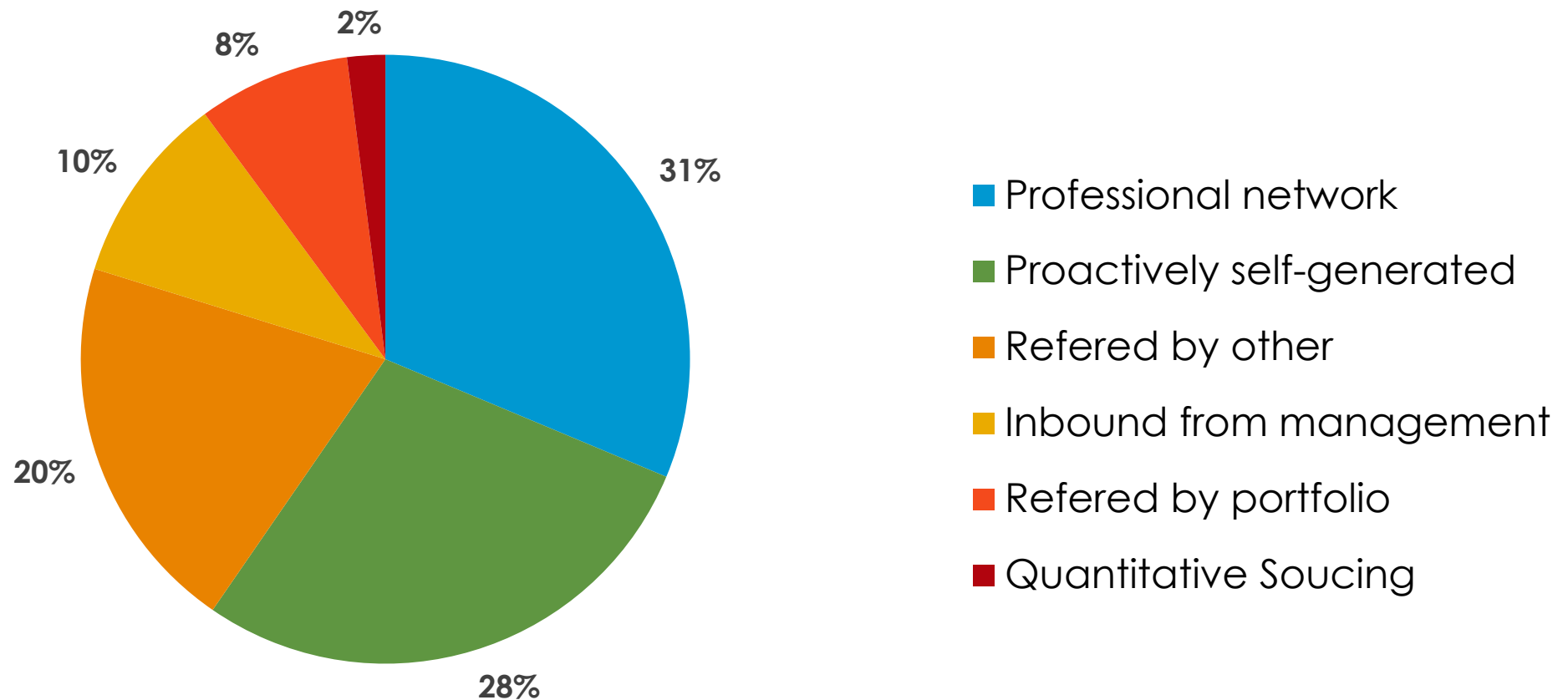


Semi-
retirement

VC DEAL SCREENING

Where VC deals are coming from

% of Deals Closed in Past 12 Months Originating of Each Source

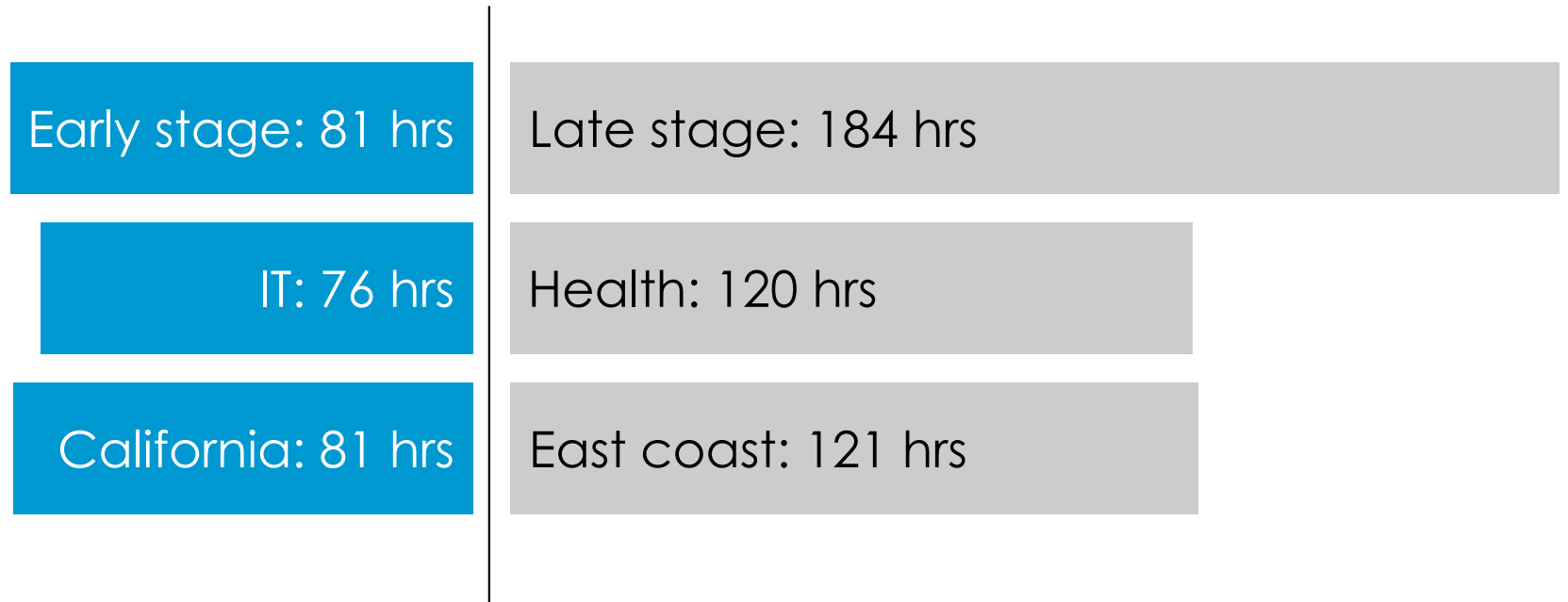


Deal funnel per closed deal



Investment process

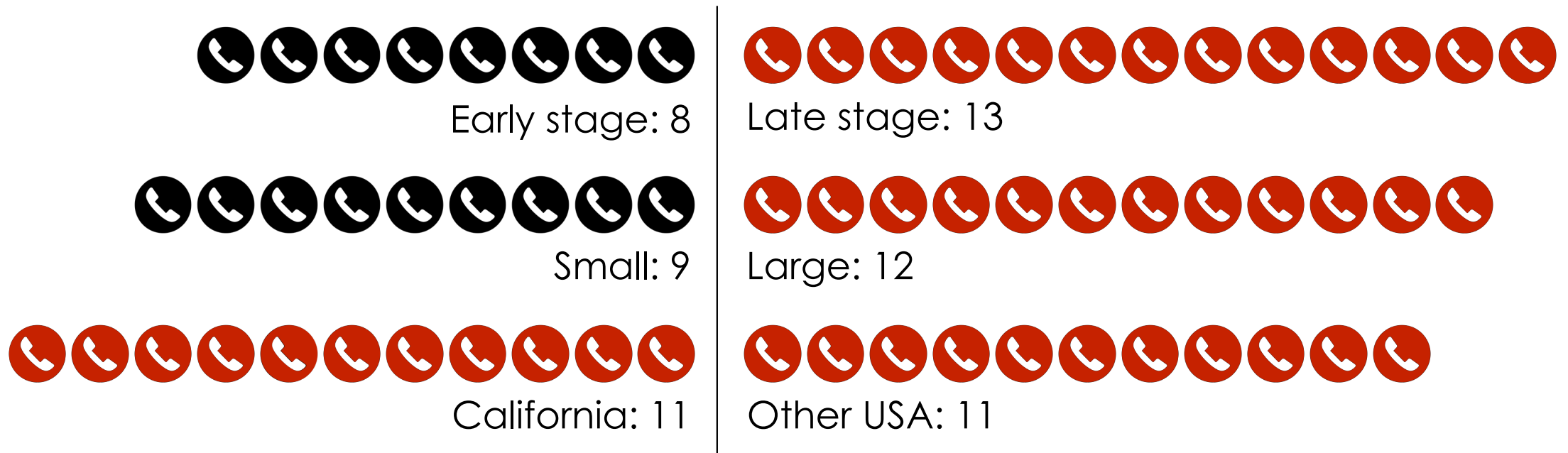
118 hours on due diligence



Takeaway: Faster for IT, early-stage, California

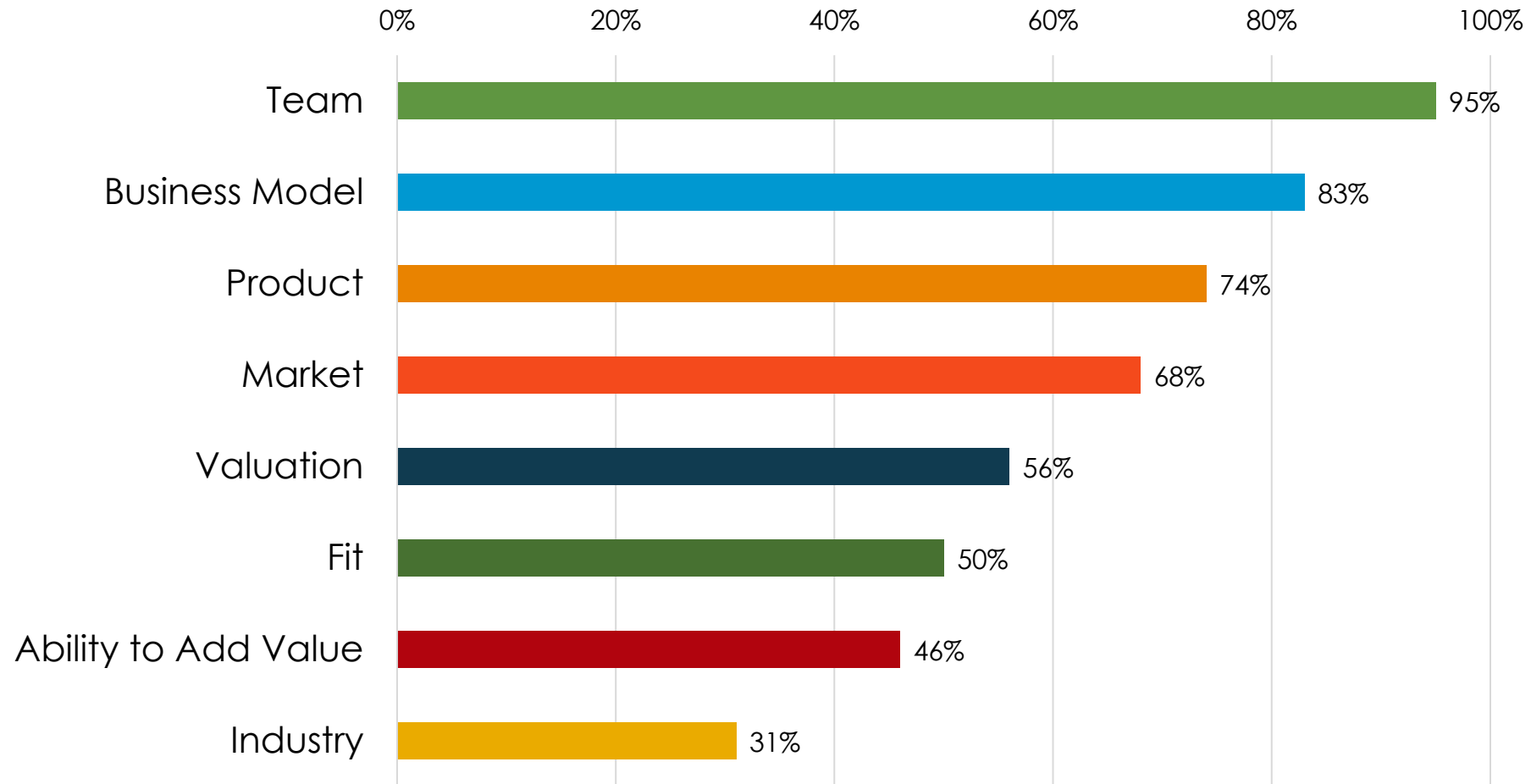
Investment process

References Called



Takeaway: Large funds call more

Important factors in selecting deals

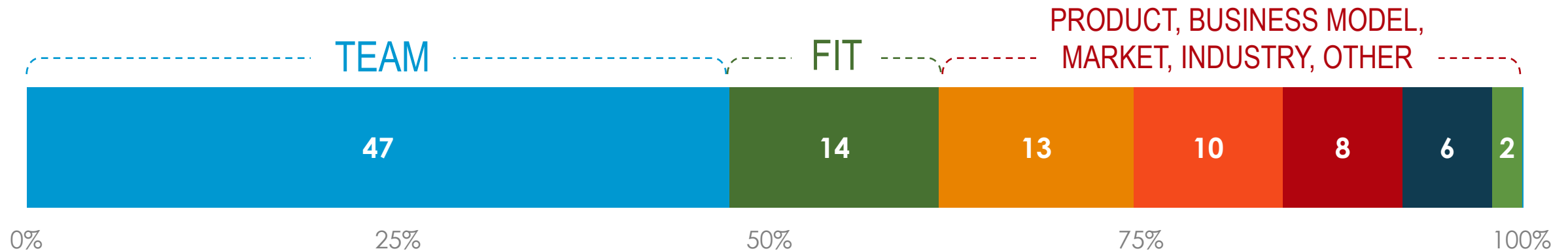


Do you bet on
the jockey or
the horse?



Do you bet on the jockey or the horse?

Most important factor when deciding to invest

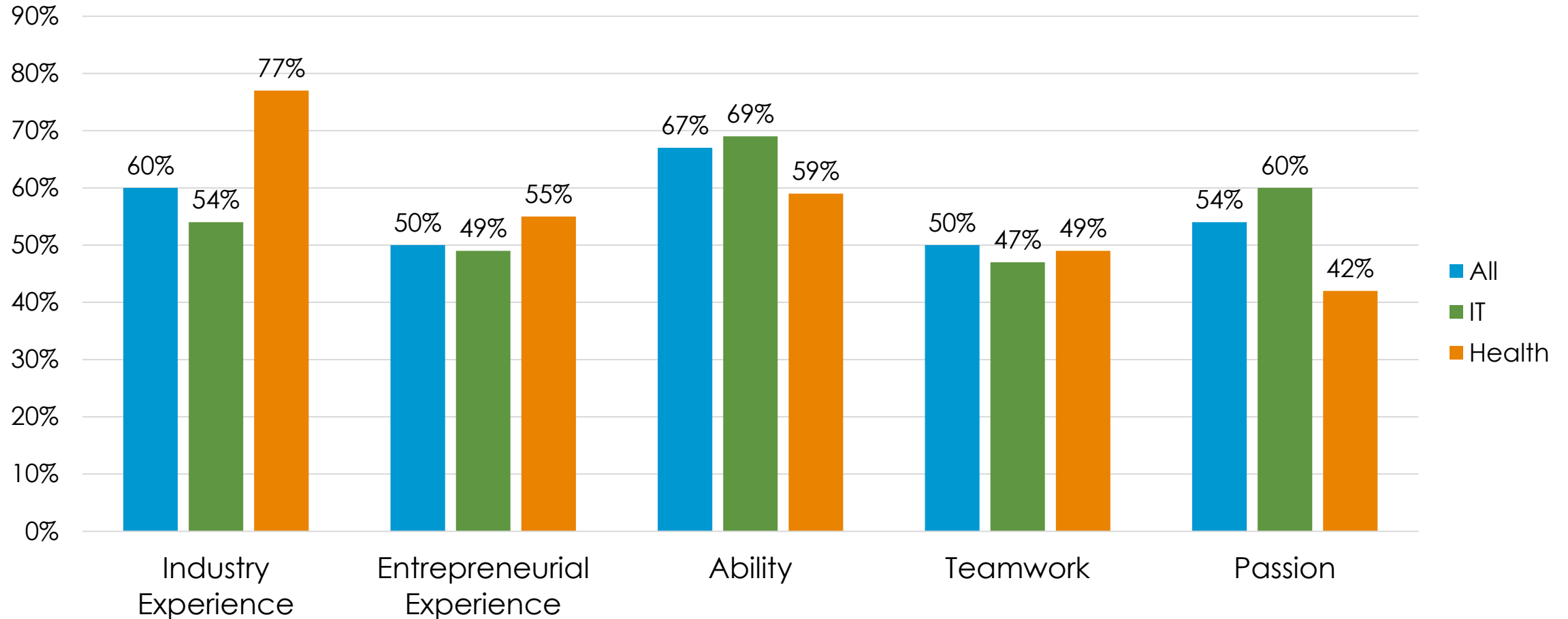


IT firms bet on the jockey
50% consider the team
the most important factor



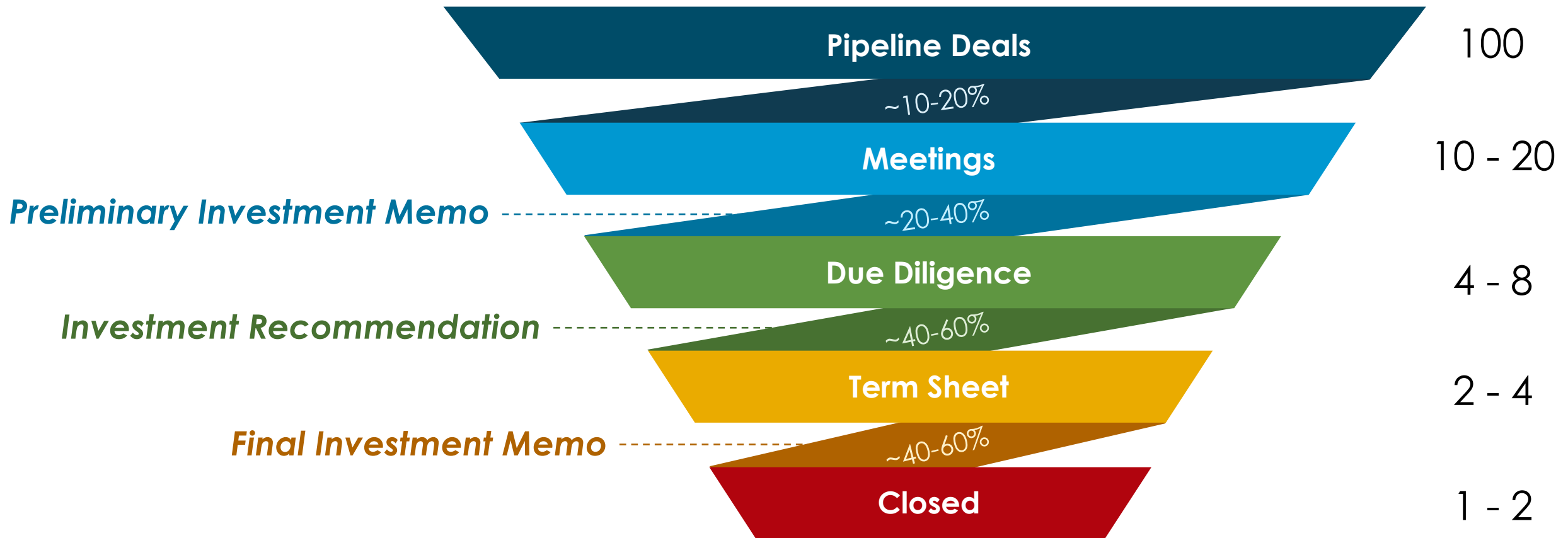
Healthcare firms bet on the horse
Just 32% consider the team
the most important factor

Important qualities in a management team



VC DUE DILIGENCE

Investment Memos



Investments Considerations

➤ Management (including founder, CEO, team)

experience, technical knowledge, leadership, hiring, motivation

➤ Product Offering

value proposition, IP, differentiation

➤ Business model

scalability, capital efficiency, moat

➤ Market

size, competitive environment, mkt leadership opportunity, channels, regulation

➤ Financial

margins, growth rate, capital requirements

➤ Exit

IPO, potential acquirers

➤ Deal

valuation, syndicate, terms

➤ Other

location, potential liability, conflicts, ethics, public or LP perception

Note: These factors can be POSITIVE, NEGATIVE, NEITHER or BOTH!

Key Questions

Decision making with uncertainty



What do I **know**? vs. What do I **think**?

How confident am I about each of the investment considerations?

What do I want to **know** before we decide to invest?

Some questions will still be unknowable after due diligence.

These are “What you have to Believe. . .” (in the Investment Recommendation)

Due Diligence Plan

What can I do to reduce my uncertainty?



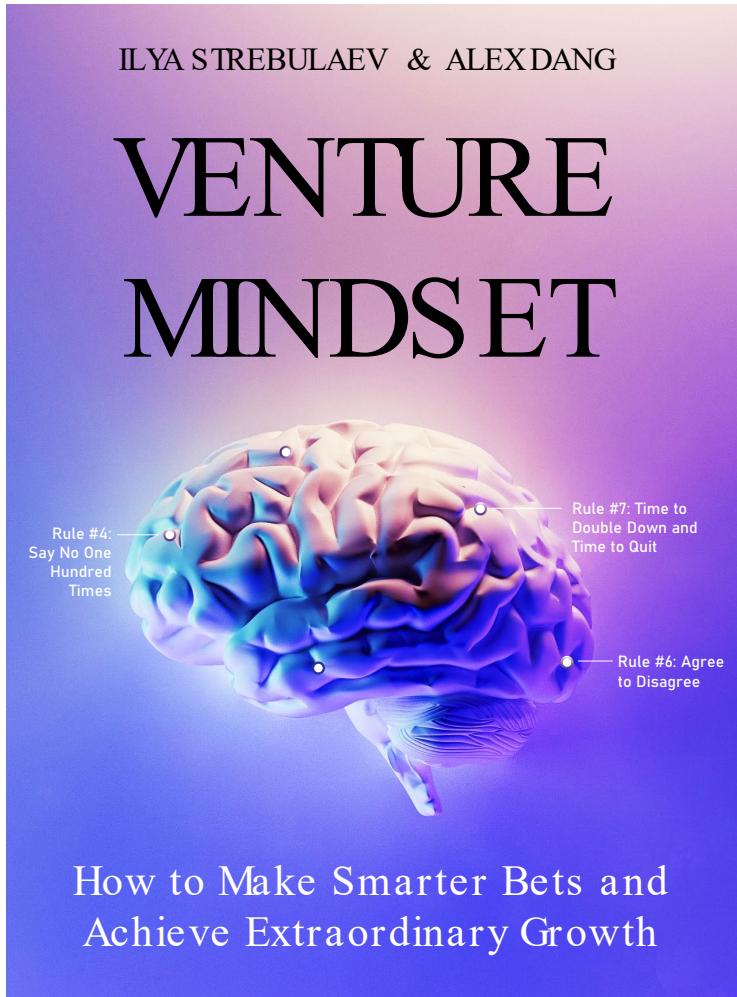
- **Verify important facts**
- **Learn more about the important considerations**

Typical Due Diligence Items

- Management References
- Customer References
- Market Research
- Company Visit
- Technical experts
- Financial model
- Return analysis

Want to learn more?

The Venture Mindset: coming soon!



(a book cover mockup)

Release date: May 2024

Publisher: Portfolio, a division of Penguin Group

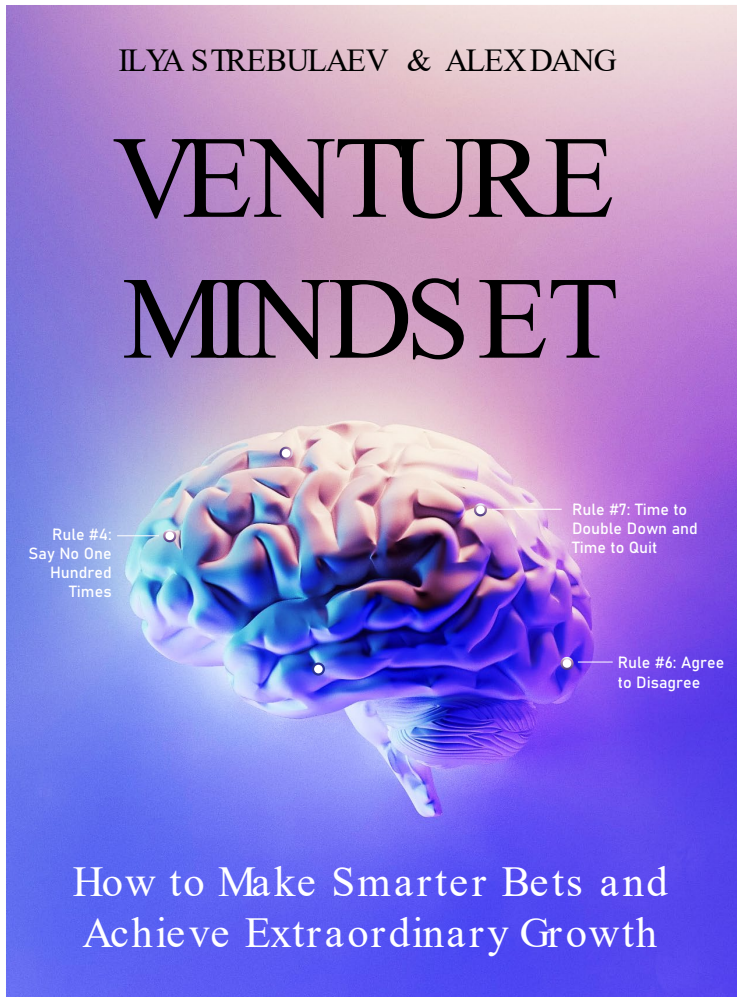
Pre-orders: available in Q3'2023

Versions: printed, digital, audio

THE VENTURE MINDSET



How to Pre-Order



(a book cover mockup)

Exclusive deal for early orders, first copies will be signed!

Send email to ilya@strebulaev.com to be added to the list

ANY QUESTIONS?