

Fundraising Fundamentals

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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



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

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)

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

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

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

Monthly Updates

- Using MailChimp Free Account
 - Investors – Tagged
 - Customers

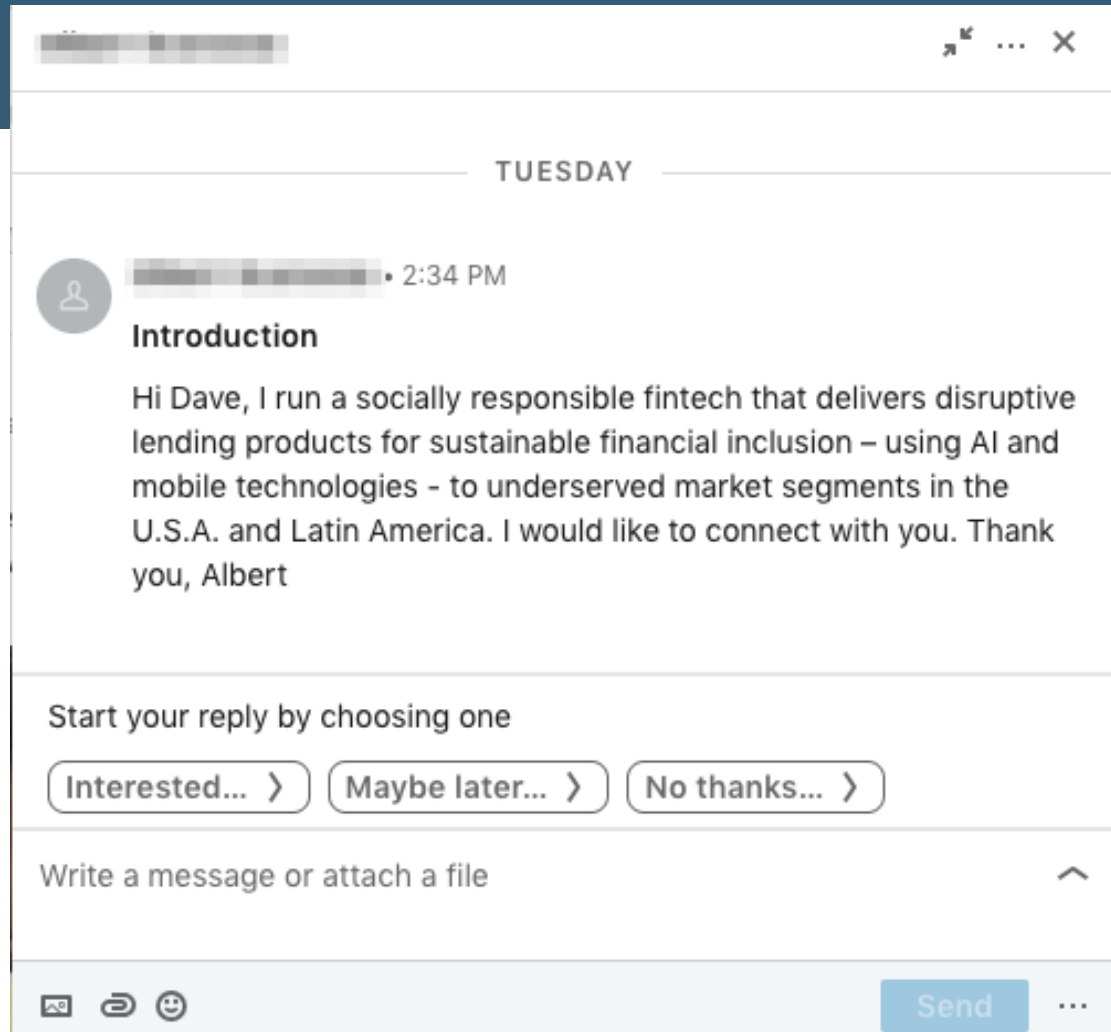
- 30 day intervals
 - What we thought
 - What we learned
 - What we're doing about it
 - Where we need help

- 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



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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

What You Call the Round

- ▣ That's a PR Question for the Founders
- ▣ Investors care about ownership percentage and average check size

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

- ▣ Is a loan to the company from investors
- ▣ Loan amount
- ▣ Term – three year term
- ▣ Interest rate - ~5%
- ▣ Cap
- ▣ Discount

Safe Note

- ▣ Ycombinator (YC) Docs
- ▣ A commitment to buy stock at a future price
- ▣ Cap
- ▣ Discount

Priced Round

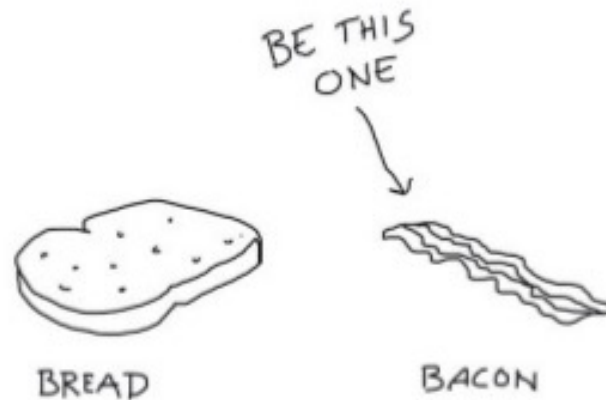
- The company sell shares of the company at a price per share
- Price-per-share
- % of company purchased
- Pre-Money/Post-Money Value

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](#)

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?

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

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!

Valuation

Valuation

- Earliest stage valuation is based on
 - Market size
 - Team
 - Product
 - Early traction
- Later stages are based on data
- All influenced by current market condition (don't be tone deaf)

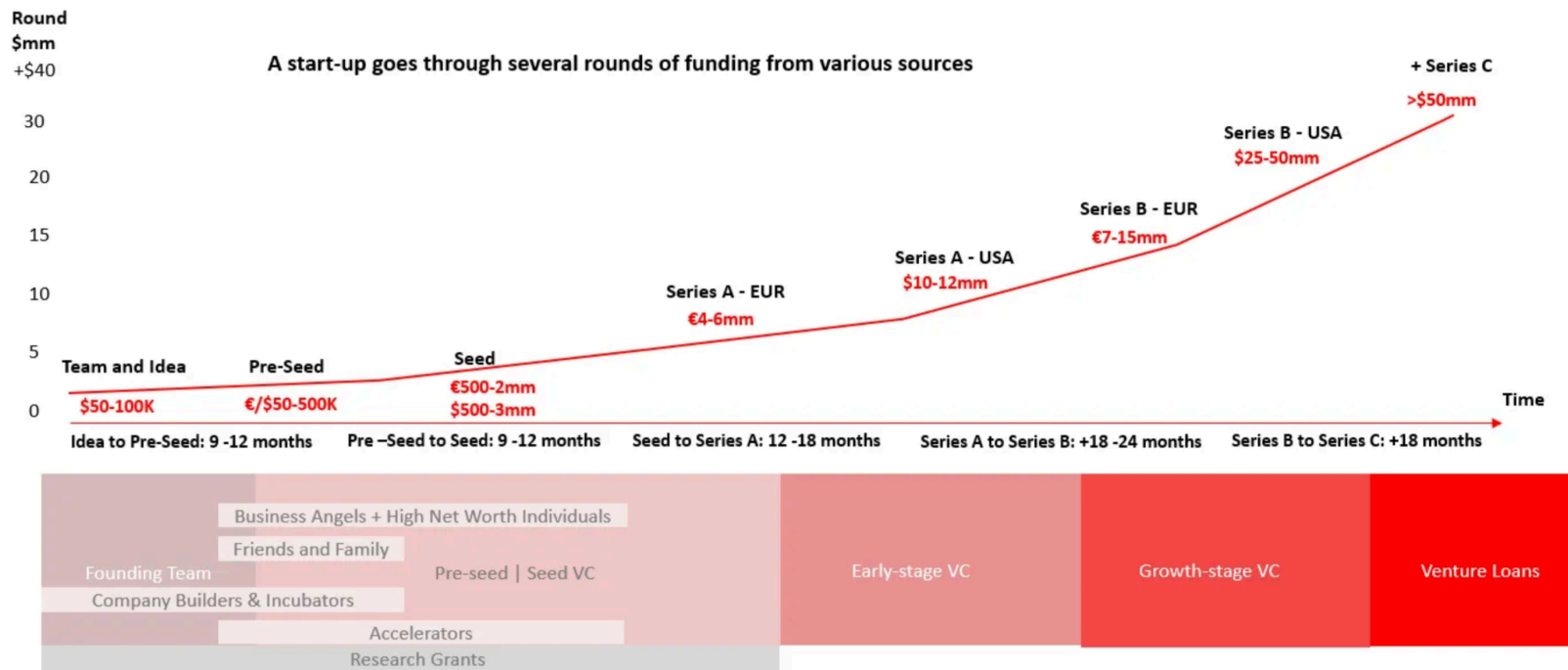
Founder Dilution

Dilution

- Each round of funding has 15-20% (or more) of additional dilution
- Early rounds can be ~10% based on milestones and smaller rounds
- Later rounds tend toward 25-30%
- Down rounds if you don't hit your numbers

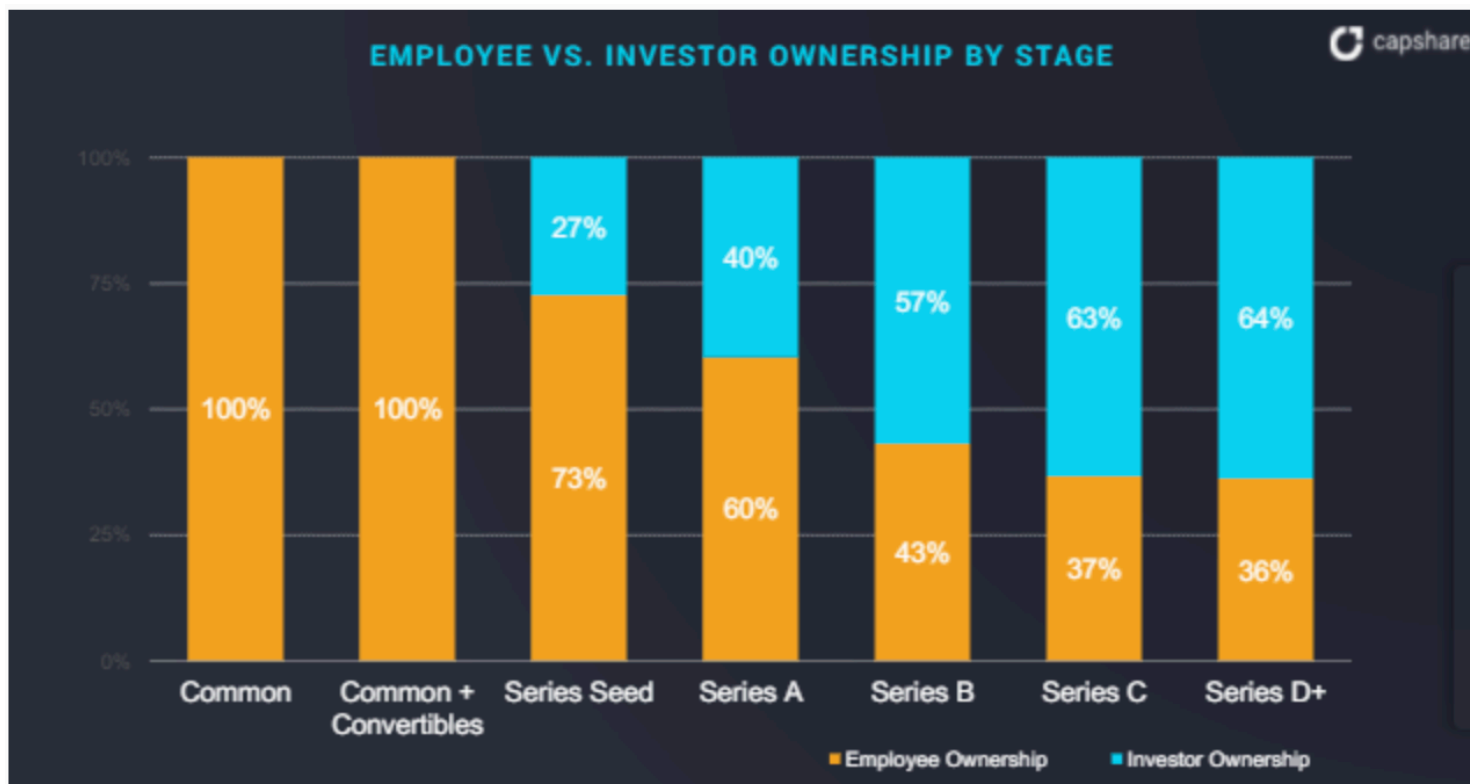
Investment by Stage

Early-Stage Funding Cycle



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Dilution



Capshare — Private Company Equity Statistics Report

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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!

Supporting Slides

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- Asking for advice vs cash
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Pitch Prep