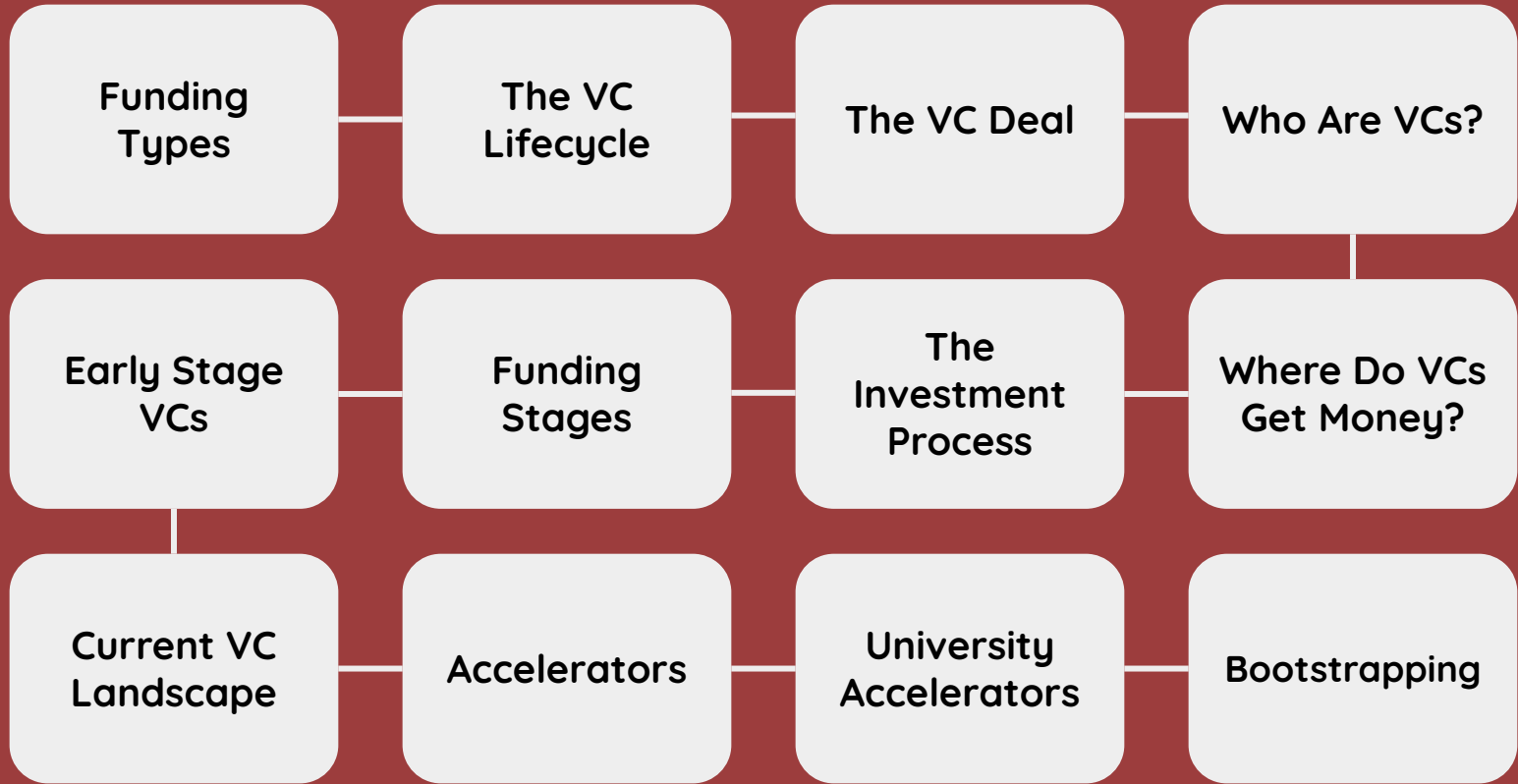


# Foundations of Technological Entrepreneurship Week 4



**What is venture  
capital?**



Forbes



# Introduction to Venture Capital

- **Venture capital:** a type of financing that funds startups or emerging companies believed to have high growth potential
- **Venture capitalists** are often knowledgeable about a specific vertical and identify and invest in these companies in their area of expertise



# Other Funding Types

## Angel Investors

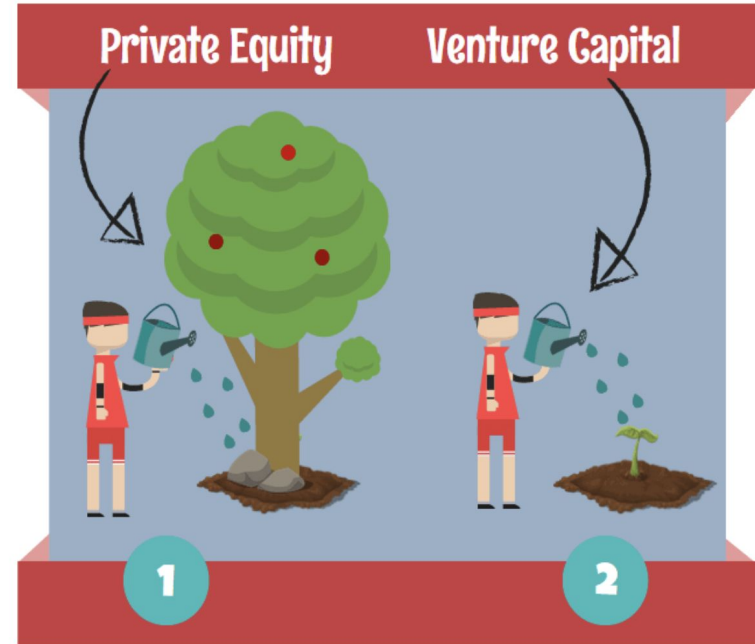
- an individual who provides capital for a startup
  - Key difference with VC:  
Angels invests their own money
- Usually very early on (pre-VC investment)

## Startup Accelerators

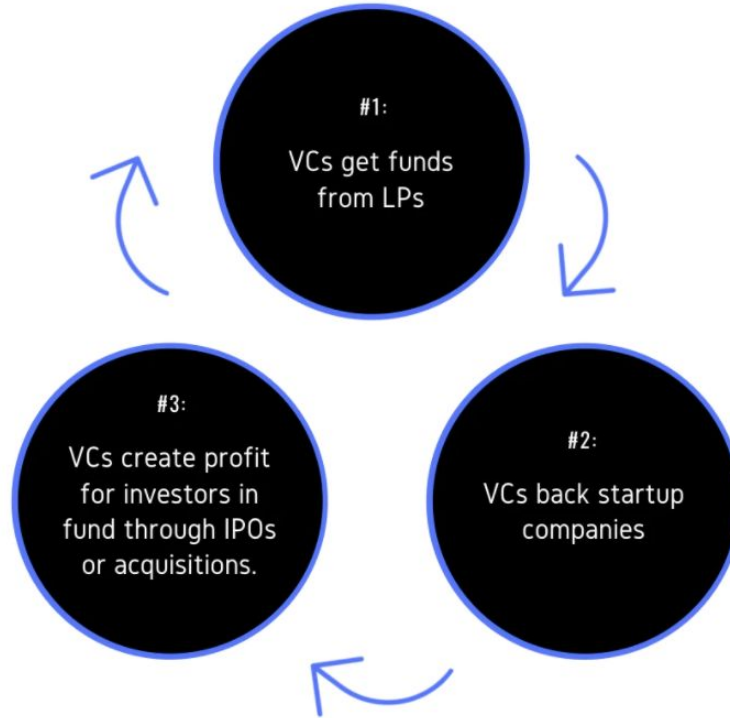
- support early-stage, growth-driven companies through education, mentorship, and financing
- Typically for pre-seed/seed stage startups

# Private Equity vs Venture Capital

- Private equity refers to investment in company shares that are not publicly listed.
  - So, technically VC is a form of PE
- PE buys mature, stable companies
- PE secures a majority share of a company
  - Sometimes even a 100%
  - Avg PE Deal: \$25M - \$100M
- VC gets a minority share of a company
  - 15% - 25% for Series A
  - Avg VC Deal (Series A): <\$10M



# The VC Cycle

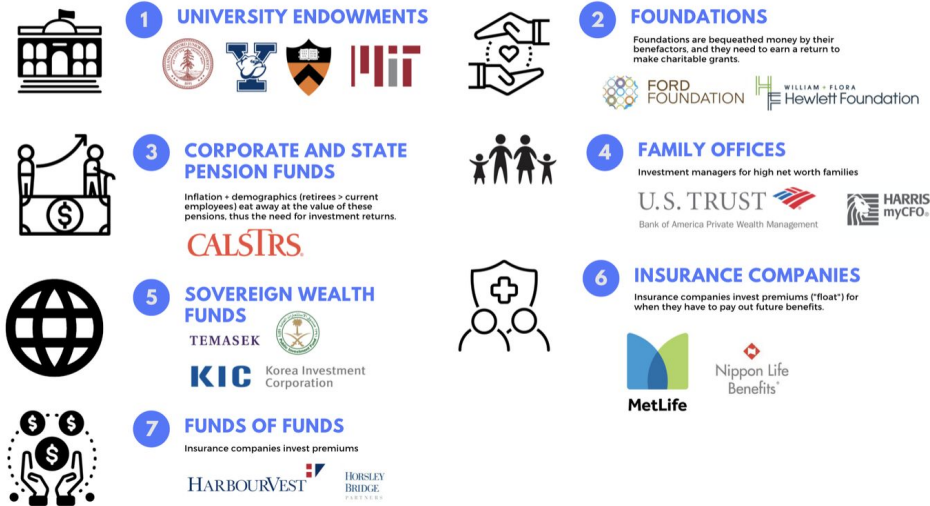




# Where does the money come from?

## WHO BACKS VENTURE FUNDS?

Source: Scott Kupor, *Secrets of Sand Hill Road*



- **Limited Partners (LPs):** High net-worth individuals and institutions

# Who are VCs?

- In a venture capital firm, the people making investment decisions are the general partners (GPs).
  - Analysts, associates, principals, VPs support GPs
- Historically the industry has wanted more MBAs, but now it is leaning more towards people with startup experience in an operating position (ex. PM, marketing, sales, growth) or even engineers.

# Venture Operations

## Fund Lifecycle

Year 0  Year 10

**Phase 1:**  
Building the portfolio

**Phase 2:**  
Follow-on capital

**Phase 3:**  
Driving Exits

## Sequoia Capital Looking to Raise Up to \$600M for New Crypto Fund

The venerable venture capital firm is launching its first crypto-specific fund.

## Andreessen Horowitz raises another \$9 billion for three new funds

The cash is going to a bio fund, growth fund and general venture fund.

# Who Gets What In a Deal?

## Founders

- Get funding/capital for their startup
- Advising + help from VCs
- The network of the VC
- Stamp of validation

## Venture Capitalists

- Gain equity in potential rocketship startup
- Get a board seat
- The network of the founders

# The Process

**Generation** - sourcing startups (ex. via demo days, cold reach outs)

**Initial Screening** - basic due diligence, intro call

**Pitch** - present pitch deck in front of firm's general partners

**Due Diligence** - rigorous investigation into startup (calling customers, looking at financials/metrics, etc)

**Term Sheet and Investment** - VC is looking to make an investment, term sheet establishes terms and conditions of the investment

**Support, Monitoring, Follow-On** - post-investment help from the VCs

**Exit Management** - VCs get a say in the startup's exit strategy

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# Where do the returns go?

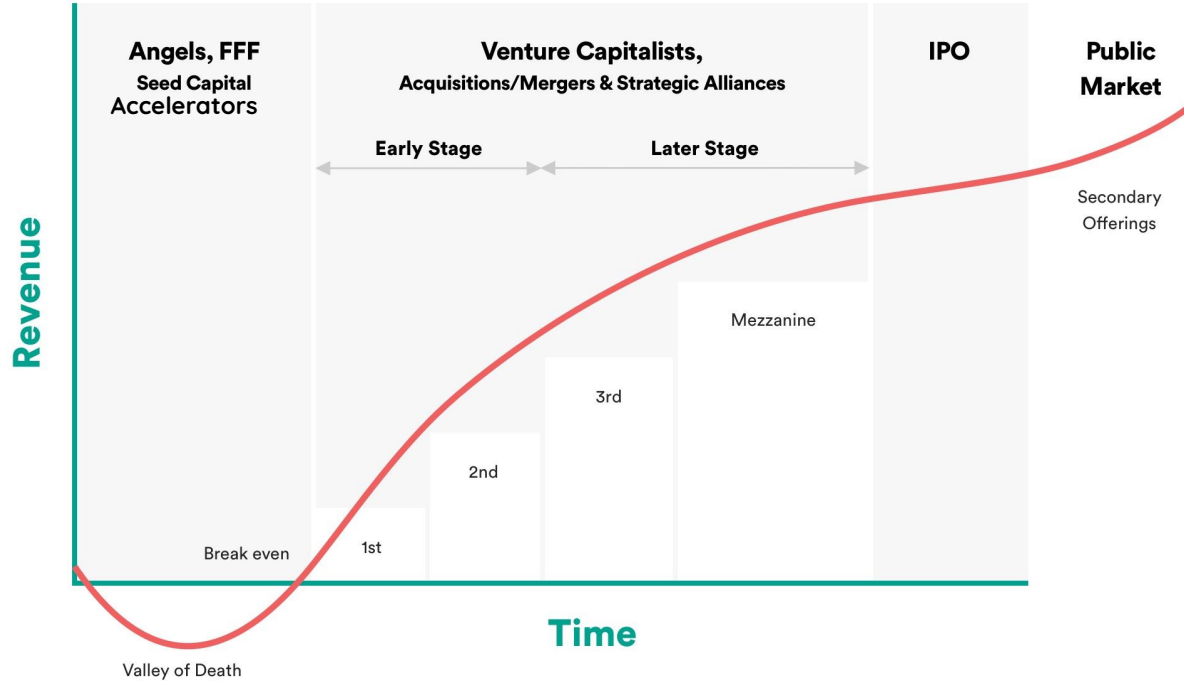
## How do LPs get money back?

- Startup exits
- 80% of the carry

## How do VCs get money back?

- Startup exits
- 2% Management fees
- 20% of the carry

# Funding Stages



Source: [BGF](#)

# Types of Venture Capital

- **Early Stage**
  - Pre-series A
  - Company is still looking for product-market fit and validation
- **Growth Stage**
  - Series B+
  - Company has found product-market fit and is looking to scale
- **Late Stage**
  - Beyond the growth stage
  - Company has successfully scaled, has a good shot of an IPO soon

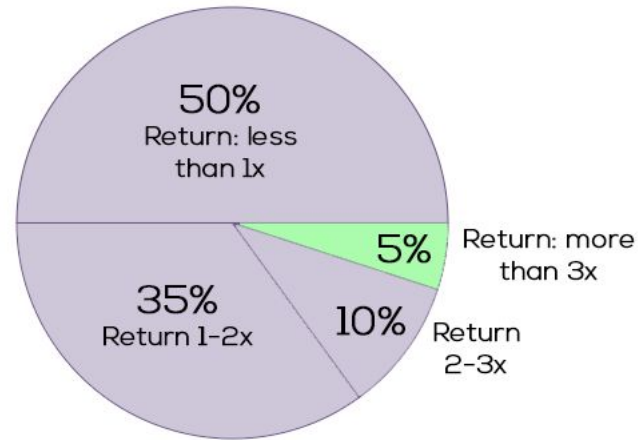
# Early Stage Venture Capital

- **Pre-seed**
  - Super rudimentary, maybe just an idea or pre-launch, some money to play with the idea
- **Seed**
  - Some traction, help further building out idea
- **Series A**
  - Some validation, some revenue, rounding the hockey stick curve

# High Risk, High Reward

- 90% of startups fail
- A “good” investment is categorized by a 3x return
- Pareto principle: 80% returns come from 20% startups

VC Fund Return on Investment





# Case Study: Fitbit

- True Ventures was the first investor in 2008, \$1.75M check
- At the time of IPO:
  - Fitbit valuation: \$7.4B
  - True Ventures' equity: 22.9%
  - Total founders' equity: 21.8%
- True Ventures received a return of \$1.6B
  - Invested from a \$200M fund



# Case Study: Clubhouse

- Boomed over the pandemic
- Raised \$100M Series B at a \$1B valuation in January 2021
  - Led by Andreessen Horowitz
  - While being pre-revenue
- Clubhouse now:
  - Overtaken by Twitter Spaces for its target demographic
  - Not widely used



Lesson Learned: inflated valuation, not every startup will be successful

# The VC Landscape today

- Emphasis on post-investment support, aka the “Platform” side
  - More funding than startups raising
  - But also, some founders still like “hands-off” investors
    - Ex. Tiger Global invests in ~1 startup a day in 2021
- Personal brand and content is king
  - VCs want to hire people with a good brand
    - Founders care about VCs with a good brand
  - Ex. through Twitter and Medium
    - Ex. Harry Stebbings, host of 20Minute VC, raised a \$140M Fund

# Case Study: First Round Capital

- **Seed-stage** venture capital firm based in Philadelphia, New York, and San Francisco
- Average funding size: \$1.5M
- Notable seed Investments:

Uber

  
Square

WARBY PARKER

ROBLOX

 Notion

Source: [Investor Spotlight - First Round Capital](#)

# Bootstrapping

- **Bootstrapping:** starting a company with personal savings, funds from friends + family, initial sales
  - No venture capital investment
- Leads to no dilution of equity, full control of board
- Biggest bootstrap exit ever:
  - Intuit acquired Mailchimp for \$12B in 2021
    - Mailchimp was FULLY bootstrapped

# Where to learn more

- Newsletters:
  - [Axios Pro Rata](#) - deals, funds, hiring
  - [Accelerated](#) - news, job listings for students
  - [Fortune Term Sheet](#) - deals, news
  - [Strictly VC](#) - deals, news
- [TechCrunch](#) - funding, tech stuff in general
- [John Gannon's Blog](#) - jobs
- [Paul Graham](#) - great essays on startups, VC, eship
- [Zero to One](#) - classic book on all things startups
- [Secrets of Sand Hill Road](#) - classic book on all about getting into VC

# Accelerators

# Accelerators

- Institution that offers fixed-term, cohort-based programs for early-stage, growth-driven companies
  - Invests capital in exchange for equity
  - Offers access to investor network, mentorship, pitch opportunities to startups in their cohort
- Often for pre-seed or seed stage startups
- Serves as a validation stamp for early-stage startups



**techstars\_**

**500**startups



# Case Study: Y Combinator

- Provides **\$500,000** in seed funding for each startup:
  - \$125,000 for 7% equity SAFE
  - \$375,000 uncapped SAFE with MFN provision
- **2 batches** a year: summer and winter
- Program goes for **3 months**
  - Meet with YC partners
  - Group office hours with other startups
  - Culminates in YC demo day
- Startups submit an application and conduct interviews with the accelerators to gain admittance

## ALUMNI:



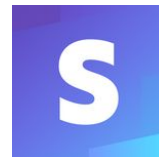
Airbnb  
(W09)



Doordash  
(S13)



Coinbase  
(S12)



Stripe  
(S09)

<https://www.ycombinator.com/>

# University Accelerators

- For students starting startups while in school
- Easier to receive funding
- Lower barrier to entry
- A sandbox learning experience for an introduction to entrepreneurship
- Most colleges offer these through their entrepreneurship programs
- Ex. [Haverford's summer 8-week incubator](#)

# Funding Pros and Cons

## PROs

- Access to large amounts of capital
- Experienced leadership and advice readily available
- Publicity and exposure
- “Stamp of validation”
- Personal assets untouched

## CONs

- Founder ownership stake reduced
- Loss of board control
- Finding funding distracts founders from the business
- High expectations for hypergrowth
- Mismatched interests

# Evaluating Startups

# Discussion

What do you consider a “good” startup?

# What is does a “good” startup look like?

# What is does a “good” startup look like?

No one-size-fits-all formula

# Traditional Criteria for Evaluating Startups

## Product-Market Fit

- Value prop? IP?
- Look at TAM (Total Addressable Market)
- Outsized returns possible?
- Traction: ARR, Press
- Competitors?

## People/Team

- Founder/team's past experience
  - Serial founder?
  - Knowledge in space?
- How do they know each other?

## Deal

- Align with investment thesis?
- Fits investment criteria?



Imagine you are raising  
your first round of capital

**How do you pitch your  
startup?**



# What should be on your pitch deck?

according to VC's and successful startups

	500 Startups	Guy Kawasaki	Sequoia Capital	NextView Ventures	Crowdfunder	Airbnb Pitch Deck
Slides	11	10	11	15+	12	13
Executive Summary				•		
<b>Problem</b>	•	•	•	•	•	•
<b>Solution/Value Proposition</b>	•	•	•	•	•	•
Market Validation/ Why Now?			•	•	•	•
Product	•		•			•
Market Size	•		•	•		•
<b>Business Model</b>	•	•	•	•	•	•
Underlying Magic	•	•		•		
<b>Competition</b>	•	•	•	•	•	•
Competitive Advantage	•					•
Marketing Plan / Go-to Market	•			•	•	•
<b>Founding Team</b>	•	•	•	•	•	•
Board/Advisors			•	•		
Traction / Milestones	•	•		•	•	
Press / User Testimonials				•		•
<b>Fundraising</b>	•	•	•	•	•	•
Financial / Use of Funds		•	•	•	•	



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Financial / Use of Funds		•	•	•	•	

## Must Haves

10-15 slides

Problem

Solution

Business Model

Competition

Founding Team

Fundraising

# Case Study: Dropbox

Seed Round Pitch Deck (2007)



<http://www.getdropbox.com>

# 1. Problem

**Storage is a mess**



**It's 2007, and it's *still* a pain to...**

- Work on multiple computers
- Share files across a team
- Put photos, video onto the web
- Protect files from loss

## 2. Solution

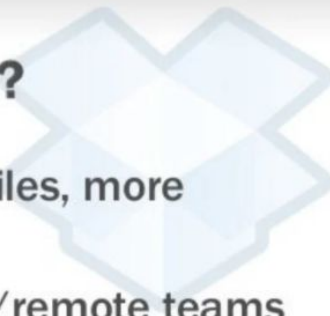
### Dropbox



- Keeps files:
  - In sync across computers
  - Backed up
  - Accessible from anywhere
  - Easy to share
- It just works



### Why now?





- Lots of devices, bigger files, more content
- Increasingly distributed/remote teams
- Falling bandwidth, storage prices
- Online storage is unclaimed, unmonetized territory, much like search pre-Google



# 4. Competition

## Competitors

	 Dropbox	Carbonite, Mozy	Foldershare	box.net
Sync	✓	✗	✓	✗
Backup	✓	✓	✗	✗
Sharing	✓	✗	✓	✓
OS integration	✓	✓	✓	✗
Web access	✓	✗	☾	✓
Versioning	✓	✗	✗	✗

 **Dropbox**  
www.getdropbox.com

# 3. Business Model

## Business model

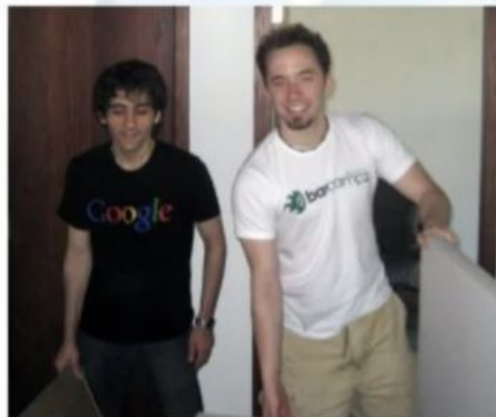
- **Individuals: freemium**
- **SMB: shared folder per-seat license**  
(replaces backup, Windows file share, collaboration tools, reduces IT headcount)
- **Platform: broker all UGC from the desktop to the web**



# 5. Founding Team

## Team

- **Drew Houston – CEO**  
S.B. MIT EECS; first line of code at age 6; first startup gig at 14; founded online SAT prep co after multiple perfect scores
- **Arash Ferdowsi – CTO**  
S.B. MIT EECS (on leave); director of MIT programming competition; prior exp at Google



*Moving into our first office, 5/14/07*

# Other Included Slides

- **Ranked #1** among summer YC startups:

“...the simplicity and elegance of its interface, which blends seamlessly into both Windows and OS X, sets it apart.”

<http://venturebeat.com/2007/08/16/the-y-combinator-list/>



Validation Slide

## Customer acquisition

- Loved by early adopters/beta users (natural influencers)
- Free accounts for individuals
- Viral elements: file sharing, shared folders, photo/media galleries
- Platform, partnerships → free customer acquisition



Traction Slide

# 6. Fundraising

- Slide not included in the examples
- Deck shared by Sequoia Capital
- Dropbox used this pitch deck for their seed round and **raised a \$1.2M round in 2007**

# In-Class Exercise: Startup Evaluation

- Find a startup to invest in (at most Series B)
- Create a 2-3 minute deck and presentation introducing and detailing why you would invest in this startup

**TIP:** Think about the traditional criteria for evaluating startups and the pitch deck we reviews