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Trip4real: Negotiating Series A

On 25 March 2014, Trip4real founder Gloria Molins was on her way to Barcelona airport, where she and her small but passionate and audacious team would meet up and fly to San Francisco to pitch Airbnb's co-founders on a partnership, when her phone buzzed. She had received a term sheet proposal for a €1 million Series A funding round from a venture capital (VC) firm. She felt a rush of gratitude. She had launched Trip4real less than two years ago with the aim of connecting travellers with local people for authentic and meaningful experiences, and securing these funds would help her to fulfil her dream of changing the way people travel. Reading the term sheet, however, she saw several clauses that she needed to evaluate. This would be the first time she negotiated venture funding, and she needed to sort through the terms, define her priorities, and develop a strategy before sitting down with the experienced investors. And she needed to do it fast, since the term sheet would expire in 10 days.

The launch of Trip4real

Gloria Molins was a passionate traveller and a very energetic person. Her love of travel and discovery began when she was 10 years old and her family moved from Barcelona to Chicago. It was the first time she truly understood that not everyone spoke Catalan or ate pa amb tomàquet.¹ Hooked on travel ever since, she spent time exploring all five continents, first by studying abroad and then working abroad. The idea of creating Trip4real started taking shape toward the end of 2011, when she was working in Australia for a Global Google Partner dedicated to Google apps. She decided to quit her job and embark on a backpacking trip. She recalled, "I decided to pursue my dream of creating a company."²

For seven months, she immersed herself in new cultures and connected with local people while travelling from Southeast Asia to India:

I believe you only truly know a place when you connect with someone local, and that travelling is about people, not just places. If we go back to the beginnings of travel, it was all about discovering, knowledge, and a personalised experience. Mass tourism fosters superficial, impersonal, standard, low-quality tourism. Mass tourism trivialises the experience and encourages stereotypes.³

While travelling, she started working on her business plan. For Gloria, it was more than a business; it was a chance to dedicate herself to a cause she believed in. She wanted to create

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an online platform to connect locals and travellers, with the goal of changing the travel experience. She chose the name Trip4real, registered it with the help of relatives back home, and sketched a design for the website.

When she came back to Barcelona in April 2012, she put all her energy and passion into creating Trip4real, a peer-to-peer platform where locals could list an activity they would like to share with travellers and earn money for providing their local expertise. She was inspired by Airbnb, a peer-to-peer online accommodation marketplace that connected hosts and guests, which Gloria discovered in 2009 and used frequently: "I loved the concept of locals providing accommodation to travellers, and I always thought, 'It would be great if, besides hosting me, a local could show me the most authentic part of the city'." ⁴

Gloria incorporated the company in July 2012. To launch it, she invested €20,000 out of her own pocket and got a loan of €75,000 from a government agency that provided support to young entrepreneurs. "The first thing I did was to build a team. I've surrounded myself with great people, and I feel so grateful to have them. When we started, we had nothing, but I had an amazing team that believed in the idea." ⁵

The first three team members were generalists like Gloria (see Exhibit 1a). She found it difficult to attract senior technical talent to the founding team, so instead she recruited an accomplished technology leader to her advisory board, in exchange for 1% of the company in phantom shares, and contracted an external agency to build the website. In February 2013, the team officially launched the website: "Trip4real is about the human connection, the personal experience, the concept of experiential travel that people simply fall in love with when they get to try it." ⁶

The experiences offered on Trip4real had to be magical, and they had to be led exclusively by locals: a tour of underground parties with a local DJ, a private flamenco class with a flamenco performer, fishing with a local fisherman, a photography tour with a local photographer (see Exhibits 1b and 1c). In this way, the platform was also creating a community of micro-entrepreneurs who earned money selling their experiences. Prices for the experiences ranged from €15-€1,500, and for every transaction completed the host paid an 18% fee to Trip4real.

Her biggest challenge was creating a market: "Since Trip4real is a marketplace, we couldn't sell until we had supply, but if there is no demand, suppliers are not happy." ⁷ At this early stage, Gloria and her team made the platform known using public relations and social media; a few months later, customer reviews also became an important source of growth. By December 2013, Trip4real had 5,000 travellers using the site. ⁸

A few months later, Gloria approached Ferran Adrià, the world-renowned Catalan chef, to talk about the possibility of offering a cooking experience through Trip4real: "I managed to have five minutes with him, so I made my pitch, and after four minutes his reaction was, 'Gloria, your idea allows the city to tell its micro stories. I really love that.'" ⁹

Ferran Adrià became a believer in the cause and an important mentor who could provide influential endorsements (see Exhibit 1d). She also approached the two founders of local advertising agency SCPF, Toni Segarra and Luis Cuesta, who loved Trip4real's experience marketing. They joined Ferran Adrià in investing a total of €150,000 in Trip4real as business angels. The money allowed the company to start growing in Barcelona. To strengthen this growth, SCPF's founders helped develop the website to communicate the magic of each travel experience visually.

Trip4real started growing gradually in Barcelona, and by the end of 2013, Gloria decided to expand to the rest of Spain. She had a scrappy, do-it-yourself philosophy, and she and her

team were using money very efficiently. Geographic expansion would require much more funding, however, as the need for hiring new people was clear.

In light of this situation, Gloria decided to seek more investment. She approached a number of investors and banks and was rejected by many. Caixa Capital Risc, the VC firm of leading Spanish bank La Caixa group showed interest. Based in Barcelona, it provided equity and convertible loans to innovative companies in their early stages. The bank started talking about a convertible loan of between €150,000 and €200,000 until a Series A round was raised.¹⁰

At the same time, Gloria and her team were still struggling to get more traffic to the platform. Trying to figure out how to make a leap forward, Gloria participated in a five-day programme to help develop mobile businesses called Imagine Express in February 2014. The first day took place at 4YFN, part of the Mobile World Congress in Barcelona, where she discovered that Airbnb co-founder Nathan Blecharczyk was giving a talk. She caught up with him and pitched her project, saying they should be partners. Gloria recalled:

Nathan said, 'You are not the only one with this idea. Why Trip4real?' and I answered, 'We have done a deep dive in one city and have more than 2,000 experiences in Barcelona.'¹¹ This caught Nathan's attention, and they arranged a meeting in San Francisco. I told my team, 'Guys, we are going to San Francisco and we are going to tell them the things we are doing... because we have magic!' Since we had no money for the trip, my team had an amazing idea: we did a crowdfunding campaign and raised €5,500... it was crazy.¹²

The third day of the Imagine Express programme took Gloria to London for a pitch day on the London Eye (see Exhibit 2). While there, she received a call from Aquilino Peña, partner at Kibo Ventures, a VC fund from Madrid and one of the top VC funds in Spain. They already knew each other as he was one of Gloria's professors on a master's degree programme in internet business. Gloria remembered him admonishing: "Don't go looking for investment from foreign funds. I am very interested in investing."

Even though Trip4real was at a very early stage and had few metrics – they were good at supply and the conversion rate seemed promising, but traffic was just too low – Kibo Ventures saw a clear investment opportunity, because few founders and their teams were able to attract investors like Ferran Adrià or to capture the interest of a worldwide leader like Airbnb in such a short period of time.

Series A

Aquilino Peña told Gloria that Kibo Ventures was ready to invest in Trip4real. Her company was running out of money, so she agreed to start a VC-financing round. Caixa Capital Risc also wanted to be part of the round. Gloria was already in advanced conversations with them for the convertible loan, and she thought it fair to invite them to participate in the Series A round with the same conditions as Kibo.

Shortly after, Aquilino Peña presented a term-sheet proposal to Gloria that offered €1 million for 26.67% of the company (see Exhibit 3). Since Gloria had asked that Caixa Capital Risc also participate in the round, the term sheet indicated that Kibo Ventures would underwrite between €750,000 and €800,000, and the remainder could be covered by a new investor, subject to prior agreement between Kibo Ventures and Trip4real. Caixa Capital Risc agreed to invest in the Series A round, since it saw the potential in the start-up, and made an offer of €200,000.

Gloria was not comfortable with the €1 million total of the round. She thought it was too much money, and she did not want to give up so much equity in the company. She wanted to give up no more than 20% of Trip4real shares, but she knew that Kibo Ventures would be reluctant to adjust its offer because its fund had a minimum investment size that was already on the very low side.

The prospective investors felt both excited and cautious about the relationship developing with Airbnb. A potential acquisition by Airbnb in the future could provide a very attractive exit. Some unfavourable outcomes were also possible, however, such as an 'acqui-hiring' (acquiring the company for a cheap price with the objective of hiring Gloria and her team) within a short period of time. In that case, they would not be able to create the extraordinary exit and impressive returns they sought from their investment. For this reason, the term sheet included a clause about what would happen if the company were sold within two years. In that case, investors would recover at least twice their investment. The VCs also requested that Gloria pursue partnerships with other platforms, like Booking.com and Expedia, two of the largest e-commerce travel companies in the world, in order to boost and diversify sources of traffic.

In the section of the term sheet that described the composition of the board of directors, Kibo Ventures incorporated a clause giving them the right to appoint the board secretary, which it considered of particular relevance.

The VCs also expressed concern about the lack of a tech co-founder. Gloria was a very inspiring leader, but they believed she would soon need a senior tech person on the team for product management. They wanted to discuss how to identify this person and how to attract him or her to Trip4real.

Second, they thought it was time to hire a finance person in order to organise the company's finances and track its performance. Until then, Gloria had relied on basic financial reporting. If the company was going to expand and add new VC investors, however, she would need the support of a chief financial officer (CFO), who would be responsible for key tasks like financial analysis, accounting and managing the budget, and who would work directly with the board of directors. Gloria recognised she was "not the best in finance"¹³, but she also knew that bringing in a CFO would be expensive.

The last issue to negotiate was an employee stock options plan (ESOP). Gloria wanted to reward her founding team's commitment to the risky venture; whereas the investors were focused on reserving a sufficient percentage of the company to attract talented future hires, such as a chief technology officer (CTO). They needed to agree on the number of shares to be issued under the plan and to provide a vesting schedule, including the procedure to follow in the event that one of the founders were to leave the company.

The decision

As Gloria boarded the plane with her team, she thought about the week ahead. She would need to wake up early in San Francisco to consult her advisors and negotiate with the investors back in Spain before meeting with Airbnb. She wanted to close the funding round quickly. Securing this funding would allow her and her team to continue moving Trip4real forward. They could even start thinking about international expansion. As she read the term sheet, she realized that she would have to focus most carefully on several items and negotiate them. But how?

Exhibits

Exhibit 1: Trip4real pictures

Exhibit 1a: Trip4real team (2013)



Left to right: Matias Vives (Community Manager), Nuria Carcellet (IT Manager), Gloria Molins (CEO), Claudia Peyri (Marketing), Anna Cañadell (Operations).

Source: Gloria Molins.

Exhibit 1b: Trip4real experiences**Trip4real.com**

· July 16, 2013 · 🌐

...

Each year on July 16 there is a spectacular ceremony with all the village boats in the Bahía de Fornells in honor of the Virgin Carmen, patron of the fishermen and seafarers.

If you are in Menorca, don't miss it!

**Trip4real.com**

· May 23, 2013 · 🌐

...

Music is in the air these days in Barcelona with the Primavera Sound concerts... Perfect time to enjoy one of our music4real experiences 😊

<http://bit.ly/13N25RX>

**Trip4real.com**

Like This Page · May 30, 2013 · 🌐

...

Lovely pic. Our local4real Carlos enjoying his Roller Photo Tour with some travelers!

You rock guys!

<http://bit.ly/Zvn4JN>

Source: Facebook.

Exhibit 1c: Trip4real front page

Source: Company.

Exhibit 1d: Endorsement by Ferran Adrià

Source: Facebook, posted by Trip4real November 11 2013.

Exhibit 2: Trip4real at the London Eye pitch, Express 2014

This pitch sought investment to develop a new mobile app. Strategic plan numbers are based on actual metrics from the website at the time.



STRATEGIC PLAN		
REVENUE MODEL	AVERAGE BASKET	CUSTOMER
Comission based model of 18% per transaction	Av. ticket size - 67€ Av.spent/user - 268€	Buys av. 2,5 tours (friends & family) Does at least 1,6 tours (Repeats)
FINANCIAL NEEDS		
INVESTMENT	ACTIONS	GOALS
100K€ To implement the app	App development (30K€) Launch to market (30K€) User growth (40K€)	1M downloads 1,5% conversion +700K Revenue
	1 year	1 year

Source: "Trip4real, London Eye Pitch, Express 2014." Vimeo, uploaded by Imagine, February 26 2014. <https://vimeo.com/120562383>

Exhibit 3: Term sheet*

Ms. Gloria Molins
Sole Director
Trip4Real Experiences, SL
Passatge de Maluquer, 1
Barcelona

Madrid, 25 March 2014

Dear Gloria,

Further to our conversations to date, we would like to confirm the interest of Amerigo Innvierte Spain Technologies, FCR (hereinafter “Kibo Ventures” or “the Investor”) in participating in a capital increase in Trip4Real Experiences, SL (hereinafter “Trip4Real” or “the Company”) in the near future, according to the terms* attached in this letter (hereinafter “the Transaction”).

In the course of analyzing this deal, we have ascertained that the Company has great potential for growth, principally in the Spanish market. We are certain that Trip4Real has the leadership required to develop the leading platform in Spain. In order to undertake this project, we consider it essential that the Company should have sufficient initial resources. The vision of Trip4Real’s business and its development are the key factor that reinforces our interest in accompanying the team and the current shareholders of the Company in this process.

As you know, Kibo Ventures is a VC fund that manages €45M from investors such as Spanish telecom company Telefónica, the CDTI (Centre for the Development of Industrial Technology), leading insurance company Mutua Madrileña, public institution AXIS-Grupo ICO and several private investors, including Rosp Corunna, the family office of Inditex. Kibo Ventures invests exclusively in digital companies with a high growth potential that are led by exceptional teams, and at present it has a portfolio of 22 investees in Spain and the USA.

We consider that Kibo Ventures has the experience and the willingness to accompany the Company and its shareholders, and we have the financial capacity to tackle not only the aforementioned Transaction, but also future capital increases should they be required.

**The Term Sheet has been modified slightly for teaching purposes.*

1. Detailed description of the Transaction

(i) *Pre-money valuation*

We are prepared to value 100% of the current share capital of Trip4Real at €2.75 million – two million, seven hundred and fifty thousand euros – (hereinafter the “Valuation”).

(ii) *Capital increase commitment*

In view of the needs of Trip4Real and our perspective on the development of the business, we would be prepared to participate in a capital increase of €1,000,000 – one million euros, of which Kibo Ventures would underwrite between €750,000 – seven hundred and fifty thousand euros – and €800,000 – eight hundred thousand euros -, and the remainder could be covered by the current shareholders of the Company or a new investor, subject to prior agreement between Kibo Ventures and the Company, (jointly “the Investors”).

Consequently, the Investors would hold 26.67% of the company’s capital after the capital increase. The investors will buy Preferred A Stock.

The valuation of Trip4Real’s share capital after the aforementioned increase would be €3.75 million – three million, seven hundred and fifty thousand euros.

(iii) *Purpose of the increase*

The capital increase will be used for the development of Trip4Real’s business.

(iv) *Liquidation preference mechanism*

- a. In the event of any liquidation, winding up or liquidity event of the Company, the holders of Preferred A will be entitled to recover in preference to the holders of Common Stock a value equivalent to the paid-up capital in the current round, capitalized at 6% a year.
- b. Preferred A will be participating so that after the payment of the paid in capital, the remaining assets shall be distributed pro-rata to all shareholders.
- c. At all events, the Investors will be entitled to recover double the paid-up capital in the current round, in the event of a change of control before 24 months or a new authorized increase round (at least €1,000,000 – one million euros).

2. Premises for Valuation and other conditioning factors of the offer

The Company has been valued according to the information provided by Gloria Molins in her capacity as CEO. In particular, the valuation has been based on the net debt levels, the results of 2013 and the conversations held to date.

Additionally, account has been taken of the essential conditions for an investor of Kibo Ventures’ institutional nature, and these must appear in the definitive Shareholders’ Agreement and Investment Agreement.

To be specific:

- a. The possibility of sitting on the Company’s Board of Directors, which will have a minimum of three (3) and a maximum of five (5) members, in conditions to be determined. Furthermore, Kibo Ventures shall be entitled to appoint the Secretary, initially Osborne & Clarke, and to appoint Gloria Molins as President of the Board of Directors.
- b. The definition of a structure of majorities necessary for corporate governance, depending on the investors who finally subscribe to this capital increase.
- c. The inclusion of an anti-dilution clause for stock splits, stock dividends, combinations, recapitalizations, etc. The conversion price of the Preferred A shall be subject to adjustment as

protection against future capital increases at a lower valuation than the increase effected in this round.

- d. The need for Kibo Ventures to be in favor of approving certain agreements:
 - A drag along clause that may be enforced from the third year and under certain conditions.
 - Capital increases, when these lead to a down round or involve the entry of non-financial investors.
 - Reserved matters that are standard in this type of operation (fundamentally those that affect the capital account, such as dividends, issue of stocks with different economic and political rights, debt, expenses not provided for above a certain level, related-party transactions...)
 - Preferential subscription rights
 - Pre-emptive rights
- e. Reverse vesting of the founder, with a vesting schedule of four years, vesting 25% at the end of each year after this agreement is signed. In the case of the founder leaving, the Company will have the right to buy all non-vested stock at a price of €0.0001 per share.
- f. Standard market clauses relating to non-competition, permanence and exclusivity of the management team.
- g. Approval of an incentive plan for employees (by means of options or similar) of at least 10% of the share capital, for recruitment and retention of key employees. The stock option plan will have a vesting schedule of four years, and will vest 25% annually, at the end of each year.
- h. Inclusion of standard share transferability clauses, including the tag along right.
- i. Hiring an auditor of recognized prestige from a previously agreed short list (i.e. BDO, Grant Thornton...)
- j. Information rights for investors: audited annual accounts, quarterly financial statements, principal business and financial volumes on a monthly basis.

3. Conditions of the offer, validity, confidentiality and contact

The Transaction is subject to the following conditions:

- a. Closing in satisfactory conditions of the documents associated with the Transaction, including the investment agreement and the shareholders' agreement.
- b. Definitive approval by Kibo Ventures' investment committee.

This offer shall be valid for a period of 10 – ten – days, after which it will be null and void, unless acceptance of the offer has been communicated in writing.

If this offer is accepted, a period of exclusivity of 6 weeks shall be deemed to have been granted, a length of time considered reasonable for closing the Transaction.

This offer is confidential and neither its existence nor its content may be shared in a context other than that of the Transaction.

4. Transaction Costs

The costs of the external advisers (including legal advisers, confirmatory due diligence, notary and registration) that are required to complete the Transaction shall be borne by the Company. Notwithstanding the aforesaid, these costs shall be borne by the Investors in the event that they unilaterally desist from completing the Transaction in the terms established in this letter. At all events, the costs that the company shall be obliged to assume will be limited to a maximum of €15,000 – fifteen thousand euros (plus VAT).

5. Confidentiality

The parties undertake to maintain the strictest secrecy and confidentiality, and they shall not disclose any of the following to a third party (with the exception of their lawyers and/or advisers and other companies in their group) without prior written consent from the other party: (i) commercial secrets, know-how, methodologies, products, commercial activities or any other information relating to the Company, (ii) negotiations held to execute the transaction in question, (iii) documents, reports, forecasts, analyses, statistics, studies or any other material or information, be it spoken or written, provided in relation to this operation, and (iv) the physical existence of this document (the “Confidential Information”).

In the event that, under any circumstances, the transaction is not completed, the Investor undertakes to return to the Company, and should this not be possible, to destroy any non-public Confidential Information it has received from the Company and/or its advisers, representatives, proxies, employees or other agents.

The obligation of confidentiality established here includes the adoption by each party of the necessary measures to prevent its employees, advisers and administrators from failing to comply with this obligation, and should they not comply, the parties shall be held responsible for their conduct. Legally binding communications are exempted from the aforementioned prohibition.

The obligation of confidentiality stipulated here shall extend for a period of 24 months from the date on which it is signed.

6. Applicable legislation

This offer shall be governed by Spanish Law, and in particular any controversy concerning its validity or confidentiality shall be submitted to the jurisdiction of the courts of Madrid.

We hope that the terms and conditions of this offer are acceptable to the Company and its shareholders. They reflect the enormous interest of Kibo Ventures in forming part of Trip4Real.

Mr. Javier Torremocha
Managing Partner – Kibo Ventures

Mr. Aquilino Peña
Managing Partner – Kibo Ventures

In agreement and acceptance,
Ms. Gloria Molins, Sole Director, Trip4Real

References and Endnotes

¹ Catalan tomato bread.

² Gloria Molins, 2018. Keynote speaker: Trip4real, story of a dream. Behind the scenes of a successful startup, at 4YFN, programme of Mobile World Capital Barcelona, February 26 2018.

³ Begley Bloom, L. 2015. "This entrepreneur started a travel Company that can help you quit your job" at Forbes, www.forbes.com/sites/laurabegleybloom/2016/09/15/this-en...a-travel-company-that-might-help-you-quit-your-job/#7e6ca73a6764

⁴ Noguera, M. 2016. "La importancia de la pasión para emprender, por Gloria Molins CEO de Trip4Real", at Founders & Tips, <http://foundersandtips.com/importancia-pasion-para-emprender-por-gloria-molins-ceo-trip4real/>

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⁸ Cañigueral, Albert, 2013. "Trip4real y Ferran Adrià buscan 1.000 microemprendedores", at Consumo Colaborativo, www.consumocolaborativo.com/2013/11/12/trip4real-y-ferran-adria-buscan-1-000-microemprendedores/

⁹ Gloria Molins, 2018. Ibid, cit.

¹⁰ Series A is the first round of formal VC financing in start-ups

¹¹ Gloria Molins, interview with the authors, October 2019.

¹² Gloria Molins, 2018. Ibid, cit.

¹³ Noguera, M. 2016. Ibid cit.