Fund Raising 101

Jenny Yang

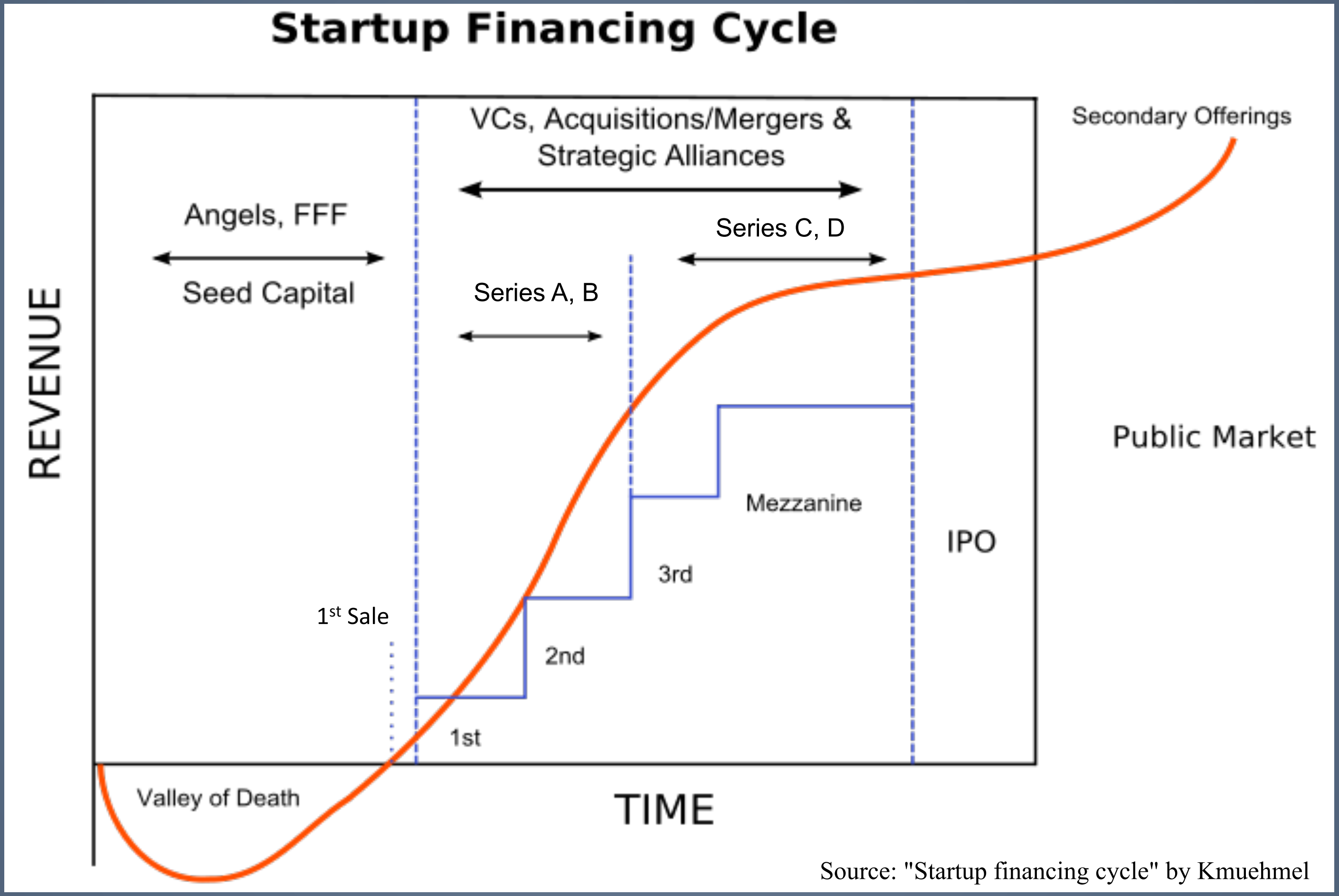
My Background

- Experience on both sides of the table - Investor & Entrepreneur
- Co-founder and founding CEO of Metafor Software (acquired by Splunk)
- Partner at BDC Venture Capital
- Consultant at Boston Consulting Group, and Bain & Co.
- Engineer at Telus, Nortel
- B.A.Sc (Electrical Engineering) from UBC, MBA from INSEAD

Five main sources of financing for start-ups

Debt	Equity
Friends & Family / Angel Investors	
Government grants & loans	Venture Capital
Banks / Specialty Funds	Public Markets (TSX Venture Exchange)

Investment Stages



Angel vs VC

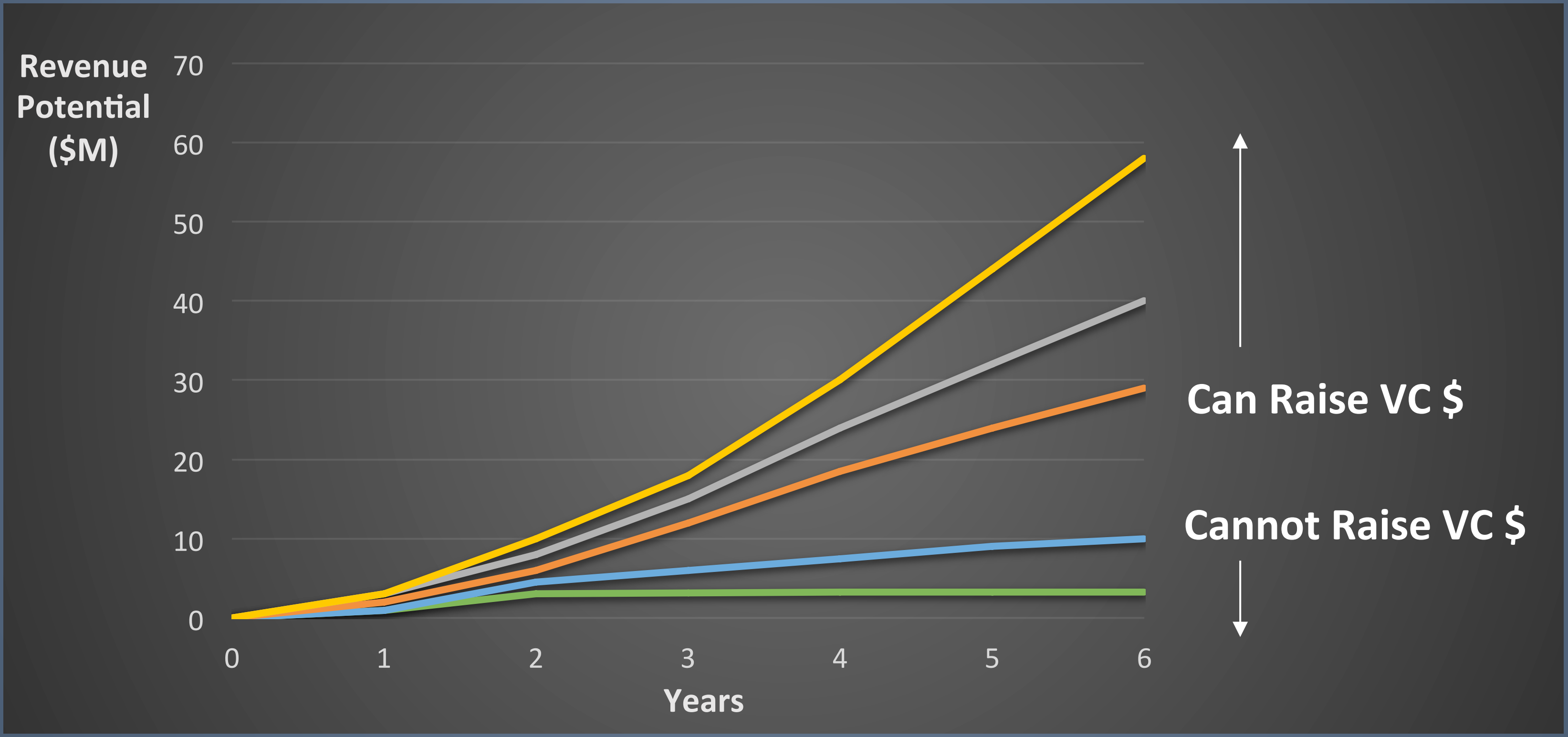
Angel (Individual)	VC (Fund)
Invests **own money**	Invest **other people's** money
Entrepreneur	Entrepreneur, professional investor
Small cheques, $25K - $100K	**Large cheques**, $2M - $10M
Limited follow-on	Typically do follow-on
Gets in very early, **faith**	Need some **proof**
No board seat	Require board seat
Flexible exit timing	Want to exit in 4-7 years

One winner makes up for handful of losers

"About **three-quarters** of venture-backed firms in the U.S. **don't return investors' capital**, according to recent research by Shikhar Ghosh, a senior lecturer at Harvard Business School."

- Wall Street Journal, Sept 20, 2012

Not all startups can or should raise from VC



Evaluation Criteria

Founders / Management

Market Size

Technology

Other - business model, competitive environment

Having the best technology is not enough

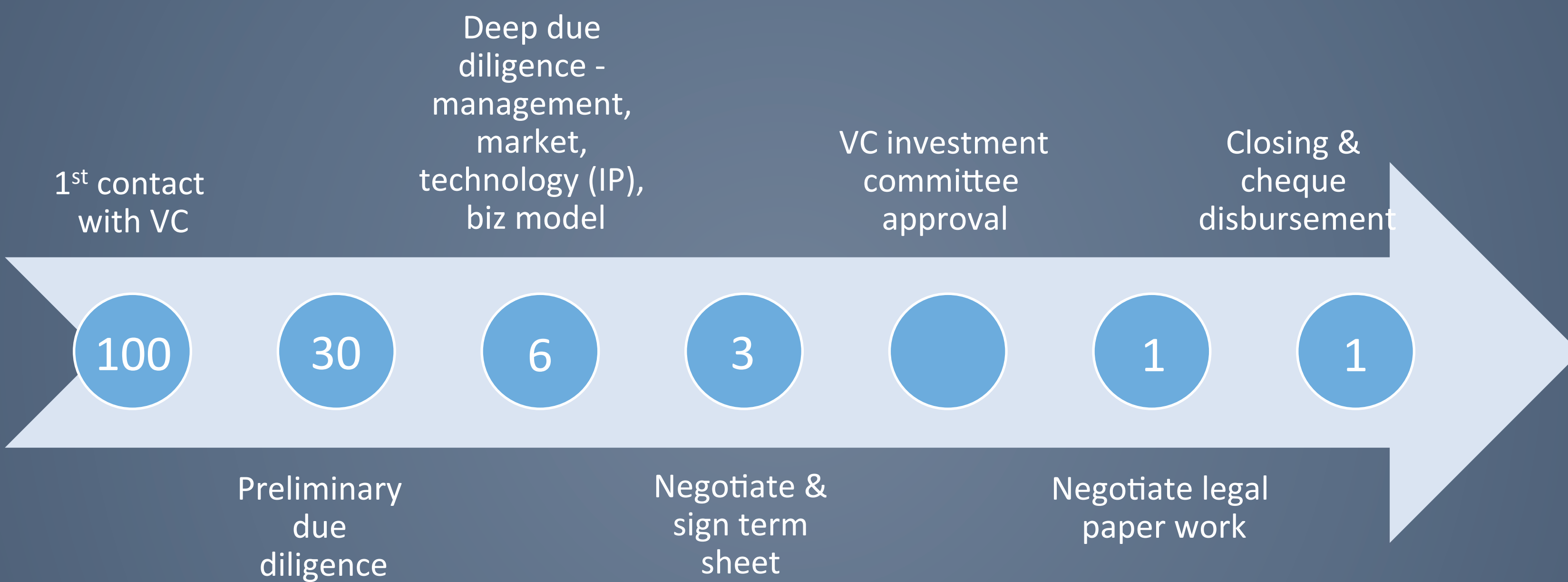
Term sheet considerations

- Company Valuation
  - Founders’ ownership %
  - Employee Stock Option Plan (ESOP)
- Types of Securities
  - Convertible Debt
  - Preferred or Common Shares
  - Anti-dilution, Retraction, Liquidation Preference
- Tranched Financing – Milestone Driven
- Shareholders Agreement (SHAG)
  - Board Representation, Pre-emptive rights, Matters Requiring Board/Investor Approval, Rights of First Refusal, Co-Sale (‘Piggyback Rights’), Drag Along

Valuation based on combination of metrics

- Revenue
  - License: 2x to 3x
  - As service (SaaS): 3x to 5x
- Earnings multiples (15-20X)
- VC's internal rate of return (IRR) expectations
- Public and private company comparables
- Intuition
- Negotiation
- **Hocus Pocus**

The VC investment process (3-6 months)



0.5 - 1% of startups receive VC funding

THE END

What is Venture Capital?

Equity investment in high risk, but high potential and high growth businesses

- 100% per year or higher growth
- Has potential to dominate a market
- VC has ability to exit (acquisition or IPO) in the future

A strong team can sell anything

- Serial Entrepreneurs – have they done it before?
- “A” players
    - Relevant industry background
    - maturity
- Understand what VC backing means
    - Open to change?
    - Will investors be part of the team?

We want to invest in **Big** markets

- Prove there is customer pain
  - Customer validation, customer validation, customer validation!
- Market analysis
  - "Big Picture" plus <u>Granular</u> view
  - Bottom up, customer driven market size
- Food chain and positioning

Ecosystem

- Each market segment is unique
  - Critical players
  - Revenue model validation
  - Targeted Partnerships

The Technology

- Disruptive Technology (not evolutionary)
- Disruptive customer value
- IP protected
- Typically 18 to 24 months from product
- Viable development plan and budget
  - “proof of concept” or prototype typically required

Be Realistic!

- Realistic about the opportunity
  - Open, honest and “spin-free”
- Realistic about the competitive advantage
  - Willing to learn
- Realistic about managements capabilities
  - Customer focus NOT technology focus
- Realistic about deal structure & terms

Do’s & Don’ts

- **Do's**

- Be positive and enthusiastic about your company.
- Know your minimum deal and walk away if necessary.
- Remember this is a long term relationship.
- Negotiate a deal you can live with.
- Do your homework on the Venture Capitalist. (Know the previous deals funded)

- **Don'ts**

- Do not ask VC’s to sign an NDA
- Do not avoid answering questions.
- Do not give vague answers.
- Do not hide significant problems.
- Do not expect or press for immediate decisions (this works both ways).
- Do not fixate on valuation.
- Do not bring your lawyer.