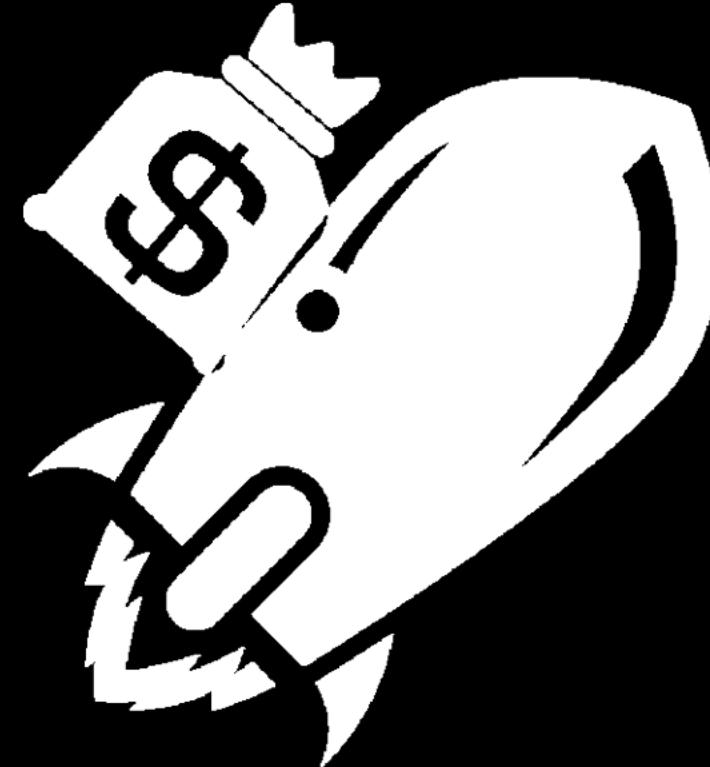


THE BASICS OF FUNDING EARLY STAGE VENTURES



Blake Patton
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- Technology entrepreneur and investor with 20 years of experience in startup, venture backed, and publicly traded technology companies
- Founder & Managing Partner, Tech Square Ventures
- Tech Square Ventures is a seed and early stage venture fund
- ENGAGE Fund Manager
- Investing in cloud, IoT, and university spinouts
- Former General Manager of the Advanced Technology Development Center (ATDC) at Georgia Tech
- Teaches Entrepreneurial Finance at Georgia Tech's Scheller College of Business



ENGAGE

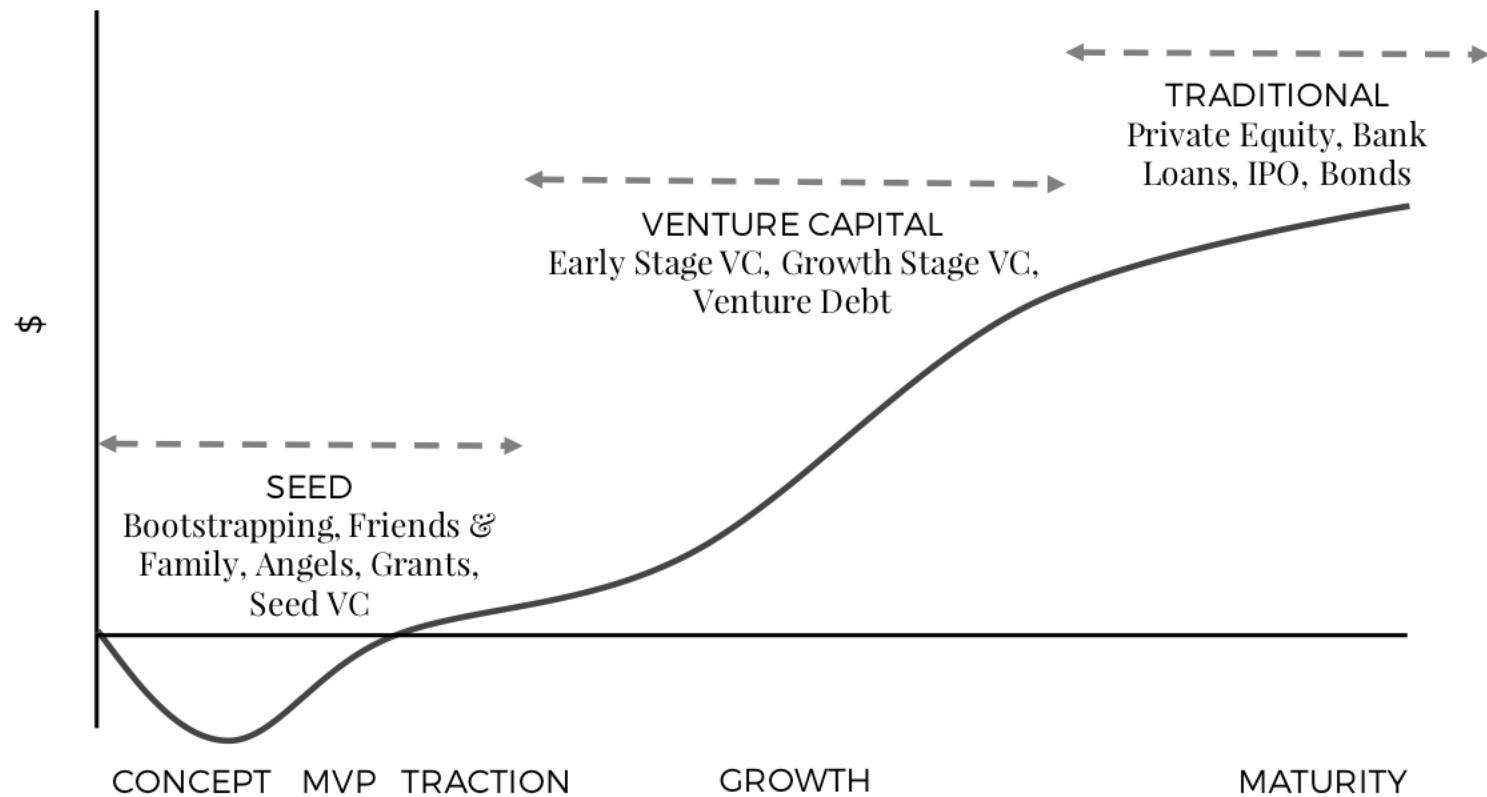
SHARK TANK





VC

SOURCES OF CAPITAL





INVESTORS DON'T FUND RESEARCH – THEY FUND BUSINESSES

Stay bootstrapped / grant funded as long as you can

Raise funding around key milestones (value inflection points)

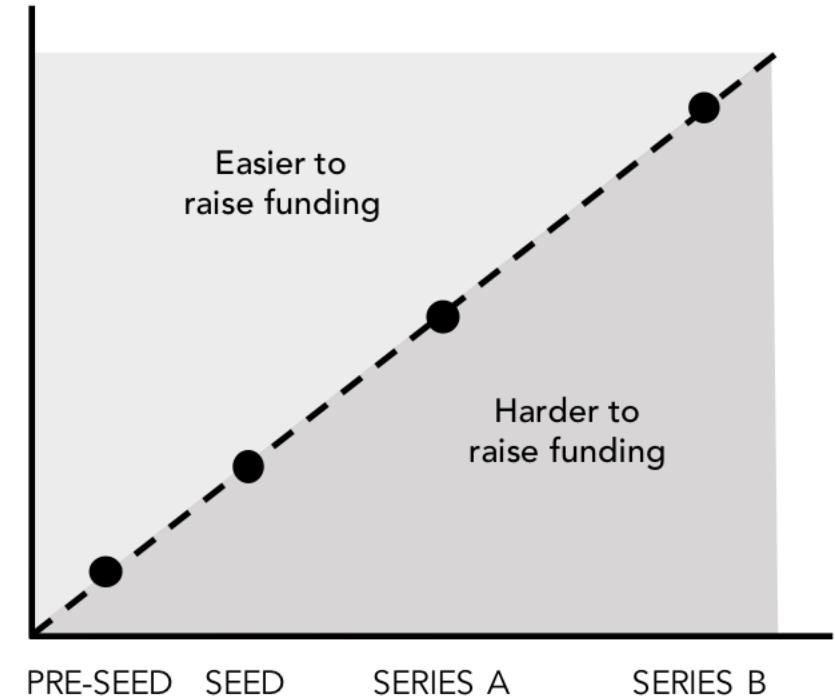
- Think in terms of milestones
- Raise enough capital to reach meaningful milestones
- Account for variability / scenarios
- Milestones represent reduced risk and more favorable valuation (lower cost of capital and more options for availability)

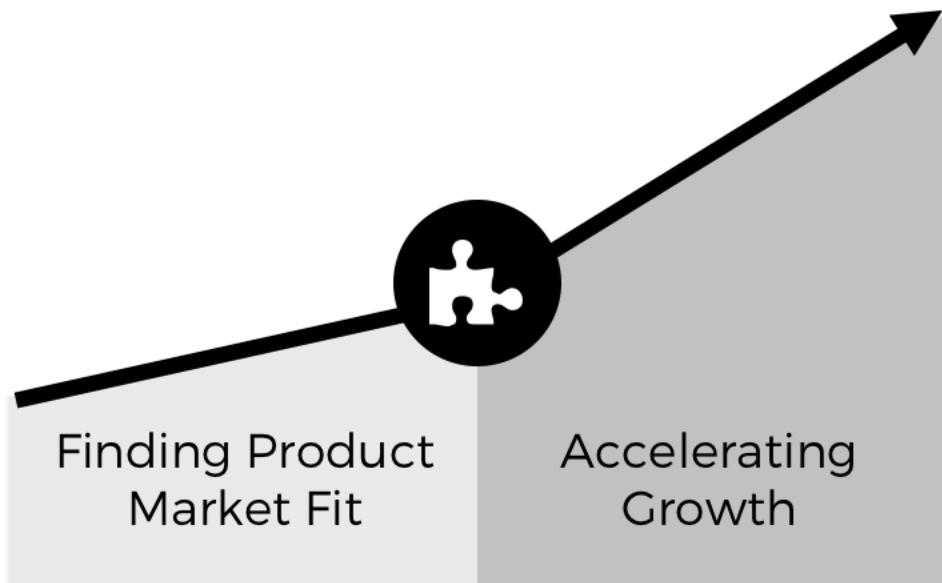
Strong growth and increasing market share

Initial traction, referenceable customers, ready to scale sales

Evidence of product-market fit, MVP

Strong team, great market opportunity, compelling solution





- Lean To Product Market Fit
- Raise More To Accelerate Growth

At Seed & Early Stage I Am Betting Primarily On The Team, Market, & Timing



Entrepreneur & team



Market



Right Timing



Investment thesis fit



Can I help?



Unfair advantage / IP



Scalable business
model with recurring
or transactional
revenue

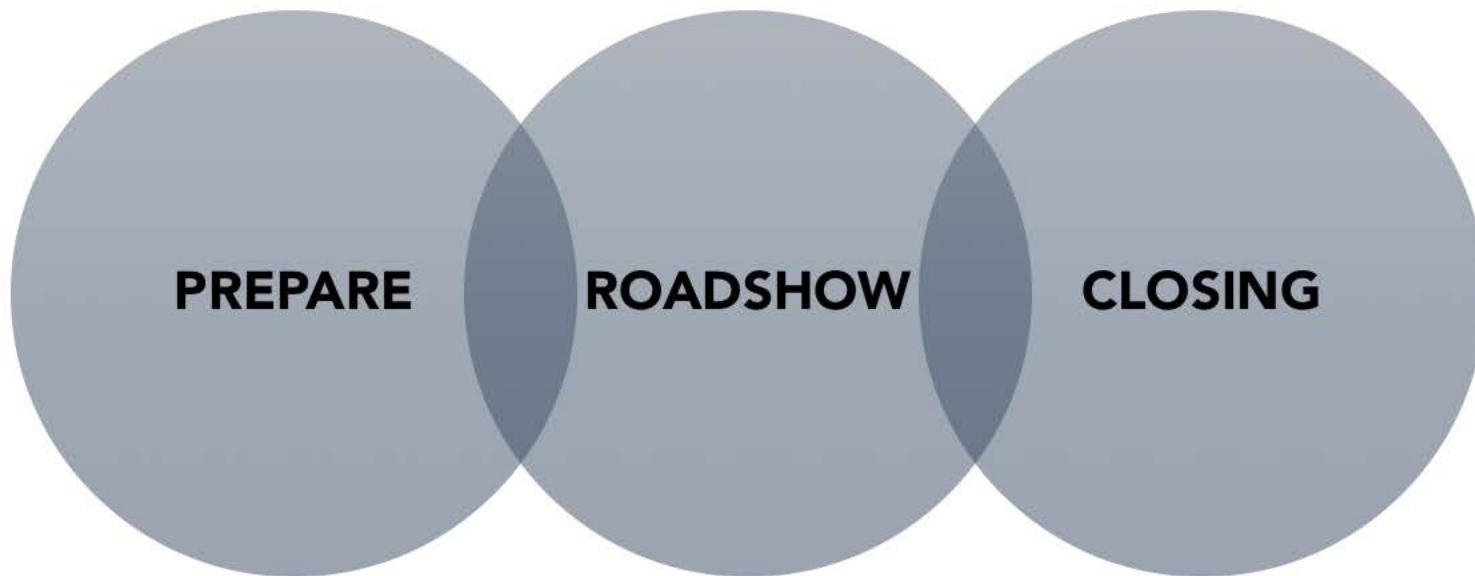


Proof or traction



Distribution

THE PROCESS



A black and white photograph of a man with dark, curly hair and glasses, wearing a dark suit jacket over a light shirt. He is standing behind a light-colored wooden podium, looking towards the right. A small microphone is attached to the podium. In the background, there is a large projection screen with some text and graphics that are mostly illegible.

● Elevator Pitch

📄 Executive Summary

💻 Presentation

📄 Financials



We solve **[problem]**
by providing **[solution / advantage]**,
to help **[target customer]**
with **[goal or outcome]**

Depending on stage of business add:
We make money by charging
[target customer] to get **[benefit]**

EXECUTIVE SUMMARY

- Create the right first impression
- Use to get meetings and gauge interest
- Not a business plan
- One page
- Clear and compelling
- Highlight the good stuff
- Layout and format matters

Example template:

http://members.atdc.org/resource/resmgr/Files/Executive_Summary_Template.doc

Executive Summary Company Name				
Contact Name and Title Address: Street, City, State, Zip Phone: Email: Web:				
Management: Titles, names, and previous, relevant experience	Business Description: Clear description of your business- start with a one sentence, clear description of your business.			
Key Advisors/Board Members:	Company Background: Provide a short summary of your company background. What was the genesis of this concept and how did your company get started.			
Industry:	Problem/Solution: Discuss the key pains in the industry and quantify how big they are (time, \$\$, etc.). What is currently being done to solve these pains?			
Number of Employees: #	Products/Services: How is your product/service uniquely qualified to solve this pain. Convey to the investor that the company and product truly fill an unmet need in the marketplace. The characteristics that set the product and company apart from the competition need to be identified (competitive advantage).			
Bank:				
Law Firm:				
Amount of Financing Sought:				
Current Investors: (\$Amt. Invested) Any Venture Capitalists, Private Investors, Investment Banks, or Personal Funds				
Use of Funds: i.e. Product development, marketing/sales, distribution, etc...				
Markets: Provide a clear description of your target market, and any market segments that may exist within that market. Include potential market size and growth rate.				
Competition: List any current or potential direct and indirect competition. Briefly describe the competitive outlook and dynamics of the relevant market in which you will operate.				
Business Model and Distribution Channels: How will you sell and price your product (subscription, license, recurring revenue, etc.). Indicate which channels will be used to deliver your products/service to your target markets (i.e. website, direct sales force, VARs, channel partners, etc...).				
Financial Projections:	2010	2011	2012	2013
Revenue:				
EBIT:				
(dollars in thousands)				2014

THE PRESENTATION



If investors understand the **problem** you solve, and
who you solve it for – you are half way there



We have this value proposition and we have the right team to win.

We discovered our target customer has this large problem, and we addressed it with our solution based on this defendable technology.

We will acquire customers with this business model.

We have these advantages over our competition. We will meet these milestones with this financing.

INTRO

- Brief history of the company – keep it high level
- What is your core value proposition? Why does your company exist? What do you do and for who?
- What stage is the company?
- Highlight your traction to date
- How much are you raising?

PROBLEM

- What problem are you solving?
- Who are you solving the problem for?
- Why are you focused on this problem?
- How do customers solve the problem today? Why doesn't that work?
- Use real examples



TEAM

- Key team members and roles
- Highlight relevant background, experience, and successes (include recognizable logos)
- Board, Advisors
- What holes do you need to fill in your team?

MARKET

- How big is the market (TAM, SAM)? How much are customers spending to solve the problem today?
- What are the relevant market dynamics and why is now the right time?
- How is the market growing and why?
- Provide data to support

SOLUTION

- What does your product/service do?
- What are the main benefits to the customer?
- How does it work?
- What are the key features?
- Current state of the product
- Do you have unique IP?

COMPETITION

- Who are your competitors?
- How else do customers solve the problem?
- Explain your competitive advantage and key differentiators
- How will you win against these competitors?
- Include a competitive overview matrix with strengths and weaknesses and metrics

BUSINESS MODEL

- What is your revenue model?
- What is your distribution model. How do you acquire customers? What is your pricing model?
- Traction to date, evidence of product market fit, key metrics
- Customer pipeline
- Financial summary to date and future forecast

KEY MILESTONES

- What are the key milestones in the next 12-24 months? (value inflection points)
- What do you need to meet them?
- What is your product roadmap?
- What key hires will you need?

THE ASK

- How much are you raising?
- What milestones will you accomplish with the funding?
- How will you use the proceeds?



<https://www.slideshare.net/canaanpartners/canaan-pitch-workbook>



<http://nextviewventures.com/blog/free-startup-pitch-decks-template/>

"STARTUP FINANCIAL PROJECTIONS ARE A WORK OF FICTION"

Yes... but it shows

- How you think about the business
- How fast you think it will grow
- Key assumptions, drivers, and levers
- Goals and milestones
- What you need to get there

And

- Helps tell your story
- Guages interest
- Allows comparison of strategic alternatives
- Helps understand strengths and weaknesses of a venture



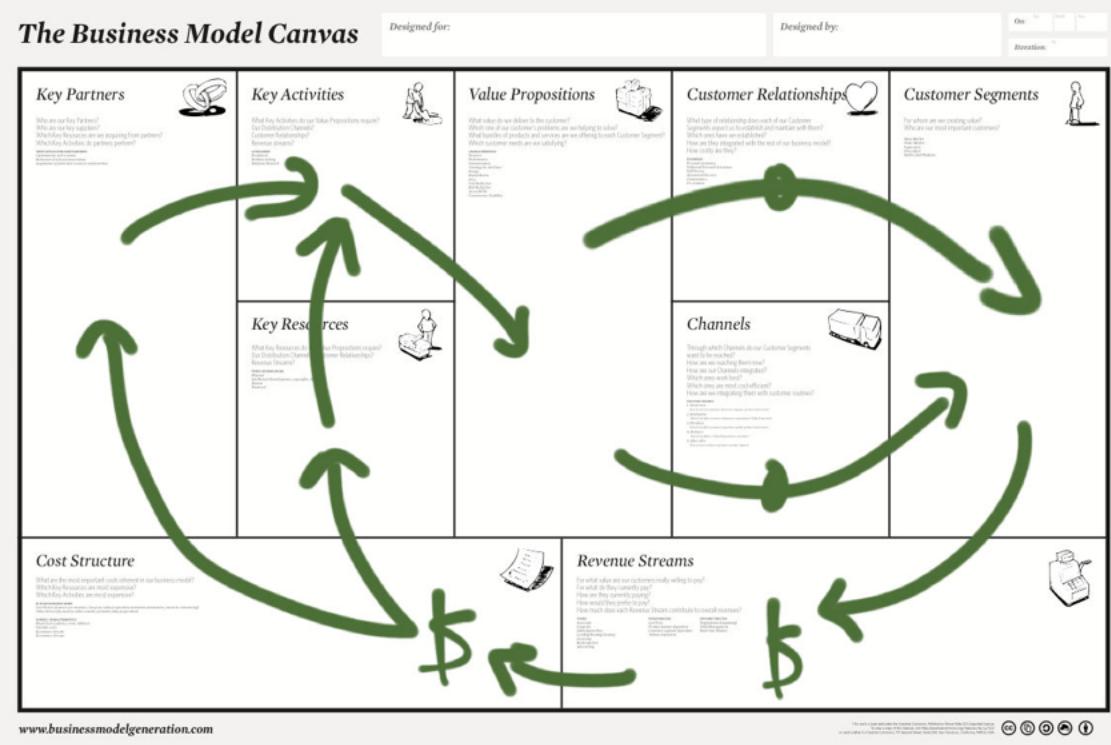
In preparing for battle I have always found that plans are useless, but planning is indispensable.

Dwight D. Eisenhower

Leverage the Business Model Canvas to build your model

The Canvas shows flow of revenue and expenses

The Business Model Canvas

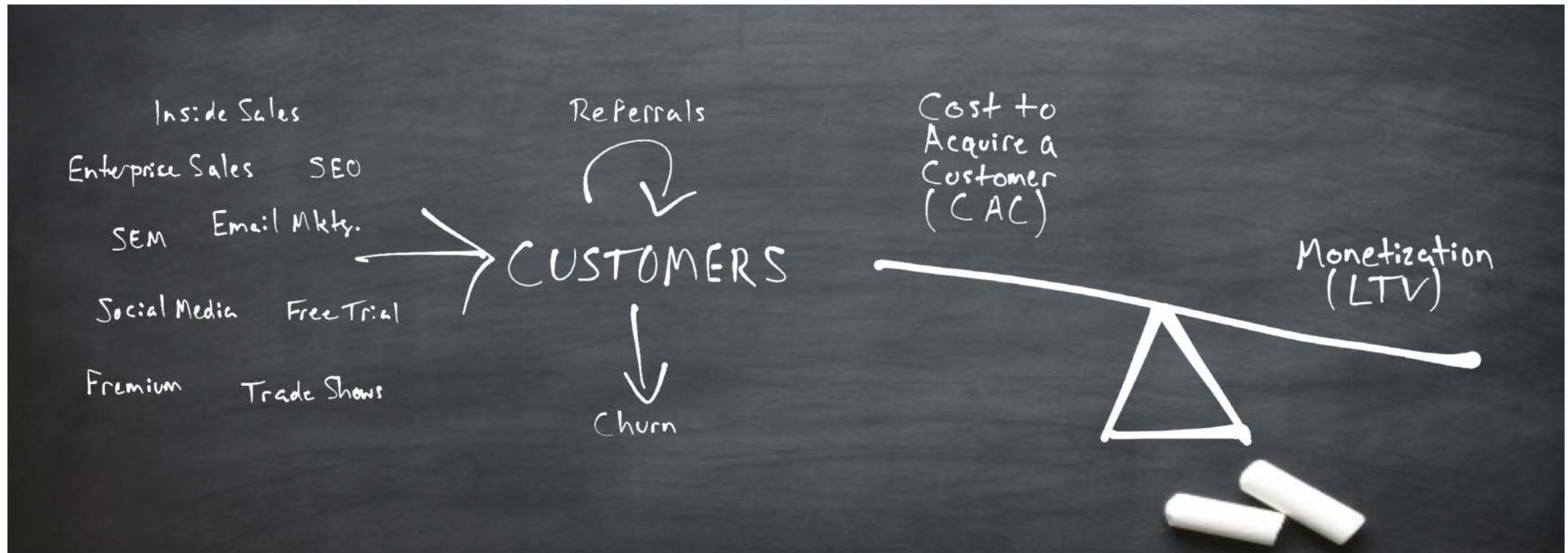


- Start with revenue forecast
- Forecast expenses
- Income statement forecast
- Balance sheet and cash flow forecast
- Build / highlight a schedule of assumptions and make them easy to adjust
- Use tabs in excel (eg. assumptions, revenue, marketing & sales, R&D, headcount, etc)

SHOW HOW YOU WILL MAKE MONEY

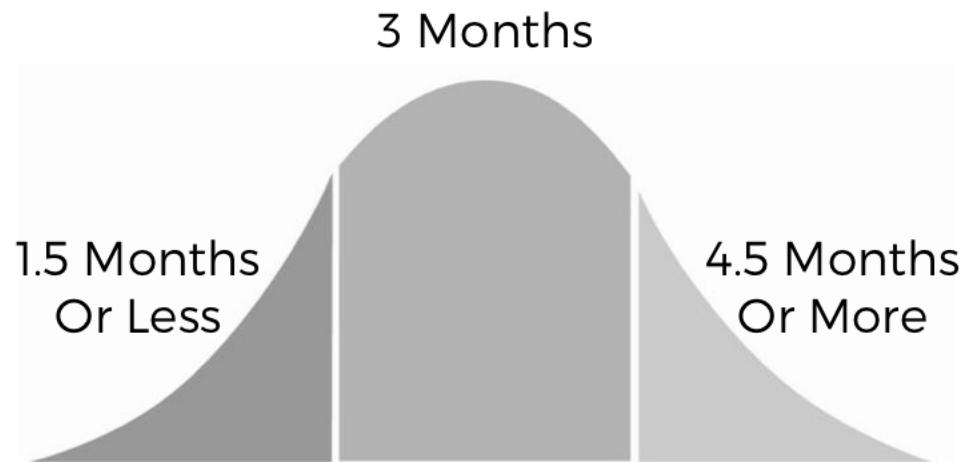
Start with how you will acquire customers

Validate lifetime value of customers is greater than cost to acquire



HIT THE ROAD

A photograph of a long, straight asphalt road stretching into the distance under a clear blue sky. The road is flanked by dry, yellowish-brown fields. The perspective of the road creates a sense of motion and travel.



WHAT IF IT TAKES LONGER?

- If you have pitched 10+ qualified investors and no one invests, re-think your pitch
- If you still haven't raised after pitching 20 or more investors - your idea, team, or timing may be the problem.

CHOOSE WISELY!



TARGET SECTORS



RELATIONSHIPS &
CONNECTIONS



GEOGRAPHY



FUND SIZE & CYCLE



STAGE



REPUTATION



PARTNER



ALIGNMENT

THE BEST INTRODUCTION IS FROM ANOTHER SUCCESSFUL ENTREPRENEUR

- Cold calling rarely works – get a warm intro
- Lawyers and service providers
- Startup community Events
- Short email with ‘bait’ – get the meeting, don’t sell
- Ask for a 30 minute meeting
- Be prepared to send an executive summary if requested





Know The Investor

Do your homework on who you are meeting



Be Prepared To Jump Around

Use an appendix



Highlight Traction



Bring A Key Team Member



Communicate Clearly

Don't overuse buzzwords. If they can't get their partners excited, it won't go forward.



Leave Behinds



Come Prepared To Pitch

Presentations, laptop, executive summary, handouts



Know Your Market

Describe your target customer. Know your addressable market size. Know your competitors.



Plan For 30 Minutes



First Few Minutes Are Key

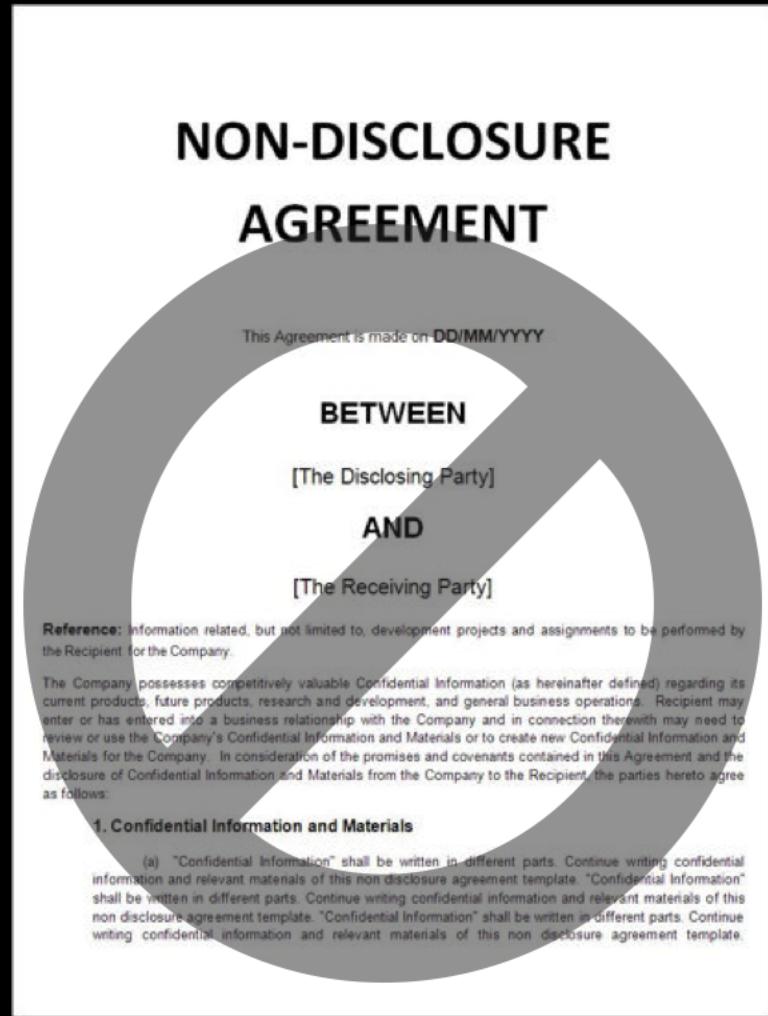
Set the hook. Draw them into your story. Present with passion.



Know Your Numbers



Ask Level Of Interest



MOST INVESTORS DON'T SIGN NDAs

- They are likely to meet similar companies or your competitors
- Too time consuming & expensive to review and track
- Litigious or paranoid entrepreneurs that feel their idea was copied
- Credible VCs will maintain your confidentiality
- Learn to pitch your venture without having to ask for an NDA

CLOSING THE DEAL





Document of preliminary agreement on terms of the investment

Usually non-binding

Negotiated before more detailed actual stock purchase agreement, note, or SAFE (and related documents)

Lead investor drives terms

ECONOMIC TERMS

- Valuation
- Option Pool
- Dividends
- Liquidation Preferences
- Anti-dilution

CONTROL TERMS

- Board Seats
- Protective Provisions
- Information Rights
- Founder Vesting
- ROFL / Co-sale

COMMON VS PREFERRED STOCK



Preferred stock is a class of stock that provides certain economic and control rights, privileges, and preferences not possessed by the common stock holders



KICKING THE CAN DOWN THE ROAD

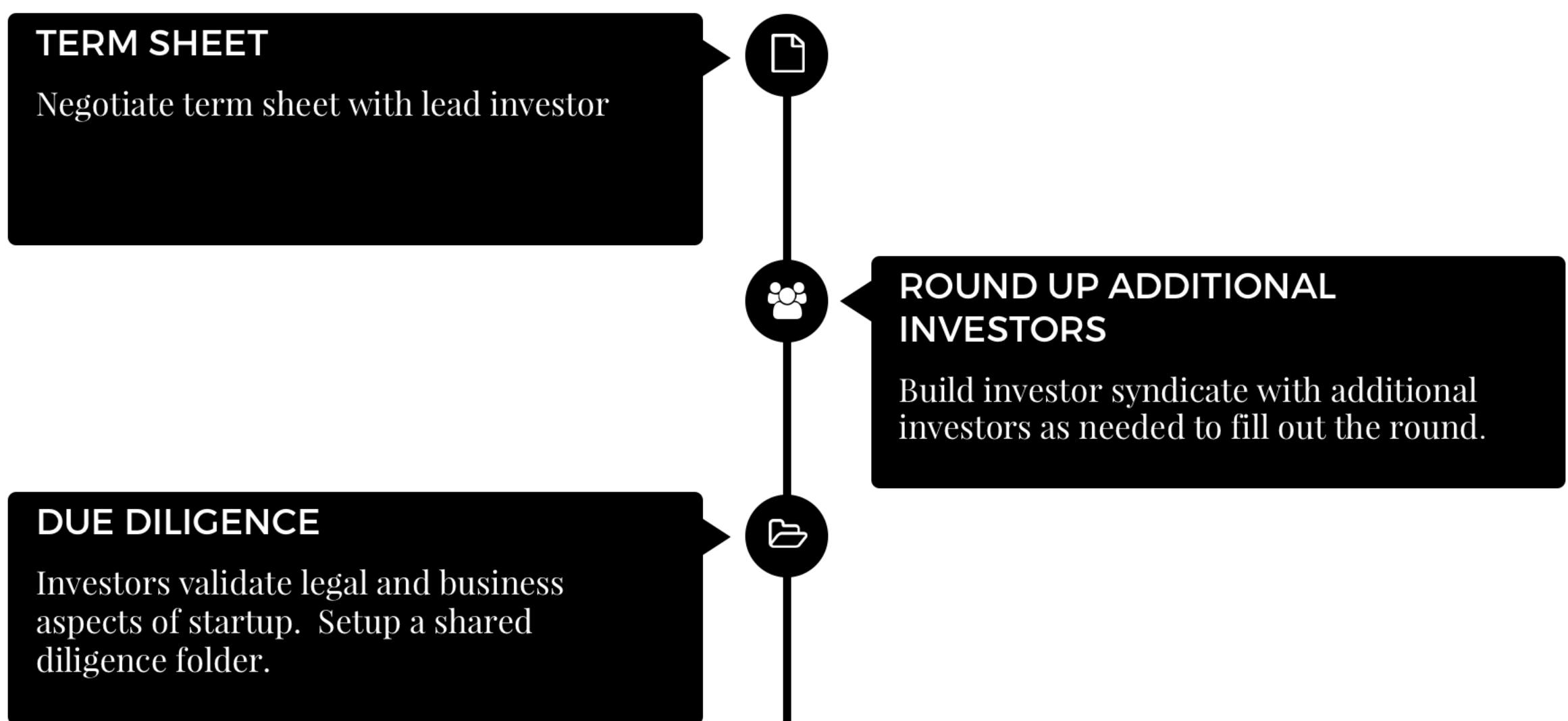
ALTERNATIVE DEAL STRUCTURES



Convertible debt



SAFE



CLOSE

Sign final documents and investors wire funds



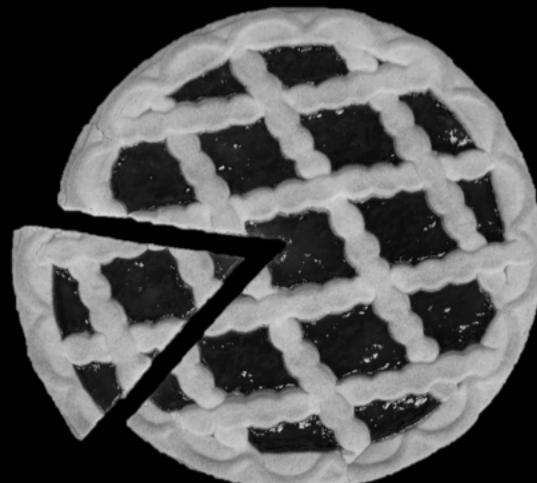
FINALIZE LEGAL DOCUMENTS

Review completed subscription agreement, investor rights, etc.



Early stage venture valuation is as much art as science

When raising money, new venture valuations determine how much equity the investor gets for the investment



FACTORS INFLUENCING VALUATION

- Stage of the company
- Strength of the team
- Demand (competition in the deal)
 - Traction, Revenue, Growth
- Size of the market opportunity
 - Other investors
- Accelerators and incubators
 - Geography
- Market factors

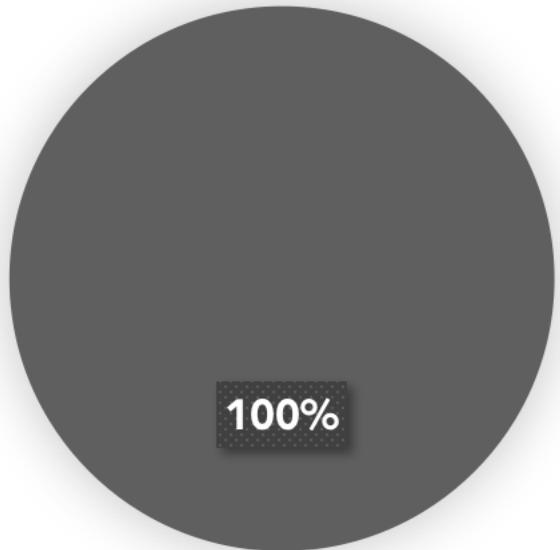
PRE-MONEY NEW MONEY POST-MONEY
VALUATION + INVESTED = VALUATION

If a startup raises a \$2 million Series A at a pre-money valuation of \$4 million, how much of the company would the investor get?

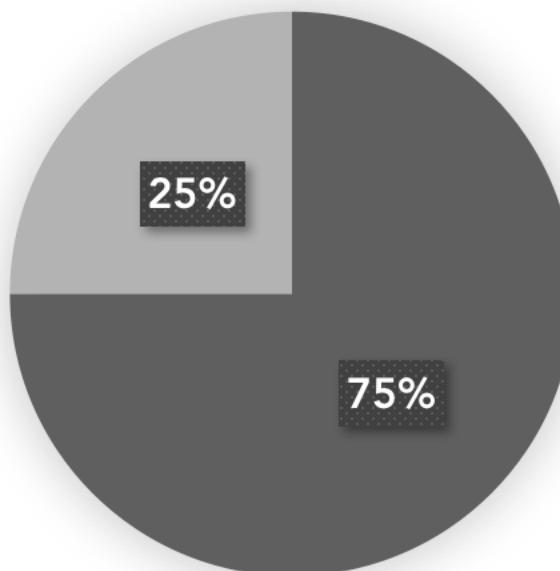
$$\$4 \text{ million} + \$2 \text{ million} = \$6 \text{ million}$$

$$\frac{\$2 \text{ million}}{\$6 \text{ million}} = 33\%$$

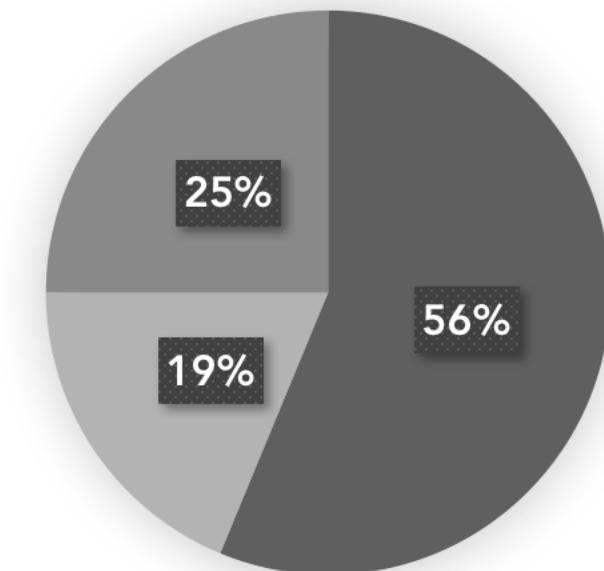
FOUNDERS



SEED ROUND



SERIES A

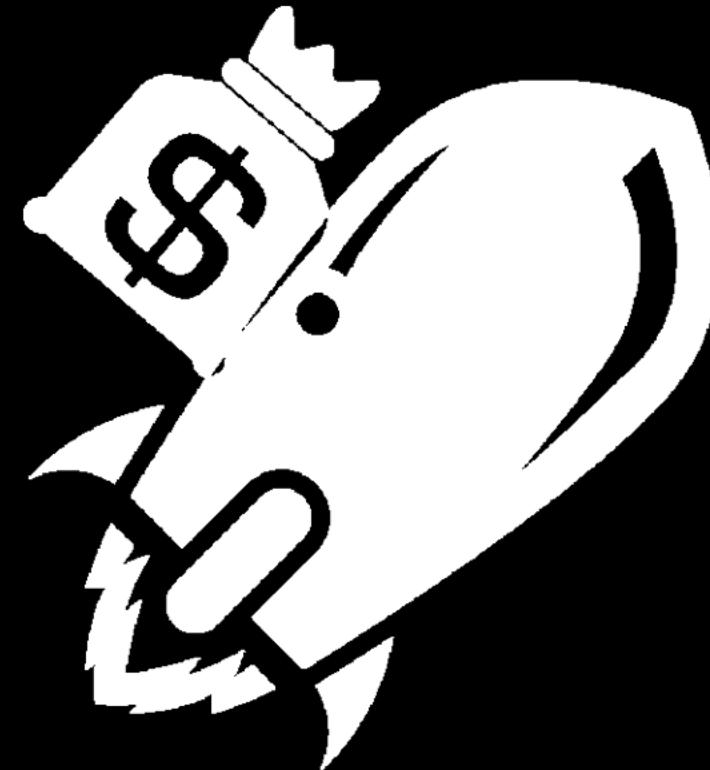


■ Founders ■ Seed ■ Series A

**THANK
YOU FOR
YOUR TIME**



Blake Patton
@blakepatton
blake@techsquareventures.com



APPENDIX

Entrepreneur & Team

- Why are you doing what you are doing?
- What relevant domain expertise does the team have? What is missing?
- Why is this the right team to do this?
- What are the key missing pieces in the team that need to be filled in the next year?

The Market

- Who is the target customer?
- What is the big problem you solve?
- How do they address the problem currently?
- How big is the addressable market opportunity?
- What are your key risks? Are there any regulatory risks?

Right Timing

- Why now?
- Does it make sense to be doing this right now?
- What customer behaviors must change for you to be successful?
- Why hasn't this worked before?

Unfair Advantage / IP

- Who are your competitors?
- What gives you a competitive advantage?
- Why will your customers choose your solution?
- What are the barriers to entry?
- Why won't someone else build this?
- What unique IP do you have? How was the IP developed?
- Who is your IP attorney?

Business Model

- How do you generate revenue?
- How is your product / service priced?
- What are your unit economics?
- What limits faster growth?
- What KPIs do you focus on?
- Who are some of your early referenceable clients?

Proof or Traction

- What early proof do you have?
- Do you have a prototype, beta customers, or is your product in market?
- What are your current sales?
- What is your churn?
- What customer usage proof do you have?

Distribution

- How will you acquire customers? What is your sales / marketing model?
- What are your customer acquisition costs?
- What is the lifetime value of a customer?
- What is the typical sales cycle time?
- What is your channel partner strategy?

Financial

- What are your three year projections? How fast are you projecting to grow?
- How much have you raised (debt / equity)? What does the cap table look like?
- Do you have an employee stock option pool?
- What are the key assumptions in your projections?
- When will the company get to profitability?

What is your burn rate?

- The Ask
- How much are you raising?
- Will the existing investors participate in this round?
- What valuation are you looking for?
- How will you use the funds you are raising?
- What milestones will this round get you to?

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- What are your customer acquisition costs?
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- What are the next steps?
 - What concerns do you have? Is there any additional information you need?
 - How can you help our company? Tell me about your network.
 - What is your decision making process?
 - Do we fit the type of company you invest in?
 - What is your typical check size?
 - Do you typically make follow on investments? How much do you reserve?
 - Do you lead or follow?
-
- How many investments have you made in the current fund?
 - How old is the current fund?
 - How big is the fund?
 - What returns do you look for in an exit?
 - Who will be the partner on this deal? How many boards do they sit on?
 - Can I talk to some of the companies in your portfolio?
 - What investors do you like to invest with?



WHAT YOU SHOULD ASK INVESTORS