

Investment &

Helping startups secure large
early stage capital





Investment & is Challenge Advisory's approach for enabling disruptive technology startups to successfully raise large early stage capital. The proposition is specifically designed to help startups successfully secure between \$2-10million in early stage financing by implementing short term strategy to achieve the benchmarks and milestones used by our venture capital network to assess investment proposals.

To raise your funds, we'll use the experience we've gained with industry leaders...



...and we'll combine it with our knowledge of how to help ambitious start-ups grow.



BLOCKGRAIN



THE CLIMATE CORPORATION



FreshSurety



“...seed money is so easy to raise in the current environment that founders assume they can just raise more money whenever they want...”

Sam Altman

President, Y Combinator



Our Methodology

Implement strategy based on reverse engineering the due diligence process from our network of venture capitalists in order prepare clients as 'investment ready'.

What is Due Diligence:

Due diligence is an all encompassing phrase for activities associated with evaluating an investment proposal.

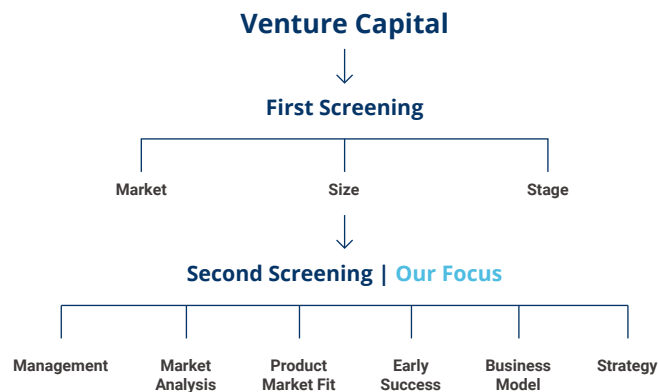
An investor's ability to effectively and efficiently identify winning investment proposals is critical to its success and the main source of its competitive advantage.

Why Does it Matter?

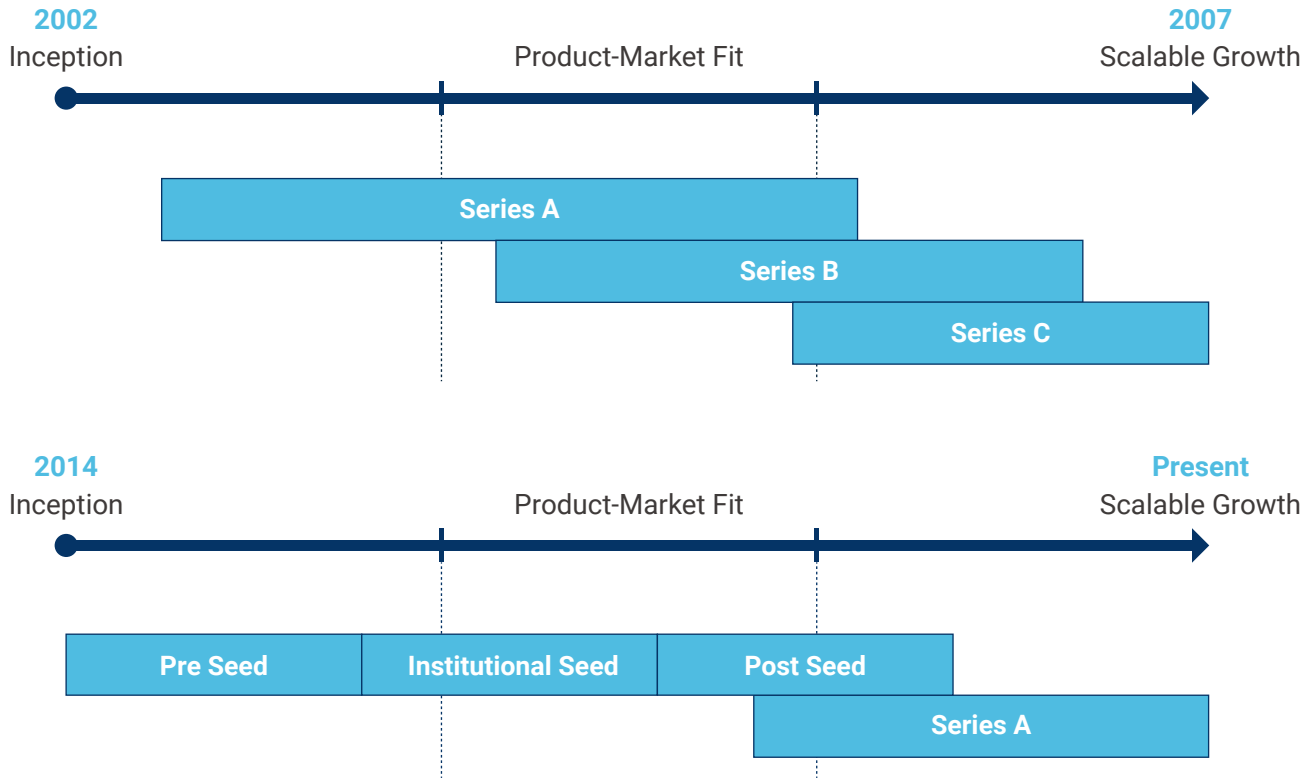
By incorporating strategy to address the needs of buy side Investment market, firms can guide short term strategy to maximise immediate success.

Why Our Approach Works:

- Series A fundraising is significantly more challenging than founders anticipate
- Short term strategy must be in designed to maximise fundraising capabilities
- Without working backwards from the exit strategy, startups are not building a valuable business determined by market forces



What has changed?



Trends Forcing this Shift:

- Second internet bubble
- Disruptive business models
- High growth startups
- Capital Efficient Startups
- Mass adoption of Lean
- Startup methodologies

Venture Capital - Series A Expectations:

- Product – Market fit firmly established
- Early traction – Customer Acquisition / Credible and Successful Pilots
- Early Adopters Identified
- Cost per Acquisition Validated
- Estimated Life Time Value

What this Means for Startups:

- 1) Seed funding should be a dynamic process, taking capital at the right times and amounts to keep the firm agile
- 2) Firms must position their growth story sufficiently and use of funds must be strategic to maximise short term objectives
- 3) Startups measurement of short term success must be focused on their position in the early stage startup lifecycle

Consolidation: Early Stage Funding

Higher Failure Rate in Securing Series A

- **Europe:** In 2009, 33% of startups who raised seed funding, successfully went on to raise a Series A
- 2018, less than 19% successfully raised a Series A
- **USA:** In 2016 60% of companies who raised a successful Seed Round failed to raise a Series A

More Money But Only For the Best Startups

- Q1 2010 saw \$449,000 in US Angel and Seed investments while Q1 2018 saw \$1.6billion in investments
- The average series A has increased from \$2.8 million in 2012 to \$6.1 million in 2017, however deal volume has declined drastically
- Recent years have seen a decline of 30% in total financed seed deals between Q1 2017 to Q1 2018

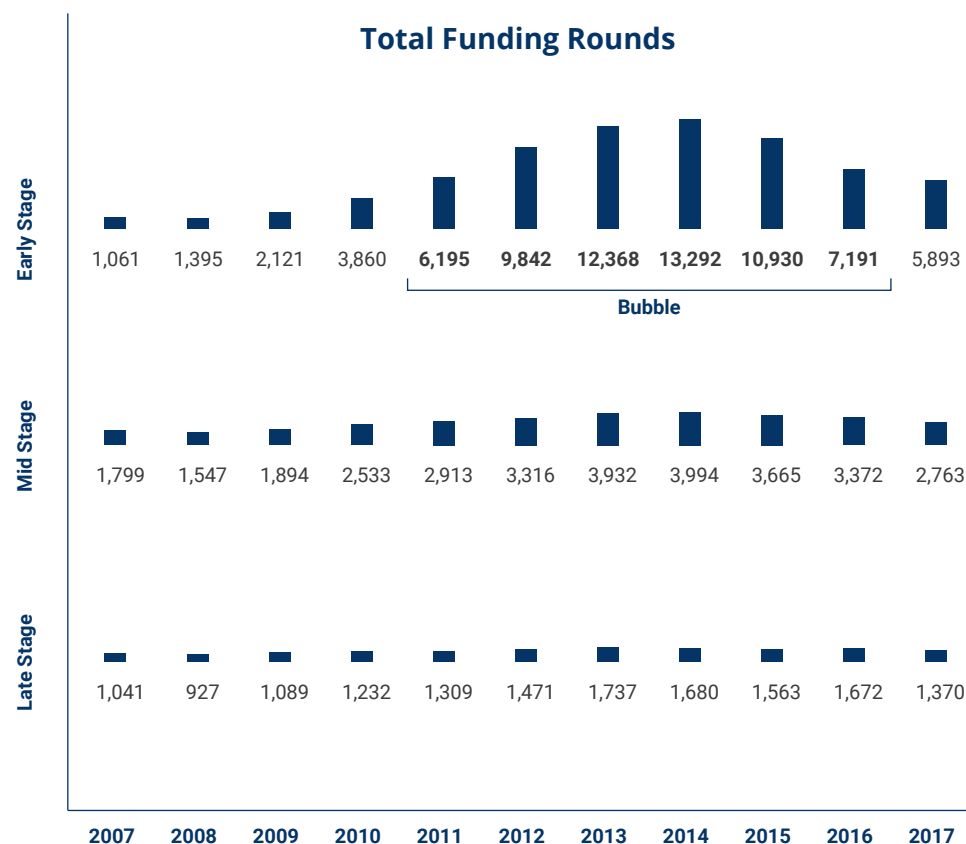
What this Means for Startups

- The era of easy access to early stage venture capital has ended
- More money is available but only for the best early stage startups

The Series A Challenge

The Bubble has Burst

- Since 2014 the number of VC rounds in technology companies worldwide has almost halved from 19,000 to 10,0000
- The decline has been concentrated on early stage funding





Thinking Like a Venture Capitalist

In order to maximise success with venture capitalist, founders must understand the driving forces behind potential investors.

The simple equation illustrates the successful drivers of venture capitalist

Deal Flow x Deal Selection x Value Add

= Success

Deal Flow: The rate at which VC's receive investment opportunities to examine



*Harvard Business School - 2016

Data Selection: The process of choosing investments

- ✓ Team
- ✓ Industry
- ✓ Market
- ✓ Technology
- ✓ Risk
- ✓ Product
- ✓ Timing
- ✓ Exit
- ✓ Strategy
- ✓ Growth Potential

1 in 4 opportunities lead to a meeting
↓
1/3 of all initial meetings lead to meetings with founders and partners
↓
1 in 2 opportunities reviewed by partners proceed to due diligence
↓
1 in 3 Companies who pass due diligence are offered term sheets
↓
1 in 5 lead to term sheet closure

Value Add: Activities pursued by VCs to help grow their portfolio companies

- **Strategic guidance** (87%)
- **Connecting customers** (69)
- **Hiring board members** (58%)
- **Connecting investors** (72%)
- **Operational guidance** (65%)
- **Hiring employees** (46%)



Returns

What metrics prove this is possible...

- 60% Internal Rate of Return = 4x in 3 years or 27x in 7 years
- 20-25% increase in portfolio value per year
- Acquisition exit 4x more likely rather than IPO
- Is the potential exit 3x the size of the fund
- 1 in 10 will return the size of the fund
- Loss rate for early stage investments is 65% (return less than outlay)
- 35% deliver the returns

Why Investment &

The market for early stage fundraising has shown widespread consolidation. The marketplace is seeing larger average deal sizes to the best Start ups.

We developed Investment & to create a comprehensive approach to our clients short term investment needs which maximises our strategic consultancy expertise.



Client Questions

'What benchmarks do I need to hit to maximise my Series A valuation'

'What strategies will help me hit those benchmarks'

'Which investors will provide the greatest value add to help us grow and scale'

'How do I position myself sufficiently for each investor'

'Which investors have the highest likelihood of investing in us'

'How do I create leverage and control my investment search process, instead of being dictated to by VC's'

Investment &: What's included

Investment & is made up of three key components. Each component is valuable to an organisation in its own right, but it is the combination of all three that leads to a large Series A.



Investment & Diligence:

Our process for identifying startup – investment market fit by identifying the specific metrics, milestones and benchmarks which make similar investment propositions attractive to the venture capitalist market



Investment & Strategy:

Utilising our strategic consultancy capabilities to implement processes and procedures to ensure startups hit essential benchmarks to be ready for their next round of funding



Investment & Search:

Leveraging our deep relationships and a network of over 4,000 venture capitalist to conduct the entire end to end investment search procedure

Investment & Diligence:



Investment & Diligence

Verifying: Startup – Investment Market Fit

Investment & Diligence is a multi stage process to assess the fit between the startup and the venture capital markets

01 Are you ready for Venture Capital?

(Analysis)

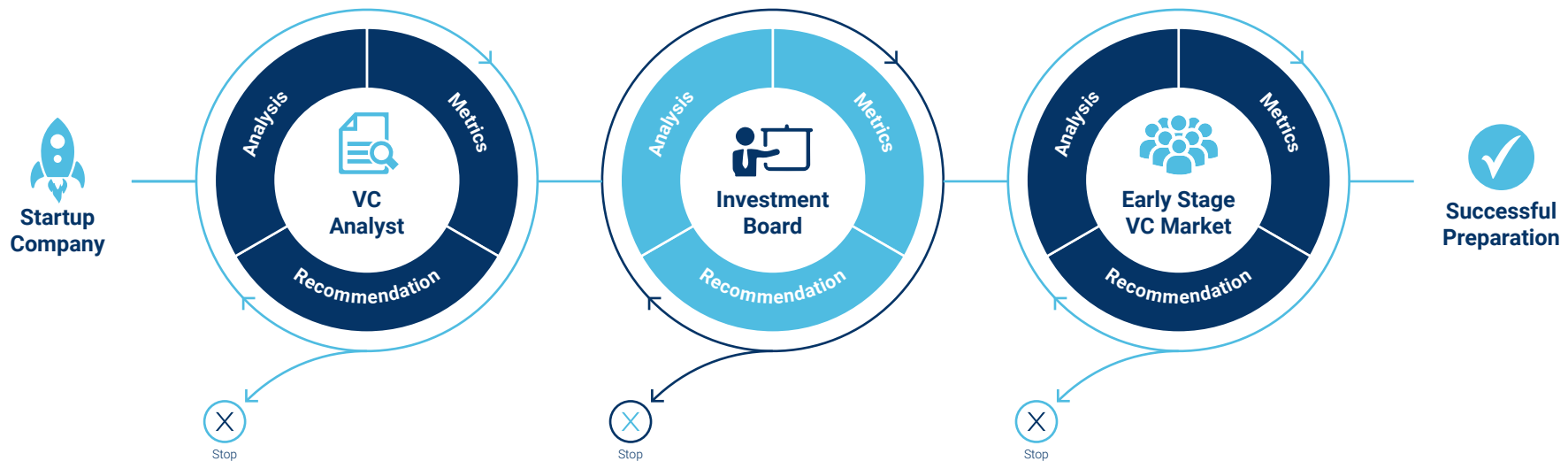
02 How will the investment market assess you?

(Metrics)

03 What benchmarks do you need to achieve?

(Recommendation)

Our Diligence Process



What are we Achieving in this Process:

VC Analyst (Team of 23 analysts specialising in different areas)

- Apply business model based due diligence on startup and assess performance metrics
- Analyse relevant VC markets and industry trends
- Produce a shortlist of relevant VC's by analysing positions of previous investments; stage, markets, portfolio performance, funding size, etc
- Ensure all investment collateral is fit for purpose

Investment Board (Our industry board consisting of 12 partners from leading VC firms)

- Provide deep insights into VC perceptions and attitudes of the startups and its raise
- Provide insights into the state of the market for similar investments
- Provide key metrics, milestones and benchmarks they would assess for
- Introduce us to a relevant investors to provide further insights for the startup

Early Stage VC Market (8 VC firms to test market attitudes before a full search)

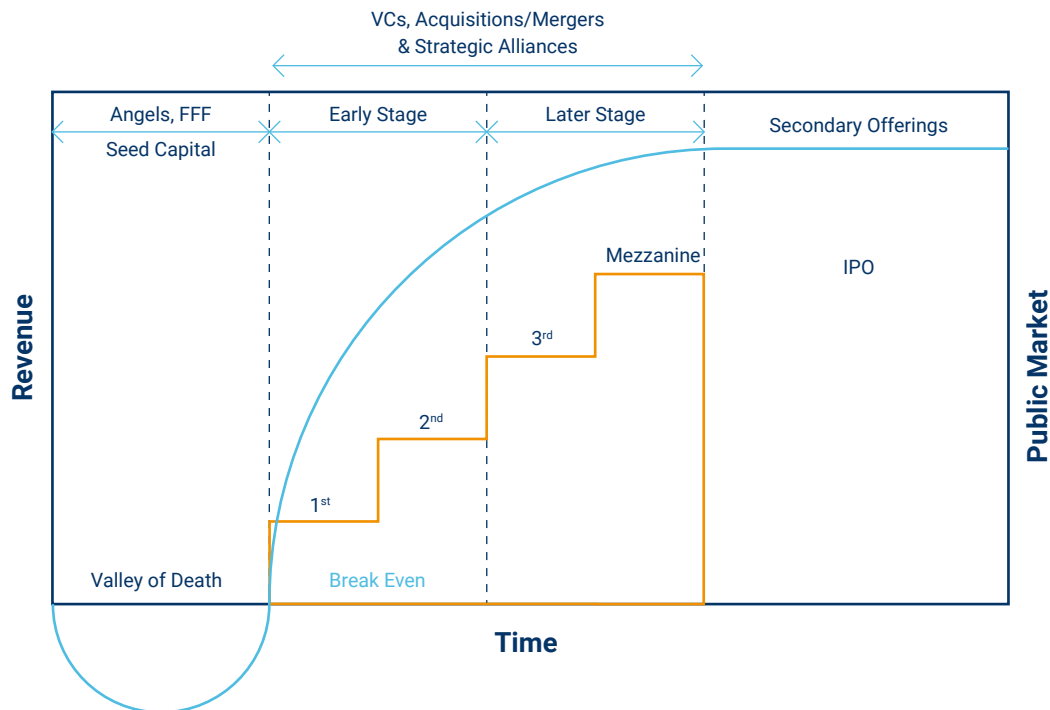
- Provides early insights into how the market will perceive the startup before a full scale investment search

Investment & Diligence

We encourage founders to apply the same level of diligence on their businesses as the venture capital world routinely would.

On average, early stage investment search can take between 3-6 months. Thorough diligence before a raise will address weaknesses, save time and prepare the startup for the needs of the investment market.

Startup Life Cycle - Underwriting Risk



Startup Lifecycle

Each part of the startup lifecycle has different expectations, by understanding what the investment market will measure you by, you can exceed expectations.

Investor Risk - Stage

Seed Capital/Angels

Product-Market Fit Risk: At this stage investors are underwriting the founders ability to identify product-market fit

Early Stage/Break Even

Sales, Marketing and Execution Risk: At this stage investors are underwriting the ability of the startup to execute its sales, marketing and customer acquisition model

Later Stage

Valuation Risk: At this stage the risk investors are underwriting is the valuation of the startup

Investment & Strategy:



Investment & Strategy

Reverse engineering the due diligence process of your next funding round to build and implement short term strategy to maximise investment raise success

Step 1 | Metrics & Milestones

Identify the necessary short term metrics and milestones to secure venture capital

Step 2 | Challenges

Identify the existing challenges which have prevented achieving these metrics and milestones

Step 3 | Framework

Build a new policy and framework to guide a set of short term actions to address Step 1 and Step 2

Step 4 | Action

Build a set of specific actions to be undertaken immediately in line with steps 1 – 4

Step 5 | Test

Conduct a series of strategic test for each necessary action step

Step 6 | Iterate

Iterate based on the testing



Investment & Search:



Investment & Search

Preparation:

Investor Mapping Analysis:

Using Artificial Intelligence we analyse 30+ different data categories for 4000 VCs (preferred amount, AUM, preferred stage, industry etc). We then analyse another 20+ categories for their portfolio companies (industry, revenue, business model etc). Our AI analyses 2.4 million data points to provide a recommendation on which VCs have the highest chance of investing into the client

Value Add Assessment:

Using our industry relationships to identify which investors have the greatest value add and help accelerate growth for our startups

Investor Ready Preparation:

Our analyst will assess all of your investment collateral to ensure it is fit for purpose including, business plan, business mode, pitch deck, market sizing analysis, exist strategy etc

Valuation and use of funds:

Challenge Advisory will conduct a valuation and use of funds assessment. The goal of this assessment will be to determine how to maximise the startups valuation at the next round through its use of funds strategy. The assessment will provide a recommendation on how to structure the round in order to maximise future valuation



Investment & Search

Investor Introduction:

Investor introductions:

Challenge Advisory will then introduce the startup to necessary number of investors, beginning with our shortlist. Founders will be given full briefings, and pitch recommendations prior to any introduction

Syndicate Structuring:

65% of all early stage investments are a syndicate of investors as a result of capital restraints and shared expertise. Challenge Advisory will handle all investment syndicate activities

Relationship Management:

Working with the startup to manage all investor relationships. A large percentage of investors will not provide full commitment to the upcoming round, but should be kept informed and engaged on traction and progress for the next funding round

Negotiations:

Term sheet negotiations:

Our partner law firm, Clifford Chance will handle term sheet negotiations

Summary

Bubble Has Burst

2011 to 2016 saw a temporary bubble in early stage fundraising. This was due to several reasons including; the transition from desktop to mobile and the app economy, huge reduction in SaaS funding, and the emergence of 'Winner Takes All' macro venture capital trends. Access to early stage venture capital has since consolidated.

Expectations Have Evolved

Seed has now become a multi stage dynamic process. Founder's should focus on keep their firms agile and taking the right amount of money, at the right time. The expectation is startups have or are very close to establishing product market fit prior to their Series A. Customer acquisition figures will verify this.

The Odd's are Stacked Against Founders

Series A average size deals have grown exponentially since 2008, however deal volume has declined significantly. In short, more money is now available for the best startups at the early stages. Europe has seen the Series A failure rate widen from 66% in 2009, to 81% in 2018. A similar trend is evident in the USA; 60% of startups failed to raise their Series A in 2016.

Why We Are Successful?

We Understand the People

- We Understand Venture Capitalist
- We Understand Founders

We Leverage Our Networks

- Network of 4000+ Venture Capitalist, 1200+ Family Offices, 4000 Angel Investors
- Network of over 5300 startups and over 8000 founders

We Utilize Our Experience

- Worked with over 370+ early stage, disruptive startups across industries
- Worked with over 26+ government departments and multinational corporates crafting innovation policy

We Do Things Differently

- We reverse engineer the Due Diligence Process
- We implement short-term strategy to prepare you
- We test market attitudes before we launch your search

We Utilize Our Expertise

- We utilize our industry-specific expertise
- We utilize our team of over 18 Venture Capital Analysts

Get in Touch

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