THE BASICS OF FUNDING EARLY STAGE VENTURES

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ABOUT ME @BLAKEPATTON

- Technology entrepreneur and investor with 20 years of experience in startup, venture backed, and publicly traded technology companies
- Founder & Managing Partner, Tech Square Ventures
- Tech Square Ventures is a seed and early stage venture fund
- ENGAGE Fund Manager
- Investing in cloud, IoT, and university spinouts
- Former General Manager of the Advanced Technology Development Center (ATDC) at Georgia Tech
- Teaches Entrepreneurial Finance at Georgia Tech’s Scheller College of Business
SOURCES OF CAPITAL

- **SEED**
  - Bootstrapping, Friends & Family, Angels, Grants, Seed VC

- **VENTURE CAPITAL**
  - Early Stage VC, Growth Stage VC, Venture Debt

- **TRADITIONAL**
  - Private Equity, Bank Loans, IPO, Bonds

**Dimensions**:
- Concept
- MVP
- Traction
- Growth
- Maturity
INVESTORS DON’T FUND RESEARCH – THEY FUND BUSINESSES

Stay bootstrapped / grant funded as long as you can
Raise funding around key milestones (value inflection points)

- Think in terms of milestones
- Raise enough capital to reach meaningful milestones
- Account for variability / scenarios
- Milestones represent reduced risk and more favorable valuation (lower cost of capital and more options for availability)

Strong growth and increasing market share

Initial traction, referenceable customers, ready to scale sales

Evidence of product-market fit, MVP

Strong team, great market opportunity, compelling solution

Pre-seed

Seed

Series A

Series B

Easier to raise funding

Harder to raise funding
- Lean To Product Market Fit
- Raise More To Accelerate Growth
At Seed & Early Stage I Am Betting Primarily On The Team, Market, & Timing

- Entrepreneur & team
- Market
- Right Timing

- Investment thesis fit
- Can I help?
- Unfair advantage / IP

- Scalable business model with recurring or transactional revenue
- Proof or traction
- Distribution
THE PROCESS

PREPARE  ROADSHOW  CLOSING
Elevator Pitch
Executive Summary
Presentation
Financials
We solve [problem] by providing [solution/advantage] to help [target customer] with [goal or outcome].

Depending on stage of business add: We make money by charging [target customer] to get [benefit].
- Create the right first impression
- Use to get meetings and gauge interest
- Not a business plan
- One page
- Clear and compelling
- Highlight the good stuff
- Layout and format matters

Example template:
http://members.atdc.org/resource/resmgr/Files/Executive_Summary_Templa
Shots don’t have to hurt.

empowered!

BUZZY
DRUG FREE PAIN RELIEF

Injection
Cosmetic Procedures
Office
Dermatology
If investors understand the **problem** you solve, and **who** you solve it for – you are half way there
We have this **value proposition** and we have the right **team** to win.

We discovered our **target customer** has this large **problem**, and we addressed it with our **solution** based on this **defendable technology**.

We will **acquire customers** with this **business model**.

We have these advantages over our **competition**. We will meet these **milestones** with this **financing**.
INTRO
- Brief history of the company – keep it high level
- What is your core value proposition? Why does your company exist? What do you do and for who?
- What stage is the company?
- Highlight your traction to date
- How much are you raising?

TEAM
- Key team members and roles
- Highlight relevant background, experience, and successes (include recognizable logos)
- Board, Advisors
- What holes do you need to fill in your team?

PROBLEM
- What problem are you solving?
- Who are you solving the problem for?
- Why are you focused on this problem?
- How do customers solve the problem today? Why doesn’t that work?
- Use real examples
MARKET
- How big is the market (TAM, SAM)? How much are customers spending to solve the problem today?
- What are the relevant market dynamics and why is now the right time?
- How is the market growing and why?
- Provide data to support

SOLUTION
- What does your product/service do?
- What are the main benefits to the customer?
- How does it work?
- What are the key features?
- Current state of the product
- Do you have unique IP?

COMPETITION
- Who are your competitors?
- How else do customers solve the problem?
- Explain your competitive advantage and key differentiators
- How will you win against these competitors?
- Include a competitive overview matrix with strengths and weaknesses and metrics
BUSINESS MODEL
- What is your revenue model?
- What is your distribution model. How do you acquire customers? What is your pricing model?
- Traction to date, evidence of product market fit, key metrics
- Customer pipeline
- Financial summary to date and future forecast

THE ASK
- How much are you raising?
- What milestones will you accomplish with the funding?
- How will you use the proceeds?

KEY MILESTONES
- What are the key milestones in the next 12-24 months? (value inflection points)
- What do you need to meet them?
- What is your product roadmap?
- What key hires will you need?
https://www.slideshare.net/canaanpartners/canaan-pitch-workbook

http://nextviewventures.com/blog/free-startup-pitch-decks-template/
"STARTUP FINANCIAL PROJECTIONS ARE A WORK OF FICTION"

Yes... but it shows
- How you think about the business
- How fast you think it will grow
- Key assumptions, drivers, and levers
- Goals and milestones
- What you need to get there

And
- Helps tell your story
- Measures interest
- Allows comparison of strategic alternatives
- Helps understand strengths and weaknesses of a venture

In preparing for battle I have always found that plans are useless, but planning is indispensable.

Dwight D. Eisenhower
Leverage the Business Model Canvas to build your model
The Canvas shows flow of revenue and expenses

- Start with revenue forecast
- Forecast expenses
- Income statement forecast
- Balance sheet and cash flow forecast
- Build / highlight a schedule of assumptions and make them easy to adjust
- Use tabs in excel (e.g., assumptions, revenue, marketing & sales, R&D, headcount, etc)
SHOW HOW YOU WILL MAKE MONEY

Start with how you will acquire customers

Validate lifetime value of customers is greater than cost to acquire
HIT THE ROAD
WHAT IF IT TAKES LONGER?

- If you have pitched 10+ qualified investors and no one invests, re-think your pitch
- If you still haven’t raised after pitching 20 or more investors – your idea, team, or timing may be the problem.
FINDING THE RIGHT INVESTOR

CHOOSE WISELY!

TARGET SECTORS

RELATIONSHIPS & CONNECTIONS

STAGE

REPUTATION

GEOGRAPHY

PARTNER

FUND SIZE & CYCLE

ALIGNMENT
THE BEST INTRODUCTION IS FROM ANOTHER SUCCESSFUL ENTREPRENEUR

- Cold calling rarely works – get a warm intro
- Lawyers and service providers
- Startup community Events
- Short email with ‘bait’ – get the meeting, don’t sell
- Ask for a 30 minute meeting
- Be prepared to send an executive summary if requested
INVESTOR MEETING

Know The Investor
Do your homework on who you are meeting

Bring A Key Team Member

Come Prepared To Pitch
Presentations, laptop, executive summary, handouts

First Few Minutes Are Key
Set the hook. Draw them into your story. Present with passion.

Be Prepared To Jump Around
Use an appendix

Communicate Clearly
Don’t overuse buzzwords. If they can’t get their partners excited, it won’t go forward.

Know Your Market
Describe your target customer. Know your addressable market size. Know your competitors.

Know Your Numbers

Highlight Traction

Leave Behinds

Plan For 30 Minutes

Ask Level Of Interest
MOST INVESTORS DON’T SIGN NDAs

- They are likely to meet similar companies or your competitors
- Too time consuming & expensive to review and track
- Litigious or paranoid entrepreneurs that feel their idea was copied
- Credible VCs will maintain your confidentiality
- Learn to pitch your venture without having to ask for an NDA
CLOSING THE DEAL
Document of preliminary agreement on terms of the investment

- Usually non-binding
- Negotiated before more detailed actual stock purchase agreement, note, or SAFE (and related documents)
- Lead investor drives terms

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Preferred stock is a class of stock that provides certain economic and control rights, privileges, and preferences not possessed by the common stock holders.
KICKING THE CAN DOWN THE ROAD

ALTERNATIVE DEAL STRUCTURES

- Convertible debt
- SAFE
CLOSING PROCESS

TERM SHEET
Negotiate term sheet with lead investor

ROUND UP ADDITIONAL INVESTORS
Build investor syndicate with additional investors as needed to fill out the round.

DUE DILIGENCE
Investors validate legal and business aspects of startup. Setup a shared diligence folder.
CLOSE
Sign final documents and investors wire funds

FINALIZE LEGAL DOCUMENTS
Review completed subscription agreement, investor rights, etc.
Early stage venture valuation is as much art as science

When raising money, new venture valuations determine how much equity the investor gets for the investment.

FACTORS INFLUENCING VALUATION

- Stage of the company
- Strength of the team
  - Demand (competition in the deal)
  - Traction, Revenue, Growth
  - Size of the market opportunity
    - Other investors
    - Accelerators and incubators
      - Geography
      - Market factors
If a startup raises a $2 million Series A at a pre-money valuation of $4 million, how much of the company would the investor get?

$$\text{Pre-money Valuation} + \text{New Money Invested} = \text{Post-money Valuation}$$

\[
\begin{align*}
4 \text{ million} + 2 \text{ million} &= 6 \text{ million} \\
\frac{2 \text{ million}}{6 \text{ million}} &= 33\% 
\end{align*}
\]
THANK YOU FOR YOUR TIME

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WHAT INVESTORS WILL ASK

Entrepreneur & Team
- Why are you doing what you are doing?
- What relevant domain expertise does the team have? What is missing?
- Why is this the right team to do this?
- What are the key missing pieces in the team that need to be filled in the next year?

The Market
- Who is the target customer?
- What is the big problem you solve?
- How do they address the problem currently?
- How big is the addressable market opportunity?
- What are your key risks? Are there any regulatory risks?

Right Timing
- Why now?
- Does it make sense to be doing this right now?
- What customer behaviors must change for you to be successful?
- Why hasn’t this worked before?
Unfair Advantage / IP
- Who are your competitors?
- What gives you a competitive advantage?
- Why will your customers choose your solution?
- What are the barriers to entry?
- Why won’t someone else build this?
- What unique IP do you have? How was the IP developed?
- Who is your IP attorney?

Business Model
- How do you generate revenue?
- How is your product / service priced?
- What are your unit economics?
- What limits faster growth?
- What KPIs do you focus on?
- Who are some of your early referenceable clients?

Proof or Traction
- What early proof do you have?
- Do you have a prototype, beta customers, or is your product in market?
- What are your current sales?
- What is your churn?
- What customer usage proof do you have?
WHAT INVESTORS WILL ASK

**Distribution**
- How will you acquire customers? What is your sales/marketing model?
- What are your customer acquisition costs?
- What is the lifetime value of a customer?
- What is the typical sales cycle time?
- What is your channel partner strategy?

**Financial**
- What are your three year projections? How fast are you projecting to grow?
- How much have you raised (debt/equity)? What does the cap table look like?
- Do you have an employee stock option pool?
- What are the key assumptions in your projections?
- When will the company get to profitability?

**What is your burn rate?**
- The Ask
- How much are you raising?
- Will the existing investors participate in this round?
- What valuation are you looking for?
- How will you use the funds you are raising?
- What milestones will this round get you to?
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- What are the next steps?
- What concerns do you have? Is there any additional information you need?
- How can you help our company? Tell me about your network.
- What is your decision making process?
- Do we fit the type of company you invest in?
- What is your typical check size?
- Do you typically make follow on investments? How much do you reserve?
- Do you lead or follow?

- How many investments have you made in the current fund?
- How old is the current fund?
- How big is the fund?
- What returns do you look for in an exit?
- Who will be the partner on this deal? How many boards do they sit on?
- Can I talk to some of the companies in your portfolio?
- What investors do you like to invest with?

WHAT YOU SHOULD ASK INVESTORS