MICHIGAN ROSS

Winter 2025

FIN 430: Entrepreneurial Finance

Entrepreneurs, Funding and Business Plan

Plan for today

Part I: Entrepreneurs

Part II: Funding Sources

Part III: Business Plan

Part IV: Pitching Your Company

Part I: Entrepreneurs

Why Do Entrepreneurs Matter?

- Growth
  - Economic growth comes from technological innovation
  - small companies earn 50% of GDP
- Job creation
  - Small companies provide 50% of jobs in the US
  - Firms that grow need workers: Google vs. Home Depot
- Innovation
  - Young firms patent "groundbreaking" innovations

Samuel Kortum & Josh Lerner, 2000. "Assessing the Contribution of Venture Capital to Innovation," RAND Journal of Economics, The RAND Corporation, vol. 31(4), pages 674-692, Winter.

Entrepreneurship and the Entrepreneur

- What is an Entrepreneur?
  - R. Cantillon (1680s – 1734) – bearer of risk in provision of capital
  - J. B. Say (1767 – 1832) – shifter of resources to higher productivity
  - J. Schumpeter (1883 -1950) – innovation as disturbing status quo
  - F. Knight (1885 – 1972) – directs resources in the presence of uncertainty
  - P. Drucker (1909 – 2005) – creating something new, transmuting value
  - Lazear (1948 – 2020) – “jacks-of-all-trades” competent across many areas

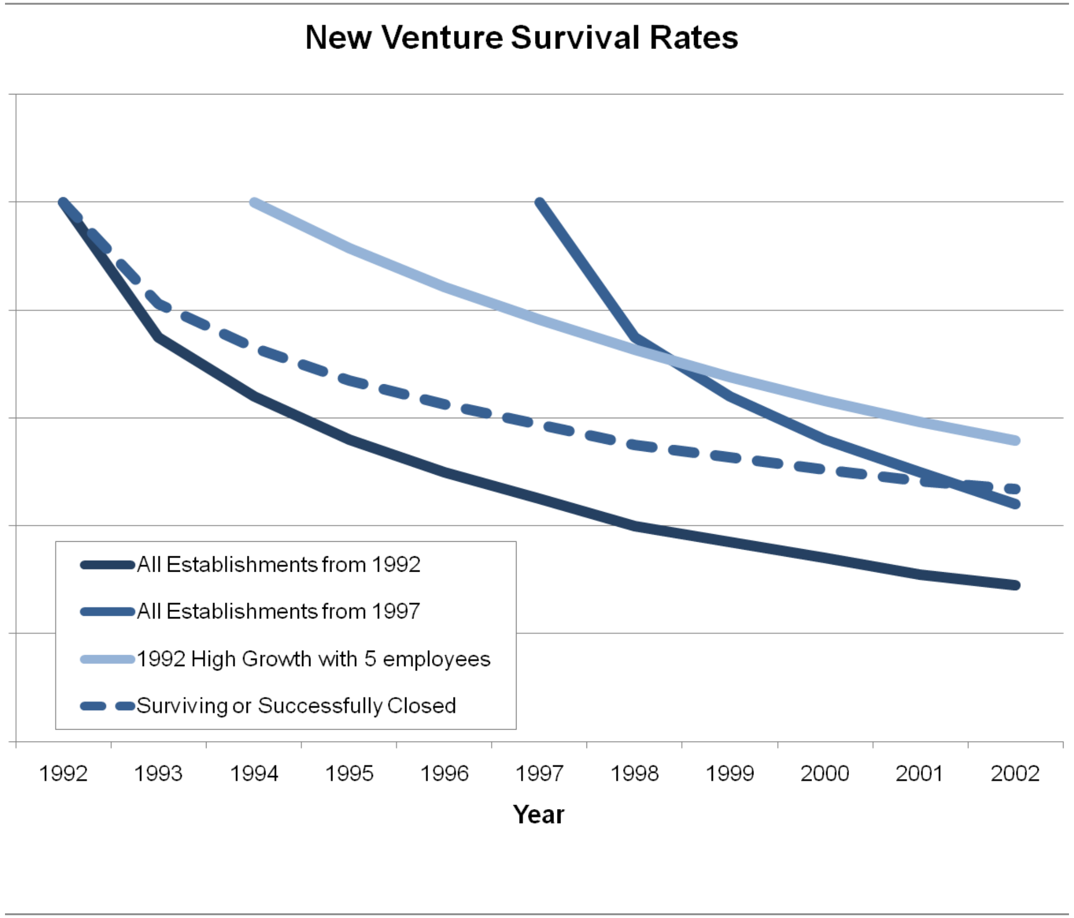
- Modern view
  - pursuit of opportunities to combine and redeploy resources without regard to current ownership or control of the resources

New Venture Survival Rates

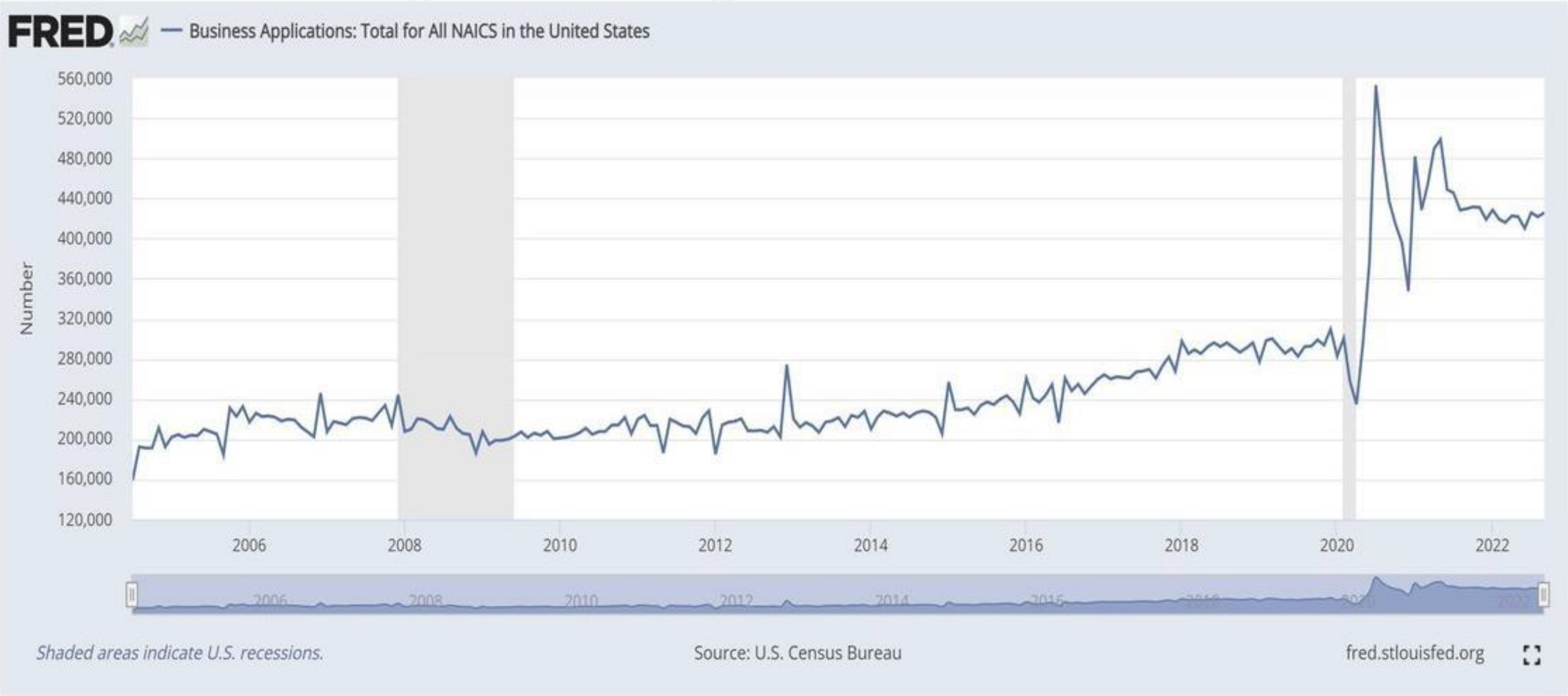
- 50% of new ventures survive at least four years and 30% at least ten years

- "High growth" firms have a better survival record; 72% survive at least four years

- One-third of non-surviving entrepreneurs still considered their venture a success



Business startup rates jumped in 2020 & have stayed high



Source: Applications to the IRS for new Employer Identification Numbers for new businesses. Data from the Census provided by Fred
https://fred.stlouisfed.org/series/BABATOTALSAUS

Economic Downturns and Entrepreneurship

- Benefits of starting a venture in a downturn
  - lower opportunity cost
  - competition may be less intense
  - easy to hire high quality employees

- Famous companies started during economic downturns

SOUTHWEST AIRLINES

FedEx

hp

Microsoft®

THE LIMITED

Genentech
IN BUSINESS FOR LIFE

Constraints to Entrepreneurship and Firm Growth?

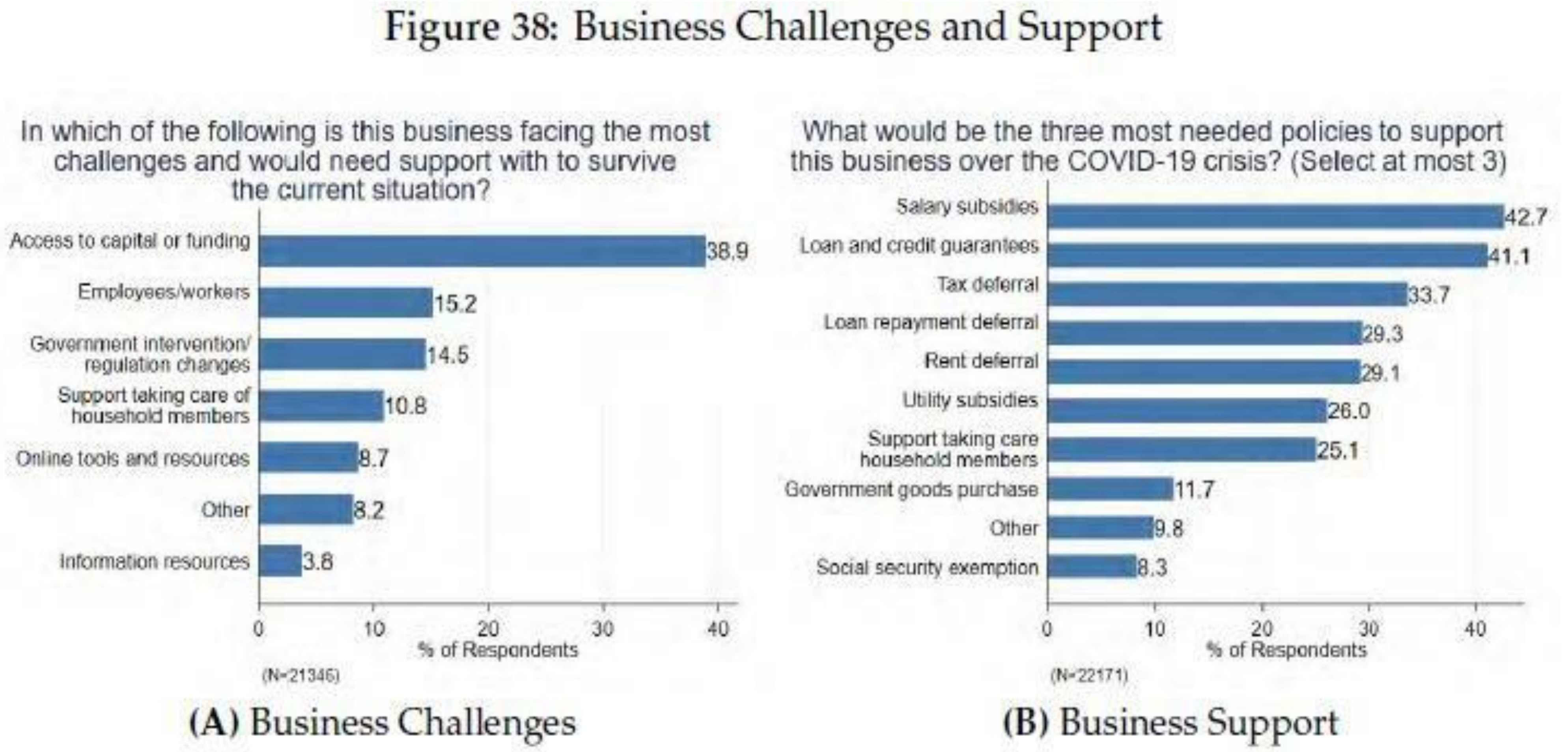
1. Access to capital/finance

2. Managerial human capital and skilled labor

3. Governance / legal environment

4. Access to product markets/ regulatory constraints

Access to funding is the biggest challenge



Source: World Bank Business Pulse Survey

Entrepreneurial finance

- Apply finance concepts to explore and exploit new ideas

- Business plan translates idea to business opportunity seeking funding

- Understand investors: VCs, private equity, angel investors to:
    - Minimize search costs
    - Maximize funding raised
    - Negotiate with investors (Term sheet provisions)
    - Plan operations
    - Lure the right employees

Types of Entrepreneurship

1. Replicative versus innovative
2. Opportunity-based versus necessity-based
3. Corporate Venturing
4. Social Venturing

1. Replicative vs. Innovative

- Replicative entrepreneurs function as efficient coordinators of resources
  - start and maintain businesses that mimic predecessors
  - provide more of existing goods and services

- Innovative entrepreneurship reshapes industries and has the potential to add huge value to economies
  - e.g. Google, Intel, Facebook, and e-Bay

2.Necessity-based vs. Opportunity-based

- Necessity-based entrepreneurs start businesses due to a lack of alternatives
  - small, low-capital ventures
  - almost always replicative
  - common in emerging economies

- Opportunity-based entrepreneurs are motivated by the idea
  - accounts for virtually all innovative entrepreneurship
  - most frequently found in developed economies

3. Corporate Venturing

- Corporate Venture Capital (CVC): Corporate venturing is common for projects requiring:
    - large and complex research teams
    - generic testing equipment
    - lengthy development times

- Incentives to encourage entrepreneurship are difficult to implement in large organizations
    - motivating people to work on the right projects
    - rewarding success
    - perceived inequities

4. Social Venturing

- Ventures that prioritize addressing social or environmental challenges
    - Focuses on creating widespread, lasting change
    - Considers diverse stakeholders, including underserved communities, employees, and the environment

- Not typically focused on high-growth scalability, which conflicts with VCs' primary focus on maximizing financial returns within a limited timeframe

Legal Forms of Organization

- Sole Proprietorships
  - Low legal costs to start; owner has unlimited liability; difficult to transfer; personal tax rates
- Partnerships (General and Limited)
  - Low legal costs to start; unlimited liability for general partner; difficult to transfer; personal tax rates
- Corporations (Regular and subchapter S)
  - High legal costs to start; limited liability; easy to transfer; corporate taxation (except dividends)
- Limited liability company
  - High legal costs to start, limited liability; hard to transfer; personal tax rates

Two main types of companies

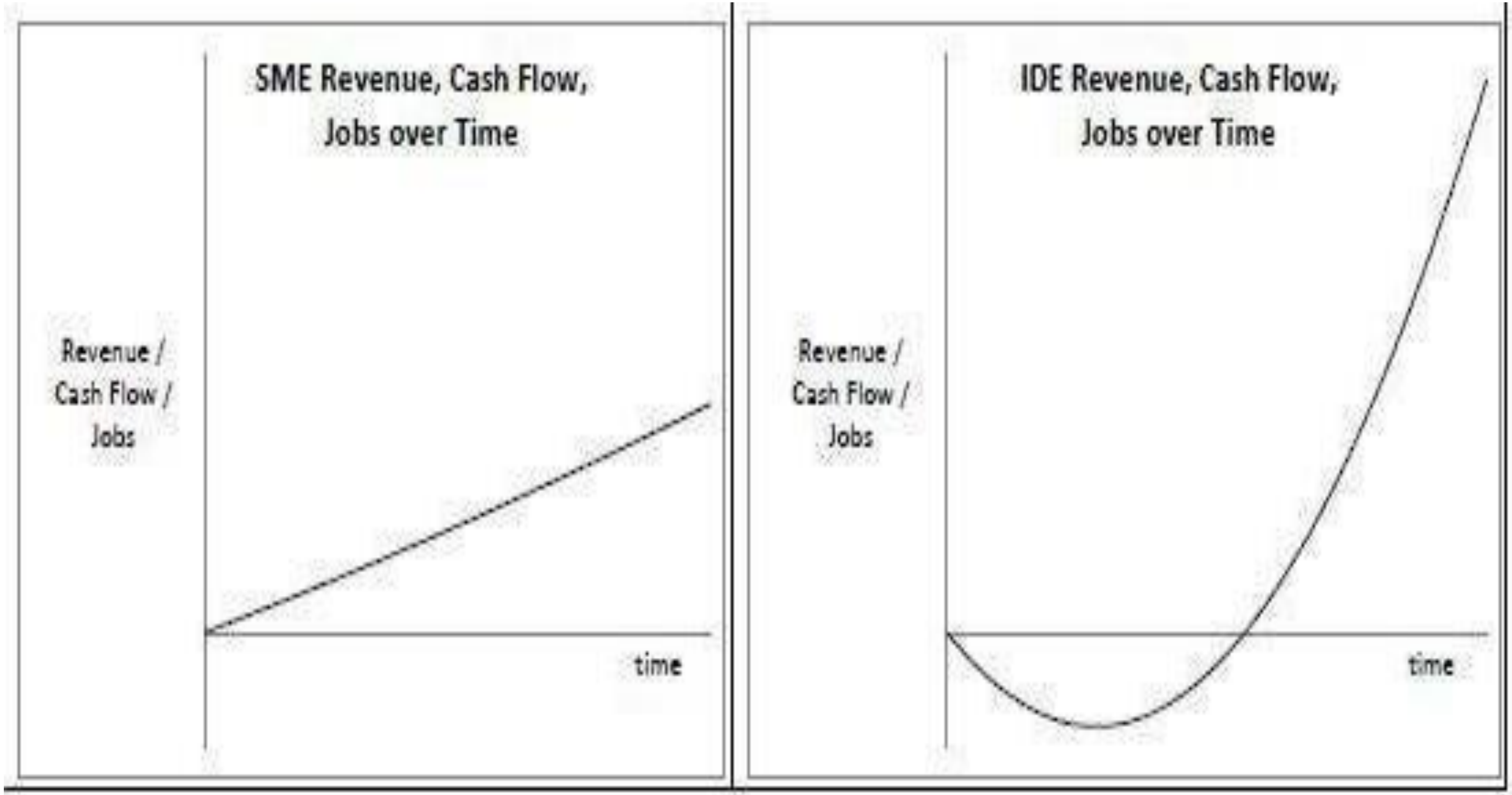
- Small businesses
  - Millions of entrepreneurs
  - Do not grow into large firms
  - Self-employment only or very few employees
  - Traditional industries

- Scalable startups
  - Select few entrepreneurs
  - Transformational and Innovative
  - Rapid growth, Create jobs, Result in larger businesses
  - True engine of growth?

Our focus in this class in on scalable startups

	Small Business	Scalable Startup
1. Geography	1) Local product or service (single) 2) Local customers 3) Local employees	1) National or global product or service 2) National or global customers 3) Jobs are "Tradable."
2. Growth	1) Slow or steady growth 2) Small total addressable market	1) Fast Growth 2) Large addressable market 3) Innovation
3. Legal Form	Sole Proprietorships, S Corporations, General Partnerships, Limited partnerships	C Corporations, Limited Liability Companies
4. Funding sources	Consumer credit, banks and commercial lenders, SBA loans, CAPs, lending-based crowdfunding, reward-based crowdfunding, founder, family and friends, intra-state funding, trade credit.	Banks and commercial lenders, equity crowdfunding, Regulation D, Regulation A+, angel investors, venture capital, family and friends, trade credit.

Cash flows of a small business vs scalable startup



Part II: Funding Sources

Funding Sources

- Founder/Friends, family, and fools
- Angels/VCs
- Brokers/Crowdfunding/Accelerators/Incubators
- SBA/CAPs/CDFIs
- Other funding sources

Founder/Friends, family, and fools

- Savings
- Credit
  - Personal credit score (FICO)
  - Secured credit card
- Friends and family
  - Document everything meticulously

Angels/VCs

- Angel investors (Seed round --- after FFF)
    - Accredited investor
    - Non-accredited investor

- Venture capital firms (Series A --- funding growth post seed)
    - Regular venture capital firms
        - General partner raises funds from limited partners to invest in scalable startups
    - Small business investment companies
        - Licensed and regulated by the small business administration
        - Get low-cost funding from the SBA

Brokers/Incubators/Accelerators

- Brokers
  - Registered brokers
  - Finders
- Incubators
  - Provide management, operating, and financial services (co-working space, not fixed term, shared office resources.
- Accelerators
  - Provide equity investment and a mentoring and educational fixed-term (3 months) cohort program. Ends with “demo day” --- pitch to large audience of qualified investors

Crowdfunding

- Reward-based crowdfunding
  - Investors want updates/product/service
  - Kickstarter; Indiegogo
  - Useful for proof-of-concept
- Equity-crowdfunding
  - Investors want equity
- Lending-based crowdfunding
  - Lending Club
  - Prosper

Grants

- Grantor does not take stake in company
- Receiver of money should provide goods and perform services for which the grant was approved
- 140,000 U.S. granting trusts and foundations awarding more than $250 billion in funding

Banks and Lenders/SBA/CAPs/CDFIs

- SBA loans
  - Government guaranteed loans (85%), which eliminate some risk for the lender
- Capital Access programs (State-level program)
  - Common pool of funding available to all lenders in the event of default
- CDFIs
  - Access to funding (provided by specialized institutions) for businesses that support local economic development
  - Can be a viable option for founders without credit, low-growth businesses, no revenues or collateral (small loans)

Other funding sources

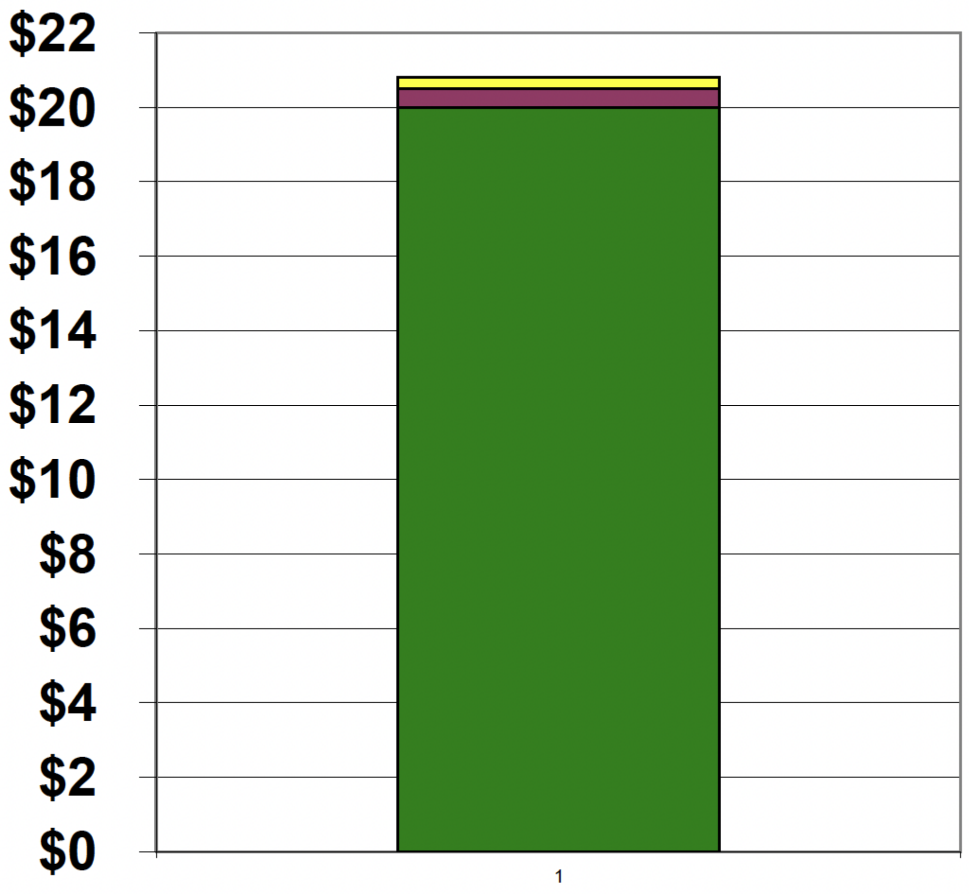
- Foreign investor funding
  - EB-5 visa program
- Factoring
  - Selling receivables to a third party at a discount
- Receivable's lending
- Venture leasing
  - Lessor takes an equity interest (through warrants)
  - sale-leaseback of patents

Annual Sources of Startup Funding

- Venture Capital ~$.3 billion
- State Funds ~$.5 billion
- Angel Investors ~$20 billion

Angels: 90% of outside equity for startups?

- Friends & Family ~$60 billion



Sources: MoneyTree, NASVF, multiple studies on informal capital

Part III: Business Plan

Business plan

- The term business plan mean different things to different people
    1. A strategic framework or business
        1. Conceptual map that explains the business logic and how the venture plans to create economic value
    2. An operational planning tool a.k.a. business
        1. A loosely organized set of ideas and or Notes that detailed the numerous actions that are needed to employment the opportunity
    3. An investor presentation or business pitch
        1. A presentation that is meant to communicate the essence of the venture

- Historically, this consisted of an executive summary (1-5 pages) followed by a written document (15-30 pages)

- In today's world, this has been largely replaced by slide presentations (10-20 slides) or short video presentations (2-10 minutes), which may still be followed by a 10–20 page document with further details
    - This is what we'll do in this class!

- Collection of the slide deck of future, extremely successful businesses like Airbnb, Dropbox, LinkedIn, or YouTube
    - https://www.cbinsights.com/research/billion-dollar-startup-pitch-decks/

Business plan

1. Opportunity
2. Company Strategy and Mission Statement
3. Founding Team
4. Marketing Plan
5. Financing and Valuation
6. Limitations

Business plan

1. **Opportunity**
2. Company Strategy and Mission Statement
3. Founding Team
4. Marketing Plan
5. Financing and Valuation
6. Limitations

What is the opportunity?

- SWOT Analysis
- What is the “pain point”?
- How large in the market?
- What trends drive growth in the industry?
- How much funding do you need to seize the opportunity?

SWOT: strengths and weaknesses…

- Unfilled customer need
- Intellectual property rights
- First mover
- Lower costs and/or higher quality
- Experience/expertise

…opportunities and threats?

- Competition
- Market size/market share potential
- Substitute products and services
- Possibility of new technologies
- Recent or potential regulatory changes
- International market possibilities

What is the “pain point”?

Life Recovery Systems invents and develops new medical devices for treatment of critical illnesses such as stroke, cardiac arrest, and heart attacks. The company has designed, patented, and obtained FDA clearance to market its first product, the ThermoSuit® System. This device is the most powerful noninvasive patient cooling device on the market. It can be used to cure patients of deadly fevers and heatstroke. It also has the potential to dramatically reduce or eliminate injuries to the brain, heart, and other organs following prolonged oxygen deprivation.

Pain Points

1. Curing deadly fevers and heat strokes
2. Reduce or eliminate injuries to brain, heart, and organs following prolonged oxygen deprivation

Life Recovery Systems: 2018 Regulation CF Offering Document

What is the “pain point”?

HYLETE is a fitness lifestyle brand, founded on the core belief that a company's impact can and should live beyond the products they sell. Built on a foundation of innovation and quality, HYLETE's energy is equally focused on inspiring the well-being of their community.

Each detail of every design has a purpose. Whether it's fine-tuned for your most intense training session, or optimized for comfort outside of the gym, HYLETE is committed to providing high-quality athletic apparel at their unique 'HYLETE pricing.'

By removing the noise of traditional retail, community feedback goes directly into the development of new products and improving the overall HYLETE experience.

Pain Points

HYLETTE, Inc. 2019 Regulation CF Offering Document

Main types of business ideas

How large is the market?

ThermoSuit Hospital Market Opportunity

Possible Cardiovascular Indications for ThermoSuit Cooling	Number of Patients Per Year *	Overall Market Size (assuming $1600 per ThermoSuit)
Stroke	795,000	$1,272,000,000
Heart Attack	790,000	1,264,000,000
Cardiac Arrest	350,000	560,000,000
Total	**1,935,000**	**$3,096,000,000**

* American Heart Association, American Stroke Association, Heart Disease and Stroke Statistics 2017 At-a-Glance.

Life Recovery Systems intends to expand its penetration into the market for in-hospital patient cooling devices. Studies show that rapid cooling is likely to improve the outcomes of patients suffering from the effects of heatstroke, cardiac arrest, traumatic brain injury, stroke, and heart attack. These indications amount to a potential **annual market of over $2B** (see the chart on the left).

Our work should furthermore lead to significant reductions in the costs of long-term care and financial support of the people who suffer catastrophic illnesses such as cardiac arrest, stroke, and heart attack. The ThermoSuit is essential in the recovery, affordability, and wellbeing of patients throughout the country.

How large is the market?

1. ## Total Addressable Market (TAM)
    - Definition: total revenue opportunity available if a product or service captures 100% of its potential market
    - Example: *The global e-commerce market is projected at $5 trillion*

2. ## Serviceable Available Market (SAM)
    - Definition: The portion of TAM that a business can realistically serve, based on its product, geography, and capabilities
    - Example: A startup targets only U.S.-based e-commerce users, a $500 billion segment.

3. ## Serviceable Obtainable Market (SOM)
    - Definition: The percentage of SAM that the business can realistically capture within a specific time frame
    - Example: The startup plans to acquire 5% of U.S.-based e-commerce users in 3 years, worth $25 billion.

How large is the market?

The Market

The Total Available Market (TAM) for athletic wear (which includes apparel and footwear) is a $97 billion a year industry in the United States. [1] The gym industry places the number of people who engage in fitness in the U.S. at 66.5 million. [2] Taking the TAM and dividing by the 66.5 million, the average yearly spend per individual is $1,459.

The Serviceable Available Market (SAM) totals 22.5 million and is comprised of individuals who participate frequently in crosstraining and high-intensity interval training. [3] Taking this core market and then multiplying by the average yearly spend per person yields a SAM of $32.8 billion per year.

What are the current trends in the industry?

1. **Macro Trends**: Highlight major shifts or drivers affecting the industry.
   - Examples: "Increased adoption of AI-powered tools across sectors," "Heightened focus on sustainability and ESG practices."
2. **Market-Specific Trends**: Showcase trends directly relevant to your niche.
   - Examples: "Rising demand for telehealth solutions due to aging populations," "Rapid growth in e-commerce logistics to support same-day delivery."
3. **Technological Innovations**: Mention emerging technologies that are transforming the industry.
   - Examples: "Integration of blockchain in supply chain management," "Advances in machine learning driving personalized customer experiences."
4. **Consumer Behavior Shifts**: Show how customer preferences are evolving.
   - Examples: "Millennials and Gen Z prioritize brands with strong social values," "Subscription-based models gaining popularity for flexible purchasing."
5. **Regulatory/Policy Changes**: Highlight relevant government or legal developments.
   - Examples: "Government incentives driving renewable energy adoption," "New data privacy regulations influencing cybersecurity needs."

How much funding do you need?

THE OFFERING

Maximum 11,180 Class B Common Units ($106,992.60)

**Maximum subject to adjustment for bonus units. See 10% Bonus below*

Minimum 1,044 Class B Common Units ($9,991.08)

Content Outline

How will you create value?

1. Organization, Name, and location of company
2. What are you selling?
3. Who is your target customer?
4. What is your unfair advantage?
5. What factors are critical to grow revenue and achieve scale?
6. What is your timeline for product development and launch?

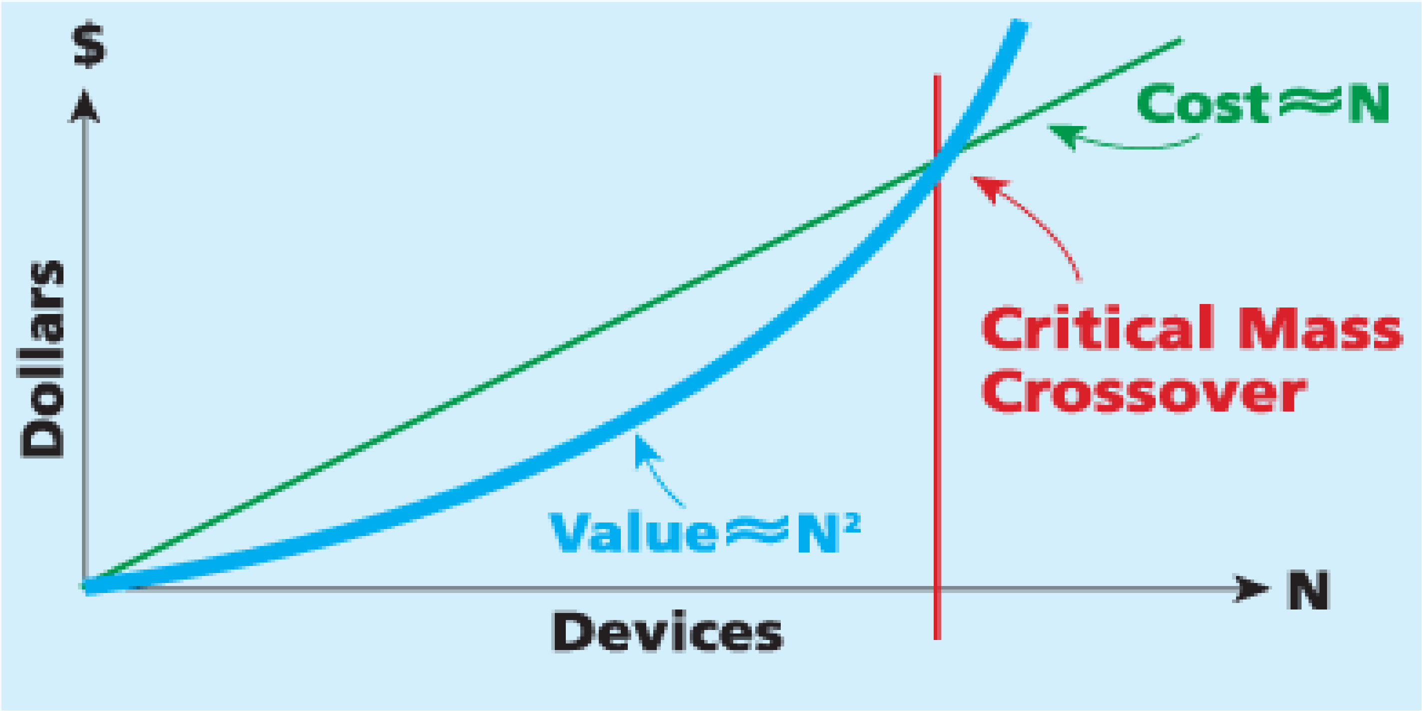
Legal Forms of Organization

- Sole proprietorships
  - Low legal costs to start;
  - owner has unlimited liability;
  - difficult to transfer;
  - personal tax rates
- Partnerships (General and Limited)
  - Low legal costs to start;
  - unlimited liability for general partner;
  - difficult to transfer;
  - personal tax rates
- Corporations (Regular and subchapter S)
  - High legal costs to start;
  - limited liability;
  - easy to transfer;
  - corporate taxation (except dividends)
- Limited liability company
  - High legal costs to start
  - limited liability
  - hard to transfer
  - personal tax rates

What is your unfair advantage?

- ❑ Why is your idea hard to replicate?
- ❑ Do you have a first-mover advantage?
- ❑ Are your advantages defensible?
- ❑ Does your product have a potential network effect?

The network effect



What factors are critical for revenue growth?

- Which factors have the largest impact on your cash-flow projections?

- What is your strategy to minimize the effect of these risks?

- Which macro-economic and regulatory risks affect your strategy?

Content Outline

1. Opportunity
2. Company Strategy and Mission Statement
3. **Founding Team**
4. Marketing Plan
5. Financing and Valuation
6. Limitations

Why are you the right jockeys?

- ❑ How does founding team experience relate to business idea the company seeks to exploit?
    - Experience/Expertise/Technology and industry connections/Chemistry
- ❑ Why did the founding team pick this idea?
- ❑ What skills are needed for strategy?
- ❑ Does the company know how to recruit the requisite talent?

Content Outline

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How will you reach your customers?

1. Who are your potential customers?
2. How do they make purchase decisions?
3. What are they currently using in lieu of your product?
4. Who are your competitors?
5. How will your competitors react to your entry?

Content Outline

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6. Limitations

Financing and Valuation

1. What are your revenue projections?

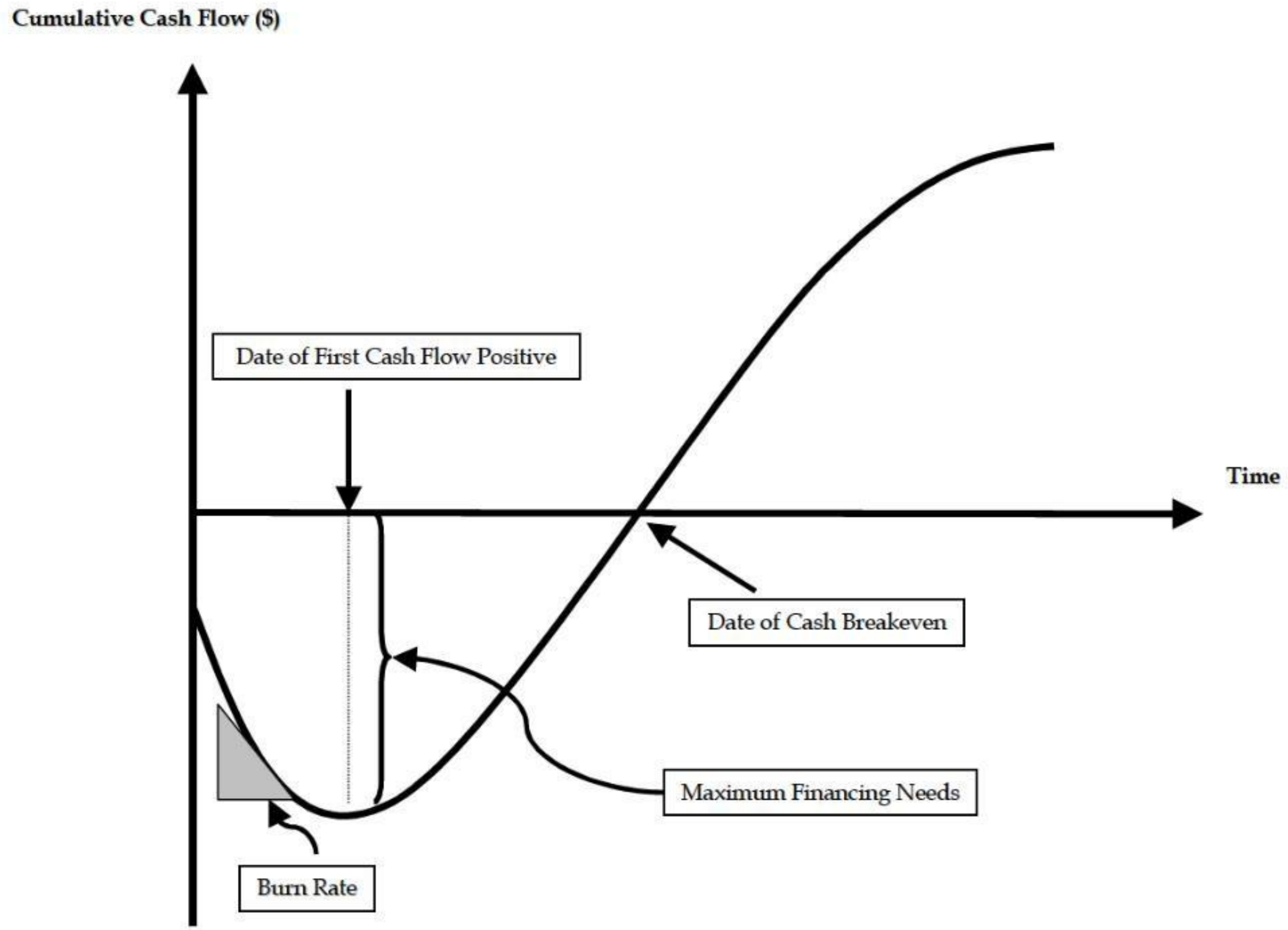
2. What are your expense projections?

3. How much do you expect to grow revenue over the next five years?

4. What is your valuation?

5. What is your exit strategy?

The J Curve


Cumulative Cash Flow ($)
Time
Date of First Cash Flow Positive
Date of Cash Breakeven
Maximum Financing Needs
Burn Rate

What are your revenue projections?

- How many revenue streams will your business model generate?
- What is the source of each revenue stream?
- What is the relative size and importance of each revenue stream?
- What other opportunities exist given your existing customer base?

Growth metrics

- 10% month-over-month is the rule of thumb (but varies - lower now)
    - Logically varies by stage
        - Pre-seed: Monthly growth of 15-20% or more
          Seed: Monthly growth of 15% or more
          Series A: Monthly growth of 12% or more
          Series B: Monthly growth of 10% or more
          Series C: Monthly growth of 5% or more

Wait a minute! Growth at what cost?

- Sell something worth $20 for $10 and you will grow!
- More realistic: spend $20 on advertising to sell something that makes you $10

What are your expense projections?

- What are your biggest expenses?
- Which expenses are fixed, and which are variable?
- Which expenses are non-recurring?
- Do you expect cost drivers to change over time?
- What are the assumptions behind your revenue and expense projections?

How much is your company worth?

- Do you sell something for more than it costs? Really?
- How much cash do you need to get a minimum viable product/break even?
- How much working capital will sustain the company until the next funding round?
- When next do you expect to raise capital, and from whom?

LifeTime Value (LTV) of a Customer

- Need data - and guesses and thus approximation and justification

- Profit Year 1?
  - Average Revenue Per Account (ARPA) or ARP User (ARPU) or ARP Customer (ARPC)

    MINUS
  - Cost of filling order (cost of product or customer support)
    - This is 'on the margin' – so not including overhead or anything other than the marginal cost of filling an order
    - Sometimes costs are small enough that they are ignored (particularly with simple SaaS)

LifeTime Value (LTV) of a Customer

- Profit Year 2?
  - Does ARPU expand or contract?
    - Do some current customers expand?
    - Do you lose some customers over the period?

Started ARR with $100k ARR

- Churn
  - At end of year 10% of these customers left, so now at $90k ARR
  - If this is typical, then churn rate is 10% per year
  - Note: 1/churn rate is the average customer life
- Net Churn
  - Some of the customers who stayed upgraded or increased by $7k in aggregate
  - Thus, Net churn is 3% and ARR (from these customers) at end of year is $97k

- Note carefully, that this does NOT include any new sales – this is about what happens with current customer base.

LifeTime Value (LTV) of a Customer

- Profit Year 2?
  - Profit Year 2 = Profit Year 1*(1-Net churn)
  - Profit Year 3 = Profit Year 2*(1-Net churn)

Thus…

LTV= Profit Year 1 + Profit Year 2/(1+d) + Profit Year 3/(1+d)^2 +…

d = discount rate

LTV = Profit year 1 + Profit year 1*r/(1+d-r)

r = Retention rate = 1-Net churn

LTV: Precisely wrong vs Approx wrong

- Assumes a nice steady churn rate.
- Assumes ARPU growth of remaining customers is steady.
  - Often year one is discreetly different (discount or higher) than year 2 and beyond.
- Many people ignore the discount rate.
- Many people use ARPU instead of profit.
  - Ok if costs are small like with many SaaS products
- This formula assumes no (or low) retention costs.
  - May want to add in if high.
- Many ignore ARPU growth.
- Simple LTV = ARPU/Churn.

Do your best to get a reasonable guesstimate.

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When are our sales good enough to raise a Series A?

- ARR = Annual Recurring Revenue, MRR = Monthly Recurring Revenue

- $1m ARR is the rule of thumb
  - But the reality varies considerably (higher now – but how much???)

- Repeatability
  - Need to either believe (cure for cancer)
  - Or 'prove'
    - One customer paying $1m ARR probably not enough
    - 50 customers paying $10k ARR probably is.

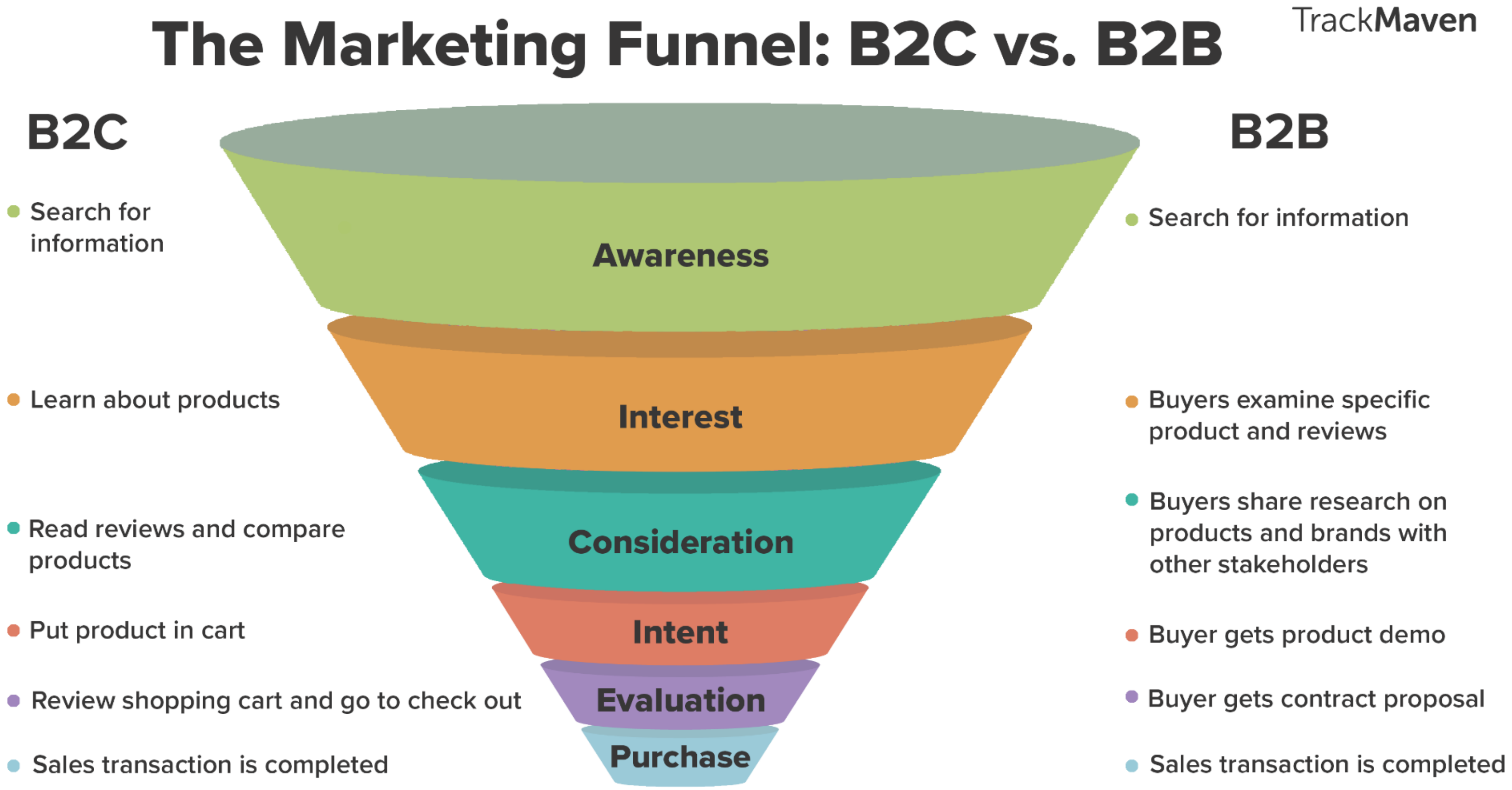
Customer Acquisition Cost (CAC)

- CAC = Amount spent on marketing and sales / number of customers acquired.

- Easy to write down, but hard to get meaningful number in many real-world cases.
  - What if we hired a bunch of salespeople near end of period that are not up to speed yet? Do we include that cost?
  - What if we did a big marketing push this period that we expect to have impact for many months, quarters or even years in the future?
  - What if we are doing different things that work differently? May need to track every way of getting customers differently.

Customer acquisition costs: repeatability

Can you show repeatability at every level?



LTV / CAC ratio

- LTV / CAC helps you see if your marketing and sales are working

- Rule of thumb is that >3 is good and 5 is excellent
  - But like the other rules of thumb this hides a great deal.

- A 3 means that for every dollar you spend on marketing and sales you get $3
  - Side Note: LTV/CAC >5 may suggest you are not spending enough on marketing and sales!
  - Sounds good, but let’s do an example and dig in.

Simple Example

- eCommerce company spends $10,000 on Google AdWords campaign and acquires 1,000 new customers.
- ARPC $50
- Average Cost to fill orders is $30.
- 75% of current customers buy again next year
- Customer Contribution margin is $50-$30=$20
- LTV = $20/(1-75%)= $80
- CAC = $10,000 / 1,000 = $10
- LTV/CAC = $80 / $10 = **8**

We should do this all day!

But what if…

- eCommerce company spends **$25,000** on Google AdWords campaign and acquires 1,000 new customers.
- ARPC $50
- Average Cost to fill orders is $30.
- 75% of current customers buy again next year
- Customer Contribution margin is $50-$30=$20
- LTV = $20/(1-75%)= $80
- CAC = **$25,000** / 1,000 = **$25**
- LTV/CAC = $80 / **$25** = **3.2**

What is the problem?

Payback period

- We just spent $25

- Average customer first year profit $20

- We make $20 the second year, but only 75% of the time
  - On average we make $15 second year (75% * $20).
  - We make $10 in cash after two years. $25 spent up front, $20 back right away and $15 back next year ($15+$20-$25=$10).

- Payback period is time until money back often approximated with CAC/Annual Profit Per Customer
  - $25/$20 = 1.25 years
  - Note: you can see why you might want to be much more accurate on the timing of the second purchase.
  - Note: Some look instead at sales efficiency = First year profit / CAC

- Conclusion: In this adjusted case with a CAC of $25 we should still spend the money, but **we are going to need investors**, or we are going to grow very slowly!

Finally, what is your exit strategy?

- IPO
- Acquisition/SPACs
- Share repurchases
- Dividend

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2. Company Strategy and Mission Statement
3. Founding Team
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6. **Limitations**

Limitations

- What would you fix if you had more time?

- What do you think are the key limitations of your current plan?

Sensitivity Analysis

- ❑ Start with the timing of cash flows used to create the maximum financing need

- ❑ What are the three to four parameters with the greatest impact on cashflows?
  - Sales growth
  - Customer acquisition costs
  - Fundraising
  - Exit value

- ❑ Select a reasonable range for each parameter

- ❑ Which variables have the most significant impact?

Part IV: Pitching Your Company

What do investors need? Help me help you!

- ❑ Deck should be brief and intuitive.
  - In answering questions, you can elaborate.
- ❑ What is the problem or compelling desire?
- ❑ What is done today? (competition)
- ❑ What do you do? How do you do it?
- ❑ Why is this better? Why is now the time to make it better?
- ❑ Total Addressable Market.
- ❑ Traction? Stats around that.
- ❑ Team – who and how do they relate to the problem or desire?
- ❑ Unit economics.
- ❑ How much do you need? To accomplish what?
- ❑ Some people also like to add (relatively silly) projections showing cash flow breakeven or billions in revenue by 2023. I don't recommend it. Have it for support if asked.

What is your vision of the future that we want to get behind!

How to pitch?

- ❑ Make your point in the first 90 seconds.
  - If the entire presentation ends at 90 seconds, the other side should “get it”
  - Problem, solution, market, business model, team…FAST.
- ❑ Tell a *story* not some facts.
  - People like facts only to provide scaffolding for what they already believe with their gut.
  - Please can listen to and remember stories.
  - Make it entertaining and engaging.
- ❑ Don’t talk about features talk about results, outcomes, benefits.
- ❑ Make the deck visual and to the point.
- ❑ Touch quickly on competition and why you win.
  - Its not just the idea, it is about how you execute on it to win!
- ❑ Sell what you have. I.e., focus on the good parts about what you have.

Who is your audience for the pitch?

- VC
  - Size, style, focus
- Super Angel
- Corporate Venture
- Corporate BD
- Incubators
- Angel

What do they want?

Think about the problem from ***THEIR*** point of view.

Chicken and egg

- Everyone wants to be the last money in, to a company that already has a great team, and a dynamite product.

- Great entrepreneurs move forward on all these fronts simultaneously.

- They make everyone feel that if they don't get on board now, they will miss the boat.

The Oversubscribed Pre-Seed Round

- Start by just going to see people. Ask for advice, not money.
  - Show a movie not a picture. Don't wait for perfection – tell them where you are now and where you will be next month. Then when you come back, they will see the progress.

- Build interest while moving forward on other fronts
  - Advisory board
  - Team
  - MVP
  - Surveys/Sales/LOIs

- Set the round size below what you think you can raise but must be enough to reach an inflection point.

- Pre-seed - You set the terms and only close when you can tell people who you have been talking to that you are "oversubscribed" but would love to have them.

Who should you go see?

- Some say everyone – you must kiss a 1000 frogs to find your <u>price</u>.
    - I disagree. This would be like advising a high school sophomore to ask out every person in high school to try to find the one who would date them. Sounds logical but won't actually work.

- Find the RIGHT people to invest in your company.
    - Who should understand my product/service/solution instantly?
    - Who will provide credibility around an aspect of my business?
    - Which investors invest in deals like mine?
        - Stage, size, sector, solution type, etc… (look at what else they funded!)
    - Get to the people that you can reach with as warm an intro as possible.
    - If the 'right' people won't invest, maybe time to revamp the idea or the pitch!

Bring enthusiasm, passion, confidence and a can-do attitude!

Be straightforward and authentic.

No one expects you to have all the answers, but they expect you to be thinking hard about the questions!

Next: VC Method