

BUSINESS MASTER OF SCIENCE CAPSTONE PROJECT

PUBLIC PROJECT SUMMARY

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PROJECT DETAILS

Title

Database of VCs in CEE region to help Startups in identifying and ranking VCs for funding.

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Executive Summary

The capstone project aims to collect a list of VCs in the CEE region with the important key indicators. Next step is to identify the key criteria to help startup shortlist the VCs to target for funding. Using the identified key indicators, aim of this project is to create a tool to rank VCs for any startup in the CEE region.

Keywords: Venture Capital, Startup, CEE Region, VC Database, VC Ranking.

Objective:

1. To create a database of VCs in the CEE Region.
2. Identify key indicators to suit the startup's needs.
3. Utilize the data available to help startups rank VCs, thus increase their chances at raising funds.

Client Background

The CEU Innovations Lab is the startup incubator of Central European University, and the flagship of CEU's university innovation ecosystem unparalleled in Hungary and Central Europe. The iLab is an innovative and integrative community where entrepreneurs learn from fellow entrepreneurs and mentors as they grow their businesses. Where CEU students, alumni and faculty can be startup founders. Where established firms can try out new ideas. Where we learn and teach innovation and entrepreneurship by practicing it.

Work Done

I started this project by firstly understanding the need of funding and funding options for startups, followed by studying the primary reasons for importance of VCs in the funding. Next focus was to understand what has brought about development of VC markets in countries such as USA, China & India. Next, I tried to understand the situation of VCs in Hungary, later extrapolating it to the CEE region, through interviews with a VC Fund Manager, an angel investor cum entrepreneur in Hungary. Based on my interactions with investors and online articles, I listed the topics for startups to work on when approaching VCs. Also, listing down a set of Do's & Don'ts for startups when approaching VCs. Next, based on my interactions with Investors I listed the key criteria to look at when shortlisting a VC to approach. After which I searched through various data aggregators (and other online resources) to compile multiple datapoints about various VCs in the CEE region. During this phase I faced issues in data extraction from various portals. Most of the portals which were good had high subscription fees and these portals didn't allow for web-scraping using python, web-scraping using online tools, simple .csv format exports, etc. Still I managed to get some of the basic data about VCs by using a VBA code. Hence, I list down the limitations of database compiled, explaining the reasons for not able to rank VCs in a comprehensive manner.

Lastly, I conclude with a few learnings, in the form of a checklist, for startups when approaching VCs and using this data compiled as well as other data available on portals, I create a list of 20 top investors in the CEE Region.

Benefits to the Client

The prepared database of VCs in the CEE region is supposed to help startups inducted at CEU iLab in identifying their target VCs, which in turn would increase startup's chances of receiving the required funding. Also, some of the missing data indicators in the compiled data which are unavailable, due to various limitations, can be added later in the compiled database of VCs.

Conclusion

Firstly, I would suggest to any fund seeking startup founder to first seek customers and then the investment, as Investment is not always a value addition, i.e. with every investment founder gives away control of the venture by giving away ownership to the investor.

Secondly, when it comes to selection of VCs to target, keeping in mind a particular startup, there can be different results for everyone as the results depend on personal choices and beliefs apart from basic facts of startup & VCs ex. Stage of Investment, Industry of startup, funding need. But even basic facts, such as "stage of investment" can mean a different point in life cycle of a startup for different people. The main reason for this is there are no universally applied definitions of such terms across the industry. Thirdly, the issue of unavailability of data on data aggregating portals, not to forget undisclosed data by different VCs makes it really tough to come up with a comprehensive database including data on all the key indicators for all the VCs in the region.

That said based on my learnings from this project including interactions with investors, I would recommend the following criteria to rank VCs in the order of priority:

1. **Industry** – Industry is one of the main points in the investment thesis of a VC. It is what defines and justifies every investment that the VC would make, not to forget that the complete fund-raising process (of VCs) heavily relies on thesis of the VC fund. Personally, I feel there's little or no chance that any VC would deviate from their finalized industry choice.
2. **Investment Activity** – Some of the VC list it out on their websites when they are actively looking for investments. But there are other ways to figure this out, provided VCs data is readily available on data aggregating websites. I prefer looking at the last few investments done in last 2-3years to figure out if they're actively investing or not.
3. **Geographies** – VCs have certain regions they have good understanding of and are optimistic about. It is always better to approach a VC who has previously invested in the country where the startup's HQ is located.

4. **Ticket size** – Majority of VCs in the region have a low bar on minimum value to invest in a startup. But if a startup is looking for a big investment then it is better to check if the VC approached has plans to invest in the same range.
5. **No. of exits** – I firmly believe that successful exits are a good measure of VC's success. Hence, I highly recommend this as a shortlisting criterion.
6. **Dry Powder value** – Dry powder value is the amount available in the fund to invest in a startup (i.e. Value of Funds raised by VC – Funds invested by VC in startups)
7. **Age** – Typically the fund is born when the VC declares they've raised new funds from LPs for some new investments in a particular sector. Given that a VC typically invests during the initial 5 years of the fund's launch date. I believe it can be a criterion for shortlisting the VCs.
8. **Value of Investments** – Although very basic, it is clearly an indicative of LPs faith in the fund managers and the thesis of VC Fund.
9. **No. of Lead investments** – If none of the key indicator data is available then I suggest number of lead investments as a decent metric of shortlisting VCs.
10. **Stage of Investment:** There are some investors who only prefer investing in the growth phase or in the seed stage. Although I found these definitions are relative, using this data as a shortlisting criterion may be fruitful.
11. **Prior Investment & Industry experience:** It is essential criteria from initial due diligence point of view. As details on number of Investments, Returns, Exits, next round of Funding, etc. are indicative of the competency of VC to handle next rounds of funding as well as exit. Also, VC's experience in the sector goes a long way in forming a mutually trusted and symbiotic relationship.

Learnings from the Project

This project has improved my understanding of the whole startup ecosystem. I learnt about what options exists for a startup when they seek funding and why VCs are critical for the startup and in turn for ecosystems. I have learnt a about new terms used by professionals in the industry, about what VCs look for when being approached by startups and their likes and dislikes when being approached by founders. This study also confirmed that every market has a demand and supply relation which inherently controls the options as well as ease of transactions ex. if there are less number of startups and more number VCs in a market then good startups will receive all the focus required from VCs and the terms of funding will be less harsh for startups. I also learnt about some of the reasons for development in VCs market of USA, India & China. I also learnt that VC market's growth in CEE is on the rise through various charts and tables prepared using various data sources.

Finally, I learnt on how to rank VCs using the key indicator data available for each of them. And during the process of data extraction from various data aggregators, I learnt ways to extract data when the usual export and web-scraping from portals is not possible. Overall, I have enjoyed creating a logic to rank VCs in the CEE region.