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Session 9B: Venture Deals & Staged Financings

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C) KEY QUESTIONS REGARDING "THE DEAL"

- **Q1: PRICE** — What percentage of the company do the investors receive for their cash?
- **Q2: TERMS** — What special terms and conditions are necessary to compensate them for their risk?

EXAMPLE OF THE DEAL

- Roma's hot startup requires \$10 million in order to form its business. She expects to earn \$10 million in its fifth year.
- Randy's VC firm has reviewed the company's business plan and believes that he is entitled to an annual 50% return on his investment. (Hint: how many "times" must his money grow in 5 years?)
- Publicly traded companies in this category and industry trade at approximately 15 times earnings (P/E ratio). There is no material difference between these companies and the startup.

Pop-up Exercise:

WHAT PORTION OR PERCENTAGE OF
ROMA'S STARTUP SHOULD RANDY'S
VENTURE CAPITAL FIRM RECEIVE
TODAY?

*HINT: WHAT IS THE FUTURE VALUE OF
THE INVESTMENT?*

CALCULATIONS

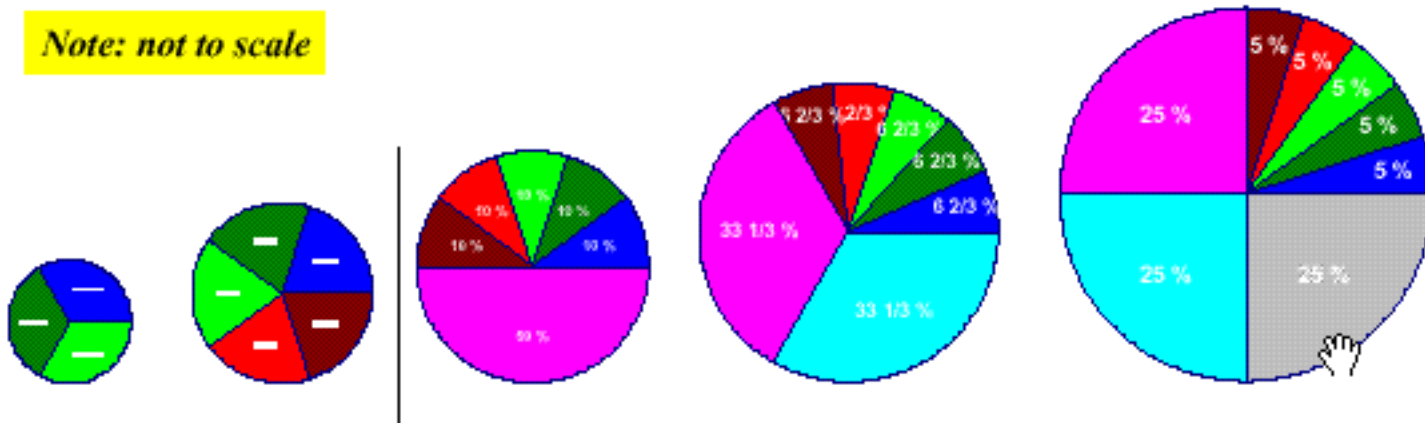
- Value of VC Investment in Year 5 = $\$10\text{M} \times (1+50\%)^5 = \76M
- Startup's Value in Year 5 = $\$10\text{M} \times (\text{P/E of } 15) = \150M
- VC's Share Today = Step 1/Step 2 = $\$76\text{M} / \$150\text{M} = \sim 50\%$
- "Post-Money" Value Today = $\$10\text{M} / .50 = \20M
- "Pre-Money" Value Today = $\$20\text{M} - \$10\text{M} = \$10\text{M}$

WHY IS THIS EXERCISE TOO
SIMPLISTIC? IN OTHER WORDS,
WHAT ASSUMPTIONS ARE TOO
OPTIMISTIC?

HOW MUCH OF MY COMPANY
DO I NEED TO GIVE UP?

THAT'S NOT THE RIGHT QUESTION

Note: not to scale



- **“It’s not the angle of the slice, it’s the size of the pie”**
 - Goal: trade shares for ideas, capital and talent to grow that pie
 - Build a company that is worth more than a pie that never grows
 - Not easy to achieve, even with lots of financing
 - Requires a good relationship between the investor and entrepreneur

AN EXAMPLE

1. How much money do the founders need?
2. How long until significant revenue?
3. How long until profitability?
4. What's the going rate for 1st round deals?



VALUATION IS AN ART, NOT A
SCIENCE

SERIES A

1. How much does the company need to raise?



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A		\$5M				

SERIES A

2. Negotiate a Pre-Money Valuation



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M				


Post \$ = Pre \$ + Amount Raised = \$8M + \$5M

% of Company Sold = Amount Raised/Post \$ = \$5M / \$13M

How much do the founders and employees own at this point?

SERIES A

3. Determine Share Price and Total Number of Shares



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M

In Round A, share price is set somewhat arbitrarily. Usually 5-15M shares pre-money. Let's choose 10M.

Share price = Pre \$ / # of Shares = \$8M / 10M = \$0.80

Shares = Post \$ / Share Price = \$13M / \$0.80 = 16.3M Shares

SERIES B

1. How much does the company need to raise?



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B		\$10M				

SERIES B

2. Negotiate a Pre-Money Valuation



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B	\$30M	\$10M				

Post \$ = Pre \$ + Amount Raised = \$10M + \$30M

% of Company Sold = Amount Raised / Post \$ = \$10M / \$40M

SERIES B

3. Determine New Share Price



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B	\$30M	\$10M	\$40M	25%	\$1.85	

$$\begin{aligned} \text{Share Price} &= (\text{Pre \$ Valuation}) / (\text{Total Pre \$ Shares}) \\ &= \$30\text{M} / 16.3\text{M} \end{aligned}$$

SERIES B

4. Determine Total Number of Shares



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B	\$30M	\$10M	\$40M	25%	\$1.85	

SERIES B

4. Determine Total Number of Shares



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B	\$30M	\$10M	\$40M	25%	\$1.85	21.7M

$$\begin{aligned} \text{Total Shares} &= \text{Pre \$ Shares} + \text{Amount Raised} / \text{Share Price} \\ &= 16.3\text{M} + (\$10\text{M} / \$1.85) \end{aligned}$$

SERIES C

1. Decide how much you need to raise
2. Negotiate a Valuation
3. Determine a New Share Price
4. Calculate Total Number of Shares



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B	\$30M	\$10M	\$40M	25%	\$1.85	21.7M
Series C	\$70M	\$25M				

SERIES C

1. Decide how much you need to raise
2. Negotiate a Valuation
3. Determine a New Share Price
4. Calculate Total Number of Shares



Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B	\$30M	\$10M	\$40M	25%	\$1.85	21.7M
Series C	\$70M	\$25M	\$95M	26.3%	\$3.23	29.4M

FINANCING HISTORY

Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Total Shares
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	16.3M
Series B	\$30M	\$10M	\$40M	25%	\$1.85	21.7M
Series C	\$70M	\$25M	\$95M	26.3%	\$3.23	29.4M
Acquired	\$400M	\$0M	\$400M	0%	\$13.61	29.4M

- Numbers are for illustration purposes only. Does not include option pool increases, warrants, and other dilution.

CALCULATING DILUTION

Could the founders get to this size on their own?

	Series A	Series B	Series C	Acquisition
Founders & Employees	61.5%	46%	34%	34%
Post \$ Valuation	\$13M	\$40M	\$95M	\$400M

- Percentage Owned = Owned Shares / Total Shares
- Founders Share Pre-Funding = 10M Shares = 100%
 - Series A Dilution: $10M / 16.3M = 61.5\%$
 - Series B Dilution: $10M / 21.7M = 46\%$
 - Series C Dilution: $10M / 29.4M = 34\%$

RETURNS FOR EACH INVESTOR

Round	Pre-Money Evaluation	Amount Raised	Post-Money Valuation	% of Company Sold	Share Price	Return	Multiple
Series A	\$8M	\$5M	\$13M	38.5%	\$0.80	\$85M	17.0x
Series B	\$30M	\$10M	\$40M	25%	\$1.85	\$73.7M	7.4x
Series C	\$70M	\$25M	\$95M	26.3%	\$3.23	\$105.3M	4.2x
Acquired	\$400M	\$0M	\$400M	0%	\$13.6		

- How much did the founders make?

Thank you!

Questions?

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Raising the Bar 1/2

For real estate agents who spend their valuable time driving clients to dozens of houses, the Virtual Realty Platform is a B2B2C service that allows clients to tour numerous houses in a single sitting.

Unlike Matterport, our product is sold directly to those who benefit the most: Real Estate Agents. Rather than a consumer facing product, (sold to the house seller or buyer), we offer our platform as a differentiator for Real Estate firms. In order to best provide our Real Estate Partners a good value, we provide a monthly subscription service based on number of homes rather than on a house by house basis.

Raising the Bar 2/2

In addition we have a socially focused initiative, whereupon for each house we scan we also scan a home in a developing country. Home purchasers using the platform are then encouraged to check out the homes of these people and donate to helping build better homes for them.

Aviato 1/2

For any traveler who wants to explore the world on his or her own terms, WanderList is a social travel site/app that provides personalized travel planning and curated experiences in an intuitive format.

Unlike TripAdvisor and Yelp, our product makes it easy to find what you're looking for and have what you're looking for find you.

Aviato 2/2

Wanderlist makes your trip not only more relaxing and less stressful but also brings what you wouldn't otherwise find to you. It creates a deeper level of engagement for each travel journey by finding experiences and places that will resonate with you.

Angels and Unicorns 1/2

For smart phone users who want a wireless charging solution, *Permacharge* is a phone case that delivers a wireless charging experience that enables users to never worry about battery life whenever in range of a Wi-Fi connection.

Unlike Mophie phone cases and wireless charging strips, our product charges your smartphone without any user intervention.

Angels and Unicorns 2/2

There are two billion smartphones in the world, and they are all running out of batteries constantly. Users want a smart phone that charges itself without user intervention; our product eliminates the need to charge your phone by harnessing Wi-Fi to charge it for you.

We have a simple case that you can put on any smartphone that harvests your Wi-Fi signal into electricity and automatically charges your phone - without you *ever* having to lift a finger.

Cardinal Capital 1/2

- For office workers and apartment building residents who want cheap quick food delivery, Grabl is a mobile application that formalizes the communication process of letting friends, colleagues, and neighbors know when a food run is being made.
- Unlike traditional food delivery apps, our product outsources delivery to individuals for a quicker, cheaper, more enjoyable experience.

Cardinal Capital 2/2

- Our app provides meaning to its users because in traditional communal living and working spaces, individuals typically know very few of the people in neighboring offices and apartments in the same building. By using people to bring back food to these spaces, friendly interactions occur between strangers that would never have otherwise happened, giving opportunity to users to form new friendships and relationships.

Octane 1/2

For young travelers

who seek individualized travel experiences

Rover is an online travel platform

that allows customers to craft personalized travel itineraries and connects them with local guides

Unlike currently available travel planning websites, our product takes into account the user's specific interests and desires, and facilitates authentic interactions with the people of a certain destination

Octane 2/2

By providing personalized experiences and interactions with locals at a destination, Rover allows for a more meaningful travel experience, with local interaction instead of the generic sightseeing, landmark-focused mode of travel.

Additionally, by connecting tourists with ordinary locals, Rover ensures that foreign income is more equally distributed throughout the destination, instead of accumulating in hotel conglomerates and similar corporations.

Arborvitae 1/2

For people that want restaurant quality food options in a convenient, local and social environment. BAGOOM! is a social platform that connects community members who love to eat with quality chefs and cooking enthusiasts to share a unique eating experience.

Unlike Postmates, Doordash, and Blue Apron, our platform provides an intimate, social experience while providing ready made meals by experienced local chefs.

Arborvitae 2/2

Studies have shown that food influences our emotions and how we feel. At BAGOOM! we hope to bring people together over food to reconnect on an emotional level in a time where technology often reduces in-person social contact.

Silicon Mountain 1/2

For high school and college-age Internet learners (short term), all Internet learners (long term)

Who want to learn efficiently, effectively, or enjoyably

(The) Spark is an online learning platform

That is a space to learn or teach anything.

Unlike Google and Wikipedia

Our Product is a search engine optimized for learning, not reference.

Unlike Khan Academy and the many similar products

Our Product allows people to learn anything, not just academic material, and control for many variables (e.g. length of learning time).

Unlike wikiHow

Our Product offers many ways to learn the same material (e.g. different media).

Silicon Mountain 2/2

Spark aims to provide Internet users of all ages and from all corners of the world the opportunity to learn and teach.

Our goal is for everyone in the world to have access to free learning. At the same time, users can teach any topic of their choosing. Note that we use the term “learning” instead of “education,” because our topics do not necessarily have to be academic. This way, anyone can gain from and contribute to the overall experience, regardless of their background.

Positioning Statement

Sentence #1

For (Low-Skilled/Non-Technical (LSNT) service providers) who (seek to leverage the connectivity of the internet), (Bazaar) is an (online marketplace) that (connects LSNT laborers to LSNT service demand).

Sentence #2

Unlike (Thumbtack, Handy, TaskRabbit, or Odesk), our product (recognizes that the value in the LSNT service market should be placed on the human capital rather than the technology. Therefore Bazaar empowers suppliers to become the sole stakeholders of the fruit of their labor).

D2P2M 2/2

Bazaar's Higher Value

Bazaar seeks to empower every low-skilled/non-technical (LSNT) laborer through the creation of an online marketplace that leverages the Internet's networked capability to centralize demand and management in order to create an efficient market that finds ways to creatively exploit the industry's economies of scale. Many important industries today have reaped tremendous benefits and have seen massive growth from the productivity multiplier that technology provides. However, it is always the age old professions of service that are left behind, becoming a cheap and productive resource to those who control the technology rather than truly experiencing technology's uplifting effect themselves. By prioritizing the fair treatment of workers and creating strict incentive-targeted guidelines, Bazaar seeks to create a highly reliable highly efficient market for LSNT laborers.