# TOPIC ONE – VENTURE STUDIOS EAT VCS

Its true, there are now over 800 venture studios globally with half of these in the US. As background, Studios are industry-specific "factories" founded by Operators that conceive solutions which are divested into majority owned Portfolio Companies whose products and solutions are typically presold or vetted by leading industry Strategics. These Strategics invest in the Studio and identify products and services that they themselves will buy, use and make available to their end-use customers. Non-dilutive capital for Studio operations and Portcos come from a captive Studio Fund. The Studio model overcomes many of the failings of stand-alone tech companies including (i) lack of business diversification, (ii) a finite corporate lifecycle, (iii) constant need to source talent and capital from external sources that consumes executive time, (iv) unclear product-market fit in the early stages and (v) long odds of completing a successful exit that returns capital and to stakeholders.

Unlike stand-alone companies Studios are evergreen. US Studios typically focused on single industries and consist of (1) a Management Services LLC that controls the Studio and (2) is the parent of an Operations Company, Inc. subsidiary formed as a C Corp for tax purposes that provides functional back-office services to jumpstart Portco operations ; (3) a dedicated pool of talent that constitutes a "Collective" of industry executives from which the Studio derives new product ideas and talent for portfolio companies; (4) a dedicated venture capital fund ("Studio Fund") that invests in (5) Studio portfolio companies ("Portcos") created by the Studio based on ideas and solutions sourced from the Collective. The process flow is: First - ideas come from the Studio founders, investors and the Collective; Second – the Studio then creates Portcos to exploit the most promising ventures; Third – the Portcos are then funded by the Studio Fund; and Fourth – industry corporates / strategics ("Industry Strategics") invest either directly into the Studio (Management LLC) or into the Studio Fund. Further, the Industry Strategics either (A) purchase and put into market the Portco products / solutions and in many cases and/or (B) acquire the Portcos whose products the Strategics purchase and use. Studios are perpetual motion machines with the hardest part at the front end building the Studio and getting it goings. Its not easy.

From a legal standpoint here's what you need to think through when working with Studios:

1. Studio Conflicts Are Everywhere – including (i) managing competing Strategics that are working together in the Studio, (ii) balancing potential adverse interests of the Studio Fund and Portcos in the Studio, and (iii) the Studio acting in its dual role as GP of the Studio Fund and as the primary stockholder in Portcos. Clear rules of engagement for all Studio participants are required.

2. Minimizing Studio Dilution with Growth – the Studio founders need capital for Studio operations, for the Fund and for Portcos before the Fund is created. The trick is raising non-dilutive capital through the Fund or directly into Portcos but not IN the Studio.

3. Governance – Studio success is heavily dependent on who makes the decision on what ideas are good, what Poretcos are created, what management teams are hired, what does the Fund invest in and under what terms – and who makes judgement calls in the event of conflicts. All of this must balance the often divergent interests of the Studio founders, Strategics, Fund LPs and Portcos.

4. Getting Started – as the core business of Studios is to conceive of, create and derisk operating Portcos, starting with the creation of 2 or 3 initial Portcos is the logical starting point. The Studio infrastructure can then be built around the Portcos, first with creation of a Management LLC to hold Portcos equity rights, then with formation of an Operations Company followed by a Studio Fund – typically after the successful of initial Portcos can be tracked. Funding the Management LLC enables Studio operations and Portco support.


<u>Topic References</u>:

1. This Applico article dives into the specific differences between venture studios and traditional VC models, highlighting the advantages studios offer (https://www.applicoinc.com/blog/what-is-a-venture-studio/)
2. Signature Block provides a detailed comparison of the venture studio model and the VC approach, focusing on areas like investment strategy and level of involvement (https://www.signatureblock.co/articles/venture-studios)
3. This Medium piece delves into the operational aspects of venture studios, explaining how they create and launch companies compared to traditional VC investment methods (3. https://medium.com/@bergen.maddy/venture-studios-are-redefining-the-startup-landscape-0e3aff0f3dcd#:~:text=Unlike%20VCs%2C%20which%20typically%20invest,often%20acting%20as%20co%2Dfounders)
4. This YouTube video features Marc Wesselink, an entrepreneur with experience in both accelerators and venture studios. He discusses the key differences in their approaches to building startups (https://www.youtube.com/watch?v=9Uxb0LUDZFE)
5. This Venture Studio Index article explores the potential collaboration between venture studios and VCs, showcasing how they can work together to achieve successful exits (https://www.venturestudioindex.com/)