



The Venture
Capital Market
and the Players

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Fund structures

Alternative investment funds such as private equity funds, hedge funds and venture capital funds charge the equivalent of around 2% management fee and 20% in performance fee or carried interest – upfront.

Fund managers

The LPs (limited partners), aka investors are paying fees to fund managers, aka VCs to manage their capital allocation into venture capital funds. The LPs consist of wealthy individuals and family offices. They are the real buy side investors in the marketplace and consequently not the VCs that are managing their capital.

The traditional metric-based VC model seems to be broken and the data clearly shows that only the top 5% of VC funds performs more than 3x multiple to their investors.

Source: TechCrunch

Fundraising founders

The startup founders that are aiming to attract capital from different capital allocators are the real sell side clients in the venture market space. Founders need to better prepare themselves before approaching any capital allocator in the marketplace.

The most important basic of the fundraising process is to be able to identify, qualify and match relevant investors in the space, stage and ticket size. After that comes investor preparation and positioning, followed by investor introductions and investor relations. Collateral material requirements for an effective fundraising process consist of an investor intro, one pager, pitch deck and Q&A.

Fundraising fees

An early stage fundraising, aka seed to series A private placement of \$2M-\$15M has a lead manager fee of around \$60k for collateral material, data room and cap intro / IR process. This is equivalent to around 2% management fee for the industry's fund structure and 2-5% in performance fee / commission depending on the transaction – upfront.

Crowdfunding platforms

Crowdfunding is most often used by startup companies or growing businesses as a way of accessing alternative funds. An equivalent fee-structure can be found on crowdfunding platforms that charge 3-5% in platform fee and a processing fee of around 3% – upfront.

The facilitators

The facilitators in the marketplace that add value to fund managers, growth companies, startups and platforms can be found among many different agents. However it does not apply to management consultants, aka textbook jockeys.

The ones that have leverage are strategic advisors, advisory board members, venture partners, placement agents, corporate financiers and investment bankers with credentials of an actual financial track record.

This due to their experience, skills and foremost proven ability to achieve results from the investment market in dealing with institutional investors and strategic partners alike.

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The dealmakers

Most valuable are the very few high performance individuals that exist in the marketplace that have established relationships, access to global investor bases and leverage from multiple sources of placing power in the billions as strategic advisors to ultra-high net worth individuals and single family offices, aka dealmakers.

Lead managers

To conclude there is always a pay price to action for having a lead manager facilitating

the company's fundraising target. The fee structure in the venture capital marketplace of course apply to both sides of the aisle.

Successful serial entrepreneurs that have become wealthy individuals from multiple exits and also have some experience from the investment market tend to understand this better than others.



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