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# **Venture Capital Impact Entrepreneurship**

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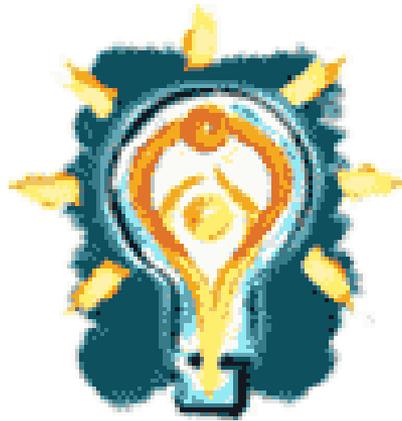
**Venture Engine Workshop  
June 2016**

## Agenda

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- Aavishkaar Introduction
- Venture Capital
- Impact Entrepreneurship



**Aavishkaar**



## Aavishkaar - Objectives

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**Identify entrepreneurial initiatives** targeting **low income** socio-economic groups in **South & South East Asia**



**Educate** entrepreneurs about **venture capital** and provide **initial risk capital**



**Support** entrepreneurs actively to create **sustainable** and **scalable** businesses



**Demonstrate** potential for venture capital investment in low income markets by generating **high financial** and **social returns**



## What We Do

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- **Invest in for-profit businesses** with **high growth potential**, and which create **positive social impact** by involving the **low income population** in their value chain
- Investees work in **Critical Needs Sectors** - Healthcare, Education, Water, Sanitation, Agriculture, Livelihoods, Renewable Energy and Financial inclusion
- Invest at an **early stage** and help the company grow through **active mentoring and guidance** to the entrepreneur
- Invest in **Equity**, in **progressively increasing amounts**
- **Monitor and Report** Social & Environmental **Impact** of our Investments.
- **Exit** responsibly to generate financial returns



# Portfolio - 5 Funds, \$200 Million AUM, 56 Investments



**Equitas**  
(NBFC-micro lending)



**Ulink Bioenergy**  
(Agriculture Inputs)



**Electronic Payment Systems (ATM Services)**



**Ma's Tropical Foods<sup>^</sup>**  
(Food Processing)



**North Atlantic, Inc.**  
Innovative • Seafood • Solutions  
**North Atlantic Inc<sup>^</sup>**  
(Fisheries)



**Cloudwell<sup>^</sup>**  
(Financial Technology)



**Vortex Engineering**  
(Low Cost ATMs)

## JAYPORE

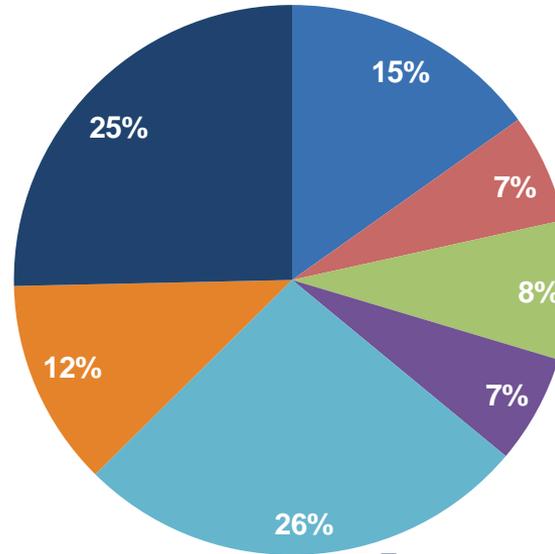
**Jaypore**  
(Livelihoods)



**NEPRA**  
Neptra Resource Management (Waste)



**Milk Mantra**  
(Dairy)



- Agriculture
- Energy
- Healthcare, Water & Sanitation
- HFC/SME
- Micro Finance
- Others
- Technology for Development



**SaraPlast**  
(Sanitation)



*Distribution Revolution*  
**Connect India**  
(Logistics)



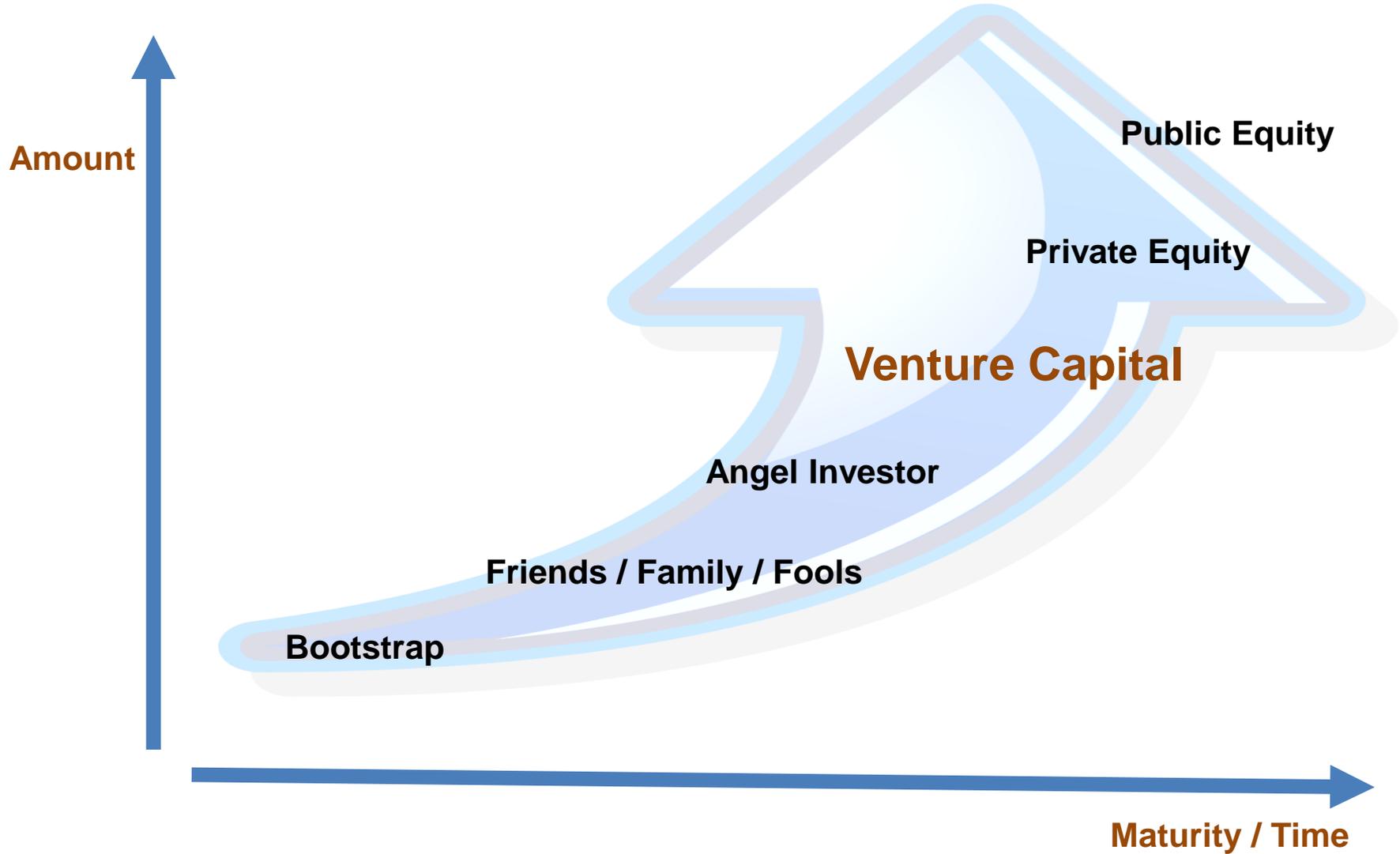
**Nalanda Learning**  
(Pre-school Education)

<sup>^</sup> Aavishkaar Frontier Fund Portfolio Investments



# Venture Capital

# Equity Capital Options for Entrepreneurs





## What does VC equity investment mean

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How VCs invest

By buying equity shares, thus becoming a shareholder. Can do structured investments, such as preferreds / convertibles.

Partnership not loan

In effect this is a type of partnership, between the VC and the Entrepreneur

Interest? Collateral?

Equity financing doesn't involve collateral (security) and there is no interest liability. Structured equity may involve preference dividend obligation.

VCs need to exit

Once the company reaches a certain size/valuation, VC will sell its shares to another investor – that's the "Exit"

Investment period

Exit typically in 4 - 7 years from time of investment. Linked to fund life.

Return Driver

Increasing valuation of the Company. So the VC does well only if the Company does well. Alignment of interest with Entrepreneur.



## What Do VCs look for

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### Market Opportunity

- What problem are you trying to solve?
- How large is the market? How fast will it grow?
- Who is your competition – current and future?

### Promoter & Team

- Do you have deep knowledge of the business?
- Can you build a team?
- Do you understand the challenges to scale and to build a sustainable business?
- What's your skin in the game?

### Business Model

- How are you different from others?
- Why will you grow faster than competition?
- How scalable/replicable is the model?
- Aavishkaar – social impact that the business will create



## What We Promise to You – the Aavishkaar view

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### Mentoring, Strategic & Operational guidance

Provide guidance to the organization to grow rapidly and become a market leader

### Networking & Connections

Via Aavishkaar's networks built over a decade of strong relationships, provide useful connections to help the business grow

### Fund-raising

Support in raising further capital - our companies have raised 5x the amount we invested after our investment



## What drives Venture Capitalists?

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- Manage other Investor's (LPs) funds
- Higher risk = higher return
- Incentivized by Carry
- Closed ended funds (mostly)
- Fees paid on assets managed

**Investor's seek returns**

**VC is high risk**

**Seek high returns**

**Need to exit within fund life**

**Follow-on Funds**



## Scale, scale, scale !

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- Typical return expectation ~ 3x plus Multiple, 15% plus IRR (USD)
- Many will fail, so look for 10X in each !
- Assuming VC funds the following at post-money value of USD 40 million -

	Rev (Yr 1)	Growth	Rev (Yr 6)	Rev Multiple	Valuation	VC 's Multiple
Co. 1	\$ 1 mn	100% p.a.	\$ 64.0 mn	6x	\$ 384 mn	<b>9.6x</b>
Co. 2	\$ 1 mn	50% p.a.	\$ 11.4 mn	4x	\$ 45.6 mn	1.1x
Co. 3	\$ 1 mn	25% p.a.	\$ 3.8 mn	2x	\$ 7.6 mn	0.2x

- Aavishkaar has a differentiated approach



## Valuation – Art, and a Science

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### Drivers

- Traction / Revenues / Profits
- Scale projections – Revenues/profits at exit
- Funding Requirement & Expected Dilutions
- Comparables – current and possible exit multiples
- Entrepreneur stake
- Execution risk

### The Basics

- $\text{Pre-money Value} + \text{Investment} = \text{Post-money Value}$
- $\text{Investor's stake} = \text{Investment} / \text{Post-money Value}$



## Valuation – The Pitfalls

- In general, Entrepreneurs would like to maximize valuation, thereby limiting dilution
- Higher fund-raising at higher valuation does not necessarily mean Success
- Valuation comes with expectations - Too much, too early can be a challenge !

	Revenue	Multiple	Pre-money Valuation	Raise	VC Stake	Promoter Stake
Year 1	\$ 2 mn	10x	\$ 20 mn	\$5 mn	20%	80%
Year 3	\$ 5 mn	4x	\$ 20 mn	\$10 mn	17% + 33% = 50%	50%
Year 4	\$ 5 mn	3x	\$ 15 mn	?	100%	0%

Lower valuation - negative perception  
- anti-dilution !



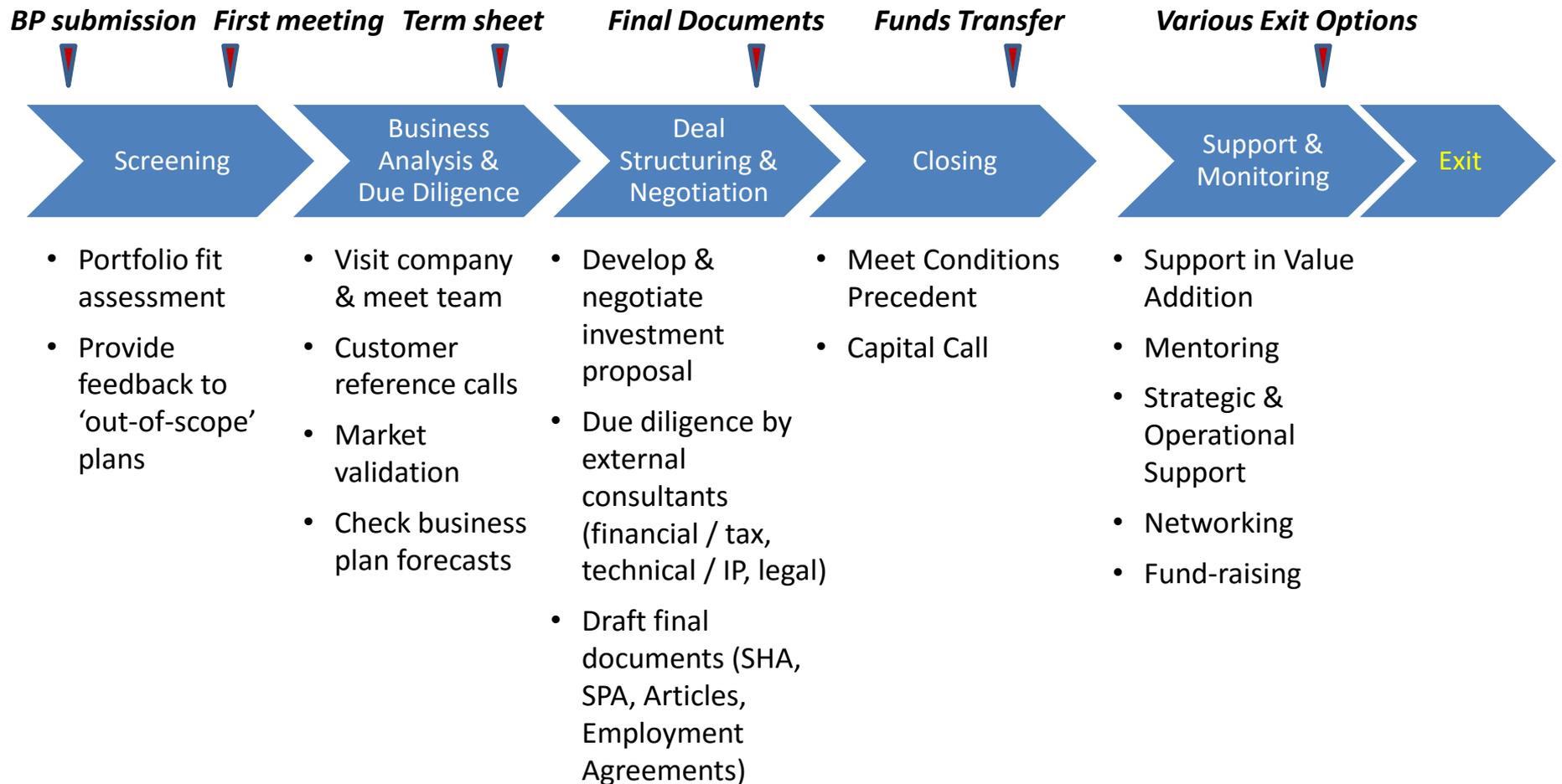
## Typical VC Terms

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- Affirmative rights on business decisions
- Board seats
- Transfer restrictions on Entrepreneur's shares
  - Lock-in
  - Tag-along
  - Drag-along
  - Right of First Refusal
- Pre-emptive rights on new fund-raise
- Exit Obligations
  - Can trigger additional rights if no exit within defined time
- Liquidation Preference
- Anti-dilution adjustment
- Information and access rights



# Typical Investment Process



# Impact Entrepreneurship



## What is Impact Entrepreneurship really?

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- A highly **scalable enterprise** which generates big **financial returns**...



- Business model builds in **positive social and environmental impact**
- Social impact is on **Low Income / Underserved Population**
- Impact is **linked with core business activity**
- **Impact scales up** as business scales up
- **Measures and reports** impact



## The Impact in Impact Entrepreneurship

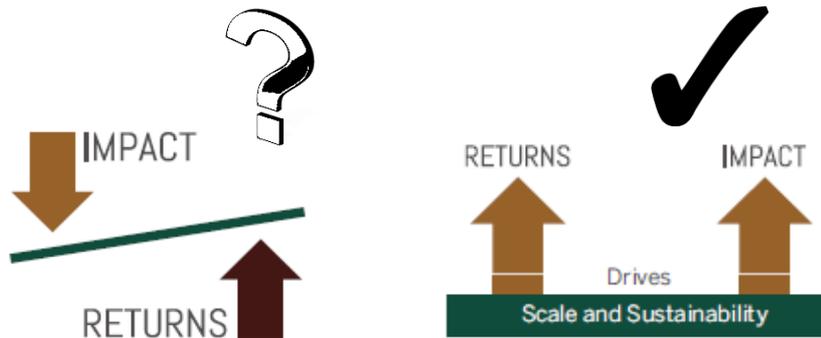
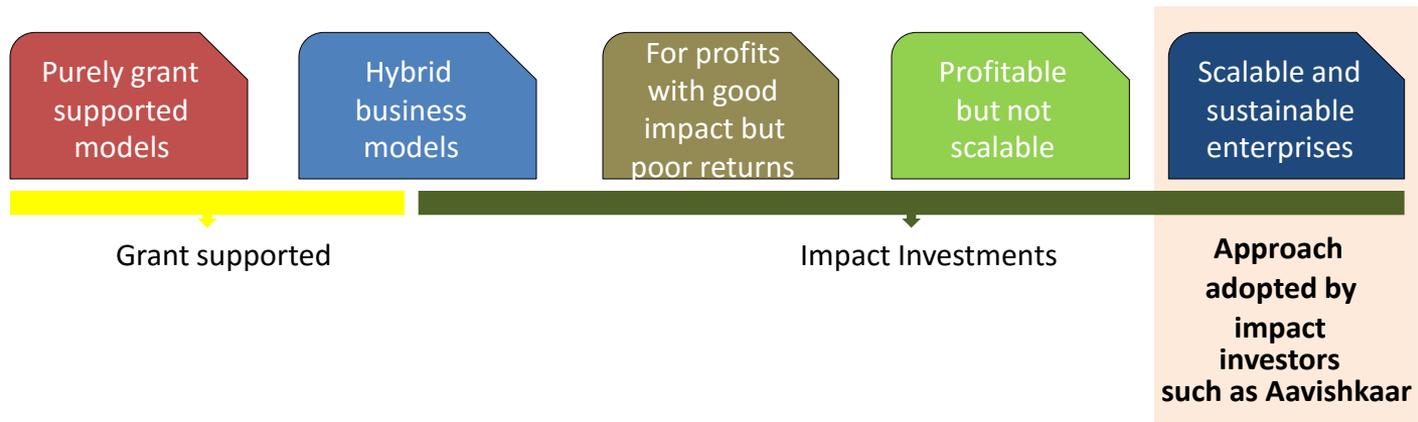
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A company's product or service can have a positive impact by contributing in one or more of the following areas:

- Improving **access and affordability of essential products and services** such as education, healthcare, water, sanitation and financial services
- Creating **new and increased employment opportunities** in areas where opportunities are limited
- Enhancing **income and savings** for local farmers and producers by bringing **significant efficiencies** in supply and distribution chains and improvements in yields
- **Reducing negative environmental impacts** through innovations in technology and renewable energy



# Impact Investment





## Measuring and Reporting Impact

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- Create a detailed **logic model / assessment framework**
- Measurement frameworks such as **Social Return on Investment (SROI)** and **the glossary of IRIS indicators** can also be
- **Track progress** against key indicators identified from the Framework
- Periodically **review and update the framework and impact assessment indicators** to account for business model or contextual changes
- **Report** the Impact