Funding Entrepreneurship

OCTOBER 2016

Typical funding sources for small and medium enterprises

Funding Type	✓ Benefits	? Considerations
Family and friends	• Easier to obtain • Low financing costs	• May negatively impact relationships if business does not do well • Limit to the amount that can be raised
Crowdfunding	• Opportunity to test the market for your idea • Risk of plagiarism of concept	• May not be able to raise the amount required • May be hard to raise money for B2B offerings as funders generally back offerings targeted to consumers
Government loans / grants	• Low financing costs • “Free” money	• May not meet lending criteria • May come with restrictions on business activities
Bank debt	• Maintain ownership of business • Interest expenses are tax deductible	• Harder to obtain (need credit history and assets as security) • Need to meet repayment schedule • Cumbersome (debt covenants)
Equity funding	• No recurring repayment schedule – investors look for long term growth • Investors can help the business grow • Investors share downside risk	• Give up some equity and future earnings • High expectations of performance from investors

Overview of equity funding

- Equity funding entails **giving up a share of the business** (ownership / control and future profits) in return for **investment**
- Compared to debt, equity does not require a fixed repayment schedule, and if the business fails there is no repayment obligation to the equity investors
- Investors usually expect a **range of returns within a certain time frame**
- Invested amount depends on business valuation, which considers:
  - Funds required to grow the business to next significant milestone
  - Amount of equity given to the investor
  - Traction and revenues
  - Reputation of founders and track record of management team
  - Industry and competitive environment
  - Market comparables

Investor profiles and expected returns depend on the stage of the business

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Seed Funding

- Early stage investment by angel investors
- Focus on **concept**

Series A

- Venture Capital (VC) funds invest to **optimize product and user base**

Series B

- VC and Private Equity (PE) funds invest to **grow the business and generate profit**

Series C, D, E…

- VC and PE funds invest to **generate returns**, often with an eye on exit via an IPO

Early stage venture:

- *High risk and uncertainty*
- *High return expectations*
- *Valuation of business may be subjective*
- *Smaller investments*

Late stage venture:

- *Established business model and track record*
- *Lower risk and return expectations*
- *Valuation of business based on revenues and growth potential*
- *Larger investments*

Evaluation criteria – Seed funding

Investor profile	Angel investors
Amount and use of funds	Typically US$150K - US$2M to support the initial market research and development work for the company
Investor focus	Concept
Investment timeframe and expected returns	• Typically 10x in 5 years

Information required	• Quality, passion, commitment, and integrity of the founders, as well as work history, network and skills
	• Product concept
	    ○ What is the problem
	    ○ How does the product work to solve the problem
	    ○ Opportunity to scale
	• Target users: characteristics, age group, demographic, geographic location
	• Amount of funding required and use of funds

Evaluation criteria – Series A: Optimize

Investor profile	Venture Capital funds
Amount and use of funds	Typically US$2 – 15M to optimize product and user base
Investor focus	Early traction and customer acquisition
Investment timeframe and expected returns	• Typical returns range from 10x – 30x • Minimum 20% annual IRR, exit in 8-10 years
Information required	• Management team, including work history, network and skills • Market: What is the problem and size of opportunity • Solution and value proposition, including minimum viable product and demo / mockup • Business model including quantification and breakdown of revenue sources • Competitive landscape: who are the competitors, why have they failed to solve the problem, and what is the competitive advantage • Customers: Early traction data, number of users, acquisition plan and acquisition costs • Financial overview: 3-year projections of revenue, expenses and EBITDA • Strategic plan and milestones • Funding: amount required, other investors, proposed use of funds

Evaluation criteria – Series B: Build

Investor profile	• Venture Capital funds • Private Equity funds depending on risk appetite of fund and growth stage of the company
Amount and use of funds	• Typically US$7 – 10M to expand market reach to take the business past the development stage
Investor focus	"Build": Growth and profit generation
Investment timeframe and expected returns	Similar to Series A: • Typical returns range from 10x – 30x • Minimum 20% annual IRR, exit in 8-10 years
Information required	• Similar to Series A, but more detailed • Additionally: ○ Momentum (e.g. metrics such as history of growth, churn and margins)

Evaluation criteria – Series C, D, E… : Scale

Investor profile	• Venture Capital funds • Private Equity funds
Amount and use of funds	• Typically US1M and above to support ongoing growth and prepare the company for an IPO • Multiple rounds of funding may be raised depending on the company
Investor focus	"Build": Scale and returns
Investment timeframe and expected returns	• Expected returns >15% annual IRR, exit in ~5 years
Information required	In addition to information requested in Series B: • Detailed valuation • In-depth discussion and engagement with management • Detailed financials and projections • Business plan and growth strategy • Exit strategy • ESG considerations

Considerations for Small Business when Seeking Investors

The right investor will be able to provide valuable input into business planning and growth strategies

Questions to ask potential investors:

- Can you refer me to other entrepreneurs you have worked with?
- How do you like to help your portfolio companies?
- What amount of follow-on investment do you think our company will need to succeed?
- What are your relationships with venture capitalists who would fund our next round?
- How do you think you can be helpful to us in growing the business?
- How do you like to interact with your portfolio companies?
- What are your other investments in our space?

Deal Structuring: Common Terms

Deal Element	Detail
Preferred Return	• Rationale: The investor wants its money back before the entrepreneur gets his / her return • Instrument: **Convertible Preferred Stock** gives the investor preferential claims on the company's assets (in case of liquidation) and almost guaranteed dividends. Can be converted to common stock to allow benefit from equity upside
Protection of Valuation and Position on Future Money	• **Anti dilution** provisions: Prevent the investor's ownership stake in the company decreasing by more than the incremental value of the stake as more investors are brought on. Most anti dilution provisions function by adjusting the conversion price of the preferred stock • **Approval rights** require investor approvals for decisions such as new financings, merger or sale of company etc. • **Pre-emptive rights** give existing investors the right to participate pro-rata in future rounds of equity financing • **Right of first refusal**: gives investors the right to acquire shares offered by the company on a pro-rata basis • **Tag along rights**: give investors the right to sell share on a pro-rata basis if the founder sells its shares to others (helps lock the founders in)

Deal Structuring: Common Terms

Deal Element	Detail
Management of Investment	• **Board seats**: number and allocation • **Business approvals** (capital expenditures, annual budget and business plan) • Information rights • Management **incentive stock option pools**, **vesting** of stock of founders / key management • **Non-competition** and inventions agreements
Exit Strategies	• **Registration rights**: gives investors the ability to require a company to list shares publicly. Terms include number of demand registrations, allocation of registration expenses, % of shareholders needed to make the demand • **Redemption** of preferred stock by company (if not previously converted by investors) – generally used when company does not go public • **Drag-along provisions** grant the investors the right to compel the founders and other stockholders to vote in favor of (or otherwise agree to) the sale, merger or other "deemed liquidation" of the company

Case Study – Seed Funding: iprice Group, Malaysia

iprice, an e-commerce startup, received $550,000 in seed funding from Asia Venture Group in 2015

Search, Compare & Save

Company Overview:

- iprice aims to create the most delightful online shopping experience by giving shoppers an intuitive and visual way to discover products
- The company states it is the leading platform for online shoppers across seven markets (Malaysia, Singapore, Indonesia, Philippines, Hong Kong, Thailand and Vietnam), with traffic doubling every month

Investor Profile:

- AVG is a hands-on, private Internet holding company that focuses on long-term value creation in Southeast Asian online markets

Funding Use and Growth Plan:

- The funding would help iprice to quickly acquire international know-how, expertise and talent in fields ranging from technology over online marketing to the business operations
- The company aims to double down on its machine learning algorithms to further improve the "smart search" and provide individual recommendations according to the user's browsing behavior

 Source: http://www.dealstreetasia.com/stories/e-commerce-biz-iprice-gets-500k-seed-funding-from-asia-venture-group-6868/

Case Study: Series A and B funding – Ninja Van, Singapore

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Ninja Van, a last-mile delivery startup, has raised three rounds of funding totaling US$32.6M to date

NINJA VAN

Jan 2014

- Founded by Lai Chang Wen, Shaun Chong and Tan Bo Xian
- Raised **S$200K** (US$146K) **seed funding** from angel investors

Company Overview:

- Ninja Van addresses the problems in the last mile fulfillment industry accompanying the rapid rise of e-commerce in the region
- It focuses on e-commerce and provides businesses with technology-based solutions to optimize their logistics and achieve their business needs

March 2015

$2.5M Series A from Monk's Hill Ventures

- The funding was to **accelerate existing product development and market expansion** within Southeast Asia
- In the ten months since inception the company had established itself as one of the **top courier providers in Singapore**, with more than **300 merchants** on board including major large-format retailers and brands such as Lazada, Guardian, Pupsik Studio, Love Bonito, Agape Babies, and many more

April 2016

$30M Series B funding from Abraaj, Monk's Hill Ventures, B Capital Group and Yahoo Japan Capital

- Acquired **3,000 clients** across different industries, delivering approximately 15,000 parcels per day
- Having successfully executed their model in Singapore, Malaysia and Indonesia, Ninja Van plans to use the capital to **expand** to Thailand, Vietnam and the Philippines, and make significant investments to **improve its customer service**

 Source: https://www.techinasia.com/ninja-logistics-snags-25m-teleport-logistics-flash; https://www.crunchbase.com/organization/ninja-van-2

Case Study – Series C Funding and Beyond: Swiggy, India

Swiggy, a food ordering and delivery solution, has raised US75.5M in five rounds of funding to date

SWIGGY

Apr 2015 — **US$2M Series A** from Accel Partners and SAIF Partners

Jun 2015 — **US$16.5M Series B** from Northwest Venture Partners (NVP)

Jan 2016 — **US$35M Series C** from all existing investors plus Harmony Partners and RB Investments

- Established in **seven cities** in India with more than **5,000 restaurants** on its platform
- Funds will be used to build a strong leadership team, upgrade technology and enhance customer experience

May 2016 — **US$7M Series C** from NVP, Accel Partners, DST Global

- Achieved a milestone of clocking **1M orders** in April and established presence in **eight cities**
- Funding will enable it to go deeper into core markets and maintain its market leadership position

Sep 2016 — **US$7M Series D** from Bessemer Venture Partners, SAIF Partners, NVP and Accel Partners

- More than **9,000 restaurants** on its platform
- Average delivery time is claimed to be **the fastest in India** (37 minutes)
- New money will be used to develop technology, expand restaurant selection and improve customer experience

Business Model Overview:

- Swiggy offers live order-tracking within its app, no minimum order size and ownership of fleet, which differentiates it from competitors, helps maintain customer repeat rate and charge higher fees to partner restaurants
- Partner restaurants are charged for lead generation and delivery at 25% of the order

Note: The company reported revenue of INR 11.6 lacs against a loss of INR 2.1 crores in FY14-15

 Source: https://techcrunch.com/2016/09/19/swiggy-series-d-15-million/; http://economictimes.indiatimes.com/small-biz/money/swiggy-raises-rs-47-crore-from-norwest-venture-partners-dst-global-and-accel-partners/articleshow/52197261.cms; https://yourstory.com/2016/01/swiggy-funding/; https://inc42.com/flash-feed/swiggy-raises-additional-7-mn/

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