

London-KTD

CONFIDENTIAL-NOT FOR DISTRIBUTION

COPY X/X

Any resemblance to actual companies and individuals is unintentional

January 30, 2016-updated version March 15, 2016

*Incorporated by reference: Term Sheet dated March 10, 2016 (subject to revision) as the basis for details about the share offer and cap table and subject to finalization of Shareholder Agreement referenced in section 7.*

# Pirate Booty Inc.

## Business Plan Investment Opportunity

---

### **1.0** Risk Disclosure

The shares you are considering buying will be issued by an unlisted company, which may have little or no trading history. Please read the Important Notice on page 3 and Risk Factors carefully, and do not invest more than you can afford to lose.

# Contents

- 1.0 Risk Disclosure
  - 2.0 Important Notice
  - 3.0 Share Issue Details
  - 4.0 Company Information
    - 4.1 Executive Summary and Investment Thesis
    - 4.2 Work Completion Status
    - 4.3 Product
    - 4.4 Operational Setup
    - 4.5 Key Strengths of Company
    - 4.6 Marketplace
    - 4.7 Competitive Analysis
    - 4.8 Proposed Income Streams
    - 4.9 Promotion
    - 4.10 Growth Plan
    - 4.11 Exit Strategies
  - 5.0 Key Financial Information
    - 5.1 Financial Overview
    - 5.2 Historical Financials
    - 5.3 Valuations
    - 5.4 Use of Funds
    - 5.5 Dividend Policy
    - 5.6 Corporate/Financial governance
  - 6.0 Company Management
  - 7.0 General Information
    - 7.1 Incorporation and Registration
    - 7.2 Company Address and Email contact
    - 7.3 Company Directors
    - 7.4 General Disclosures
    - 7.5 Outstanding Share Capital
  - 8.0 EIS/SEIS doc/status
  - 9.0 Risk Factors
- Investing in equity securities is risky**

## 2.0 Important Notice

### Notice to Investors

This investment document is highly confidential and has been prepared by AngelCo solely for its use in connection with the potential investment in Pirate Booty.

This investment may not be suitable for all readers of this document. Before making an investment decision, prospective investors are advised to consult an investment advisor. All investors are assumed to be accredited by the various local standards and are making the decision to invest based on their own research and assessment of suitability.

The company Pirate Booty takes responsibility for all the financial and other information provided in the conduct of due diligence. AngelCo takes responsibility for the analysis. To the best of AngelCo's knowledge the information in this document used to support the analysis is in accordance with the facts.

### Forward-looking statements

This document contains forward-looking statements reflecting Pirate Booty's prospects, developments, and business strategies. The forward-looking statements are based on current expectations and are subject to risks and uncertainties, which could cause actual results to differ materially from those expressed or implied by those statements. Certain risks and uncertainties are specifically described in the section headed "Risk Factors." If one or more of these risks or uncertainties materializes, or if underlying assumptions prove incorrect, the company's actual results may differ materially from those expected, estimated, or projected. Given these risks and uncertainties, investors should not place any reliance on forward-looking statements.

These forward-looking statements are made only as of the date of this document. Neither Pirate Booty nor AngelCo undertake any obligation to update forward-looking statements or Risk Factors.

## Risk Factors

This document does not constitute a recommendation by Pirate Booty, AngelCo, or any other person, or advice to any recipient of this document, on the merits of acquiring shares. This document does not identify all of the risk factors associated with the company. Prospective investors must make their own independent assessment, of the merits of investing, and should consult and rely on their own investment, accounting, legal and tax representatives and advisors to provide advice and to evaluate independently the financial risks, consequences and suitability of an investment in Pirate Booty.

Investment in the company carries substantial risk and may involve special risks that could lead to a loss of all or a substantial amount of such investment. Your capital is at risk if you invest. Prospective investors should fully understand and accept the nature of the company and the potential risks inherent and carefully consider whether an investment is suitable in light of their personal circumstances, the economic climate, and their financial resources. Each prospective investor is solely responsible for ensuring that all aspects of the company are acceptable to them.

There can be no assurance that the company's objectives will be achieved.

## 3.0 Share Issue Details

REVISED-based on March 10, 2016 term sheet-see cap table Annex 1 tbd	
Company Name	Pirate Booty Financial Services
Company Type	
Target Amount	£1,145,000
Number of shares on offer	Tranche 1: 727,631 at 3.0 million Tranche 2: 1,172,615 at 4.0 million
Shares issued and outstanding after offer	7,426,559
Common	5,655,260
New seed preferred	1,900,246
Market capitalization after the offer	£4,750,000.00
Class of shares	Seed preferred
Percent of equity offered	Tranche 1: 12% (10% fd) Tranche 2: 19% (16% fd)
Minimum investment amount	50,000

<b>Minimum number of shares investment</b>	ANGELCO minimum (in GBP)
<b>Offer closing date</b>	March, 2016
<b>SEIS eligible</b>	NA-banking app
<b>EIS eligible</b>	NA-banking app
<b>Website</b>	<a href="https://Pirate Booty.com/">https://Pirate Booty.com/</a>

## 4.0 Company Information

### 4.1 Executive Summary

#### *Investment Thesis:*

*What is Pirate Booty?* Pirate Booty is a free banking app for university students: “the smart banking service-built for students.” Pirate Booty is analogous to *Moven*, the successful mobile bank, but focused on the target market of university students. The Pirate Booty app provides three things via an easy-to-use Pirate Booty-branded mobile interface: *traditional banking products*, (bank account, debit card, international money transfer), *financial tools* (spending and budget tracking), and in-app *services/products/rewards driven by user behavior* (affinity marketing with partner vendors).

*Business Case:* The problem Pirate Booty solves is that 80% of students worry about making ends meet, affecting their studies and their diet (Pirate Booty pitch deck). Pirate Booty believes that “millenials” dislike traditional banks, expect instant mobile access to their bank information, benefit from app-based guidance focused on their main concerns, (not running out of money by months’ end) and enjoy rewards based on their high frequency activities (coffee purchases). As a result, Pirate Booty expects its app to supplant traditional banking products in the university student market.

Pirate Booty intends to be the leading mobile banking app for U.K. university students, a market of 2.3 million that refreshes by over 500+K new students each year. Pirate Booty plans to expand to additional select international locations meeting its go-to-market criteria.

*Context:* Broader “FinTech” technological trends enabling value chains to be dismantled and reassembled make Pirate Booty’s operational and financial model possible. A mobile banking app is a user interface for traditional banking services. These services, like deposit accounts and payments, historically required a regulated banking entity. The mobile banking app itself is unregulated, essentially outsourcing regulated functions to the regulated partners. If well-designed and executed, the mobile banking app ends up controlling the customer relationship and monetizing it while commoditizing the functions provided by the

regulated providers. Value created and captured shifts to the mobile app provider, Pirate Booty.

[Commoditized bank providers have three potential responses: build the user interface themselves, partner with or acquire a user interface provider to reach previously inaccessible customers, or become a scale provider, i.e. exchange volume for price within a given function (like payments). Banks are therefore potential partners and exit ramps for Pirate Booty.]

*Key success factors:* To succeed in this paradigm, Pirate Booty must do two things. First, Pirate Booty must establish a brand, secure a critical mass of users, and provide a compelling UI and UX, and app-based functionality and value that makes users sticky enough to monetize sufficiently to cover the cost of outsourcing the underlying banking functions. Second, Pirate Booty must effectively manage a suite of channel partners on the revenue side, and ecosystem partners on the cost side to operationalize the business model and generate attractive financial returns.

*Product:* Pirate Booty's product (the free Pirate Booty app) launched, after 99 days of production, in October 2015 with a Visa debit card. The company appears to have found "product market fit" with an estimated 1400 users so far. A PDF showing the Pirate Booty app product is available on request.

*Sales & Marketing:* Pirate Booty has a dedicated CMO. To drive adoption, Pirate Booty partners with universities. To date, in the UK, Pirate Booty has partnered with 7 universities. The London School of Economics is an example. Pirate Booty will focus on the top 5 university towns in the U.K. in 2016. Pirate Booty expects to reach 22,000 users in the U.K. by December 2016 (an estimated 4% of the incoming 520,000 new university students) and to reach 190,000 users by 2020 by expanding into international markets and seeking bank partners. In addition, Pirate Booty is negotiating an exclusive licensing relationship with one of the major U.K. banks, which controls half of the university student market share of deposit accounts, approximately 1 million students.

*Operations:* Pirate Booty uses its own app development team, uses the KYC process of *KYCoutsourcer* and outsources the underlying banking functions (accounts, payments, transactions, servicing) to *DigitalBank*, a platform provider with a EU e-money license.

*Basic economics:*

*Revenue:* There are three revenue sources: affiliate marketing, (fees from rewards partners like retailers), international transfers, (fees for transferring money onto debit cards from abroad), and bank "white labeling" which may actually be Pirate Booty branded (each bank license is 1 million GBP). 2016

revenue is forecast at 584,167 GBP and 2020 revenue is forecast at 9,622,500 GBP. In 2016 the revenue mix is estimated at 23% affiliate, 6% transfers, and 71% bank license (due to signing the first 1million GBP bank license in 2016), and in 2020 the revenue mix is estimated to be 43% affiliate, 10% transfers, and 47% bank license. The key assumptions necessary to reach Pirate Booty's revenue targets are the growth in users (net of churn) fueled by more university partners, and white labeling to banks, increasing revenue per user via affiliate marketing, and retaining pricing power in all three revenue streams. Once Pirate Booty controls the customers, it can add additional revenue sources by, for example, distributing financial products like insurance.

*Costs:* COGs consists of fixed technology costs and variable debit card manufacturing and shipping costs, KYC costs, and prepaid fees. Overhead consists of management salaries and office space. Sales and Marketing consists of marketing and other customer acquisition costs. As a percent of revenues, in 2016, COGs of 733,000 GBP represents 126% revenues and consists of 530,000 GBP of fixed technology, and 203,000 GBP of variable card and KYC and prepaid costs. Overhead of 284,000 represents 49% of revenues. S&M is 535,000 GBP or 92% of revenues. By 2020 these estimated returns improve to COGS 34% of revenues, overhead 9% of revenues and S&M 9% of revenues. The key cost drivers are COGS and S&M.

*Profit:* Pirate Booty is currently loss-making, expected to lose 968,000 GBP in 2016. If Pirate Booty reaches its targets, pretax profit in 2020 rises to 4,621,000 GBP. Gross margin reaches 66% and pretax margin reaches 48%. The drivers of the operating leverage that produces the dramatic improvement in profitability in the five year forecast are a nearly 20x increase in revenues coupled with a 4x increase in COGs, (2x in technology infrastructure and 11x in variable costs), a 3x increase in overhead, and a 1.6x increase in S&M. Operating leverage from fixed costs coverage is expected in such a model, and the leverage in COGS is reasonable given that the outsourced tech platform allows for platform leverage but not complete per user scaling due to the per user fees which are also linked to activity. One unknown is how potential bank licensing really affects this fixed and variable operating cost leverage; the current projections of fixed price licensing suggest no sharing of unit economics. Completion of the first bank white labeling license in 2016 will shed light on these expectations. This degree of operating leverage from S&M is probably too optimistic given that PIRATE BOOTY is a B2C business model; higher S&M will likely be needed to achieve the revenue goals. Nonetheless, If S&M remained at 30% of sales (a more typical return) instead of 9% of sales, in 2020; pretax profit in 2020 would be 2.6 million GBP instead of 4.6 million GBP, a still respectable 27% pretax margin. Further details on per user scalability can be found in the next section.

*Per user economics:* Pirate Booty currently has 1400 users, of which 300 use the app daily (Pirate Booty pitch deck). Pirate Booty forecasts users to increase from 22,000 in 2016 to 190,000 in 2020. Steady state churn is estimated to be 22%. In 2016, the company estimates revenue per user of 26 GBP (year end run rate), and sales and marketing (customer acquisition cost) per user of 24 GBP. Variable cost per user is 9.23 GBP. In 2020, the company estimates revenue per user of 50 GBP, sales and marketing (customer acquisition cost) per user of 4.34 GBP and variable cost per user of 11.99 GBP. Variable cost per user does not decline due to per user charges and activity fees from the platform provider.

Pirate Booty's financial forecast estimates that the relationship between customer acquisition costs (CAC) defined as sales and marketing expense and customer lifetime value (LTV) defined as gross margin over the life of the customer (estimated to be 4.5 years due to Pirate Booty's churn forecast) improves dramatically, and reaches a multiple of 34.2 LTV/CAC in 2020. ( $1/\text{churn} * \text{gross margin} * (\text{revenue per user}/\text{customer acquisition cost})$ ). Multiples of 5-10 are very attractive; the 34x multiple reflects optimism on churn, gross margin, and sales and marketing costs. A more conservative estimate could be 3-year customer life, 50% gross margin, and 30% sales and marketing, in which case the LTV/CAC ratio drops, but is still attractive at 5x.

A key question is how these economics compare to a traditional bank's LTV/CAC, given banks lose money on deposit accounts and rely on cross-selling to make a profit. A bank license partner or a bank acquirer would expect better LTV/CAC prospects from Pirate Booty than its own reference retail consumer profitability.

*This capital raise:* Pirate Booty is raising 1,145,000 GBP at two valuation tranches of 3.0 million pre-money (3.395 million post money) and 4.0 million pre-money (4.750 million post money). The rounds are 395K in tranche 1 and 750K in tranche 2. GBP 500,000 split equally between the two tranches is allocated to VC FastVC. GBP 500,000 in tranche 2 is allocated to SecondVC. The second tranche is linked to reaching milestones defined by FastVC (see March 10 Term Sheet). This is their second angel round following initial funding of 300,000 GBP. The planned use of funds for growth (product enhancements and user growth) and a breakdown is shown in the section entitled "use of funds." A second round is planned for the summer/fall of 2016 at a higher valuation.

#### *Team and Ownership:*

The team consists of 8 people: the founder/CEO Oliver Twist, CTO Phil Smith, head of marketing Chris Penny, head designer Nick Willer, and three engineers. Kai McAlp is the lead engineer. Oliver Twist owns 56% of the equity (pre-dilution) and will hold 38% after this round. There is an options pool of 16% of the pre-

round equity. The company plans to create an ESOP in the current fundraising round, from which the CTO and the head designer will receive equity. The original angel investors hold the balance of the shares. Details as of March 10, pending final term sheet.

Pirate Booty's recruitment strategy focuses on technology and marketing, and includes adding an Android developer and one additional back end developer in 2016. The full recruitment plan is in the Pirate Booty pitch deck.

#### **4.2 Work completion status:**

Pirate Booty has completed the following key milestones:

- Built a team with engineering, marketing and design skills, and an advisory board with FinTech entrepreneurial backgrounds
- Acquired 7 university channel partners, 2 outsourced financial platform providers, 1 affinity marketing partners, (first is pending, with a large and well-known coffee retailers) and 1 pending bank licensing deals
- Negotiated and implemented outsourcing contracts with a KYC and a bank and payments platform provider.
- Launched the product and gained traction with target audience
- Received favorable user reviews and press
- Become revenue generating

Milestones\* for 2016 include:

- Critical product enhancements
- New university partners
- An exclusive licensing deal with a major UK bank
- Non-UK market entry in select market(s) in Europe

\*See special milestones for FastVC in Term Sheet for tranche 2

#### **4.3 Product**

The Pirate Booty free app provides mobile banking services and budgeting functions targeted at millennial university students' main needs and preferences. The main features today are projected budgeting and category spending. In addition, Pirate Booty partners with retailers to offer rewards (like coffee vouchers).

In 2016 Pirate Booty plans to add additional product features and functions, which include improving delivery of the core bank services, adding app features, like savings and comparing, linking with partners like Apple pay, creating an android version, deploying an advertising platform, and gamification based on the "Pirate Booty score."

A detailed overview of the app is available by PDF.

Chief advantages:

- Cost to customer: free (underlying fees)
- Speed of onboarding versus traditional bank account-opening process
- Ease of use versus retail bank deposit accounts
- Banking functions targeted at university students (prepaid debit)
- In app extra functions like budgeting focused on primary university student financial concerns
- Reward offers based on user behavior and preferences
- Scalability through adding features that increase per user revenues

#### **4.4 Operational Setup**

*Regulated functions:*

Pirate Booty is not directly subject to regulation because it never holds client money and makes no recommendations about financial products, but is indirectly subject to it via regulated partners performing critical operating functions for Pirate Booty. The boundaries are defined in the contractual relationships between Pirate Booty and its vendors.

*IOs App Development:*

Pirate Booty's development team currently consists of 5: CTO and lead engineer Phil Smith, three additional engineers, and a lead IOs engineer. The company plans to launch an Android version in 2016, hiring one additional engineer, and plans to add a back end engineer as well. The Tech team will increase from 5 to 8 people. The team is focused on adding features and functionality to make users more frequent, sticky, and monetizable.

*Customer Onboarding: embedded in app, using KYCoutsourcer technology*

Pirate Booty kept responsibility for one regulated function: Know Your Customer (KYC), or identity verification, because onboarding is critical to the user experience (and a pain point at traditional banks) and Pirate Booty needed to control this step as part of the value proposition, making it speedy and painless. Pirate Booty uses KYCoutsourcer, an automated mobile verification tool, which imbeds its verification software in the Pirate Booty app. See [www.KYCoutsourcer.com](http://www.KYCoutsourcer.com). KYCoutsourcer is one of many accepted methods and products for mobile identity verification, in finance, travel, gaming, and other industries. Its lead product *Netverify* uses the mobile phone as a document scanner. AirBnB, EasyJet, and United Airlines use KYCoutsourcer. Pirate Booty's e-money provider DigitalBank, for KYC for Pirate Booty, has approved KYCoutsourcer verification. DigitalBank is discussed below.

*Banking and Payments, servicing: outsourced to DigitalBank*

Pirate Booty outsources the underlying regulated banking and payments functions to DigitalBank Group ([www.DigitalBankgroup.com](http://www.DigitalBankgroup.com)). DigitalBank has an e-money license for all EU states and is a member of the Visa network. This license extends to Pirate Booty. DigitalBank focuses on the prepaid market. DigitalBank provides end-to-end prepayment solutions and functions as Pirate Booty's infrastructure. In addition, DigitalBank must approve all of Pirate Booty's marketing materials. For Pirate Booty, DigitalBank maintains the core services (bank account and debit card) and website, (due to functions related to accounts and payments), issues the prepaid debit cards, maintains the underlying accounts, processes all transactions, and provides servicing via a call center. Pirate Booty pays DigitalBank an annual fixed fee, per activity charges, and servicing charges for the call center. The activity and servicing charges are volume and performance based. There is a split in data ownership and responsibilities: DigitalBank owns and is responsible for the client core data, while Pirate Booty owns the client transaction data. Overall it is not clear that DigitalBank is an optimal platform for Pirate Booty long term, in term of operational scaling and data monetization.

Advantages of DigitalBank Group relationship

- Outsource regulated and operationally intense platform architecture and servicing activities to dedicated scale provider which in theory offers lower platform costs to Pirate Booty due to DigitalBank' scale

- Pirate Booty focuses on the brand and customer relationship, and associated proprietary algorithms and features and functions
- Strategic benefit from DigitalBank ecosystem (Visa-pan Europe, affinity partners)
- Control data relevant to monetization, and avoid data management risks of client data

#### Disadvantages of DigitalBank Group relationship

- Pirate Booty does not control the infrastructure and associated costs. Fees paid to DigitalBank represent a significant proportion of Pirate Booty's fixed platform and per user variable costs. Variable costs do not decline with scale due to increased user activity.
- Performance payments for failed transactions or escalating customer complaints (which incentivize Pirate Booty to manage its front end and its growth rate carefully) mean that Pirate Booty bears not only its own quality risk, but also some of the quality risk of the DigitalBank platform, which rises in risk due to the increased user activity planned for the app.
- It is unclear if DigitalBank would continue to perform these functions if Pirate Booty licenses the app to a strategic bank partner who could also perform them, which could affect the operational and financial dynamics of the business.
- Data responsibility divisions are clear and aligned with regulations within the Pirate Booty-DigitalBank contract, but shifting international data regulations could affect Pirate Booty's ability to exploit client data for monetization.

#### *In-app activities and link to underlying operational functions*

Pirate Booty must create new functions that users most want, like projected bank balances, and in the future savings and other features, and rewards programs linked to frequent or large purchases, that drive monetization and user "stickiness," while insuring that these activities do not trigger increases in failed transactions or customer complaints.

Optimizing monetization while minimizing the complexity and costs of monetization resulting from the consequent activity is a key operating activity and requires significant strategic and operational focus since Pirate Booty does not manage the infrastructure. Pirate Booty may want to explore additional platform options as its resources strengthen.

#### **4.5 Key Strengths of the Company**

#### Key strengths:

- Early entry/dominance in attractive university student demographic
- Pirate Booty has already built a recognized brand
- Proprietary algorithms to shape user experience and offers, and evidence of successful monetization
- Partner ecosystem already built
- Young Team that understands target market, coupled with experienced, notable Advisory Board
- Operational knowledge

#### Key challenges of the company:

- Managing monetization with an outsourced infrastructure
- Sustaining the relationship between CAC and LTV to produce an attractive financial model
- Navigating large bank partnerships while growing through the independent channel
- Rolling out new product features effectively
- Expanding outside the UK
- Company name/trademark unclear outside the UK
- Competition from lookalike banking apps

## 4.5 Marketplace

### *University Student banking market*

There are 40+ million UK current account holders. The top three providers are Lloyds (27%), Barclays (18%) and RBS (18%) ([www.statista.com](http://www.statista.com), 2014). 1.2 million account holders switch every year. Switching has increased due to a government-sponsored program launched in 2013 to encourage competition with a “switching service” requiring easy switching within 7 days, but is still relatively low (<5% per year). Customer service and fees are the main reasons for switching. Customer loyalty is widely understood to be a driver of customer cross-selling and profitability. 27% of account holders are between the ages of 18-34. In a battle for market share, University students are a critical source of new accounts. Estimates of retail bank customer acquisition costs (CAC) for a deposit account are hard to quantify but likely range from \$150-350 versus estimates of customer lifetime value (LTV) of \$1500, which assumes cross-sell. However, deposit accounts alone are widely understood to be unprofitable.

Mobile banking is an established trend. Mobile banking penetration in the UK is estimated at 33%, the middle of an international range of 17-66% (Bain & Company, 2013). One quarter of UK bank customers would consider a purely digital bank, (Accenture, 2014). Mobile customers are more loyal (have higher net promoter scores). Mobile banking therefore impacts both customer acquisition costs (CAC) and customer lifetime value (LTV) for existing participants.

The university student banking market is characterized by the following:

- A large population with high turnover (2.3 million in the UK, with 500K new university students each year) needing to open a bank account for the first time
- A larger proportion of international citizens than the general population
- Digital natives who dislike traditional banks
- Core banking needs that are easily defined (bank account, debit card, transfer payments)
- Additional needs that are poorly addressed by existing services, i.e. help managing finances for the first time, particularly making the budgeted amount last until the end of the month
- Small, frequent consumption of branded items
- Affinity to social or behavior based rewards

*As a result, the Pirate Booty app offers superior per user economics at scale relative to a traditional retail deposit account, and also presents a more appealing product and channel for a desirable target consumer demographic.*

## 4.6 Competition

Pirate Booty competes with mainstream banks, online banks, and financial planning apps.

**Mainstream banks:** (examples: *Lloyds, RBS*) dominate the market for student accounts and compete aggressively for new student accounts due to their potential to become profitable future customers. All of the mainstream banks have some form of digital strategy and mobile banking, typically an app or website that functions as portal to the traditional bank account information. An example is *Nudge*, HSBC's app that uses gamification to encourage customers to avoid overdrafts and to save more. Businesses have also grown up offering e-banking toolkits to help mainstream banks adapt (Ebankit).

**Online/mobile banks** (examples: *Smile Bank, Atom Bank, Charter Savings*) are proliferating in the UK and elsewhere, and some (like *Fidor*) are also borderless, offering mobile banking in more than one EU country. *Mondo*, which received

significant crowd funding and funding from Passion Capital, plans to launch in the U.K. in 2016 with a banking app store. For example, *Moven*, the leading U.S. digital bank, plans international expansion and has linked up with Accenture to help it with international bank partnerships. Pirate Booty's international expansion strategy through local banks looks similar. *Simple* sold to BBVA in 2015 for 8x capital, or \$117 million. The online banks promise a fully digital experience, lower costs, and a more youthful look and feel. Additional examples include *Alfabank*, *D3Bank*, and *RedCloud*. Bank industry participants expect mobile banking apps to proliferate, targeted at key demographic segments.

**Financial management apps** (examples: Mint, Acorn, LevelMoney, Digit, GoodBudget, Wally) are also proliferating. Many of them mix wallets and budgeting with savings and investment programs.

#### 4.7 Revenue streams

Pirate Booty has three revenue streams:

1. Affiliate Marketing
2. Transfer Fees
3. Bank white-label license fees

See financial model and discussion for details.

Once Pirate Booty controls the customer, it can expand into additional products and services. For example, selling travel or mobile phone insurance. These revenue sources could be very high margin. No such additional product distribution revenues are in the business model yet.

#### 4.8 Marketing & Promotion

Marketing Strategy:

Over the last few months since the Company has launched its app, it has learned a lot about marketing and promoting its product. The key lessons include:

*Digital Marketing*: the company has been successful with Instagram and Facebook ads at a very low customer acquisition cost.

*Physical Marketing*: the company's main strategy is visits to university campuses to sign up new users, identifying potential student ambassadors

For 2016, the company will work on four main marketing channels:

- Physical: 5 big university towns and university endorsements

- Offers and Rewards: from local retailers (coffee, clothing, food, drink, social)
- Referral: developing model to encourage users to sign up and tell their friends
- Digital: will run campaigns based on the key factors in their digital strategy and additional learning from the above.

PR:

The company has received extensive press coverage. See Pirate Booty pitch deck for samples.

#### **4.9 Growth Plan**

Pirate Booty expects affiliate marketing revenues and international transfer revenues to grow 54% annually during the forecast period, and bank license revenues to grow 38% annually during the forecast period.

*Pirate Booty expects to grow its user based through two channels:*

- University partners: Pirate Booty has 7 U.K. university partners today and expects to have 40 by year-end 2016. Pirate Booty is focusing on cities within the U.K. with major universities. Pirate Booty also expects to expand internationally via the same route, seeking endorsement from leading overseas universities.
- Bank white labeling: Pirate Booty expects to sign its first U.K. bank licensing agreement in 2016. Each licensing agreement is estimated to generate 1 million GBP in revenues. The company's financial model assumes 5 bank licensees by 2020.

*Pirate Booty expects to grow revenues per user through the following two methods:*

- Affinity marketing partners: Pirate Booty has x affinity marketing partners today and expects to have xx by year-end 2016 and xx by 2020. More affinity marketing partners means more offers for Pirate Booty app users, and therefore more revenue per user.
- Product features: by adding savings and other features, Pirate Booty expects to inspire more frequent use, and create new monetization opportunities (not shown in the financial model). For example, savings and other features linked to student's budgeting needs.

#### **4.10 Exit Strategies**

There are two potential exit strategies for Pirate Booty. First, a trade sale to a retail bank or to another financial institution is the most likely exit strategy for Pirate Booty. An example is the sale of *LearnVest* to Northwest Mutual. Another example is BBVA's acquisition of *Simple* for \$117 million, 8x investor capital. Pirate Booty's forecast bank "white labeling" or even branded licenses could make such a transaction problematic for competitive reasons. A trade sale to a financial software provider is also possible; an example is the sale of *Mint* to Intuit. Second, should the Pirate Booty app succeed globally, an IPO would be possible. Without global expansion, however, it is difficult to foresee Pirate Booty become large enough that an IPO would be likely.

## 5.0 Key Financial Information

### 5.1 Financial Overview (source: Pirate Booty)

PIRATE BOOTY FINANCIAL FORECAST					
	2016	2017	2018	2019	2020
<b>#users at end of year</b>	<b>22000</b>	<b>64000</b>	<b>106000</b>	<b>148000</b>	<b>190000</b>
<b>Total new users</b>	<b>25000</b>	<b>42000</b>	<b>42000</b>	<b>42000</b>	<b>42000</b>
<b>Total Revenue</b>					
<b>Affiliate Marketing</b>	£134,000	£1,074,000	£2,082,000	£3,090,000	£4,098,000
<b>International transfers</b>	£33,500	£268,500	£520,500	£772,500	£1,024,500
<b>Banking partnerships</b>	£416,667	£1,500,000	£2,500,000	£3,500,000	£4,500,000
<b>Total revenue</b>	<b>£584,167</b>	<b>£2,842,500</b>	<b>£5,102,500</b>	<b>£7,362,500</b>	<b>£9,622,500</b>
<b>Total variable costs</b>					
<b>Total cost of sales</b>	-£136,250	-£228,900	-£228,900	-£228,900	-£228,900
<b>Total pre-paid costs</b>	-£67,000	-£537,000	-£1,041,000	-£1,545,000	-£2,049,000
<b>Total Variable costs</b>	<b>-£203,250</b>	<b>-£765,900</b>	<b>-£1,269,900</b>	<b>-£1,773,900</b>	<b>-£2,277,900</b>

<b>Total fixed costs</b>					
<b>Tech</b>	-£529,840	-£676,460	-£866,606	-£943,267	-£1,027,593
<b>Marketing</b>	-£535,000	-£631,000	-£722,100	-£787,310	-£824,041
<b>Admin</b>	-£284,083	-£530,657	-£651,804	-£763,727	-£871,844
<b>Total fixed costs</b>	<b>-£1,348,923</b>	<b>-£1,838,117</b>	<b>-£2,240,510</b>	<b>-£2,494,304</b>	<b>-£2,723,478</b>
<b>Pretax profit/loss</b>	<b>-£968,006</b>	<b>£238,483</b>	<b>£1,592,090</b>	<b>£3,094,296</b>	<b>£4,621,122</b>

Balance sheet and cash flow statement NA

## 5.2 Historical Financials-NA

### 5.3 Valuation

*Discounted cash flow: (please see ANGELCO spreadsheets for further detail)*

*Using Pirate Booty financial forecast (as above)*

Key ratios in 2020: 22% churn (4.5 year life), 66% gross margin, 9% sales & marketing as a % of revenues assumed in the financial forecast above.

The DCF model uses pretax earnings (as in the above financial model). The financial model assumes no dilution after the current round, though the company plans a follow-on round in the summer of 2016.

Current company valuation= 3,500,000 GBP (blended pre-money valuation this round) used in all expected return calculations below.

#### Base case (ANGELCO DCF model)

20% discount rate: NPV = 15,498,331 GBP, 5 year annualized return= 34.7%

40% discount rate: NPV = 5,352,495 GBP, 5 year annualized return= 8.9%

#### Worst case (ANGELCO DCF model delayed one year)

20% discount rate: NPV = 9,233,693 GBP, 5 year annualized return = 21.4%

40% discount rate: NPV = 2,829,597 GBP, 5 year annualized return = (4.2%)

*Using Pirate Booty adjusted financial forecast with less optimistic end state assumptions*

Key ratios in 2020: 33% churn (3 year life), 50% gross margin, 30% sales & marketing, effectively halving the earnings in years 3, 4, and 5.

#### Base case (ANGELCO DCF model using less optimistic assumptions)

20% discount rate: NPV= 8,142,767 GBP, 5 year annualized return = 18.4%

40% discount rate: NPV= 2,500,444 GBP, 5 year annualized return = (6.5%)

*Other valuation metrics:*

Book value multiple: NA

Earnings multiple: 10x 2020 base case pretax earnings= 46 million GBP; 67% annualized return from today's valuation. 10x 2020 less optimistic case pretax earnings= 26 million GBP; 49% annualized return from today's valuation.

Sales multiple: 3x 2020 base case revenues= 29 million GBP; 52% annualized return from today's valuation.

*Entrepreneur Valuation:* Pirate Booty values itself at 3.5 million pre-money today (two tranches blended). Post this round post money valuation will be 4.750 million GBP. Pirate Booty plans to raise its next round of Series A capital in the summer of 2016 at a pre-money valuation of 12 million GBP.

*Comps and Exit multiples:*

Mobile banking apps:

Mobile banking leader *Moven* just received a series B fundraising round of \$12 million, at an undisclosed valuation, bringing its total funding to nearly \$25 million. Moven plans international expansion via bank partners. Mondo received 1 million GBP in crowd funding and 5 million GBP from Passion Capital in early 2016 before it launched its product. (Mondo has a different business model and is obtaining a bank license).

*Simple* was acquired by BBVA in 2015 for 8x investor capital of \$15 million, or \$117 million.

Pirate Booty's advantage is that it is a less resource-intensive source of new customers than a typical retail deposit account marketing program. The per-user acquisition cost and per-user lifetime value, and the ratio between the two, are more attractive than the economics for the typical retail bank. This makes Pirate Booty an attractive partner or acquisition candidate for a traditional or digital bank.

Should Pirate Booty reach a larger market like the U.S., with a bank partner, there is a step-up in valuation potential.

*Discussion:*

In the DCF model, expected returns from Pirate Booty are attractive in the base case and worst case scenarios assuming a 20% hurdle rate. Discounted cash flow models for fast-growing startups are heavily back-end loaded, (most of the value is in terminal value); even dramatic changes in near term company financial forecasts (like halving earnings in the third DCF scenario above) do not reduce net present value significantly. However, expected returns from Pirate Booty are average in the base case and unattractive in the worst cases if the higher 40% discount factor is used in the NPV calculation. Moreover, neither base case nor worst case assumes dilution.

[Valuation models for venture capital typically do not rely purely on discounted cash flow due to this sensitivity to terminal value and the discount rate, rather valuing a potential investment as a portfolio of options, better reflecting the path-dependency of successive fundraising rounds, (Metrick).]

What discount rate is appropriate? The proper discount rate for valuing a company is the WACC (weighted average cost of capital). See Damodoran. Given the challenge of determining WACC in a company without history, the historical equity risk premia for venture capital is one guide to cost of capital or required returns. Given the high failure rate, expected returns from startup investing, as a “rule of thumb” are 10x within 5 years, which equates to a 58.5% annualized expected return (or discount rate). *Actual* realized returns from startups are much lower; 13.3% annualized after fee for the 5 years ending September 30, 2014, and 9.3% for the ten years ending September 30, 2014, according to a leading consultant (Cambridge Associates, “Multi-stage” (early and later stage) index, in National Venture Capital Association, 2014). These returns compare to returns from the S&P500 of 15.7% and 8.1% respectively for the same 5 and 10 year periods; risk adjusted, returns from public equities during these periods were superior. AngelCo’s reported realized returns are 29% annualized (AngelCo 2015). In sum, the discount rate for startup investments used as the WACC in a valuation calculation should reflect a significant risk premium over public equity returns. Given the current U.K. risk free rate of less than 1%, the historical equity risk premium of 4-6%, and the additional risk premia for startup risks (higher beta), a target return or hurdle rate of 20% is more than sufficient.

*Valuation Summary:*

In a DCF valuation context, Pirate Booty *must realize the base case financial scenario* (after dilution) at a 20% discount rate to produce returns in line with startup expected returns and AngelCo's realized returns.

Using the other, more simplistic valuation models, *if Pirate Booty reaches its revenue and pretax earnings objectives in 2020, the valuation is compelling, offering over 50% annualized returns.* Even in the less optimistic pretax earnings case (same revenues, lower earnings), the valuation is very attractive.

Pirate Booty makes an attractive acquisition target given Pirate Booty's favorable LTV/CAC ratio relative to retail bank deposits.

The upside does not include additional revenue from distributing other financial products via the app.

#### **5.4 Use of Funds**

This is Pirate Booty's second funding round. Pirate Booty received 300,000 GBP in 2015 in its initial angel round. Pirate Booty seeks 1,045,000 GBP in this round (in two tranches) at 3 million GBP and 4 million GBP pre-money valuations. Post money valuation after the second tranche will be 4.750 million GBP. Pirate Booty plans an additional 3 million GBP round in the summer/fall of 2016 at a valuation of 12 million GBP.

The uses of funds are to enhance its product and expand its user base, broken down as follows:

- 37% Technology
- 32% Marketing
- 18% Admin
- 13% Variable costs

#### **5.5 Dividend Policy**

The company is in a growth (reinvestment) mode, requiring external funds and does not expect to pay dividends during the forecast period.

#### **5.6 Corporate/Financial governance**

##### **The Board:**

Pirate Booty currently operates with an advisory board, not yet a corporate board. A corporate board will be formed after this raise. The members of the Advisory Board are:

Nick Queensway, software entrepreneur and venture capitalist  
Advisor A, co-founder and UK CEO of SuccessfulStartup  
Advisor B, former head of customer innovation at Big Bank  
Advisor C, digital banking expert  
Donna Bloom, former CMO  
Rob Topmount, Executive Director of Digital Solutions at BigUKPrivateBank  
Christine Topmount, Former Exec at YetAnother Bank

The likely members of the future corporate board include Oliver Twist and Nick Queensway and Steve Castro, a partner at FastVC, (the German VC taking 500,000 of this round) also on the board of the European mobile bank startup “Zero46” and their newest investor.

**Shareholder Agreement:** see Term Sheet

At first writing of this DD document, Pirate Booty did not yet have a shareholder agreement in place: therefore investor rights and protections could not be assessed at this time. Post DD and pre-closing, as expected, a shareholder agreement is being prepared by Pirate Booty and attorneys for VC FastVC, the lead investor for this round. AngelCo will not set terms. However, AngelCo has identical rights to the VC, as a “seed preferred” shareholder, with the exception of the board seat, and “work for equity” provisions, through participation in “seed preferred” shares in the first tranche of this round at the 3.0 million valuation. This is an update from the original plan, which was to split all investors in this round equally into the two tranches at 3.0 and 4.0 million GBP valuations. Instead, the total amount raised was increased, the two tranches were divided differently, and were applied to different investor groups except for FastVC which participated in both tranches for 250,000, linking the second tranche to the achievement of milestones. FastVC will own 15% of Pirate Booty. The original investors in Pirate Booty and AngelCo as well as others participated as “seed preferred” investors. In addition, a new investor, SecondVC, has joined in to complete the round, taking a 10.5% stake in the second tranche. Four angels also added capital via “seed preferred.” Therefore the “seed preferred” holders are AngelCo, the two VCs, and the four prior angels. All details based on March 10, 2016 Term Sheet, pending deal closing.

**Information Rights:** see Term Sheet

The company has monthly management accounts and annual statutory accounts prepared by an external accountant Mustard MacIntyre. These are monitored by the advisory board and made available to all investors.

**Investor Protections:** see Term Sheet

The usual protections apply to the “seed preferred” shares. VC FastVC has additional rights to a board seat and a “work for equity” program with milestones linked to the firm helping Pirate Booty expand into Europe. In turn, FastVC has set milestones for Pirate Booty to call down tranche 2. These milestones are listed in the Term Sheet.

## 6.0 Company Management

Pirate Booty has a young team, complimented by an experienced board of advisors/investors.

### **Leadership:**

Founder and CEO: Oliver Twist

Lead Engineer: Phil Smith

Head Marketing: Chris Penny

Designer: Nick Willer

### **Key employees:**

Engineering Team: Kris Harris, Patrick Otter, Jane Breen, Kai McAlp

## 7.0 General Information

**7.1 Incorporation and Registration: registered in England under registration number 9092633**

### **7.2 Company address and email contact**

Pirate Booty Financial Services  
26 Blue Cat Square  
London, UK  
WC!! 4PG

[Oliver@Pirate Booty.com](mailto:Oliver@PirateBooty.com)

### **7.3 Company Directors**

See above

## 7.4 General disclosure

### Intellectual property

Pirate Booty owns the intellectual property in all of the software it has developed to deliver the Pirate Booty service. Pirate Booty owns the Pirate Booty trademark in the UK but has not secured this trademark in other countries.

## 7.5 Outstanding Share Capital

The current and post-money ownership structure is as follows:

Pirate Booty pre-money ownership					
	Share class	Cash Flow	Δ Shares	Shares	%
Oliver Twist	shares		0	110,000	52.93%
Phil Smith	shares		0	10,000	4.81%
Nick Willer	shares		0	10,000	4.81%
Nick Queensway (Angels)	shares		0	47,698	22.95%
Black Knight Capital	options		0	3,260	1.57%
Nick Queensway	options		0	3,260	1.57%
Martin Smith	options		0	1,000	0.48%
Charles Johnson	options		0	1,000	0.48%
Option Pool	options		0	11,200	5.39%
FastVC WFE	shares		10,400	10,400	5.00%

Pirate Booty post-money (both tranches) ownership							
		Cash Flow	Δ Shares	Shares	%		%
Oliver Twist	Shares		0	110000	41.91%	Founders	49.53%
Phil Smith	Shares		0	10000	3.81%		
Nick Willer	Shares		0	10000	3.81%		
Nick Queensway (Angels)	Shares		0	47698	18.17%	Angels	21.42%
Black Knight Capital	Options		0	3260	1.24%		
Nick Queensway	options		0	3260	1.24%		
Martin Smith	options		0	1000	0.38%		
Charles Johnson	options		0	1000	0.38%		
Option Pool	options		0	11200	4.27%	Option Pool	4.27%
FastVC WFE	shares		0	10400	3.96%	FastVC	16.21%
FastVC	shares	-250000	14829	32147	12.25%		
other investor	shares	-175000	10380	22503	8.57%		

**Share Options Terms:** see March 10, 2016 Term Sheet

**Articles of Association and Investment Agreement:** PENDING

## 8.0 EIS/SEIS

Update with final Term Sheet

**document/status**

NA due to nature of business Pirate Booty will not be EIS/SEIS eligible

## 9.0 Risk Factors

Start up investing poses significant risks, including but not limited to the following:

- **Risk of an unlisted company**
- **No market for the shares**
- **Your equity stake may be diluted**
- **There are no guarantees that the company will reach its financial targets**
- **As a minority shareholder, you may not be able to influence the strategic direction of the company**
- **Provisions of the U.K. Tax Code may limit takeover potential**
- **No Advice is being provided by AngelCo**
- **There may be tax consequences to investing in Pirate Booty shares**
- **There is a risk in investing in a new business; the shares may fall in value and investors may never recover their original investment**

In addition to generic startup risks, Pirate Booty has the following primary risks as a potential investment.

### Young Team

The Pirate Booty team is just out of university themselves, and lacks commercial experience. However, the Pirate Booty team does understand their target

demographic, and they have already successfully partnered with both a strong advisory board, and with key operational providers.

### Marketing and Customer Economics

Pirate Booty must deliver rapid user growth and an attractive relationship between customer acquisition costs and customer lifetime value to sustain its business model and to be an attractive acquisition candidate. Pirate Booty has ambitious plans for growing via its university and affinity marketing channel partners. Pirate Booty will need to continue to recruit marketing experts to fulfill its revenue goals.

In addition, Pirate Booty must execute its marketing plan while maintaining favorable user dynamics. Currently the CAC/LTV ratio for Pirate Booty users is forecast to be highly attractive and certainly more attractive than the CAC/LTV ratio for retail bank deposit accounts.

However, the technology platform costs, which include both a fixed and a variable component tied to activity and performance, are critical to realizing operating leverage. In addition, the company's forecast sales and marketing costs may be too low relative to standard B2C marketing spend as a percent of revenues. That said, even with higher sales and marketing spending as a % of revenues, the business is still attractive.

### Technology Risk and Operational Execution

Pirate Booty must execute in multiple dimensions, with many ecosystem partners, a challenge for any team. To reach its aggressive user growth and revenue growth goals, Pirate Booty must deliver on product enhancements and negotiate multiple affinity marketing deals. Pirate Booty must increase revenues per user without compromising performance. Lastly, Pirate Booty's expected licensing deals with banks present an unknown operational risk. Pirate Booty may need to replace DigitalBank, its platform provider, to scale smoothly and profitably.

### Bank licensing and the revenue model

The revenue model is heavily dependent on reaching the targets for bank license partners, each one of which contributes 1 million GBP in revenue. License revenue is critical to the financial projections, and it comes in concentrated chunks. The first bank license deal in 2016 will be a key test of this strategy's success.

### International Expansion Strategy

Pirate Booty expects to repeat its U.K. success in international markets, which may be more challenging given the cultural differences, less concentrated university student communities, and cross-border banking issues. However, the opening of e-banking across Europe could mitigate this risk.

### Regulatory Risk

Pirate Booty operates at the edges of highly regulated businesses and relies on its partners to fulfill certain regulatory requirements. Pirate Booty could be exposed to cross-border money transfer risk. U.K. and pan-European e-banking and e-money regulations, on top of U.K. and pan-European regulations of banking services, payments, and other financial products and services are complex and rapidly changing. In addition, Pirate Booty may be subject to client data protection rules. Failure to comply by KYC rules, violations of client data protections, or other risks are important considerations for the Pirate Booty management and for potential investors. These risks are currently mitigated by the fact that Pirate Booty adheres to banking regulations that require a U.K. address to open an account. The prepaid debit card is posted to this account, and must be activated, and has an annual limit of 5000 GBP. DigitalBank, the platform partner, monitors activity on the account.

### Competitive Risk

Pirate Booty operates in a highly competitive marketplace. New entrants are possible and even likely, though such competitors would also have to overcome similar technology and customer acquisition challenges. For Pirate Booty's strategy to work, it must have a strong enough brand and features to control the customer. The proposed bank white labeling licenses will test this principle; will Pirate Booty, or the bank brand, be the winner?