
WORKING WITH INTERNATIONAL VENTURE CAPITAL FUNDS

2024



CorpFinCE

Corporate Finance Central Europe

www.christianschopper.com

© Copyright – Christian Schopper

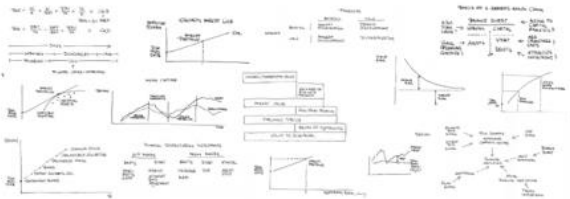
Background



Christian Schopper
www.christianschopper.com

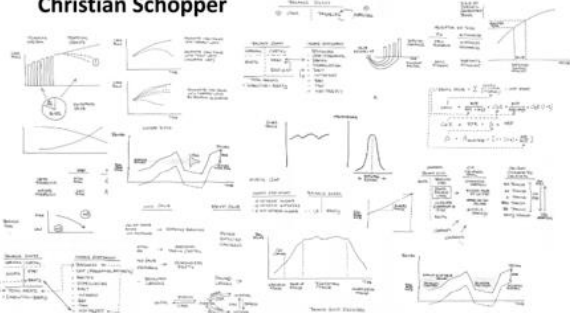
Private: christian.schopper@aon.at
Business: christian.schopper@corpfince.com

For more concepts click on:



Corporate Finance Concepts

Christian Schopper

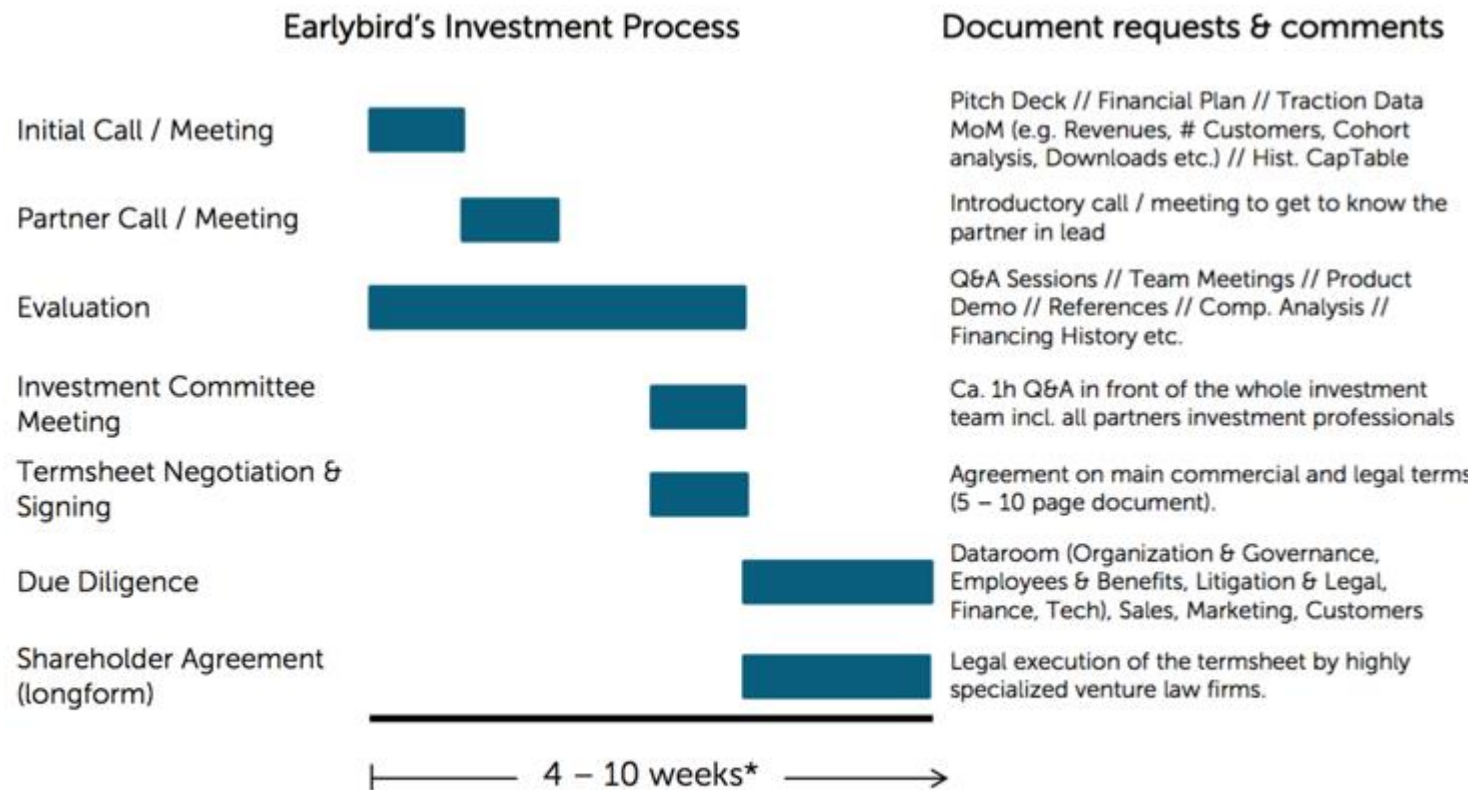


www.christianschopper.com

Session 2: Negotiating & Getting a Deal Done



Indicative Timetable



* Note: The timeline is only an approximation to give you a high level overview of our processes.

The Term Sheet

- **Non-binding** document ...
- ... meant to record two or more parties' **intentions** ...
- ... to enter into a **future** agreement ...
- ... based on specified - but **incomplete** or preliminary - terms

Thoughts on Term Sheet Negotiation

- **Listen!**
- VC attention and support are **limited** resources
- Entrepreneurial overconfidence
- Your **leverage** is not only a function of your alternatives
- **Transparency** is often less costly than one may fear
- Building **trust** is most easily when the other party is vulnerable
- The allure of valuation
- The wise power of **bargaining**
- The **terms the VC accentuates**

Selected Term Sheet Elements

- **Money raised**
 - May include minimum amount of money raised prior investor disbursing funds.
- **Pre-money valuation**
- **Non-participating liquidation preference**
 - Defines among others higher priority than common shareholders upon liquidation
- **1:1 conversion to common**
 - Enables preferred stockholders to convert to common stock instead of simply taking their liquidation preference
- **Anti-dilution provisions**
 - If stocks were sold at prices lower than what investors paid, they receive additional stock to preserve their original percentage of ownership
- **The pay-to-play provision**
 - Requires investors to participate in future financing rounds to avoid having their preferred stock converted to common stock.
- **Boardroom makeup**
- **Dividends**
- **Voting rights**
- **Drag along**
 - Assures investors that founders and the common-stock majority will not block the sale of a company

Do get a good (!) lawyer!



Due Diligence is a Two-Way Street

- Ask on certain VC **aspects** which are important for you
 - Concrete **examples**
- Cross-reference checks with **founders of their portfolio**
 - Ask for introductions to the ones you want to talk to
- Ask yourself whether you **trust** the individuals you've been interacting with during the overall process
- Ask the VCs **what** they do **when a portfolio company doesn't do well**

Thoughts on Valuation



Standard Forecast

Year		0	1	2	3	4	Residual
Cash Flow Forecast		-5,00	-7,00	-2,00	0,00	5,00	10,00
Unadjusted Cash Flows							
Discount Factor	30,0%	1,00	0,77	0,59	0,46	0,35	Sum
Discounted Cash Flows		-5,00	-5,38	-1,18	0,00	1,75	-9,82
Terminal Value							
Growth	2,0%	35,71					
Dicounted TV		12,50					
Enterprise Value		2,69					

Forecast with Survival Probability

Year		0	1	2	3	4	Residual
Cash Flow Forecast		-5,00	-7,00	-2,00	0,00	5,00	10,00
Probability of Success of Previous Stage			40,0%	60,0%	80,0%	90,0%	95,0%
Cumulative Probability of Survival		100,0%	40,0%	24,0%	19,2%	17,3%	16,46%
Probability-adjusted CF Forecast		-5,00	-2,80	-0,48	0,00	0,86	1,65
Adjusted Cash Flows							
Discount Factor	12,0%	1,00	0,89	0,80	0,71	0,64	Sum
Discounted Cash Flows		-5,00	-2,50	-0,38	0,00	0,55	-7,33
Terminal Value							
Growth	2,0%	16,46					
Dicounted TV		10,46					
Enterprise Value		3,13					

Valuation Approach – Year 0

Year		0	1	2	3	4	Residual
Cash Flow Forecast		-5,00	-7,00	-2,00	0,00	5,00	10,00
Unadjusted Cash Flows							
Discount Factor	30,0%	1,00	0,77	0,59	0,46	0,35	Sum
Discounted Cash Flows		-5,00	-5,38	-1,18	0,00	1,75	-9,82
Terminal Value							
Growth	2,0%	35,71					
Dicounted TV		12,50					
Enterprise Value		2,69					
Year		0	1	2	3	4	Residual
Cash Flow Forecast		-5,00	-7,00	-2,00	0,00	5,00	10,00
Probability of Success of Previous Stage			40,0%	60,0%	80,0%	90,0%	95,0%
Cumulative Probability of Survival		100,0%	40,0%	24,0%	19,2%	17,3%	16,46%
Probability-adjusted CF Forecast		-5,00	-2,80	-0,48	0,00	0,86	1,65
Adjusted Cash Flows							
Discount Factor	12,0%	1,00	0,89	0,80	0,71	0,64	Sum
Discounted Cash Flows		-5,00	-2,50	-0,38	0,00	0,55	-7,33
Terminal Value							
Growth	2,0%	16,46					
Dicounted TV		10,46					
Enterprise Value		3,13					

Valuation Approach – Year 1

Year		0	1	2	3	4	Residual
Cash Flow Forecast			-7,00	-2,00	0,00	5,00	10,00
Unadjusted Cash Flows							
Discount Factor	30,0%		1,00	0,77	0,59	0,46	Sum
Discounted Cash Flows			0,00	-5,38	-1,18	0,00	-6,57
Terminal Value							
Growth	2,0%	35,71					
Dicounted TV		16,26					
Enterprise Value		9,69					
Year		0	1	2	3	4	Residual
Cash Flow Forecast			-7,00	-2,00	0,00	5,00	10,00
Probability of Success of Previous Stage				60,0%	80,0%	90,0%	95,0%
Cumulative Probability of Survival			100,0%	60,0%	48,0%	43,2%	41,14%
Probability-adjusted CF Forecast			-7,00	-1,20	0,00	2,16	4,11
Adjusted Cash Flows							
Discount Factor	12,0%		1,00	0,89	0,80	0,71	Sum
Discounted Cash Flows			-7,00	-1,07	0,00	1,54	-6,53
Terminal Value							
Growth	2,0%	41,14					
Dicounted TV		29,28					
Enterprise Value		22,75					

Valuation Aspects

- **Experience** and past success of the founders
 - “Serial” entrepreneurs present less risk, often command higher valuations
- The size of the market **opportunity**
- **Proprietary** technology already developed
- Any **initial traction**
 - Revenue, partnerships, satisfied customers, favorable publicity, etc.
- Progress towards a minimally **viable product**
- **Recurring revenue** opportunity
- **Capital efficiency** of the business model
 - Will the company need to burn through significant capital before reaching profitability?
- Valuations of **comparable** companies
- Whether the company is “hot”
 - ... and **pursued by other investors**
- The current **economic climate**
 - Valuations generally climb when the overall economy is strong

Post-Investment

- **Interaction with investors**
 - Recurring: **Board Meetings**
 - Keep the board members informed of the company's progress
 - Discuss short and long term plans
 - Take decisions that require the approval of the board members
 - Recurring: **Check-ins**
 - One-time interactions
 - Feedback sessions
 - Recruiting
 - Raising your next round
 - Portfolio events
 - Portfolio platform / online groups
- **Optimize investor relationship**
 - Set **expectations**
 - “Hands-on” type or very light?
 - Founding team “weaknesses” that could be filled by investors knowledge (education) or network (hiring)?
 - Demand for industry specific knowledge or specific value add that investors offer
 - Understand investor's profile / **strengths**
 - **Pro-active & structured approach**
 - Provide all required information upfront
 - Clear call to action
 - Not at the last second and share a deadline

When Things Go Wrong

- **Good VCs will help** you, if your company is not doing well ...
- ... while **bad VCs will screw you up**

In Conclusion

- Act greedily
- Be close-minded
- Ask for too little
- Cover your passion
- Don't have a solid plan

Excursion – On Negotiation

The Fog of War

The Fog of War: Eleven Lessons from the Life of Robert S. McNamara

- Empathize with your enemy
- Rationality will not save us
- There's something beyond one's self
- Maximize efficiency
- Proportionality should be a guideline in war
- Get the data
- Belief and seeing are often both wrong
- Be prepared to re-examine your reasoning
- In order to do good, you may have to engage in evil
- Never say never
- You can't change human nature



The 14 Basic Child Negotiation Skills

- Throw a tantrum



- Ask the person who's most inclined to say "yes"

- Play one side against the other

- Get sympathy



- Take your time

- Change the rules

- Solicit a bribe

- Wear the other side down

- Turn the negotiations into a game

- Act irrationally

- Worry the other side that you might be sick

- Make weak promises

- Win through cuteness



- Take your toys and go home

Key Questions in Negotiations

1. BATNAs

- What if no agreement?

2. Parties

- Who are the real parties in the negotiation?

3. Interests

- What are fundamental needs / priorities?

4. Value

- How to create value / Who is likely to get it?

5. Barriers

- What obstacles might prevent agreement?

6. Power

- Parties' influence on negotiation process

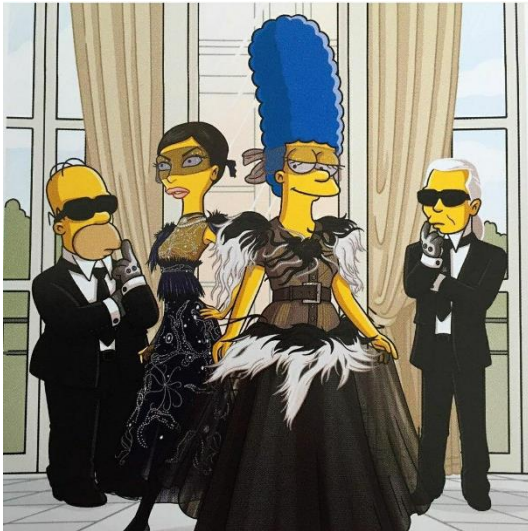
7. Ethics

- What is the right thing to do?



A Final Thought

Quotes



“The minute you think that the past was better, your present is second hand, and yourself becomes vintage. It’s OK for clothes, not that great for people.”

Karl Lagerfeld

Contact



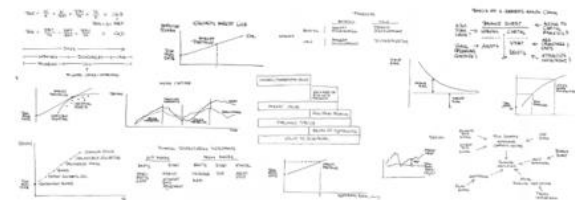
Christian Schopper

www.christianschopper.com

Private: christian.schopper@aon.at

Business: christian.schopper@corpfince.com

For more concepts click on:



Corporate Finance Concepts

Christian Schopper

