

5 characteristics that help you convince a VC of your company

List of potential questions a VC may ask a company before investing

23.10.2020



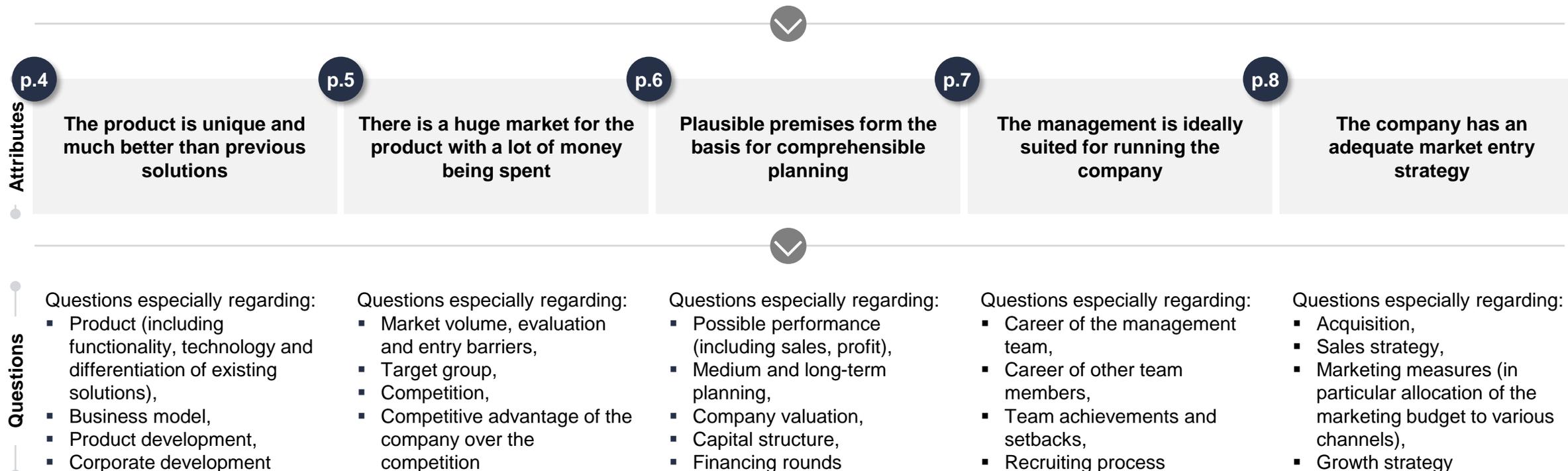
Agenda

1	Executive Summary	3
2	Product differentiation	4
3	Sales market	5
4	Financials	6
5	Management and team	7
6	Marketing and Sales	8

To increase the value of their investment, VCs pay special attention to 5 attributes

Goals of a VC

As an institutional investor, a VC is interested in companies that offer a unique product that is placed on a huge market and is as scalable as possible. Their core goals are to achieve a **high increase in the value of the investment made** and an **exit from the company at a suitable time**. To achieve these goals, VCs look particularly for the following 5 attributes in founders and ask a series of questions to check if these attributes are present.



- VCs aim to achieve a high increase in the value of their investment and to exit the company at a suitable time.
- Therefore, they pay particular attention to product differentiation, sales market, financials, business model, the team as well as marketing and sales.

The product is unique and much better than previous solutions

A VC is interested in companies that offer a unique product that is clearly different from existing solutions and whose business is therefore scalable. This favors exponential growth, which is one of the main drivers in a VC's investment decision.

- How exactly does the product work? Can you demonstrate the product?
- What's new about the product? What exactly differentiates the product from existing offers on the market?
- Why is the product not already being produced by another company or why did no one come up with the idea before?
- How does the company make money?
- Is the management open to adapt or change the idea? Has the company been working on different versions of the idea?
- We were just shown a similar idea that we didn't like. What are you doing differently?
- What's the next step in product development?
- What are the main milestones in product development?
- What did you learn from previous product phases? What did you improve on the product and why?
- What two or three features do you want to add to the product?
- What is the next step in corporate development?
- What's likely to be the biggest problem six months from now?
- Has the company already been operated in accordance with the law and if so, which legal form has been chosen?
- How are the shares in the company divided between managing directors, shareholders and employees?



- **Questions about the product (especially its functionality, technology and differentiation from existing solutions), the business model as well as the product and company development support the investor in identifying scalable businesses with exponential growth.**

There is a huge market for the product with a lot of money being spent

In order to achieve a possible company valuation of over € 1 billion, the addressable market has to provide corresponding potential. A VC is therefore looking for companies that operate in huge markets with high sales volumes.

- Who needs the product?
- Who is willing to pay for it?
- What do you understand about your customers that others do not understand?
- How do you know there are customers who need your product and are willing to pay for it?
- Why are potential customers trying the product?
- What obstacles could prevent customers from purchasing the product and how do you intend to overcome them?
- If the company is successful, what other segments could it expand into?
- What is the overall market value?
- What are the barriers to entering the market?
- Which market segment is the product intended to be placed into?
- What is the addressable market value?
- Which companies do the management count as direct competitors?
- Which competitor does the company have the greatest respect for?
- Which companies could become competitors?



- **In order to determine the potential and the scalability on the market, VCs are particularly interested in market volume, market evaluation and entry barriers, the possible customer base (especially the needs and behavior of potential customers), the competition and the company's competitive advantage over the competition.**

Plausible premises form the basis for comprehensible planning

In order to be able to assess whether a company is worth investing, the VC evaluates the financial situation as well as the company's internal planning. In particular, the essential value-driving premises must be presented in a plausible manner.

- How much money could the company generate per year?
- What is the company's cash burn rate?
- What is the company's three-year plan? What are the main assumptions on which the company's planning is based?
- What financing will be needed in the future?
- At what point does the company become profitable? How much time will it take until then?
- What are the factors hindering faster growth?
- What are the key metrics that management is focusing on?
- Has the company already gone through financing rounds? How much was the funding and when did it take place?
- What is the company's capital structure like? How much equity and outside capital does the total capital consist of?
- How long can the company survive without (follow-up) financing?
- How high is the company valuation? Where is the preferred pre-money rating?
- Are investors from previous financing rounds planning to participate in the current round?
- For what purpose should most of the money from the financing round be used?
- Which milestones will the company be able to achieve with the help of (follow-up) financing?



- **With the help of questions about possible performance (including sales, profit), medium and long-term planning, company valuation and capital structure, as well as financing rounds that have already taken place and the current financing requirements, the VC determines whether there is reason for assuming exponential growth.**

The management is ideally suited for running the company

Before the VC makes money available to a company, it checks whether the management is optimally suited to running the company, not only now, but also in the future, assuming a high growth rate.

- Who is the boss?
- What academic and professional background do the managing directors bring in?
- How did the managing directors get to know each other and how did they recruit the other team members?
- How many employees are part of the team?
- Who in the team is responsible for which tasks?
- Should the team remain in its current line-up? Who is missing in the team?
- What skills does the next full-time hire need to bring to the team?
- In what ways is the team inventive?
- What does the team need to be inventive?
- What holds the team together?
- What was the hardest task so far and how did the team cope with it?
- What is the most impressive thing the team has achieved together?
- What obstacles is the team likely to encounter and how does it intend to overcome them?
- Would you move your main location/headquarter?



- **In order for an investor to be able to evaluate the skills of the team, he or she is interested in the development of the management and the other team members, asks questions about the team's achievements and setbacks, and reviews the recruitment process.**

The company has an adequate market entry strategy

It is important for a VC to optimally position the unique product in the huge market. Therefore, the company should explain which sales channels and marketing channels are selected in order to address the broadest possible audience and to realize many sales.

- How does the company get new customers?
- How much does it cost to acquire new customers?
- How many customers are there currently and how many of them are paying for the product?
- How does the company reach potential customers?
- How do potential customers become aware of the product and the company?
- What is the company's sales strategy like?
- How much potential for success is assigned to which sales channel?
- What marketing measures is the company planning?
- How is the allocation of the marketing budget to the various marketing channels made up?
- What is the typical cycle from an initial meeting with new customers to the conclusion of a contract with that customer?
- What is the average projected value of a customer relationship?
- What is the conversion rate?
- How is growth expressed in the company?
- How does the company define success? When is the company successful in introspective?



- **Information on acquisition, the sales strategy and possible marketing measures (in particular the allocation of the marketing budget to various channels) are of interest to a VC, as is the company's growth strategy, in order to place the product as broadly as possible.**

Trustventure GmbH

CFO-As-A-Service
Salierring 32, 50677 Köln
www.trustventure.de
office@trustventure.de