

Startup Fundraising

Dave Parker

www.dkparker.com

@DaveParkerSEA



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

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

Major Metros

- ▣ 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

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

First Institutional

- ▣ 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

Party Rounds

- ▣ You set "reasonable" terms
- ▣ SAFE Note, all docs
- ▣ Wire info

- ▣ The default answer is no, so if there is ANY reason to wait, they will

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

Institutional Investors

Moving up the capital stack:

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

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

Average Check/ Ownership Target

- ▣ Funds have an average check size
- ▣ They also have a target ownership percentage
- ▣ It's ok to ask...
- ▣ Reverse engineer your pre/post money calculation
 - ▣ Avg check \$1M, 20% target ownership = \$5M post \$\$

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

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

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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

But, A Pitch is about WHAT not WHY

- ▣ With all respect to Simon Sinek
- ▣ A pitch is WHAT you do
 - ▣ Not why
 - ▣ A little bit of how
- ▣ They will ask about the founder's origin stories if they are interested...

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

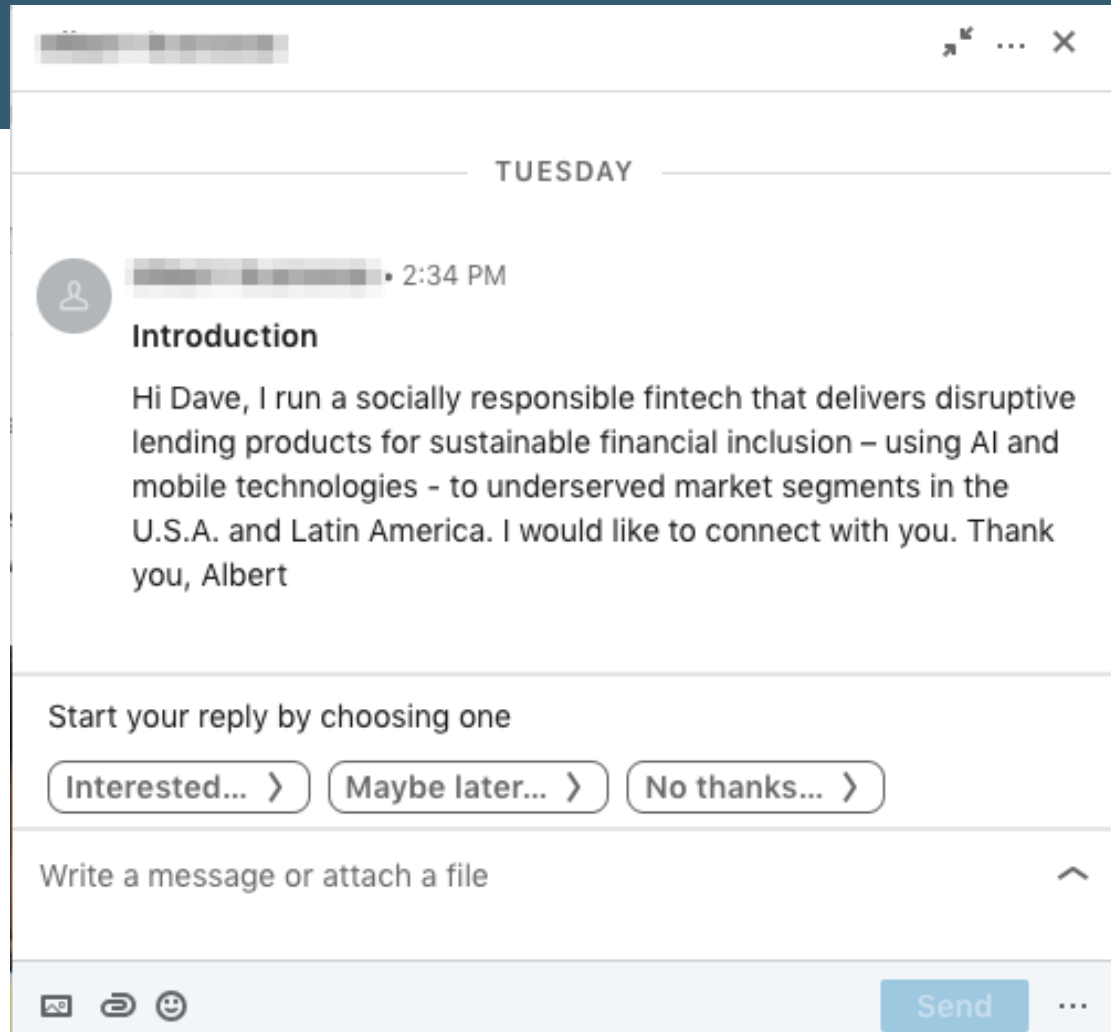
Data Room

- ▣ 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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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

Side Letter

- ▣ Apply to only lead or key investors
- ▣ You as the founder can apply to all
- ▣ Terms
 - ▣ Participation rights – pro-rata rights for the next round
 - ▣ Information rights – quarterly financials
 - ▣ Board/Observer rights – board or observer seat for board meeting

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

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

You be you... But

US Founders

- ▣ Blend aspirations and actuals
- ▣ Tend to live in the future,
- ▣ Still over deliver

International Founders

It will be uncomfortable – get over it!

Q&A

THANKS!