

Fundraising Fundamentals

Dave Parker

www.dkparker.com

@DaveParkerSEA



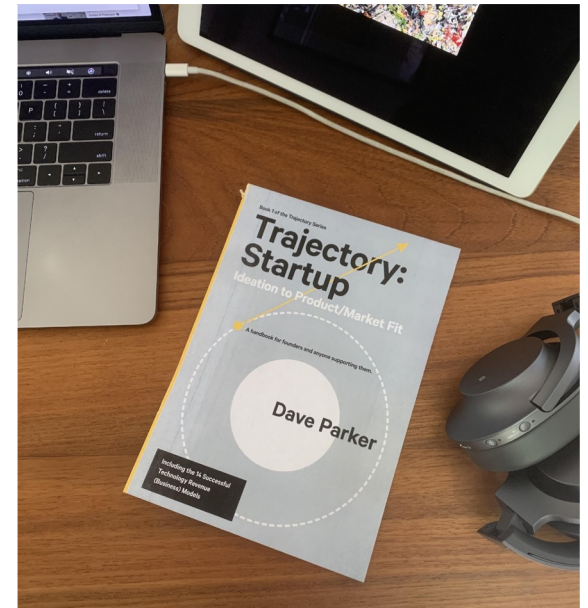
About Dave

- 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
- 14 Revenue Model Excerpt
 - <https://www.dkparker.com/trajectory-excerpt/>



Copyright, DKParker, LLC 2020

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

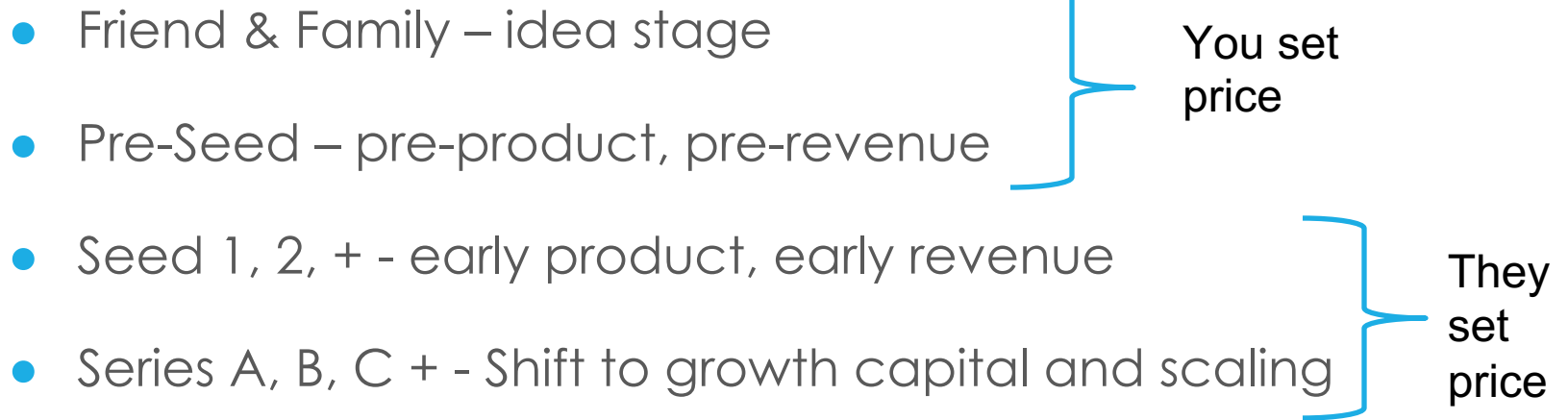
Early - Angel (F&F)

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

Later - Institutional

- 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
- 

Raising for What – Use of Proceeds

Early Days

- 4-6 Months
- To hit milestones
 - Product
 - Customers

First Institutional

- 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
- 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

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 13 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

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

Slides for Conf Room

- 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

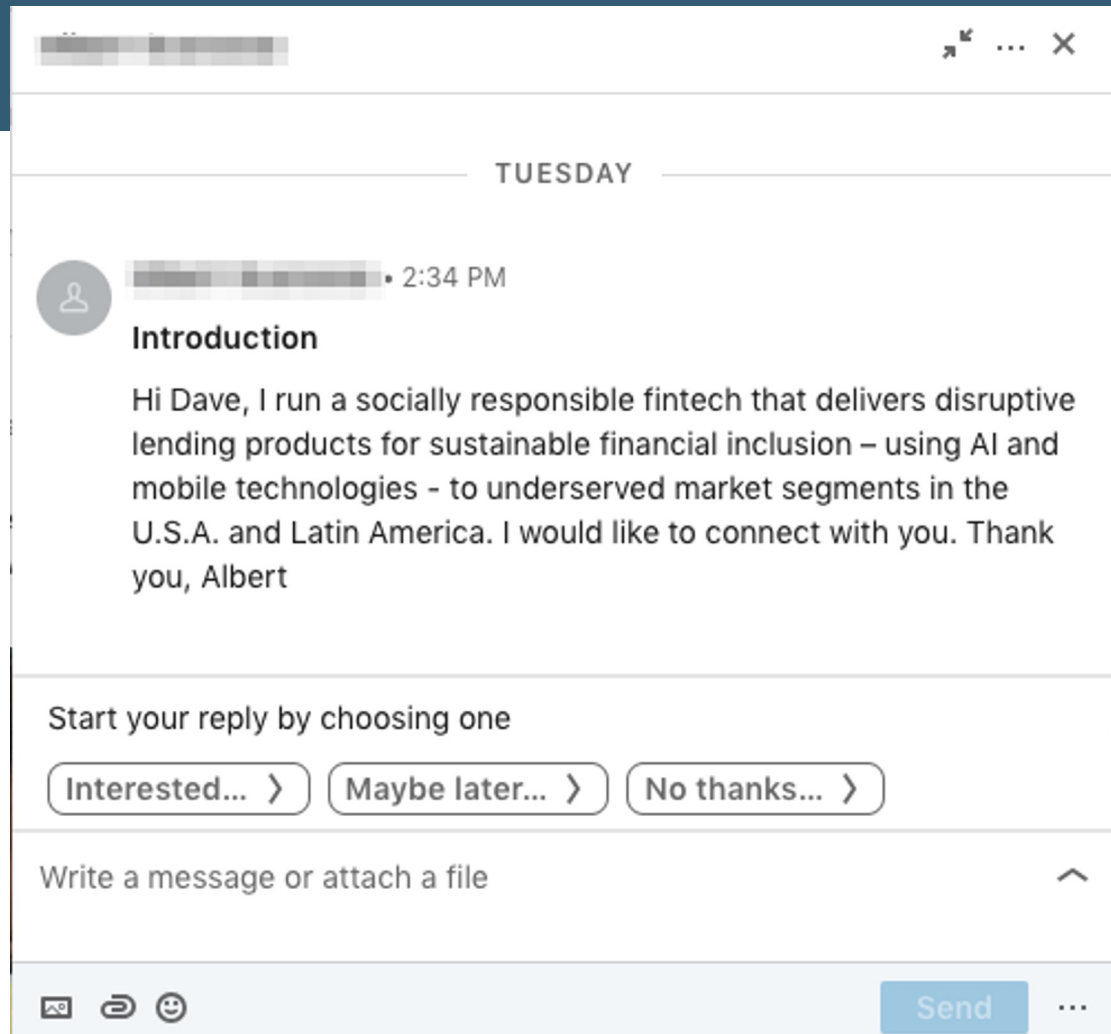
Monthly Updates

- 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

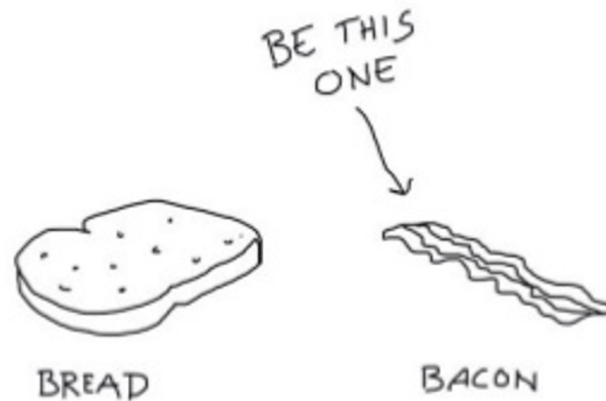
- Use a Standard Form
- Additional Terms
 - Pro-rata participation
 - Information Rights
 - Board or Observer Right
- Dumb Early Terms
 - Registration Right

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 Bur...

LITIGATION

* payroll

Core +

Servers 57%

SO

H

▶ ⏸ 🔊 0:00 / 1:15

🔌 CC ⚙️ 📺 📱 📶 🗉

Valuations

Pre-Revenue

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

Post Revenue

- 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

- 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

- 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!