The Venture Capital Playbook

Angela De Giacomo

How families and family offices can invest in startups successfully

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First edition

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Foreword

Venture capital isn't just about making investments; it's about shaping the future. As investors, our decisions drive innovation and empower the next generation of entrepreneurs.

I recently spent three months in New Zealand with my family, enjoying nature's beauty through hunting and fishing. During this time, I reflected on how investing is remarkably like fishing:

"Like fishing, investing is a delicate dance: a blend of patience, knowledge, and a dash of good fortune. In the realm of fishing, you must understand your environment – the body of water you've chosen, its tides, the species that inhabit it, and the best spots to cast your line. Similarly, in investing, I must be intimately familiar with the market. I need to recognize the ebb and flow of market trends, discern the sectors brimming with potential, and pinpoint the companies within those sectors that hold the most promise.

Just as a fisherman picks the optimal time to venture out into the sea or lake, I, as an investor, must ensure my timing is impeccable. Fishing at the wrong hour often results in an empty net, and likewise, investing in a company at an inopportune moment can lead to disappointing returns. Timing, as they say, is everything.

When it comes to hooking the big fish – in the investment world, the unicorn startup – the task becomes exponentially harder. These 'big fish' are shy, elusive, and challenging to reel in, necessitating a blend of intelligence, tenacity, and a competitive edge. My 'bait' can take various forms, whether it's an influential network, a substantial fund, an impressive track record, or simply my approachable personality.

But even with the right bait and a big fish on the line, I am aware that I must tread carefully. I've witnessed too many deals that seemed certain, only to fall apart at the last minute. It's a stark reminder that until the fish is securely in the net and every document is signed, sealed, and delivered, there's always a chance of losing the catch.

So, I approach investing with the same patience, caution, and respect that a seasoned fisherman shows towards the sea. I've learned that it's not just about making the catch, but enjoying the process, honing my skills, and always being ready for the next opportunity."

Two years ago, back in Germany, I found a trusted partner for my family office – a talented individual who not only excels in the technical aspects of deals but also values building strong relationships. Her ability to bring the right people together and distill complex ideas into actionable strategies is what makes her – and this book – so impactful.

Angela De Giacomo's "The Venture Capital Playbook: How families and family offices can invest in startups successfully" is a must-read for those looking to do more than just invest. Angela offers valuable insights that will guide you through the unpredictable world of venture capital with confidence. Whether you're new or experienced, this book provides the tools and wisdom to succeed.

Thank you, Angela, for sharing your knowledge and passion, and for once again uniting the right people to share their wisdom. I'm confident this book will become a trusted resource for many. Remember, it's not just about financial returns – it's about the journey and the meaningful impact that thoughtful investments can make.

Thomas Falk
General Partner, Vinthera

Preface: The promise of this book

"Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains."

Steve Jobs

I still remember the view from the plane onto the blue ocean and all the big container ships near the harbor as I approached Singapore for the first time in 2012. I was still working as a manager and tax advisor for KPMG in Frankfurt. Most of my first eight professional years had been spent in the world of international taxation and mergers & acquisitions. Many of them across borders. They taught me the rhythm of a transaction.

This time, I was flying to Singapore on behalf of the Bissell family, an Indo-American entrepreneurial retail family. They were evaluating a new investment option: A serial entrepreneur who had just sold his company to IBM couldn't wait to start the next one. For me, meeting this founder was my first encounter with the startup world.

Today, after having invested in the venture capital (VC) asset class for more than a decade, I do think that more families should invest a portion of their private wealth in this asset class. On the one hand, because it is extremely rewarding if the investments go well and pay back a multibagger return, i.e., a return of more than 100 %. On the other hand, and on a macro level, I think that investments in this innovative field can act as a catalyst and lead to societal changes. Successful startups can contribute to employment, add to economic prosperity, and force established players to be up to speed and to improve their processes.

Many startups and their technologies also push the boundaries of the unknown towards the known and improve research and development. Just to give two examples: We would not know that rockets can

return to earth and be used again if it wasn't for California-based SpaceX. Thus it promotes sustainable practices and cost-effectiveness in this industry. And we would not have had such easy access to a Covid vaccine if it was not for biotechnology company BioNTech, based in the German city of Mainz, that undertook groundbreaking work in the context of MRNA technology. The achievements of these companies also inspire young people to pursue a career in STEM (Science, Technology, Engineering, Mathematics), hopefully fostering a new generation of innovators. These and many more startup companies changed the way we live our lives today, created an impressive amount of wealth for their investors and a significant number of jobs. Imagine if you and your family were an investor in the next generation of AirBnb or OpenAI.

In many cases, startups work towards making this world a better place and tackle essential problems our mutual planet is facing. Impact-oriented startups such as Kiva or Share.eu also strive to improve the quality of life of many underserved parts of the population. Kiva provides microloans to individuals who are normally excluded from traditional banking systems, for example in developing countries, and thereby permits them to start or expand a business and be self-sustainable. Share is a social enterprise, co-founded by Iris Braun, who researched microfinance for Harvard in India and then co-founded Share in Berlin. It follows a one-on-one principle: For each product sold, an equivalent item gets donated to a person in need. This way Share has been selling and donating over 180 million snacks, beverages, and personal items up to now.

Over the last few years, I gained many learnings from mistakes that could have been prevented. I have invested for two families, co-invested with multiple other families, sat on startup boards, and observed the investment behavior of hundreds of families in venture capital. Therefore, I had plenty of occasions to introspect failures (including mine) in that space. As a result, I do believe that the investment process must happen as part of an overall allocation plan rather than on a case-by-case basis and with an understanding of what suits one's own and the family's requirements best. Consequently, this book is meant for families and individuals that are considering investing part of their net worth in venture capital assets.

Following that, if one of these paragraphs resonates with you, then this book is meant for you:

- You are a high-net-worth individual who is planning to invest in startups and the venture capital scene. However, you struggle to get access to proprietary deal flow, tap into the relevant networks and apply the right deal mechanisms. In this case, this book will help you understand where the difficulties lie and how to maneuver them.
- You are a family member who is linked to a family office and you are a strong believer that disruptive innovation and entrepreneurship should be supported by investing in (tech) startup companies or impact-focused venture funds. But you struggle to convince other family members and the Investment Committee to allocate some of the wealth to venture capital? Then you will get some feasible concepts for it here.
- A friend told you about a great new company and you co-invested. The company did not survive, and you lost your invested capital. This happened within a time span of about one to three years, and in between you had asymmetric information flow with multiple emergency bridge rounds. To keep it short: You had no fun at all. This experience made you believe that you do not have the stomach for startups – although you have a futuristic mindset and want to support innovative founders. If the latter is the case, then you should read this too.

At this point you may wonder: What is the promise of this book?

Well, when making direct investments there are two precious features that need protection. One is of course your wealth. The other one is your ego. Most likely you would have taken the decision of investing in a particular startup and thus when one of your investments fails, your self-confidence might get shaken and lead to you questioning your decision-making abilities. Another concern might arise, i.e., about how others perceive your failure and along with that you might worry about being judged or criticized. If at the same time you see your peers succeed, this is like rubbing salt into the wound. But this should not bother you for too long, because at the moment of your decision it would have

been the right one, and still: Most young companies do fail! This has nothing to do with your investment skills and decision-making abilities. In other words, if every athlete or champion sportsman gave up the game whenever he or she lost a match, then there would be no such people as Serena Williams, Lionel Messi, or Michael Schumacher in the world! Introspecting each case is important. But then: Move on.

As a result, the promise of this book is to explain venture capital investment in such simple terms that it can provide relevant guidance for beginners on their path to becoming a great venture capital investor. I have put together a pragmatic and practical investment guide summarizing various ways of participating in VC investments, offering a structured approach that should suit your investment philosophy by sharing technical guidelines and principles.

Following that, this book is conceptualized in such a manner that there are two main parts: The first part starts with your situation and aims at providing some guidance on how to find out which investment approach suits you and your family best, i.e., direct investments or fund investments or a combination of both. Then it provides a summary of best practices, including some collected from other authors and experts. This section is more technical, firstly focusing on direct investments, followed by a section on VC fund managers. It covers the whole life cycle from sourcing through selecting to due diligence, monitoring, and exiting the companies or liquidating the VC funds. This first part of the book ends with a description of the major terms that influence your financial result.

The second part is what makes this book truly unique. It consists of thirteen interviews with selected family members as well as two fund managers who are all personally known to me and who all have immense venture capital experience and exposure. They allowed me – through interviews conducted with Johannes Sill, a journalist working for wir Magazin (part of the F.A.Z. Business Media Group) – to capture the essence of their experiences and valuable insights about the venture capital asset class for this book.

The idea is that even if you do not read the technical section first but only the second part, you will still gain a lot of valuable learnings. Part two will permit you to draw inspiration from the manifold approaches

and methods that other families use. This will help you identify the most suitable path for you and your family. Please note that there is an emphasis on German families, although an American family was interviewed too. However, the learnings are generally universal.

I wish I had read this book on my flight to Singapore back in 2012; then I would have been able to have had an in-depth discussion on the type of investment style that suits the Bissell family's risk appetite best by using the decision tree shown on page 24 as a starting point. This might have led to fewer direct investments, with all their ups and downs, and made us realize earlier that investing in VC funds and co-investing in later rounds would match the family's risk tolerance better compared to direct seed and Series A investments. However, and just as a side note: The company in which we invested in 2012 is still up and running.

Part One

1 What is venture capital?

"The raison d'être for being in venture capital is not to avoid losses but to generate excess returns over public securities."
Thomas Meyer and Pierre-Yves Mathonet

What is venture capital? I am going to provide two answers to this question. One has an emotional connotation and is more descriptive in nature, the second is more technical. Both descriptions mirror the life of a family officer well: He or she interacts a lot with entrepreneurs and deal makers who are usually very passionate, whose eyes shine when they speak of their projects, and who see the world as a field of opportunities. At the same time the family officer interacts a lot with bankers, insurers and advisors – and then it is all about wealth preservation and risk management.

That is why I will start with the first answer: Venture capital – VC – has a special aura surrounding it.

The aura, meaning a certain atmosphere carrying excitement and thrill, is created by entrepreneurial pioneers. By bold men and women who are ready to conquer new territories and to push the boundaries of what is perceived as normal and possible. And it is generated by a sophisticated group of investors on their quest for the next unicorn, thus, a company valued at $ 1 billion.

Let me depict it more graphically: Recently, I attended the annual general meeting (AGM) of an early stage fund performing superiorly to its peers. The event took place in a vibrant metro city, at a buzzing venue. It was theater-like with a huge stage as centerpiece. The lobby was filled with above average looking people, mostly men in their late twenties to mid-thirties (founders and some analysts), well-in-shape older men (most of them limited partners (LPs) in the fund), and a few impressive women attended too. The atmosphere was mesmerizing, deal-making was in the air, and we all got well curated glimpses into the

future displaying new technologies garnished with the promise that a lot of money can be made along the way.

To fuel the excitement, the stage was filled with all founders of the fund who made it to unicorn status and had their IPOs (initial public offerings) or other successful exits. They were celebrated almost like rock stars. And this AGM, as unique as it may seem, is representative of many other AGMs held year on year by VC funds.

And so, one is left with the question: How can this world of young, highly educated, confident, innovative, passionate, driven people not be attractive for us, investors?

The thrill of discovering the next frontier technology, backing the next unicorn founder, and embarking on an exciting journey is intriguing. And to some extent we should all be tempted by the idea of planting and nurturing an entrepreneurial spirit within our youth as there are plenty of problems that need to be solved for the greater good of society, creating new employment possibilities and prosperity for all.

But the temptation should be tamed by a plan. A plan means understanding where venture capital should play its role in the overall portfolio composition of your wealth. And once there is a plan, the first measure to mitigate the high risk involved with VC investments has been taken.

Coming to the more technical description of venture capital: VC is a subclass of the alternative asset class and within that class belongs to private equity. It is an illiquid asset whose shares are not publicly traded.

Because it is an illiquid asset class and related to innovative early-stage companies, a high degree of risk is associated with it. Consequently, traditional sources of financing such as bank loans or private equity for mature companies cannot be provided. The reason for this is that traditional sources of financing will have to prioritize returns on "risk-free to low-risk" over "high-risk" investments.

This is the niche where venture capital investors fit well, as they are willing to understand the impact of the innovation and take the entrepreneurial risk. As a result, they provide financing to startup companies that are perceived to have long-term growth potential in return for an equity stake or an equity equivalent. Compared to private equity, the