Approaching Investors & Getting Funded

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- Faculty member at Univ of California Berkeley (College of Engineering, Center of Entrepreneurship & Technology
- Professor of the Practice, Brown University
- Taught Stanford Continuing Education classes
- Founder www.Startup-Advior.com – advisory to entrepreneurs & Concordia Ventures LLC
- Served as the CEO of five startup companies
- Founder & CEO of TeleSense (an IoT company)
- Experience at one large multinational & **7 startups**
- One IPO (Initial Public Offering)
- Sold Bitzer Mobile (co-founder & CEO) to Oracle in 2013
- Raised over $70M for his own stratups
- Brown University engineering 1981, Univ of Minnesota
- Charter member of TiE Silicon Valley
- Chairman of OPEN SV

TELESENSE

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Starting Conversations

- What do you do?
  - This is as common as a greeting
- How do you answer this question?

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Describing Your Company

- Please tell in ~15 seconds …

1. What problem do you solve?
2. Who has this problem?

  - Examples

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Your Game Plan

- Establish if you are in target zone
  - Talking to an investor
  - Seasoned entrepreneur
  - Potential mentor or connector

- How do you establish this?

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Are You Prepared?

- Have an elevator pitch
  - 10 second version
  - 30 second version
- An executive summary
  - 1-2 pages
- A pitch deck (set of slides)
  - 1 slide version, 3 slide version, 15 slide version
- An ice-breaker

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What Not to Do?

- Don't be unnecessarily secretive

- Don't be annoyingly vague
  - Too high level or to low level

- Don't be boring
  - No long speeches! Engage audience
  - Gauge their interest before you inform

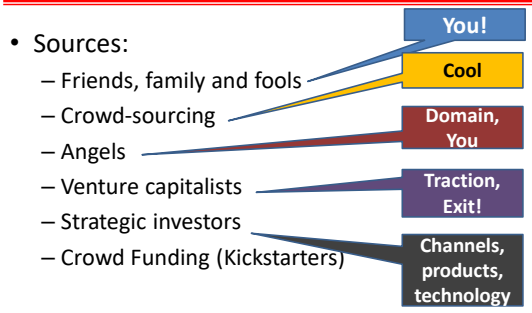
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Raising Money

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Motivation of Investor Varies

- Sources:
  - Friends, family and fools
  - Crowd-sourcing
  - Angels
  - Venture capitalists
  - Strategic investors
  - Crowd Funding (Kickstarters)



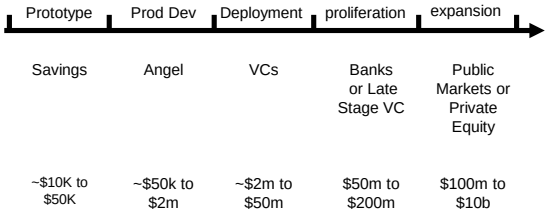
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What You Need to Know

1. The right source
2. The right time
3. The right process

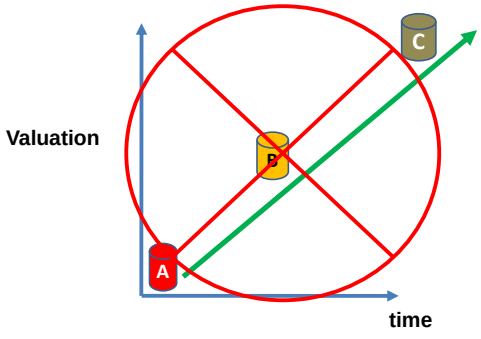
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Funding Needs



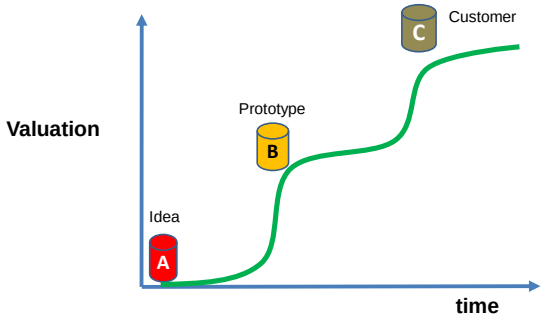
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Increasing Company Valuation



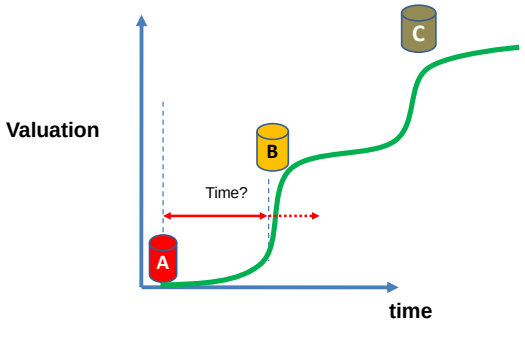
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How Much Money to Raise



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How Much Money to Raise



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The Financial Model

- This is your "real" business plan!
  - Cash needs
  - hiring plans
  - profit projections
  - fume-out date
  - sensitivity analysis…
- This is what VC will be looking for

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Why Do Financial Modeling?

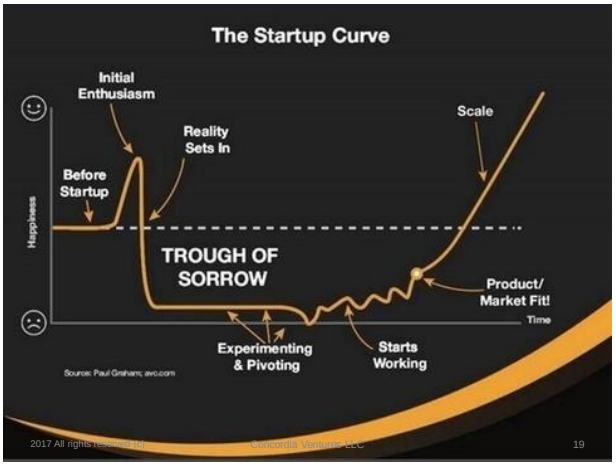
- To answer the most important & fundamental question: *Does this make sense?*

- You need to know more than anyone
- Tweak basic assumptions until it does!

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Timing of Raising Money from VCs

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What is Product Market Fit

- When a need in the market meets a product that fits enough to be useful (& usable)

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Are You Investor Ready?

1. A strong vision with data & conviction
2. Identified a real unmet need (traction)
3. Core team of "A" players
4. Clarity on who needs you more (& why?)
5. Know your key metrics
   - Unit economics
   - CAC
   - LTV
   - GM

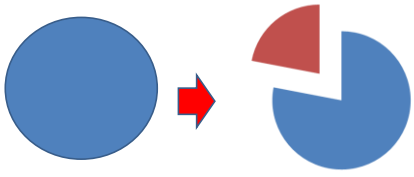
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The "A" Team



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Target Market



- Identify your target market
- Find a sliver who needs you more!

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Unit Economics

- Does the business make sense?
- Examples of unit economic calculations
  - Per store
  - Per car
  - Per cup of coffee
  - Per bed
  - Per table
  - Per city

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CAC & LTV

- Customer Acquisition Cost
- Customer Lifetime Value
  - Churn

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Approaching Investors

- Don't approach investors until you are ready
- But start doing your homework
  - Meet potential users, customers, influencers
  - Identify & validate the "unmet need"
  - Get to research & make a list of potential investors

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"a Box that Beeps"

- Get to a point where investor's imagination can come alive
- Validation needed: from users/customers

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Process of Raising Money

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How Angels Invest

- What is the fair price?



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Convertible Note

- Convertible note is loan to company that will convert to stock once a value is determined
- Avoids valuation discussion
- Simple 1-2 page note, minimal legal fees

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Issues with Convertible Note

- Why should I invest before VCs? Do I get any incentive?

Discount on Series A

- What is you become too successful?
  - Will I get anything significant for all my initial risk?

Cap on valuation

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New Option: SAFE

- SAFE is Simple Agreement for Future Equity
- Simplified version to seek money that will convert into equity at the next round valuation
- Not a loan

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Venture Capital



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Demystifying Venture Capitalism

- Firms with partners with financial & operating experience
- Invest other people's money in high risk, high reward ideas
- Nurture & guide them to an exit



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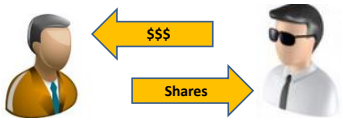
What Investors Looks For

- Traction is most important
  - Sales, customers, revenues
- Hierarchy of traction
  1. Sales
  2. Field testing or pilot sites
  3. Agreements for beta testing, pilots, field trials
  4. Contract for pilot, field testing
  5. Potential customer testimonials
  6. Names of customers



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How VC Fund You?



- VC get shares with special conditions & privileges to protect them → Preferred Shares
  - Board control, veto rights, liquidation preferences, participation rights

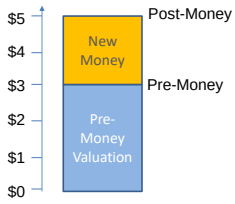
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Company Valuation

- VC value the company
  - Based on what believe company can be sold for & their return
- Example: valuation $3m
  - VC puts in $2m
  - What % does VC own?

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Pre & Post Money Valuation



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Do Not …. Under any condition

- Try to put a value on your company – no matter if investors insists
  - It is a trick question
  - It is "their job" to evaluate company value

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VC Business Model

- Money comes from "Limited Partners"
  - *Committed* money, collected upon a "cap call"
- Managed over a ~10 years period by "General Partners" by investing in companies
- Profits returned to LP as companies exit (merger, IPO) & never pooled
- Keep 2% per year of fund size as management fees + 20% of gains (carry)

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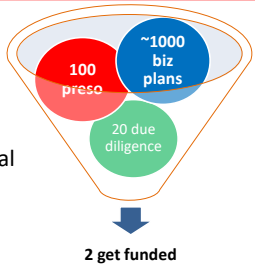
Remember How VC Work

- A $10m to $20m exit can be very good for the founders
- But not for the VC
- They will not let you do it
  - Their math has to work

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Raising Money

- What One partner at a typical VC firm does in a typical year!



- Odds are tough, even after proper introductions it may take 20 to 50 presentation to get traction over ~6 months

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7-Step Method of Getting Funding

1. Research them (the investors)
2. Get introduced

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7-Step Method of Getting Funding

1. Research them (the investors)
2. Get introduced
3. Send exec summary to gauge interest
4. Request F2F meeting
5. Pitch & intrigue them

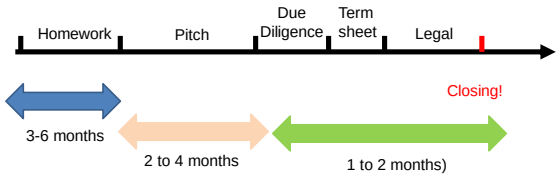
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7-Step Method of Getting Funding

1. Research them (the investors)
2. Get introduced
3. Send exec summary to gauge interest
4. Request F2F meeting
5. Pitch & intrigue them
6. Build comfort & momentum
7. Compelling event to bring to a close

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Entrepreneur's Funding Process



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Elevator Pitches

- If you have clarity you will not need too many words to describe it
- Best way to tell others about your idea?
  - *What problem do you solve?*
  - *Who has this problem?*
- Tell about a use case, not "how it works"

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Structure of Investor Pitch

Slide Zero ™

1. Team [relevant & committed]
2. Unmet need [& who you saw it]
3. Current alternatives [competition]
4. Your solution & "unfair" advantage [Why us & why now?]
5. Market size & attack plan [which sliver needs you more]
6. Go-to-market strategy [partnerships, channel, pricing]
7. Business model [how will you make money]
8. Timeline of progress [look back & look forward]
9. Financial projections & assumptions [how did you validate them]
10. The ask! [what do you need & how far does it take you?]

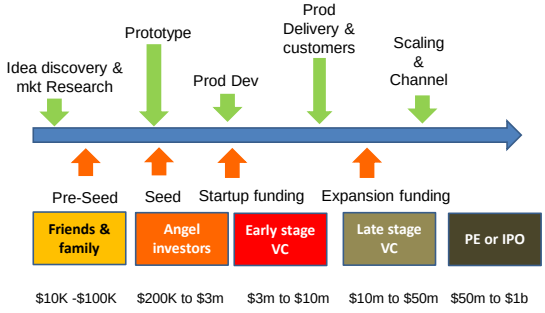
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What do VC hear?

- What you pitch
  - Unmet need
  - Market size
  - Solution
  - …….
  - Team
  - …….
  - Financial assumptions
  - Financial projections
- What they hear
  - Is there money to be made?
  - Are these the people who will make me money?
  - How much money can we make?

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Timing of Capital



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Structure of Exec Summ

1. What problem exists (unmet need) & who has it
2. Current alternatives & shortcomings
3. Your solution
4. Your unfair advantage (magic sauce)
5. Positioning vis-à-vis other competitors
6. Market segment targeted & market size
7. Business model
8. G2M strategy
9. Team
10. Timeline of progress & milestones
11. Financial projections
12. The ask

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Typical Investor Pitch

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Investor Pitch

Company Name

Name Title & Contact info

Tag Line

Audience can read the info but this is where you explain what you guys do: This is what I call Slide Zero

1: Team

- Who are you?
  - *Make yourself relevant*
  - Include advisors, consultants if they make you look larger & impressive
- OK to show up with a less than perfect team
  - All teams have holes
  - Important issue is that you know that there are holes that you are willing to fill

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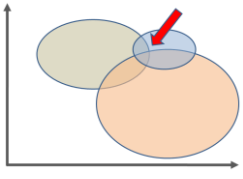
2: Unmet Need

- What pain are you alleviating
  - *Get everyone nodding their head in agreement*
- Describe a problem people connect with
  - Tell us how you validated your assumptions
- Customer examples, use actual names from market research
- Use-case is good way to explain problem

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3: Target Market & Segmentation

- What is your target market
- Which sliver will you own first & why
- Market size
- Market dynamics
  - Regulation, new technology, new players



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4: Market Dynamics & Competition

- Complete view of competitive landscape
  - What alternatives people have today
- Never dismiss your competition
  - Investors, customers, employees all want to know why you are better, not why competition is bad
- Describe the hole you discovered

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5: Solution

- How you alleviate this pain
- Make sure that audience clearly understand
  - What you sell
  - What is the value proposition
  - Not a place for in-depth technical description – just a gist of "how"
- Avoid text but use diagrams, schematics, mockup, demo here

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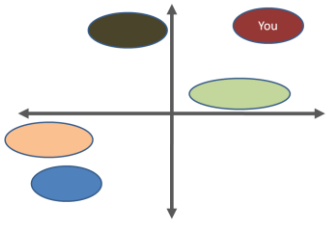
6: Unfair Advantage

- Why now? why us?
- Technology, secret sauce or magic behind product
- Special alliances, relationship that makes it possible to for you to do this, now

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Positioning

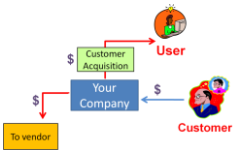
- How are you different from incumbants
- Using familiar players to help position yourself



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7: Business Model

- How you make money
  - who pays you
  - what channels
  - what gross margins
- What do you sell?
  - Subscription
  - Widgets
  - Affiliate fees?



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8: Go-to-Market & Sales Strategy

- How will you reach your first 10 customers
- Marketing leverage points
- What alliances needed or in place
- Convince audience that you have an effective go-to-market strategy



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9: Financial Projection & Key Metrics

- What are key metrics & assumptions
  - customers, installations, licenses etc.
- 5-year financial projection take into account extended sales cycle
  - *Show the spreadsheet please*
- Your "ask"

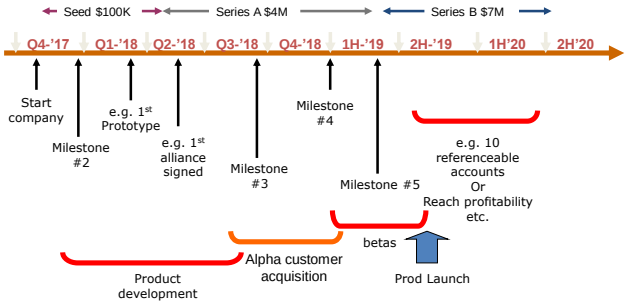
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10: Status & Timeline

- Current status
  - Accomplishments to date (last ~6 months)
  - Timeline (major milestones over next ~18 months)
  - how the money will be used
- Can be used to show key metrics
  - Employee growth
  - Customer or geographies growth
  - Profit point etc.

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Z-Timeline



You May Have a Few Minutes

- Most important info to communicate
  1. You really understand dynamics of your market segment
  2. It is a large & growing market
  3. You are uniquely qualified to develop a solution
  4. You have traction
  5. You understand the next 3-5 steps company must take to get where you are going
  6. You know how much you need & what milestones can you hit with that money

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Summary

- Pitching requires clarity
  - Get clarity on your own business
  - Who your audience is & why should they care
- Pitching is common sense!
  - *Which apparently is not that common*
- Luck happens when preparedness meets opportunity

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