# Gábor Fodor Papp – Capstone project summary

## Summary of the company:

Family Finances (FF) is a fintech startup, offering digital youth banking products for financial institutions. Family Finances provides its partner banks with both a comprehensive, end-to-end research-design-implementation service and off-the-shelf, easy-to-implement boxed products. Its solutions enable banks to engage Gen Y and Z with design-oriented digital interfaces. The products offer a comprehensive solution for all banking functions, including savings, transactions, personal financial management, and integrate beyond banking features such as education, merchant offers and social modules.

## History and current state of the company

The company started out as a fintech project in the end of 2016. The founders, Ivan Muck, Ferenc Muck and myself were thinking of creating a family banking solution that helps both parents and children. The business model was to somehow cooperate with retail banks to offer the services together. The team applied to the MKB Bank’s fintech program and started working on the project in the spring of 2017. The initial idea was to focus on the Family Finances app and introduce it to the market together with MKB Bank. This plan failed to the lack of experience from the funding team and the IT problems from the bank’s side.

Then the team realized In September that they need to move on and started to explore opportunities in the prepaid card segment, which would have enabled them to market the product in a stand-alone model without any bank. After a few months of research and product market fit exploration the founders realized that it is not ideal future for the startup. The cost and potential revenue was not in line, the product could not have been successful. In January of 2018 the team applied to OTP Banks’s fintech program and got selected to work with the bank in a 3-month long accelerator program. This opportunity helped Family Finances to reinvent itself a youth banking solution provider. The current vision of the company is to become a multi-product fintech startup that specializes on delivering cool digital product for banks which help them to engage their current and future customers. This approach makes the company independent itself from its previous failed product development and builds on the experience and knowledge gained so far. To achieve this mission Family Finances needs to work on three streams: product development (conception creation), sales (get more banking clients) and funding to have enough resources and liquidity to grow as a specialized banking software company. As the co-founder of Family Finances, I participate in all of it, but as an MSc Finances student my capstone project was to get the funding for Family Finances and close the seed financing round latest in July.

## Description of the challenge:

Family Finances was looking for an investment of€500k, which would be used to further scale up product and business development in the CEE region. With the investment the team wants to launch its live product with a leading Central-European financial institution in Q3 ’18 and grow the number of its client banks to 6 by the end of 2020. This money is needed to expand its team by having IT developers on the team and sales personnel. The challenge was that although Family Finances is more than one year old, it has yet to generate revenue and therefore investors has lower valuation and see bigger risks in the project. In this situation companies usually seek lower amount of funding, but FF needed a bigger, seed round, because the challenge was not to validate the concept but to spend on expensive product development and international banking sales.

## The capstone project work:

The fundraising process started last year by approaching investors and screening the potential VC partners. In last December we got really close to a TS with an investor and the negotiations continued in January. We got in late March a TS with a valuation and an investment amount that we could not accept. This meant that we needed to restart the process and look for a new investor. We wanted to have on investor funding the whole round to keep the captable simple, so we approached investors who had enough money and will be willing to put in a bigger ticket.
The biggest problem was that as we pivoted the company we no longer needed money to fund a growth of a typical one-product startup, but to build up an IT company that some investors wouldn’t even call a startup. We needed to recreate all the investment

materials. The main two things I worked on was the business plan of the company and the financial model. These materials were previously ready but because of the pivot we needed to recreate everything. As a finance student I could use what I learnt during my studies, my finance, private equity and venture capital and investment courses were really useful when preparing the three statements of the company and financial forecast. The financial model builds on the detailed revenue and cost forecasts of the startup, so it was crucial to create a scalable and robust that reflects the future growth potential of the company. This was done by me during the last two months. After finishing the materials, we entered the negotiation phase which involved pitching our startup to the VC, introducing them our plans and most importantly present our plans on the use of funding and what kind of return we wish to have.

After the first few meetings we entered another stage which is the term sheet negotiation. This is an interesting process that requires negotiation skills, business strategy and deep understanding of startup financing. The main points of the negotiation were valuation, trenches, milestones, vesting, drag along rights, tag along rights and liquidation preferences. These are confidential information that I can’t share. In the end the negotiations were successful we got a term sheet offer from the investor that we are happy to accept.

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