

# Fundraising Fundamentals

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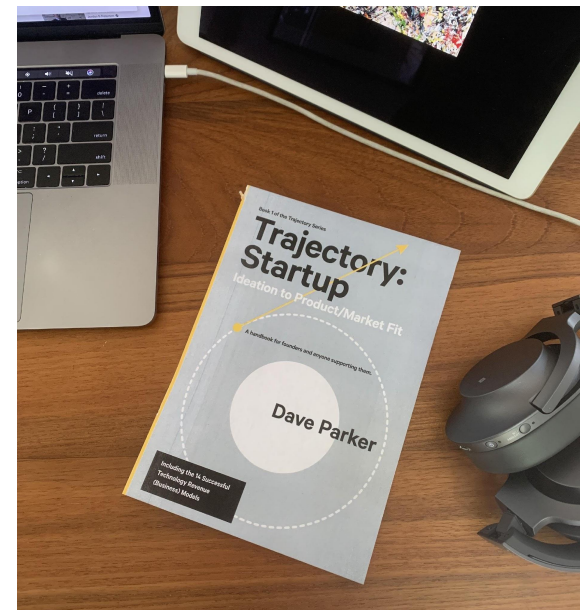
# About Dave

- 5X founder, raised \$12M, exited \$85M
- Former SVP Programs at UP Global (Startup Weekend)
  - Startup Next creator, Startup Week
- Author – "Trajectory: Startup – Ideation to Product/Market Fit" shipping today!
- 3X VC and random Angel
- >15 transactions – now with NextPath Advisors

FEARLESS **fund**

# Resources

- [www.dkparker.com](http://www.dkparker.com)
- 14 Revenue Model Excerpt
  - <https://www.dkparker.com/trajectory-excerpt/>



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# Types of Business

- Local Business – serving a local geography, zip code, market
- Lifestyle Business – creating cash and jobs, typically services businesses
- Venture Scale Business – typically product businesses... think “making \$\$ when you sleep”

The Default State is NO

# It's not you, it's...

- It's your idea
- It's your market
- Their thesis
- Their timing
- Don't assume investors see your idea the way you do
- Each meeting is about getting to the next meeting
- Your random communications

# Fundraising 101

- Stage appropriate capital = what's the right money at the right time?
  - Early – Angels, early-stage VCs,
  - Later – Large venture funds
- Control shifts – Board roles, deal terms
- Dilution: every round of funding you will sell 25-35% of new shares
- Bad boards = bad enterprise value

# Fundraise Type

## Early - Angel (F&F)

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- You set the terms
  - SAFE or Convertible Debt
- Early warrant coverage
- Easy docs
- Preferable price
- Cash driven
- 6 Months

## Later - Institutional

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- You set the amount
  - Based on Budget
- They set:
  - Price
  - Terms
  - Controls
- Timeline driven
- 18 Months

# Stage of Capital

- Friend & Family – idea stage
  - Pre-Seed – pre-product, pre-revenue
  - Seed 1, 2, + - early product, early revenue
  - Series A, B, C + - Shift to growth capital and scaling
- You set price
- They set price
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# Raising for What – Use of Proceeds

## Early Days

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- 4-6 Months
- To hit milestones
  - Product
  - Customers
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## First Institutional

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- 18 months of runway
  - Not too short
- To hit milestones
  - Product
  - Customers

# Angels

- Invest in you and your passion
- Like the market or idea
- Have made money in the sector before
- Something to talk about at a cocktail party!
- Deal type
  - Convertible note with a cap
  - Pro-rata participation (keep my % going forward)
  - Highest risk – least educated (F&F) should be best deal

# Early Stage = Risk Capital

- Know your numbers, if you don't have your numbers know your hypothesis (have a position)
- Seed stage VC's are investing other people's money
  - Charter and Thesis
  - Stage, vertical market, size, geography
  - 10% (+/-) stakes plus syndicates
- VC perspective - Elusive deals need to be found
  - Revenue but Pre-product market fit
- "Return the Fund" deals that can produce >10X

# Institutional Investors

Moving up the capital stack:

- Investing someone else's money
- Nano/Micro VC - <\$10M Funds
- VC
- Growth Equity
- Private Equity

# Later Stage = Growth Capital

- Post product market fit
- \$10K in marketing spend = Internal rate of return (IRR) of how many days?
- MBA's calculate returns – cash on cash
- Strategics aren't valuation sensitive, but will be slow
- Bigger checks – bigger stakes

# Fundraising Process

- Enterprise Sales Process – landing multiple planes at the same time
- Top of the Funnel
  - Research
    - [Crunchbase](#) (cheap) [Technation](#) UK
    - [Pitchbook](#) (expensive)
    - [AngelList](#)
    - Competitive deals (w/ Exits)

# Target Investors

- Targets – build a list of targets, look for LinkedIn and/or email introductions
- They have invested in your market/stage in the past
- They have Board experience for your stage
- They can help with strategic introductions
  - Investors
  - Customers
  -

# First Impressions Matter

- Targets – build a list of targets, look for LinkedIn and/or email introductions
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- They have Board experience for your stage
- They can help with strategic introductions
  - Investors
  - Customers

# Tools for Pitching

- Forwardable Email
- Executive Summary
- Presentation
  - 10-12 Slides
  - More is OK if you have data/traction
- Monthly Update

# Forwardable Intro Email

- Great blog post from [Alex Iskold](#), Techstars NYC
- The associate needs to be able to repeat your message
- Make it easy to get the introduction
- Avoid buzzword bingo

# Executive Summary

- Two pages
  - "Don't Bury your Lead"
  - Your headlines and opening paragraph tell the story (see slide 10)
  - It's designed to get the next meeting, not to get a check
  - Stay at 10k feet and out of the weeds
  - Numbers should sync with deck and forecast!  
You'll be tempted to get out of sync – be careful!

10 or 12 Slides?

# Deck

- Generally lead with problem/solution format
- However:
  - If you have traction lead with traction
  - If you're in a complex market, you may want to lead with your team
  - Have one customer story arch
- Include contact info

# Pitching your Idea

- Clearly communicating your idea is critical for recruiting a co-founder and capital
- Starting strong
- What questions do you want the audience to ask when you're through?
  - Can I invest
  - Can I help
  - WTF?
  -

# Two Use Cases - Two Decks

## Slides for Stage

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- 10 Slides
- It's a contrived event
- Check boxes for hitting required elements
- Supporting Slides

## Slides for Conf Room

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- 12 Slides
- It's about the dialog and understanding the investor questions
- Supporting Slides

# 10/12 Slides for Your Pitch

1. Title, Value Proposition, Contact Info
  2. **Presentation Overview\***
  3. Problem
  4. Solution
  5. Market Size
  6. Competitive Analysis
  7. Traction/Timing – why you, why now?
  8. Product Roadmap/Demo  
How You Make Money/Key Metrics
  9. Go-To-Market
  10. **Secret Sauce/Moat/IP\***
  11. Team
  12. Clear Ask/What do you need (team, customer, \$\$)
- \*for conf room pitch. Supporting Slides – Architecture, etc.

[Blog Post](#)

# Famous Pitch Decks

- 30 Famous Pitch Decks
  - Facebook, LinkedIn, etc
  - Early to later stage
  - Not all had great graphics
- Uber, AirBnB, Facebook examples

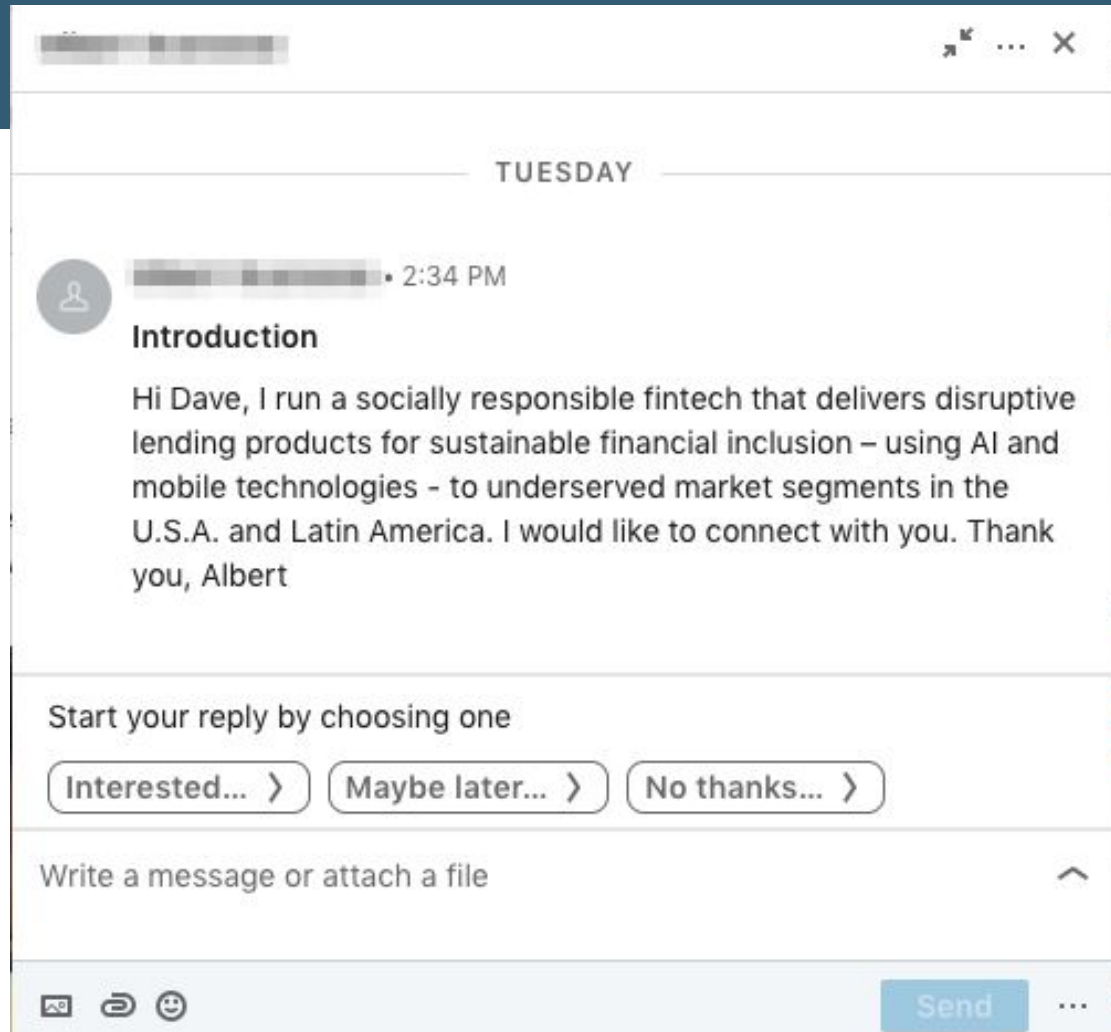
# Monthly Updates

- Using MailChimp Free Account
  - Investors – Tagged
  - Customers
- 30 day intervals
  - What we thought
  - What we learned
  - What we're doing about it
  - Where we need help
- Regularly

# Cold Outreach

- Look for introductions where you can get them
- Cold outreach is fine, but:
  - Research the firm and investment thesis prior to email
  - Zero email/LinkedIn responses will work if there isn't something interesting or custom to the recipient

# Not



# Non- Venture Scale Funding

# Venture Scale Funding

# Party Rounds and Term Sheets

- If the price of your deal is reasonable – you can create a party round w/o a lead investor.
- If you have a lead investor
  - 33-50% of the round, they set price and terms
- Term sheet sets the process
- You follow with definitive docs from your lawyer
- Legal cost are part of the round of investment

It's important the cash goes to  
the company not the attorneys

# Deal Options and Mechanics

- Series Seed Convertible Debt = \$3k legal cost
  - Cheapest and fastest way to get
  - Converts when you raise a priced round
- YC Safe Note = \$5k legal cost
  - YC Docs – Simple Agreement for Future Equity.
  - When you raise a priced round
- Priced Rounds – Series Seed Doc Template
  - \$15k with templates \$40k+ w/o
  - “Redlines” = expensive

# Convertible Debt

- Should be \$3k-5K for legal
- Series Seed Convertible Note (CooleyGo)
- Standard terms
  - Amount of Note
  - Interest Rate
  - Cap and/or Discount
- Investor suitability
- Board Consent

# SAFE Note

- Should be \$3k-5k
- [YC Safe Note](#)
- A commitment to convert to share ownership at a future event
- Doesn't show as a liability on the balance sheet
- Doesn't expire

# Series Seed Docs

- Standardized crowd sourced industry form docs
- Series Seed Docs
  - Term Sheet
  - Stock Purchase (Investment) Agreement
  - Certificate of Incorporation

# Custom Forms

- Old forms versions
- Law firm form – they pull from their document depository vs downloading current version
- Each red-line costs \$\$ in six-minute increments

# Side Letters

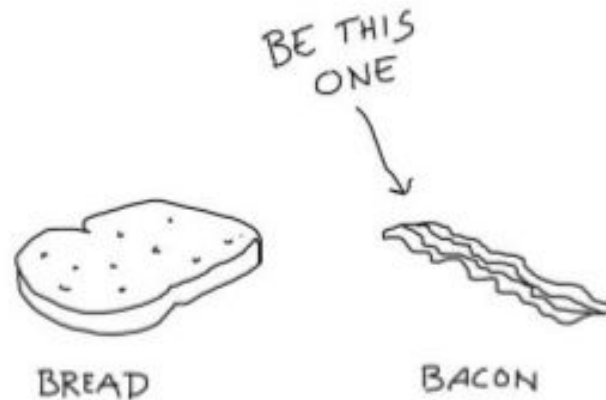
- Use a Standard Form
- Additional Terms
  - Pro-rata participation
  - Information Rights
  - Board or Observer Right
- Dumb Early Terms
  - Registration Right

# Fundraising Process

- Asking for advice vs cash
  - Who do you know that would like our type of deal
  - What other things would you like to see us complete before we talk again
- Deals that get closed are pulled by the investor, not pushed by you
- Find your lead investors – keep the others warm

# Pitching

## MINIMUM VIABLE PERSONALITY



Most important step for build product is build product.

Second most important is build personality for product.

No have personality? Product boring, no one want.

Fake Grimlock

# Tools

- Google Sheets
- <https://freebusy.io/> allows you to show your calendar (including multiple Google Calendars) – save the back and forth (\$6/month)
  - Accept or rearrange
- [Email tracker pro](#) (chrome extension)
- Zoom Meeting – you control the variables (not free, 45 minute limit) (\$15/month)
- Use tools that show professionalism, drive the meeting schedule – don't wait on their assistant

# Valuations – What's my Company Worth

It's not calculus it's a heuristic

\* Monthly Burden

LITIGATION

\* payroll

CORE +

Servers 57%

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# Valuations

## Pre-Revenue

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- TAM
- Team
- Product
- Traction
- Berkus Method
  - Western companies
  - Discount for regions

## Post Revenue

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- Judged more by growth
- Unit economics
  - LTV
  - CAC
  - Ratio
- Forecast vs. Actual performance

# Finding Your Lead Investor

- Angel
  - Party round - Lead isn't required – but super helpful
  - Price needs to be compelling
  - A lot of followers
- Venture – they set terms – with your guidance
  - Lead is required
  - They will help with the syndicate
  - Momentum and competition matters

# Building a Syndicate

- Lead
  - Amount
  - Terms
  - Influence
  - Board Role
- Follow
  - Amount
  - Average Check

# Closing

- Close Date
  - Keep pushing to close
  - Don't fake a date
- Rolling Close
- Lead will push in first
  - Competitive deals will allocate to syndicate with you
  - Non-competitive it will likely come in via fits/starts
- Escrow with Min/Max

# Season and Timeline (US)

- Short Season – Sept 15- November 15
- Long Season – January 15 – June 15
- Target 2-3 Month
- Momentum matters

# What's happening with the VC?

- Most filter – sector, size, stage, growth, referral source
- Then Screen at Partner Meeting – looking for consensus
- Then invite in for presentation
- So! You need to make the presentation that the most Junior team member has confidence repeating! Have a lead within the firm
- No one's writing a check from an Exec Summary or PPT!  
Get the next meeting

# Due Diligence Process

- Deal Memo – internal memo used to validate why they are leading the round – it will likely be shared with other investors or future investors
- Document review post
  - Data room
  - Corporate Hygiene
- Customer calls – you likely have a few customers, don't over burden them with random call.
- Meet with other investor

# Your Due Diligence

- Ask to talk to their portfolio company CEOs – ask for a couple of companies they passed on investing as well
- Have a structured list of questions
  - Have they been a good investor
  - Give me an example of a time when they were helpful
  - Give me an example of a time they weren't helpful
  - Have they done the things they said they would do when they invested
- Not all money is good money

# Tactics for dealing with VCs

- You want to create momentum or a sense of momentum
- Create a reason to close – not a reason to wait!
  - Good news next month is a reason to wait
  - New features shipping next month is a reason to wait
  - Booked revenue is a reason to close = increased valuation
- Not all VCs are arrogant assholes (but many are)
  - Pattern matching – break the mold!

# Final Do's and Don'ts

## Do

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- Keep your eye on the ball  
– don't miss your numbers
- Manage the process
- Qualify your investor
- Create optionality
- If there's an ELEPHANT room, call it out

## Don'ts

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- Get < 6 Month of capital
- Hide the ball on any bad news
- Be too transparent
- Let the investor miss a deadline – escrow example

# Conclusions

- Broad funnel gives you the most choices
- They will be talking to other investors
- How you interact in the process will indicate the future
- What do you need in addition to capital?
  - Go to market help
  - Product help
  - Know your blind spots
- Time kills ALL deals

# Q&A



# THANKS!