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Perfecting Your Pitch Deck

OVERVIEW (CONFIDENTIAL)

Fund Economics

The “two and twenty” model is a standard fee arrangement in the venture capital industry. Once the fund returns invested capital, management fees, and the preferred return – typically 7%-8% annualized – to its Limited Partners, the partners retain 20% of net incremental profits. Very few funds ever generate meaningful carried interest.

2%

20%

Management Fees

Each LP must pay 2% of their total commitments annually to the fund manager to cover the fund’s overhead expenses. This fee is paid regardless of fund performance.

Carried Interest

The fund manager retains 20% of net returns, after fees and preferred returns (if applicable) are paid out to the LPs.

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Fund Economics (Cont'd)

Venture capital is generally understood to be the riskiest asset class, and failure is built-in to the model. To compensate for the risk, venture funds generally need to target at least 30% in annualized returns on every capital deployment to generate a return for their LPs and to receive carry.

1.5x Fund

VC raises 100MM → 20MM in fees

VC invests 80MM → 20MM in write-offs

After write-offs, 60MM cost base remains

At 1.5x, 120MM residual portfolio value

Return 80MM to LPs — Repay 20MM in fees — Pref. return of 20MM

$0 remaining

$0 to LPs — $0 to GPs

3.0x Fund

VC raises 100MM → 20MM in fees

VC invests 80MM → 20MM in write-offs

After write-offs, 60MM cost base remains

At 3.0x, 240MM residual portfolio value

Return 80MM to LPs — Repay 20MM in fees — Pref. return of 20MM

$120MM remaining

$96MM to LPs — $24MM to GPs

Why Talk About VC Fund Economics?

When creating your pitch deck, it’s critical to:

Know your audience;

Understand and empathize with their decision-making criteria; and

Speak to their interests.

Let’s explore.

Why Is This Important?

To understand whether you've assembled a strong pitch deck, you must first understand the unique incentives that govern VC decision-making. To raise capital, a pitch deck must tell a compelling story, and must craft a narrative for a unique audience.

"The most powerful person in the world is the story teller. The storyteller sets the vision, values and agenda."

– Steve Jobs

At any stage – from seed to IPO – pitch decks must convince investors that:

- They have the right **team** and/or **product** to build a **substantial** and **sustainable** company;
- They have a **unique insight** and will have a **unique product** that can **scale**, e.g. that can be widely diffused without meaningful barriers to growth; and
- They are going after a sufficiently large **market** to achieve **scale** in a relatively short period of time.

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Core Narrative Elements

Technology and innovation businesses have unique characteristics relative to their legacy peers which make them uniquely amenable to the venture investment model. In telling your story, emphasize and explain why your startup possesses these crucial characteristics.

- ✓ For technology companies**, the primary currency is growth** rather than profit;
- ✓ Many technology companies have **no CAPEX**, **no hardware**, and **no variable cost** – which means they can achieve scale much more rapidly that traditional businesses with a fraction of the operational complexities.
- ✓ With technology breaking down historic barriers to scale, their **growth is exponential** rather than linear; the startups of today are the leading corporations of tomorrow;
- ✓ Lifecycles are accelerated; The best companies may progress from **inception to IPO within a few years**.
- ✓ Network effects and winner-take-all economics **create a power law distribution, with a small percentage of companies creating and capturing the majority of the economic value.**

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Empathizing With Investors

Unique among all asset classes, the foundational risk in venture capital is NOT incurring write-offs and/or write-downs, but is instead passing on a generational opportunity. Innovation is a game of outliers, and the fear of missing out on an outlier is what keeps investors up at night. Speak to that anxiety when telling your story!

Power Law distributions characterize the startup world across sectors, verticals, and markets. A VC portfolio consisting of 20 companies, will have:

- 10 companies that will be written-off or written-down;
- 8 companies that will return cost or generate a modest return; and
- 1 or 2 companies that will generate the majority of the returns.

Investors are not afraid of losing money. They have dozens of shots on goal, and write-offs are an intractable part of venture investing. They are, however, deathly afraid of passing on the 1 or 2 outlier companies that will return their invested capital many times over.

Your pitch deck should tell the story of where you've been, where you are, and where you're going. Remember that VCs will look at dozens (often hundreds) of pitch decks in a year. Your deck should be precise, concise, and should pique interest and excitement. It doesn't need to be overly comprehensive!

Essentials of Storytelling

Any compelling startup narrative will at a minimum consist of the 6 elements below. Remember to be as succinct as possible, and to speak to the value drivers of your audience. Everything should flow back to creating FOMO for prospective investors.

Opportunity	Market	Competitive Landscape
• Why is this a compelling opportunity? What problem are you solving for your customers? • Why should we pursue the opportunity? • Why now?	• What's the size of the market? How quickly is it growing or evolving? • What are the market dynamics at play? What does the value chain look like? Who is the market leader?	• Who are your peers and competitors? • How do you compare against them? • How do we expect to compare in the future? • What are the industry KPIs and benchmarks? • What are their unfair advantages and what are yours?
Traction	**Challenges**	**Team**
• How is the company progressing so far? • How does the current progress validate your thinking about the opportunity, market, and competitive landscape? • Can we infer product-market fit and scalability from the trailing data?	• Challenges don't need to be negative! What do you need to succeed? • What are the roadblocks to success, and can those roadblocks be alleviated? • What are the ultimate gatekeepers to scale? How are you preempting them?	• Why is your team uniquely positioned to execute on the narrative? • Why is your team uniquely positioned to derive novel insights about the market?

You’re Unique, So Is Your Story

Depending on your industry and the stage of your company, investors will care about different metrics and characteristics when evaluating the overall desirability of the investment. Make sure that your pitch deck aligns to the stage of your company.

Pre-Revenue Companies

- **Founder-Product Alignment:**
  - Do the founders have relevant experience to the company they’re building?
  - Previous entrepreneurial success?
  - Prior industry experience/expertise?
- **Other non-revenue proof points:**
  - Pilot success with any major clients?
  - Are people using their product with low churn?

Revenue- Generating Companies

- **Financial Metrics:**
  - At least 60-80% YoY growth
  - Not interested in anything below 30% YoY
- **Company Offering:**
  - Ensure the company is primarily selling a product and **not** a service
  - Ideally low human-touch involved
  - Looking for strong gross margin capabilities and scalability

Focus Shifts As Ventures Grow

As the company evolves, so too will the points of validation. For a later stage business, articulating quantitatively how capital will accelerate your trajectory will be essential. For an earlier-stage business, focus will tend to skew towards validating product-market fit.

Company Stage

Founding → **Pre-Seed** → **Seed** → **Series A** → **Series B/C** → **Crossover** → **Public Markets**

A founder or a group of founders have an idea and the basic premise for a new product or service offering.

Emphasis on **TEAM:** will this team be able to build the company they're setting out to build. Why? Why not?

A product is now being developed and is notionally in-market, some early customers are being acquired.

Emphasis on **TEAM**: it's still early, and there's a lot more development that needs to take place.

A product has been created and launched, and the company has some early paying customers.

Emphasis on **PRODUCT-MARKET FIT**: is there demand for this? Are customers willing to pay? How much?

A product is in market, the company has many customers, is retaining those customers and growing rapidly.

Emphasis on **QUANTITATIVE ANALYSIS**: what is our growth rate? LTV? CAC? Churn? Gross Margin?

The company is established, with a sticky product, and is now considering going public.

Emphasis on **QUANTITATIVE ANALYSIS** and **TEAM**: Can this be a publicly traded company?

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