Ideation Process & StartUp Financing
Agenda

1. Introduction
2. Ideation Process
3. StartUp financing from a VC’s perspective
4. Top 5 Learnings
Dr. Fabian Heilemann

Entrepreneur (since 2000)
Co-Founder & CEO DailyDeal (Exit to Google > $ 100m)
Co-Founder Sky&Sand, Localize and Heilemann&Co.
Co-Founder & Chairman of the Board FreightHub

VC-Investor (since 2011)
Co-Founder / Partner of Heilemann Ventures (2011 - 2015)
Managing Partner at Earlybird Venture Capital (since 2016)

Bucerius Law School / Ruprecht-Karls-Univ. Heidelberg / Santa Clara University / Stanford University / KAS Scholar
(LL.B., 1st Bar Exam, Dr. iur. Corporate Law)
**Total capital raised since 1997:** €800m

**No. of investments made since formation in 1997:** 142

**No. of Deals reviewed in 2016:** 7,513

**Investment Focus**

**Tech / Business Model**
- SaaS
- Data & Analytics (ML/AI, IoT)
- Crypto / Blockchain

**Industry Verticals**
- FinTech / InsurTech
- Logistics & Mobility
- Enterprise Productivity

Agenda

Ideation Process
“Live in the Future - then build what is missing” (P. Graham)
Idea generation process for Entrepreneurs

A. Market identification and high level data check
B. Market trends, stakeholders and value creation
C. Degree of digitization & potential leverage of technology
D. Generate product ideas & create alpha version
E. Validate idea with experts, customers and investors

Secure Funding and start Executing!
Example:

Building Materials & Construction Supplies
Market high level data

1. Identify markets by combining databases* and personal network
2. Market size should be EUR > 1 Bn. in GER / 5 Bn. EU / 25 Bn. world
3. Identify and understand macro trends (social / political / technological etc)

* Use databases like Orbis, IbisWorld etc.
Market environment, stakeholders etc

Where is the value created?

1. Degree of concentration
2. Barriers to entry
3. Porter’s 5 forces
4. Distribution chains
5. Margin structures
Degree of digitization and potential leverage of technology

1. Degree of incumbent player process-digitization*
2. How could technology change the current value-creation in that industry?
3. Which USPs and Competitive Advantages could become game-changers?

Our findings and hypothesis:

- Current wholesalers take orders with pen + paper and meet their clients on premise (not online)
- Industry digitization level: Stuck in 90s 😞
- Producers are dissatisfied with low value add of wholesalers and want to directly own customer relationship and data
- Direct sales between producers and customers will rise – wholesalers as middlemen will lose ground if they don’t add significant value on both ends

*Use market analysis/studies e.g. from consultancies
Generate product idea and create alpha version

1. Typical models for Digital Players:
   a) Higher margins / lower prices
   b) Process efficiency / speed / usability
   c) Vertical integration / end-to-end ownership of customers and data
   d) Marketplaces / sharing / network-effect

2. Inherent risk of failure
   a) Blue-Ocean (high) vs.
   b) Break-and-Replace (middle) vs.
   c) Digital transformation (low)

3. Are there examples for (successful / failed) digital / 2.0 players? What can you learn from their cases?

Potential ideas derived from step C:

- **“Cut out the middleman I”**: Enterprise SaaS commerce solution for building material producers to sell directly to customers and replace wholesalers
- **“Cut out the middleman II”**: B2C/B2B eCommerce platform for high value building supply (see reuter.de) that ship in parcels (not as bulk freight)
- **“Become the middleman 2.0” (“Alibaba for building materials”)**: Vertically integrated B2B wholesale platform with 3rd party fulfillment
Validate idea and case with industry experts, customers and investors*

1. Nice to have vs. 10 x better
2. Customers’ willingness to pay?
3. Understand the customer: Who wins/loses if he buys your product? Who makes the buying decision?
4. Pitch to investors and reflect thoroughly on their feedback

What we did:

- Develop wire-frames / click-dummies for demos
- Interview relevant n of customers (B2B: > 20; B2C: > 100) and talk to the actual decision makers
- Talk to layer above you (=manufacturers) and below you (=craftsmen; real estate developers) to understand their needs
- Find 5-10 experts (e.g. former CEOs, Consultants) that have “meta-view”
- Talk to (leading) incumbent players and understand their strengths/weaknesses
- Pitch to Investors early to understand required configuration to be fundable

Only proceed to next step if you have serious conviction about validity!

→ WHAT you do is more important than HOW you do it (strategy over execution!)

* Use personal network, LinkedIn, tradeshows etc
GO! Build team, raise money and execute!

- Ideation: 3-4 FTE Aug 15. - Jan. 16
- Launch Feb. 2016 (stealth until June)
- 100 % QoQ, 85 % rec. rev., NPS > 75

- Team of 70 FTE in Berlin and Hamburg
- > 550 Customers (Mittelstand & eComm)
- Leading digital Forwarder in Europe
Agenda

StartUp financing from a VC’s perspective
Continuous growth of global VC investment volume

Venture capital invested

* Extrapolated from Q1-Q3; Source: Pitch Book, KPMG Venture Pulse
Earlybird’s *Sweet Spot* is Seed and Series A

**2010**

- IPO / Trade Sale
- Series C: €10 - 50m
- Series B: €5 - 15m
- Series A: €2.0 - 5.0m
- Seed Invest: €500k - 1.0m
- Angel Invest: €100 - 500k

**2016**

- EARLYBIRD Sweet-Spot
- Business Angels & Crowdfunding & Company Builder

**Angel and Seed investor Landscape**

- Business Angels
Continuously growing dealflow of Earlybird

Earlybird dealflow year over year, Digital West only
New leads*

~85% of our focus GSA deals seen by Earlybird

~65% of our focus Continental Europe deals seen by Earlybird

* Does not include all leads screened on “fly-by”, gross dealflow factor of min. 1.3-1.5x
Source: Earlybird Deal Database, Heilemann Ventures Deal Database 2015
## Earlybird’s Investment Selection Criteria

<table>
<thead>
<tr>
<th>Category</th>
<th>Characteristics</th>
<th>Summary</th>
</tr>
</thead>
</table>
| **Team**          | • Professional: track-record and experience  
                    • Personal: Energy + Intelligence + Integrity  
                    • Configuration: High team-product-fit                                                                                                                                                            | Triple A Team                                |
| **Product**       | • Real Pain killer (10x better than competition)  
                    • Backward and Forward-Looking Lock-In  
                    • USPs & CAs over potential followers                                                                                                                                                              | Category Killer Product                      |
| **Market**        | • Bn.-Dollar adressable market  
                    • Segment Growing with double-digit-rate p.a.  
                    • Low degree of digitization / high fragmentation                                                                                                                                               | Bn-Dollar-Opportunity                        |
| **Financials**    | • Early commercial traction / proven KPIs  
                    • Growth momentum > 20% MoM  
                    • Potential for > €500m enterprise value                                                                                                                                                     | Healthy KPIs & Momentum                      |
| **Investment profile** | • Seed / Series A round in EU with clean cap table  
                    • Valuation and terms within market-range  
                    • EB can add value with its competencies                                                                                                                                                       | Matching Investment Focus                   |

Source: Earlybird
### Earlybird's Investment Process

<table>
<thead>
<tr>
<th>Earlybird's Investment Process</th>
<th>Document requests &amp; comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Call / Meeting</td>
<td>Pitch Deck // Financial Plan // Traction Data MoM (e.g. Revenues, # Customers, Cohort analysis, Downloads, etc.) // Hist. CapTable</td>
</tr>
<tr>
<td>Partner Call / Meeting</td>
<td>Introductory call / meeting to get to know the partner in lead</td>
</tr>
<tr>
<td>Evaluation</td>
<td>Q&amp;A Sessions // Team Meetings // Product Demo // References // Comp. Analysis // Financing History, etc.</td>
</tr>
<tr>
<td>Investment Committee Meeting</td>
<td>Approx. 1h Q&amp;A in front of the whole investment team incl. all partners / investment professionals</td>
</tr>
<tr>
<td>Termsheet Negotiation &amp; Signing</td>
<td>Agreement on main commercial and legal terms (5 - 10 page document)</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>Dataroom (Organization &amp; Governance, Employees &amp; Benefits, Litigation &amp; Legal, Finance, Tech), Sales, Marketing, Customers</td>
</tr>
<tr>
<td>Shareholder Agreement (longform)</td>
<td>Legal execution of the termsheet by highly specialized venture law firms</td>
</tr>
</tbody>
</table>

* Note: The timeline is only an approximation to give you a high level overview of our processes

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4 - 10 weeks*
It’s a numbers game: Only one out of 2,500 ideas screened makes it to success for the VC!

Earlybird deal funnel
Numbers of deals p.a.

~7,500 deals screened
Europe-wide

approx. 15 new investments made

3 really successful deals

Source: Earlybird
Value Creation – Hands-on entrepreneurial approach

INVESTIGATE / DEVELOP
OPTIMIZE
GROW
EXPAND
MANAGE

Time
Revenue & Enterprise Value

Angel Seed Series A Growth Late

Seed Stage & Series A lifecycle

Best-practice & operational know how transfer
Business development & internationalisation
Sparring partner for strategy and operations
Support in securing follow-on financing

M&A (exit / add-ons)

Source: Earlybird
Earlybird team helped to **build and exit** leading companies across several sectors

**Examples**

**SELECTED EXITS**
- DIVIMOVE (Trade Sale)
- Wunderlist (Trade Sale)
- interhyp (IPO)
- carpooling.com (Trade Sale)
- DailyDeal (Trade Sale)
- Tipp24.de (IPO)
- ama x a biosystems (Trade Sale)
- Scoreloop (Trade Sale)

**PORTFOLIO**
- B2X (Rev 2016: €105M)
- smava (Rev 2016: €21M)
- N26 (Rev 2016: €16M)
- movinga™ (Rev 2016: €15M)
- eyeota

- Bank accounts opened: >300k
Agenda

Top 5 Learnings
Top 5 Learnings: Digital Entrepreneurship

1. Think Big: Solve large problems!
2. Focus: Be the best at one single thing!
3. Cultural DNA over Strategy over Execution!
4. Leading by Example!
5. Understand your customer and iterate fast!
Top 5 Learnings: Fundraising

1. Build relationships with Angels/VCs early!
2. Raise money when you don’t need it!
3. Great Angels will lead to great VCs!
4. Never depend on one VC!
5. Momentum & Timing is key to success!
At the end of the day what makes the difference?

Your comfort zone → Where the magic happens
Thank you for your attention!

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