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Venture Capital: Three Ways

An overview for the VC-curious CTO

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Venture Capital Three Ways

Founders

Investors



Participants

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Agenda

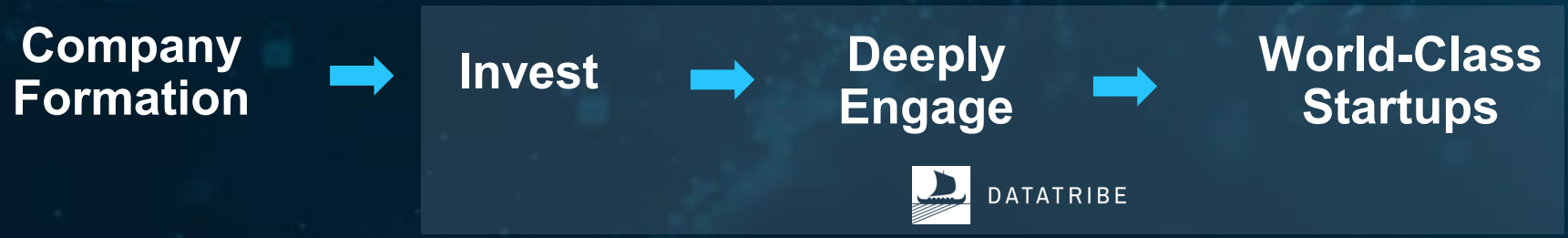
- Quick Intro
- Investing in Venture
- Founders & Venture Capital
- Working with Venture Firms



Quick Intro

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We are Cyber & Data Infrastructure Company Builders





Investing in Venture

Alternative Investments

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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

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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

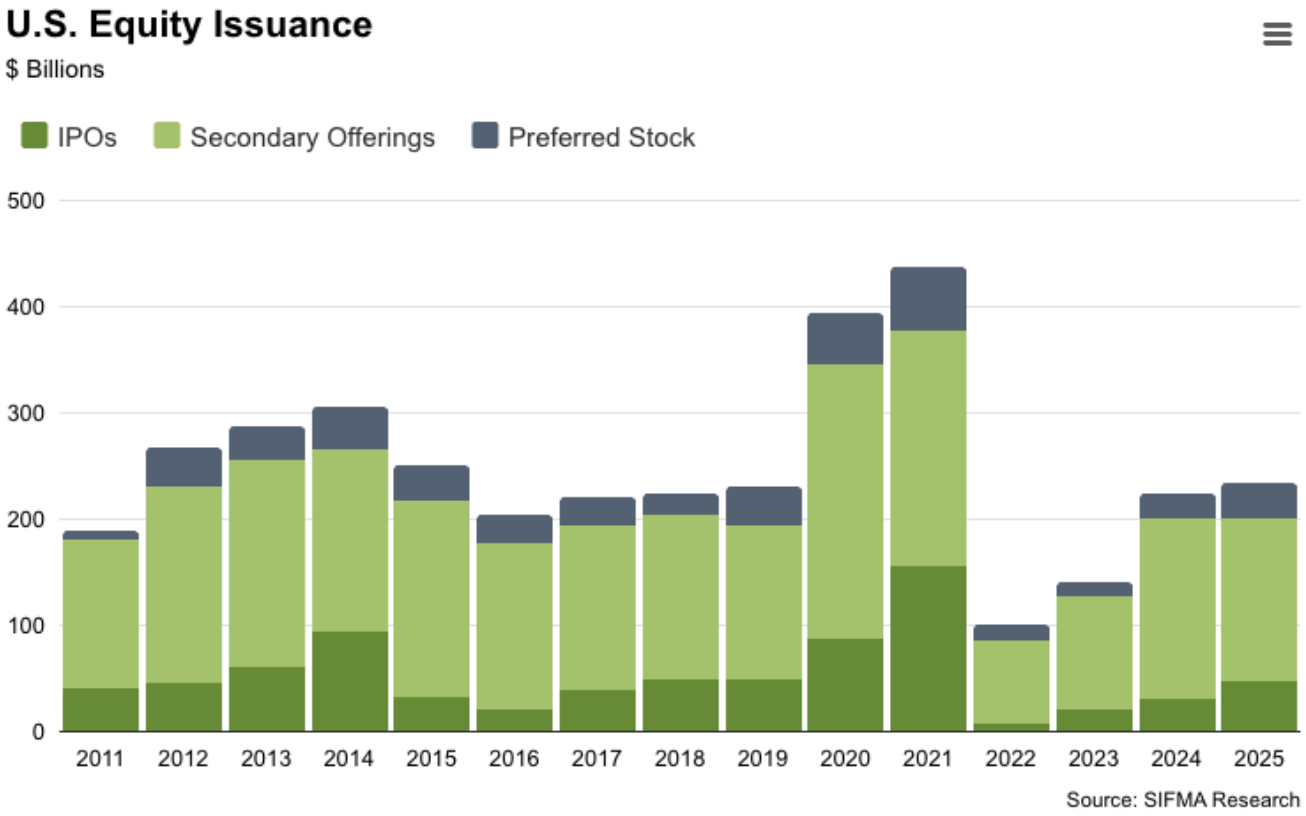
Leveraged buyouts, roll-ups, buy-and-grow. Control positions in established businesses. This is what most people picture when they hear "PE."

EARLIEST STAGE

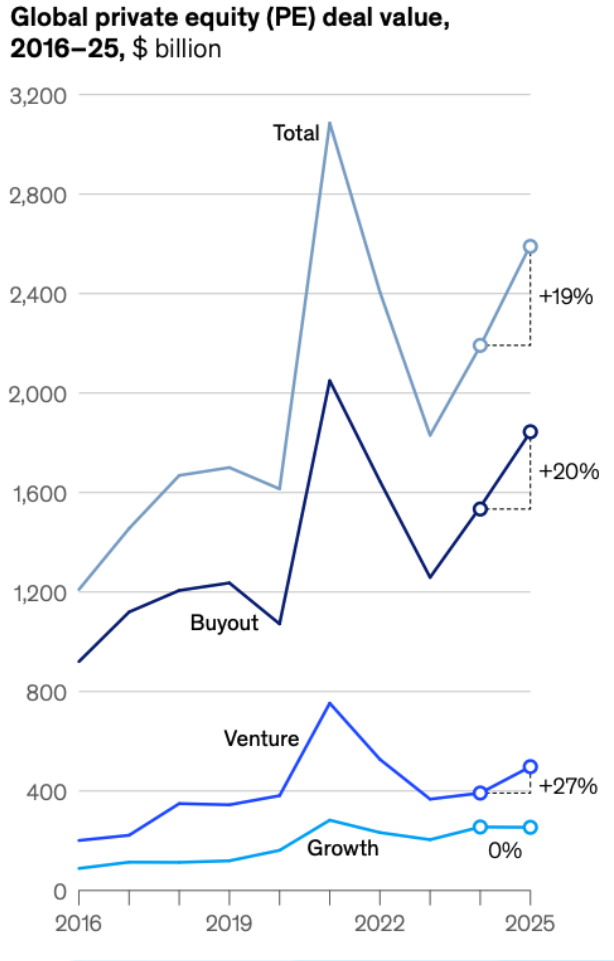
LATEST STAGE

Public vs. Private: Capital Raised

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~3X More capital raised in private equity



North America: ~50% of global deals

Source: McKinsey & Company

Venture Capital Structure

What's a fund

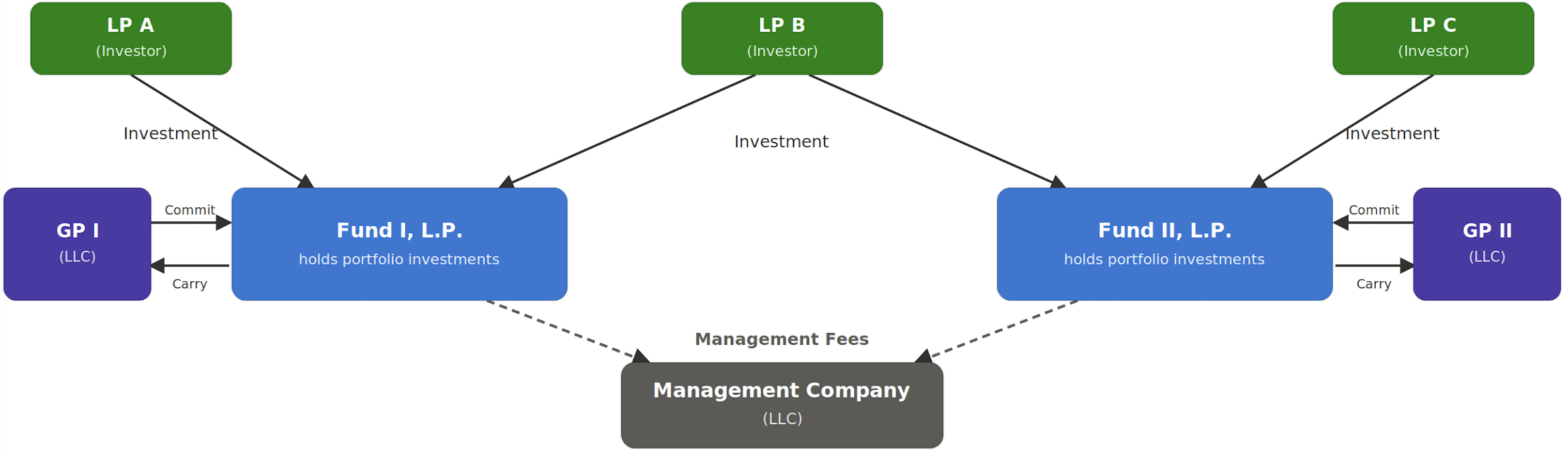
- Pooled & managed
- Closed-ended vs. open-ended
- Fund lifetime of X and investment period of Y

Example:



Venture Capital Structure

The entities, costs & incentives

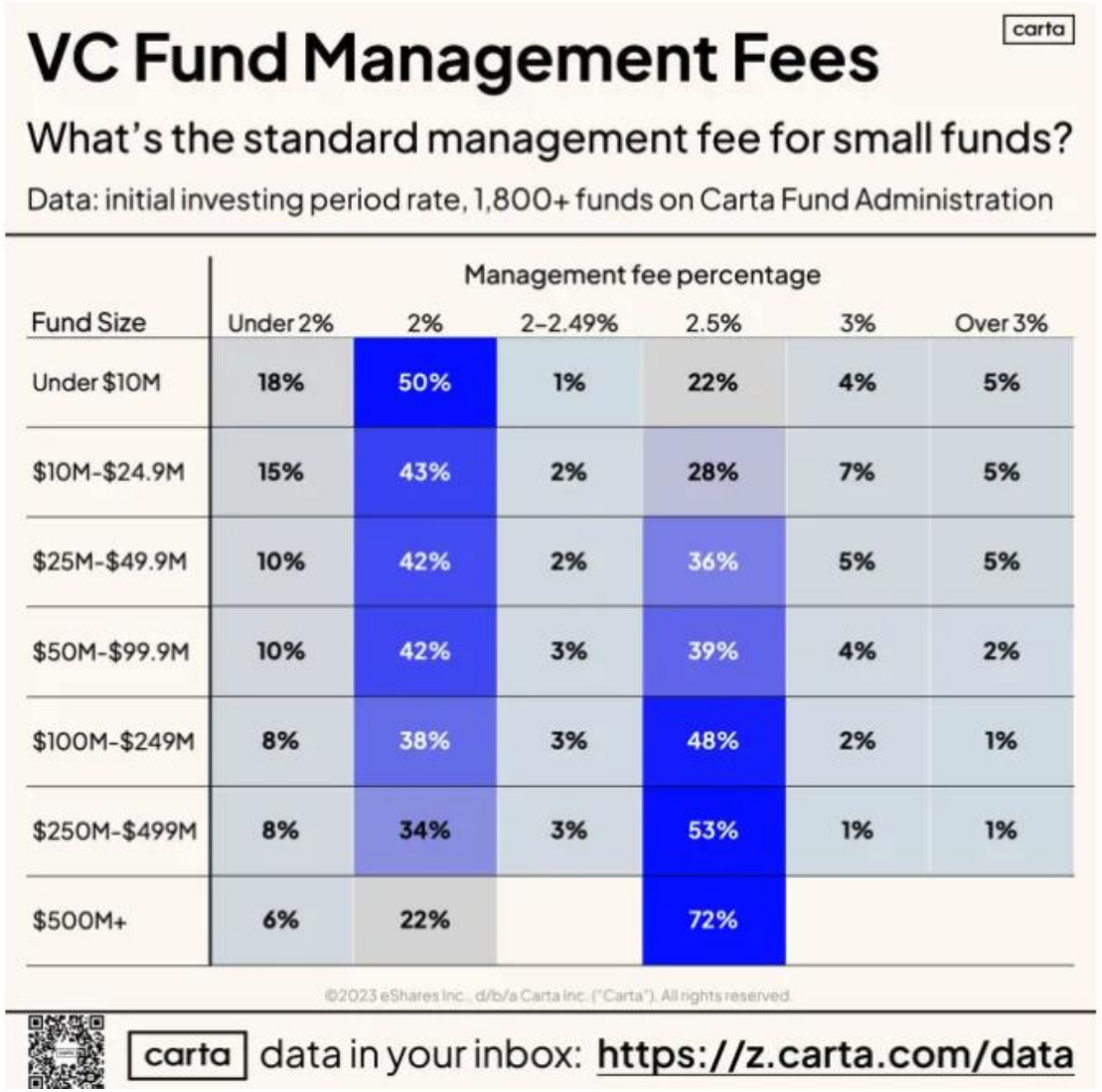


Each fund has its own GP entity and LP base; every fund pays management fees to the same shared Management Company.

Venture Capital Structure

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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

Fund Size	Management fee percentage					
	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%		

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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

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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

Venture Strategy Dimensions

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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

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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

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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?

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Venture Stages

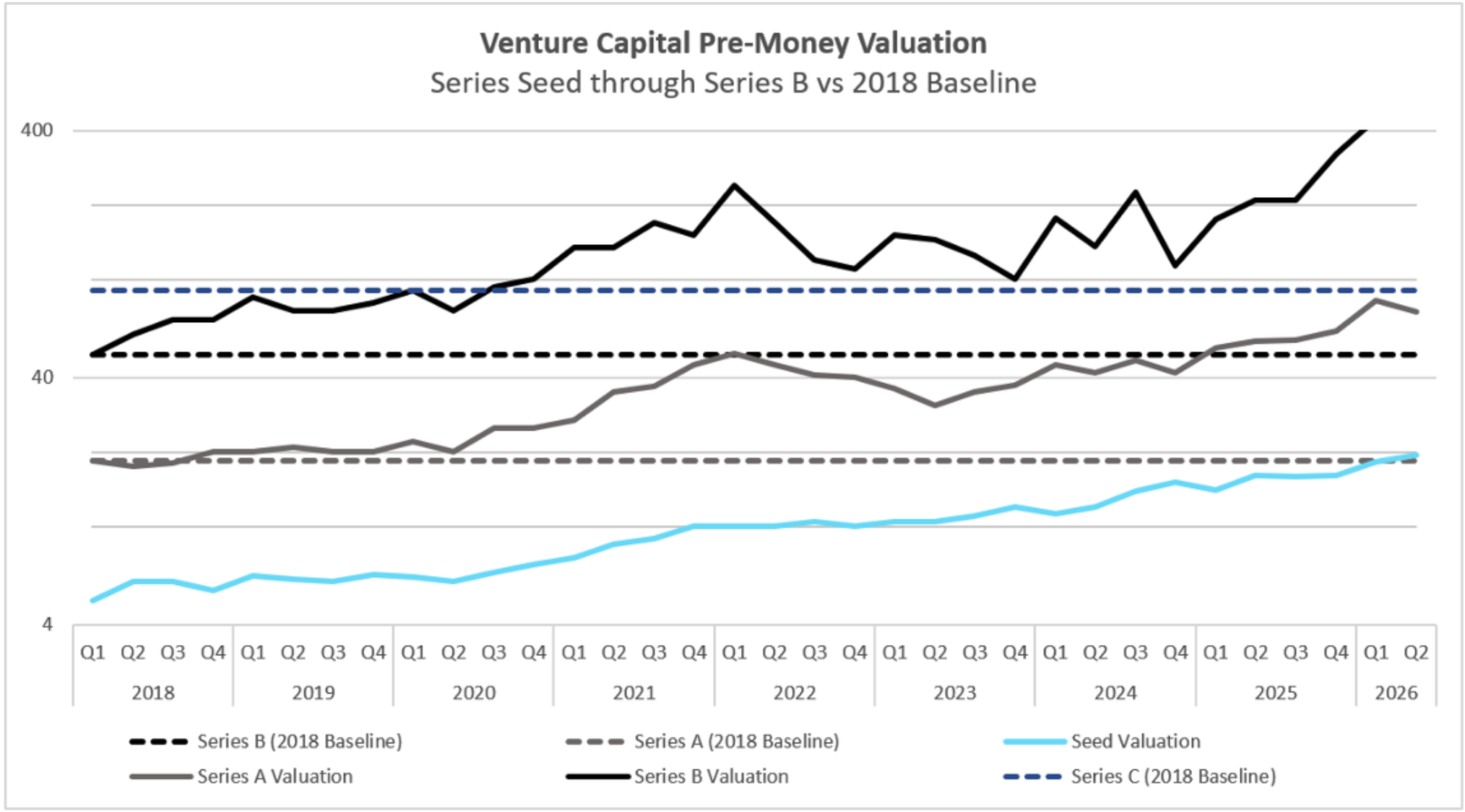
The metrics are continually changing

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	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

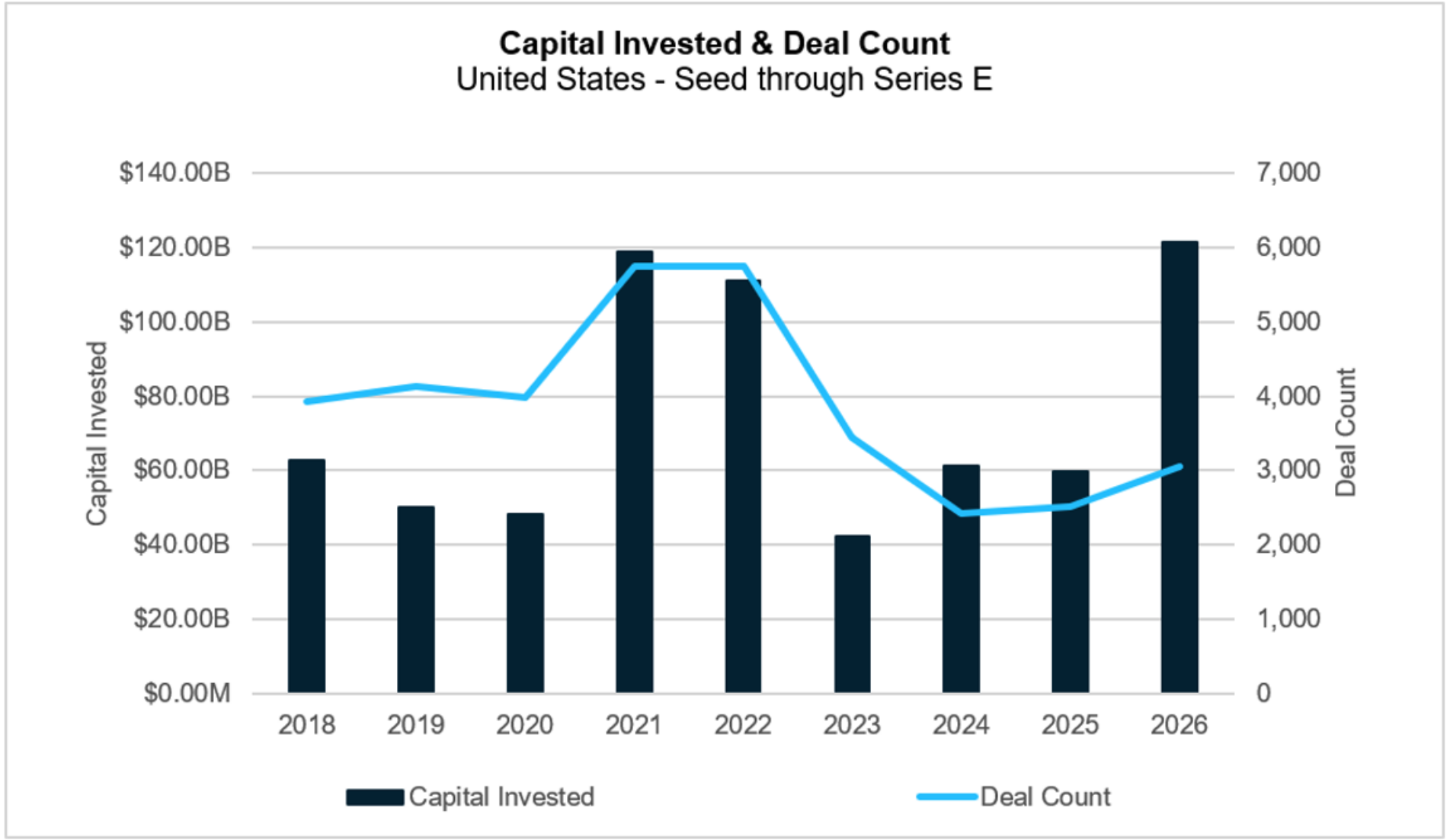
Valuation Trends

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Not Getting Easier For Founders

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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?

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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

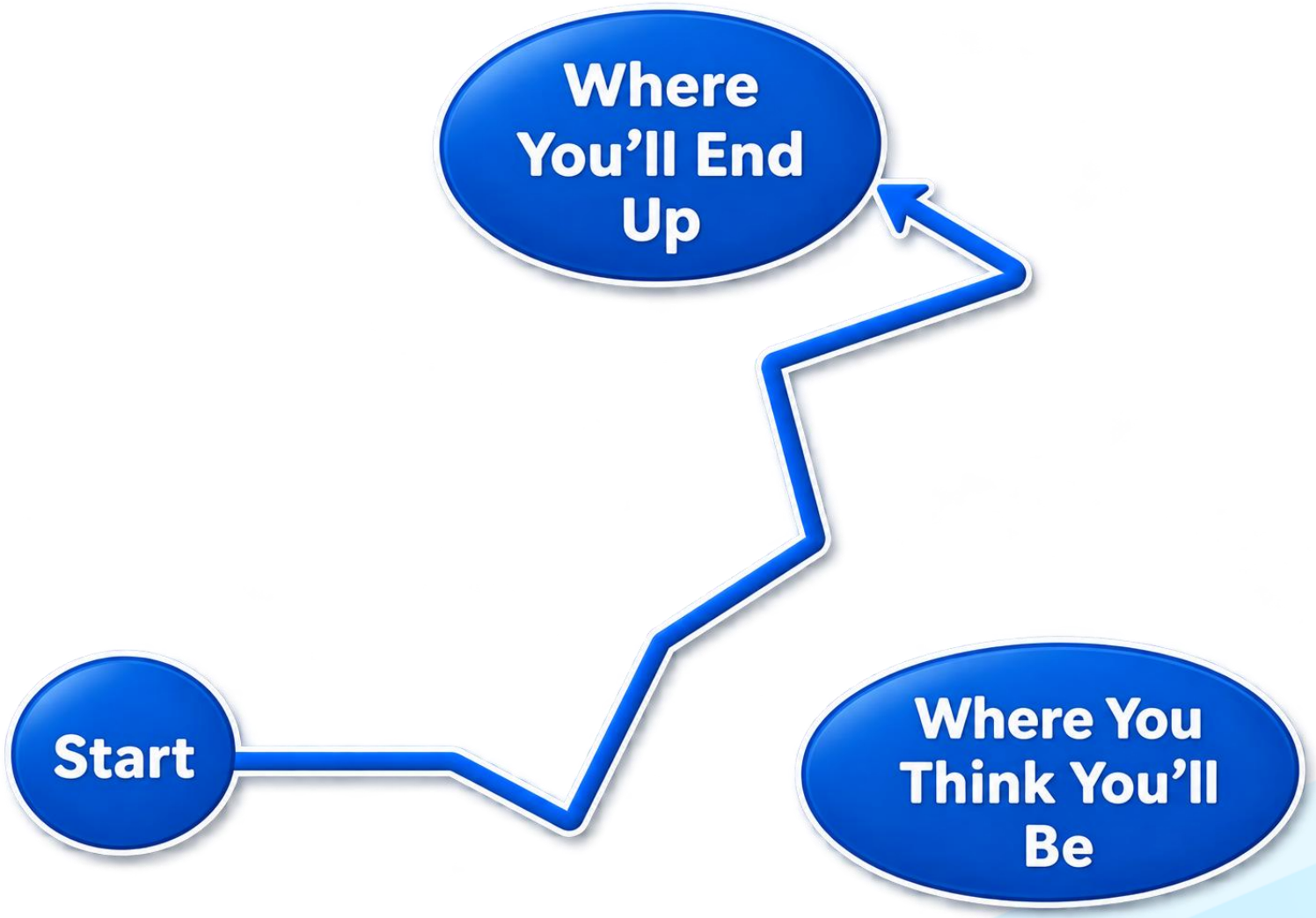
An Idea != A Company

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

Thomas Edison

Plan to Iterate and Be Flexible

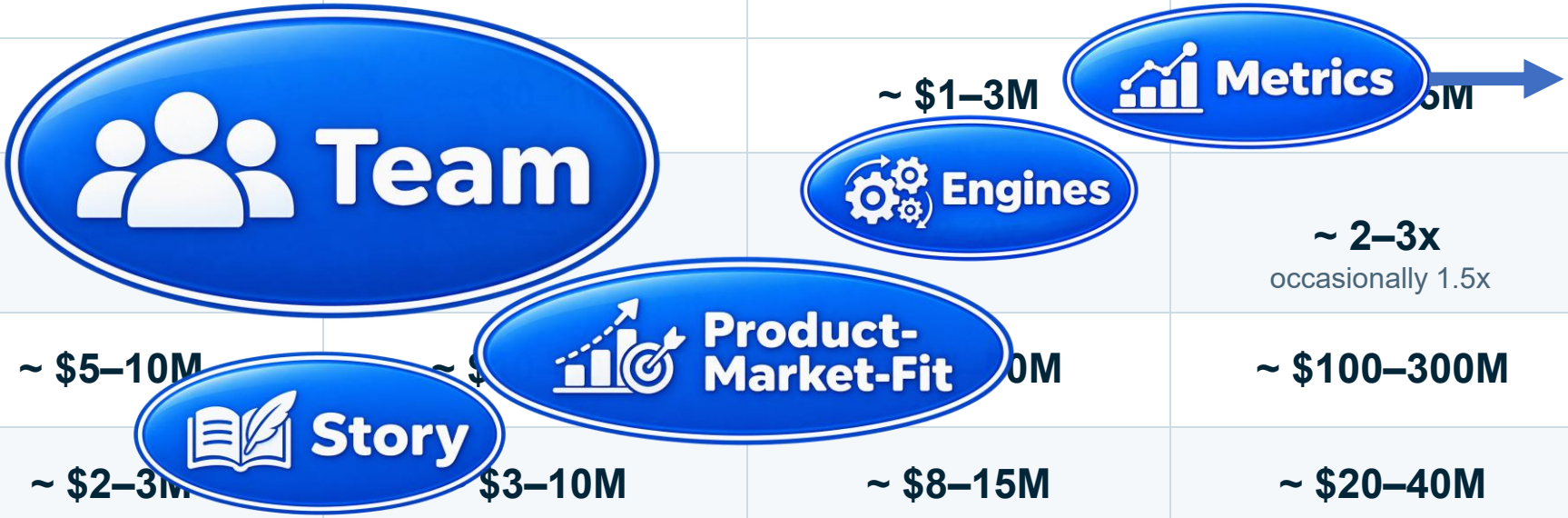
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What are VCs Looking For?

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	Pre-seed	Seed	Series A	Series B
ARR			~ $1–3M	M
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



The Venture-backed Journey

Thoughts & Recommendations

FOCUS

CYBER SCAPE 2021

Network & Infrastructure Security

Advanced Threat Protection
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NAC
aruba · AUCONET · AXONIUS · cisco · Extreme · FORESCOUT · FORTINET · Genians · portnox · PulseSecure · Trustwave

SDN
AlloyEdge · CENTRIS · cisco · Cybera · Cyxtera · TEMPERED · Transient · VERSA · zentera · ZERO · zscaler

DDoS Protection
Akamai · Check Point · cisco · FORTINET · imperva · neustar · NEXUSGUARD · NSFOCUS · ORACLE · SECURE64 · STACKPATH

DNS Security
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Network Firewall
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SASE
CATO · Check Point · Forcepoint · FORTINET · iboss · netskope · Open Systems · paloalto · perimeter 81 · VERSA · zscaler

Deception
ACALVIO · Attivo · CounterCraft · CyberTrap · Fidelis · illusive · Smokescreen · TRAPX

ICS + OT
APERIO · cisco · DAYSHORE · BELDEN · CRITIFENCE · CYBERX · DRAGOS · endian · HALO CYBER · dimension · NEXTNINE · NOZOMI · OWL · PAS · PFP · radiflow · Rhebo · SCADAfence · tenable · VERVE

Network Analysis & Forensics
AWAKE · BROADCOM · CGS · cisco · CORE · corelight · DARKTRACE · ExtraHop · Fidelis · FIREMON · Gigamon · GREYCORTEX · LogRhythm · NETSCOUT · NewMode · packetloop · PACKETSLED · perch · PICO · Plixer · SECURITY ONION · SOLARWINDS

Web Security

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Endpoint Security

Endpoint Prevention
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Endpoint Detection & Response
BELDEN · BINARY DEFENSE · BitDefender · BlackBerry · BROADCOM · cisco · COMODO · CrowdStrike · Cybereason · CYBONET · Cynet · Dtex · elastic · ENFORCE · FIDELIS · FIREEYE · Forcepoint · FORTINET · GoSecure · HUNTRESS · kaspersky · McAfee · NYOTRON · nexthink · paloalto · panda · PROMISEC · RSA · SECPOD · SentinelOne · SOPHOS · TANIUM · TENTRIS · vmware · WatchGuard · ziften

Application Security

WAF & Application Security
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Application Security Testing
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MSSP

Traditional MSSP
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Advanced MSS & MDR
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Data Security

Encryption
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DLP
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Data Privacy
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Data Centric Security
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Mobile Security

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Risk & Compliance

Risk Assessment & Visibility
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Risk Quantification
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Pen Testing & Breach Simulation
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Security Incident Response
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Momentum Cyber

Threat Intelligence

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IoT

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Identity & Access Management

Authentication
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IDaaS
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Privileged Management
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Identity Governance
AXIOMATICS · Deep Identity · helpsystems · SailPoint · SAVIYNT · simeio

Consumer Identity
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Blockchain

ANCHAIN.AI · BLOCK ARMOUR · CHAINUP · edge · guardtime · IDEE · Inter/stellar · NuID · Ping · remme · xage · Zamna.

Digital Risk Management

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Fraud & Transaction Security

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Cloud Security

Container
anchore · aqua · CAPSULE8 · deepfence · NeuVector · POLYVERSE · portshift · Qualys · sysdig · Twistlock

Infrastructure
BetterCloud · bridgecrew · cavirin · CHASM · Check Point · CipherCloud · CLOUDNEUM · CloudPassage · Guardicore · HYTRUST · iboss · illumio · Lacework · paloalto · portshift · SHELDON · sonrai · Stackset · TREND MICRO · vArmour · vmware · zscaler

CASB
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Continuous Customer Feedback

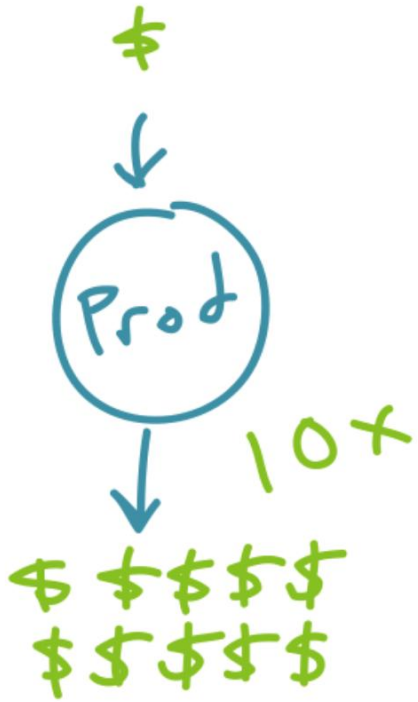
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- Talk to as many customer prospects as you can
- High-quality feedback from 5 can be good enough
- I-Corps recommends 100
- Build your MVP with 2-3 “Strategic Partners”

PMF: Overcoming Inertia

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Compelling Value

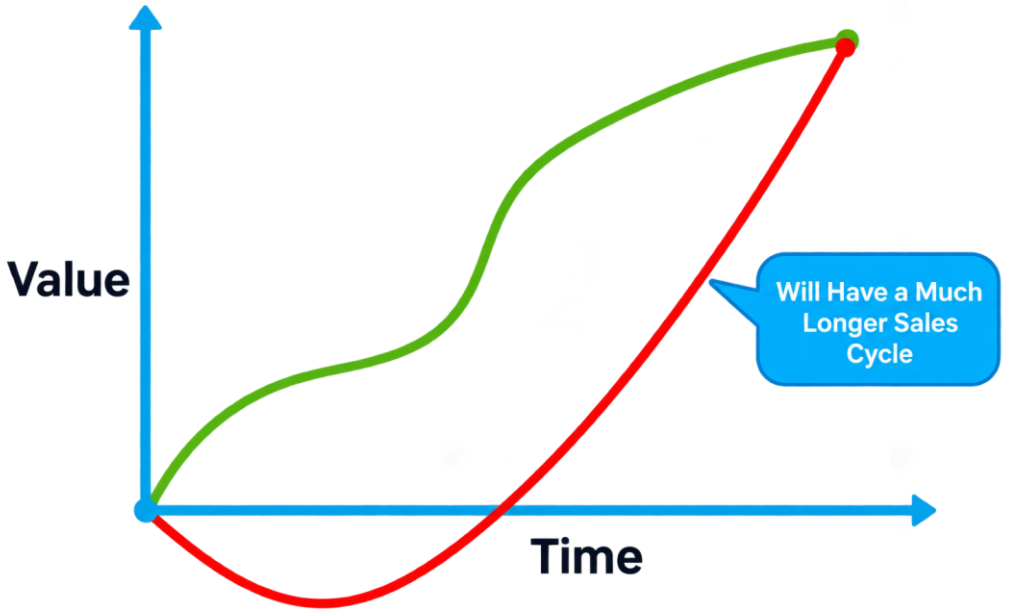


Do Less, Better





Time To Value



PMF: Positioning

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Segment

Target ➡ Who is your ideal customer?

Position

4Ps

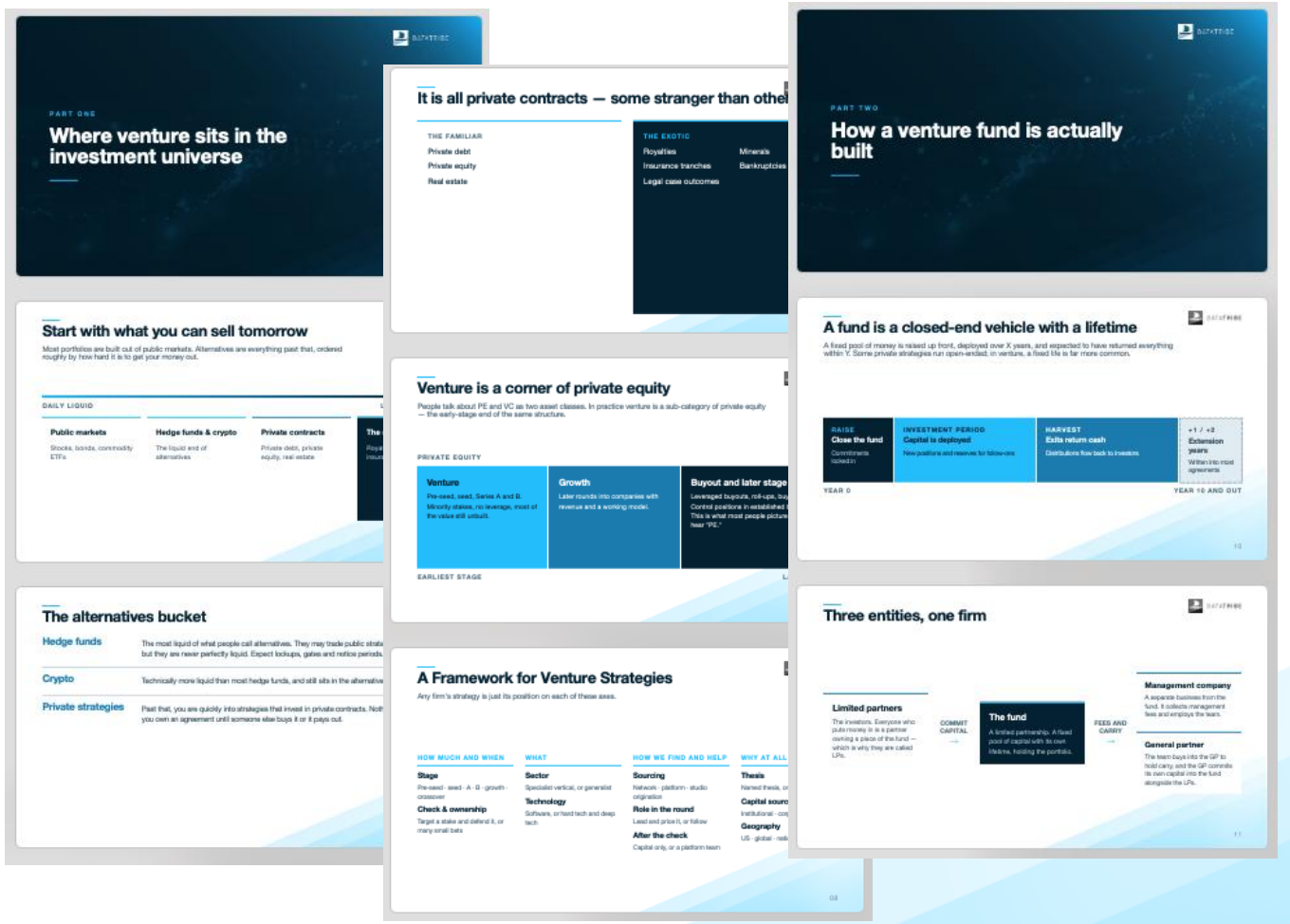
Product, price, placement, promotion

Spend Time On Your Deck

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

Blaise Pascal



Raising

Fundraising Process

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- 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

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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

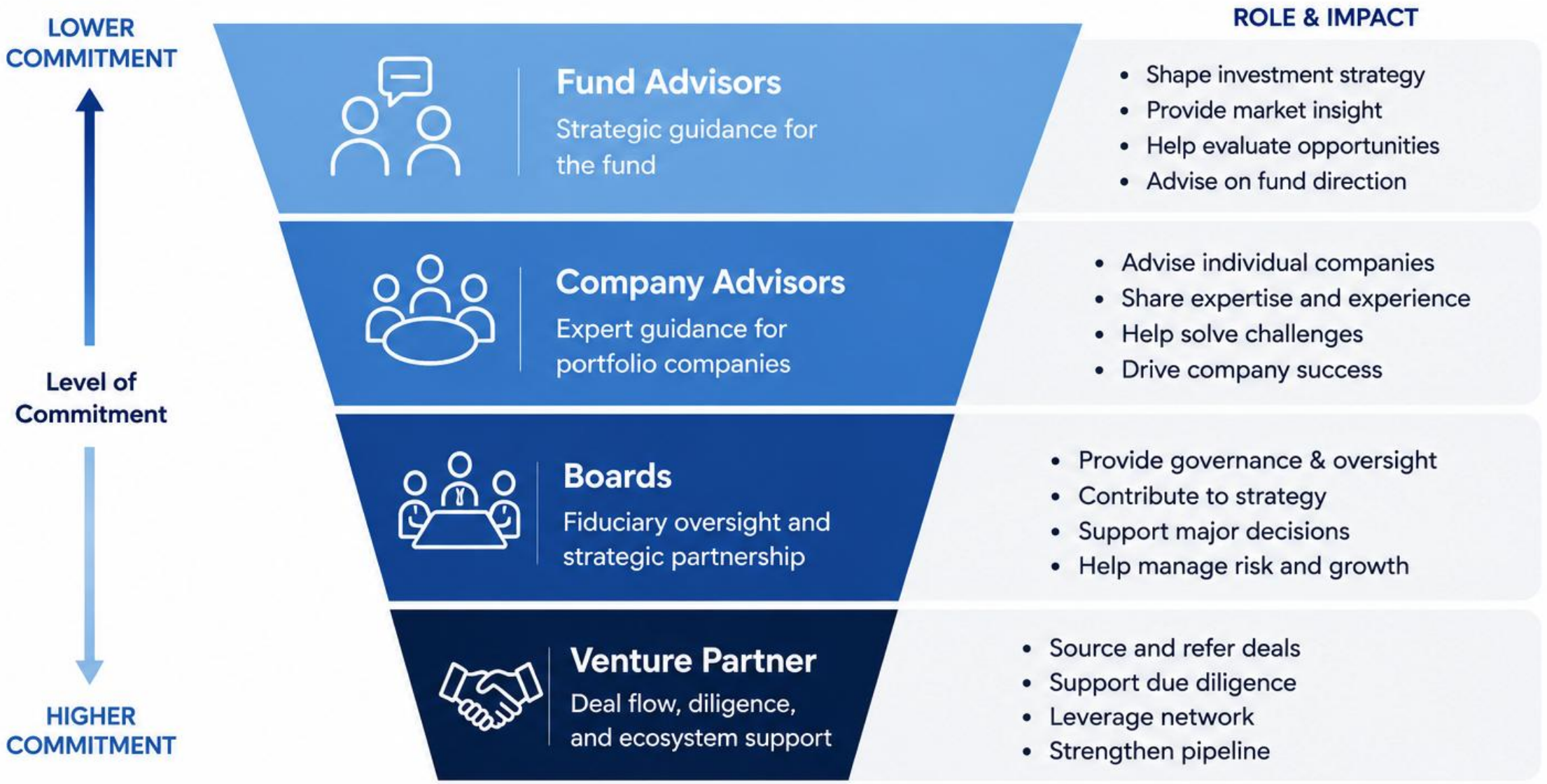
The Venture Ecosystem

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Levels of Involvement

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Discussion