2023 Company Creator Insights

The Company Creators continue to drive strong returns but are poorly understood. Company Creation Firms are growing around the world and in every sector. The data being produced provides a better understanding of the success and expansion of the model.

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About Vault Fund

Vault Fund ("Vault") was founded in 2021 and invests exclusively in company creation entities ("company creators"), otherwise known as venture studios. Vault defines a company creator as an entity that serves as the founder or co-founder across their portfolio. Investing in this space since 2015, the leaders of Vault Fund strongly believe that company creation funds have business model advantages to scale innovation and build high quality, resilient companies that create portfolio level alpha more efficiently.

Introduction and Methodology

As investors in the space since 2015, the Vault Fund partners have seen the advantages driven by company creators. These advantages are primarily attributed to a repeatable process with better efficiency to scale. The repeatability of the process, including ideation, early testing, identification of leading indicators, staged capital deployment, and talent recruitment, creates efficiencies that cannot be replicated by other methods of business building. This process of creation gets more refined with each successive build, creating persistent performance outcomes. Vault views the repeatable process, ball-control over development, capital-efficient ownership positions, and a full-stack support system through a seed or Series A round to be inherent advantages in driving scale and value faster.

The goal of this dataset is to provide a better understanding of the structures, ownerships, and outcomes of the company creation category. The pace of expansion among company creators is significant, and there are clear patterns emerging from the industry. Providing industry-level data can help the category optimize across structure, process, and talent.

This paper is the culmination of our discussions with over 140 studios around the world over the last 30 months. The company creation fund space is not currently well-understood by traditional investors due to the lack of data and tenure that exists for the business model. Vault's exclusive focus on this category has driven an inclusive dataset to track variables around process, ownership, and structure.

As we continue to develop this proprietary data set, clear patterns are emerging within the category.

- Company creation funds show consistently higher average performance than top quartile venture benchmarks at 60% net IRR for company creators vs. 33% net IRR for traditional venture. The strength of the IRR figures are primarily due to the efficiency of the build process, both in time and capital.
- The target ownership of company creators is well within market terms at an average target between 21% and 43%, largely dependent on structure and funding. Company creators regularly adjust ownership targets to recruit strong talent. Ownership is one of the most discussed points among and about company creators; however, data indicates that company creators are within market norms.

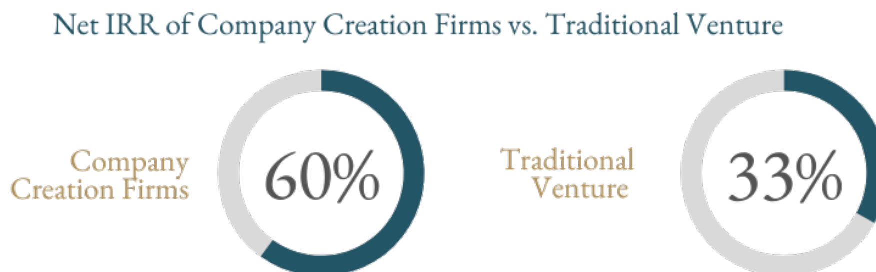
- Vault sees no correlation between structure and performance, generally, but we believe there may be a correlation between size and performance. Any vehicle can outperform if they build the right portfolio and are structured appropriately. However, as vehicles get too large, most of their capital is exposed at later stages, diluting the effects of the early outperformance,
- Idea generation comes from many sources, primarily internal processes, and network. The company creator model relies on an abundance of resilient, venture-backable ideas that can be quickly tested and killed at a rate of 95%+.

This dataset is not exhaustive and excludes fee for services company creators (such as corporations or company creation entities that operate as consulting houses) as well as any entities that don't act as a founder or co-founder such as accelerators and incubators. In addition, the dataset is heavily weighted on US-based entities and entities with institutional level capital targets, given this is Vault's strategic focus. This work is ongoing, and the dataset will continue to expand over time with patterns emerging as the category continues to mature.

Track Record and Performance

The company creator category has growing but nascent firm-level track record data. Of the company creation funds and holding companies that Vault has spoken with, only 13% have a track record at the firm-level. However, this does not mean that the category is inexperienced. Of the 87% without a firm-level track record, many firms are being launched by serial entrepreneurs with several historical builds, exits, and investments in their background. As the category matures, Vault expects to see a higher percentage reporting firm-level track record.

Of the 13% of entities with firm-level track record data, the average Net IRR is 60% across all structures, with the vintages of the vehicles ranging from 2015 to 2022.[1] In that same time span, the average top quartile venture capital Net IRR was 33%.[2] Vault believes that this outperformance is driven by the efficiencies of the repeatable build process, which creates faster kills and faster scale.



[1] Net IRR is compiled from 20 company creators representing ~13% of the firms in the Vault dataset.
[2] Source: Q2 2023 Pitchbook US Venture Capital Benchmarks

While the efficiency of scale drives strong alpha, the category duration is elongated due to the entry point for company creators. However, the duration can be truncated more often by partial secondary exits of founders shares at pre-designated points. Vault is gathering data on secondary exits and actively speaks to managers about proactive approaches with an example being the sale of 50% of common shares at 10x MOIC, essentially guaranteeing a 5x MOIC for the investment as a whole (depending on variables such as share class), with the remaining ownership being held as additional upside. This approach allows managers to get money back to their LPs faster and minimize one of the largest hurdles for investors coming into the space, which is illiquidity.

Many of the best venture firms have added talent to monitor exit windows and assist their portfolio companies in finding the right exit path. This is something company creators should also consider. An individual at the firm that is exclusively focused on exit paths and time to liquidity could create significant value for all involved.

Efficient scaling through a repeatable playbook

OpenStore [3] was launched by Atomic Labs and Keith Rabois in March of 2021. Jack Abraham, Managing Partner and CEO at Atomic, had the idea after a conversation with an entrepreneur, who wanted sell his business. This led Atomic to the idea behind OpenStore, giving ecommerce businesses access to operational scale.

Atomic partnered with Keith Rabois who had experience from companies like Paypal, Square, Yelp, and OpenDoor. It took OpenStore eight months to reach its Series B with a $750MM valuation. Another ten months later, the company raised additional capital led by Lux Capital at a $970MM valuation.

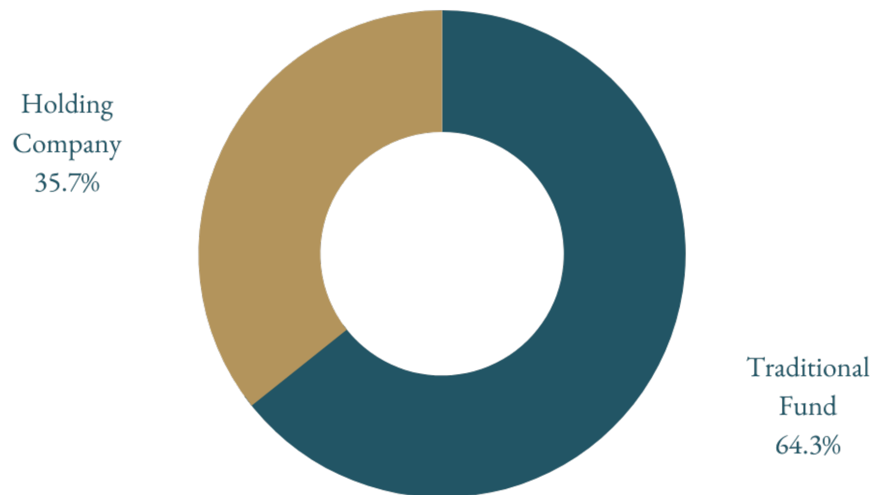
Structures Dominated by LP Interest

In the world of traditional venture capital, limited partners ("LPs") are accustomed to underwriting 2/20 fund structures. This structure is widely accepted as the industry standard with a 2% management fee, 20% carried interest (with some variation), and a 10-year duration with possible extensions. Vault refers to this structure as the traditional fund structure.

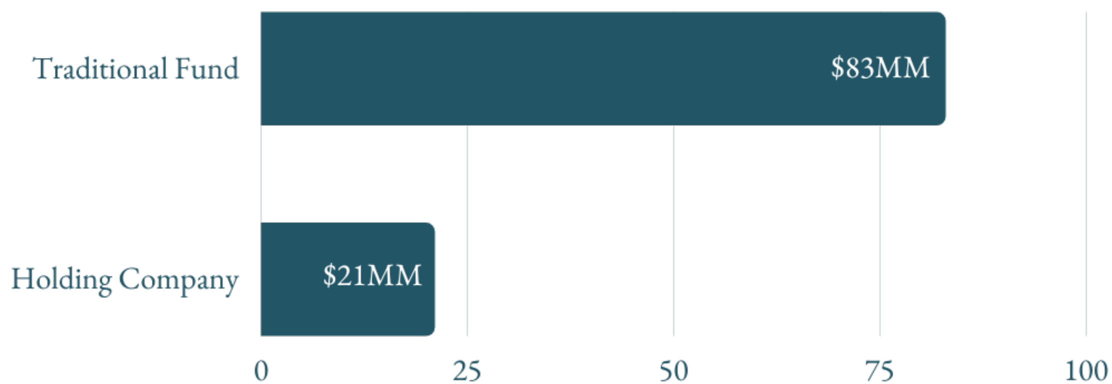
In contrast, the world of company creators brings multiple structures to the table, including holding company structures ("holdco") that require an underwriting approach like that of a direct company investment, and dual entity structures that include a combination of holdco and traditional fund structures.

As company creation firms go out to raise capital for their traditional funds or holding companies, they often raise from limited partners that are active in traditional early-stage venture capital. These limited partners often have a significant bias towards investing in traditional funds and have led company creation firms to structure as traditional funds almost ~2x more often than holding companies.[3]

[3] Structure data is compiled from 87 company creators.



Due to the economics of different structures, traditional fund structures tend to be larger at an average of $83M versus holding company targets at an average of $21M. Vault has not seen a direct correlation between structure and performance in a general sense of holding company versus a traditional fund. While Vault does not see a correlation between performance and structure, Vault is working on data around performance and fund sizing. Many different structures can provide strong performance, and while most investors are not comfortable with holding companies, they can be lucrative for limited partners and should be considered a viable, institutional-level investment.



Vault believes that structure should be dictated by the appropriate level of resources needed by the firm to build the best companies. Typically, firms that have access to more capital ($50MM+) raise traditional funds and firms that are more limited in access to capital (<$10MM) raise holding companies.[4] The reason for this is that the management fee is not enough to resource a company

[4] Capital raise data is compiled from 65 company creators.

creation firm at less than $10M raised. Vault has invested, and will continue to consider investments, in both structures.

Ownership Profiles Vary by Structure

As the founder or co-founder of its portfolio of companies, a company creation firm typically has high, capital-efficient ownership. The firm ideates, tests, funds, launches, and scales the companies, acting as founder or co-founder at inception, driving material ownership through both common and preferred shares. Typical initial ownership targets vary across categories from 15-20% at the low end to 70-90% at the high end. Therapeutics is a clear outlier here, where Vault often sees company creation firms with 70%+ initial ownership. However, it should be noted that this category is largely commercializing IP from research institutions, which allows for structurally higher ownership than Vault sees in company creation dynamics within technology and other categories.

While the company creation model notably receives high, capital-efficient ownership through its role as a founding entity, it is well within market norms. Company creators typically have a dynamic ownership profile adjusting for the needs of the founder. Balanced founder incentives widen the aperture for recruiting experienced operators and increases the attractiveness for downstream capital. High-level talent with appropriate levels of ownership will provide teams with the fuel to push through the early challenges of scaling.

Based on Vault Fund data, holding companies target ~2x the initial ownership than traditional funds with holding companies targeting 43% on average and traditional funds targeting 21% on average. This dynamic is consistent, and seemingly driven by build dynamics unique to each structure. [5]

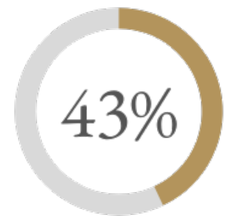
Holding companies are typically less funded and provide services of an early founder in exchange for equity. They are more likely to participate in common shares and less likely to participate in preferred shares than a fund.

Holding companies tend to get diluted earlier, whereas funds can maintain ownership through follow-on rounds. They also tend to show a broader range of investment strategies and ownership options, including external investing, participation in convertible funding, and follow-on participation.

Initial Target Ownership

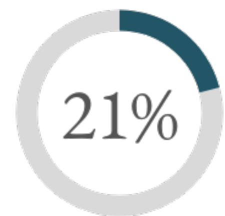
Holding Company

Typically performing the work of building in exchange for founders shares. Occasionally holding companies do not deploy formal checks into the company.



Traditional Fund

With significant follow-on capabilities traditional funds will take less initial ownership and increase their exposure through subsequent rounds.

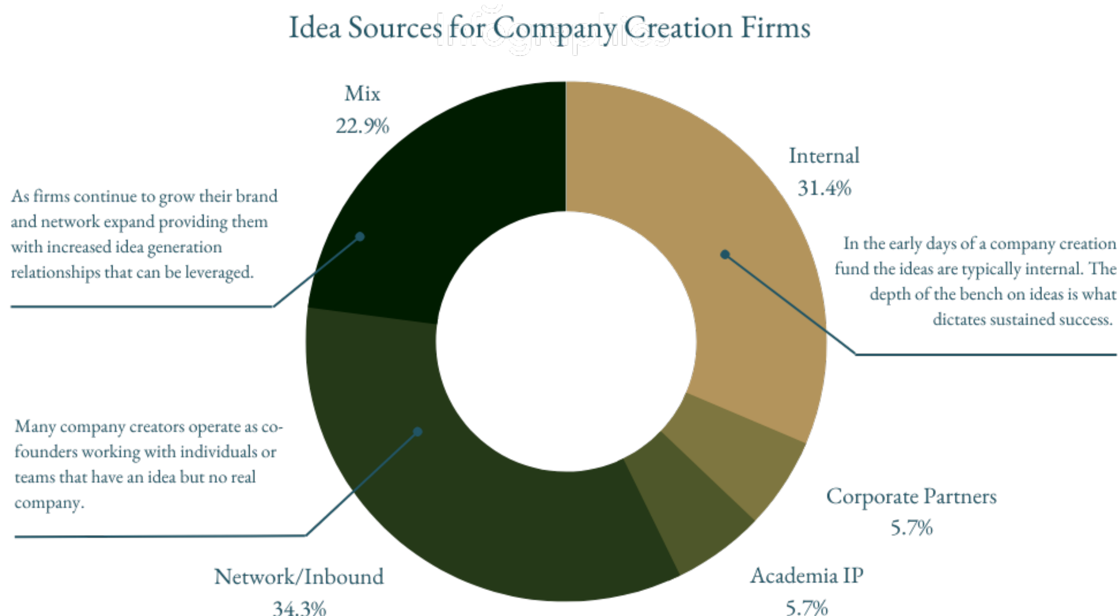


[5] Initial target ownership data is compiled from 37 company creators.

Success Starts with an Idea

One of the biggest differentiators among company creators is the breadth and depth of idea generation. Only the very best company creators can continuously generate ideas to test and build. The most common pathways for idea generation are internal or existing networks.[6]

Vault believes that the manager's background and focus area often dictate their focus areas and how they will generate and source ideas. The most common profile for a successful company builder is a serial entrepreneur who had a successful exit and is now looking to build 5-10 companies as opposed to just one at a time. In the technology space Vault often sees serial entrepreneurs launch a company creation firm with a bench of internal ideas and hit the ground running with their builds. On the other hand, in sectors like deep tech and life sciences, partners launching the firm often have access to sophisticated IP and a network of engineers and scientists that want to co-found an idea with them.



A company creation firm will rely on its founders to lead the way on idea generation in the early days, but as a firm grows its brand and reputation through successful builds and exits, the idea sources begin to expand with more weight put on network, academia, and corporate partners. This mix of idea generation is often seen in mature firms with broad networks of limited partners and follow-on investors where the need for internal idea generation lessens.

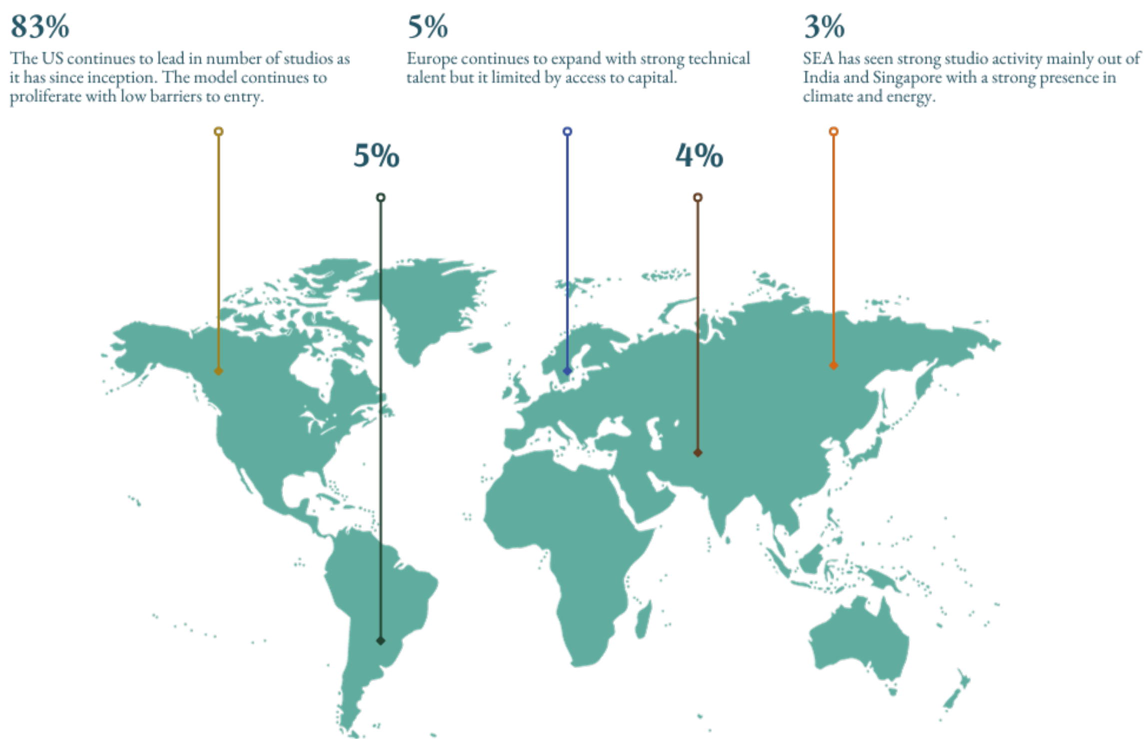
While ideas can have different sources there is one constant: the most successful company builders are serial entrepreneurs with repeatable playbooks on how to test, launch, scale, and exit a company. The company creation model is extremely difficult to execute without prior experience building and scaling.

[6] Idea source data is compiled from 35 company creators.

Geographical Composition of Data

The universe of company creators is expansive with approximately 800 firms around the world. While there are landscapes showing more or less, Vault only considers those entities that act as a founder or co-founder. So, this does not include accelerators, incubators, or agencies, nor does it include fee-for-services models. Of those 800 firms around the world, Vault has spoken to ~200, largely focused on the US. However, Vault continues to grow its international network as the firm aims to deploy capital internationally in subsequent vehicles.

The Vault Fund dataset, as shown below, is majority US at 83%. Vault has seen incredible growth in MENA and India and expect this dataset to continue to diversify with a heavier international weighting.



Conclusion

As we continue to develop this proprietary data set, we see clear patterns emerging within the category, as shown below.

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We plan to release future datasets with additional metrics. To be included, please get in touch with Vault Fund at fund@vaultfund.com.

About the Authors

Sarah Anderson, Partner

Sarah has over 12 years of private equity and banking experience and has been investing in early-stage ventures for more than eight years. Prior to founding Vault Fund, Sarah was the Fund Manager at The Cintrifuse Syndicate Fund — a strategic fund of funds with more than $100M in AUM, investing in early-stage venture capital funds across the United States.

Cintrifuse Syndicate Fund investors include P&G, Kroger, Great American Financial, Smuckers, Western Southern, along with other large corporations. The Fund invests primarily to give its member corporations access to innovation. Sarah's Cintrifuse investments included Atlas, Atomic, 5AM, Greycroft, Lerer, Upfront, Madrona, and Revolution Ventures, among others.

Prior to her role at Cintrifuse, Sarah worked with early-stage venture funds and technology companies as Vice President at JP Morgan in San Francisco, and as an investment banker at the Royal Bank of Canada (RBC).

Francisco Gomez, Partner

Francisco is a Partner at Vault Fund with almost 10 years of financial experience and 6 years of private equity experience. At Vault Francisco is focused on pipeline development, diligence, and regularly working with our underlying portfolio of company creators.

Prior to joining Vault Fund, Francisco was a Director at Allocate, a digital platform for private alternatives, where he worked closely with fund managers across the different stages of venture. Francisco and Sarah also worked together at Cintrifuse, where he worked as an Associate and focused on early-stage venture. During his time as an allocator, he has met with 400+ Funds across the country and led diligence on 40+ investments.

In prior roles, Francisco worked in Finance at Fifth Third Bank and Schneider Electric, where he covered Corporate Treasury and FP&A.