Investing in a Startup Studio

Understand Startup Studios structures and the most efficient way for funding.

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mamazen
STARTUP STUDIO

Mamazen

Mamazen is a Startup Studio with a focus on digital, born in Turin in March 2017 from an idea of Farhad Alessandro Mohammadi. Today, there are few Venture Builders in Italy, while in other countries, the Startup Studio Model is well-established. In 2018, Mamazen developed an ideas generation and validation model to improve the startup validation and launch process. Mamazen's final goal is to enhance the success rate of every startup built to create sustainable businesses that can have a long-term labor impact.

Startup Studio Funding

One of the most common questions raised when people approach the Startup Studio model is how Studios are structured and funded.

This Paper is addressed to investors and newborn Studios. The aim is to provide an overview of the different structures, compare the advantages and disadvantages of each structure, and identify the most efficient way to organize and fund a Studio.

In this Whitepaper:

- Overview of the different structures
- A comparison of the advantages and disadvantages of each structure
- Review of key features
- Analysis of the structures' efficiency

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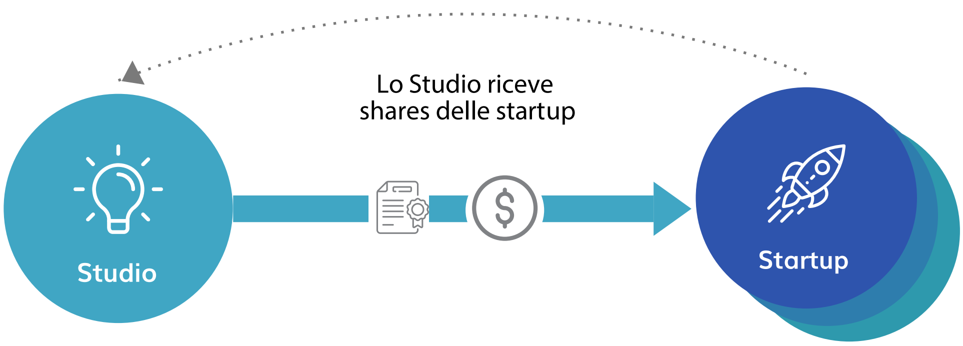
Startup Studio structures

Startup Studio Fund

The Studio and the Fund are a single entity. The Studio team is the General Partner (GP) or Fund manager. The Studio gets liquidity through management fees applied to the invested capital. The Studio has some equity in each startup created; then each startup is owned by the Fund, which is the Studio itself.
The Studio's team (GP) applies a management fee and a performance fee (Carried Interest) based on the Fund's performance for the investors (Limited Partners - LP).

Single Studio Model

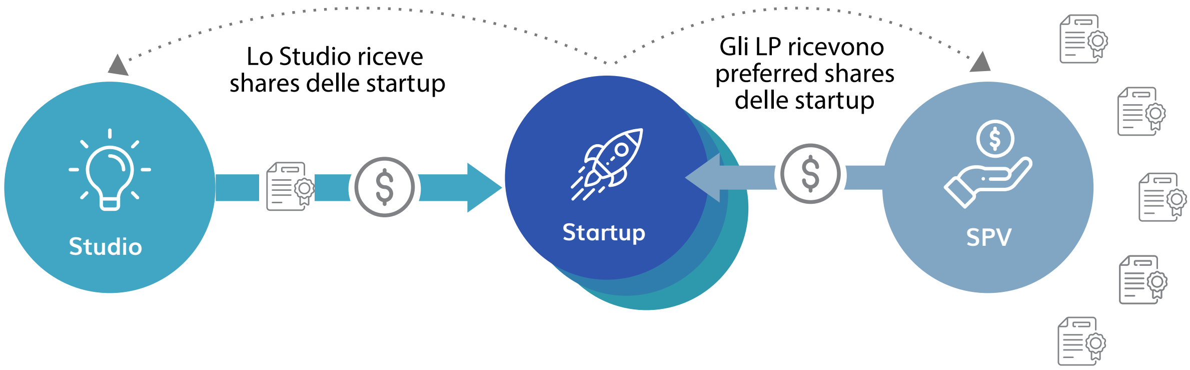
The Single Studio Model or Startup Studio Holding is the simplest model: the Studio creates new startups and finances them as a holding entity. The Studio provides resources to the startups and it receives back equity.
Founders and Studio's investors own the Studio; no carry or management fees are applied. The Studio's investors fully pay the capital upfront at subscription.



Single Studio Model + Syndicate

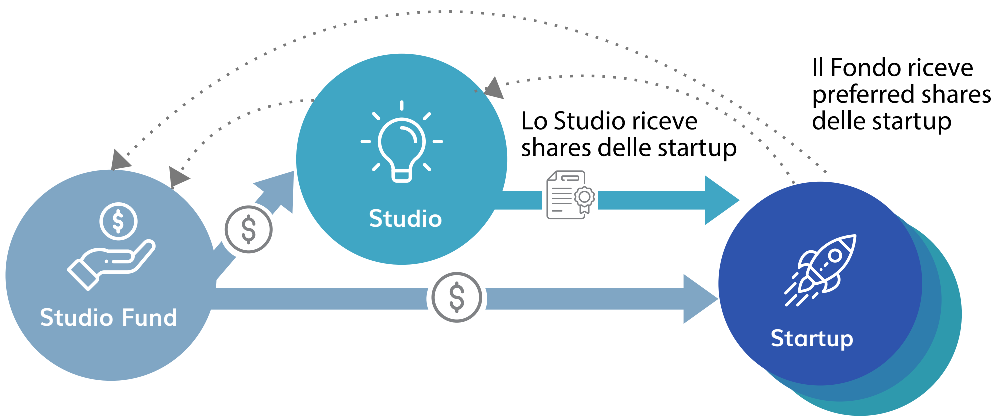
The Single Studio Model + Syndicate mitigates the Single Studio Model downsides by complementing the Studio with a Syndicate.
The Studio develops and builds startups acting as a Single Studio. When the startups are ready

for a funding round, the LPs invest through a Special Purpose Vehicle (SPV). No management fees are charged on the capital, and investors commit only the capital for the current round.



Dual Entity Model

The Dual Entity Model combines features of the other structures: the Studio is a Holding Entity paired with a dedicated Fund. The Studio's management works on the Fund as a GP.
The Fund's first investment is in the Studio: the Fund acquires preferred stocks in the Studio and indirectly shares in each startup created by the Studio.
The Fund also invests directly in the best startups created by the Studio, receiving back preferred stocks.
The Fund's initial investment in the Studio ensures liquidity and resources to the Studio for the startup creation, and then they will be examined by the Fund for following-up.
The Studio charges a management fee to the Fund (2-2.5%) and a performance fee.



Vantaggi e svantaggi dei quattro modelli

Single Fund Model

Advantages

- The simplicity of a single structure.
- Investor-friendly structure with a logic compared to other VC Funds.

Disadvantages

- The Fund has to load a management fee and performance fee higher than the market average (2% management fee and 20% carry) to cover the Studio's operating costs.
- Need to create a Fund large enough to support the Studio costs; newborn Studios do not have a solid track record to be provided to investors.
- A large Fund may be out of proportion to the actual Studio's production capacity.

Single Studio Model

Advantages

- Simple structure, a holding company can be easily understood by the market.

Disadvantages

- The Single Studio Model is capital intensive; it needs significant capital initially to create the first startups.
- Studio and the investors' interests are not aligned; the investment upfront and the Studio allocates the resources among projects.
- Not-standard investor onboarding process.
- The Studio founder needs a strong track record to raise money paid upfront.
- Not easily comparable with a traditional fund.
- Discipline in resources allocation is required.

Single Studio Model + Syndicate

Advantages

- Control on the startup remains on the Studio and not on the SPV (Special Purpose Vehicle).
- The SPV's agility fits well with the Studio structure.
- The Studio can independently allocate capital on projects and startups.

Disadvantages

- Identify the investors and create an SPV for each deal, this makes the investment process complex.

- Investors fund the startups, not the Studio, as a single entity.
- Startups are funded at the will of the investors while the Studio, which better knows the deals and their metrics, does not have decision power.

Dual Entity Model

Advantages

- The Fund's first investment is in the Studio, and it aims to fund the startup production and cover the operating costs. The model gives the Fund low-cost access to a pipeline of highly successful ideas.
- The Fund has a liquidation preference on the investment in the Studio; the Studio must return the entire capital to the LPs before it can benefit from the returns. The Studio and the Fund's investors are aligned.
- The Studio gives the Fund access to a pipeline of startups; multiple ideas are selected and incubated by the Studio in parallel, the Fund has the right - not the obligation - to invest (first right of refusal).
- The Fund's investment is a check-point for startups, only the best ones are funded, and the risk is reduced.
- The Fund's investment in startups is on favorable, pre-defined terms; no need to renegotiate the terms for each deal.
- An efficient fundraising process enhances the Studio and for the startups without interrupting or slowing down operations.
- In the following startup funding round, the Fund has a right of first refusal proportionally to the investment made and it gets the Studios pro-rata rights doubling down on winners.
- The Studio decides on funds allocation without constraints.
- Easy comparison with VC funds metrics.

Disadvantages

- Dual structure complexity.
- Not suitable for the early stage Studio (no startup in portfolio yet).

The most efficient way of funding a Studio

We have provided an overview of different structures, advantages ,and disadvantages for Studio funding.

We can summarize them as follows:

	Single Fund Model	Single Studio Model	Single Studio Model + Syndicate	Dual Entity Model
Simple Structure	Yes	Yes	Yes	No
Management & LPs alignment	Yes	No	No	Yes
Standard carry and fee terms	No	no	Yes / No	Yes
Efficient Fundraising	Yes	no	No	Yes

Our analysis says that the Dual Entity is the most efficient model: it combines the advantages of the Single Fund Model and those of the Single Studio Model.
Working side-by-side, the Fund and the Studio create a portfolio of high-quality and low-cost startups, and the Fund and Studio's interests are aligned. The model ensures stability in the startups' governance.

As in the Single Studio Model, the Studio can allocate resources among its startups and projects freely. Thanks to the Startup Studio's features, the structure creates a startup portfolio with a lower failure rate than traditional startups.
Unlike the Single Studio Model, the Dual Entity ensures stability in the Startups' governance: since the fund provides the first investment, no agreements have to be signed with third-party investors, so the Startup governance remains stable. Moreover, the structure ensures an efficient fundraising process: both the Studio and the Startups produced can raise funds and get liquidity without stopping or slowing down operations.

The Dual Entity model overcomes the management fee issue typical of the Single Studio Model: the Fund's investment in the Studio provides liquidity, and a low management fee keeps investors and Fund managers aligned.

Compared to the other models, the Studio and the Fund together provide a further risk reduction: the Studio works only on those ideas that successfully pass the validation step, and the Fund invests only in the best ones. This process increases the Fund's de-risking and its performance.

The Studio Model showed great success rates compared to traditional startups. The success rate of startups produced by a Startup Studio is 70%, 30% higher than startups that follow a traditional path (GSSN, 2020).
Evidence of the validity of the model is that studios such as Science, Betaworks, and M13 have adopted this model, creating startups like Dollar Shave Club ($1 Billion Exit), Lyft ($24 Billion IPO), and Giphy ($1 Million Exit).

How Mamazen works

Our mission is to change the way of creating companies. We want to preserve existing occupations and knowledge by building companies that democratize information and services. We believe in process automation in order to give everyone equal opportunities.

Mamazen adopts the Dual Entity Model and is backed by Mamazen Investment Holding 1, an investment vehicle paired with the Studio. Mamazen's investors have access to a highly curated and de-risked portfolio: the Studio Model showed impressive success rates compared to traditional startups.

The dual structure ensures aligned interests between investors and Studio; The Holding has a 1X liquidation preference on the investment made by the investors: the Studio's management has to return the entire capital to investors before benefit from profits from the startup's exits.

In addition, the Holding decreases the risk profile by investing in the 10 best-performing startups produced by the Studio. The board remuneration has been designed to align the interests of General Partners and Investors: it has been reduced to 1% to ensure total alignment between investors and managers.
In addition, Mamazen benefits from the Dual Entity Model features e.g. the stability in the startup governance and the fundraising efficiency.

Mamazen Investment Holding 1

Board Members

Farhad A. Mohammadi

Glamoo - Bakeca - Pony Zero

12-years of experience in the digital field, he managed Backeca commercial network and coordinated Glamoo.com's internal and external sales network as Commercial Director, contributing to the startup's exit. He co-founded Pony Zero, a company that passed from zero to 6 million in annual revenues in just five years (Exit in 2018). Farhad is also a Business Angel, a member of Club degli Investitori and Toniic Investments.

Alessandro Mina

Pony Zero

10-years-seasoned entrepreneur, designer, and consultant. Alex developed and launched an E-cig franchise before becoming an investor and Chief Brand Officer of Pony Zero. After graduating in Digital Design at the European Institute of Design in Turin, he launched his consulting firm in communication and marketing for SMEs. Alex works pro-bono as a mentor in B-Heroes and Junior Achievement Italy.

Alexandre Campra

Sidinvest

10-years' experience as an entrepreneur and business angel, and five in management consultancy focusing on intangible assets. Alexandre founded his own holding company in 2011, specialized in Real Estate, Value Added and Core+ projects in Europe and the USA, and Venture Capital, advisor, and investor for startups. Post-Graduate in Private Equity and Investment Funds. He is also a Qualified Family Officer and a member of the Club degli Investitori.

Advisors

Tom Dare

Science, Dollar Shave Club - Hello Society

Tom has over 20 years of experience building and managing Internet companies through startup, growth, funding, and exit stages. Tom is the co-founder and managing director of Science. Science manages an active roster of pre-Seed and funded companies and has multiple incubated company exits, including Dollar Shave Club (sold to Unilever), Hellosociety (sold to NY Times Co), and Famebit (sold to Google).

Alberto D'Agnano

Goldman Sachs - J.P Morgan

He has seven years of experience in investment banking in London. He has been an Equity Research Analyst at J.P. Morgan for 3 years and then moved to Goldman Sachs. Alberto participated in 8 IPOs. Since 2020 he has been an investor and board member of several brands and startups. A business degree in Economics and Management and a master's degree in Finance, both earned with honors from the Bocconi University.

Anna Siccardi

Bakeca - R301 Capital - CHL

An entrepreneur since 1998. In 1998 Anna founded her own company, specialized in management systems certification in the ICT sector. After that, she took a significant part in the birth and growth of pioneering Italian web realities like CHL and Backeca and co-founded the leading Italian charity crowdfunding platform, Rete del Dono. Anna is a Partner of R301 Capital and a Member of the executive committee of Club degli Investitori.

References

John Carbrey, Understanding Startup Studio and Venture Studio Legal Structures, Futuresight, 2020