



## Venture Capital & how VCs think

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# Agenda

- Introduction
- Venture Capital: An Overview
- Concepts: What VCs are interested in
- Anatomy of a good pitch
- Appendix: Resources

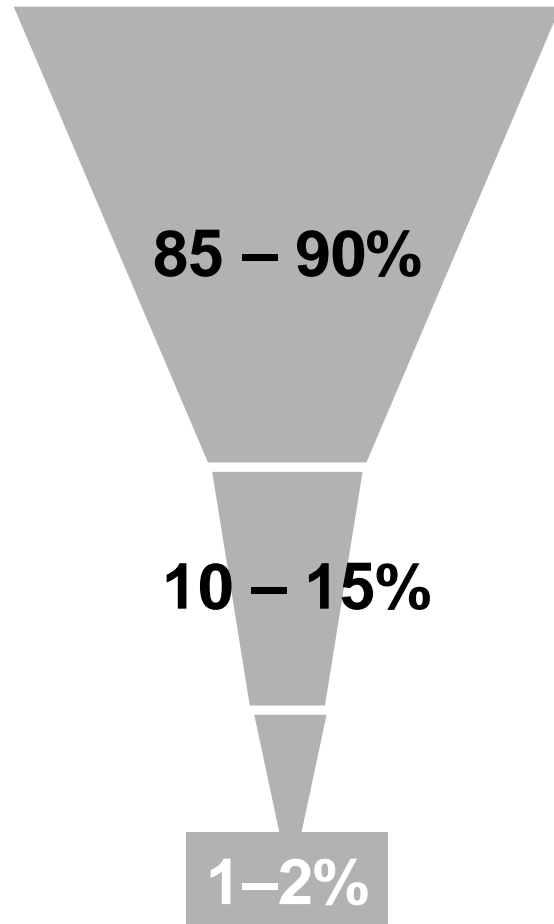
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# Venture Capital: An Overview

- **Venture Capital is an Investment Business**
  - » Who is the VC's customer?
- **Goal: Generate risk-adjusted returns**
- **Success factors**
  - » The right asset, in the right hands, at the right time
  - » Create an environment where everybody has the **right incentives** and **adequate resources** to succeed
  - » Focus on upside is the best downside protection
  - » Put your money where your mouth is
  - » Exit is as important as investment, maybe even more so
- **Tools to maximise value and manage risk**
  - » Portfolio Approach
  - » Equity Investment in stages
  - » Money is the lever, with which change is achieved
  - » Value-Added support (Know-how, industry expertise, network etc.)
  - » Do whatever is needed...
  
- **Process: Invest in potential – create & enhance value – realise value**

# VC Selection Process



## ■ Immediate Drop-Out

- » Management
- » Business model
- » Sector
- » Stage
- » Capital requirement
- » Consistency

## ■ Close View

- » Negotiation
- » Competition
- » Due Diligence

## ■ Investment

## Attrition Rate:

- Not every **great idea** becomes a great technology...
- Not every **great technology** has a great commercial application...
- No every **great commercial application** is a great business concept...
- Not every **great business concept** becomes a great company...
- Not every **great company** becomes a great VC deal...
- AND: not every „**great**“ VC deal becomes a success ;-))

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# Concepts: What VCs are interested in

## **Value**

- Overall value potential
- Value creation
- Value capture
- Value realisation
- Value drivers

## **Risk**

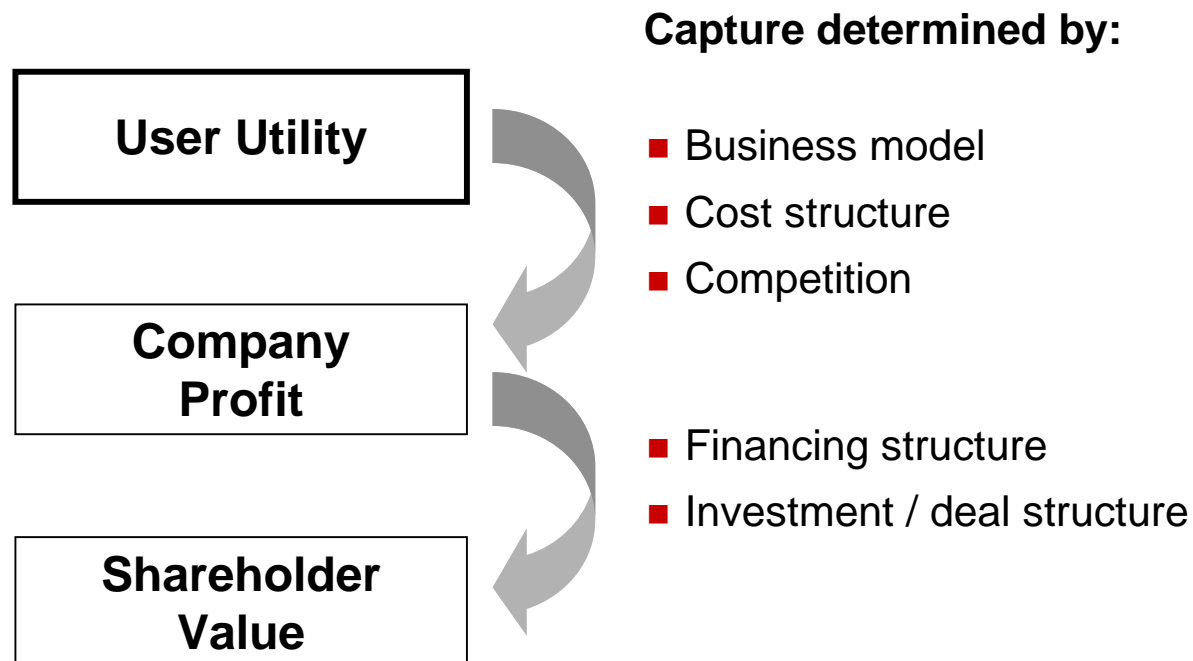
- Overall capital requirement & risk level(s)
- Milestones
- Staging

## **Risk – Return Profile**

- Overall value/return potential vs. overall capital requirement & risk level(s)

# Concepts: Value

- Value is quantified utility
- In a commercial context, value is measured in monetary terms and always (ultimately) derives from cash flows (past, present & future)
- Difference between *Value Creation* and *Value Capture*



# Concepts: Risk

## Risk

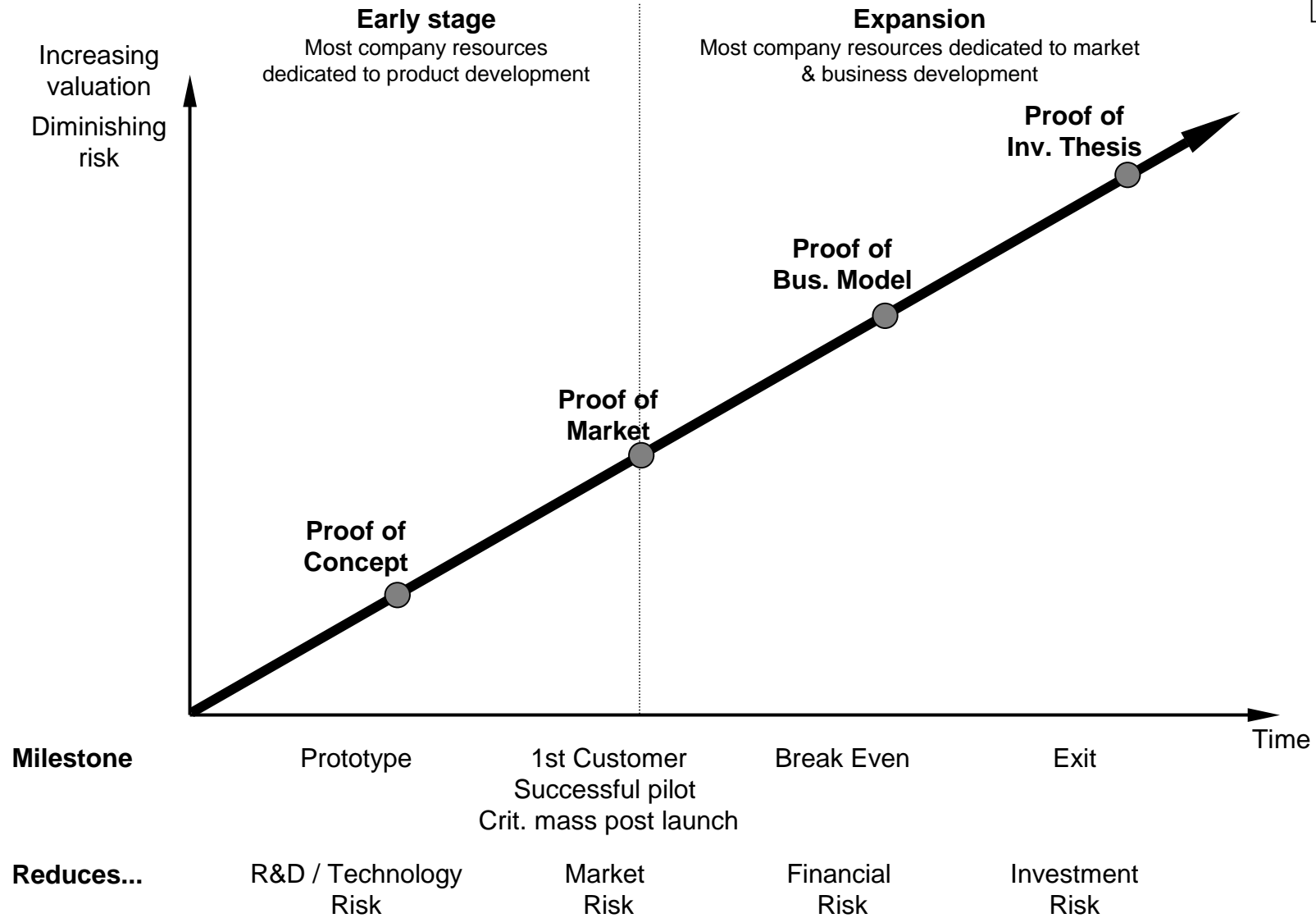
- Risk is quantifiable uncertainty
- Managing risk by limiting
  - » *Exposure to risk*
  - » *Consequences of risk*

## Milestones

- Scheduled, measurable event that indicates achievement of certain state(s) or completion of certain task(s) / deliverable(s)
- Milestones are
  - » Scheduled
  - » Measurable
  - » Risk-reducing / value-enhancing
  - » Points when decisions are taken
- Staging
  - » Break down capital requirement and pay out according to milestones

# Concepts: Milestones

*illustrative*



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# Anatomy of a good pitch

## Main points to get across

- **Attractiveness:** Great opportunity
- **Competitiveness:** Right team & structure to deliver
- **Proof:** Tangible evidence of the two above

## The Ten Topics:

- (Executive Summary)
- Problem
- Your solution
- Business model
- Underlying magic/technology
- Marketing and sales
- Competition
- Team
- Projections and milestones
- Status and timeline

# Anatomy: Ten topics dissected

Topic	Questions to answer	Common fallacies	Supporting mat's
<b>Problem</b>	What's the need you address? How big, significant, urgent? Mission-critical or nice-to-have?	Insignificant problem Engineering driven (solution seeking problem)	Market research Customer interviews
<b>Solution</b>	How do you address this need? Why is this better/cheaper/unique? What value for the user/client?	Commercially relevant factors neglected Driven by feasibility, not need	Prototype
<b>Business Model</b>	How will you capture value? How do you monetize this value? Is this concept scaleable?	Scalability Route to market and its cost not considered	-
<b>Technology</b>	Why is it unique / different? How can you defend it? Does it work? Have you proof?	Too much focus on technology Just because something works does not mean anyone needs it	Data / prototype Patent list Full patent texts
<b>Marketing &amp; Sales</b>	How will you sell it? What resources will you need? What drives buying decisions?	Not enough focus on it Not well enough thought through Not enough resources (€, HR...) devoted to execution	Anything of relevance The more specific (i.e. closer to reality, action oriented), the better

# Anatomy: Ten topics dissected

Topic	Questions to answer	Common fallacies	Supporting mat'cs
<b>Competition</b>	Who else is in the game? Substitutes? Industry food chain? What's your unfair advantage/USP?	"Nobody offers this (yet)" Unknown competitors "Our widget can...."	-
<b>Team</b>	Who will implement the plan? Can they do it? track record? Advisors? Recruitment needs?	All R&D, no sales / commercial No assessment of future needs	Full CVs Reference list
<b>Projections, Milestones</b>	What do you plan to achieve when? What are your assumptions? How do you measure progress? What resources do you need? What will you use them for?	Unrealistic/intransparent assumptions (both ways) No clearly identified milestones No linking of risk & return Unrealistic funding requirement (both ways – too lo/hi)	Financial Plan, esp. monthly Cash-Flows Milestone Plan Funding requirement & use of proceeds
<b>Status &amp; Timeline</b>	Where are you now? What next?	Not action-oriented	-
<b>ExecSum</b>	Give a complete and concise overview of the opportunity on <i>no more</i> than two pages	Introduction rather than summary Written first, rather than last Too long	-

# THANK YOU VERY MUCH!



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# Appendix: Resources

- **GCP:** See <http://www.gamma-capital.com/en/resources.php>
- **20 questions** you'll be asked by a VC
  - » <http://www.toptechnology.co.uk/Twenty%20Questions.pdf>
  - » And other resources on the site: <http://www.toptechnology.co.uk/resource.htm>
- **Guy Kawasaki** „The 10/20/30 Rule of PowerPoint“
  - » [http://blog.guykawasaki.com/2005/12/the\\_102030\\_rule.html](http://blog.guykawasaki.com/2005/12/the_102030_rule.html)
- **David Cowan** blog (Who has time for this?)
  - » <http://whohastimeforthis.blogspot.com/>
  - » <http://whohastimeforthis.blogspot.com/2005/11/how-to-not-write-business-plan.html>
  - » Especially, see link to Matt Cutler's VC pitch template at the end of above article!
- **Quester** (now SPARK Ventures) „Building viable university spinouts: A VC's view on three key ingredients for success“
  - » <http://www.altassets.com/pdfs/QuesterWhitePaperonUniversityspinout.pdf>
- **Taylor Wessing:** „Private Equity, an entrepreneur's guide“ brochure
  - » [http://www.taylorwessing.com/website/generator/taylorwessing/content/publications/items/UK/PrivateEquity\\_TW\\_UK\\_english.de.property=file.pdf](http://www.taylorwessing.com/website/generator/taylorwessing/content/publications/items/UK/PrivateEquity_TW_UK_english.de.property=file.pdf)