Fundraising for Entrepreneurs

Taylor Davidson

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I’m Taylor

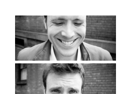
VC

Entrepreneur

Previous professional experience includes: strategy consultant, startup CFO and business development, private equity, innovation at big financial services company, finance consultant, photographer. Fluent in HTML and CSS.

MBA Finance, Tepper School of Business at Carnegie Mellon

BA Economics, University of Virginia



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Fundraising

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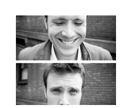
Venture capital is just one option.



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- Debt and credit cards
- Consulting and side jobs
- Crowdfunding
- Grants
- Customers

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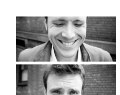
For companies that exist in high uncertainty with little past results, in areas where high capital outlays in advance of revenue are a competitive advantage …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… that's what VCs do.

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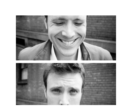
VCs are businesses too.



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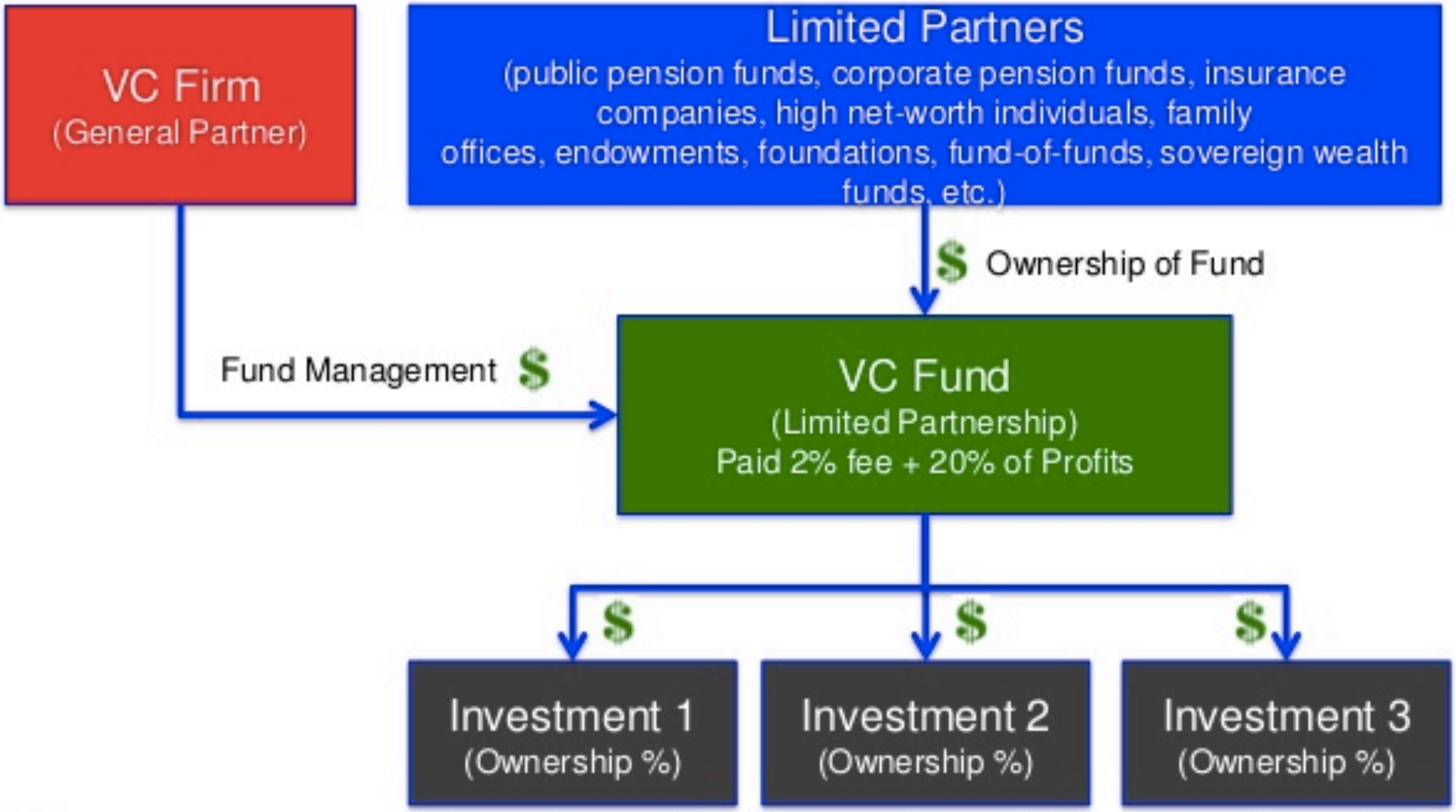
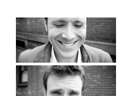
HOW VC WORKS



http://www.slideshare.net/schlaf/raising-a-seed-round



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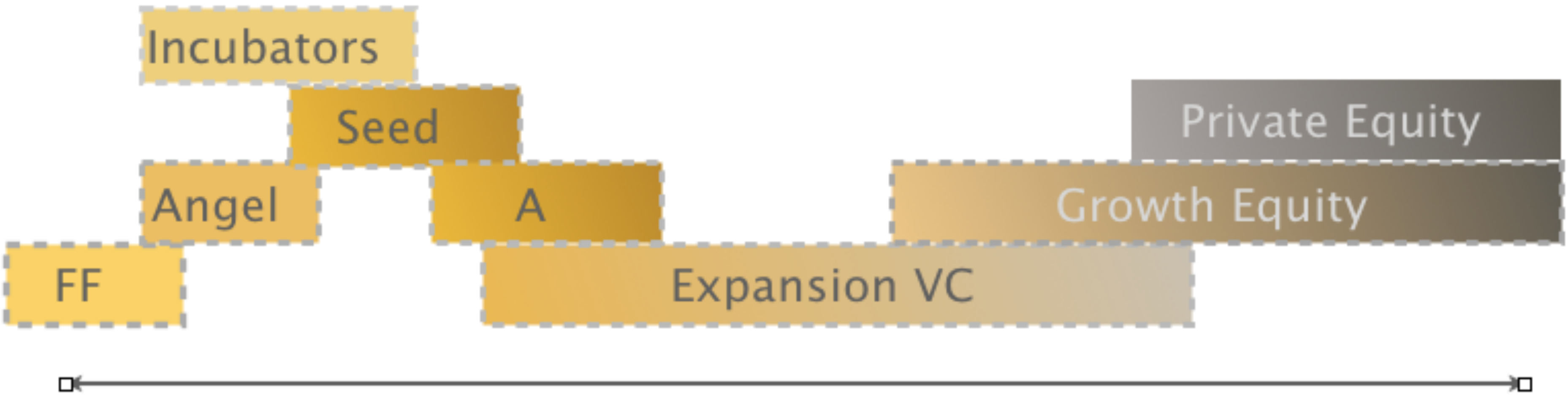
Incubators
Seed
Private Equity
Angel
A
Growth Equity
FF
Expansion VC

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VC sets you on a path.

Including, you've hired your boss.

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Average exit takes 6 years, and a lot of money.

http://info.crunchbase.com/2013/12/16/

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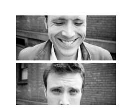
Average successful startup…

IPO: $162 MM (exit $467 MM)

Acquired: $41 MM (exit $243 MM)

http://info.crunchbase.com/2013/12/16/



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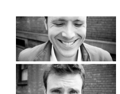
There's a model for a venture funded company.



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Venture returns are driven by power laws.

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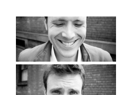
97% of returns created by 15 companies created every year. *

*** Even if the % is wrong, the skew is right.**

Ben Horowitz, http://qr.ae/tMui9



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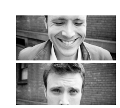
VCs expect most startups to fail.

+ Successes are outsized.

= *Aim for big wins.*



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Big wins come from big markets.

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“Bad market beats great team.”

Marc Andreessen

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- Defined problem
- Large number of potential customers
- Willingness to pay
- Capacity to pay
- Easy to reach
- Easy to target
- Low friction
- Definable business model
- Low switching costs / high switching costs
- Network effects
- Competition
- Natural monopolies

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Find the right partners.

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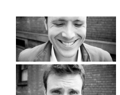
Understand their incentives.

Incentives differ from angels, seed VCs, growth VCs



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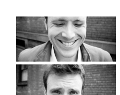
Research funds and partners.

Crunchbase, Angelist, LinkedIn… ***and people.***



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Look for partners, not just funds.

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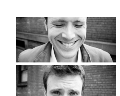
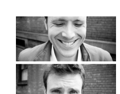
Search in parallel, devote more resources to higher expected value.

Paul Graham, http://paulgraham.com/fr.html



Approach fundraising as a product.



Absence of a yes is a no.

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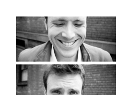
- Investment thesis
- Too early
- Too late
- Founder
- Team gaps
- Immature product
- Immature market
- Product / market fit
- Competition / “Winners” already identified
- Conflict with portfolio investment
- Valuation or terms



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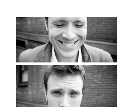
No means no, but not for the reasons you may think.

Learn as much as you can until you have to say yes.



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More info, more time, more *traction*, less risk.

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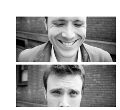
VC is a lagging indicator.



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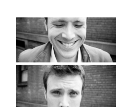
What is *traction*?

Abstract word for proof.



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i.e. **do people want it, will they pay for it, can it be done, can the founders execute, will a competitor emerge…**

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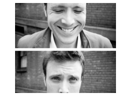
Create forces to get a yes.

Competition, growth, *fear*.



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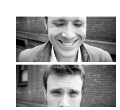
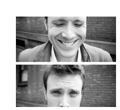
Commitments are extremely valuable social proof.



Commit to fundraising mode.



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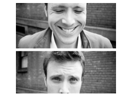
VCs will want to talk, catchup, and learn.

You have to execute.



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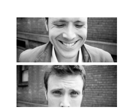
It’s a relationship business.



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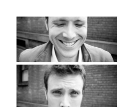
Ask for advice before you have to ask for money.



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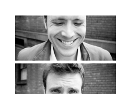
Build relationships with investors far before you need them.



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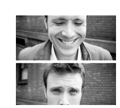
Intros.

Warm intros.

Be highly tactical.



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Determine what you need.

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Funding

Network

Domain expertise

Past success

Brand name

(note: popular =! fit)

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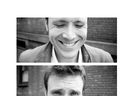
Don’t optimize for valuation.

Optimize for resources for success.



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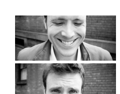
Round size is more art than science.



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Target: example raising $750K

Rationale

Runway: 18 months of runway

3-6 months to raise, 12-15 to execute enough to justify a next round

Key milestones

Key milestones to be accomplished in time period and runway, enough to justify success and traction for next raise

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Round size impacts valuation and dilution

Sell 10-25% in each round

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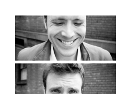
What to pitch

You control your story.



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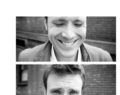
Story depends on your stage.

Why you (and your team) is uniquely predisposed to execute better than any founder in the space.



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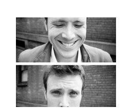
Why the market has a problem and needs a solution.



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Why an investor needs to be a part of what you're building.

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Pitch decks have a flow that investors expect to hear.

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VCs expect problem and solution right at beginning.

Then educate on market, etc.

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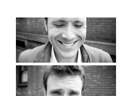
Don’t make a pitch a pitch.

Tell the story as a conversation.



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VCs don't expect you to have all the answers.

Expect honest, transparent, grounded and well-thought out rationales.

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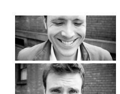
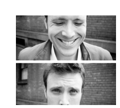
Post meeting follow-up is part of the process.



Term sheet is just the first step toward finish line.

Complete syndicate, diligence, docs, sign and wire.



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Convertible Debt

Preferred Equity

Safe *(Y Combinator, new)*

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Convertible Debt

- Cap
- Discount
- Conversion rate

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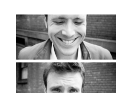
Preferred Equity

- Price, valuation
- Liquidation preference
- Vesting, board, other terms



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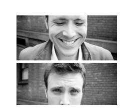
SAFE

(Simple Agreement for Future Equity)

- **Convertible debt without debt**
- **Created for events (equity financing, liquidity, dissolution)**



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Leverage your investors post-financing.

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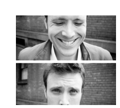
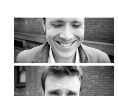
Once you're done fundraising… start meeting your next investors.

 @tdavidson

kbsp.vc/book.html



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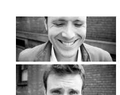
More resources:

For resources on pitch decks, process, and financial models:
http://foresight.is

About the fundraising process psychology and incentives:
http://www.paulgraham.com/fr.html

For statistics and process around fundraising seed rounds:
http://www.slideshare.net/schlaf/raising-a-seed-round

For a good explanation of VC and fundraising: http://www.amazon.com/Venture-Deals-Smarter-Lawyer-Capitalist/dp/0470929820



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