How to Invest (Successfully) in Marketplace Startups

December 11, 2019
HOW TO GET VALUE FROM THIS DEMO

• Use chat to submit questions
• Yes, you’ll get the slides and video
• We’re recording, so come back and listen again
• Contact Heather Krejci with questions: hkrejci@angelcapitalassociation.org

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ANGEL CAPITAL ASSOCIATION TODAY

Mission: fuel the success of the accredited angel investor community through advocacy, education, data and connection building

World’s largest association of active accredited angel investors - www.angelcapitalassociation.org

14,000+ investors across North America

Data Analytics

Gold Standard Education

Advocacy in DC

Great Connections
Jeff Weinstein
Principal - FJ Labs

Kauffman Fellows Class 24

Co-leads the investment team, responsible for 400+ investments, domestically and internationally.
FJ Labs builds and invests in online marketplaces.

We are the World’s most prolific marketplace investors.
SELECT PRIOR INVESTMENTS
• Seed / Series A focus
• Average investment size $400K
• Global strategy: Active in U.S., Europe, LatAm, India
• ~100 investments per year
• 65% new investments, 35% follow-ons
• Do not lead rounds or join boards
• Co-invest with larger funds we know and trust
Why do we like marketplaces so much?
CRAIGSLIST IN 2000

Founded 1995

City #2 in 2000
<table>
<thead>
<tr>
<th>Community</th>
<th>Housing</th>
<th>Jobs</th>
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CRAIGSLIST IN 2019

$1B REVENUE.

50%+ EBITDA MARGINS.

TERRIBLE USER EXPERIENCE.
The Power of Network Effects

Source: NFX Network Effects Bible
Global connectivity means even previously “niche” verticals can achieve massive scale.
THE RISE OF VERTICAL MARKETPLACES
We have 45+ years combined experience building and investing in online marketplaces.
VERTICALIZATION OF THE HORIZONTALS CONTINUES

ebay ➔ Reverb ➔ SLICE

YouTube ➔ twitch ➔ comet

Thumbtack ➔ BLK ➔ LUXURY RETREATS

Rev ➔ robin ➔ PRODUCEPAY
MOVING FROM DOUBLE-COMMIT TO MARKETPLACE-PICK

Double commit

Demand

Supply

Buyer and seller interact to agree to T&Cs

Demand pick

Demand

Supply

Buyer originates transaction

Marketplace pick

Demand

Supply

Marketplace picks the supplier
Investing in B2B Marketplaces
B2B marketplaces can have attractive characteristics that makes them more resilient.

Examples:

- Flexport
- Procsea
- RigUp
- Knowde
- Medinas
- Ag
The Key Marketplace Lever: Take Rate
Marketplace rakes vary based on value-add.

Take rates can vary from 0% to 40% or higher.

“Your margin is my opportunity” - Bezos
Case Study: Vinted
We have 45+ years combined experience building and investing in online marketplaces.

**Vinted**

Founded in 2012 in Vilnius, Lithuania.

Mobile-first online marketplace for secondhand clothing.

Raised a $27M Series B in 2014 from Insight/Accel, but growth plateaued.

FJ Labs’s Thomas Plantenga brought on in 2016 to orchestrate a turnaround.
Behind the turnaround that netted Vinted €50 million

• Undercut the incumbent on price
• Add services which makes the experience in your niche optimal (e.g. nationwide shipping for clothing)
• Monetize on value-added services (e.g. shipping, escrow) on the demand-side only
Free to List Unlocked Explosive Growth

Monthly GMV, [€], (Vinted Global), (2016-2018)


Source: internal scraping, data combined with historical google trends curve.

We have 45+ years combined experience building and investing in online marketplaces.
The Power of International Network Effects

• 99% of Vinted txns are shipped. Allows for easy cross-border commerce

• Scale created massive shipping discounts
  • Users ship from Brussels to Barcelona for €3.20. Independently this would cost €14.
  • International txns work as low as €20 AOV

• Netherlands, Belgium, Luxembourg, France, Spain are single platform.
  • ML to translate content, adjust diff websites
  • Immediate liquidity when launching in new countries
Vinted Today – A Monster Emerges

• €1.9B GMV run-rate, €92M rev run rate. Growing 2.4X YoY

• Launched Spain in January 2019, acquired Chicfy for its userbase

• Raising €86M war chest at €1B. Lightspeed pre-empted.

  • €20M to support growth
  • €20M for M&A/acquihires
  • €30M for further expansion
What makes a good marketplace?
Most VCs think that the winning online marketplaces have already been built, and due to network effects, they cannot be unseated. Most VCs are wrong.

### Ideal Conditions for Marketplaces

**Fragmented supply**

- Discovery
- Price transparency

**Fragmented demand**

- Trust
- Communication
- Payment
- Logistics
We have 45+ years combined experience building and investing in online marketplaces.

FOCUS ON UNIT ECONOMICS FROM THE START

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<thead>
<tr>
<th>High Frequency</th>
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Pager
Glyde
Shyp
FJ Labs
What do we look for in marketplaces?
INVESTMENT HEURISTICS

$1B+ Potential Value
Valid Business Model
Initial Unit Economics

Market Leader Potential
Scalable & Capital Efficient
Growing Market

No Disintermediation Risk
Execution Know-How
Quality of Team
The importance of unit economics
We have 45+ years combined experience building and investing in online marketplaces.

### Lifetime Value

- **Gross GMV**
  - (- discounts, promotions)
- **Net GMV**
  - (*take rate %)
- **Revenue**
  - (- variable transactional costs and/or COGS)
- **Profit margin**
  - (- CAC)
- **Contribution margin**

(Net) LTV = Contribution margin * number of transaction per user

### Customer Acquisition

- **Paid-only CAC** = \( \frac{\text{Fully-loaded Marketing and Sales Cost}}{\text{# new paying users from paid channels}} \)
- **Blended CAC** = \( \frac{\text{Fully-loaded Marketing and Sales Cost}}{\text{# new paying users}} \)

### What we look for

- 12 month LTV ≥ 2x Paid-only CAC
- 18 month LTV ≥ 2x Paid-only CAC

### Organic vs paid CAC

- <25% organic growth = synthetic growth
- <40% paid growth = underinvested in paid channels
What is our investment checklist?
INVESTMENT HEURISTICS

**Is the team compelling?**
- Storytelling skills
- Grit and tenacity
- Demonstrated passion
- Metrics driven and analytical

**Is the business attractive?**
- Attractive unit economics (actual or theoretical)
- $1b+ potential enterprise value
- Low disintermediation risk
- Market leader potential
- Scalable and capital efficient
- Growing market

**Are the deal terms reasonable?**
- Attractive price relative to team, traction, and market opportunity

**Does it meet our thesis?**
- Verticalization of horizontals
- Transition to supply pick marketplace
- B2B marketplaces
Thank you.

FJ LABS

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QUESTIONS (AND THANKING OUR PARTNERS)

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ACA Education Partner

Platinum Partner

Gold Partners

Assure

Foley Hoag LLP

Feed the Future

Rwanda Nguriza

Nshore Project

Silver Partners

America's Seed Fund

Iownit.us

Bronze Partners

Alberta Innovates

Blueiron

Crowdstreet

Translational Research Institute for Space Health

VentureWell
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• https://events.angelcapitalassociation.org/2019summit