

STARTUP FUNDING

#ZZERO.digital – Virtuelle Gründer- und Unternehmer-Messe
Nov 17, 2020

MARTIN GIESE

AUTHOR “STARTUP-FINANZIERUNG: DEIN INSIDER-GUIDE”
MD XPRENEURS INCUBATOR
BUSINESS ANGEL



STARTUP
FINANZIERUNG.COM

WHO AM I? — MARTIN GIESE



Martin Giese

- **Studied Law & Journalism** (Hamburg, Geneva, Singapore), **MPA** (Harvard) and **MBA** (MIT Sloan)

Contact:

giese@unternehmertum.de
+49 160 / 8967554



- **Professional Experience** at Solon Management Consulting (4 Years) and Kabel Deutschland/Vodafone (13 Years).
Managing Director (Geschäftsführer) Vodafone KDK GmbH until 7/17
- **Managing Director at XPRENEURS** (early stage incubator)
- **Negotiation Coach**
- **Author and Blogger „Startup Finanzierung“**
- **Business Angel** (Kinexon, Cliniserve, Wappier, Spyra, Primo Espresso)
- **Mentor/Coach/Lecturer** at MIT Delta V Accelerator, TUM Executive MBA, XPRENEURS, CDTM, LMU EC, Plug and Play RetailTechhub, Climate-KIC, Techstars Startup Weekend, Founder Institute, Fraunhofer Ventures



STARTUP
FINANZIERUNG.COM

Part I: Do you really want external capital?

MARTIN GIESE



STARTUP
FINANZIERUNG.COM

DO YOU ACTUALLY WANT EXTERNAL CAPITAL ... NOW?



“Start raising money only when it is actually going to make a difference for your company!”

Hanno Renner,
Founder/CEO, Personio

DO YOU ACTUALLY WANT EXTERNAL CAPITAL ... NOW?

Ask yourself:

- ➡ Do we actually need the money?
- ➡ Will it make a huge difference for our company?
- ➡ Do we need the money *now* – or can we wait?

HOW TO GET STARTED WITHOUT EXTERNAL CAPITAL

- 1 Saving and saving
- 2 Day job

HOW TO GET STARTED WITHOUT EXTERNAL CAPITAL

1 Savings and saving

- ➔ Get creative
- ➔ Inspire people

Team Spyra working from a university-sponsored lab only accessible by crawling underneath a test channel (2017)



HOW TO GET STARTED WITHOUT EXTERNAL CAPITAL

2 Day job

“Without a day job I wouldn’t have been able to afford founding a company.”

Rike Brand,
Co-founder, Spyra



HOW TO GROW YOUR STARTUP WITHOUT EXTERNAL CAPITAL

- 1 Few physical investments
- 2 Product market-ready soon
- 3 Supportive pilot customers

HOW TO GROW YOUR STARTUP WITHOUT EXTERNAL CAPITAL

1 Few physical investments

- ➔ Software development, innovative services
- ➔ “Hardware is hard”



HOW TO GROW YOUR STARTUP WITHOUT EXTERNAL CAPITAL

2 Product market-ready soon

“Our product was good enough from the start, so we could finance ourselves with customer projects.”

Bastian Nominacher,
Co-founder/CEO, Celonis



HOW TO GROW YOUR STARTUP WITHOUT EXTERNAL CAPITAL

3 Supportive pilot customers

“Our customers need to be ready to pay for the innovation partnership.”

Oliver Stahl,
Co-founder/CEO, Robotise



THE ADVANTAGES OF INTERNAL FINANCING

- 1 Demand orientation**
- 2 Freedom of decision-making**

THE ADVANTAGES OF INTERNAL FINANCING

1 Demand orientation

“ Bootstrapping allows you to grow close to the market instead of building pipe dreams for investors. ”

Lin Kayser,
Founder/CEO, Hyperganic



THE ADVANTAGES OF INTERNAL FINANCING

2 Freedom of decision-making

“We only started to realize what pressure we were under before when we began to only spend our own money.”

Freya Oehle,
Co-founder, 3tausendsassa



THE DOWNSIDES OF INTERNAL FINANCING

- 1 Dependence on customers
- 2 Lack of strategic focus

THE DOWNSIDES OF INTERNAL FINANCING

1 Dependence on customers

- ➔ If customers “invest” in you, they become your investors
- ➔ Avoid financial dependence on any individual customer
- ➔ Avoid exclusivity in contracts



THE DOWNSIDES OF INTERNAL FINANCING

2 Lack of strategic focus

“Without discipline you lose sight of your goal.”

Bastian Nominacher,
Co-founder/CEO, Celonis



Part II: How to get external capital

MARTIN GIESE

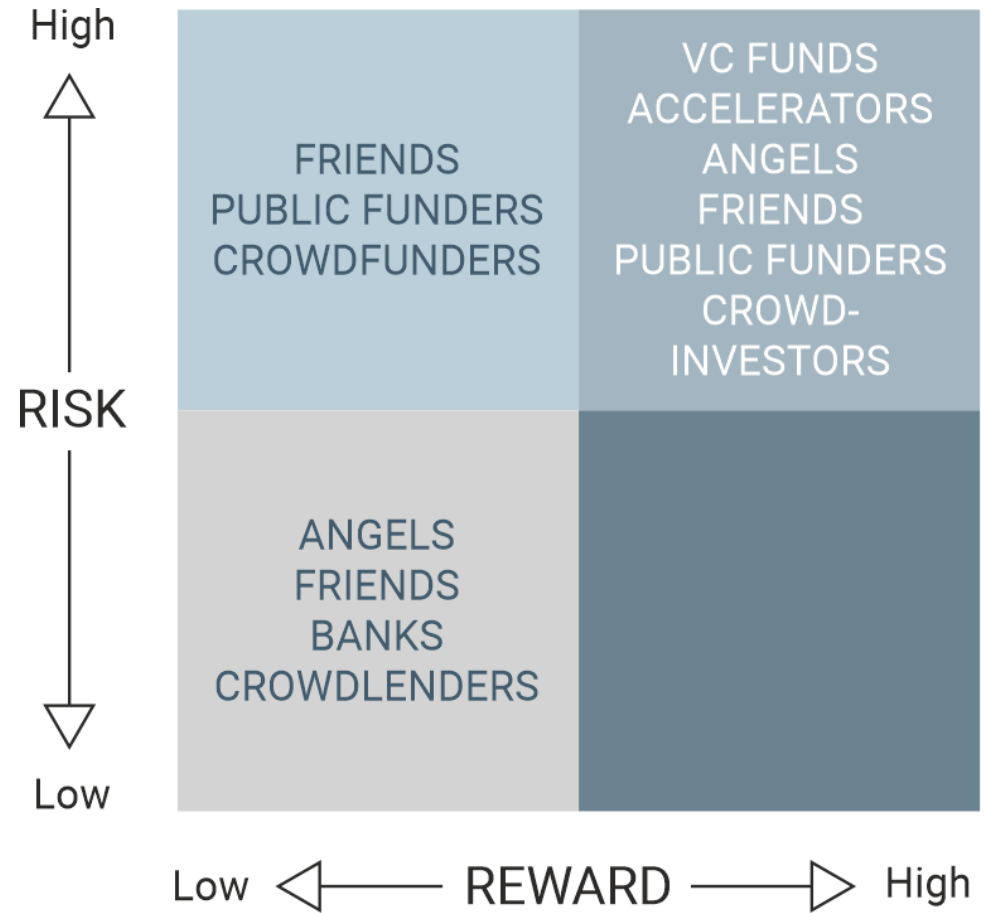
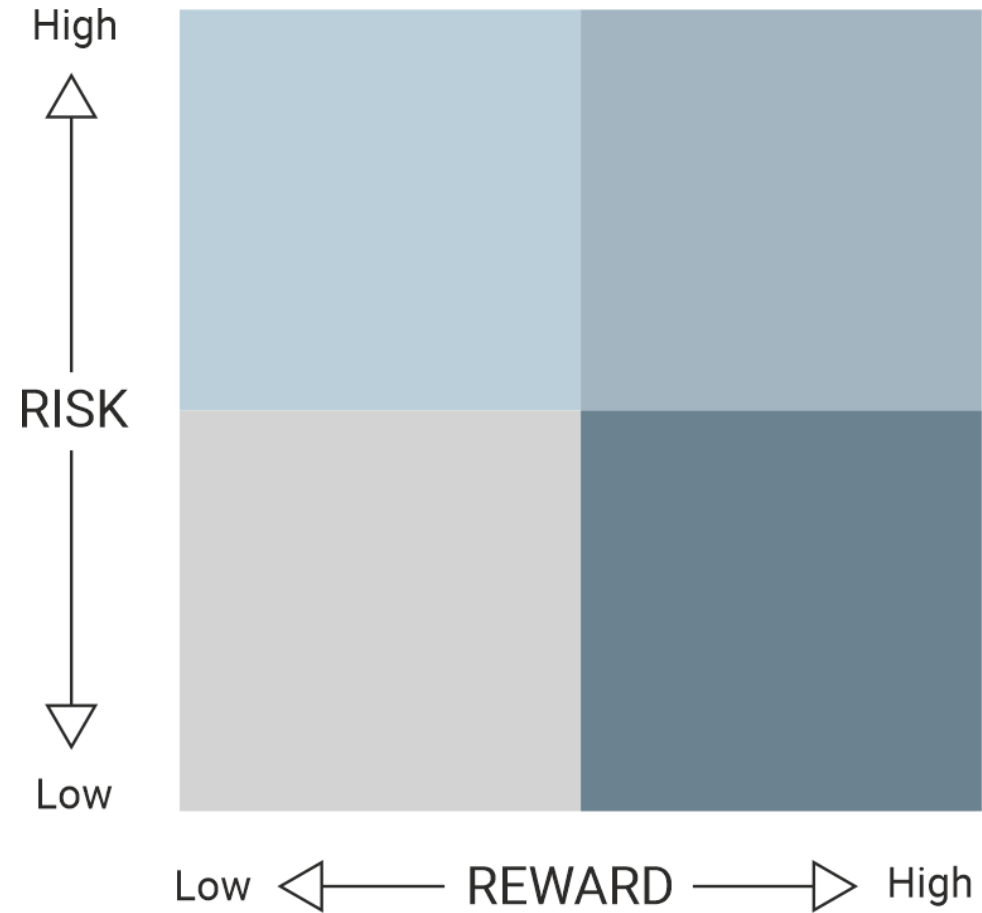


STARTUP
FINANZIERUNG.COM







MAKE YOUR STARTUP ATTRACTIVE

- _TASTES ARE DIFFERENT**
- _WHAT MAKES A STARTUP SEXY?**
- _HOW TO PREPARE FOR DATING**

TASTES ARE DIFFERENT



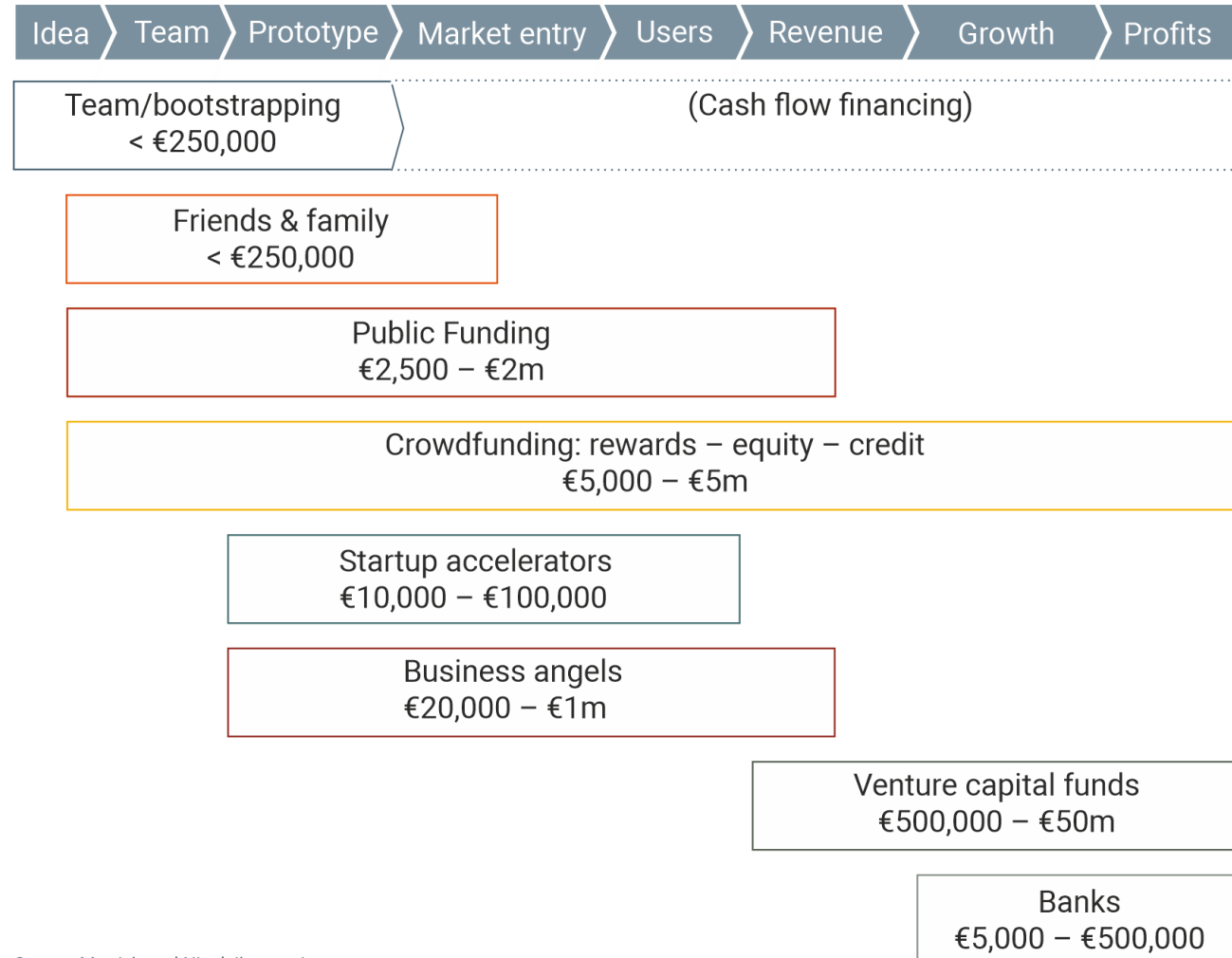
WHAT MAKES A STARTUP SEXY?

CHECKLIST	VALUE INCREASE IF ...	CHECKLIST	VALUE INCREASE IF ...
 IDEA	<ul style="list-style-type: none"> • Strong and original • Protectable by patent • Validated from customer's point of view through conversations, letters of intent (LOIs), orders 	 REVENUE	<ul style="list-style-type: none"> • Existing, ideally recurring • Prices in line with costs and business model • Traction visible
 PROTOTYPE & PRODUCT	<ul style="list-style-type: none"> • Available and tangible • High quality • Technologically convincing • Attractive design • Suitability for mass-manufacturing proven 	 STRATEGIC PARTNERSHIPS	<ul style="list-style-type: none"> • Existing, with important partners
 TEAM	<ul style="list-style-type: none"> • Fully covered • Key positions inhabited by highly valuable persons (proven through former employers, awards, relevant degrees, seniority) 	 ASSUMPTIONS & FINANCIAL PLAN	<ul style="list-style-type: none"> • Most important assumptions proven and validated as good as possible • Model conceptually and visually convincing
 MENTORS & INVESTORS	<ul style="list-style-type: none"> • Highly valuable persons • Meaningful selection for the project 	 MARKET SIZE & DYNAMICS	<ul style="list-style-type: none"> • Large market • Customers' readiness to switch proven
		 COMPETITION	<ul style="list-style-type: none"> • Competition limited • Clear differentiation from the competition
		 EXIT POTENTIAL	<ul style="list-style-type: none"> • Plausible path to an exit • Reference cases for exits

SEARCH AT THE RIGHT TIME IN THE RIGHT PLACE

**_ABOUT REALISTIC EXPECTATIONS
_GETTING OFF THE COUCH**

ABOUT REALISTIC EXPECTATIONS



Source: Martin's and Nicolaj's experience

GETTING OFF THE COUCH

- 1 Activate your network**
- 2 Use matchmaking institutions**
- 3 Show yourself at events and competitions**
- 4 Get on TV!**
*but don't confuse
the show for reality

FIND YOUR MATCH

_THREE CRITERIA FOR A PERFECT MATCH
_DEEP DIVE: HOW TO CATCH AN ANGEL

HOW TO CATCH AN ANGEL

The typical German business angel



Source: BAND e.V./Wischnewsky (2018), based on 108 responses



Demographics

96% male;
56 years old



Background

Highly educated (55% have a master's/diploma title,
23% a doctorate)
65% former entrepreneur, 49% (co-)founder/
57% manager of a large company



Startup portfolio

Majority (54%) has 4 or more investments
(increasingly syndicated or co-investments);
spends 50+ hours per month with BA activities



Main motivation

Wants to support founders with knowledge, network
and skills

Don't forget:

Every Business Angel is an individual!

HOW TO CATCH AN ANGEL

- 1 Does the investor like my type?
- 2 Are we interested in the same things?
- 3 Does the investor live close to me?



Most popular industries
32% IT,
16% MedTech,
9% B2B services



Investment amount
Ø EUR 113.000;
Median: EUR 50.000
Shares
Ø 12%;
Median: 7%

*The typical investment profile
of German business angels*



Source: BAND e.V./Wischnewsky (2018), based on 108 responses



Investment location
90% German startups;
53% within one hour of
the angel's residence



Contact with startups
68% own network,
29% BA networks,
15% fairs/events,
8% incubators/awards,
0% intermediaries/online

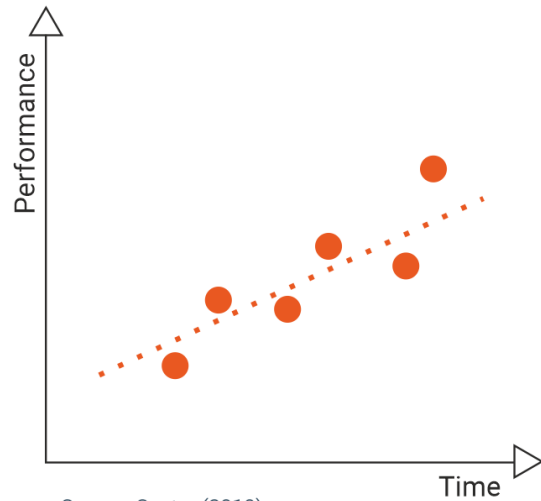
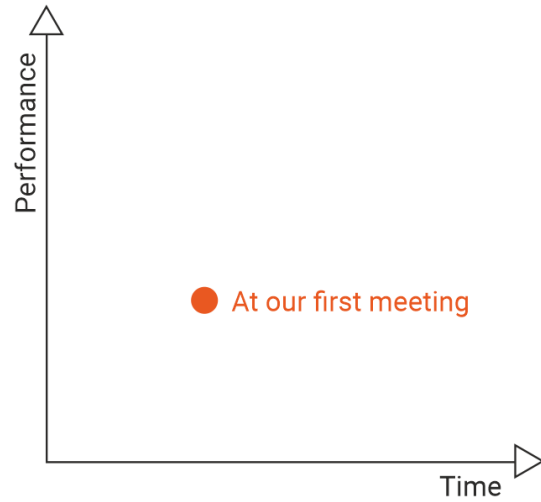
HOW TO CATCH AN ANGEL

	NEW ANGELS	BA NETWORKS	SUPER ANGELS
ROLE	Typically passive but often wants to be involved on an ad-hoc basis; you have the chance to get valuable know how	Varies but one angel often acts as lead and is typically very active while other investors are more passive	Typically actively uses their own network and personal brand to help make the startup a success
ALONE OR IN CONSORTIA	Usually invests alone but you can pool them together to reach your funding goal, e.g. use 3-5 different investors	Most prefer to make consortia with other angels from same network: spread risk, more power	Invest alone or with other investors they trust (both private and institutional investors)
INVESTMENT SIZE	Typically, less than €50,000 per person per round	Varies, but typical investment round comprises of €100,000-500,000 invested by 2-5 angels together	Varies, up to €1 million per company, but more often €100,000-250,000 per investment round
INDUSTRY FOCUS	None, but much harder to convince investors if the technology is so specialised that they don't understand the problem or solution	Varies, but normally at least one person in the consortium has the industry know-how necessary to convince them	Experienced entrepreneurs who typically invest in the same industries as those in which they made their own money
HOW TO FIND THEM	Your extended network, i.e. friends of friends; typically don't consider themselves business angels but have equity from successful corporate careers or startups	BA network webpages; you can upload a deck and ask to pitch in front of the angels; better chance of success if you are introduced to one of the angels beforehand	Articles and public information on people who have built successful companies and invested in startups; better to be introduced via mutual contacts

GET TO THE NEXT STEP

- _MATCH-MAKING THROUGH FRIENDS**
- _STARTING OUT RIGHT**
- _GETTING TO “YES”**

MATCH-MAKING THROUGH FRIENDS



Source: Suster (2010)

Intro to Sepior



Dan Eisenhardt <[redacted]>
til [redacted] mig

27/05/2015



engelsk

> dansk

[Oversæt meddelelse](#)

[Deaktiver for: engelsk](#)

Hi [redacted]

Hope things are going well at [redacted]

I want to introduce Nicolaj H Nielsen, who is a Danish serial entrepreneur and also one of the first investors in Recon Instruments. He is co-founder of Sepior, that is a startup working in the cloud encryption space. Sepior is currently headquartered in Denmark, where it has received seed funding, but is now investigating a potential move of HQ to US (but keep R&D in Denmark). Nicolaj is looking for the right point of entry into [redacted] since Sepior might be a right fit for [redacted] fund you have created. Nicolaj and the CTO of Sepior will be in Bay area next week.

Please find attached a brief intro deck on Sepior.

Best regards,

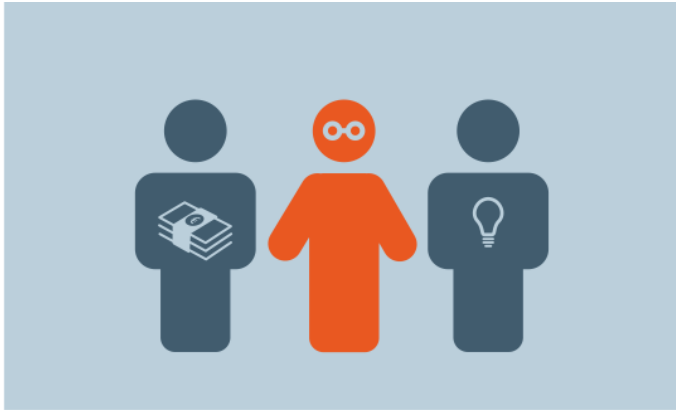
Dan

Dan Eisenhardt
President & CEO



STARTING OUT RIGHT

1 Let friends
set up a date



2 Find out all
you can
before you hit
on investors



3 Have a
concise
pickup line



HOW TO PREPARE FOR DATING

Be prepared to show what you got

... in your business model/financial plan!

DO:

- ✓ Mark all input fields clearly
- ✓ Weigh all parts according to their relevance for the result
- ✓ Choose meaningful periods on the timeline
- ✓ „Cash is king“ – Pay attention to delays in cash flows and liquidity
- ✓ Evoke trust by choosing standard presentation formats
- ✓ Help investors save time by preparing overviews of relevant numbers
- ✓ Demonstrate basic understanding of accounting, cashflow statements, profit-loss statements and balances

DON'T:

- ✗ Make modelling errors
- ✗ Hide input values in formulas
- ✗ Treat any area exceptionally superficial
- ✗ Treat any area exceptionally detailed
- ✗ Use wild scenarios
- ✗ Warn excessively about the unpredictability of the future
- ✗ Make obviously wrong or random assumptions

ABOUT PRE-MARITAL AFFAIRS ...

Make sure to talk to multiple investors until the contract is signed and the money is in the bank.



GET MARRIED (AND LIVE HAPPILY UNTIL THE EXIT)

_IN GOOD TIMES AND BAD...
_NEGOTIATING THE PRE-NUP
_ADVICE FOR MARRIED LIFE

IN GOOD TIMES AND BAD...


Signing is only the beginning of a long (business) relationship, hopefully with mutual benefits

➡ Analogy: wedding – with careful prenup

There is no easy path to break up again after signing because of the common responsibility

➡ Analogy: divorce with kids

IN GOOD TIMES AND BAD...

 MUSTER-TERM SHEET
Titel, Datum und Parteien
Präambel
A. Beteiligung
B. Corporate Governance
C. Verfügungs- und Exit-Bestimmungen
D. Sonstige Vereinbarungen
Unterschriften
Anlagen

GESELLSCHAFTER- BESCHLUSS	 MUSTER-WANDEL- DARLEHENSVERTRAG	WANDEL- VERPFLICHTUNG
Vor Vertragsabschluss	Vertragsabschluss	Nach Vertragsabschluss
Ermächtigung der Geschäftsführerin oder des Geschäftsführers, ein Wandeldarlehen (unter bestimmten Bedingungen) abzuschließen	Titel, Parteien, Definitionen	Verpflichtung der Gesellschaft und der Darlehensgeberin/des Darlehensgebers, die Wandlung durchzuführen
	Präambel	
	1. Darlehensgewährung	
	2. Zinsen	
	3. Rangrücktritt	
	4. Laufzeit, Kündigung	
	5. Wandlung	
	6. Rückzahlung	
	7. Vorzeitiger Exit	
	8. Auskunftsrechte	
	9. Weitere Wandeldarlehen	
	10. Sonstiges	
	Unterschriften	
	Anlagen	

IN GOOD TIMES AND BAD...

vesting

IP provisions

tag-along

**liquidation
preference**

drag-along

**down-round
protection**

**qualified funding
round**

VSOP/ESOP

**It's
complicated:
Find a good
lawyer!**

ADVICE FOR MARRIED LIFE

- 1 Put everything you got into your business**
- 2 Take a serious look at the status quo of your business and your team**
- 3 Educate yourself on finance, accounting and governance topics**
- 4 Avoid surprises**
- 5 Treat your investor as part of your core team**

FURTHER MATERIALS

Negotiation checklist for preparation and debriefing

➔ [**startupfinanzierung.com/verhandlung**](https://startupfinanzierung.com/verhandlung)

Team term sheet

➔ [**startupfinanzierung.com/teamtermsheet**](https://startupfinanzierung.com/teamtermsheet)



STARTUP
FINANZIERUNG.COM