

# Fundraising Fundamentals

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# Agenda

- ▣ About Dave
- ▣ US Startups – The Valley and Beyond
- ▣ First Impressions
- ▣ Capital Stack
- ▣ Fundraising process
- ▣ Building a mindset

# About Dave

- 5X founder, Board Member, former SVP Programs at UP Global (Startup Weekend + Startup America)
  - Startup Next creator and Startup Week
- Senior Partner, Fearless.fund
- Author – "[Trajectory: Startup – Ideation to Product Market/Fit](#)"
- >15 transactions – 8 sell side, 2 buy side now with [NextPath Advisors](#)
- WTIA Startup Programs Board Chair



# The Valley – and Beyond

# The Valley – and Beyond

## The Valley

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- ▣ Lead investors
  - ▣ High density of investor
- ▣ Resources
  - ▣ Team experience
- ▣ Highly competitive, need to differentiate
- ▣ Negative affinity to commuters

## Major Metros

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- ▣ Influenced by industry types: NYC=Fintech, LA = Entertainment, Seattle=Enterprise SW & Commerce

# Bid Ideas Matter

**In the Valley, you have to pitch “Climbing Mt. Everest”**

**Outside the Valley, you have to pitch “Base Camp, then the future”**

# Pre-Qualifications

- ▣ Delaware C Corp – at least in process
- ▣ Pitch Materials done
- ▣ Financial Model updated
- ▣ Data Room
  - ▣ Link to list here
  - ▣ Tool like OneHub
  - ▣ Importance of employee contracts and assignment agreements

# 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



# 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

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

## First Institutional

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

# Financial Model

- ▣ Needs to be rock solid
- ▣ Sensitivity analysis
- ▣ 18-24 months use of proceeds
- ▣ Should reflect US staffing expense if that's your plan
- ▣ Scale both revenues and expense

# First Impressions

# Elevator Pitch

- ▣ Quick intro
- ▣ Industry/Stage
- ▣ Traction
- ▣ Team
- ▣ Ask – what do you need?

# Prompt Madlibs Pitch

Hi, I'm <your name here>, and my company <your Company name here> the problem I'm solving is <insert problem here>. Our product <insert product info here> is designed for our target customer of <insert target customer here>. We make money by <insert method here> and our team is the right team because <insert why you're awesome here>. I need help with <insert help needed here>.

# Capital Stack

# 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 VC = 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

# 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

# Institutional Investors

Moving up the capital stack:

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

# Private Equity

- ▣ Ranges from small to huge
- ▣ Typically looking for cash flow positive companies to recap
- ▣ Leverage purchase with debt
- ▣ Don't want to run the company
- ▣ “Always a bigger fish” to flip to
- ▣ Will waste your time

# Lead Investors

- Recognize size of the deal and do the math for pre/post money calculations – you don't need to provide terms
- Have an average investment target – including target ownership percentage, e.g. \$5M and 10% target
- Target percentage is the VC's goal
- You can ask average check and ownership target – also look at recent press releases

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

# Learn the Mechanics

- Avoid Lawyer to Lawyer negotiations, stay on the email strings.
- This will reduce your bills and you'll learn the mechanics
- Deal Lawyers bill in 6 Min increments, @\$1,500+ per hour

# 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

- Is a loan to the company from investors
- Loan amount
- Term – three year term
- Interest rate - ~5%
- Cap
- Discount
- Series Seed Convertible Debt = \$3k legal cost
  - Cheapest and fastest way to get
  - Converts when you raise a priced round

# Safe Note

- Ycombinator (YC) Docs
- A commitment to buy stock at a future price
- Cap
- Discount
- YC Safe Note = \$5k legal cost
  - [YC Docs](#) – Simple Agreement for Future Equity.
  - When you raise a priced round

# Priced Round

- The company sell shares of the company at a price per share
- Price-per-share
- % of company purchased
- Pre-Money/Post-Money Value
- Priced Rounds – [Series Seed Doc Template](#)
  - \$15k with templates  
\$40k+ w/o
  - “Redlines” = expensive

# 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

# Running a Fundraising Process

# 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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# Tools for Pitching

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

# Telling a Story

- Don't be too rigid – “Problem” “Solution”
- Find your voice
- Tell a story
  - Beginning, middle, end
- Tick the boxes
- Your customers life before you product, their life after your product

# 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!

# 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

# 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



# Document Management

- ▣ If you're asking for feedback – Gdoc
- ▣ Forwardable – PDF Exec Summary with intro email
- ▣ DocSend, HubSpot - require email to view
  - ▣ Won't be forwarded

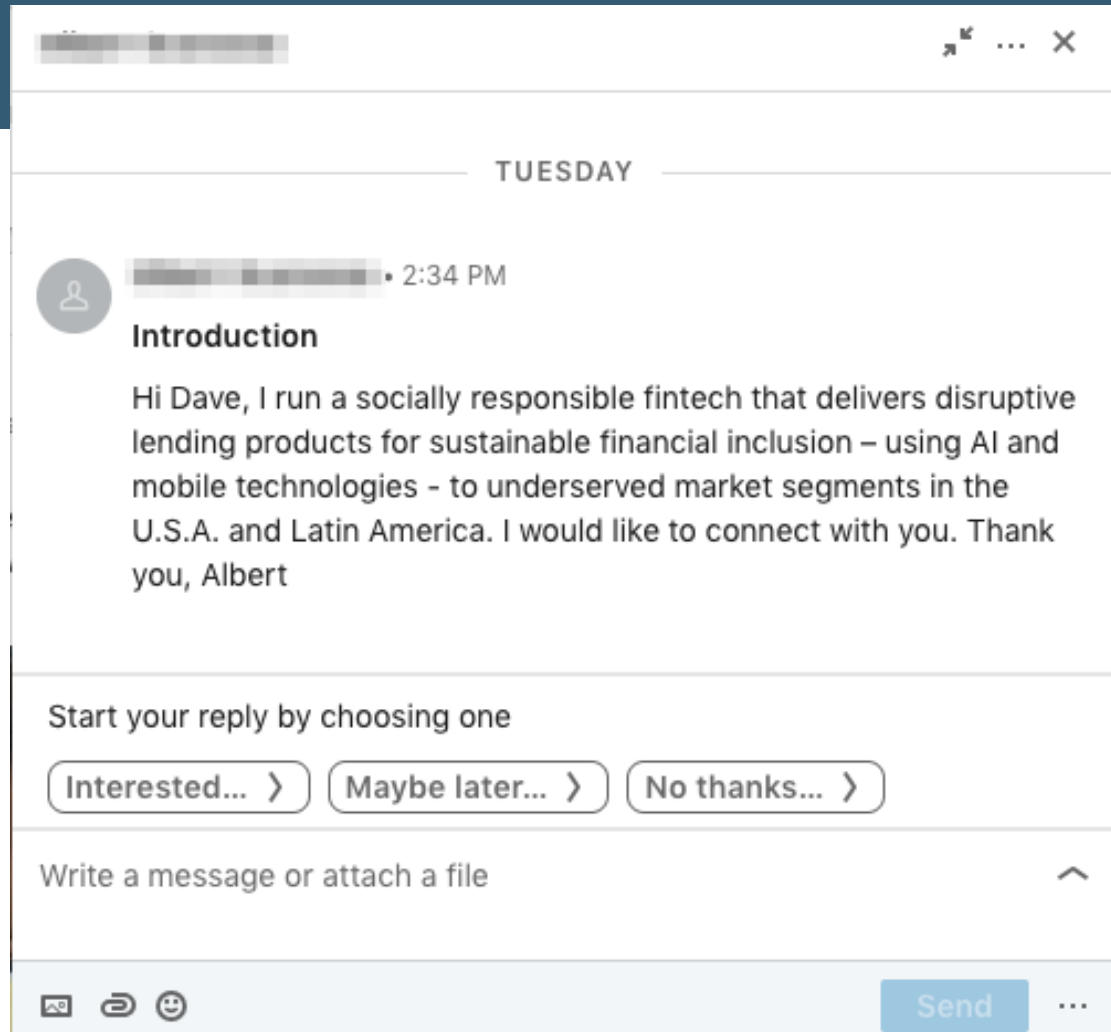
# Data Room

- ▣ Contain corporate docs, contracts, employment documents, financial folder since beginning
  - ▣ Museum quality!
- ▣ Drive type
  - ▣ Google Drive
  - ▣ OneHub - watermarked, tracked who views what docs

# 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



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# Mindset

# Mindset

- ▣ You run the process
- ▣ Don't shrink into the background
- ▣ Ask for next steps
  
- ▣ Confidence – no one pitching in the valley lacks confidence

# Qualify The Investors

Ask them questions:

- Do they invest in this type/stage/international investment

It will be uncomfortable – get over it!



# Deliverables

- ▣ Update your presentations
- ▣ Ask questions – qualify investors on the call
- ▣ You own the process – it's not passive (but you don't need to be super aggressive)
- ▣ It will be uncomfortable

# Q&A

THANKS!