

VMS Ventures – Q&A for entrepreneurs

December 6, 2021

What is the new VMS Ventures fund?

VSM Ventures is a new, independent \$200 million initiative run by CSI. The fund will invest in early-stage vertical market software initiatives that are sponsored by an existing BU. These initiatives will be set-up as separate companies and the founders, the fund and the sponsoring BU will all receive an equity stake. The size of the investments will vary, but we envisage an initial investment of \$500K-\$1 million, with the potential for follow-up funding if the company reaches its milestones. The fund is aiming to invest in 20-40 companies over the next 3-4 years.

What is the purpose of this new fund?

Over the years, CSI has become a market leader acquiring vertical market software companies. However, while we are world-class in profitably deploying capital via M&A, our organic growth performance has deteriorated. The primary mission of the VMS fund is to learn how to profitably generate organic growth through large initiatives. We hope that we will learn how to produce attractive returns from these investments, and then pass on these learnings to the operating groups. Eventually, we hope this will help CSI reach high single digit organic growth rates.

What are the criteria that the fund will look for in selecting investments?

Like most new funds, the exact criteria will likely evolve over time. However, the key basics are:

- A vertical market software company in an area where CSI already operates
- A clear path to \$10 MM in revenue within 5 to 10 years
- A strong founding team with the potential to build this business
- A sponsoring CSI business unit

What investment terms will the fund offer a start-up?

Every investment will be looked at independently. However, in all cases:

- The fund will be the lead investor. While it may not take a majority stake, the fund will always set the key terms.
- The fund will require significant control of the board of the new company.
- The fund will never sell its stake. Hence, to monetize their shares, the founders must either sell to a CSI operating group, receive dividends from profits their company generates or in some extremely successful cases exit through an IPO and sell their shares to the public markets. We will not permit an exit to a 3rd party.

What type of founding teams is the fund looking for?

Generally, a backable team will consist of at least one experienced person who knows the vertical, plus a strong technical lead, and a handful of talented developers. Beyond these skill sets there are other characteristics that we are looking for in the team. We want a frugal, analytical, urgent and ambitious team. We are trying to run many cheap and fast experiments to find product / market fit. People who wish to lead balanced lives, with a multitude of social and family obligations, are unlikely to flourish doing startup work with the venture fund.

The backable team doesn't need to be complete from the outset. The fund can help recruit some team members. Keep in mind, however, that if high quality team members aren't enthusiastic about joining you, either you or your business idea may need more work before you are backable.

How do I apply for an investment from the fund?

You should start by emailing karl.schabas@vmsfund.com. Include a brief description of your idea and why you believe it meets the criteria of the fund. We will then arrange a follow-up call to discuss further. Keep in mind that all fund investments will require a BU sponsor from within CSI. If you already have a BU leader that supports your application, be sure to include this in your email.

Any further questions, feel free to reach out to karl.schabas@vmsfund.com.