

# **Raising Venture Capital: What Entrepreneurs Absolutely Need to Know**

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# Tell Me Something I Don't Know

- Countless VC events every year
- Hordes of unsuccessful funding efforts
- High interest level and attendance at VC events
- This morning's focus? - VCs...again!

**Why?**

# Raising Venture Capital

- **The decision to pursue venture capital**
- What's in it for me (entrepreneur)?
- What's in it for them (venture capitalist)?
- What are we doing here?
- The right match

# Early Stage Funding Options

	Cash Flow	Friends/ Family	Bank	Sm. Biz Govt. Loan	Angel	Venture Capital	Strategic/ Corporate
Availability	Low	Low	Med	Med	Low	Med	Low
Costs	Low	Hi	Med	Low	Med	Hi	Med
Amount	Low	Low	Med	Med	Low	Hi	Med
Required Maturity	Med	Low	Med/Hi	Low	Low	Hi	Med
Risks	<ul style="list-style-type: none"> <li>•Typically nonexistent</li> <li>•Not enough to fund growth</li> <li>•Need maturity to produce it</li> </ul>	<ul style="list-style-type: none"> <li>•Hard to manage</li> <li>•Gathered piecemeal</li> <li>•No benefit beyond \$</li> <li>•Bad investor profile</li> <li>•Typically supplemental</li> </ul>	<ul style="list-style-type: none"> <li>•Requires maturity</li> <li>•Carries capital costs</li> <li>•Stricter terms</li> </ul>	<ul style="list-style-type: none"> <li>•Must be offset by other capital</li> <li>•Long time to apply for</li> <li>•Does not fit all models</li> </ul>	<ul style="list-style-type: none"> <li>•Vary in sophistication</li> <li>•Can be high maintenance</li> <li>•Gathered piecemeal</li> <li>•Not always in the market</li> </ul>	<ul style="list-style-type: none"> <li>•High growth, return, ownership expectations</li> <li>•Lose some control</li> <li>•High maturity requirements</li> </ul>	<ul style="list-style-type: none"> <li>•Less knowledgeable investor</li> <li>•Slow investment process</li> <li>•Informal community, activity</li> <li>•Can limit strategy</li> </ul>

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# Pluses and Minuses of Venture Capital

## Upside

- Potential funding size
- Equity vs. debt
- More than cash: intel, connections, advise
- A partner with a vested interest
- Pressure to perform

## Downside

- Forfeit some control
- Opening the kimono
- Diverging interests over time (possible)
- Nonperformance penalties
- Pressure to perform

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# What Does a Venture Capitalist Need?

- **To provide a return on someone else's money**
- **To contribute to the goals of the partnership**
- **To meet their own personal goals**
- **To find investment opportunities that satisfy their needs**
- **The tools to quickly assimilate how the needs of a company can satisfy the goals of the VC firm**

**Satisfy the business plan of *their own* company**

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# The Venture Capital Transaction

## Seeking:

- Capital for growth
- Alignment w/goals
- Access & exposure
- Partner for growth

**Entrepreneur**

?

## Seeking:

- Growth from capital
- Alignment w/goals
- Access & exposure
- Strong portfolio

**Investor**

# The Venture Capital Transaction

Entrepreneur

**The Product**

**The opportunity to  
Invest in your business**

**Value:** Customers  
Employees  
Investors

**Cues:** Expressed Value  
Performance  
Competence  
Potential  
Packing

Investor

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# The Investor Lens

**STAGE 4**

Suite of products.  
Complete, proven team.  
100+ repeat customers.  
\$4M sales/quarter.  
Scaleable model.  
Breakeven in sight.

**STAGE 3**

Mkt. validated product.  
Core team complete.  
10+ reference clients.  
\$1M/quarter revenues.  
Repeatable sales model.

**STAGE 2**

Beta product.  
Partial mngmt. team.  
A few customers.

**STAGE 1**

Pure start-up.  
No product.  
Only founders.  
No customers.

*You are viewed through the lens of:*

- 👁 **Product maturity**
- 👁 **Team maturity.**
- 👁 **Customer maturity.**
- 👁 **Revenue maturity.**

# Distinguishing VCs

- **Specialization/Focus**

- Industry expertise
- Operating vs. financing experience
- Research support

- **Preferred Investment Stage**

- Seed
- Series 'A'
- Series 'B' or later

- **Typical Investment Size**

- **Service Offerings**

- Operating strategy support
- Relevant network of contacts
- Transaction expertise
- Management/marketing support
- Hands-on focus and resources

- **Reputation and Tenure**