INTEGER WEALTH GLOBAL

Literature – Raising 'Series' Funding in the Private and Venture Capital Markets

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Introduction

Pitching VCs can be an emotional rollercoaster. As an author and fund manager, I've had the privilege of advising and connecting top startups with top VC's in several jurisdictions including South Africa, Europe and the UK. Over the years, the same questions often come up when founders are prepping for pitches.

We have compiled a list of tips and best practices that hopefully make your fundraising rollercoaster more productive and less daunting.

I would ordinarily say "Good luck", however "luck, like hope" as my dear colleague always quotes, "is not a strategy".

1. Prepare for the Long Haul

Fundraising is a process. It takes time, and more time than you think. Based on conversations within the VC community, it takes an average of three to six months. If you have had an exit in the past, it can take four weeks or less, but, if this is your first rodeo, prepare for at least six months. If you have co-founders, ideally one of you can dedicate the majority of your time to fundraising. It will be less painful and more productive to divide and conquer.
Fund raising does not necessarily entail selling, but rather negotiating. It's a pitch, not a sale.

2. Manage Your Runway

This tip goes hand-in-hand with "Prepare for the Long Haul." I can't stress enough how important it is to manage your runway. Your "runway" is the amount of time you have until your startup runs out of cash assuming your income and expenses remain constant. You need to be able to confidently, and credibly, back up your runway explanation, too.

The danger of raising money with too short a runway means founders can get backed into a corner. What happens when it takes nine months instead of six months to raise capital?

What happens when the investor realises you have six weeks runway left and delays to bleed you dry and get a better price? Be sure to explore other funding options, such as debt, grants, and crowdsourcing, family and friends. Personally I have placed most of my available funds into our own company when we first began, had the extremely valuable benefit of my colleage and friend invest and support me along the way, and even sacrificed myself and often his creditworthiness and integrity along the way, because relying solely on investors could put you in a tough spot.

3. Always Network

Don't underestimate the power of relationship building. My recommendation is to network and build relationships with investors well before you start actively fundraising. If they're open to it, ask for feedback about the product.

It's a whole lot easier to pick up the phone and ask for money when you already have an established relationship. Caution: VCs are a busy crowd. Be sure to respect their time. Overstepping your boundaries could really backfire on you, and it's a small, tight-knit community.

4. Embrace Rejection

It's going to happen: The majority of your meetings with investors will end with "no" or "not right now" (aka a polite "no"). Don't take it personally. A startup founder told me she recently realized how grateful she should have been to investors who said no but explained "why."
She explained that when she started fundraising meetings, if it resulted in rejection, she became bitter, discouraged and viewed it as a blow to her self-worth. As she became more comfortable with rejection, she learned to take advantage of the feedback. She leveraged the feedback to patch holes in her pitch and improve, which eventually led to a "yes." Remember every "no" gets you closer to a "yes."

5. Get an Answer

This is the second part of number four — embracing rejection. Many investors, especially lower tier institutional or seed stage VC's will lead a company on because they don't want to miss an opportunity in case they aren't able to fully appreciate the opportunity. In short, they look to piggyback off a lead investor. A lead investor is the first person or firm to put money into your deal. It's social proof that others believe in your concept. Don't be shy to ask investors about their investment process, relevance, and timing.
Fundraising is just as much about getting to an answer, even if it's a rejection, as soon as possible. Don't let investors string you along.

6. Practice Your Pitch

I know it sounds obvious, but you have to practice. Get feedback from as many people as you can and iterate on your deck and your pitch. Ideally, find someone who knows little to nothing about your company or the industry you're in. Having fresh eyes and ears are invaluable. This will help you look at your idea or problem in a new light and usually can also tell quickly if the storyline of the pitch is not complete since they will not understand your business. Many entrepreneurs dive right into their product or service without outlining the problem they're solving and "fresh eyes" will notice this very quickly. Recognize common questions and concerns based on the feedback and address them in your deck and how you tackle those questions in your pitch itself.

It's important to address areas of concern, or perceived weaknesses, in your business model head-on. For example, perhaps estimating pricing is difficult. Investors are smart; they know when founders are avoiding a particular topic. Don't wait for investors to ask the tough questions. It will inspire confidence if you don't shy away from tough topics.

Avoid common pitfalls such as, "If we capture just 1 percent of the market, we will make 4 zillion dollars." I find market size metrics useless. They are frequently inaccurate or irrelevant. Most VCs have a clear sense of what markets they think are large. They are typically more interested in the confluence of trends that your company is looking to capitalize on. For example, artificial intelligence continues to grow and represents a large market opportunity and has a variety of applications.

However, this does not apply to all investors and market metrics are important guidelines to investors who want to see that you have done your homework. Always ensure your information is referenceable.

Have your pitch, metrics and answers to some common questions memorized. It’s best to write them down, read and say from memory. It’s also good to practice answering questions with your co-founder or partners. It helps to talk with confidence and make sure that there is alignment between you. Stumbling when answering common questions doesn’t inspire confidence, and it’s easy to avoid.

7. A Picture is Worth 1,000 Words

This is true in the fundraising process too, as pictures are worth a 1000 words. If your product is highly technical, include visuals. Visuals are key. Drawing analogies can be helpful too, such as “The Airbnb of ….” If you have a physical product, bring it along if you can, or even a prototype. It’s easier for consumer-facing products that they can touch and feel, or for businesses with comparable companies, i.e., the Airbnb of… This helps to bridge the gap, but in the end, commercially relevant images and metrics are key.

A one-pager is good to have as well, but most investors prefer to see a deck. Make sure your pitch deck looks impressive, as well as your one-pager if you decide to do one. In my experience, it’s worth the money to hire a good designer and/or copywriter. Check out Upwork, Freelancer or Cloudpeeps. There are people out there who specialize in this including our own company, helping startups prepare their fundraising materials.

In addition to the deck, it’s important to have a suite of due diligence material that is persuasive and presents sharply. As the conversation progresses, it will move from a deck to perhaps a more detailed deck that includes information about how you will use funds, to financial projections and other materials an investor would want to see in a due diligence process.

8. Know Your Numbers

Have financials ready. You need a spreadsheet with expenses and revenue projected for three years. The first 18 months should be rigorously well thought out projections. The following 19-36 months may be a high-level extrapolation of metrics and future evolutions/expansion of the go-to-market strategy. You need to prove your company can generate high revenues. Show a clear path based on your current revenue and how your marketing and growth strategy will get you to reach significant increases in year two or three.

The standard expected return time on a startup investment is five to 10 years, and that should be an exit or an IPO. In addition to standard income and cash flow, investors want to understand exactly how you plan to use their money and what you will accomplish with this round of funding.

Be prepared for common questions such as: What milestones will you hit? What metrics will you collect? What will you prove? What is the next round for? What will be the milestones for the next round?

Expect to get grilled on your metrics, not just revenue but user acquisition numbers too. For example, if you have a consumer-facing website, most investors will ask detailed questions about your user acquisition strategy. In this case, you would need to be able to show the ratio of your customer acquisition cost (CAC) to lifetime value of the customer (LTV). Most investors will also want to see a ‘funnel’ that illustrates details like “out of X non-recurring users (unique users), Y non-recurring users converts, and the revenue is Z + to have X nonrecurring users we need to spend X.” If that sentence sounded like Greek to you, you might not be ready to meet with investors.

Most VCs are so busy that they’ll push the projections to an associate to analyse the data.

But as a founder, you should be able to communicate the key metrics such as lead acquisition, churn rates, and customer lifetime value to the investment partner(s).

Bottom line is the venture capital firm, investor or accountant must be certain that you not only fully understand the microeconomics but, more importantly, you have a scalable business model.

9. Target the Right Investors

It's important to find appropriate investors for your stage. You want to target an investor that has a lot of experience with early-stage startups so they can help you in this phase of building your company. Take a look at their portfolio companies and make sure they invest in mostly seed or Series A rounds. Industry expertise is also important. Research investors who invest in your space and type of business (B2B or B2C). Find startups most similar to your business model and industry who already had an exit, or moved to their next round, and see who invested in them. Only people who really understand your industry will get your vision, so find those people. Some VC's and investors are more likely to invest in your company if your startup could partner with another company in their portfolio (win-win). I cannot overemphasise the value of having investors that understand your industry.

Not only will you gain access to their network, referrals, and talent, perhaps, more importantly, they understand sales cycles, timeframes, competitors and set the right expectations from the beginning. They ask questions about issues that you might not have thought of because they see others struggling with them.

In addition, most founders I have spoken with suggest saving the ideal or top-tier funds for later meetings. The thought process is that it's best to test out a few smaller funds, gain learnings from those meetings, and have a stronger chance when meeting with tier one funds. Each funding stage is different, with changing questions and requirements.

It's always a learning experience, and the cap strategy and offer may change. Plus, you'll start to understand the capital markets better.

10. Never Cold Call or Cold Email

Once you have the right list of targets, how do you get their attention? Never cold call or cold email a VC or investor. It shows you are not savvy enough to find someone they know and trust to introduce you. The best way to get to a VC is through a CEO or founder they have funded who was a success. This is also a great approach because you can get feedback from the founder about the investor. Is the investor easy to work with? How helpful were they? Next best is an intro through someone they trust and know well. Someone who has a track record of picking winners and knows the market, such as advisors and mentors to other startups. Attending events can be helpful, too. Attend as many investor-related events as possible. You can easily get face-to-face contact with a handful of potential investors. Remember, ABN — always be networking! It's a relationship-driven world.

11. Signalling Problems

Most entrepreneurs love the idea of raising seed funding from a top tier, big name VC or investor. Let's say you manage to get a seed round from a "big name" firm, but they decide not to go in on your Series A? That's called a "signalling problem." That top tier VC has sent a signal to the venture capital community that something may be wrong with your startup since they decided not to double-down on their initial investment.

The is a real problem. Some VC's don't do seed funding because of this exact issue. There isn't always a problem, but the perception is there that one might be present.

You can avoid "signalling problems" altogether if you go with a firm that only focuses on seed funding, or angel investors, as they typically only participate in seed rounds of funding.

12. Why You and Why This Team?

Make no mistake about it. At the early stage of a startup, an investor is investing in you as a founder together with your founding team. Why can you execute on this idea and compete more effectively than others in the space.? The cofounder and founding team relationships are vital. How do you know each other.? Were you friends before.? How do you deal with problems?

First-time founders scare off a lot of investors. You need a credible story about previous relevant experience. You need a supporting cast of quality advisers, colleagues, angels, and/or board members advising the company.

You need to convince the investors that your team is worth the investment. The team and its leadership need to be able to roll with the punches that come with building a company and make the right decisions when challenges arise, and it’s not clear what direction to take.

12. Last but not least..

Investors will always do their homework. Make absolutely certain that you have your company setup correctly and that all components are in place. Staff, (even contract staff) an internet domain with a proper email and an address is crucial.

Auditors and solicitors are absolute key to the process as investors use their own professional teams to engage with yours, to verify and conclude any legalities which requirements prior to anyone will inevitably be handing you any of their hard earned cash.

Feel free to email us at info@integerwealth.global for any information you may need and best regards to all.

The Integer Wealth Professional Services team