DATATRIBE

Venture Capital: Three Ways

An overview for the VC-curious CTO

Venture Capital Three Ways

Founders

Investors

Participants

Agenda

- Quick Intro
- Investing in Venture
- Founders & Venture Capital
- Working with Venture Firms

Quick Intro

DATATRIBE

We are Cyber & Data Infrastructure Company Builders

Company Formation → Invest → Deeply Engage → World-Class Startups

DATATRIBE

Investing in Venture

Alternative Investments

DATATRIBE

LIQUID — NOT LIQUID

Public markets

Stocks, bonds, commodity ETFs

Hedge funds & crypto

The liquid end of alternatives

Private contracts

Private equity, private debt, real estate

Exotic Strategies

Royalties, minerals, bankruptcies, legal outcomes

ALTERNATIVES

Venture Capital

Venture Capital is under the Private Equity Bucket

PRIVATE EQUITY

Venture

Pre-seed, seed, Series A and B. Minority stakes, no leverage, most of the value still unbuilt.

Growth

Later rounds into companies with revenue and a working model.

Buyout and later stage

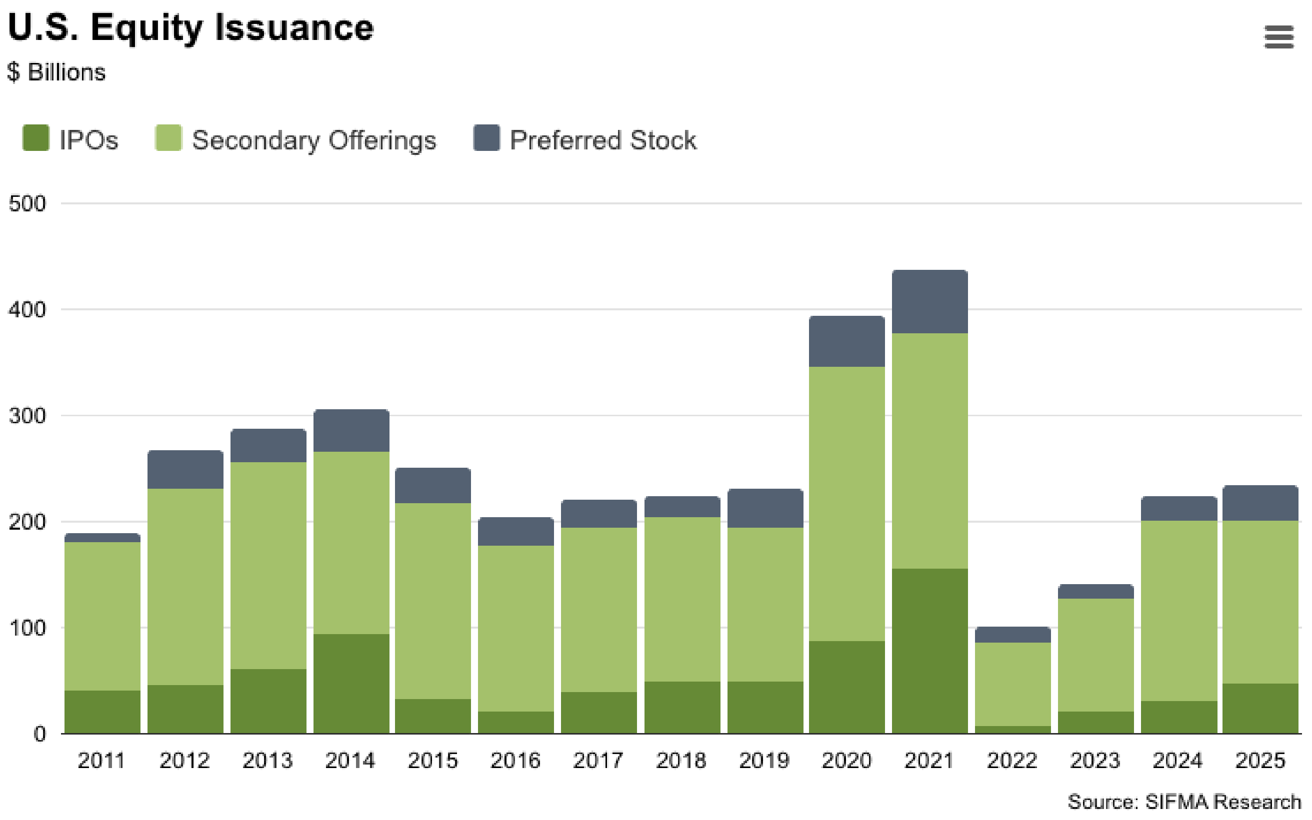
Leveraged buyouts, roll-ups, buy-and-grow. Control positions in established businesses. This is what most people picture when they hear "PE."

EARLIEST STAGE

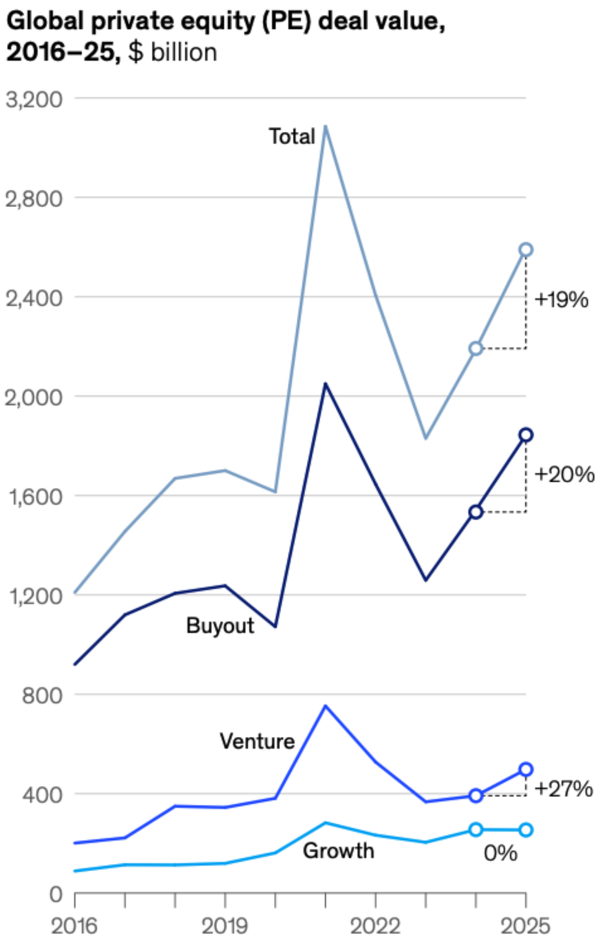
LATEST STAGE

Public vs. Private: Capital Raised

DATATRIBE



~3X More capital raised in private equity



North America: ~50% of global deals

Source: McKinsey & Company

Venture Capital Structure

What's a fund

- Pooled & managed
- Closed-ended vs. open-ended
- Fund lifetime of X and investment period of Y

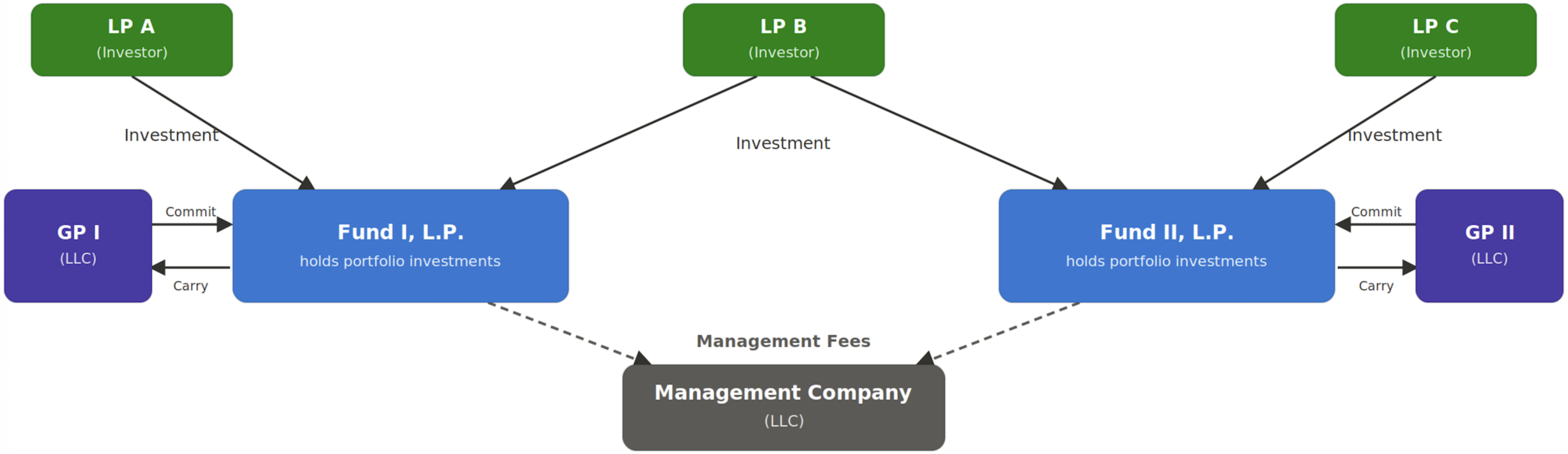
Example:

RAISE	INVESTMENT PERIOD	HARVEST	+1 / +2
Close the fund	**Capital is deployed**	**Exits return cash**	**Extension years**
Commitments locked in	New positions and reserves for follow-ons	Distributions flow back to investors	Written into most agreements

YEAR 0 — YEAR 10 AND OUT

Venture Capital Structure

The entities, costs & incentives



Each fund has its own GP entity and LP base; every fund pays management fees to the same shared Management Company.

Venture Capital Structure

Cost Details

carta

VC Fund Management Fees

What's the standard management fee for small funds?

Data: initial investing period rate, 1,800+ funds on Carta Fund Administration

	Management fee percentage					
Fund Size	Under 2%	2%	2–2.49%	2.5%	3%	Over 3%
Under $10M	18%	50%	1%	22%	4%	5%
$10M-$24.9M	15%	43%	2%	28%	7%	5%
$25M-$49.9M	10%	42%	2%	36%	5%	5%
$50M-$99.9M	10%	42%	3%	39%	4%	2%
$100M-$249M	8%	38%	3%	48%	2%	1%
$250M-$499M	8%	34%	3%	53%	1%	1%
$500M+	6%	22%		72%		

©2023 eShares Inc., d/b/a Carta Inc. ("Carta"). All rights reserved.

carta data in your inbox: https://z.carta.com/data

- **Typical Fee:** 2%
- **Typical Carry:** 20% (range: 15-25%)
- **Short-hand:** 2 and 20
- Carry can have tiers

Venture Capital Structure

Operational Details

- Distributions: LPs are paid back before carry kicks in
- Funds have minimum commits
- How Capital Calls Work

Typical Minimum Commits

MINI / EMERGING

$10–50M

Minimum commit
$10K-$250K

MID-SIZE

$100–300M

Minimum commit
$1M-$5M

MEGA FUNDS

$500M-$multi-billion

Minimum commit
$10M-25M

DATATRIBE

Venture Strategy Dimensions

01
Stage
Pre-seed, seed, A and B, growth, crossover into public shares

02
Specialist vs. generalist
One vertical and deep pattern-matching, or wherever the best deal shows up

03
Portfolio construction
Concentrated and high-conviction, or diversified across many names

04
Check writing approach
Target an ownership stake and reserve to defend it, or small entry checks

05
Engagement model
Capital only, or a platform team on recruiting, BD and introductions

06
Industry / technology focus
Software speed, or hard tech capital intensity and long R&D cycles

07
Deal flow approach
Network, platform and brand pull, or building companies in-house

08
Geography
US only, global, or a single national tech and defense ecosystem

09
Capital source
Institutional LPs, corporate strategic capital, or mission-aligned

Venture Strategies

DATATRIBE

Where the money comes from

Government driven

Public money behind national priorities: defense, resilience, regional development.

Family office driven

A single family's balance sheet. Flexible mandate, patient, often relationship-led.

Corporate venture

A parent company's strategic access and optionality, alongside or ahead of financial return.

Independent fund

Third-party LP capital raised to produce a return, and nothing else.

Early-stage Engagement Models

Accelerator | **Incubator** | **Studio** | **Foundry**

Metrics & Terms

DATATRIBE

METRIC	WHAT IT STANDS FOR	WHAT IT MEASURES
MOIC	**Multiple on invested capital**	Total portfolio value (realized and unrealized) divided by capital invested. No expenses considered.
TVPI	**Total value to paid-in**	Returnable multiple to investors. NAV – which is total portfolio value accounting for expenses – divided by the capital LP have actually paid in.
DPI	**Distributions to paid-in**	Cash actually sent back to LPs divided by capital paid in.
IRR	**Internal rate of return**	An annualized rate, so timing matters. Gross is before fees and carry; net is what the LP keeps.

Other Terms & Concepts:

- Vintage Year
- Understanding the J-curve
- Power law investing: How venture strategies succeed

Investing in Venture

Why & Why Not

Fund Stage	Typical Top-Tier Outcome	Approximate Gross MOIC	Approximate Net IRR
Pre-Seed / Seed	One or two 100x winners	4x–6x+	20%–40%+
Series A	Multiple category leaders	3x–5x	15%–25%
Series B	Strong growth exits	2x–4x	12%–20%
Growth Equity	Scaled companies with lower risk	2x–3x	10%–15%
Top Quartile VC Funds	Consistent outperformers	Varies by vintage	20%+
Median VC Funds	Average market performance	Varies by vintage	8%–15%

- Liquidity vs. better IRR
- Lower correlation with public markets
- Startups & Innovation is fun

- VC picking is like stock picking
- Access is important

Founders & Venture Capital

What Game are you Playing?

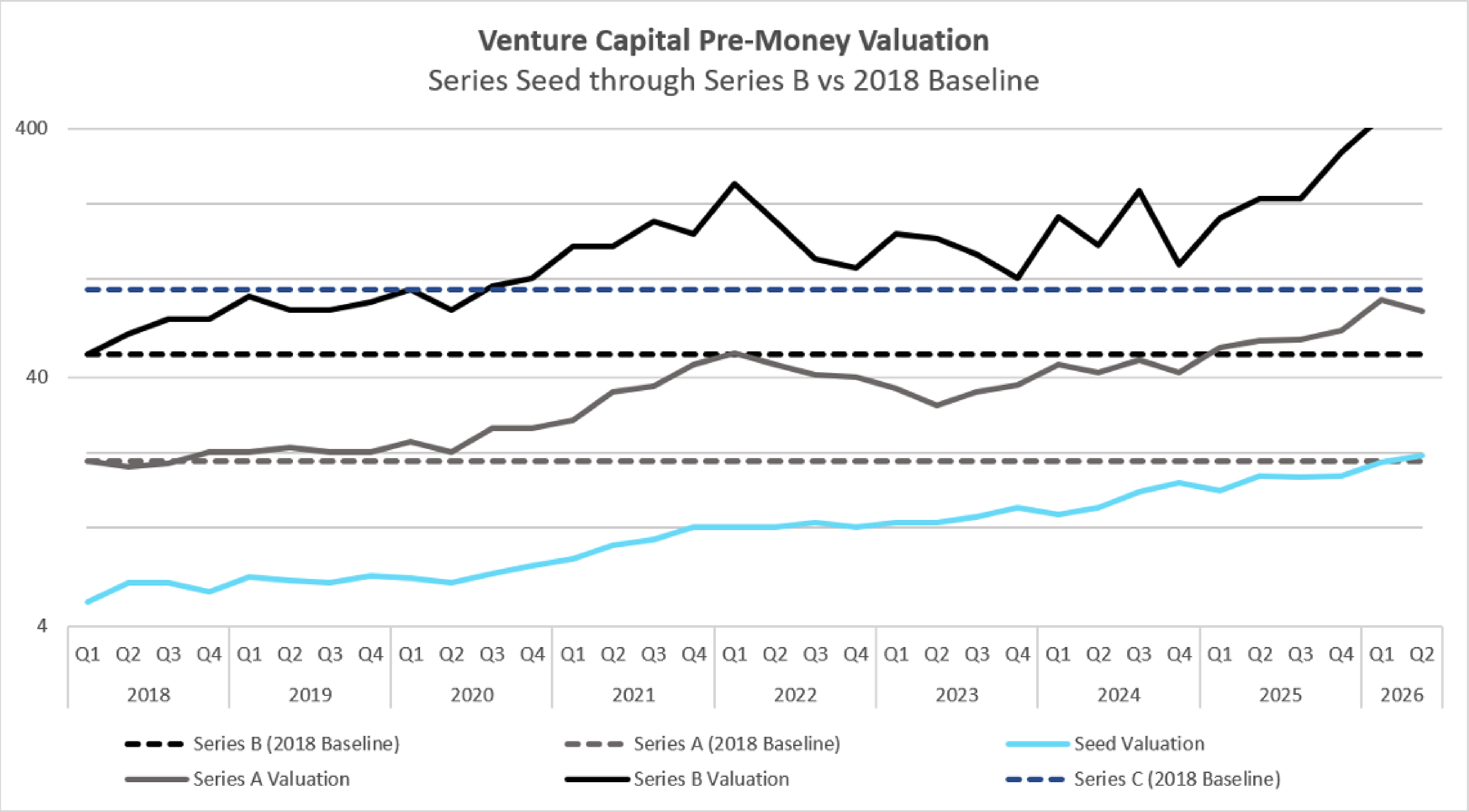
DATATRIBE

Venture Stages

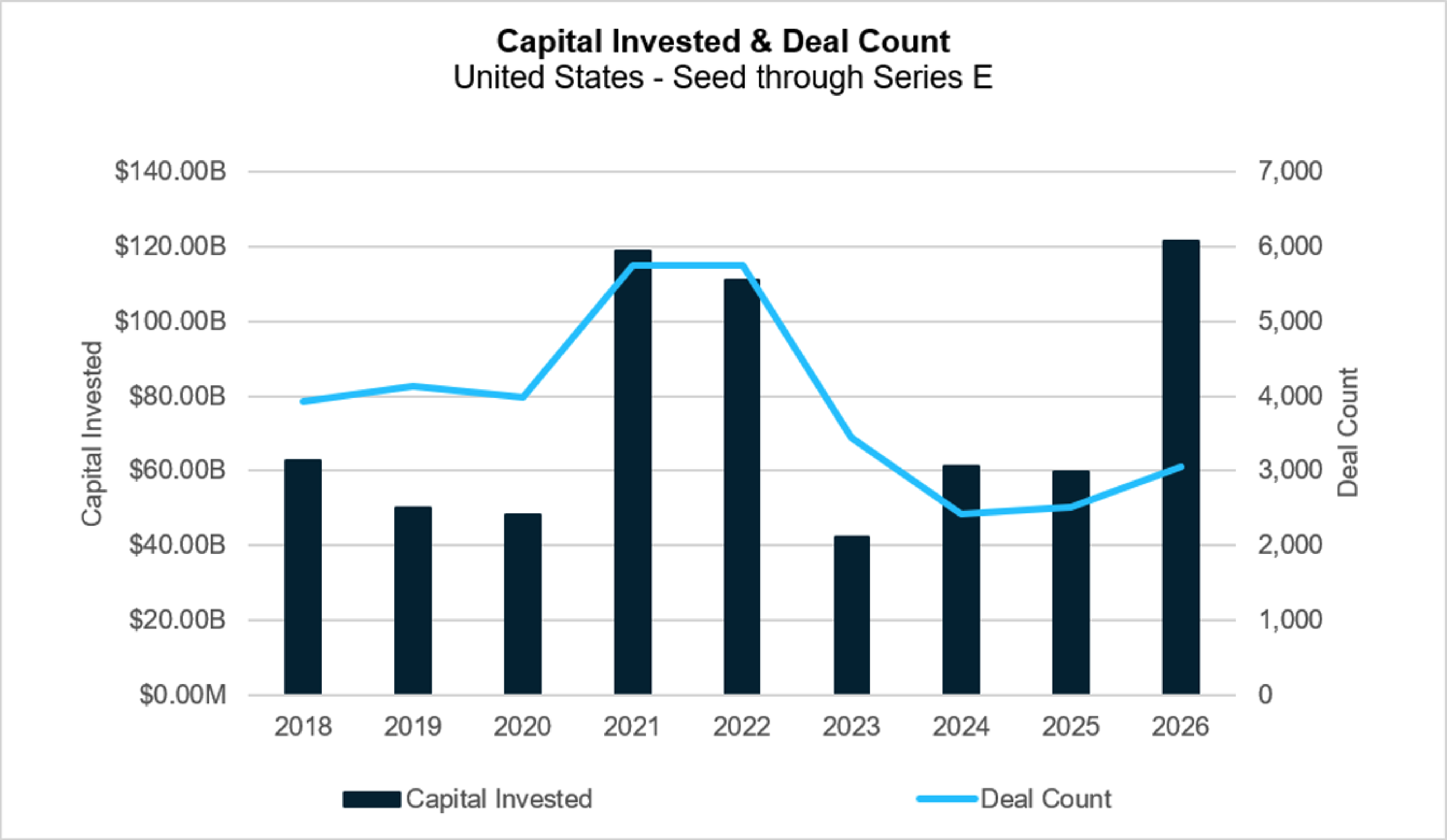
The metrics are continually changing

	Pre-seed	Seed	Series A	Series B
ARR	—	~ $0–1M	~ $1–3M	~ $5–15M
ARR growth (y/y)	—	—	~ 2–3x	~ 2–3x occasionally 1.5x
Valuation	~ $5–10M	~ $10–30M	~ $25–50M	~ $100–300M
Round size	~ $2–3M	~ $3–10M	~ $8–15M	~ $20–40M
Goal	Core concept De-risking technology	Product market fit	Repeatability Predictability	Scaling

Valuation Trends



Not Getting Easier For Founders



Source: PitchBook

Types of VCs

07

Deal flow approach

Network, platform and brand pull, or building companies in-house

08

Geography

US only, global, or a single national tech and defense ecosystem

09

Capital source

Institutional LPs, corporate strategic capital, or mission-aligned

Beginning the Startup Journey

When do you raise from a VC?

DATATRIBE

Idea → A plan → Founding team → Customer research → POC / MVP

- Demonstrate commitment.
- Go as long as possible without raising — but don't sacrifice speed.
- Make sure this is a venture-compatible company.

An Invention != A Product

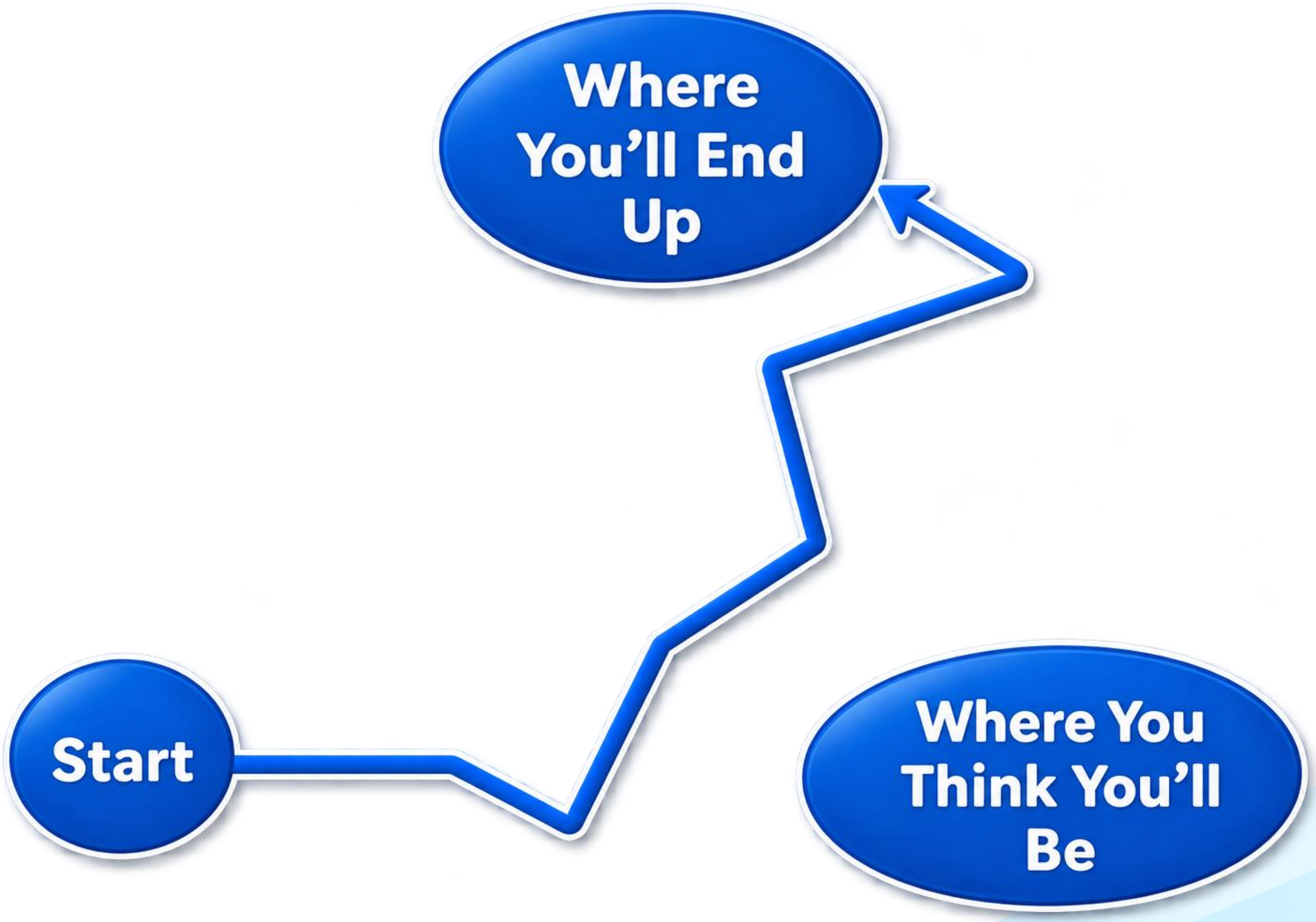
An Idea != A Company

“Genius is 1% inspiration, 99% perspiration.”

Thomas Edison

Plan to Iterate and Be Flexible

DATATRIBE



What are VCs Looking For?

DATATRIBE

	Pre-seed	Seed	Series A	Series B
ARR			~ $1–3M	5M
ARR growth (y/y)				~ 2–3x occasionally 1.5x
Valuation	~ $5–10M	~ $	0M	~ $100–300M
Round size	~ $2–3M	$3–10M	~ $8–15M	~ $20–40M
Goal	Core concept De-risking technology	Product market fit	Repeatability Predictability	Scaling

Team

Metrics

Engines

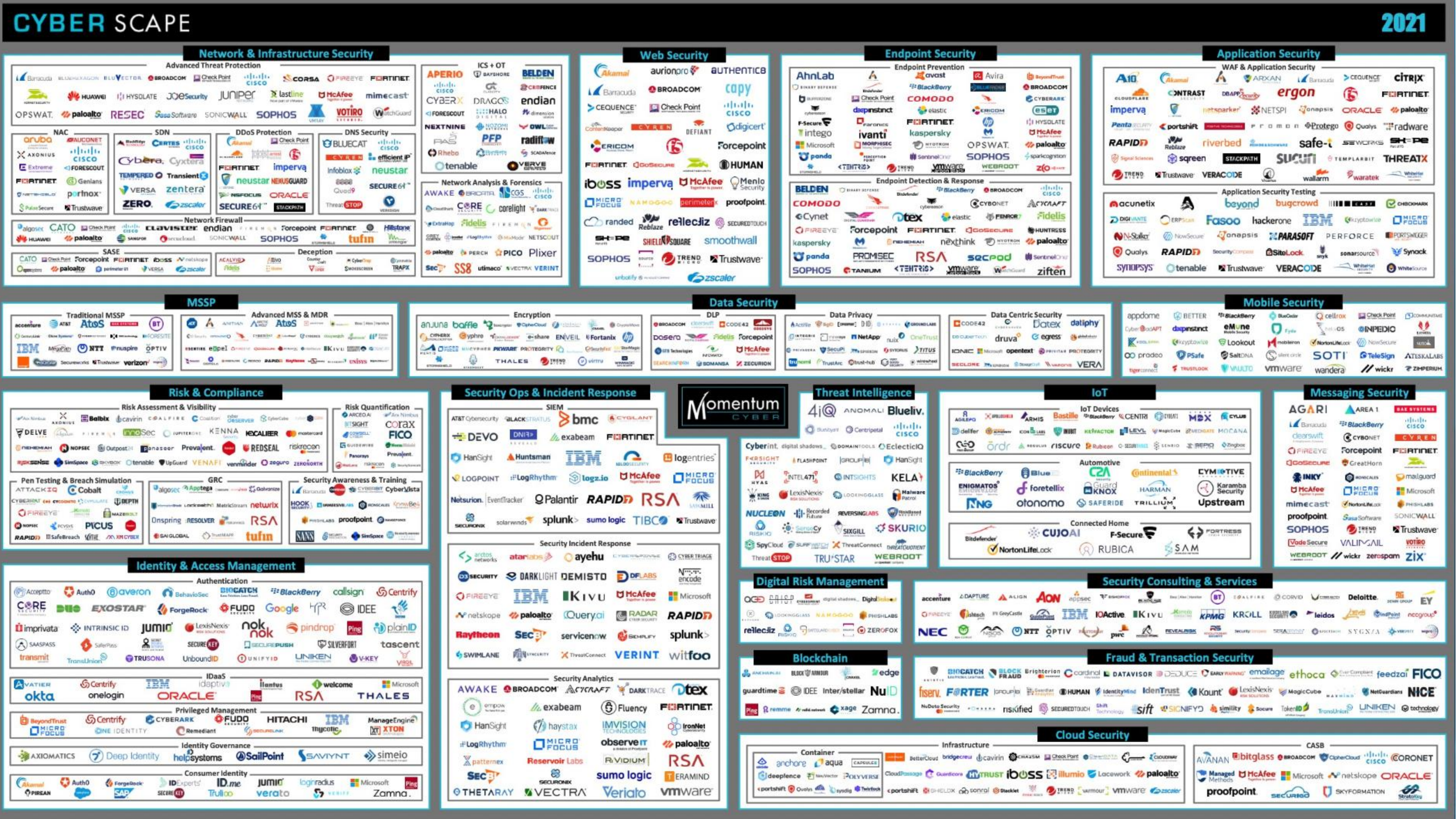
Product-Market-Fit

Story

The Venture-backed Journey

Thoughts & Recommendations

FOCUS

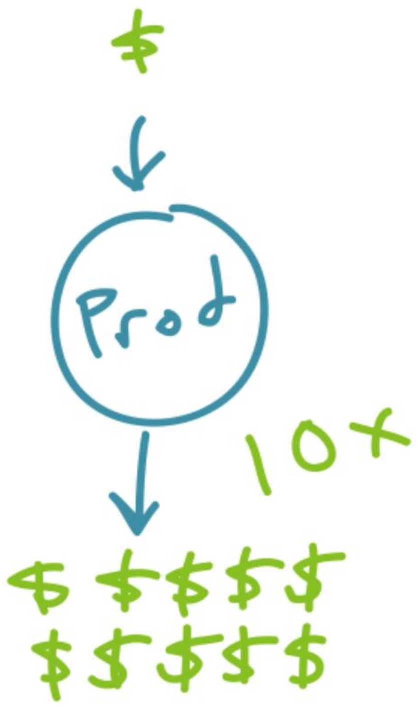

CYBER SCAPE
2021
Momentum CYBER
Network & Infrastructure Security
Advanced Threat Protection
ICS + OT
NAC
SDN
DDoS Protection
DNS Security
Network Analysis & Forensics
Network Firewall
SASE
Deception
Web Security
Endpoint Security
Endpoint Prevention
Endpoint Detection & Response
Application Security
WAF & Application Security
Application Security Testing
MSSP
Traditional MSSP
Advanced MSS & MDR
Data Security
Encryption
DLP
Data Privacy
Data Centric Security
Mobile Security
Risk & Compliance
Risk Assessment & Visibility
Risk Quantification
Pen Testing & Breach Simulation
GRC
Security Awareness & Training
Security Ops & Incident Response
SIEM
Security Incident Response
Security Analytics
Threat Intelligence
IoT
IoT Devices
Automotive
Connected Home
Messaging Security
Identity & Access Management
Authentication
IDaaS
Privileged Management
Identity Governance
Consumer Identity
Digital Risk Management
Security Consulting & Services
Blockchain
Fraud & Transaction Security
Cloud Security
Container
Infrastructure
CASB

Continuous Customer Feedback

- Talk to as many customer prospects as you can
- High-quality feedback from 5 can be good enough
- I-Corps recommends 100
- Build your MVP with 2-3 “Strategic Partners”

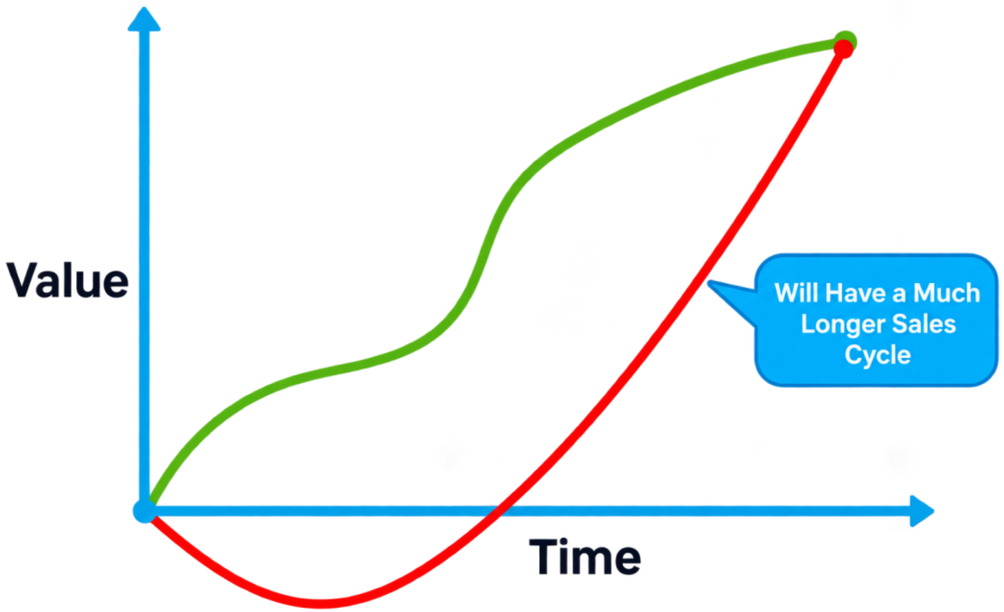
PMF: Overcoming Inertia

Compelling Value



Do Less, Better

Time To Value



PMF: Positioning

DATATRIBE

Segment

Target ⇨ Who is your ideal customer?

Position

4Ps

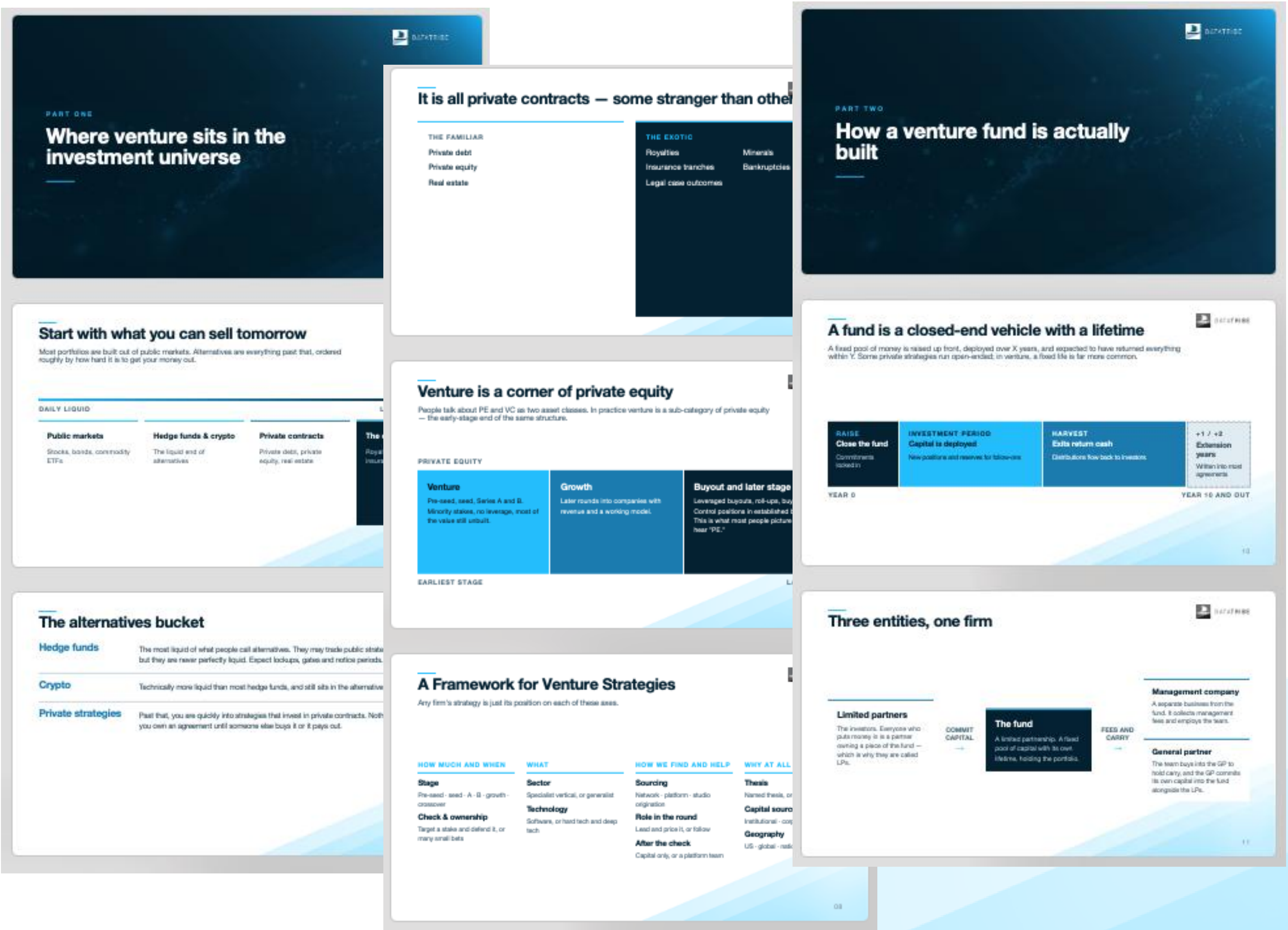
Product, price, placement, promotion

Spend Time On Your Deck

DATATRIBE

"I have made this longer than usual because I have not had time to make it shorter."

Blaise Pascal



Raising

Fundraising Process

DATATRIBE

- Build a Deck / Get VC feedback
- Build a Target VC List
- Get warm intros (Lawyers, network, other VCs)
- Expectations:
  - Massively time-consuming
  - 30-50 meetings -> maybe a couple term sheets
  - 3-6 months+ process

Deal Structure

DATATRIBE

STRUCTURE OPTIONS

Equity round

Preferred shares issued at an agreed price. This formally values the company. NVCA Templates

SAFE

Simple agreement for future equity. Similar to convertible note, but simpler, not true debt, just a right to shares later. Key Terms: discount & valuation cap.

Y Combinator standard forms

Convertible note

Debt that converts to equity at the next priced round. Carries interest and a maturity date. Key Terms: discount & valuation cap.

KEY TERMS

Price

Price/share determines the pre money valuation. Post money valuation depends on how much is raised.

Liquidation preference

Who gets paid first. Preferred stock will get paid back before common.

Equity incentive pool

Terms define the size of the pool and when pool expansion is done.

Board structure

Seats, and who controls the outcome of a vote.

Vesting and founder agreements

Founder stock vesting and employment terms.

Working with Venture Firms

The Venture Ecosystem

Levels of Involvement

DATATRIBE

LOWER COMMITMENT

Level of Commitment

HIGHER COMMITMENT

ROLE & IMPACT

Fund Advisors
Strategic guidance for the fund

- Shape investment strategy
- Provide market insight
- Help evaluate opportunities
- Advise on fund direction

Company Advisors
Expert guidance for portfolio companies

- Advise individual companies
- Share expertise and experience
- Help solve challenges
- Drive company success

Boards
Fiduciary oversight and strategic partnership

- Provide governance & oversight
- Contribute to strategy
- Support major decisions
- Help manage risk and growth

Venture Partner
Deal flow, diligence, and ecosystem support

- Source and refer deals
- Support due diligence
- Leverage network
- Strengthen pipeline

Discussion