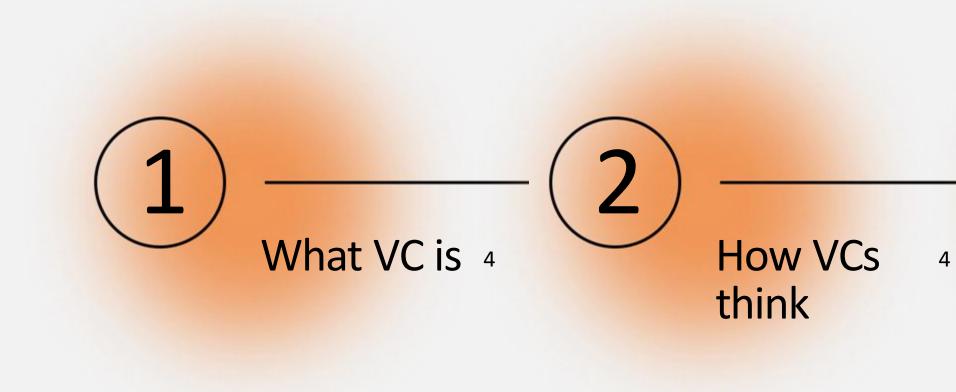
What VCs want to hear: how to raise (or not) in any market

Jonatan Luther-Bergquist

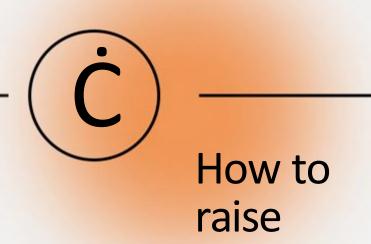


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Venture capital funds invest, advise and ₁ raise money



HOQNEP ŃV ŰCRVÕ

ĠÒQÑ ÖŎŌÑŘÒŌ ÑŔŃOMŌŊÑŅŎŹŇŹÞÒPŘ ŎRŌŇŹŒĐŎŐ MŌŇ ŃŎŌPŹŎÕŎŌ private ŃŎÖŐMŌÒŇŒ

ÆĞŎØÖ M POÑCEDEĂROMP ŇŎ RÑ ÒŌQÑCEPÒŌÅ

ÆĬŎÞØŃŇŎŐŐŎØ₽ÞŌOPÔŇŒ

ÆĜQMÕPMPÑĂŇPÑŇÔÔŊÑŌŃÑÅ

ÆĜŔÑŃÞPŇĂŒŇPPŇŹŎŒĄMŇÖÒŌÅ



ĖŇQQENŅŎÞŌŇÑÆ

ĢÑÕŐŅŎÞŌŇŇŹŒĂVŌŇÒŌQĨŒPÖÑŌPÅNÑŒÞŃŃĨŒEŖŀĨŎNŘ ŒVŹŴŌŊĨŇŔŐŇŹŴĨŌŃĨŇBĖŹĨŇVŒIJFŒŃVŌNĨOOŇĨŐŅĿĨŎVŹĨŇÈ

ÁĽI PÓVPŇŊŘĂĠIJ ÆĨ ĽĞÆÖMÓÔÑP ŎÞPÕŎŎÔÆ ŃŎÖŐŇPÒRÒŌÆŐŎŒŨRÒĎŌŪŌŊÅ

- <u>ÁĹŇPRŎØÔĂØŇŃŹ₽Ò₽ÒŪŊŦ</u>₽Ņ₽ŌŇŹŴŎDĚŪŊŦE ŐŴŹ₽ŌŇŹŒĊŎŒÅ
- <u>ÆĨŎŎÕŇŇ ØŇŒŎÞØŃŇŒÒŌ</u>ŐŎØŖŅŎŨŨŎĂŇ**B**yBÆĿEŇØĊŨŃŇ ŐØŎĊŨŇŇØŒÅ



Raise funds

Funds aren't permanent and need to raise capital themselves in order to stay in business. Last 10 years pushed funds to:

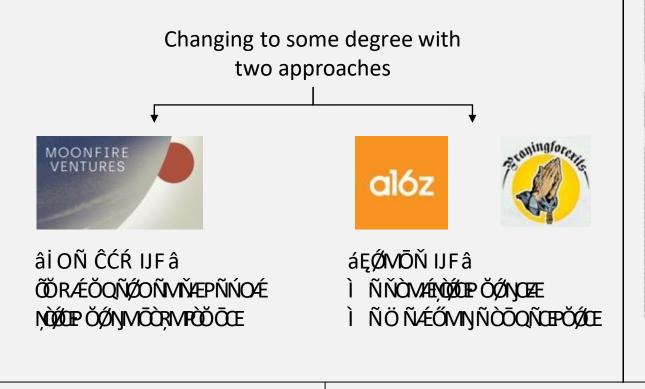
- Get bigger and bigger, vintage to vintage
- Run more funds in parallel
- Get more specialized

Venture is a network-driven, service business, traditionally

Only rarely does VC scale as a product

The core activities of VCs all compound with network, but the

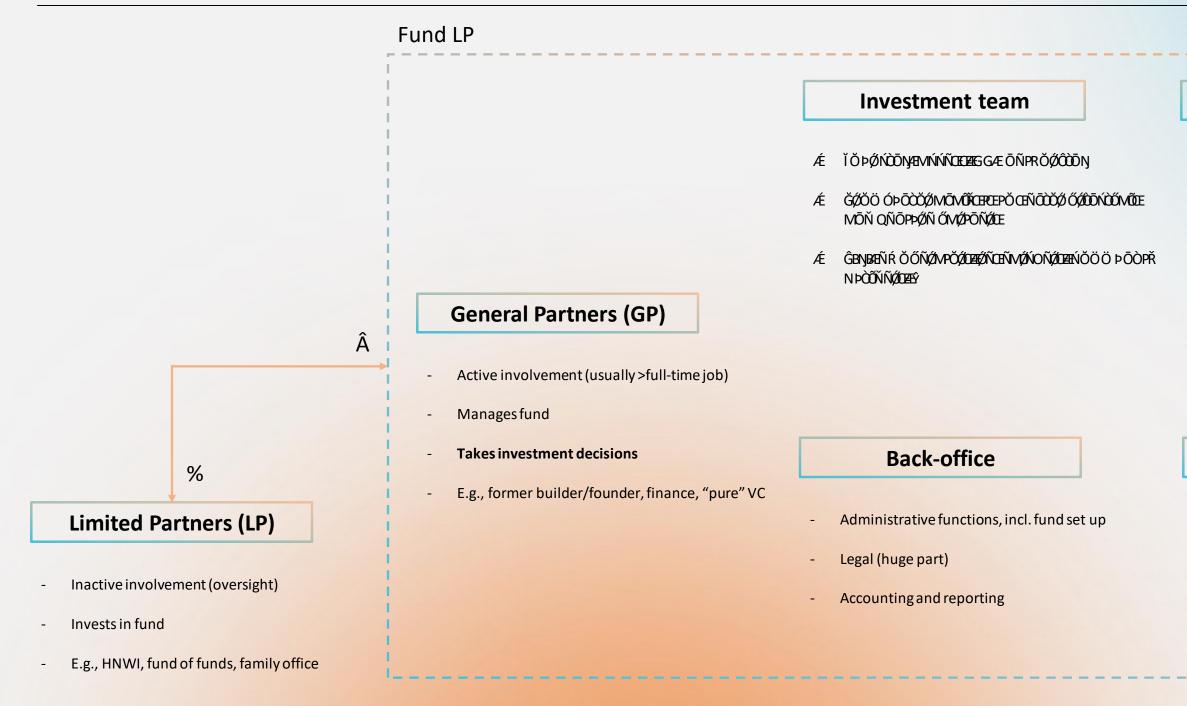
main limiting factor is still time of investors





2

Funds are structured as partnerships



Talent/Ops

- Help recruit and manage talent for portfolios
- Maintain talent networks
- E.g., former Head of People



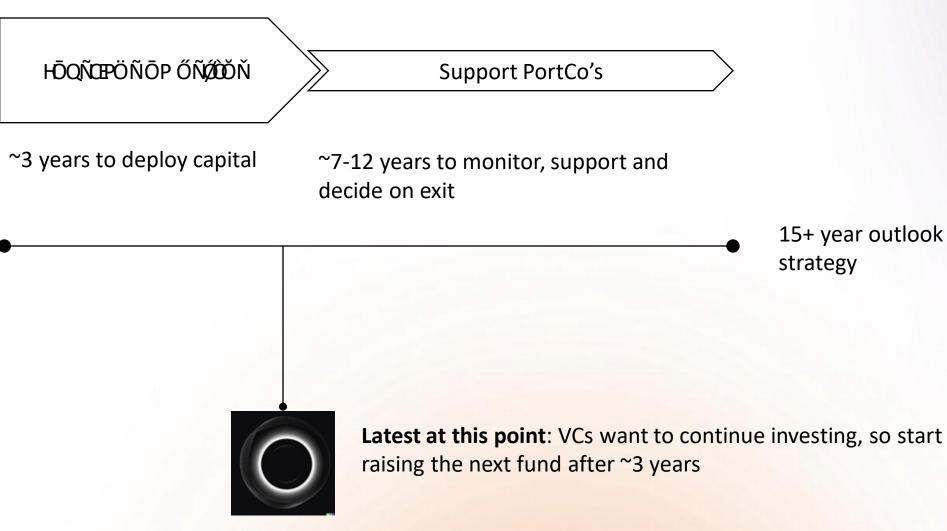
...

- Build out internal tooling
- Sometimes tech DD on investments

Tech

- Sometimes support portfolio companies on tech

Venture funds live 15y+, but front-load much of the heavy lifting



4

15+ year outlook on investment

Í ŎR RÑÔŌŎR ROVPIJFÒŒB ĢŎR ŇŎPOÑŘPOÒŌÔĒ



VCs are incentivized to increase AUM and make ₆ returns

ĞÞŌŇŒVŹŃŃŎÖŐÑŌŒVPŇŇ POŹŎÞŊO PRŎÖÑŃOVŌOĐÔŒ

→ÌMŌMŊÑÖÑŌPŅÑÑĂŠČÃ ŐBVBÅ

Necessary to run a fund Salaries, legal expenses, etc. Scales with fund *size*

1y

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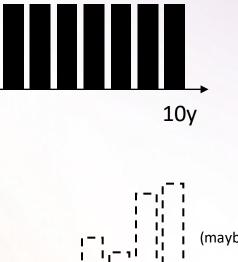
200%

→Carried interest (~20%)

Necessary for aligning interest GP does well if fund and LPs do well Scales with fund *returns* and *size*

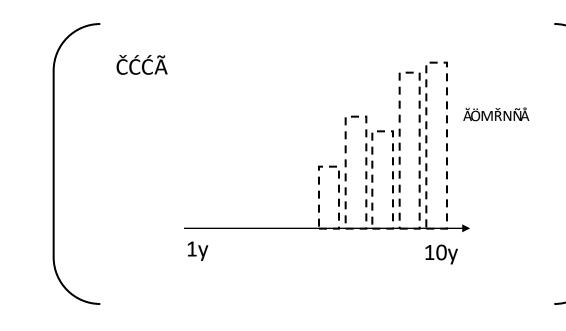
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How do we get the dotted maybe returns??



7

Let's look at the venture machine

Without exits, no returns. Without returns, no fun(d)

HŌŐÞP ŐVØVÖ ÑPÑØE

- Æ ĖQŇŹWŊÑ ŃOÑŃÔCEÌŖŇ
- Æ ĞÞŌŇŒÒŖÑ
- Á ŎŅÒŌQÑŒPÖÑŌPŒÒŌ ŐŎØŖŅŎŨĎ
- Æ Ĭ PMŊÑŅŎŃÞŒ
- $\not \text{ \widehat{A}} \quad \hat{I} \quad R \; \bar{O} \; \tilde{N} \not \text{ \widehat{O}} \; \tilde{O} \; D \\ \vec{O} \quad \vec{O} \quad$

The venture machine



Output parameters

- Wind-downs (fatalities)
- Exits through:
 - Acquisitions
 - Initial Public Offering
 - Tokens
 - Secondaries

Can be turned into an optimization problem btw: e.g., objective function is multiple on invested capital. Find optimal input parameters given risk profile, picking skills, etc. 8

The Power Law drives venture

- Venture means big risk, massive returns
- A few portfolio companies drive returns of the entire fund, ergo:
 - Fatalities don't matter
 - Each investment needs to be able to *at least* return the fund
 - Not every business fits the venture profile

Decision making is the real skill that matters in venture

Fund influences

ij

- 1. Capital available
- 2. Stage in fund cycle
- 3. Attention split (vacation?)
- **Burned topic** 4.
- 5. Competitive investments in portfolio



Í ÖP ÑÍRONDCERÍDNÍA **Startup factors VCs consider**

- 1. Exceptional team
- 2. Market
- 3. Product/Tech
- 4. Deal terms
- 5. Legal setup and cap table

Not exhaustive!

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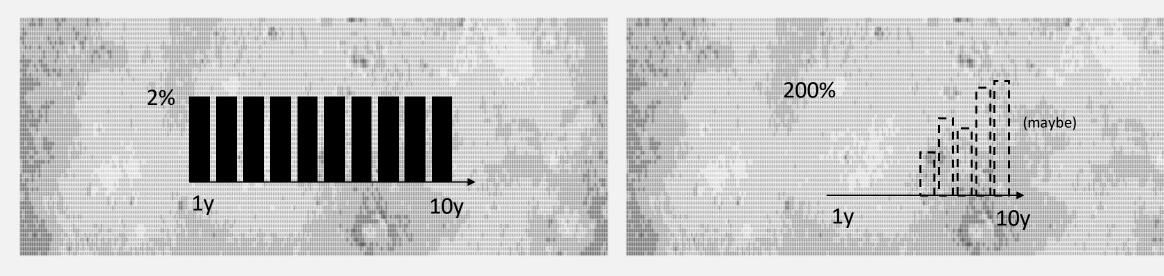
trying to fundraise for some time, dunno

"We're not fundraising yet... but I'd be happy to chat"

Stuff VCs LOVE

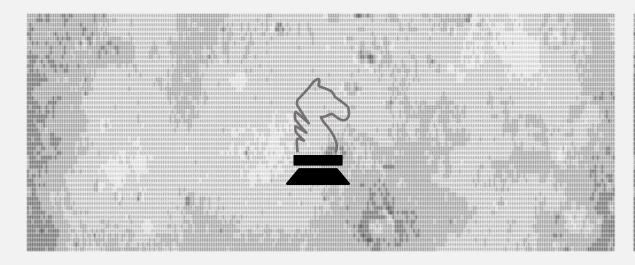
- 1. Prior exits ("serial entrepreneurs")
- 2. Traction
- 3. Momentum in the round
- 4. Great narrative
- 5. Being early

HŌŒÞÖÖMŹŘÈ Î ÞRÔŇZEHVZŇĊÖŐČZRVŌPENÞPŒŎÒŒĖĮÌ

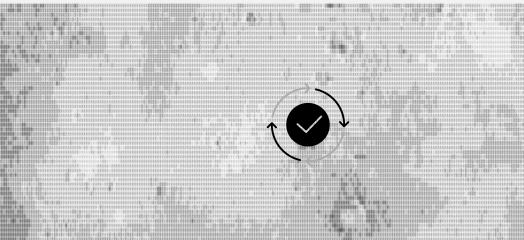


AUM can be main motivator! \$1B fund = \$200M in mgmt. fees over 10y

Massive uncertainty requires each investment to have huge potential reward



Fund size determines strategy

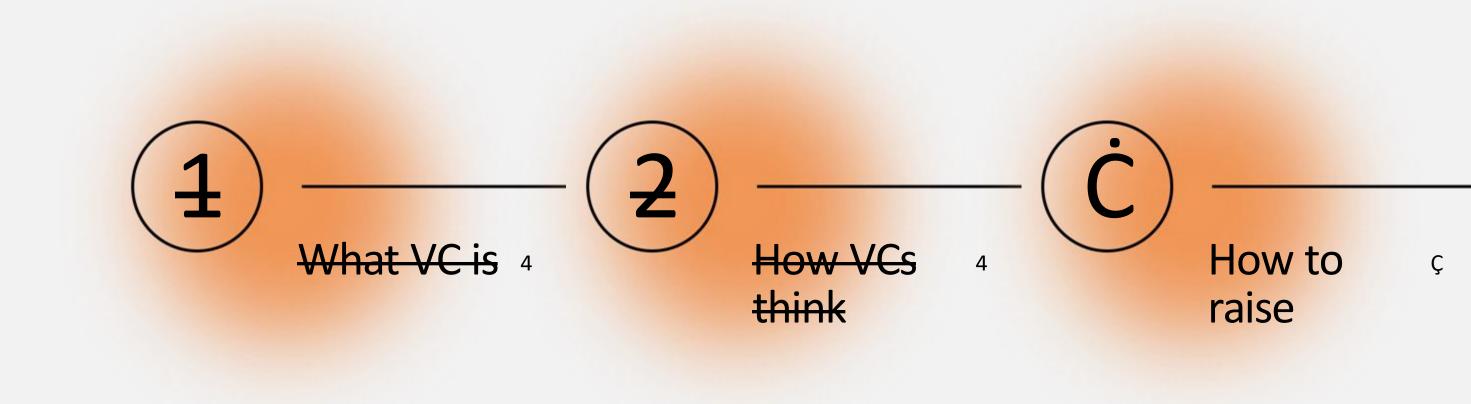


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Í ŎR RÑÔŌŎR ÔDŇĂŅOŎR POÑŘPÔDÔB J MP ŇŎĒ ĢŎR ŹŴŨĒŇĒ



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RAISE VC MONEY

l'm sorry sir, can't let you do that.

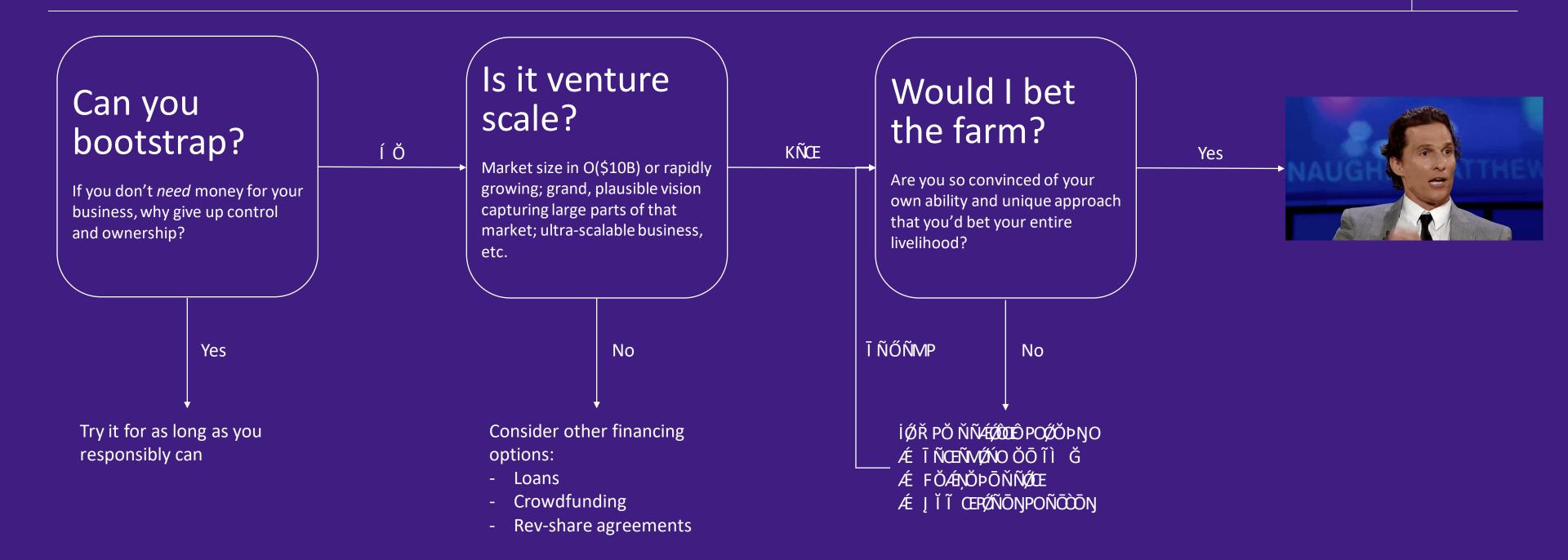
Not to worry. I have a permit.



imgflip.com



Three questions to ask yourself before starting to raise venture capital



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13

You decided to raise venture capital, wat do?



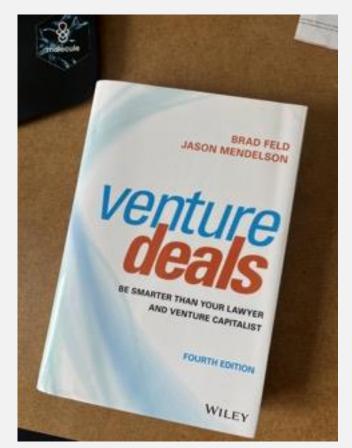
14

Which VCs to target

- Stage + Check size
- Geography
- Intro-line

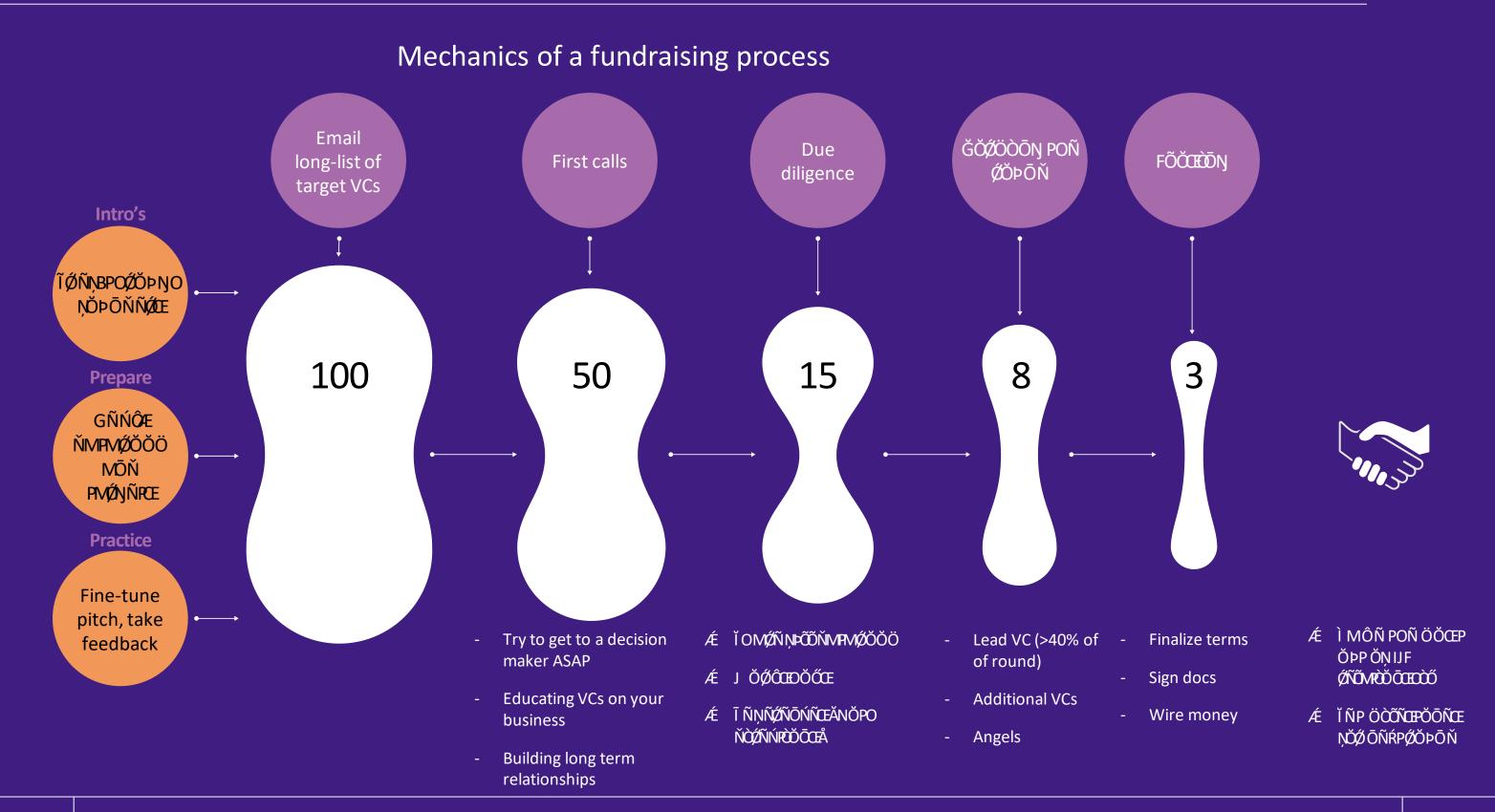
Do or do not, there is no try

- Be deliberate
- Build momentum
- Only "go out" when you're sure you can close



Best guide for more info

Don't be scared, fundraising doesn't have to be horrible. It will be work though



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ĬÒÖ ŰĨŃŹŧĨĨŒPŎ ÔĨNĨŐÒŌ ÖÒŌŇ



Three tenets of VC psychology:

- 1. VCs are looking for a reason to pass on you
- 2. (Many) VCs are herd animals, following the flock
- 3. VCs can smell desperation



How to use this in your favor:

- 1. Avoid early passes for bad reasons reasons
- 2. Tweak the pitch according to thesis of thesis of fund and trends
- 3. Act as if you're (and you are!) in the the driver seat



Target funds for whom yo

Tell a grand story, connecting your vision to larger supporting trends

Set tight deadlines and be prepared to stick to them





DON'T

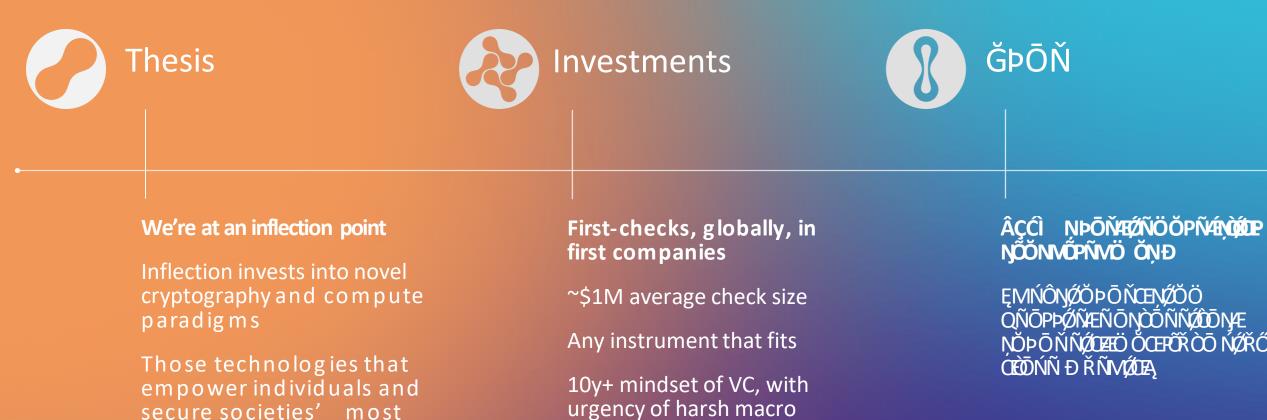
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Act mysterious and refuse to share information

Lie (obv.) or say you'll do different things to different people

Impose artificial constraints that don't allow for proper DD

ĜŔVÖ ĆŐŇIJF ĆŹŎŅŎŇĚ J OVPRÑ ŇŎNPHONNKOOEŔŔŖ



conditions

critical structures



ŎŇŌPÞŹŇÆŇŌŊÒŎŇŇŹŨŌŊÆ ŅŎÞŌŇŇŹŒEÖŎŒPÕŘÒŌŃŹŘŐPŎ

See ours dives as partners to foundersin the earliest stage

Ĭ ÞŐŐŎØPÒŌ POØÑÑ ÖMÒŌ MÓÑMCÈ

- Æ Ĭ PØVPÑŊŘ
- Æ Í MÕÑŌP
- Æ FŎÖÖÞŌÒPŘ

My hope after this

Ė PÕŇVCEP ŎŌŇ ŐŇŹŒĐŌÒŌ POŇ ŃŹŎRŇ CERVŹÆEV I QŇŌPÞŹŇÆ NVIŃÔŇŇ ŃŎÖ ŐVIŌŘ

Still on the fence?



JLB@inflection.xyz

@JonatanLB on tg

Red flags



19

Í ÖP ÑRONDERÍÐNIA

"If you agree to my terms, I'll buy you a