VC Investor Types Revealed

Swiss Startup Capital
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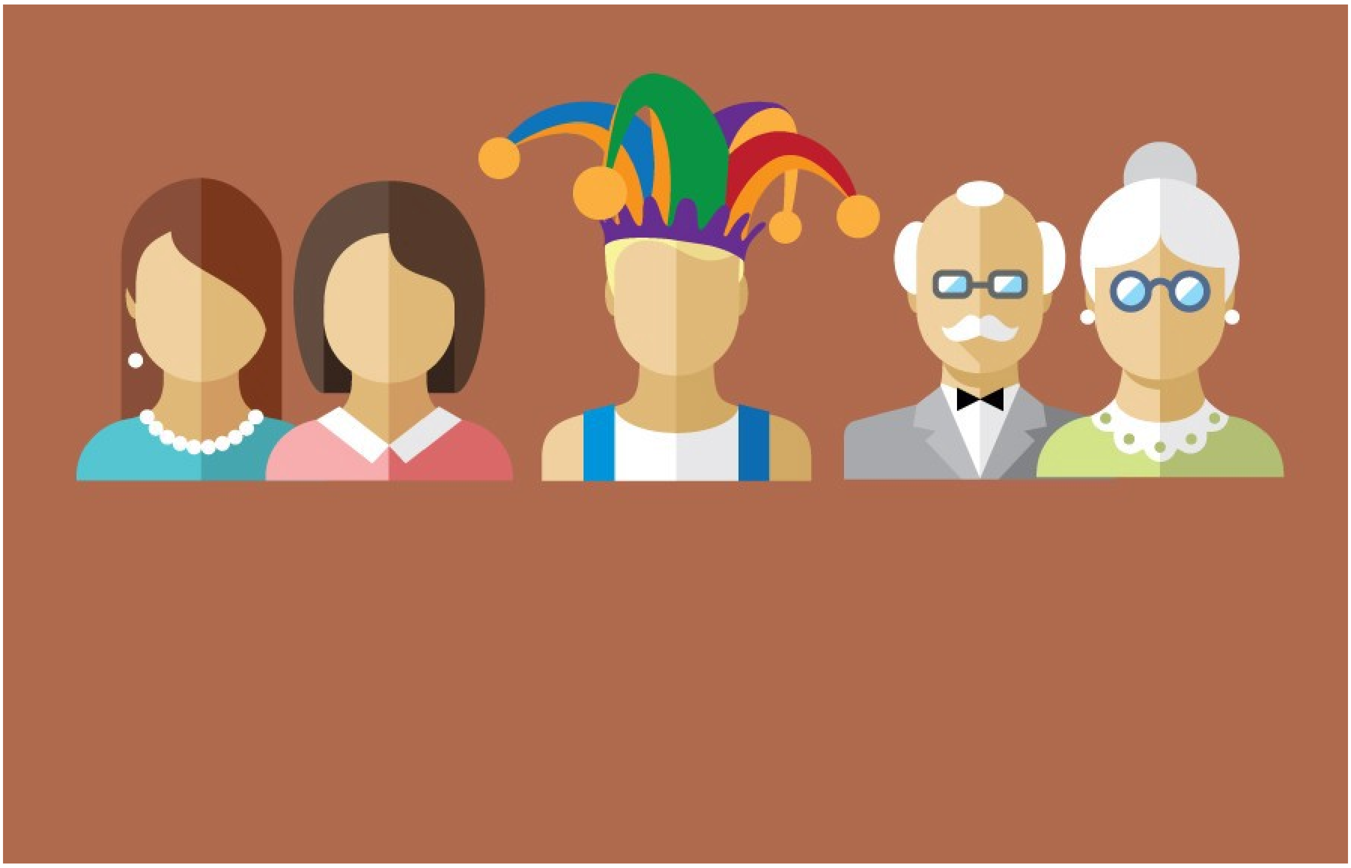
Venture fundraising in Switzerland. A challenge involving different investor types, each with its own, typical characteristics — witness how a successful founder managed to raise her first CHF 1 Mio.

Imagine Daniela, a young Swiss entrepreneur, who has developed together with her three fellow students a promising smartphone application for the tourism industry. They have secured solid partners on the supply side and generated initial revenues with first external customers. Until today, they have developed everything themselves, in between and after their university classes. With the proof-of-concept delivered, they gave themselves six months' time to raise CHF 1.0 Mio. in order to take their App to the next level and hopefully generate serious revenues on the path to becoming a profitable business. She and her co-founders agreed on a valuation of CHF 4.0 Mio. giving the new investor(s) 20% of the business (Post-Money).

FFF

First port of entry was Daniela's personal network, her ***friends & family***. Luckily her parents and two friends agreed to invest CHF 150k. Without asking too many questions, they quickly agreed to her terms without really questioning them, mostly because they know and trust her. While it was relatively easy to raise money from her friends & family, Daniela knew that she will most probably won't be able to access additional funds from when raising future financing rounds. Therefore, they were a perfect starting-point for her fundraising, but she knew she would also have to lock-in investors with deeper pockets.



Source: http://elitebusinessmagazine.co.uk/finance/item/where-angels-fear-to-tread-ensuring-friends-fools-and-family-don-t-scupper-future-deals

Business Angel Clubs

Next on her list were local ***business angel clubs***. She contacted some of them, submitted her investment case. Fortunately, she was chosen to present at a Club's monthly event, where about 20 angel investors were present. Those investors asked good questions and ultimately, there was a group of five people who agreed to go into due diligence. Daniela was prepared for that with a well-structured virtual data room. After some discussions, three of these business angels made her an offer to invest CHF 350k, but at a lower valuation of CHF 3.5 Mio. That investment was less than what she was hoping for, but she knew she would not get the entire outstanding amount. On the bright side, she now had total commitments of CHF 500k plus an angel investor who would introduce her to two prominent travel destinations. In order to secure the last CHF 500k Daniela will have to up her game to get some single-family offices and VC funds interested in her case. Knowing that these types of investors are very selective (VC funds in general invest in 1% of the deals they see), she would need to approach as many of them as possible.

Source: https://www.startupticker.ch/en/news/december-2017/sictic-angel-club-yields-successful-results

Family Offices

Weeks of sending out numerous emails passed with not much positive feedback, Daniela started to feel the increasing pressure to find the remaining CHF 500k. So much depended on the closing of this round as the cash-balance was decreasing while the number of bills steadily increasing. At one of the numerous startup events she attended, Daniel met a guy who promised to introduce her to three **single-family offices** with track records of investing in startups. Unfortunately, the first two were not interested, as her startup was still too early in its development and thus the inherent investment risk was too high. The third family office saw some merit in her business model, but had similar reservations like the other two. However, Daniela being a very persistent entrepreneur, managed to schedule a meeting with the principal of the last family office. She immediately recognized that she was sitting opposite a well-informed, savvy venture investor. He questioned her for almost two hours and pressed hard on certain topics such as market growth, customer segmentation and competitors. The meeting went well, the principal introduced her to his investment manager in charge of the due diligence and thus the process continued.

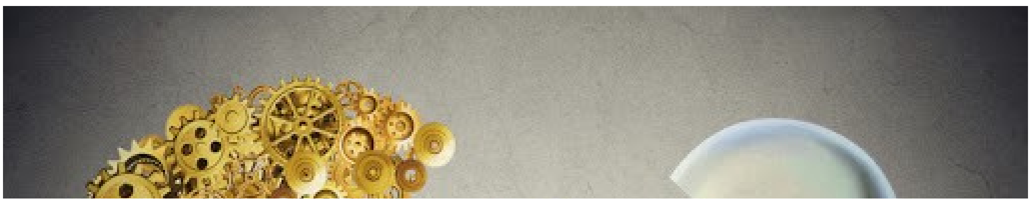
Source: https://www.businesstimes.com.sg/magazines/wealth-august-2017/rise-of-asian-family-offices

VC Fund

At the same time, Daniela scored a lucky punch, as she was approached by a seed-stage **venture capital fund** who heard that she was raising funds. She had an initial meeting with one of the investment managers who outlined how they lead other B2B startups from their portfolio to success. She sent them additional information, conducted several follow-on calls and about three weeks later they submitted her a term sheet to invest CHF 500k at a valuation of CHF 2.5 Mio., also asking for additional terms such as anti-dilution protection, liquidation preference and others, subject to a successful due diligence.

For Daniela's startup, time and especially funds were running out, so she needed to act fast. While the VC due diligence was progressing smoothly, the family office concluded its process and they presented her with the final terms upon which they would invest CHF 500k. To the surprise of Daniela and her team, they offered to invest in 2 tranches, CHF 250k immediately at a valuation of CHF 3 Mio. and another CHF 250k at a CHF 4 Mio. valuation, subject to reaching revenue milestones within the next six months. While the family office was pressing to get a feedback from her, the VC due diligence was taking more time than expected. Just when the family office gave her a firm deadline for the decision, the VC came back with a green light — they concluded the due diligence and firmly offered her the terms outlined earlier.

She was now in the comfortable position to choose the investors who would support her and her team to finally scale what they have built over the past year. Daniela and her co-founders entered into intensive discussions. While they did not appreciate the fact that the family office would invest in two tranches tied to milestones, they worried that they would give up too much of their business by accepting their low valuation and their demanding terms. Ultimately, they all agreed to go with the VC fund, even though the terms were not very favorable either in their view. What disturbed them with the family office was the fact that they would only secure part of the funding, running the risk of losing the second tranche because of missing the milestones.



Source: https://www.pymnts.com/news/2015/warby-parker-co-founders-set-sights-high-for-first-vc-fund/

Looking back, Daniela and her team likely chose the right partner, since the VC opened many doors for them and delivered on several occasions, helping them to generate revenues faster and growing internationally. They ended up paying a higher price for that investment (accepting a lower valuation), but it looks like at the end it was worth it.

Key-Learnings for fundraising entrepreneurs

- Make sure you calculate enough time for the fundraising — it always takes longer, and you don't want to negotiate with investors with your back against the wall.
- While friends & family is a great access to initial funding, they will probably won't be the right partners for future rounds (unless they have deep pockets).
- Business Angels are great to help you in your first rounds, while they often help you on a strategic/board and sometimes even operational level, they usually dilute over time and don't participate in too many follow-on rounds.
- Family offices or qualified venture investors are a great source of capital for larger financing rounds. Since most of them are or have been entrepreneurs in their lives, they can relate much more with challenges you might face and are often willing to continue funding, also in difficult times.
- Venture funds will often be more active investors and help you grow your business and bring their vast experience, know-how and international network to the table. In exchange they often take a lead role in the process by setting the valuation level

and negotiating harder on terms. Given the finite time-horizon of funds, they are generally driven by an exit within 3–5 years.

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