

# All About Start Up Funding

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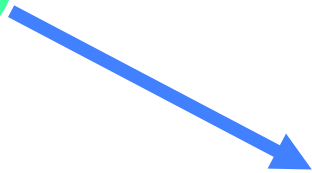
Date: May 2012



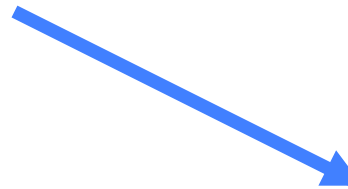
# Dialing for Dollars!



What do I do?



Who do I sell to and  
what do I sell  
them?



How do I get the  
money?



Oops!?!

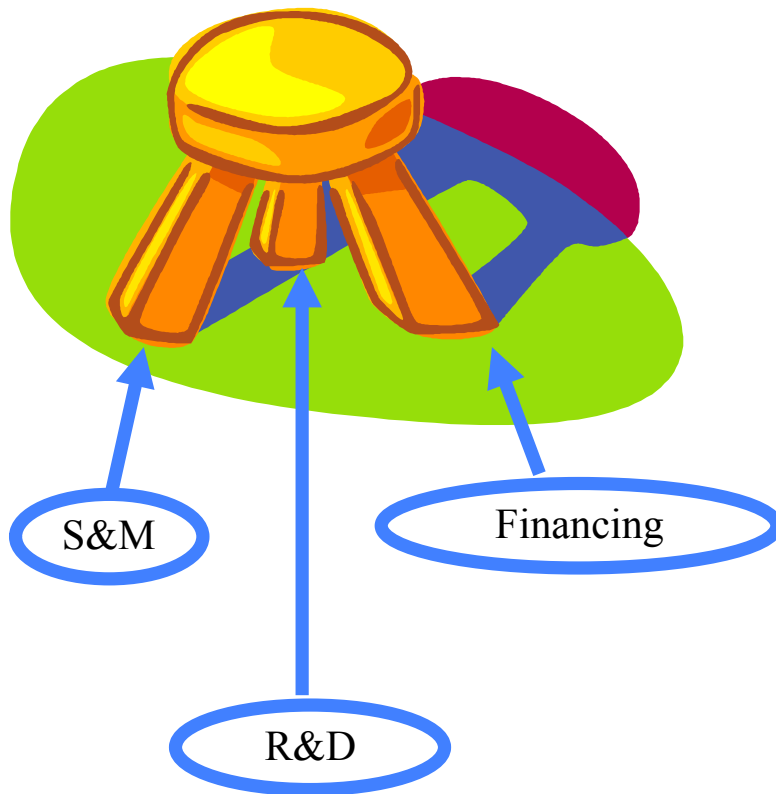
## What You Need To Do - Sales Approach



- Package – Exec. Summary, PowerPoint, Business Plan
- Identify Targets
- Contact & Meet with Targets
- Complete Due Diligence
- Negotiate Terms
- Close Investment
- WARNING: It's not over until the money is in your bank account.

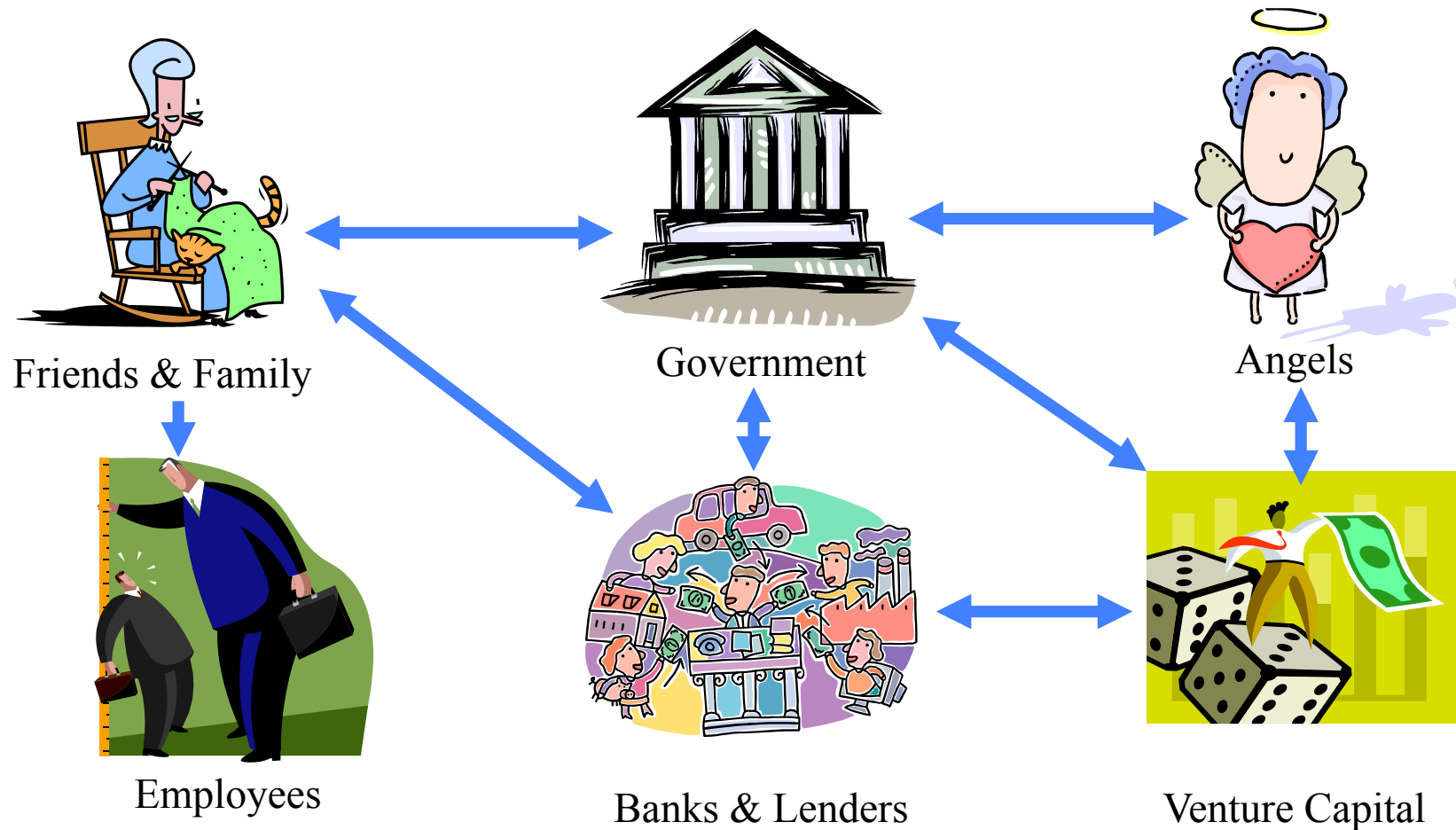


- CVCA, May 17, 2012 Press Release:
  - VC deal making slowed in Q1 2012, a total of \$263M invested, down 34% from the year before
  - Amounts invested per company averaged \$2.3M in Q1 2012, down from \$3.2M in Q1 2011
  - Canadian firms got only 31% of the dollars going to counterpart U.S. firms
  - “Perhaps the biggest single obstacle facing high-growth Canadian technology firms is difficulty accessing adequate value-added risk financing, in general and relative to competitors in the global economy.”



- Fund to milestones
- Leave a cushion
  - 3 – 9 months to complete a financing
- WARNING: Experts Only
  - Directors & Advisors
  - Bankers
  - Lawyers
  - Existing Investors

# Sources of Capital



# Sources of Capital



	<b>Banks</b>	<b>Angel Investors</b>	<b>Venture Capital Fund</b>
Stage of Investment	Late	<b>Early</b>	Early
Speed to Close	Medium	<b>Medium</b>	Slow
Follow On Capital	None	<b>Some</b>	Lots
Degree of Participation	Passive	<b>Passive or Active</b>	Passive or Active
Sector Focus	Diversified	<b>Focused</b>	Diversified or Focused
Decision Maker	Credit Manager	<b>Individual</b>	Partners or Investment Cttee

# Angel Investors & The Rise of Incubators



- High Net worth
- Former Executives or Founders
- Industry Specific Expertise and Interest



## Who to Contact



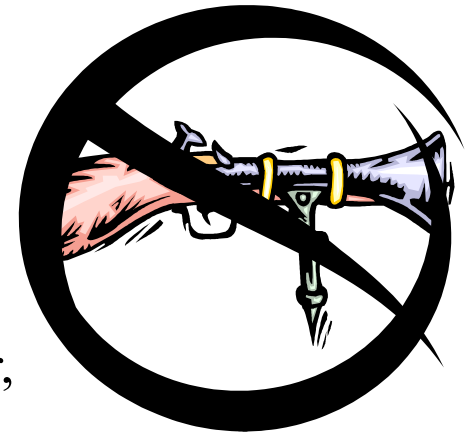
Spray & Pray

That deal is “shopped”

## Who to Contact



- Target investors that understand your company and have made similar investments
  - Industry, term preferences, structures etc.
- Look at portfolios on websites (VC's) and CV's (Angels)
- Learn who's who from your lawyer, an entrepreneur, an agent and other investors
- Find the right prospects based on their background and portfolio



# How to Contact Investors



Most Effective

Direct Introduction

Mutual Contact

Linked In

Cold Email/Call

Least Effective

Spam

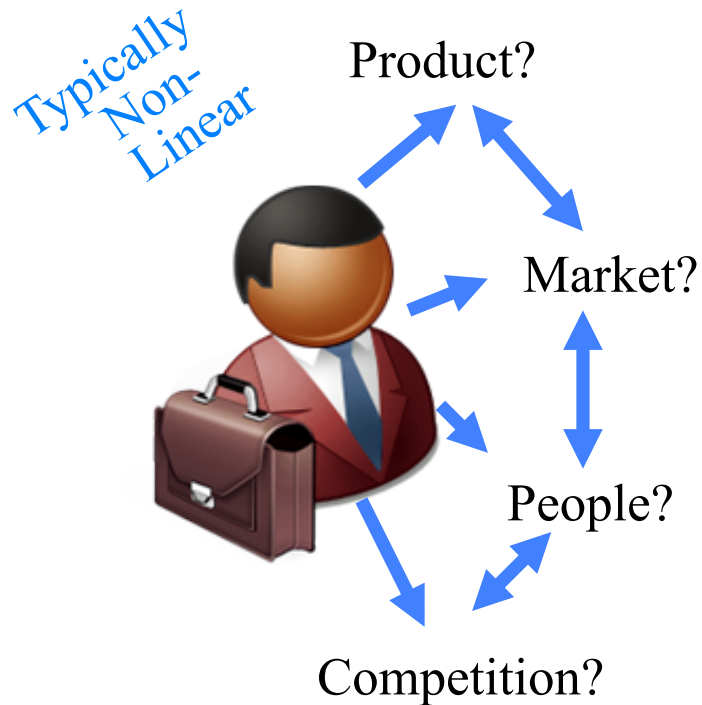
Prospects = Strangers

Stalking is a Criminal Offence

## Contacting Investors – First Steps



- First Contact Advice:
  - Go for a coffee or glass of wine/beer first
  - Listen 50% of the time, talk 50% of the time
  - Talk about the business – who you sell to, why they buy, etc
  - Don't talk about the technology
  - Ask about his/her portfolio and deals s/he would like to do and why
- Try to Learn:
  - The decision making process
  - Timing
  - Quantum



Do a Throw Away Pitch

➤ Reminders:

- Sell the business not the technology
- Know your audience
- Don't contradict yourself
- Don't name drop

# What Investors Are Looking For



- Passion, likeability, themselves
- Team with applicable experience
- Addressable large and growing market
- Competitive advantages (IP, unique business model)
- Clear and scalable business model
- Market validation



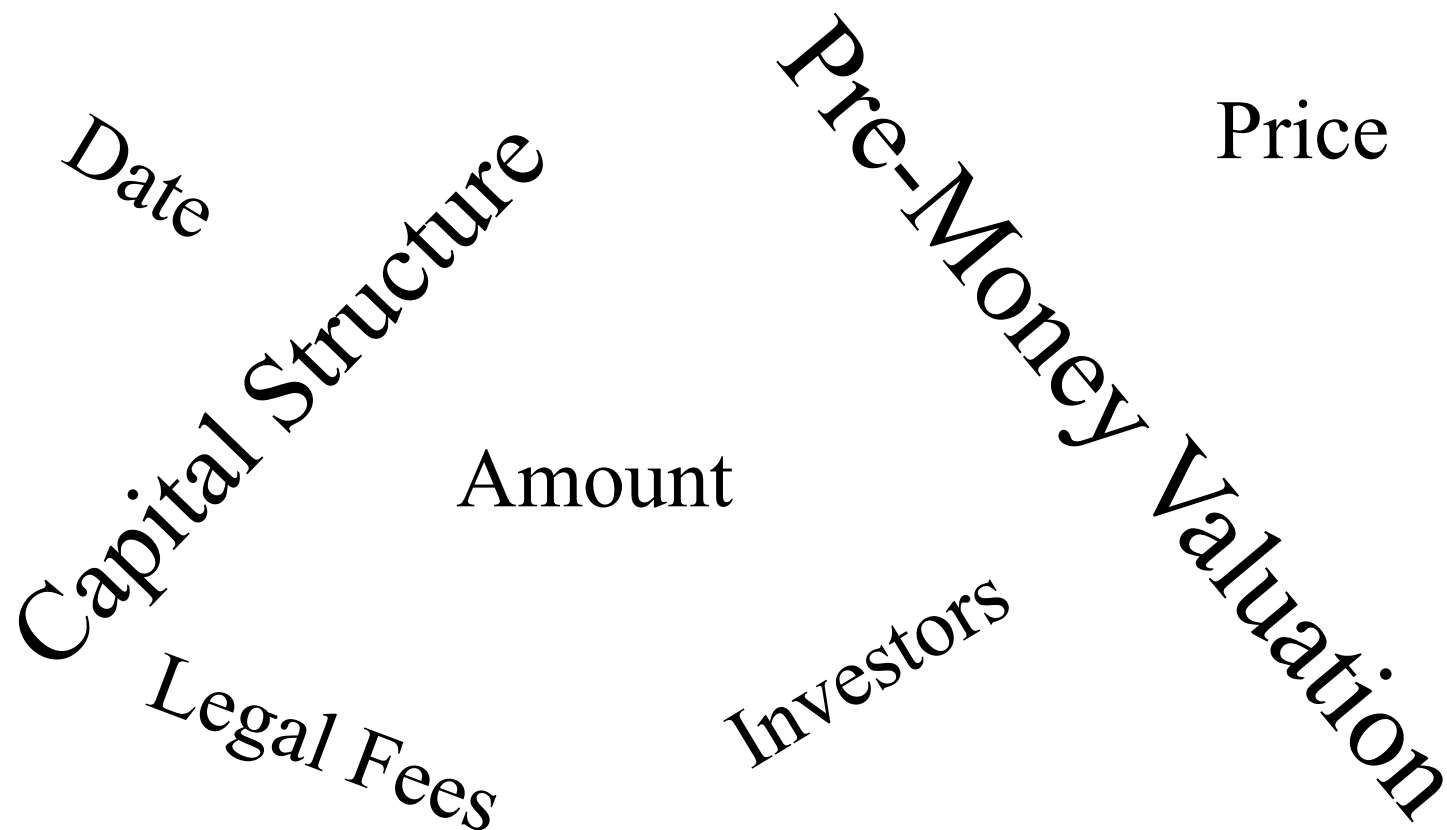
Investors are in the business of saying No. You need to take away their reasons.

Better yet – become their strategic ally!

# Deal Terms and Structure: A Foreign Language



The Basics:



## Deal Terms and Structure: An Obscure Foreign Language



The Not So Basics:

Board Seats

Liquidity Preference

Dividends

Common  
Shares

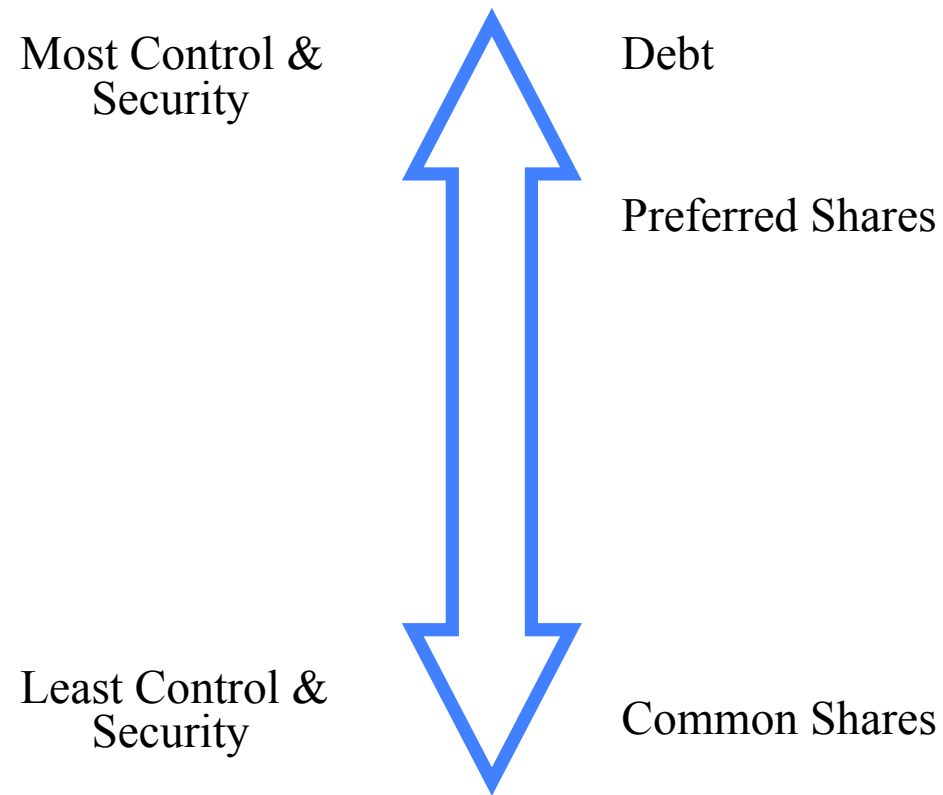
Drag  
Along

Preferred Shares

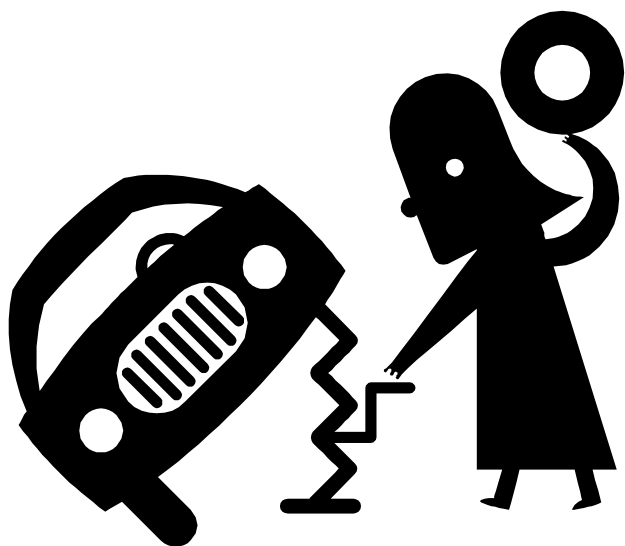
Control

Anti-  
Dilution

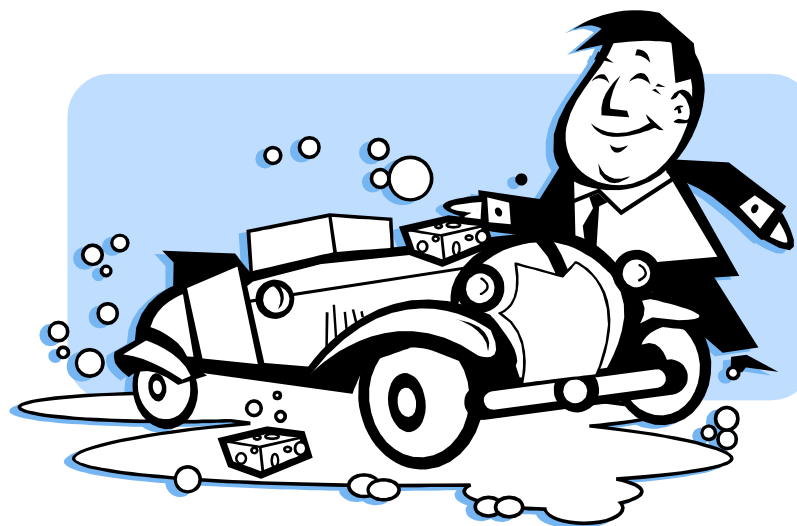
# Deal Terms and Structure



# Negotiating



You



Them

- Start-ups are very hard (impossible) to value rationally
  - Not based on investments previously made or discounted cash flows
- Be realistic – refer to “comps”
- Usually \$500,000 to \$1,000,000 in a first round



Valuation is an Art



Be nice to Granny

## Synonyms for “No”



“Maybe”

“Doesn’t fit our  
mandate”

“Later”

“Needs a new CEO”

“No”

“It’s too early”

“We want to  
follow a lead”

“Terms are not  
reasonable”

“We have no money right  
now”

## Can't Get Money?



- If you can't find investors, you need to consider :
  - Your business is a bad idea
  - You don't have the team
  - You are targeting the wrong investors
  - Your timing is wrong
  - Your terms are not market

## Top 11 Lies of Entrepreneurs – Guy Kawasaki



1. Our projections are conservative.
2. Gartner says our market will be \$50B by 2010.
3. Verizon will sign our contract next week.
4. Key employees will join as soon as we get funded.
5. No one else is doing what we're doing.
6. No one can do what we're doing.
7. Several investors are interested.
8. Cisco is too big/dumb/slow to be a threat.
9. We have a proven management team.
10. Patents make our business defensible.
11. All we have to do is get 1% of the market.

## Top 10 Lies of Venture Capitalists – Guy Kawasaki



1. We can make a quick decision.
2. I liked your company but my partners didn't.
3. If you get a lead, we'll follow.
4. Show us some traction and we'll invest.
5. We have lots of dry powder.
6. We're investing in your team.
7. We saw this coming, so we didn't invest.
8. This is a vanilla term sheet.
9. We can open doors for you at major companies.
10. We like early-stage investing.



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