How to Raise Venture Capital

Beating the Odds

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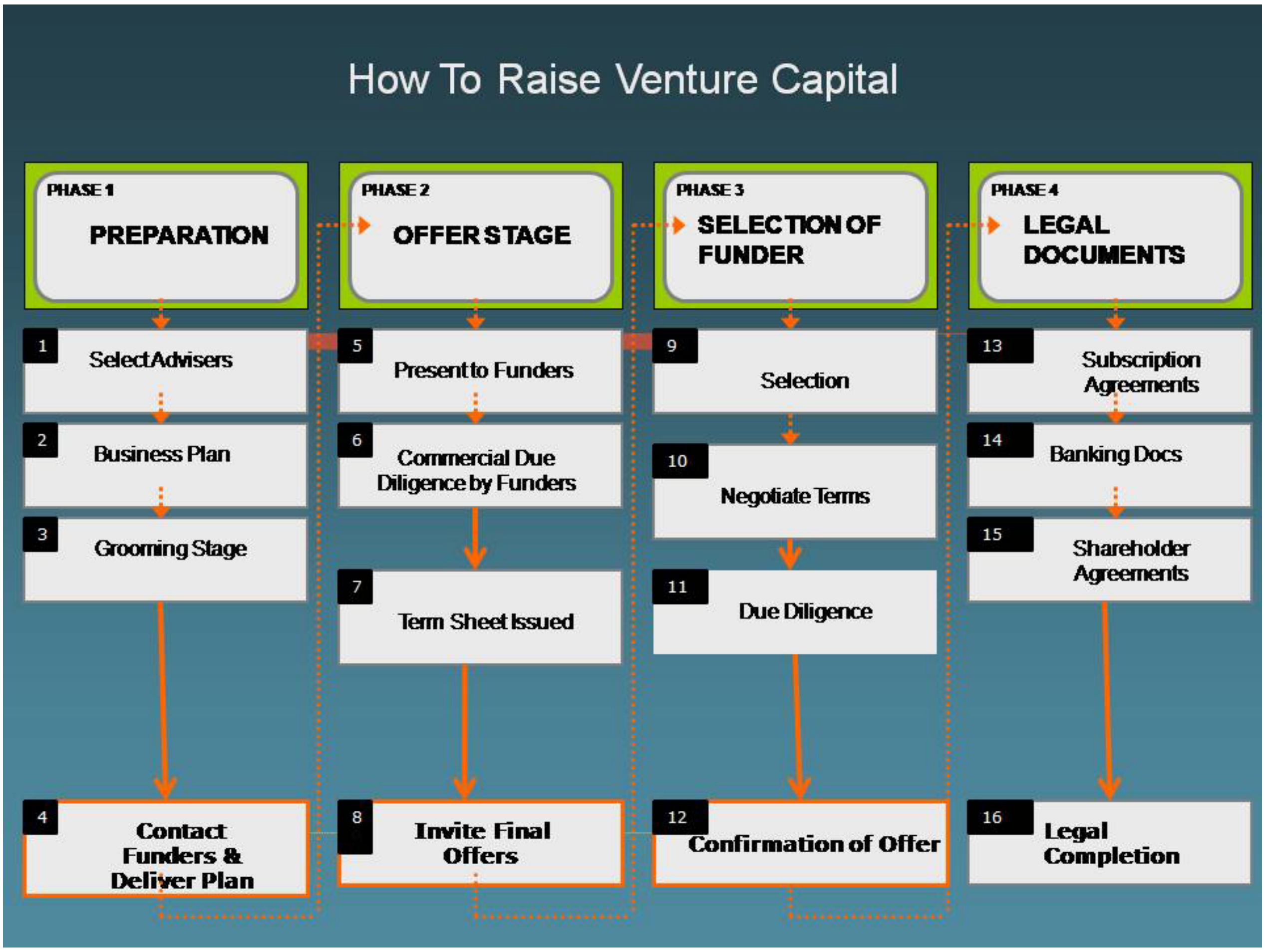

It is never easy raising money but it just got a whole lot tougher. Are there tried and trusted techniques to turn investors on? Yes there are. The secret sauce ingredients include: rigorous preparation, a great compelling story, delivered with passion by a credible management team. Using the process map above, let's break it down into four parts,

1. Preparation,
2. Offer stage,
3. Selection of funder,
4. Legal documents.

Let's look at each stage with practical advice.

PREPARATION

Selecting Advisers:

You could do it yourself but you have a business to run so my advice would be you need help.

Therefore select using these criteria:

- Credentials – references from the last 3 institutional finance raising projects and a list of all deals done
- Personnel – resumes of people doing the work
- Chemistry – can you work with the individuals on a daily basis
- Sector – a list of sector related experiences

Business Plan

What do I cover in my business plan and my executive summary?

Write an enjoyable compelling story that covers:

- how much money you need,
- how you will spend it,
- how much your business is worth,
- why customers love you,
- how you will make money,
- why is it scalable,
- what makes your leadership team credible,
- what is the competitive landscape, and
- explain barriers to entry and the risks of what could go wrong.

Prepare many what-if scenarios. Use a powerful one page executive summary to get interviews and then use a few power points as props to deliver your story. Talk with confidence knowing your speech is backed up by a rigorous business plan.

Build a business plan that summarizes the policies you need to run the business. Ensure all key policies are articulated in a detailed way. A great business plan allows you to produce a great one page Executive Summary.

Grooming Stage

First, gather together answers to questions that will be asked by the business angel, venture capitalist or private equity player.

- What is the status of your industry in terms of trends and statistics? The key is to sound authoritative. Demonstrate that your team understands this market without being verbose.
- The value proposition – does it connect with customers? Why now?
- What makes the management team credible?
- Which analysts validate your strategy?
- How will you make money?
- Be clear on the itch you are scratching! What business am I in? Be clear why you are remarkable.
- Is it a very competitive space and if so why will you succeed? Little competition – does anyone want to spend money on your solution?
- How will you win new customers?

Get on top of the detail. Memorize key facts. Be ready to explain the volume and yield drivers behind you historical numbers. Show your mastery of the economics of your business.

Contact Funders and Deliver Plan

Finally do your due diligence on potential funders, including studying their web site to discover their portfolio, previous exits, investment criteria, and bio of partners. What is the status of their various funds? Are they actively investing the money they have just raised or are they winding down an old fund? Of course an experienced advisor will take you through all this detail and ensure you are heard by the right people.

You really need an intro to a relevant VC once you have drawn up your shortlist.

A really good Executive Summary and a few punchy slides is the most effective method of getting their attention.

OFFER STAGE

Presenting to Funders

The executive summary has been sent, hit the bull's-eye and has resulted in a face to face meeting. How do you handle this meeting? Words of caution …… the first 60 seconds are unreasonably important.

Lead with your strongest, most remarkable statement.
Remember eye contact is vital to ensure that your audience doesn't get lost in deep and meaningful graphs instead of looking at you. Length of presentation? Maximum 20 minutes with big changes of pace every 5 minutes. Talk slowly. Use a maximum of seven PowerPoints. Involve key

members of your team to make key points. Finish with a very strong 60 seconds bringing together the proposition and clear next steps.

Commercial Due Diligence

The funders won't call it that but that's what they want to do next if they like what they hear. Most funders will want to move to an exclusive discussion before investing too much time but I would resist that until you have a detailed term sheet.

Commercial due diligence is an examination by the funder of the fundamental logic of your business plan and the market you are attacking. All the policies will be examined from business models to marketing strategies to your product strategy. The key market drivers, competitors, legislative changes, technology threats will all be reviewed. Of course a switched on funder will know all this stuff already and if fact if they don't, you are probably in front of the wrong funder!

Fundamentally they are making a judgment call on the following:

1. Is the CEO credible and has he assembled a great team?
2. Does the market have an itch worth scratching; is it a need to have or a nice to have?
3. Does this business plan make money and can it scale to a substantial business that buyers will love to buy.
4. Can this team define and dominate this market? What edge do you have on the existing and future competition?

Term Sheet

It is important for your team, preferably your adviser, to issue strict guidelines on your requirements. This will minimize surprises and allow comparison of rival offers. Again the adviser should ensure that all information, business plans, supplementary answers to questions are packaged up and made available to all interested funders. This ensures a level playing field.

Set out a deadline for Term Sheets and send to all interested parties.

Review all Term Sheets and list clarification points including terminology that is unclear, conditions that need more detail, and commercial terms that seem uncompetitive.

Invite Final Offers

Go back to all parties and ask them to address the issues identified in your Term Sheet review and ask them to issue their final and best offer by the agreed deadline.

SELECTION OF FUNDER

Selection

In making your final choice, with the help of your advisor, take into consideration the following:

- Equity % requested for their money. Model the likely IRR % the funder is expected to achieve based on reasonable assumptions.
- Chemistry of the deal leader who will be attending Board meetings and the fit with the management team.
- Understand their approach to future funding needs.
- Early repayment penalties if any.
- Approach to salary and incentive schemes.
- Information requirements on an ongoing basis.
- Previous track record and references.
- Synergy/conflicts with other portfolio companies.
- Type of fund being used to do the deal.
- House style of management, hands off or micro managers.

Negotiation of Terms

It is worth noting that most terms offered are negotiable. Hopefully your adviser should be adding significant value at this stage. Checklist to focus on:

- Pre money valuation
- Equity stakes for all parties
- Dividend rights
- Repayment Terms of any financial instruments
- Exit valuation placed on the target

Remember the management team has to live with the funder after the deal so stay professionally polite when negotiating hard. Once a detailed set of terms are agreed, (Note this is not the final legal document) the preferred funder will conduct formal due diligence.

Due Diligence

The length and scope of due diligence can vary dramatically depending on the size of the deal. Duration of 2 to 4 weeks is normal.

Confirmation of Offer

It is important to have an all parties post due diligence meeting. This allows the funder to confirm the deal is on at the terms agreed. I'm sure you realize some funders will use the due diligence findings to renegotiate a better deal for themselves. Unless there is a material change to the facts disclosed pre due diligence then I would advise resisting deal creep!

LEGAL DOCUMENTS

The final phase will involve your lawyers, the funder's lawyers and potentially your banker's lawyers translating the deal into the relevant legal documents.

This can be a painful experience but it is vital that management stay close to this process. A few tips worth remembering:

1. There no such thing as a legal point, only a commercial point. Have your lawyer explain the commercial significance of the issue.
2. Information disclosures by management are a smart way of weakening the power of warranties and indemnities that will be requested by funders.
3. Wherever possible used worked numerical examples to illustrate a legal deal structure point. This is particularly true of ratchet type deals where management might receive bonus shares for hitting benchmark performances in the future.

By following this type of process map you should dramatically change the odds of closing an attractive funding deal with a great long term financing partner.