



Urban Innovation Fund

INVESTING IN STARTUPS SHAPING THE FUTURE OF CITIES

Venture Capital 101: Confessions of a VC

URBAN INNOVATION FUND

A venture capital firm that provides **seed capital** and **regulatory support** to startups shaping the future of cities – helping them grow into tomorrow's most valued companies.



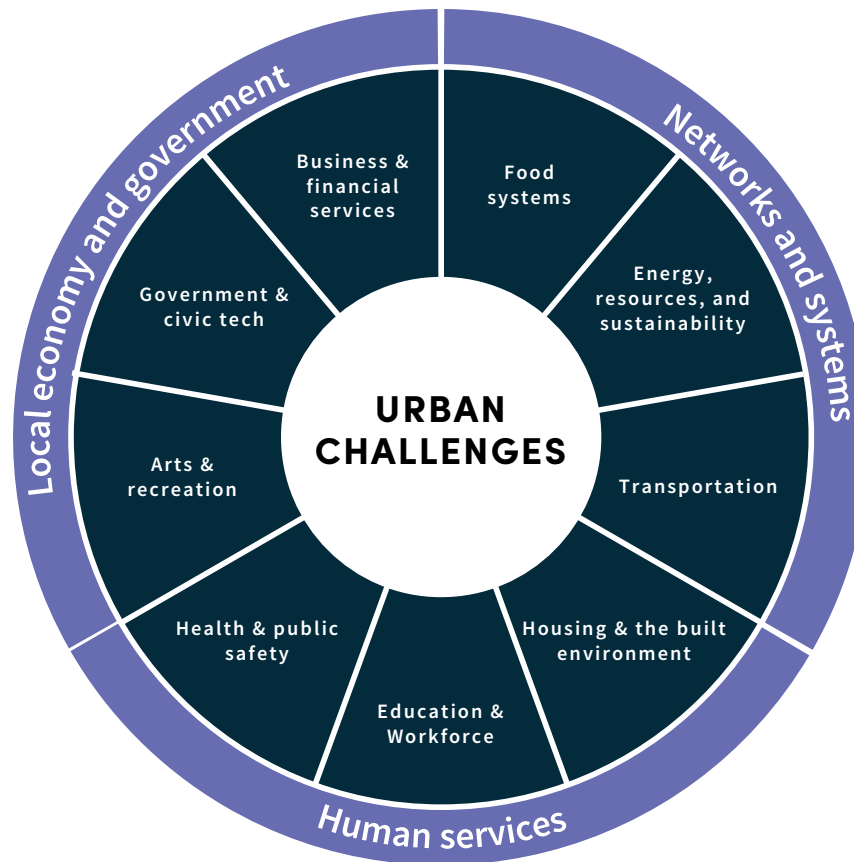
BACKGROUND ON ME



Co-founder and Managing Partner of the Urban Innovation Fund. Investor in 50+ urban tech startups over last 6 years. Previously co-founded Tumml, an urban ventures accelerator, which incubated 38 startups, including Chariot & Neighborly.



AREAS OF INTEREST



CONFESSIONS OF A VC



YOU DON'T NEED VENTURE CAPITAL

- You can build a great business without venture funding
- A lot of successful entrepreneurs never take VC funding
 - Tuft & Needle (co-founders bootstrapped the business to \$170M in annual sales before selling to Serta in 2018)
 - Spanx (Sarah Blakely owns 100% of the company, with an estimated \$400M in revenue per year)
- Building a profitable/sustainable business is often different from building a venture-backable business



OTHER FUNDING OPTIONS

- Customer revenue! (non-dilutive, great market validity)
- Crowdfunding (early customer traction for B2C products)
- Loans, revolving lines of credit (usually require revenues)
- Personal savings, credit cards
- One business subsidizing another (ie consulting work)
- Grants (but be careful)



... ON THE FLIP SIDE

- Many of the world's largest companies had heavy infusions of venture funding before going public or getting acquired (Google, Microsoft, Amazon, Facebook, Whatsapp, Netflix, etc.)
- As a result, there's a lot of hype around VC, even though fewer than 1% of businesses go on to get venture funding

Source: [Harvard Business Review](#)



WHAT IS VENTURE CAPITAL?

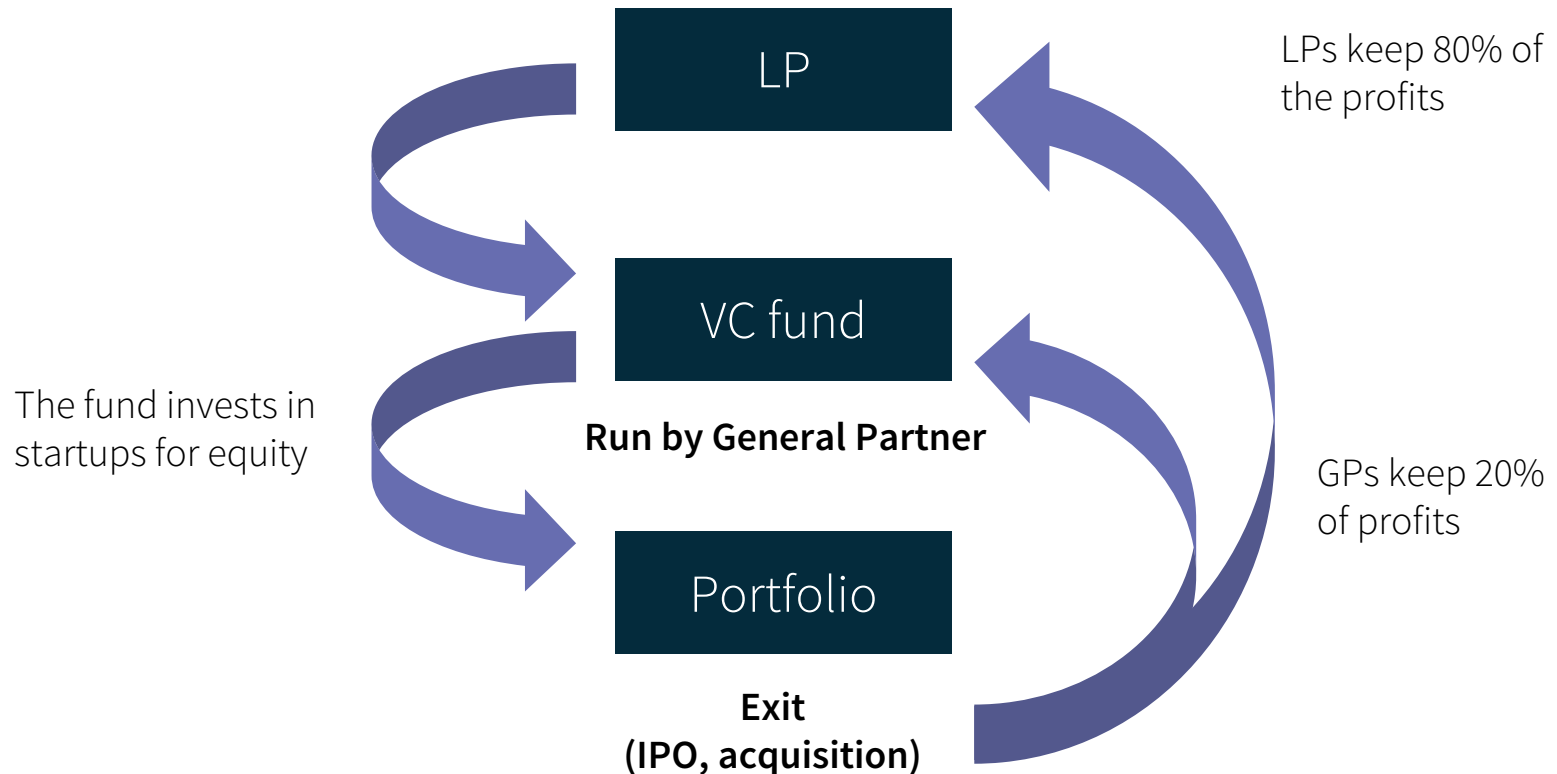


HOW VC WORKS

- Venture capital (VC) funds are managed by General Partners (GPs) who decide how to invest in startups
- GPs raise money from investors called Limited Partners (LPs) who could be endowments, pension funds, family offices, etc.
- GPs work to deliver 3-4x returns during the fund life (10 years) – and they are look for startups who can exit/ get acquired before then



VC FUND MECHANICS



Source: Version One Ventures



WINNING BY LOSING

A few startups drive the majority of returns in a VC portfolio:

- Startup life is risky (70% of startups fail)
- VCs plan to have one-third of their investments to die, one-third to return principal, and one-third to deliver most of the returns (5-10X)
- In fact, 80% of a typical VC's returns are generated by 20% of its investments – so they only need a handful of companies to knock it out of the park to be successful

Source: [CB Insights](#), [Industry Ventures](#), [Wealthfront](#)



VC'S NEED \$1B+ EXITS

VCs usually want each company in their portfolio to have the potential to return the whole fund. If three companies do that, they 3X the fund and are happy!

Fund size	\$200M
Average stake	20%
<hr/>	
Exit to return the fund	\$1B



UNICORN HUNTING

- VCs chase \$1B+ exits
- They are extremely rare (but less rare than before, on paper at least)
 - As of August 2018, there are 278 unicorns (CB Insights)
 - Since 2010, ~112K startups received VC funding, making unicorns 0.25% of VC backed startups (Pitchbook)
- On paper v. liquidity: From 2010 - 2017, 45 unicorns went public and 25 were acquired = 60 total unicorn exits (Pitchbook)



MICRO-VCS NEED \$100M+ EXITS

Size matters – if you have a smaller fund, you don't need as large of an exit to return the fund (and be happy).

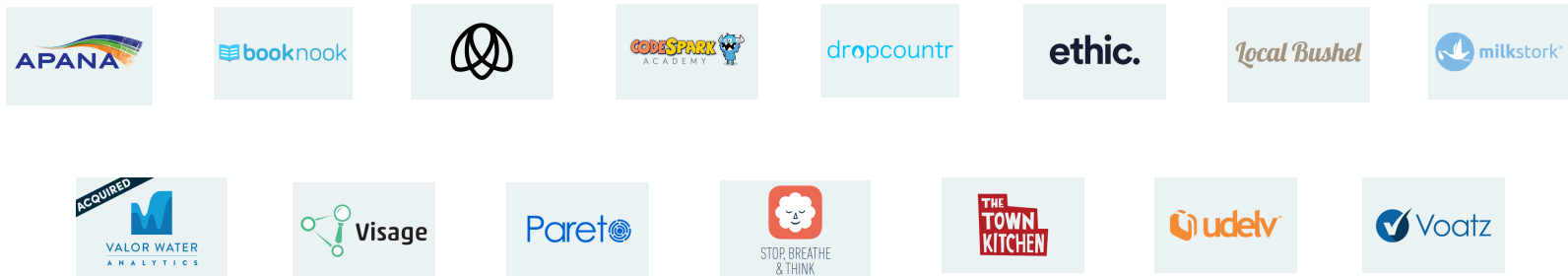
Fund size	\$20M
Average stake	7%
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Exit to return the fund	\$286M



HOW WE THINK ABOUT RETURNS

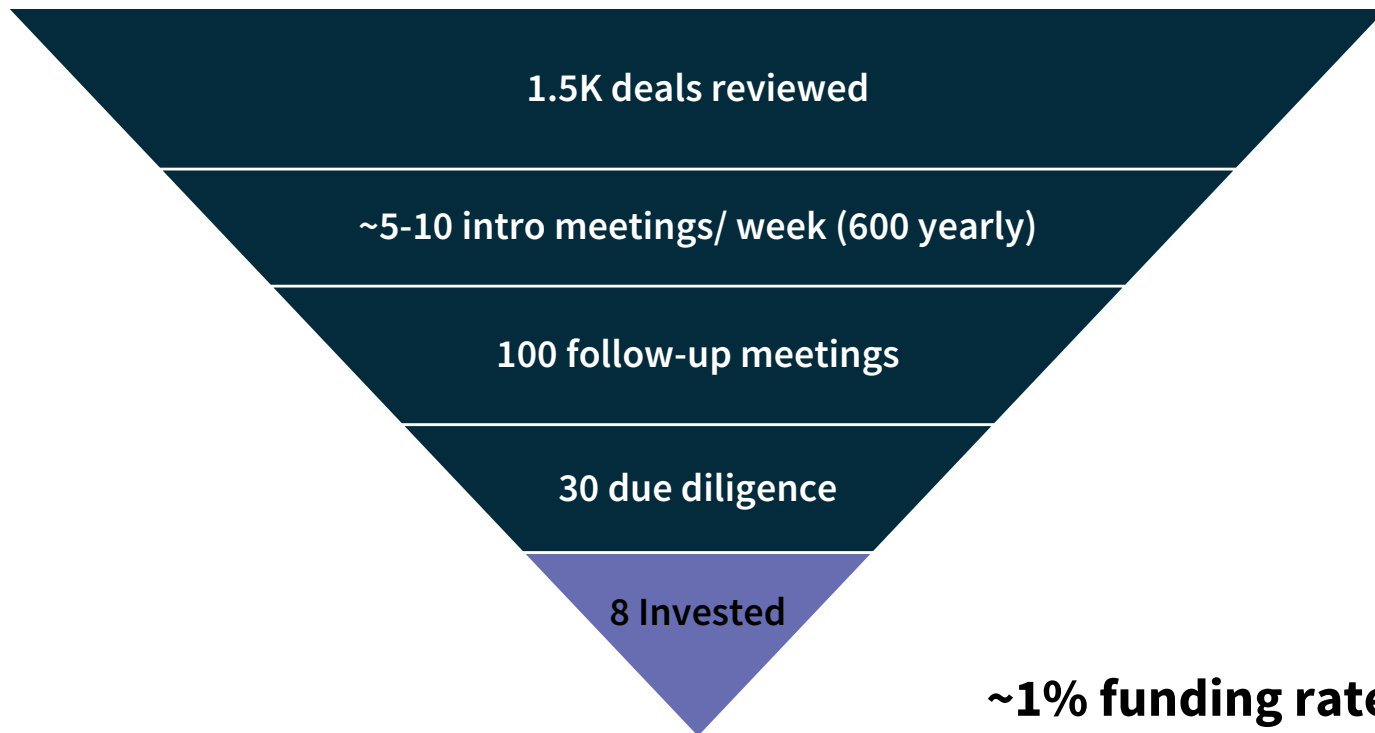
Urban Innovation Fund I is a \$24.5M fund, targeting ~25 companies

- Return target = 3-4X (\$75M)
- If we have ~7% stake, then we need \$1.07B in collective exit value to 3X our fund



CUTTING THROUGH THE NOISE

Each year, we look through a lot of companies to find our portfolio:



HOW TO STAND OUT



WHEN TO RAISE

- Friends & Family (\$10K-500K): Just getting off the ground
- Pre-seed (\$500K-1.5M): Prototyping
 - Friends and family, angels, micro-VCs, crowdfunding
- Seed (\$1.5M-3M): Product launched, some customers
 - Micro-VCs, VCs
 - Dilution = 10-33% (no higher if possible)
- Series A: Ready for scale, \$1M+ ARR
 - VCs
 - Dilution = 20-40%



FUNDRAISING CHECKLIST

- Write and memorize a two-sentence summary blurb (sentence 1 = what you do, sentence 2 = why you are awesome)
- Clean up/make your website, AngelList profile, Crunchbase profile, LinkedIn profile (for the company and your entire team)
- Build a pitch deck (10-15 slides)
- Create a fundraising target list
- Get your data room ready



DATA ROOM CONTENTS

- **Legal documents**
 - Charter documents: Certificate of incorporation and bylaws
 - Founders' equity agreement: Common stock purchase agreements for each founders & key employees
 - Confidential information & invention assignment agreements
- **Pitch deck**
- **Investment terms:** Term sheets for the current round
- **Cap table:** Showing all ownership of the company, including any outstanding convertible notes
- **Financials:** Past performance and future projections
- **References**



HOW TO PITCH

- Keep your emails short (<5 sentences) and use attachments
- Research the VC and their portfolio in advance
- Come prepared with questions for the VC
- Be on time
- Start the presentation by summarizing what your company does and your biggest achievements to date (traction)



WHAT DO WE LOOK FOR?

- Solving an important urban challenge
- Great founding team
- \$100M+ company potential
- Operating in a big market
- Strong product/ tech
- Execution & momentum



QUESTIONS?



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