



Venture Capital Guide



Your Ideas - Our Expertise - Your Success

NDSBDC.org

TABLE OF CONTENTS

Startup Guide for Founders Looking to Raise Capital

Knowing YOUR Business	4
Customer Discovery	5
Value Proposition	5
Total Addressable Market	5
Go -to Market Strategy	5
Industry Comparables / Valuation	5
Deal Structure - SAFEs, Convertible Notes, and Priced Rounds	6
Future Funding Strategy	7
Exit Strategy	7

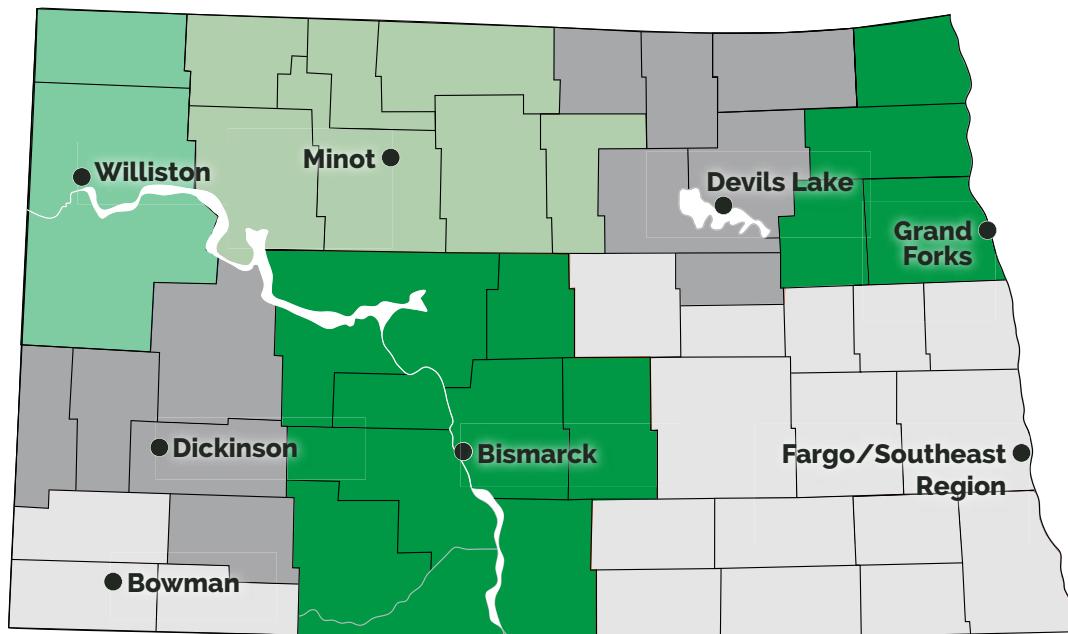
Startup Guide for early-stage Investors

Knowing what YOU like to invest in	8
Impact vs Performance	9
Industry Differences & Traction	10
Identifying Risks and Red Flags	14
Common Deal Types and Investor Rights	15
Due Diligence	16

ABOUT THE ND SBDC

POWERING the creation, growth, and success of small business in North Dakota.

The ND SBDC network of credentialed business advisors empower North Dakota small businesses and entrepreneurs to thrive. We accelerate business growth in communities across North Dakota by providing customized guidance and resources that help owners and entrepreneurs achieve their goals at every stage of their business life cycle. For over 35 years, our network has supported small business owners and entrepreneurs across the state. When small businesses thrive, communities thrive, North Dakota thrives.



Your Ideas - Our Expertise - Your Success

NDSBDC.org

POWERED BY



U.S. Small Business
Administration



Funded in part by a cooperative agreement with the U.S. Small Business Administration. All opinions, conclusions, or recommendations expressed are those of the author(s) and do not necessarily reflect the views of the SBA.

ENTREPRENEURS

KNOWING YOUR BUSINESS - ARE YOU A GOOD FIT FOR OUTSIDE INVESTORS?

Are you a small business or a startup? Is there a difference?

There are absolutely differences. When we think of small business, early-stage startups often get lumped in with this, but they are not the same. A small business is considered more a “lifestyle” business, examples of this might be a retail clothing store, a restaurant, construction, etc. Small businesses can be successful but they are usually focused on a very specific market or geography. Most startups alternatively are technology based and are looking to perform in very large industries or markets. Another important distinction of a startup is in its ability to grow. A startup should have the ability to scale – sell more products and add new customers, without having to add any new employees or increase expenses dramatically.

This is important because it really impacts the types of funding or financing that you should seek out. A small business may be best fit for some type of loan or is often self-funded through an individual’s or group’s 401k/retirement, home equity, and personal savings.

Whereas a startup is the best fit for outside investors because it may be costly to achieve the necessary market penetration in order to capture a share of the market to sustain growth. Venture capital can help accelerate growth and provide timely advice, depending on the investor.

Now, it is important to consider that you may need to utilize multiple sources of capital in order to achieve the growth you want to see:

TYPE	EXAMPLES
Bootstrapping	Self-funding, reinvesting any income, savings, home equity, 401K, credit cards, etc.
Friends, Family, and Fools	Often the first to borrow or invest money with less stringent terms
Grants	Local, state, and federal programs have often been an attractive form of non-dilutive funding, the SBIR/STTR Grant programs (SBIR.gov) award over \$2 billion annually
State Funded Programs	Usually, some sort of loan or convertible debt
Equity	Raising money from outside investors for a piece of ownership, such as angel investors, venture capital, private equity
Debt	Borrowed funds from a bank, credit union, or other lender
Crowdfunding	Companies will often leverage a marketing campaign to pre-sell products, exclusive merchandise, or other unique opportunities to generate capital
Equity Crowdfunding	Since the creation of the JOBS act, non-accredited and accredited investors have found new opportunities through equity crowdfunding – this allows for smaller investments (less than \$5,000) to be made in early-stage companies
Licensing/Royalties	If there is attractive intellectual property with many potential applications, other business partners may seek to license the technology for their own purposes. Restrictions may be necessary in order to prevent direct competition if you intend to use the IP otherwise.

CUSTOMER DISCOVERY - WHO IS GOING TO BUY THIS?

You've got a really cool product or service, but do you KNOW that someone wants to buy it. In many cases, it is easy to see where there can be some market demand. Often times this is something that is a great assumption by an entrepreneur. Talking to customers about their problems or frustrations around a certain experience via a survey can help you answer important questions. For instance, is this a big problem? What solutions have you tried previously? How much would you be willing to pay?

Unfortunately, many companies don't ask these questions before going through expensive product development and then either need to start over completely or make further changes to get it to a position that the customer will better engage. It is important to think about who the actual decision maker is that will buy the product you are creating. HR software, for example, is a service that will be decided upon by company leadership – so you should talk to the HR Manager, COO, CEO, etc. Yes, the employees or users of such software may also be worth talking to, but they won't be able to drive the purchase decision.



VALUE PROPOSITION - WHY SHOULD THEY BUY IT?

In the simplest way possible, what are the benefits that a customer can expect when using your product? Different customers may have different reasons they are buying. Distinguishing those benefits based upon who is buying can be helpful in communicating the value you can provide.

Communicating that value is another story. Some products provide one clear benefit whereas other

products provide a multitude of potential benefits. Educating the customer is sometimes a necessary step to helping them purchase.

TOTAL ADDRESSABLE MARKET - HOW MANY PEOPLE OR BUSINESSES COULD BUY THIS/ HOW MANY TIMES?

What is the size of the market for the individual and collective products you plan to sell? Most investors will only consider opportunities with at least a billion \$ market opportunity! Not all, but some, and the reason for this is because most startups need to achieve \$50 million in sales to achieve a huge ROI. That's 5% of the overall industry

GO-TO MARKET STRATEGY - HOW WILL YOU GET THE PRODUCT OR SERVICES IN THE USERS' HANDS?

What is the delivery method? How are people going to find out about your product? What does the buying process look like?

Having the process outlined will also have a monumental benefit in helping you understand your customer. Discuss this with others and see how people react to different processes.

INDUSTRY COMPARABLE/ VALUATION - HOW MUCH CAPITAL DO YOU NEED?

Most investors prefer you to raise enough capital to cover you for 12-24 months without considering any revenue growth. This is so you can achieve some crucial milestones – like \$1 million in ARR.

Fundraising takes time. Too much time. Many investors can be tire kickers, don't depend on promises – they won't pay the bills. If you sense resistance, they may not be the right investor. If it's taking too long then you may want to consider making your investment opportunity more attractive. The easiest way to do this is by leveraging your equity. Sometimes the investor is worth the adjustment, but not always.

If you can get a good price, that's great but keep in mind that if you fail to see significant growth and raise capital at an overvalued position, you may have to do a down-round.

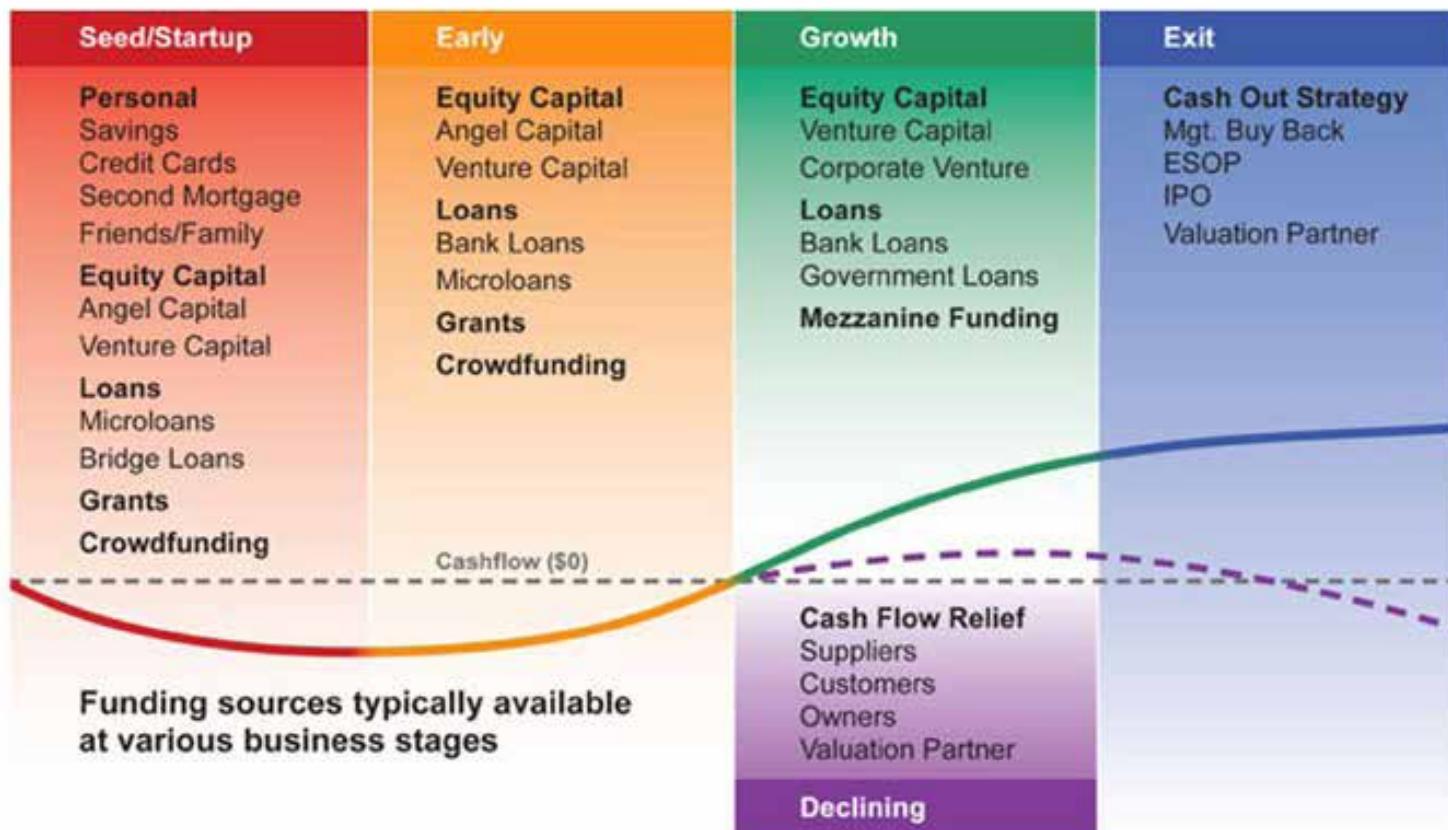
This shouldn't be a conversation you avoid if you have a question or want to understand. Any entrepreneur should be comfortable justifying how they came to a certain price when doing a priced round. Have a discussion and think critically about the opportunity. If you have concerns, nothing is written in stone and as an early investor you are likely to take the most risk as an outside investor.

DEAL STRUCTURE - SAFES, CONVERTIBLE NOTES, AND PRICED ROUNDS

Priced rounds are common in the exchange of equity ownership at a set share price. SAFEs have become way more popular in the last decade. Simple Agreement for Future Equity (SAFE) is meant to allow the company an opportunity to grow while not committing to a price or any stringent terms. Convertible notes are similar to SAFEs in that they

are set to convert into equity at either a later date or often in the event of qualified financing – when a company raises an aggregate amount of capital. Both SAFEs and Convertible notes are less formal and more ambiguous than priced rounds. They are often used in very early stages or bridge rounds. SAFEs are considered company friendly, but really any deal is only as good as the terms involved. Combinator has really led the charge with template legal documents for SAFEs. Sometimes the National Venture Capital Association will also have standardized legal document templates for this purpose as well.

The type of deal and the terms can dramatically affect the outcome of your investment. Additionally, the type of company you are investing in can also be something worth considering. If you are investing in an LLC, you may find that you are now due to receive a K-1. Some investors choose not to invest in LLCs as that creates tax deadline concerns that they may not want to deal with. That said, investors receiving K-1s are able to take a passive loss or income as the investments are at risk, whereas when you invest in a C-Corp, which seems to be the most commonly used for growing companies, you do not receive a K-1 and do not get the benefit of any passive losses.



FUTURE FUNDING STRATEGY - DOES IT PAY TO PLAN AHEAD?

Many companies will think about the current phase of their business. It is critical to discuss the vision of the company and the capital it will take to grow. If the margins in the business are slim or the customers have a long sales cycle, it will take a lot of capital. This may mean multiple rounds and for early investors this pretty much guarantees that you will get diluted. For instance, 701 Fund invested in Company A and was able to receive 3% equity in the Seed round – no other investments in the company. The company later got acquired, at which point 701 Fund only owned 0.6% of the business. If the company didn't see significant value growth – at least 5x in this case, you won't see all of your money back.

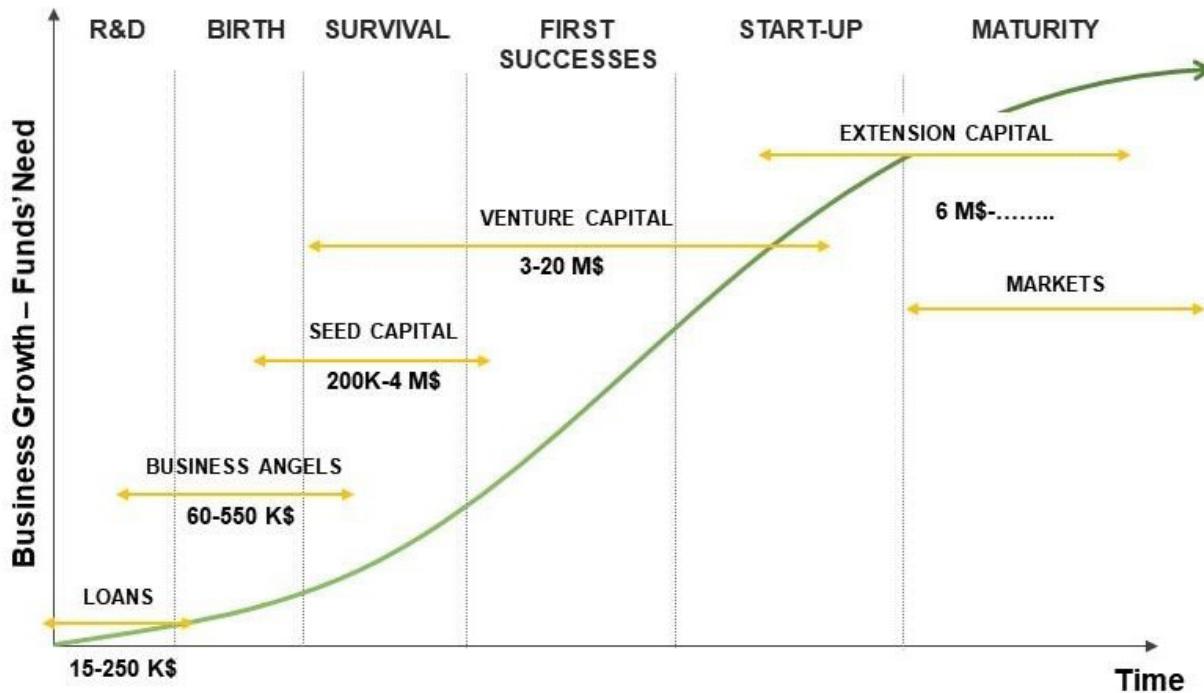
Thinking about the Seed or Series A round in the context of the 5- and 10-year company vision will help you strategize the best path for you to do this. Setting goals or milestones is essential to accomplishing this. These metrics often determine who will invest and at what price.

EXIT STRATEGY - WHAT SHOULD YOUR INVESTORS EXPECT OVER THE NEXT SEVERAL YEARS?

Communication continues to be the best way to keep your investors happy. Many entrepreneurs have even shifted to giving a video update and walking through key documents to make them more engaging and easier to digest.

Investors are interested in knowing what the ultimate goal of the business is. Should you grow to an Initial Public Offering (IPO), get acquired by a Special Purpose Acquisition Company (SPAC), merge with a vertically integrated partner, or maybe get acquired by a Fortune 500 company. Talking about this is important. It is a helpful exercise also in that it may even help you to identify potential strategic partners. Strategic partners will often acquire businesses they work with when they see efficiencies.

Business Life Cycle Financing



INVESTORS

Preface:

Venture capital is an adventure, as the name implies. As with all adventures, it comes with great risks and great rewards. The art of investing in startups lies in deciding whether those risks outweigh the reward. Unlike investing in publicly traded stocks, you cannot rely on a long performance history or safety ratings but on your instincts regarding their product or service, the founder, their team, and the market they are operating in. Is their product innovative and attractive? Is the founder motivated and personally invested? Is the team qualified and up to the job? Is the market growing or shrinking? These are some of the kinds of questions you'll need to ask and have answered to make an investment decision.



There are many things to consider about the company and how interactions with them play out, all of which may indicate potential success or failure. This is initially overwhelming, but this guide is intended to help bring you up to speed with VC and get started on this new adventure. It is also important to understand the mindset of an entrepreneur as an investor. Oftentimes, investors can misinterpret an entrepreneur's intentions. Alternatively, entrepreneurs will benefit from understanding how investors think and make decisions. Of course, neither of the two entrepreneurs nor investors think alike, but if we can create some common ground or best practices for this critical conversation, we can likely improve the outcomes. This ultimately benefits the entrepreneurs, the investors, and the communities in which you invest.

KNOWING WHAT YOU LIKE TO INVEST IN

It goes without saying that you should consider most opportunities that you are presented with IF you are willing to learn the things needed to evaluate them. Identifying risk in new companies and industries can be very difficult and often ambiguous. Identifying a strategy for you to align yourself with is a fundamental first step for every successful investor.

Here are some questions to consider for determining which companies you should spend your time with:

- Do you have experience, industry knowledge, or contacts that would be beneficial to the company you are considering investing in? If you answered "Yes", then you should take the time to consider these opportunities, especially. Most successful investors invest in things that they know and understand well, specifically, they understand the problem that the founder is trying to solve and they can help along the way.
- What stage do you like to invest in? Usually, new startups are very risky opportunities but as they grow the investment opportunities will often become less risky – although, they still carry considerable risk in comparison to other opportunities, such as those found on public stock exchanges. You need to determine how comfortable you are with the risk at each stage of investment.
- Is market size important to you? Some investors will only consider companies pursuing market opportunities that are poised to be over \$1B in annual market value – this allows a company to grow and capture enough of a market to get the investor at least 10x of their original investment – depending upon how early they made the investment.
- How important is the founding team? It is critically important that you believe in and trust the people that you are investing in. Additionally, you want to make sure these are people that you can see yourself working with for the next

several years. Some investors prefer to invest in entrepreneurs who are experienced in startups and have had past exits/successes. Statistically, experienced entrepreneurs are more likely to succeed than most first-time founders – but it is certainly not a drastic difference in probability of success

- Can you add value? The best opportunities are often those where you or someone you know closely can add value and impact the company in a positive way. This makes you attractive as an investor and means you are improving the odds of your own investment being successful.
- How many companies should I invest in? Again, data suggests that Accredited Investors should seek to compose a diverse portfolio of investments to be successful. Some experts suggest 12-15 companies should be the goal of a new investor over an investment period. By making many investments, an investor improves their odds of producing enough returns to make up for failed investments.

Experts suggest you should not make only a single or a few select investments if losing the entire investment would be detrimental to you financially.

Objective:

Usually, the best companies for you to invest in will be ones in an industry you have experience in, at a stage of growth that you're comfortable with, operating in a market of an acceptable size, having a founding team you trust and are willing to support, and one that you personally can help grow. Also, be sure to diversify, especially if a loss would be financially detrimental to you.

IMPACT VS PERFORMANCE

Is your goal a financial return?

If your goal is to make money, I hope you are a fan of the long-term approach. Although it seems like success happens overnight – startup investing can take several years or more to start seeing a return on your investment. Average performance across the industry suggests annualized returns of 8-12% in most startup industries.

You should be prepared to lose it all and expect that even the brightest of companies may fail.

Are you open to impact investing?

More investors are considering impact investing and for good reasons. In recent years, impact investment industries have been performing well for investors. They are no longer the “charity cases” looking for kind-hearted supporters.

Are you open to diverse owners?

In the last few years, statistics have shown us that Minority and Women-owned businesses perform just as well or even better than average within startup industries. Perhaps these disadvantaged groups are used to the challenges that often cripple startups and are seemingly able to navigate complex problems with considerable ease.

An open mind may serve you well!

Objective:

Be aware that in Venture Capital it typically takes years to see a company's books go black and to have your investment make a return. Additionally, impact investing is becoming more than just a statement and is actually becoming profitable, and Minority and Women-owned businesses perform equally well or better than average for startups.

INDUSTRY DIFFERENCES & TRACTION

Industries:

There are several industries that you may come across in your journey as an investor – almost all of them will likely include some form of technology.

Common industries for investment consideration in the Midwest are:

Industry	EXAMPLE
Software	Microsoft Office
E-Commerce	Amazon.com
Manufacturing	Automobiles
Autonomous machines / Internet of things (IOT)	Tesla automated driving software; smart appliances – Google Home, Amazon Alexa
Climate Tech	Advanced recycling, alternative energy creation/utilization
Ag Tech	In ground soil sensors; software to communicate agronomist info to farm equipment
Fin Tech	Buy now, pay later providers; virtual banks
Med Tech / Healthcare	New methods of drug delivery; advanced therapies
Space Tech	Satellites; optimization of propulsion systems, sustainability
Web 3,4,5...	Blockchains, crypto, NFTs

Which one should you focus on?

That depends on what you are most comfortable with.

Some of these industries will be able to provide meaningful information about traction they have had – how many users, average order value (AOV), Customer Lifetime Value (LTV), Monthly Recurring Revenue (MRR), Annual Recurring Revenue (ARR), Monthly/Daily Active Users (MAU/DAU) - which is data to consider while thinking if the company has achieved product/market fit and problem/solution fit.

Other industries, such as those dealing with NFTs (a type of virtual asset), may require you to think differently about how you evaluate opportunities. That said, most early-stage investors benefit from investing in quantifiable metrics based on actual traction and not future possibilities. In short, revenue is often a good indicator of traction – if you think there is value but no revenue or traction to grasp a hold of, then you had better be very comfortable with the possibility of losing it all. Some newer industries – such as cryptocurrencies and NFTs are considered speculative opportunities by some.

Metric	Meaning
Average Order Value	Of all sales, what is the \$ amount of the average transaction.
Lifetime Value	The amount of \$ an investor has spent/will spend with you
Monthly Recurring Revenue	In aggregate, the sales monthly subscription and set to renew for the current month
Annual Recurring Revenue	In aggregate, the total sales from customers on annual subscriptions

Other industries, such as those that are dependent upon regulatory approval, will have different types of traction or validation. For Medical Device companies, you may want to look at what their FDA clearance pathway looks like. If it is a novel device, it may take longer and require clinical trials. If it isn't an invasive devise or a drug combination, you may see a company utilize the FDA 510k pathway, which can sometimes allow for faster clearance times.

You may want to consider any required licenses or certifications that may be needed to operate in various industries. Each industry has its nuances and it is generally easy to research minimum requirements. However, this is less likely and perhaps even more volatile in newer industries.

IMPORTANT!

FDA Approval and FDA Clearance are not the same thing. In other words:

"The FDA regulates medical devices to protect consumers from potential harm; devices are placed into three classes, with class I being the lowest risk and class III being the highest. Depending on the device class, they may be marketed as "FDA-Registered," "FDA-Cleared," or "FDA-Approved" devices. Before a new device can be marketed, companies must submit appropriate applications to the FDA. This process helps ensure that medical devices are appropriately monitored for safety and effectiveness before they are available to the public."

Product/Market Fit:

Is there an audience for whatever your building? Is it a large audience? Do they have the most competitive solution that is drawing people in?

Ultimately, these are products that provide some type of meaningful solution that creates a lot of value. They do have a tendency to generate some great momentum and, in some cases, sell themselves because the users are so happy with the experience.

Unfortunately, this is not easy to discern, and many companies feel they have achieved this before they actually have. This is something that only experience can teach.

My best guess is that you want to see a certain multiplier of growth Month to Month in order to really qualify something – I think the other key point would be Customer Lifetime Value (LTV). If you can show that customers will return on their own with no additional marketing or sales cost, you're ahead of the curve.

Problem/Solution Fit:

In addition to Product/Market, you certainly need to consider if the solution solves a problem that is worth solving. Or if the solution itself is not prohibitive in terms of cost or time commitment. If the problem is too large or ambiguous, that can also cause issues – the problem needs to be specific and manageable with a specific solution. If there are easy workarounds or alternatives that are widely available, it can be difficult to remain competitive.

Other startups may have other types of traction – such as being a first mover or early mover in a

new segment of the market. Or, for medical device companies, some type of FDA clearance may be of value. Or, in medical or research-based companies, SBIR/STTR awardees can also be strong candidates for consideration of investment. These are rigorous programs but can provide hundreds of thousands in capital to support a new company.

In many cases, intellectual property or strategic alliances can be incredibly advantageous to locking out competitors.

Objective:

You should understand that there are differences between the wide variety of industries and that these differences can affect the performance of startups in those industries. What works for a startup in one industry may not work for another. For a specific startup, you should consider how well their product or service caters to their market and how well it solves the problem(s) that they have identified.

BUSINESS MODELS & INNOVATION

What exactly is the business selling and how are they selling it?

There are often similar products sold in different ways. Let's look at YouTube and Netflix – YouTube has 4 billion views and monetizes those views through ads – which are sold for pennies per view most likely. The customer is typically other businesses – business to business (B2B)

Netflix sells a subscription to a similar type of content, but they make the viewer pay and not another business. This is business to consumer (B2C). Additionally, each one provides a streaming service. But one provides premium content from only a select few providers and the other allows you to create and distribute your own or others content. This is often considered incremental innovation when considering the differences among them.

Below is a table showing Netflix business model as seen through the Business Model Canvas. The business model canvas breaks down a business model into the nine most important areas that may impact how a business function.

If you want to develop a new business model, it is worth taking a look at the existing business model from a superior perspective. With methods such as the Business Model Canvas, business models can be clearly presented and further developed. At a glance, you can see where there is hidden potential for improvement or weaknesses. At the same time, a common point of reference and a common language will be created, which enables a playful development of ideas and avoids protracted conversations and discussions.

A Business Model Canvas seeks to answer questions, such as:

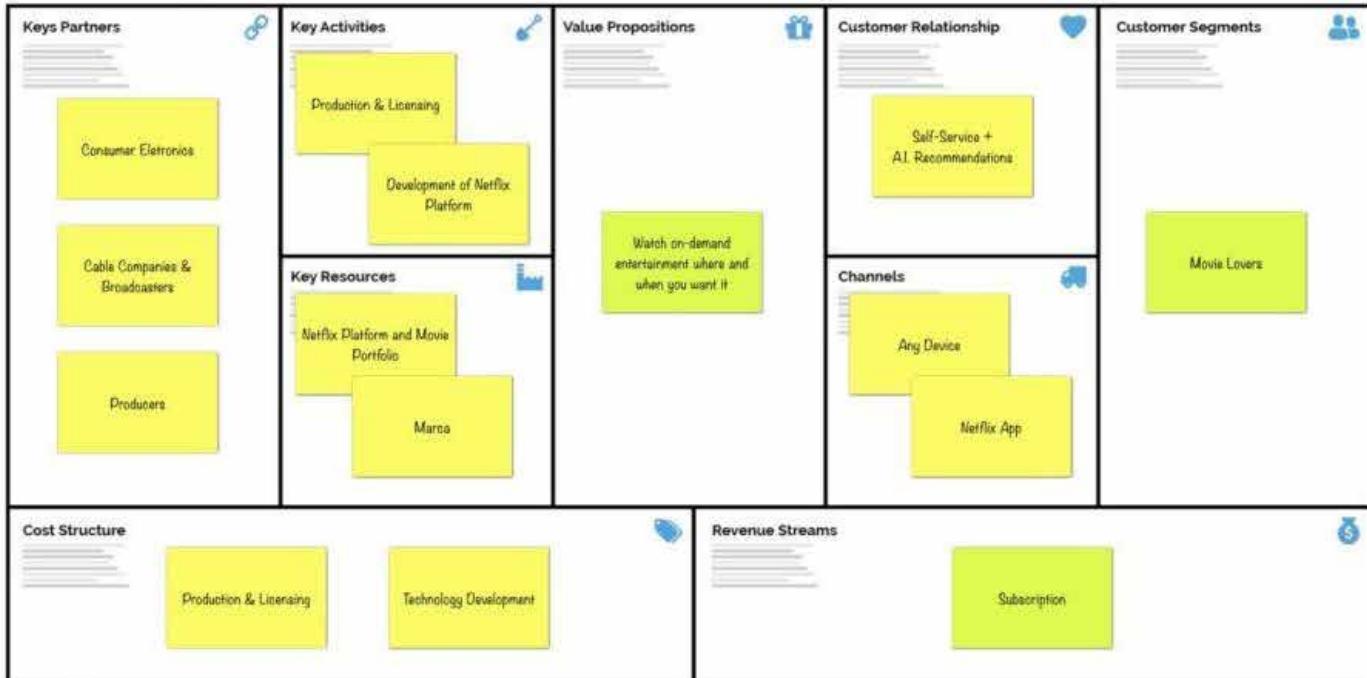
- How much revenue is generated by the individual customer segments?
- How much revenue do the different channels generate?
- What are the costs of each channel?
- Which channels are the most profitable?
- What is the cost structure?
- How much does each key resource cost?
- Which key activities cause the highest costs?
- How much does each source of income contribute to total revenue?

And more!

When it comes to innovation there are a few key areas to consider. First of all, to what extent is this new product or service different, in the example above we discussed incremental innovation – a somewhat minor yet novel difference in how YouTube and Netflix compete with one another.

Radical innovation on the other hand is typical of more revolutionary products, such as smartphones, blockchain technology, cloud computing, automobiles, MP3 players, etc. - these were all highly disruptive and changed their respective industries.

NETFLIX - Business Model Canvas



THE BUSINESS
MODEL ANALYST

<https://www.lead-innovation.com/english-blog/analysis-of-the-business-model>

businessmodelanalyst.com

Market-pull vs. Technology push

Innovation often occurs along a spectrum of customer demand and the creation of new technology. The best opportunities have a strong balance of both and perhaps more so leaning towards the Market – great businesses have customers! Unfortunately, great technology that doesn't have an ideal customer or a customer with a burning problem may not ever come to fruition. Understanding why the innovation has occurred is an important question to consider.

Furthermore, you should also be asking how they are continuing to innovate. Many companies have built huge opportunities by leveraging either closed or open innovation strategies. Closed innovation indicates that a company looks internally for innovative resources, whereas open innovation indicates that a company may outsource or bring in external resources to further innovate. There are pros and cons to each, but understanding this dynamic is valuable to both investors and entrepreneurs.

Objective:

Innovation is important for many reasons. Historically, companies that fail to innovate will lose. Some examples of this would be Blockbuster – failed to see the opportunity with streaming services, Xerox was an early leader in computers but decided to instead focus on copiers, Segway failed to identify new types of personal transportation machines and is no longer relevant, AOL was one of the first to provide access to the internet – by failing to Broadband Internet access as a threat to dial up, their \$200 billion business. Consider how the company's culture influences this. If an employee is scared to make a mistake or is lambasted for minor failures, this ultimately will kill any creative or any innovative juices that were flowing. Taking risks and experiencing some level of failure is necessary for growth and innovation to occur.

IDENTIFYING RISKS AND RED FLAGS

There is no worse feeling than finding out a company has failed and that it was totally avoidable. Most of the time, it is preventable, but sometimes it is not.

Many businesses simply fail because there weren't as many customers interested in the product, maybe it was poorly executed, and eventually these businesses run out of money. A lot of this can depend upon a startup's ability to recruit and retain top talent.

Here are some red flags to consider avoiding:

The silver-tongued salesperson – try not to fall in love with what you are being told because people will tell you what you want to hear if they want something from you. Do your research and if things don't line up, ask questions. Great entrepreneurs are willing to acknowledge their faults and learn from what you have to say.

Geography – Some may disagree with this, but there are certain challenges that come with investing in companies that are physically far away from you. Being able to have an active presence or visit the offices to meet the team may be important. Collaboration doesn't have to be in person, but it is certainly easier at times to work together or share a meal in hopes of building the relationship.

Bullshit – beware the "perfect" startup. Every company has flaws and that is okay. However, there are many that may try to convince you that an exit is all but guaranteed. Be skeptical – there are always risks involved.

Runway/Burn Rate – most companies are not raising enough capital and/or are spending money in ways that do not generate as much revenue is needed to create positive cash flows. At a minimum, companies should be raising enough capital to get them at least 12 months at in some cases at least 24 months before raising additional capital or achieving positive cash flows.

Meaningless/Indefensible IP – unfortunately, not all patents are created equal, and it is not necessarily



easy to evaluate patents or intellectual property that may prevent new entrants into the market.

Integrity – if you sense anything criminal is going on, you should try to find a way to get in touch with other investors in the company. Some people will talk their way out of every lie so it's best to trust your gut. Give them a chance to come clean, but be prepared to walk!

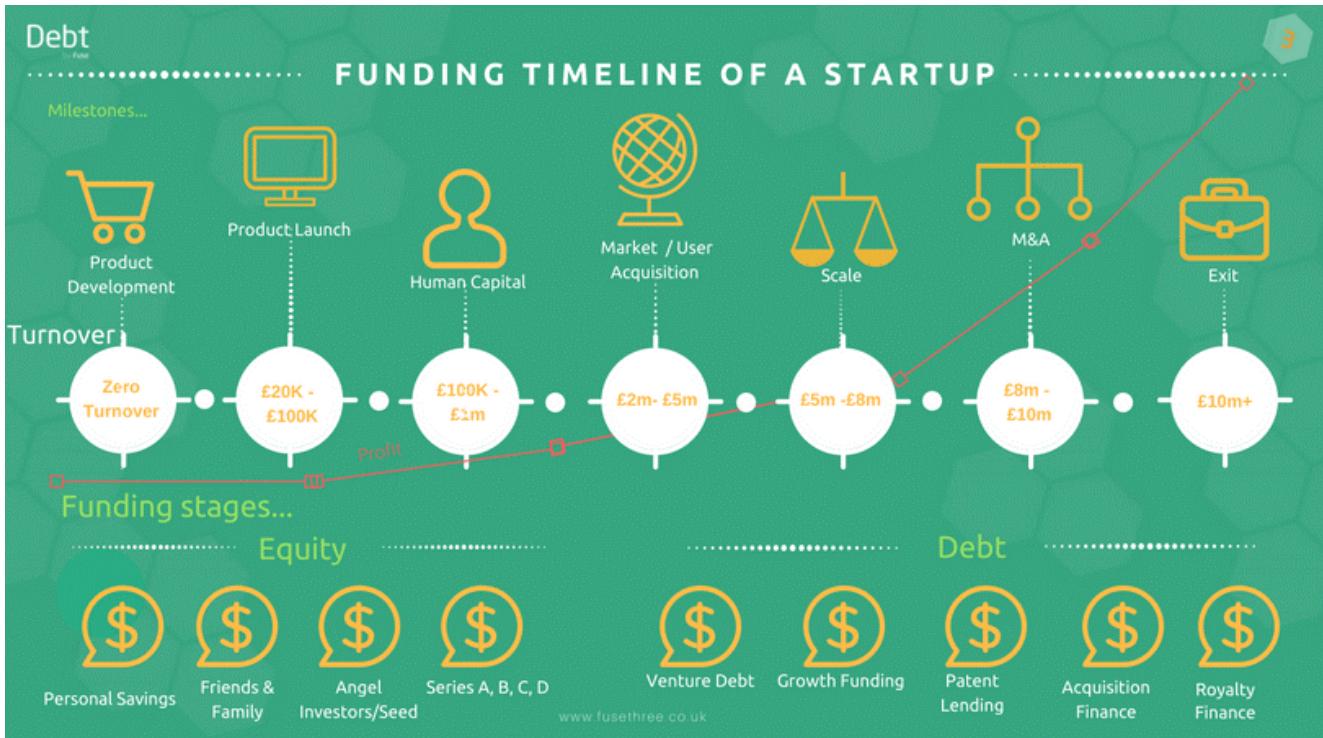
Objective:

Venture Capital is the wild west in regards to what funds and entrepreneurs can try and sell you on. One startup might be an honest attempt to solve a legitimate problem, and that company could go all the way. Another might be a collection of shady paperwork designed to give that executive suite a juicy salary for a few years and then fail, swallowing your entire investment. Be cautious, but understand that every startup comes with risks.

[This may seem like harsh point, but I based on an actual company we did a DD on in DVG that was definitely a scam (the six executives made up most of the burn rate). We passed on investing and, sure enough, at least one of the founders quit a few months later and I'm pretty sure the company is falling apart at the seams now.

COMMON TERMS, DEAL TYPES, AND INVESTOR RIGHTS

Equity	Ownership of the company, in aggregate all shares will add up to 100%
Cap Table	List of shareholders in the company, including investors, advisors, and any employees with stock options
Authorized and Issued Shares	When you incorporate you assign or authorize a # of shares. The company can often reserve some to be used later and only issue a lesser amount.
Fully Diluted Basis	Once every investment is considered in this round, the amount of equity held by a single party – post money/post investment value.
Dilution	As new shares are issued, this will create a larger pool of stock and existing shares will get watered down.
Liquidation Preference	The order in which shareholders get paid, some investors want to get paid before employees (who haven't invested capital) in order to diminish some of the risk of a total loss.
Term Sheet	A legal document or memo outlining proposed terms that are being discussed
Valuation	The number of shares a company has multiplied by the price per share. Valuation is often based on two things, art and science. The art is the vision, proprietary info, and knowledge that a startup has, where the science of it is some multiplier of revenue or EBITDA. There are even some online valuation tools that will value your company for you based on the executives' background, industry and other variables. If it seems high, it probably is but is the juice worth the squeeze.
Accredited Investor	Someone who is able to invest in private offerings based upon SEC criteria – a net worth of \$1 million or greater, not including your primary residence or annual income of \$200k single/\$300k jointly are two of the more common criteria used by eligible. Recently, professional qualifications, such as those a financial advisor or wealth manager would have, are also acceptable.
Preferred Stock	Stock with additional rights than common stock, stock with voting rights only most often. The additional rights could be a number of things, liquidation, anti-dilution, most favored nations.
Subscription Agreement	When purchasing an interest in a company, a subscription agreement is fairly common.



DUE DILIGENCE

Due diligence is the process of reviewing a company for the purposes of making an investment. Typically, the larger the investment is the more due diligence will be done. This includes just about anything you can think of:

- Financial Statements and Projections
- Management Team/Resumes
- Company Organization/Formations Docs *C-Corps are considered best practice*
- Employee Contracts
- Intellectual Property
- Sales Pipeline
- Pitch Deck
- Cap Table
- Marketing Materials
- Background Checks
- Strategy – Go-to Market

STILL HAVE QUESTIONS?

Register with the North Dakota Small Business Development Center (SBDC) and get set up with an advisor who can answer your questions and direct you to the right resources.

Visit ndsbdc.org and register today!



NDSBDC.org