

Inside the **Mind** of an Investor

Agenda

Role of an investor

How does an investor make money?

You are not in the same boat and they are humans

How does an investor think?

Founders' lies

Why an investor would not invest?

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Role of an investor

Not to take risk, not to help you, not to be your friends,...

It's to make money by having equity

Accept to take more risks by expecting a higher return

- Show them you propose a better investment opportunity than others

Founders' tips

It's as simple and stupid as that

How do they make money?

Business angels : Sales of shares (sometimes dividends)

Funds/VC's

- 2% Management fees + 20% carry (M&A or IPO-> sales of the company&shares)
- Fund for 10 years : 5 y (investment) and 5 y (growth & exits)

Other funds: flat salary (+bonus)

Accelerator : (flat salary) + (sales of shares)

How do they make money?

Founders' tips

Sales of shares in 3-7 years -> be ok to sell your company in 5 years

Understand how does your investor (want to) make money

Understand what's the expected return

- Return influences valuation, pressure/ commitment from your investor

How do they make money?

Business angels : Expected return? (pay it forward, FOMO,...)

Funds/VC's : Expected return : > 40% IRR per company, 15-20% IRR on fund level

Other funds: Depends (sometimes return not main objective)

Accelerator : ?

Founders' tips

They want to earn much more than via bank account

They take much more risks

VC's mind

- Fund size : 50M€
- Investments : 45M€ (Fund – 2% mgt fees on 5y)
- IRR (expected) : 3X on 10 years (11,6% IRR)
- # investments : 22

Investments in a startup (M€)	#startups
5	5
2,5	2
1,5	5
1	5
0,5	5
45	22

Case 1 – 2,38X (9,05% IRR)

Amount invested (M€)	#startups	Return	Exits (M€)
16,5	11	0	0
14	6	1	14 (13%)
1,5	1	2	3 (2,8%)
8	3	5	40 (37%)
5	1	10	50 (46%)
45	22		107

This is a theoretical case
Many VCs don't have this returns and few have much better
Portfolio repartition is never pre-determined
Return is 7,9%.
IRR is on 45M€ not 50M€; return is on 50M€.

Case 2 – 2,91X (11,28% IRR)

Amount invested (M€)	#startups	Return	Exits (M€)
15	11	0	0
13	5	1	13 (10%)
1,5	1	2	3 (2,3%)
8	3	5	40 (30,5%)
7,5	2	10	75 (57,2%)
45	22		131

This is a theoretical case
Many VCs don't have this returns and few
have much better
Portfolio repartition is never pre-
determined
IRR on 45M€ not on 50M€

Case 3 – 1,74X (5,72% IRR)

Amount invested (M€)	#startups	Return	Exits (M€)
15	11	0	0
13	5	1	13 (16,5%)
4	2	2	8 (10,2%)
7,5	2	4	30 (38%)
5,5	2	5	27,5 (35%)
45	22		78,5

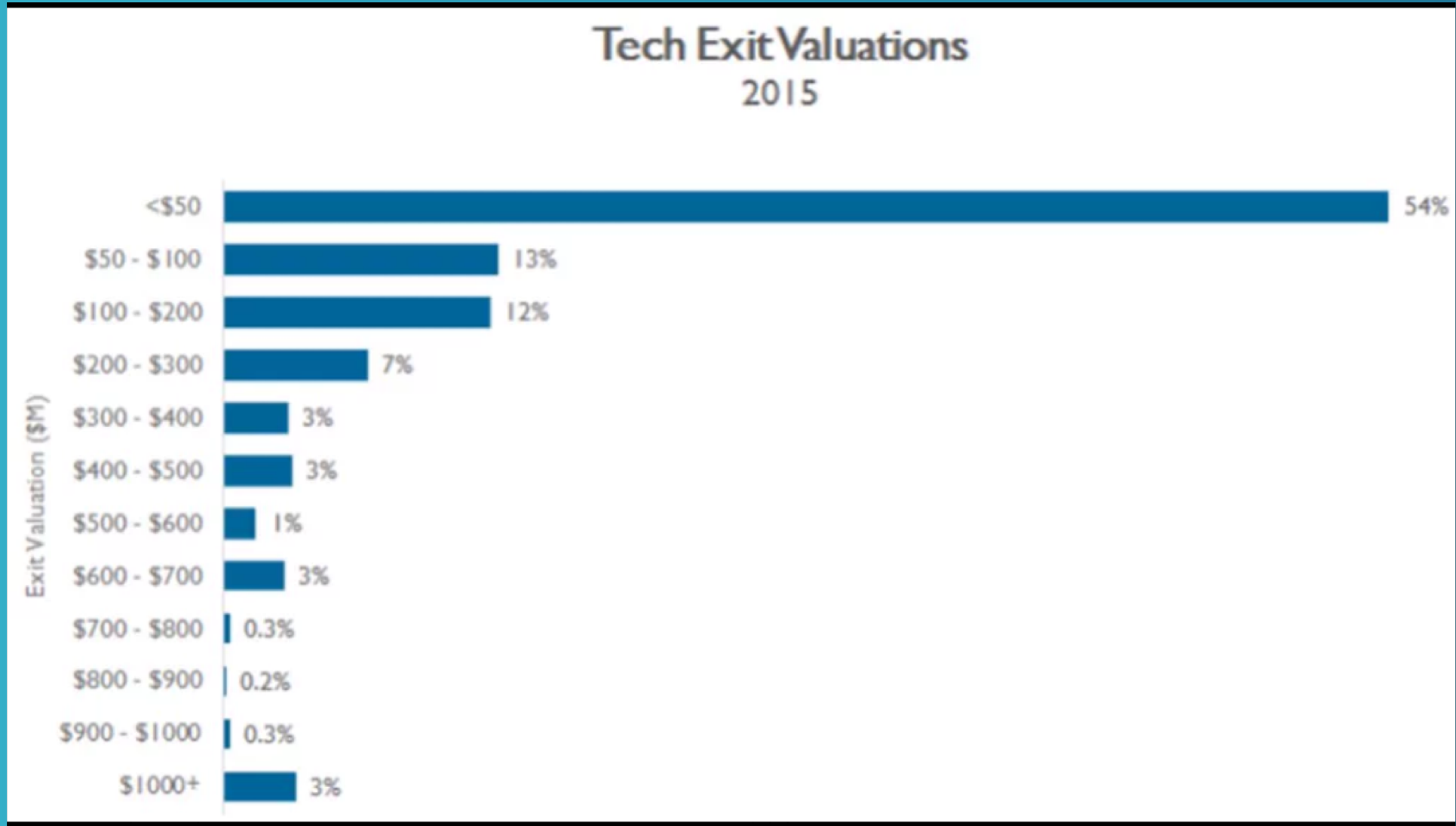
In this case, if the hurdle rate is 5%.

Because the return is only 4,61%, the VC doesn't get any carry.

This is a theoretical case

IRR on 45M€ not 50M€. Return on 50M€.

VC's mind



VC's mind

They care if you are in the long tail

They care if you are exceptional

They care if they can invest at a right valuation

For their fund, a return of X0 or X2 on a startup's investment doesn't make a big difference

Why would you be bought?

Outstanding marketshare

Incredible technology / team

Amazing profitability

Founders' tip

Be clear with the strategy you are following with your investor and assess if you can make it

You are not in the same boat

You need their money to live (survive), they don't

Fundraising process : they have time

Portfolio : you have one startup, they have many

Founders' tips

Most investors will try to help you but don't overestimate their commitment/abilities

- Try them to invest sufficient money to be committed but not too much to be under unsustainable pressure from them

They are humans

Bad days / (personal) problems

Affinity with some sectors/personal characters

Laugh, have family, have lunches/drink,...

Go on holidays -> chose carefully the moment to contact them

Founders' tips

Be human with them too, take time to know them (before raising funds?), understand them, be empathic too

Investor's day

VC

- Private VC's receive 1000-2000 deals proposition a year
- Work / call with their portfolio companies (30% of their time)
- Meet new startups, speak at event [making their own marketing] (50% of their time)
- Follow trends
- Close deals (contact with lawyers, entrepreneurs, other investors)
- Are in contact with their own investors / raise new fund (13%)

Investor's day

Founders' tip

They are solicited a lot

They meet A LOT of people => how can you make the difference?

Being « good » is not enough, they meet a lot of « good » people, you need to be exceptional to convince private VC's

Average timing to decide on taking a meeting: between 140 seconds and 6 min

Investor's day

BA's (Executives, (ex-) entrepreneurs, WI)

- Business(es) / job to run
- Other portfolio's companies
- Enjoy free time and family

How does an investor think?

I don't earn money via dividends but via M&A or IPO

You are going to make losses for long years (forever?)

I take risks, don't consider me as banker

You will never achieve your ambitious milestones

I think « no » 97-99% of time but don't say it (FOMO)

Founders' tips :

If they don't know that -> be careful! Maybe not the best investors!

How does an investor think?

A Partner makes on average 1-2 investment a year (sometimes more, depends on seed/serie A, Angel/VC)

Founders' tips :

How will you be the one that (s)he choses this year?

The more the startups they invest in, the less support you can expect

What do investors hear all the time?

«We will sign a big contract with a big client »

- They will wait to see if it comes, if not...

« We are conservative with our forecasts »

- Most of the time you are too optimistic
- Goal is to discuss with you your hypothesis and understand the way you think
- What will you do if you don't reach your milestones/funding needs?

Investment criteria

Do they focus on

- Team (# hires already done)?
- Revenue growth?
- Retention?
- « Logo clients »?
- Revenue level?
- Product?
- Market?
- Strategy?
- Other?

What do investors hear all the time?

« We don't have competition »

- You didn't analyse enough
- It's not a good sign because very few people are interested in this market

« Our costs will remain flat and our revenues are going to grow fast, we are scalable »

- You have a lot of variable costs that you didn't consider
- Making more money cost you money
- You are not going to break-even before 4-5 years

What do investors hear all the time?

« We are going to be profitable in less than 3 years »

- No company growing fast is profitable in the first 4-5 years
- Growing fast vs making profits
- It will take longer to have the expected revenue and you will spend more than you thought

« We'll have a 10% market share in less than 5 years »

- Take always longer than expected
- Gaining so much market shares isn't a easy game

What do investors hear all the time?

« We only need a small market share to be profitable »

- Top-Down approaches are not the best
- You try to reduce risk

« Our product is ready, we don't need R&D any more »

- You don't understand the evolution of your product
- Do you value developers' work enough?

Why an investor wouldn't invest?

Team

Product & technology

Market & competition

Business model

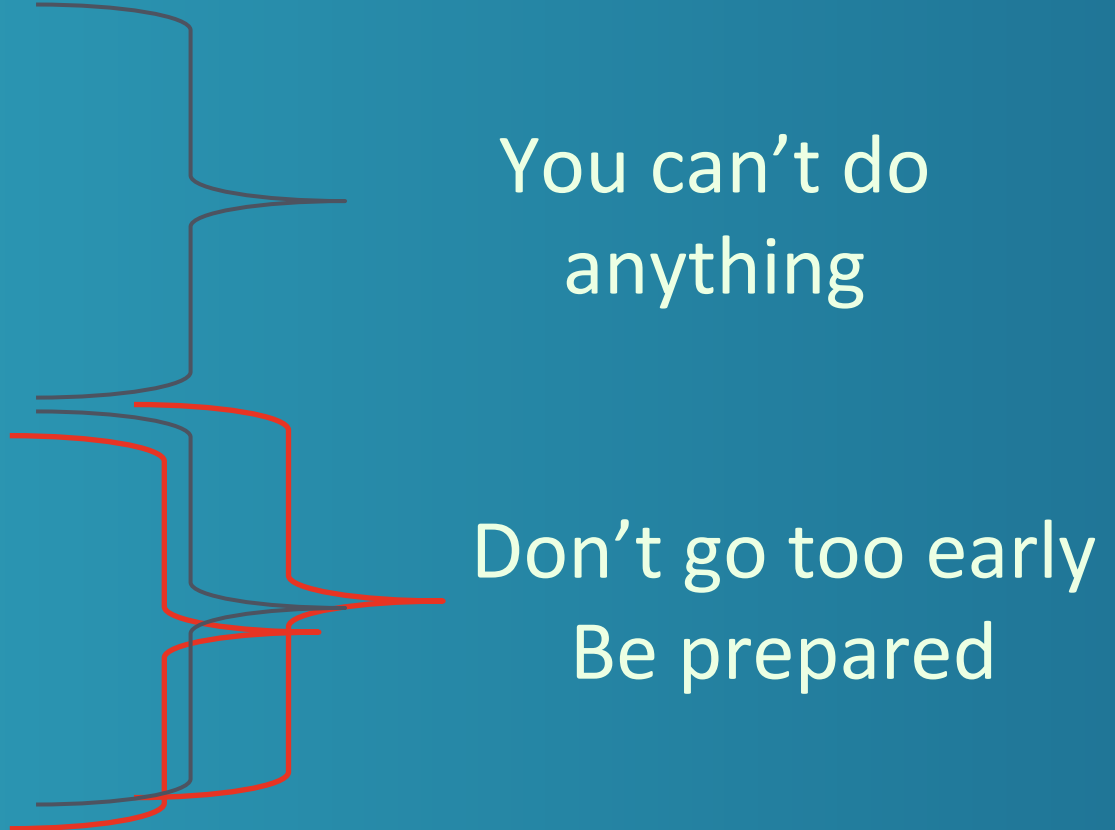
Metrics/unit economics & traction/growth

P&L

Dirty/Clean cap table

The main reasons

- 1) Out of scope
- 2) Don't believe (in) the team
- 3) No personal fit
- 4) Not excited
- 5) No concrete plan
- 6) Bad product
- 7) No traction
- 8) Unattractive market



You can't do
anything

Don't go too early
Be prepared

Team

- Don't believe (in) the team
- No personal fit
- Not ambitious enough
- Lack of knowledge
- Lack of Strategy
- Lack of complementarity
- (Lack of key people)

Product

- Doesn't work, has main/many bugs/problems
- Scalability problem (robustness)
- Not innovative enough
- No moats/IP
- Doesn't solve any problem
- UX and UI
- Too much functions & features

Founders' tip

- Not as important as people think

Market

- Not big enough
- Complicated
- Not growing
- Wrong time to market
- Out of VC's scope

Founders' tip

- Show that you understand it really well

Customers

- No traction (seed) / no growth (Serie A +)
- No clear need/problem
- Wrong target(s)/segment(s)

Founders' tip

- Show that your customers like/use your product (Perceived value)
- Show you understand your customers' behaviour

Competition

- Too crowded
- No clear differentiation
- No clear knowledge
- No clear USP

Founders' tip

- Show that you analyzed your competition
- Know how to beat them

Business model

- Complicated revenue model
- No (future) profitability -> unit economics & metrics
- No clear/efficient customers/users acquisition strategy
- No clear UVP

Founders' tip

- Know where to go and how to go there

Others

- Not excited by product/market/team
- Don't understand the product/market/team
- Too busy at the moment
- End of fund
- Out of scope (too early/late, wrong geography, wrong industry/sector)

Founders' tip

- Preparation and explanation is key

Focus Areas

What does ESN do exactly?



EUROPEAN
STARTUPNETWORK



EUROPEAN
STARTUPNETWORK

Make Collaboration Happen

- Startup European Partnership programme (<http://startupeuropepartnership.eu>)
a platform where the best scale-ups meet the best corporates

EU Projects

- Growing visibility & opportunities for European startups
- Corship (<https://www.corship.eu/>)
- UpskillingLab 4.0 (<https://www.upskillinglab.eu/>)
- TETRA (<https://www.ngi.eu/ngi-projects/tetra/>)

European Startup Monitor

- Analysis on European startup landscape & ecosystem
=>infographics, maps & reports
- Providing the insight for policy makers to design the strategies
- Latest version 2019/2020 (europeanstartupmonitor2019.eu)

A common voice for European Startups

- 21 European National representation
- EU & world-wide connected
- Lobby
- Research