LetsVenture pre-funding guide

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India's most trusted marketplace for Startups and Investors

Do I need to raise a seed round?

- Rapid growth is what makes a company a startup
- <u>Take outside money if and only if it will help you grow faster</u>
- Don't raise money if,
  - You don't want to grow faster, or
  - Outside money will not help you grow faster, or
  - If you won't be able to convince investors.
- Every instance you raise money, you dilute your holdings – getting traction is not just about getting funding, it is your negotiating tool

Takeaway:

"Do not raise money unless you want it and it wants you." *--Paul Graham (YC)*

Recommended reading:

[Blog post] by Paul Graham, Y-Combinator founder

When should I raise funds?

- Fundraising is a full time job
- Do not get into fundraising if you think your business will suffer
  - Pitching takes time
  - Negotiation takes time
- Ideally, once you have at least Proof of Concept. Investors do not favor startups at Ideation stage.
- Traction speaks loudest
  - Get beta out (MVP)
  - Show growth
  - Show ability to execute

Takeaway:

Beta > PoC
PoC > Ideation

Fundraising can impact your startup's growth. Do not start unless you are completely ready.

Recommended reading:

Blog post by Marker Davis, CEO, Kohort & VC

Running Lean by Ash Maurya

How much do I raise?

- Not too little, and not too much either
- Raise enough to reach a critical milestone
  - Where you create a entry barrier for competition, and/or
  - Can raise more money at better valuation
- Typically, seed round should last you 18-24 months with conservative spending
- Probability of having unaccounted expenses is always 1, be sure to double check your spending plan

Takeaway:

Fundraising is incremental process. You only need enough to reach next critical milestone.

"Raise as much as you can. Without giving away control, and without being insane."
- March Andressen

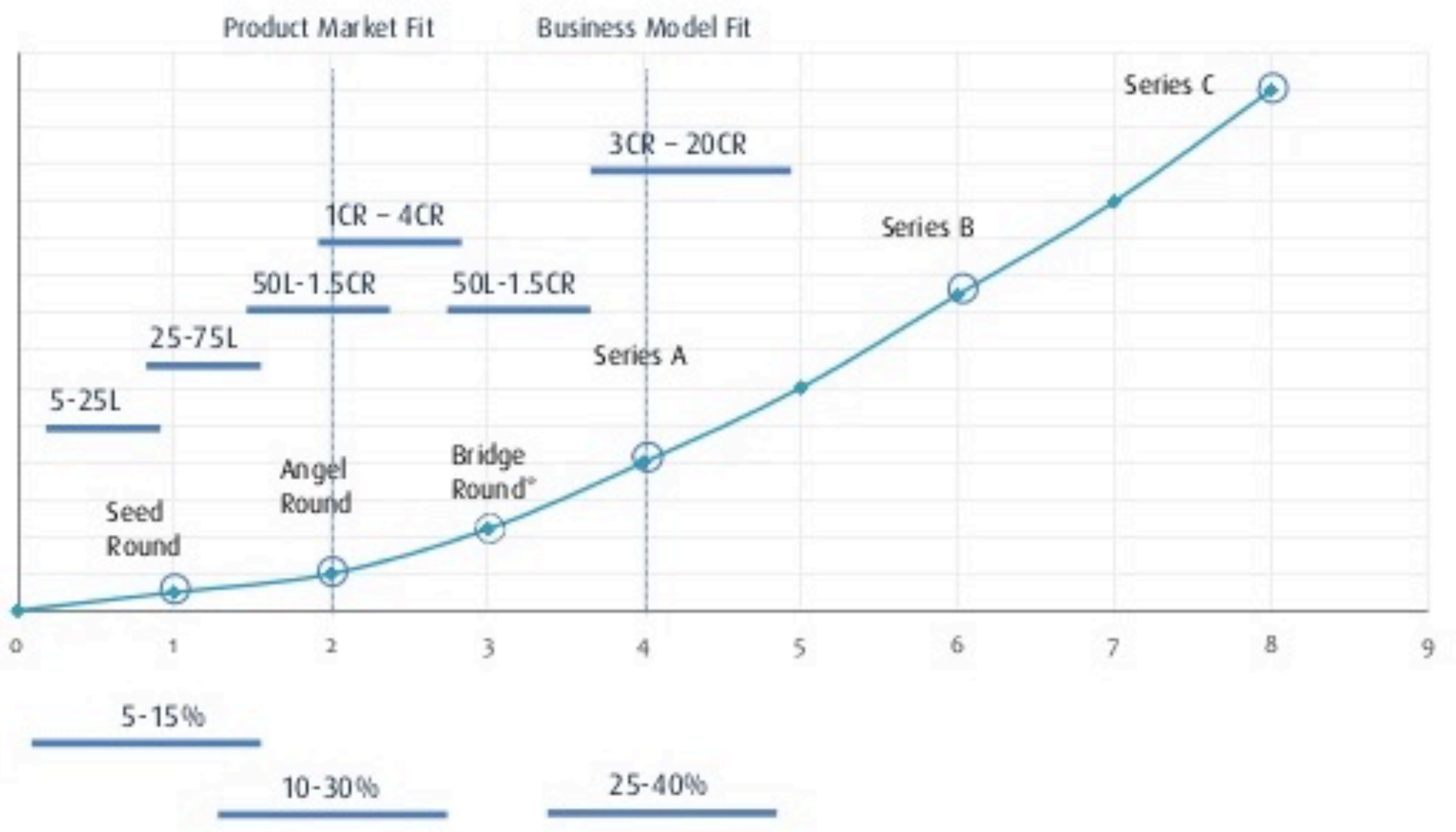
"There are downsides to raising too much money." - March Andressen

Recommended reading:

Blog post by Shanti Mohan, founder @ LetsVenture

Blog post by Marc Andressen

How much do startups typically raise?



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Milestones, Valuations and Raises?

Milestone / Stages		Age	Revenue	Raise Amount	From Whom
1	Venture launched	0 – 0.5	0	5 – 25 L	Self, friends and family
2	Beta Product launched B2C: Product used by real customer, few paying customers B2B: Good customer pipeline, 1-2 customers in trial	0.5 – 1 yr	Small amount	25L – 75L	Self, friends and family, Individual Angels, Accelerators
3	Stable version Regular customer growth	1 – 1.5 yr	10 – 15 L per year	50 L – 1.5 Cr	Self, Accelerators, Seed Funds, Individual Angels
4	Product market fit found Strong and Consistent customer growth Clear product and revenue for next 2-3 yrs	1 – 2 yr	20 – 50 L per year	1 Cr – 4 Cr	Individual Angels, Seed Funds, Few Venture firms
5	Business model fit found Clear growth path for next 3-5 yrs Consistent growth in paying customers Potentially breakeven	1.5 – 3 yr	2 – 5 Cr per year	3 Cr – 20 Cr	Venture Funds

What is dilution over lifecycle?

Year	0		1		3		5
	Start	Initial Hires	Seed Round	Create Pool	VC Round	Pool Refresh	2nd VC round
Founders	100%	90%	68.4%	59.9%	44.9%	43.2%	32.4%
Seed Investors	0.0%	0.0%	24.0%	21.0%	15.8%	15.2%	11.4%
Initial VC Investors	0.0%	0.0%	0.0%	0.0%	25.0%	24.1%	18.1%
Later VC Investors	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	25.0%
Early Employees + Advisors	0.0%	10.0%	7.6%	6.7%	5.0%	4.8%	3.6%
Employee Pool	0.0%	0.0%	0.0%	12.5%	9.4%	13.0%	9.8%
Total	100%	100%	100%	100%	100%	100%	100%

Recommended reading:

Funding Fundamental by Manish Singhal

What are different types of investors?

- Source of investment,
  - Accelerators / Incubators
  - Angle Investors
  - Seed funds

- Investors can be classified into 7 types,
  - Connectors,
  - Product people,
  - Tacticians and Builders,
  - Smart Business People,
  - Domain Expert,
  - The Brand,
  - The Filler (aka Dumb Money)

Takeaway:

Accelerators / Incubators may be a good option before you approach angel investors and seed funds.

You want to be in a position to be able to choose investors.

Know your investors and be sure why you are bringing them on-board.

Recommended reading:

Blog post by Elad Gill

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Angels or VCs?

- Institutional Money beats Individual Money, unless
  - VC is not adding any value apart from money, or
  - A pro-active Angel is a ready to get on-board
- If a VC invests in your seed round but doesn't follow through in Series A – it may send negative signal
- Not every VC likes to participate in another VC in Series A, potential signaling issues
- There are sector specific funds – here VCs add a lot more value; if you are in niche market then look out for them

Takeaway:

Super Angels maybe a better choice than a VC firm.

Take on a VC firm if they are adding more value than just money. Typically, angel investors with their domain experience maybe better choice.

In case you do opt for a VC then have strategy in place to handle signalling issues.

Recommended reading:

Yet another blog post by Chris Dixon

How do I choose a angel investor?

- Look for domain experts, tacticians, smart business people, connectors and product people
- But most importantly, look for like minded investors who understand you, your startup and what you are out to do
- Fewer investors are better than many, but not necessarily
- Your first objective should ideally be to look for a lead investor, introductions matter as you reach out to more investors
- Do a reference check – speak to companies they have already invested in

Takeaway:

Smart Money > Dumb Money
Dumb Money > No Money

Fundraising is not just about numbers, it is also about the intangibles.

Many a times, intangibles matter a lot more than expected.

Recommended reading:

Blog post by Ankit, Co-founder @ Adpushup

Adpushup used LetsVenture for its fundraise.

How do I connect with investors?

- Network
  - Reach out to college alumni networks
  - Check if there are angel investors in your alumni network
- Reach out to fellow entrepreneurs – introductions will save your time and energy
- Offer value to people you meet – make meeting you worth their time
- Leverage platforms like LetsVenture, LinkedIn to reach out to individuals and groups you wouldn't have access to
- Cold emails work – keep them simple, straight and exciting

Takeaway:

Nobody will marry you the first time they meet you, if they do/did then know it is a exception! It is true for money too.

Build relationships.

Follow-up on conversations. Send updates.

Investors may need time to decide if they want to invest. Some may come back for your next round.

Recommended reading:

Blog post by Elad Gill

Blog post by Steve Blank

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How do I follow-up and schedule meetings?

- Create a target list of investors and break them up into 3 groups
  - C – Most likely will not invest (start with them)
  - B – Those you may or may not invest (fine tune your pitch)
  - A – Dream list (meet them last, give killer pitch)
- Follow up politely but persistently
- Read between the lines – not everyone says No directly
- It is a funnel process – you may meet 30 and have follow-up with 10, and only 2 may invest.
- It is okay to get rejection, be persistent and patient.

Takeaway:

Fundraising is a funnel process. You will meet 100 but not everyone will commit to your fundraise.

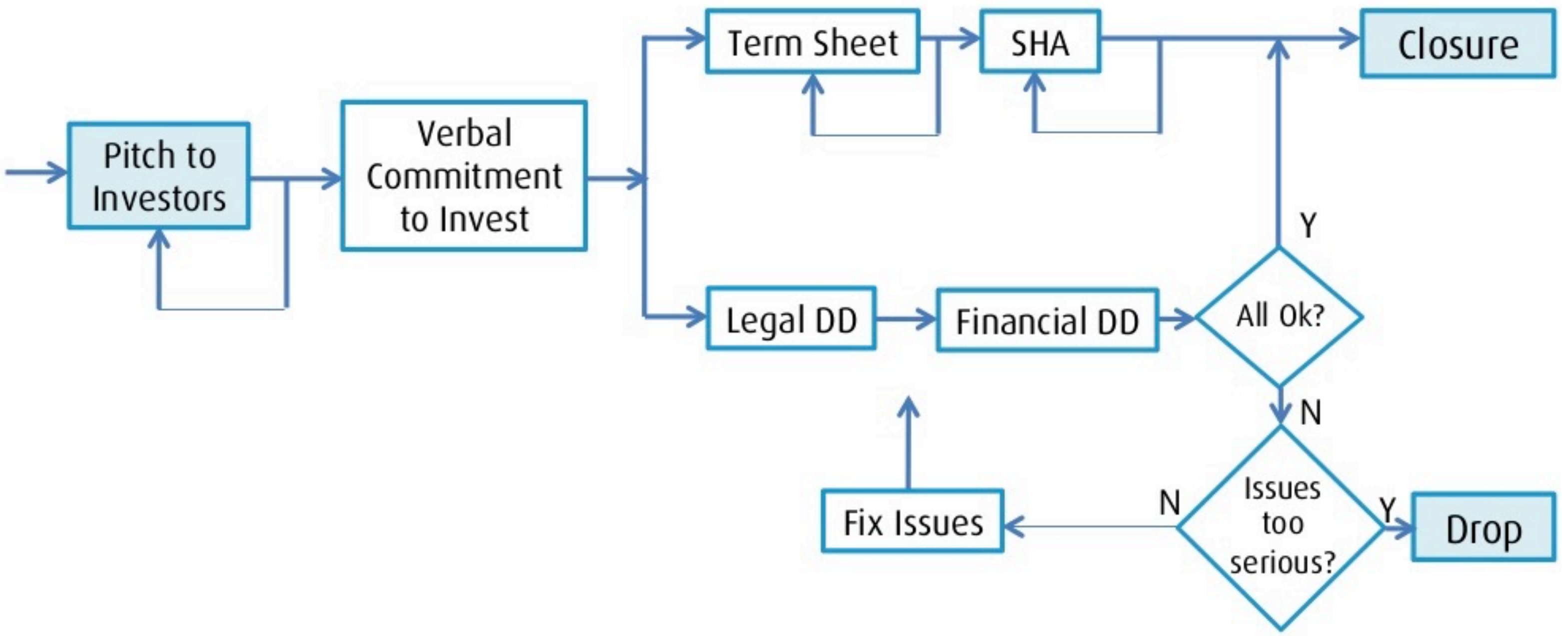
Approach your dream list only when you are confident about your preparation.

Be polite, confident and persistent. Most of all, be patient.

Recommended reading:

Blog post by Cheryl Yeoh, CEO MaGIC

What is the fundraising process like?



Takeaway:

If you wait until you are ready to be funded then it is too late. Fundraising is a process which can take 4-6 months.

Before you being asking for money, create contacts and open communication channels.

Get a clear understanding of Term Sheets, SHA and due diligence (DD) process.

Recommended reading:

Blog post by Sunil Rajaraman, Co-founder @ Scipted.com

Blog post by Shanti Mohan, founder @ LetsVenture

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What financing terms should I know?

- Termsheet
  - Equity or Convertible notes
  - Liquidation Preference
  - Anti Dilution Clause
  - Option Pool
  - Board composition

- Shareholding Agreement

- Founders Agreement

Remember termsheet is a non-binding document.

Takeaway:

Before you get into a room understand the termsheet and SHA clearly.

Have a founders agreement in place to ensure there no bad blood later.

Read every line of every document.
Ask if you have any doubt.

Recommended reading:

Standard Termsheet by Shanti Mohan, founder @ LetsVenture

On importance of founders agreement from Yourstory

What are investors looking for?

- Business (not an idea!)
  - *Nobody has monopoly on a idea*
- The Team
  - *Can you execute? Can you adapt? Are you coachable? Easy to talk to?*
- Risk Management Plan
  - *Key is to talk about the potential risks for your business and more importantly your action plan towards mitigating them*
- Clean Structure and Governance
  - *Clear and unambiguous record of in-house IP*
  - *Simple holding/ownership structure*
- Exit Plan
  - *Key is to talk about your intention to provide an exit to investors!*

What do investors ask?

- Everything.
- Prepare, prepare and prepare
- In case you do not have a answer – be honest and be proactive in getting back with answers and insights.

Takeaway:

Expect lots of questions.

Prepare and keep fine tuning your answers. Keep it simple and straight.

Questions will also help you ascertain what sort of investor a person is (smart money or dumb money).

Recommended reading:

Blog post by Elad Gill, with contribution from Satya Patel

How do I make perfect deck?

- Follow Guy Kawasaki's 10/20/30 rule
  - 10 slides
  - 20 minutes
  - 30 point font

Takeaway:

Investors may spend only 4-5 Min on your deck. They are short on time, hold their attention.

Follow of information is important, not just headings.

Break your time into 5-15-30min - 5 min to get attention for next 15 min, and which in turn will keep their attention for 30 min.

Recommended reading:

Research Deck by DocSend team

10/20/30 Rule by Guy Kawasaki

How do I run investor meeting?

- Prepare with your sponsor, you are a team as you enter that room – be in sync with your sponsor and co-founders
- Setout the mandate before you begin
- Nail them in opening minutes
- Pitch your product and vision – execution > team > idea
- Pitch your ability to build
- Before you end the meeting, setout timeframe for follow-up and next meeting

Takeaway:

Attention span drops with time.
Keep it simple, straight and precise.

Investors want to see if you can deliver, that is execute a idea.

Break your time into 5-15-30min - 5 min to get attention for next 15 min, and which in turn will keep their attention for 30 min.

Recommended reading:

Blog post by Aaref Hilaly, Sequoia Captial

Blog post by Chris Dixon, a16z

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Do I need a lawyer?

- Lawyer should be hired if you are not confident in your understanding of documentation
- Go with a experience startup friendly firm
- Read every word of every legal document
- Use standardized documents when possible
- Do not send lawyers to negotiate!
- Ask them questions! Lots of questions

Takeaway:

Lawyers are there to ensure what is discussed is translated on paper, and to make you aware of potential pitfalls.

Any lawyer will not do. Work with someone who has startup experience.

Recommended reading:

Yet another blog post by Elad Gill

How do I negotiate on valuation?

- It is not just about pre-money and post-money valuations
- It is also about terms and conditions set out by investors
- Do not hesitate to ask investors to match the best termsheet you have received
- Traction is your biggest trump card, it favors you and only you
- Share data, get market information where possible – but leave ego at the door
- Understand their priorities and that one metric that matters to everyone, and then chase that number

Takeaway:

Terms and conditions are very important, not just the valuation.

Traction is your best friend

If X gets $10M does mean you will get it too, be informed but leave ego at the door

Recommended reading:

Lets revisit this blog post by Sunil Rajaraman, CEO of Scripted

How do I get money in bank?

- Termsheet is not legally binding document
- Be forthcoming with information wherever asked
- Commitment to closure is a tedious process – work with service providers experienced in working with startups
- Due diligence takes time – be sure you understand the timeline and have factored it in
- Companies take 4-12 weeks to get money in bank – talk to fellow funded entrepreneurs to understand process and avoid pitfalls

Takeaway:

Job is not done until money hits the bank.

Don't think about PR until you receive the funds.

Due diligence is time consuming process but one can save time by working with experienced service providers / teams.

Recommended reading:

TechCrunch article by Anthemos, CEO of Zumper

How do I work with my investors?

- You have money in bank, and you are already on your way to next fundraise
  - Second seed round, or
  - Series A
- Update your investors on weekly/monthly/quarterly basis – be proactive and be available
- Spend time with them, get to know them better - relationships are important
- Ask help! if needed

Takeaway:

You have spent time to find investors. Now spend time to strengthen these relationships.

Put your investors to work for you – everyone has a interest in your growth.

Be proactive with updates.

Be humble, confident and patient.

Recommended reading:

Yet another blog post by Elad Gill

(Ps: don't you just love his posts!)

How do I create a Board?

- Keep it small
- Choose wisely, you don’t want to rush on this
- Seek experience to supplement your own

Takeaway:

Like minded board members who supplement your skills and do not shy away from pointing out faults while supporting you on course correction.

Recommended reading:

Yet another blog post by Elad Gill along with yet another blog post by Chris Dixon

(Ps: promise these are last two links)

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Thank you

In case you have a query, please write to **startups@letsventure.com**