

TERMS & **VALUATION**



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AGENDA



- **Short intro to Verve Ventures**
- **Different valuation methods**
- **Challenging the assumptions in the business plan**
- **Key terms**
- **Conclusion**

VERVE VENTURES IN A NUTSHELL

We are one of Europe's most active VCs and grant investors deal-by-deal access to competitive VC deals.

45m

EUR investment volume in 2020

+180m

EUR total investment volume

200+

Investment rounds executed

140+

Startups financed

WE INVEST IN SCIENCE & TECHNOLOGY STARTUPS AND FOCUS ON 3 VERTICALS

Digital

- Fintech
- SaaS
- Proptech
- Industry 4.0
- Cyber Security

Health & Bio

- Digital Health
- Biotech
- Medtech
- Diagnostics
- Nutrition

Tangible

- Robotics
- 3D Printing
- Quantum
- Photonics
- Drones

140+

PORTFOLIO COMPANIES


FROM EARLY TO
GROWTH STAGE

ACROSS EUROPE



HOW DO YOU REACH A
FAIR **VALUATION** OF A
STARTUP?

VALUATION: DIFFERENT APPROACHES

- 
- **Comparables**
 - **Achievements**
 - **Milestones**
 - **Backward Engineering**

VALUATION: COMPARABLES

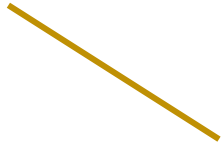


Valuation of similar deals in terms of:

- **Sector/Industry**
- **Stage**
- **Geography**

US/ UK investor participation: typically 1.5–3x higher

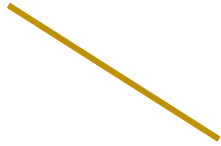
VALUATION: COMPARABLES



Typical seed round valuations in Europe

- **Medtech seed round: 4-10 million**
- **Hardware seed round: 4-12 million**
- **Biotech seed round: 5-15 million**
- **SaaS seed round (revenues <1 mio ARR): 8-20 million**

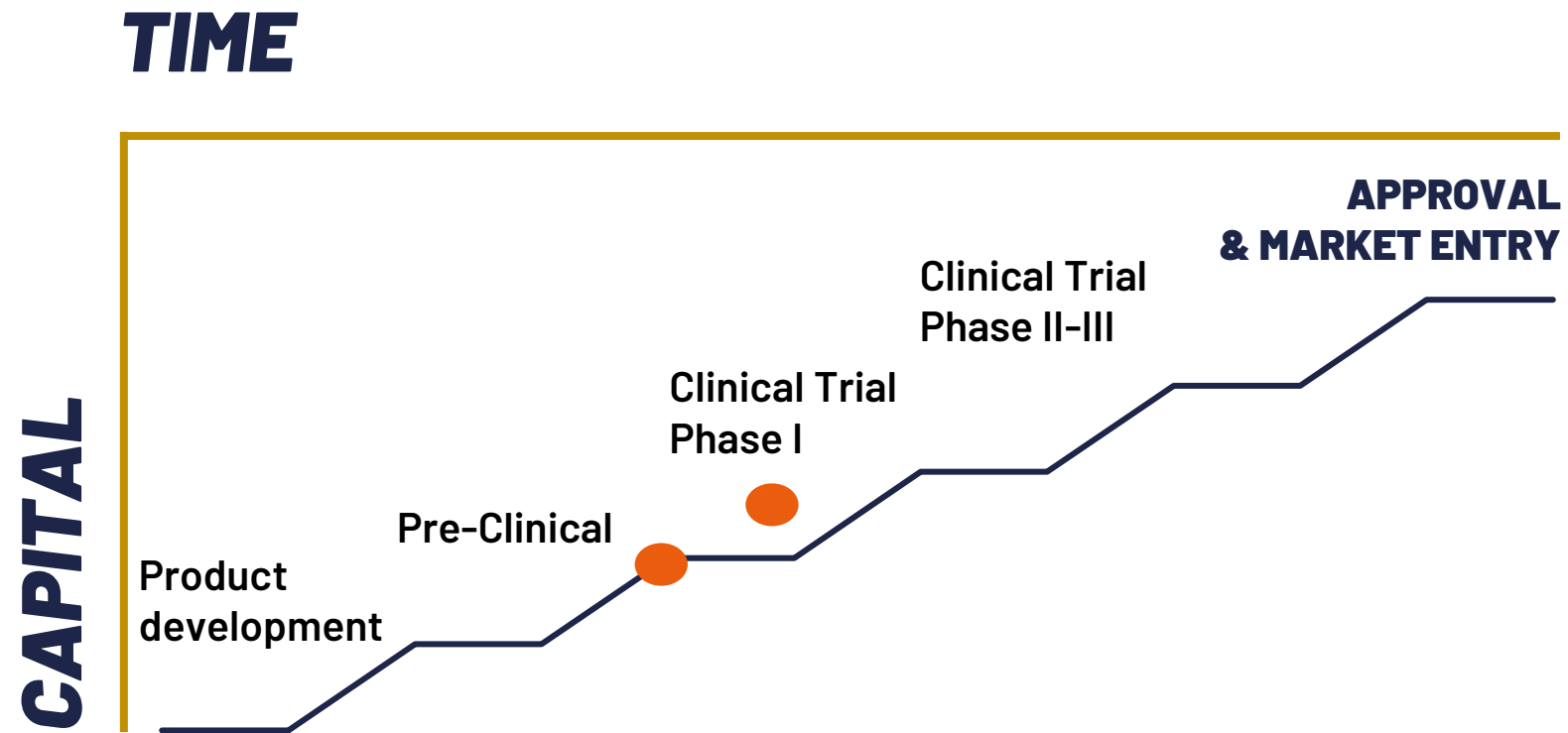
VALUATION: ACHIEVEMENTS



Driven by metrics and achievements

- **Typical medtech milestones: Before/after first in human; CE marking, FDA approval, reimbursement**
- **Typical biotech milestones: preclinical, clinical trial stage(s), milestone deals in place**
- **Typical SaaS milestones: +1 mio ARR → 10-15 x revenues**

PATH TO MARKET ENTRY



VALUATION: MILESTONES



Tie valuation to goals being reached

- **Qualitative milestones: Regulatory approval, positive clinical trials**
- **Quantitative milestones: (Recurring) Revenue targets**

VALUATION: MILESTONES

Example of a SaaS Startup with 1 mio ARR

5 mio Series A

18 mio valuation IF company reaches 1.5 mio ARR within 6 months

12 mio valuation IF company does NOT reaches 1.5 mio ARR within 6 months

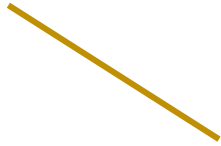
VALUATION: MILESTONES



Mechanism:

- **Multiple tranches with valuation per tranche**
- **Retroactive share price adjustment**
- **Distributions of warrants**

VALUATION: BACKWARD ENGINEERING



Starting point is the likely exit value:

Example: Medtech cardio startup

- **Acquisition after FDA approval for 150-200 mio**
- **Cash requirement until FDA approval**
- **Number of rounds (2-3) and increase in value**

FOR **MEDTECH COMPANIES,**
THE MOST COMMON
REGULATORY PROCESS IN
THE US TAKES **40 MONTHS**
AND COSTS **24 MILLION**
DOLLARS

AS AN **EARLY INVESTOR**,
DO I MAKE A **GOOD**
RETURN IN CASE OF AN
EXIT?

CHALLENGE THE
ASSUMPTIONS IN
THE BUSINESS PLAN

SCENARIO ANALYSIS



Challenge the assumptions behind the financials. What impact does this have on development of the business?

What if?

- **Company is delayed by 12-18 months?**
- **Customer acquisition costs are higher than expected?**
- **Company needs more cash than expected?**

DON'T **UNDERESTIMATE**
THE IMPORTANCE OF
SUPPLY & DEMAND

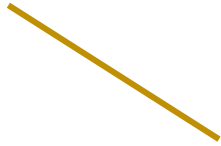
VALUATION IS ONLY ONE
PIECE OF THE **PUZZLE**

KEY TERMS THAT ARE LINKED TO VALUATION



- **Liquidation preference**
- **Founder vesting & ESOP**
- **Pro-rata & anti-dilution**
- **Board representation & information rights**
- **Drag-along, tag-along & right of first refusal**

TERMS: LIQUIDATION PREFERENCE



Definition: Order in which shareholders are paid out in case of liquidity event

- **Simple or multiple liquidation preference**
- **Participating & non-participating**

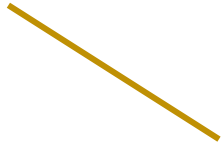
Strongly linked to negotiation around valuation

TERMS: FOUNDER VESTING & ESOP



- **Vesting: typically at early stage over 2-4 years**
- **ESOP: Important to incentivize management and entire team**

TERMS: PRO-RATA & ANTI-DILUTION



- **Pro-rata: Right to invest in order to maintain initial level of ownership percentage during later financing rounds**
- **Anti-dilution: Investor protection in case shares are issued at a lower price in future rounds**
- **Pay to play: incentivizes investors to continue investing even when things are not going well**

TERMS: BOARD REPRESENTATIONS & INFORMATION RIGHTS



- Lead investor will usually insist on board seat
- Information rights:
 - Frequency and level of detail
 - Especially important for investors not represented on board

TERMS: DRAG-ALONG, TAG-ALONG & RIGHT OF FIRST REFUSAL



- **Drag-along:** Provision requiring all shareholders to agree to a future acquisition if specified percentage of shareholders support the acquisition.
- **Tag-along:** Provision allowing minority shareholders to sell their share if a majority shareholder is negotiating a sale for their stake.
- **Right of first refusal:** provision permitting existing investors in a company to accept or refuse the purchase of equity shares offered by the company

TERMS: DRAG-ALONG, TAG-ALONG & RIGHT OF FIRST REFUSAL



- Oftentimes term sheet mentions that the final contract will include standard clauses
- Especially important to take a closer look at if strategic investor is also in the round → Avoid ROFR on acquisition

CONCLUSION



- **For every round structure and terms are different**
- **Best practices vary by sector and stage**
- **Terms come as a package**
- **Valuation is only one element in the equation**
- **Importance of supply & demand**

IN A GOOD ROUND,
EVERYONE IS HAPPY AT
THE END: **FOUNDERS**,
NEW INVESTORS &
EXISTING INVESTORS

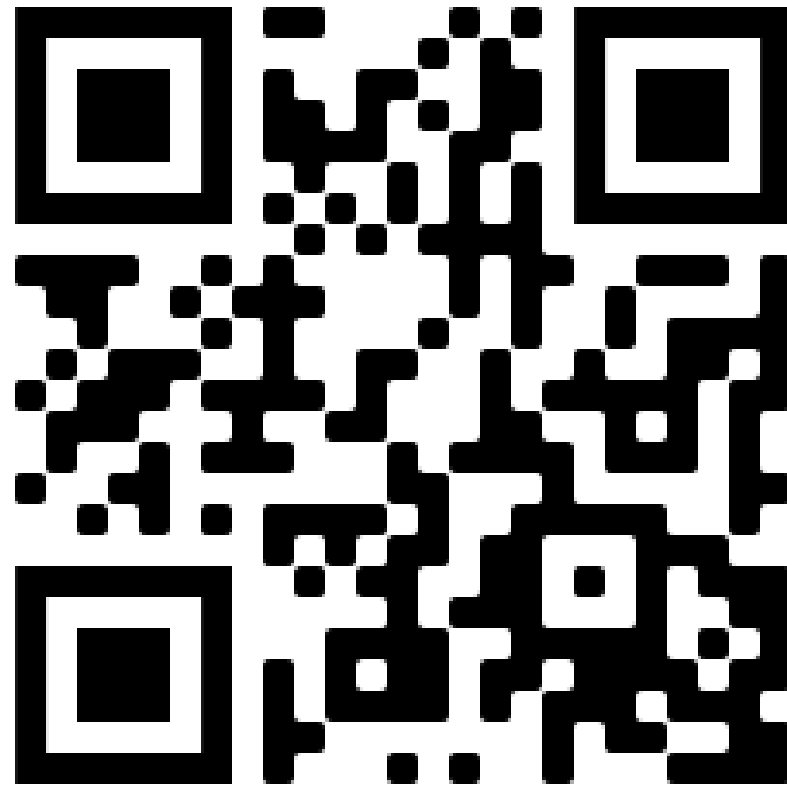
THANK YOU
FOR YOUR
ATTENTION!



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