

— *Afema* —

From Investment to Exit

- elements to strengthen the value of VC investments

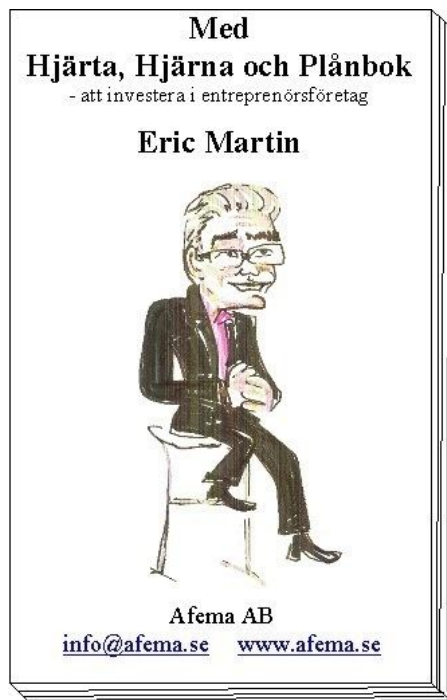
Jönköping International Business School

7th of May 2014

Eric Martin

Get the pictures at www.afema.se

E-book



You can easily get

The Pictures

as well as

The E-book

at

www.afema.se

Eric Martin

- **In the business of VC and entrepreneurs since 1982**
 - Svetab
 - Företagskapital
 - TUAB
 - Aldano
- **Own consultancy organization since 1984**
 - Afema AB
entrepreneurial coaching
- **Among present assignments**
 - Mentor
Communication Group
chairman
 - Axolot Games
chairman
- **Among past assignments**
 - Swedish Venture
Capital Association
chairman
 - Connect Eastern
Sweden
chairman
 - Board member and
consultant in some
100+ entrepreneurial
companies
- **BSc in Business Administration**
with a technical background
- **Secret talent:**
 - Former water ski coach
for Swedish national
team

The lecture in short

□ Part 1

In theory

- Definitions
- Typical VC
- The American model

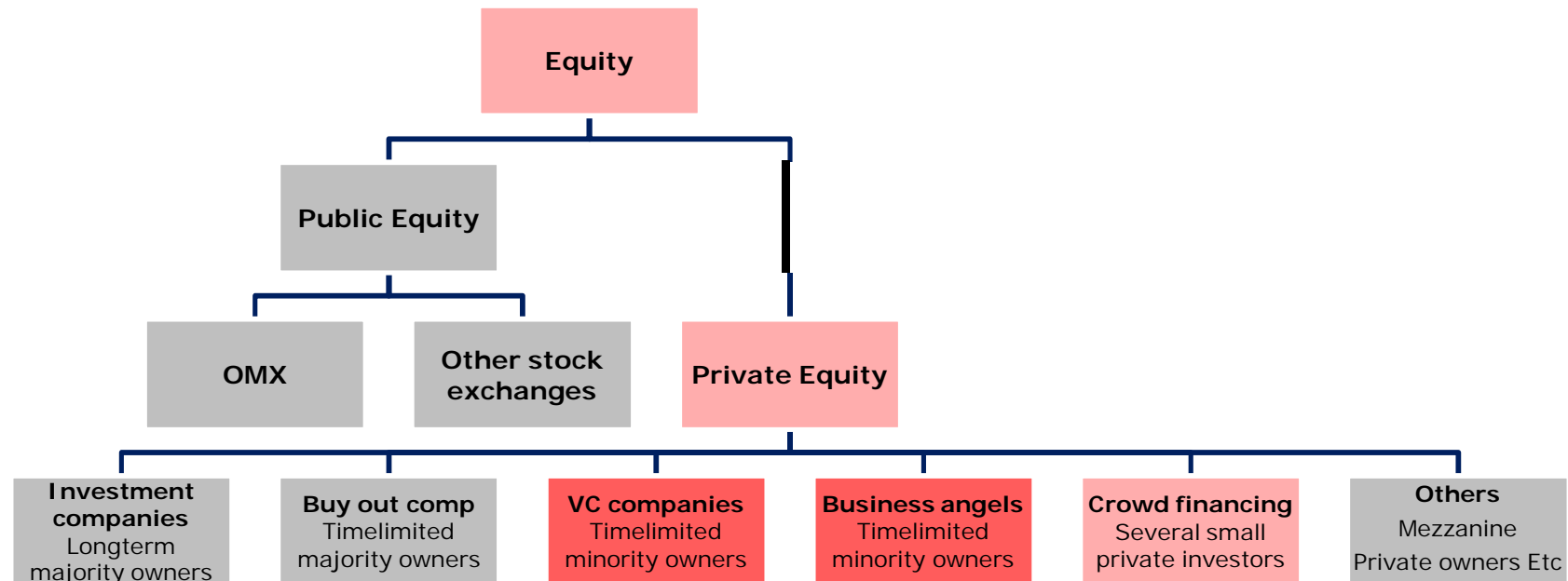
□ Part 2

In practice

- The meeting
- The curve of Akbar
- The journey
- How to choose your VC

Venture Capital

- ❑ (Minority) Investments in non-public companies with an active and timelimited ownership



When to go for VC

- ❑ You desire to grow fast
- ❑ You accept outside influences on running your business
- ❑ You are willing to make **EXIT** in 2-7 years

How do VCs act

- ❑ Minority share holder (mostly)
- ❑ Active owner
- ❑ Always a board position
- ❑ 59% have at least one contact a week
- ❑ Basically no fees
- ❑ Active strategy towards exit

VCs bring in 3C

□ Capital

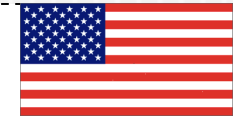
- Equity

□ Contacts

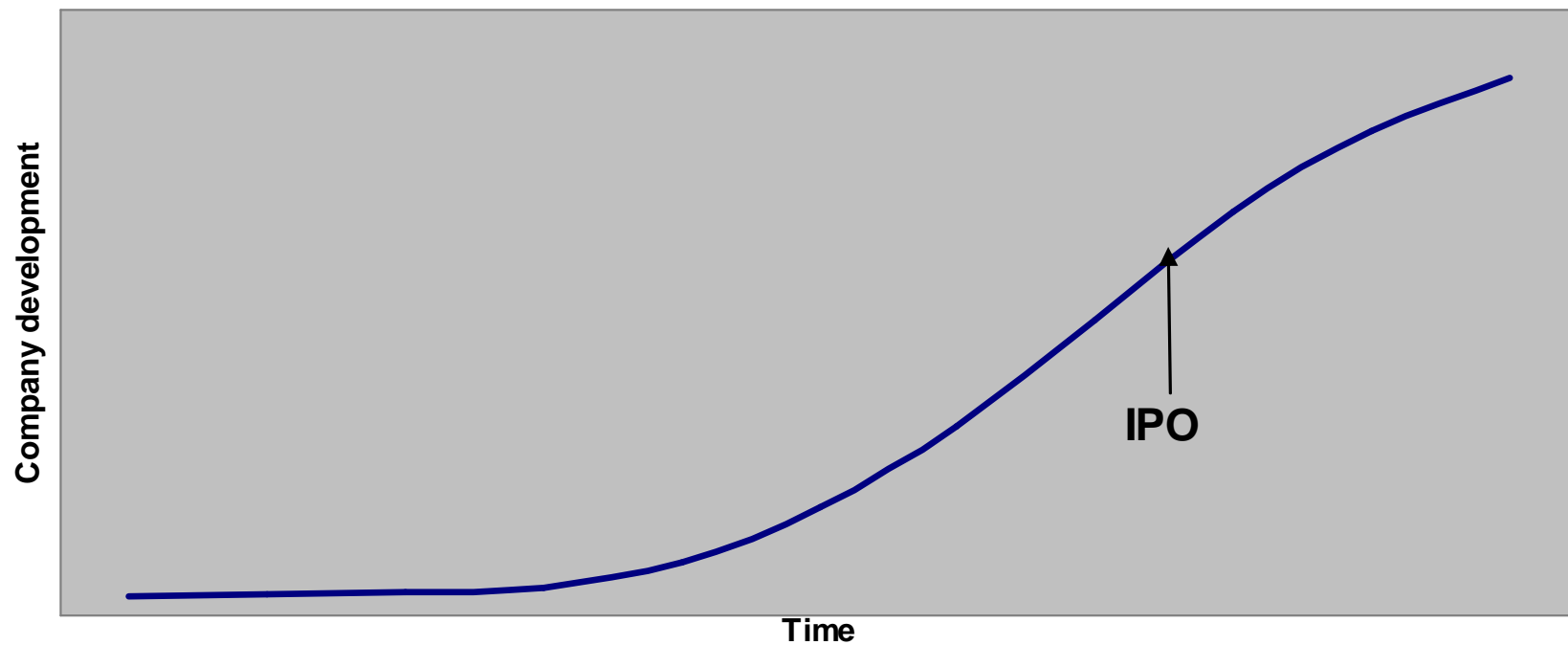
- Mostly in finance and law

□ Competence

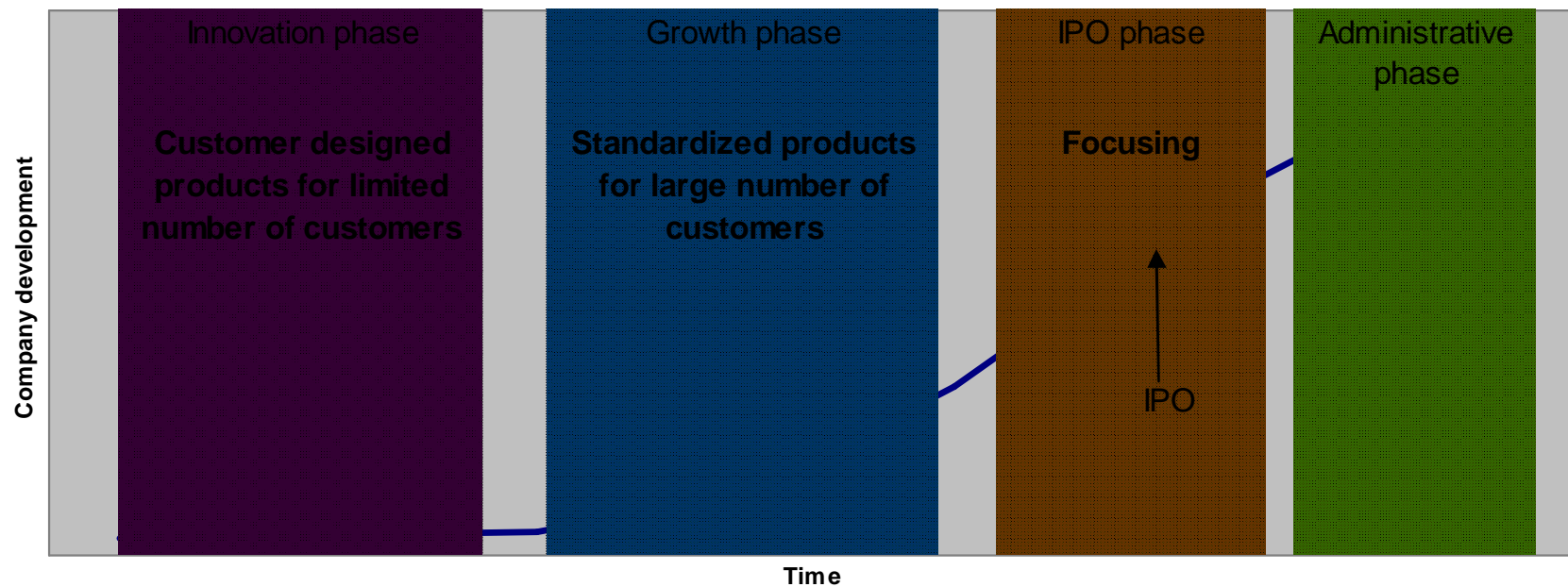
- Specialists on rapid growth and exits

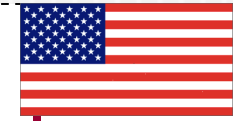


The development curve of a company

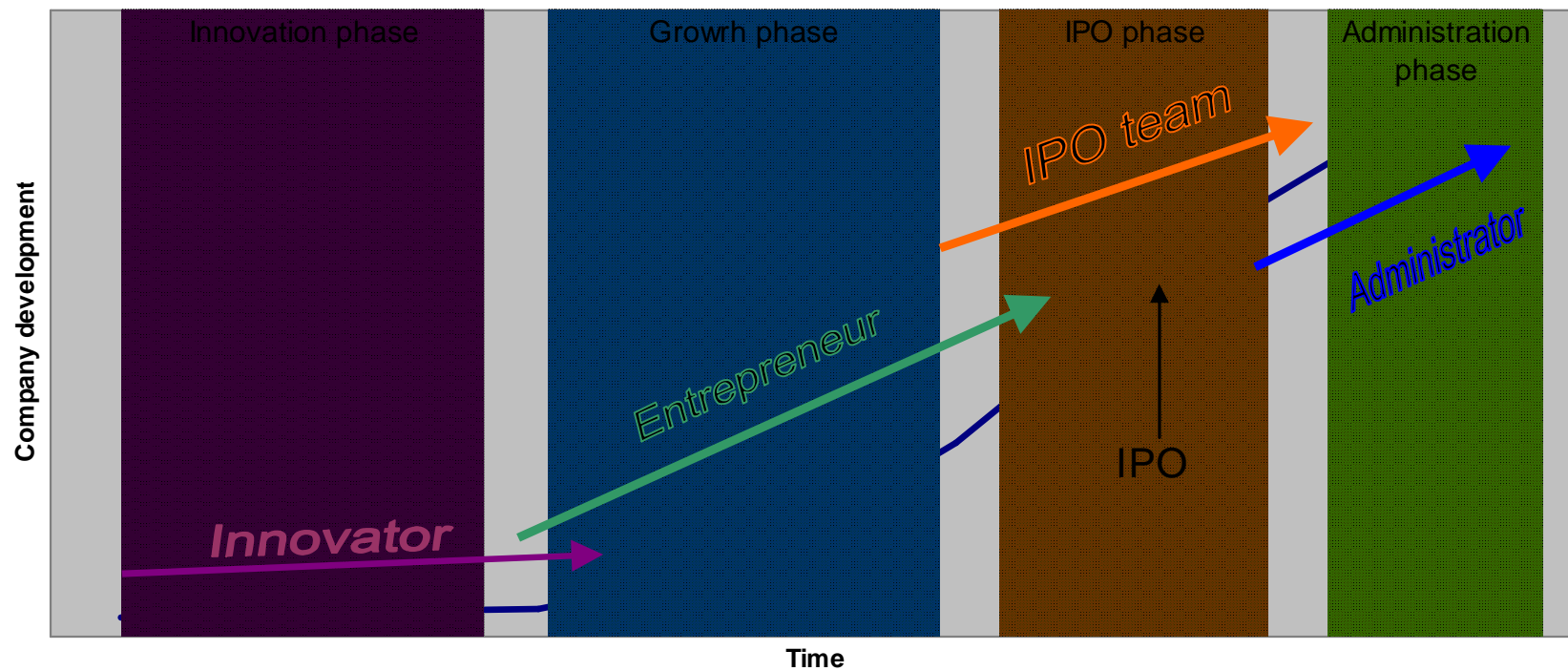


Development phases and company strategies





The American management model



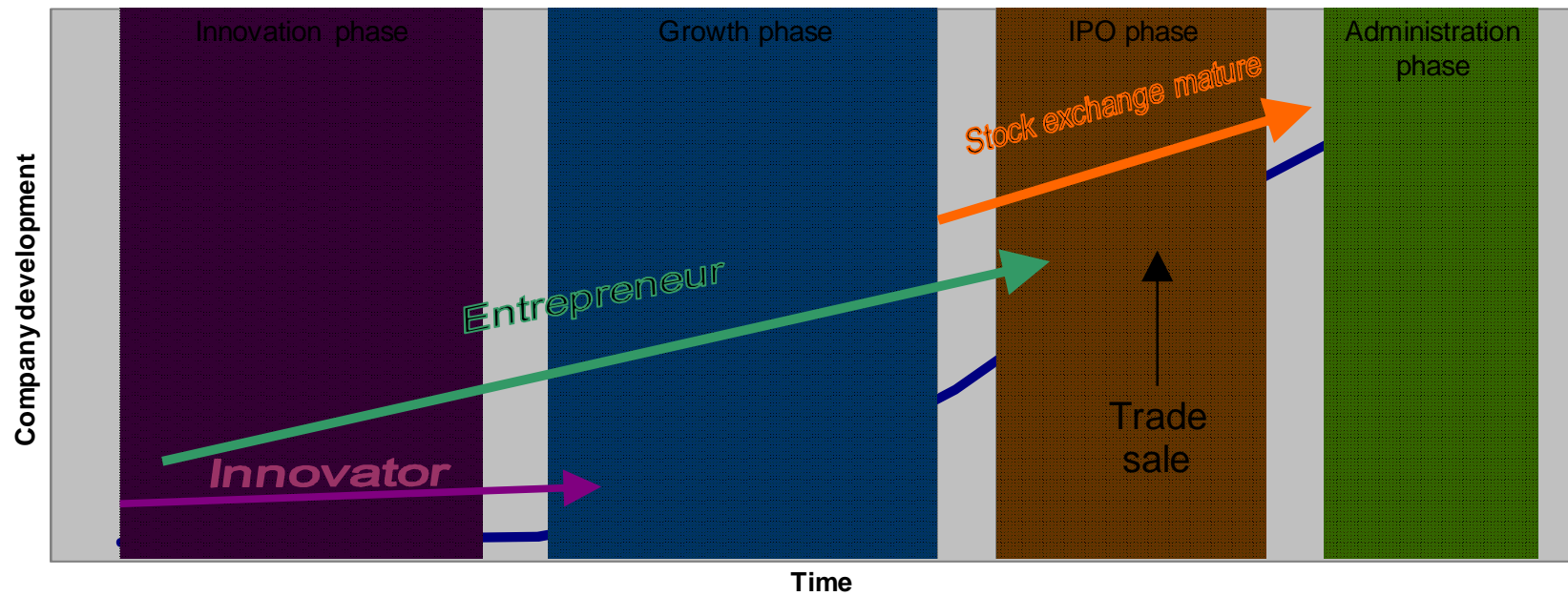


Characteristics for Sweden

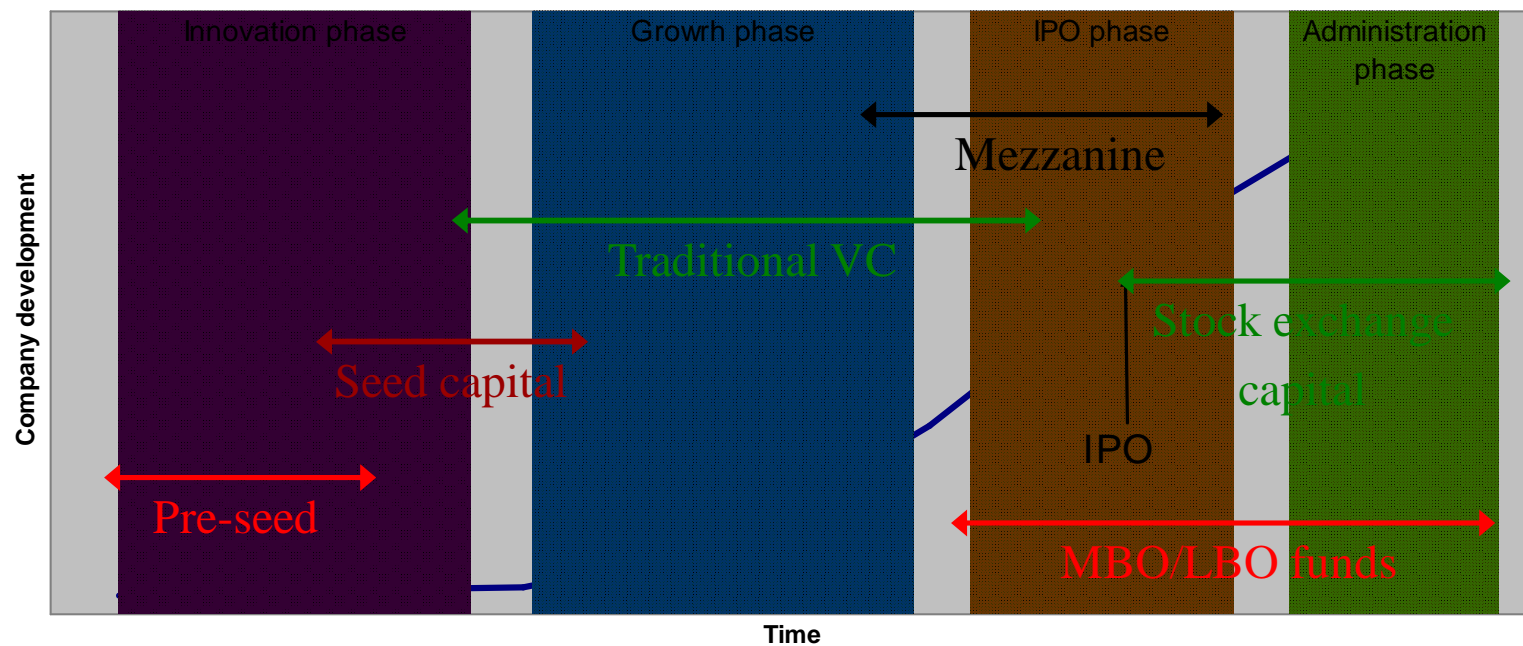
- ❑ Salesmanship does not come natural
- ❑ Small home market
- ❑ Few business angels and early phase VCs – limited financing in early phases
- ❑ Only a few companies reach IPO characteristics



Adaptation to Sweden



The equity possibilities



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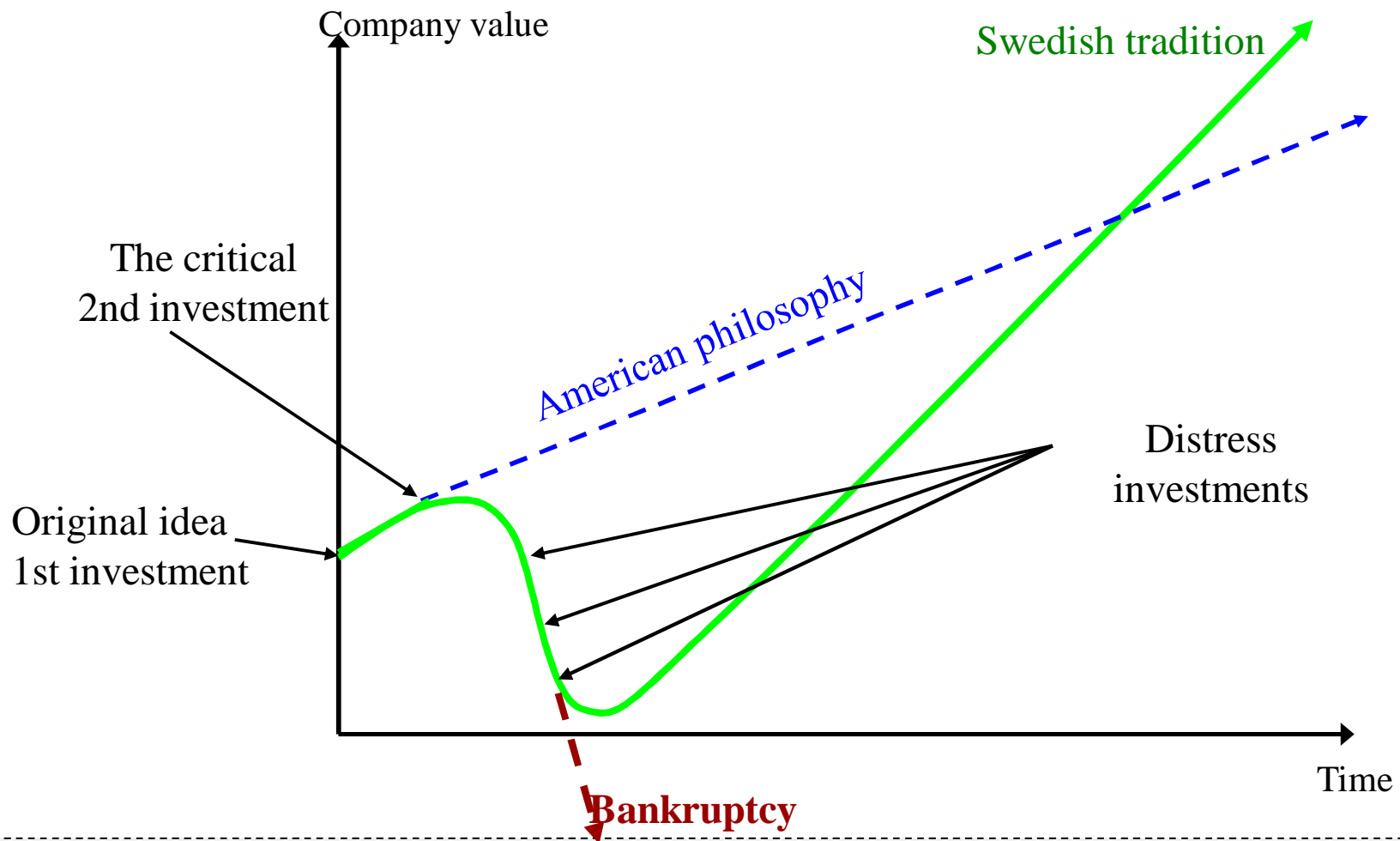
Part 2

| In practice

First meeting

- ❑ Making a presentation
 - The pitch (6 seconds)
 - The short version
- ❑ The business plan
 - Excellent executive summary
 - Customer benefits
 - Sales process
 - Team presentation
 - SWOT analysis
 - Owners' goals and strategies
 - Exit possibilities
- ❑ The funnel
- ❑ Red Flags
 - Out of scoop
 - The entrepreneur
 - Lack of sales
 - Lack of customer benefits
 - Limited growth possibilities
 - Weak exit possibilities
 - Multiple risks
 - Different goals of owners

The curve of Akbar



Required yield

- ❑ 10 investments >>
 - 3 bankruptcies
 - 3 +/- zero
 - 3 fair
 - 1 excellent

- ❑ Desired average yield 18-28% p.a.

- ❑ A priori expectation minimum 50% p.a.

- ❑ Normal duration of investment 2-10 years

Shareholders' agreement

- ❑ The Investment
 - How much money – How large piece of the cake
 - Guarantees

- ❑ Business development
 - Board of directors
 - Veto

- ❑ Exit
 - Owners goals
 - Time frame

- ❑ Quibblings
 - Disputes

Ownership strategies – two tracks

Day-to-day operations

- ❑ Turn over and profit
- ❑ Outside relations
 - Customers
 - Colleagues – competitors
 - Environment issues
- ❑ Organization

Ownership issues

- ❑ Number of partners
 - Single
 - Equal partners
 - Institutional partner
 - Large number of partners
 - Listed company
- ❑ Financing
 - Equity
 - Customers
 - Bank loans
 - Loans from owners
- ❑ Ownership goals
 - Bread-and-butter company
 - Trade sale
 - IPO

Growth business development

□ Management style

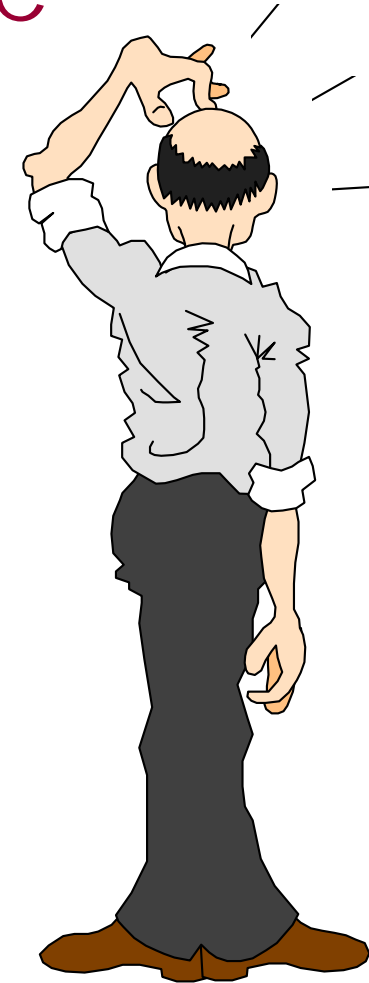
- The goals sets the direction, not the cross bar
- Sales is the engine of growth
 - Invests in sales
 - Everyone is a sales man
- Organization
 - Task force, put out fires, monday meetings
- Prepare for working capital
- Give priority to time tables before cost savings

□ Focus

- Outsource
- Growth through buying functions
- Prevent narrow sectors

How do you choose your VC

- ❑ Motives
- ❑ Muscles
- ❑ Personal chemistry
- ❑ Track record - references
- ❑ Network
- ❑ Competence



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