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Venture Capitalist

Department of Computer Applications



Course: 23CAT608-
ENTREPRENEURSHIP
DEVELOPMENT



UNIT IV :
INTELLECTUAL
PROPERTY RIGHTS



Class: I MCA /
II SEMESTER



Venture Capital

- ❑ Private or institutional investment (**capital**) in relatively early-stage companies (**ventures**)
- ❑ Recently focused on technology-heavy companies:
 - Computer and network technology
 - Telecommunications technology
 - Biotechnology
- ❑ Types of VCs:
 - **Angel** investors
 - **Financial** VCs
 - **Strategic** VCs



Funding Process

- Company and interested VCs find each other
- Company makes its pitch to **multiple** VCs:
 - Business plan, executive summary, financial projections with assumptions, competitive analysis
- Interested VCs engage in **due diligence**:
 - Technological, market, competitive, business development
 - Legal and accounting
- A **lead** investor is identified, rest are **follow-on**
- The following are negotiated:
 - Company **valuation**
 - **Size** of round
 - Lead investor share of round
 - **Terms** of investment
- **Process repeats several times, builds on previous rounds**



What VC looks for?

- Committed, experienced management
- Defensible technology
- Growth market (**not** consultancy)
- Significant revenues
- Realistic sales and marketing plan (VARs and OEMs vs. direct sales force)



Fundamentals of Angel Investors

- **Right of first refusal** on sale of shares
- **Tag-along rights:** follow founder sale on pro rata basis
- **Drag-along rights:** force sale of company
- **Liquidation preference:** multiple of investment
- **No-compete** conditions on founders
- **Anti-dilution protection:**
 - Recompute VC shares based on subsequent "down round"
 - **Weighted ratchet:** use average (weighted) share price so far
 - **Full ratchet:** use down round share price
 - Example:
 - Founders 10 shares, VC 10 shares at \$1 per share
 - Founder issues 1 additional share at \$0.10 per share
 - Weighted ratchet: avg. price $10.10/11$, VC now owns ~10.89 shares (21.89 total)
 - Full ratchet: VC now owns $10/0.10 = 100$ shares (out of 111)
 - Matters in **bridge rounds** and other dire circumstances
- **Right to participate** in subsequent rounds (usually follow-on)
- Later VC rights often supercede earlier



Fundamentals of Angel Investors

- Corporate boards:
 - Not involved in day-to-day operations
 - Hold **extreme** control in major corporate events (sale, mergers, acquisitions, IPOs, bankruptcy)
- Lead VC in each round takes seat(s)
- **Reserved matters** (veto or approval):
 - Any sale, acquisition, merger, liquidation
 - Budget approval
 - Executive removal/appointment
 - Strategic or business plan changes
- During **difficult** times, companies are often **controlled** by their VCs



Requirements of Angel Investors

- Dependable and capable team
- Complete business plan
- Understanding risk
- Value propositions of product and services



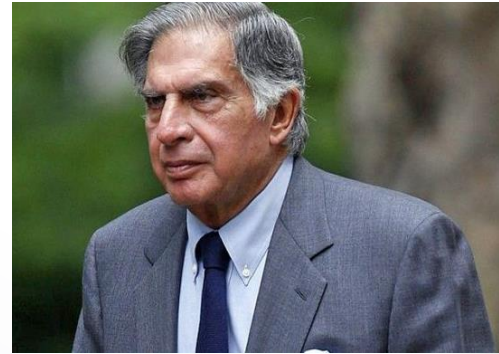
India's Top 15 Individual Angel Investors



● Number of portfolio companies



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Thank You