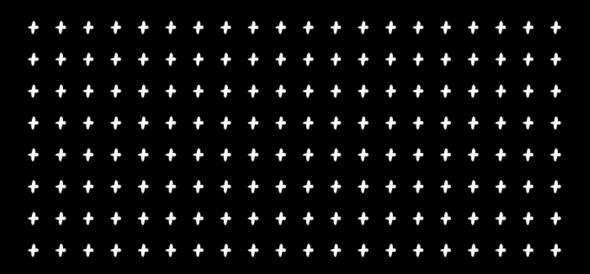


RAISING CAPITAL 101 AS A START-UP

STRUGGLES AS A CONSUMER STAR-UP

A PLAYBOOK by Duarte Froes, Co-Founder and CEO of PHUNK



RAISING CAPITAL 1010 AS A STARTUP – STRUGGLES AS A CONSUMER STARTUP

J+NEXT invited Duarte Froes, Founder and CEO of PHUNK and one of our Mentors to share his perspective and struggles as CEO of a Consumer Startup.

Duarte is the Co-Founder and CEO of **PHUNK**, the first Portuguese hard seltzer, a new tendency of alcoholic beverages with low percentage of alcohol and calories.

For this Playbook, Duarte shares some of the **struggles of** being an entrepreneur and founder of a non-tech start-up. The challenges are big when trying to **raise capital in a** market where investors are mostly tech orientated.

Although it is true that with less capital the chances of creating impact are greater on a tech start-up, **innovation** in other sectors are fundamental, specially in **consumer goods**, where the worries with health, non processed or non dairy products call for new options.





LIFE CYCLES OF START-UPS

Investment rounds, players involved



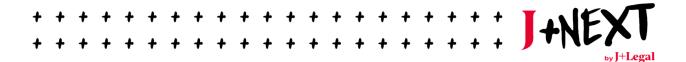
PHUNK

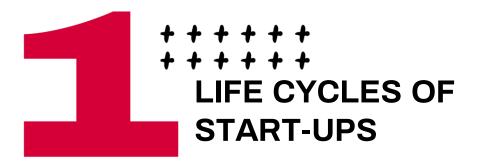
Consumer Start-ups v. Tech Start-ups



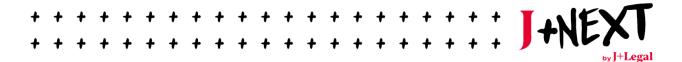
Currently, the life cycles of startups are standardized, and despite the differences in the speed at which each one reaches each stage, it can be said that nowadays the success and development of startups are measured by investment rounds.

- → The investment rounds work as communication stamps to the market of the start-up's life stage.
- → These stages are called *pre-seed*, *seed*, *Series A*, *Series B*, *Series C* (and other alphabetical letters).
- → Stages culminate, in a successful scenario, in an eventual sale / public offering / obtaining inherent profits from the activity that allows self-financing.





- ★ Each round is associated with specific processes and participants, as well as benchmarks and typical clauses that allow to identify not only in which part of the life cycle the start-up is but also its level of success:
 - ◆ The higher the total capital valuation, the greater the buzz, the greater the success.
- → The initial rounds, pre-seed and seed usually involve the 3 F's ("family, friends and fools") and some external angel investors.
 - + In the **seed round the first institutional investors** usually start to **appear**, usually **venture capital funds**.
- → All start-ups generally follow this path each sector has its own specificities, but the parties involved are usually the same.





In the path of the Start-up I founded, PHUNK, it was essentially the one described, having, however, experienced friction on the part of the venture capital community, relative to the sector in which PHUNK operates.

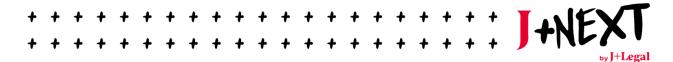
- → The path previously described is a path thinking about tech Start-ups, not consumer's.
- The standardization of the life stages of a Start-up leads to consumer Start-ups being neglected.
- The exclusivity of the tech sector as the focus of attention of the venture capital industry has several factors and all of them with a lot of validity:
 - + Potential for exponential growth vis a vis linear growth,
 - + Having attractive units of economics,
 - + Possibility of **literally creating new types of markets and expanding with a** *click* (for some reason, Apple, Alphabet, Microsoft, Amazon and Tesla are the most valuable companies in the world).



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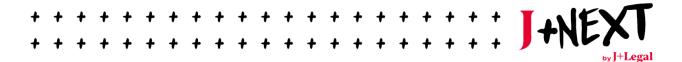
- That exclusivity also comes with many risks:
 - + Totally focused institutional venture capital investment for tech expects to get a return on their total investment from only 1 or 2 Start-ups out of 10/15.
 - → The amount of capital that institutional investors allocate to these venture capital investments funds coupled with FOMO by investors creates a potential vicious and concentrated game from Softbank's investments in WeWork and rivals Uber, Lyft and Didi, or more recent events such as in the same week, Turkish Getir raised \$768 million and Fridge No More went into liquidation because it ran out of capital.
- The race to invest in the next Amazon inevitably translates into a deficiency in the allocation of resources for Start-ups in other sectors.
 - + In Portugal, there is no venture capital fund specialized in consumer goods' Start-ups.
 - → This leads to those having more difficulty in getting funding in the embryonic stage of their lives.
 - → This leads to great delays in innovation in these sectors that are also essential to human life, being subject to markets that bet more on this type of sectors such as the American, English or German.



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- Paraphrasing Kiva Dickinson, managing partner of Selva Ventures, a consumer goods venture capital fund:
 - + "people demand innovation in the food they eat, in their exercise routines, in the clothes they wear, and in the gadgets they use to control their health and routine. And who created these innovations that respond to these consumer evolutions? Brands that did not exist 10 or 20 years ago. (...) and despite their infinite resource capacity, the big companies are not built to respond to these changes in consumer needs, leaving the risk to the entrepreneurs. For entrepreneurs to achieve results requires risks and freedom that would not be possible within the structure of large companies: too many bosses to impress, too many committees to authorize, and too many results to show shareholders to be able to make long-term bets".







Duarte Froes, Co-Founder and CEO PHUNK

Duarte founded PHUNK, the 1st Portuguese Startup focusing on the functional side of the 4th new category of drinking.

With 6 drinks already launched, PHUNK is the leading RTD independent brand in Portugal and has operations in Spain.

Prior to PHUNK, Duarte was a lawyer - graduated from Universidade Catolica and from Cornell Law School. He's an admitted attorney in the state of New York and in Portugal.

With 4 years of experience as an attorney working in M&A and Venture Capital in Portugal and in Luxembourg, Duarte can offer the insights of a former lawyer turned entrepreneur to any founder.



If you have any questions regarding any phase of your Start-up reach out to our Team, we will be more than happy to help you out!



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