

So you want to be a Venture-backed Startup

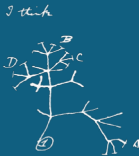
Raising Angel Capital Advice for First-time Entrepreneurs



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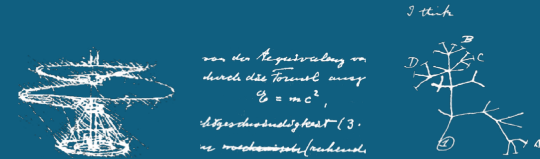


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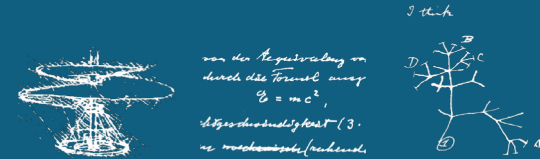
Introduction

- MIT geek/technologist with sales, operational & strategy experience
- Early employee at two tech consulting startups that had big exits
- Built my own tech consulting firm, was in the Inc. 500 twice
- Numerous enterprise and startup engagements
- Incubated one company to \$36MM exit, helped another get to an IPO
- Ran a \$1MM angel fund, member of several angel groups
- Co-founded Biospectal, a Swiss-based med-tech startup
- Advisor to numerous startups



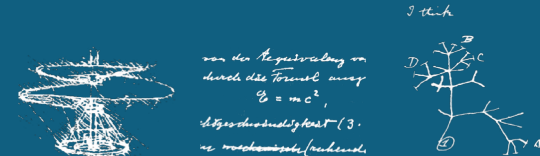
Overview

- Raising angel financing
- The most important thing entrepreneurs don't know
- Deal terms
- Creating a narrative
- Developing a deck
- Pitching
- Dealing with "No"



Key Angel Round Concepts

- Raising \$ and Investing \$: two sides of the same coin
- Professional angel investors vs. non-professionals
- Friends & Family, Pre-seed, Seed, Bridge-to-A
- The Fundraising Marketplace
 - Entrepreneurs are selling to investors
 - Investors should get to “Yes” or “No” quickly
- Alignment of interest throughout the fundraising process
- Take everything I say with a grain of salt



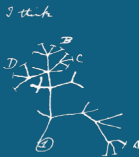
Should You Be Raising Venture Capital?

“Hi Mom & Dad. I’m going to be poor and work 24x7 for the next several years on a project for which there’s a strong likelihood of failure.” — You, 2020

- Can you grow organically, or does it have to be exponential?
- Could you raise debt, or other non-dilutive financing?
- Do you want to always be fundraising?
- Do you want there to be a specific date on which you will go out of business?
- Do you understand your fiduciary obligations?
- Do you want more/less risk/stress?



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describes the behavior of
 $P = \frac{nRT}{V - nb} - \frac{a}{V^2}$
differences between ideal and
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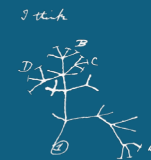


The “Standard Fundraising Narrative” is a Lie

- Applies best to multi-exit entrepreneurs... not first-timers
- The vast majority of startups fail
- Fundraising is hard, much harder than you have been led to believe
- Incubators and Accelerators don't help the majority of their cohorts
- Pre-seed -> seed -> A -> B with rising valuations along the way... LOL
- Media champions successes



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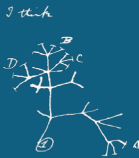


What are You Selling to your Investors?

- The answer to this question is the **most important** thing to understand in fundraising
- You are *not* selling them your product and services
- You are *not* selling them your great idea



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You are Selling an Exit

- An exit is pretty much the *only* way investors make money
- Your narrative must lead them to this conclusion



it's easy! simply
give me as much
money as you
possibly can, and
i'll promise to
give you way
more back!

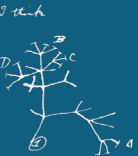
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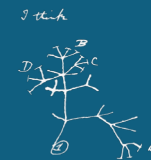


Stuff you Aughta/Gotta Do

- Build a *diverse*, rock-star-level team with proven, relevant experience
- Get some *Friends and Family* investment
- Read everything you can on both raising money & angel investing
- Find a great advisor or advisors
- Take everything you read or hear with a grain of salt
- Go as far as you can before raising, but not too far (fear the uncanny valley of investing)
- Create an *Investor Pipeline Spreadsheet* and manage it

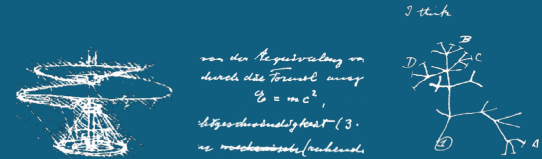


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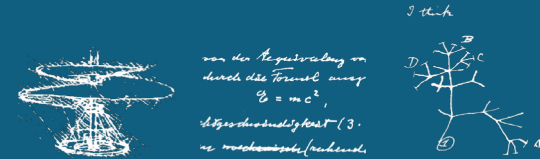
Consequences of a Beta

- What will you learn?
- What insights do you hope to gain?
- What are you trying to prove?
- What outcomes do you expect?
- Design your Beta to prove something meaningful! E.g.
 - Something you've claimed about which an investor would be skeptical
 - Will people pay for your services
 - Can you deliver something faster or better than the competition
 - Will your product work



Are Patents Worth It?

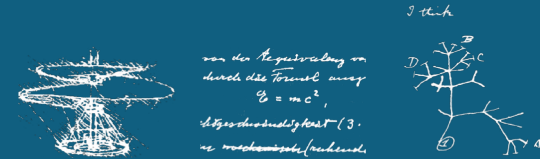
- Useless IP looks stupid to smart investors
- Patents only valuable if they can stop a competitor
- Apple and Google will do whatever they want anyway
- Can have a lot of value if pursuing corporate venture partners



Get a Good Advisor (or Advisors)

“It is impossible for a man to learn what he thinks he already knows.”
— Epictetus (c. 50 – 135 CE)

- Don't be afraid to challenge your advisor
- The *Halo Effect* can be valuable
- Things to look for in an advisor:
 - Fills a skill/knowledge gap
 - Valuable introductions/connections
 - Easy rapport with mutual trust/respect
 - **Tells you hard stuff 1st**, is a cheerleader 2nd

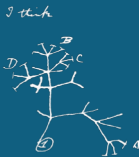


Financing Terms

- **Equity:** Usually *Preferred Equity*. This is stock investors get now. Synonymous to a *priced round*. The company is assigned a value, or a price, and therefore the equity has a price per share.
- **Note:** Short for *Convertible Note*. Debt that converts to stock at a later date, often at a discount or a cap.
- **SAFE:** Short for Simple Agreement for Future Equity. A contract.
- **Capped Round:** Short for Capped Note or Capped SAFE. The maximum conversion price has been set.
- **Uncapped Round:** Short for Uncapped Note or Uncapped SAFE.

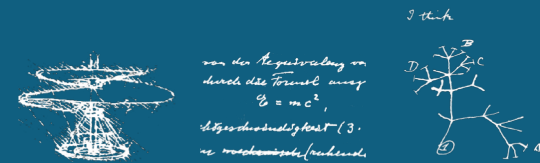


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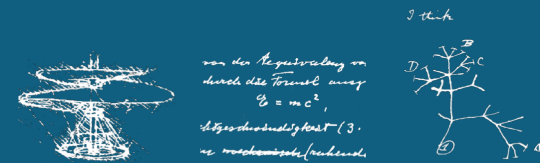
Financing History

- In the beginning, all rounds were priced equity rounds
- The convertible note started off as a bridge
- SAFEs are entrepreneur-friendly, but investor-unfriendly
- Many wonderful people, and your lawyer, will tell you to do a SAFE
- The costs of early-stage priced rounds and notes are overstated
- Smart investors insist on equity
- Beware the "cap table implosion"



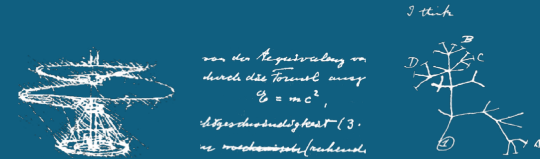
Valuation Matters

- Focusing on the highest possible valuation early is detrimental
- How well you did for your early investors is part of the narrative
- What if you need more money prior to an inflection point?
- Non-professional investors do **not** provide valuation validation



To Whom to Pitch

- Always be networking
- Friends and Family
- Angel groups
- Alumni groups
- VCs that do pre-seed or seed
- Pitch to aligned investors
- Track all your contacts
- Get warm leads
- Use Linked-in

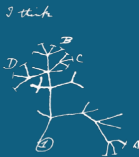


The Narrative

- There's a [known | unknown] [problem | inefficiency] in the market
- Our [tech | service | platform] can [improve performance | reduce cost] by [whopping | mucho] percent
- The market is [very | very, very | very, very, very] large
- The competition [sucks | doesn't have our secret sauce]
- We're the team to do it, because [team is great]
- We're raising \$1.2MM at a \$3.5MM pre-money to [get to \$100K in MRR | phase I clinical trials]
- There have been [n] recent exits in this space [xyz.com sold to relevant buyer for \$250MM, Google bought mno.com for \$650MM, etc.]

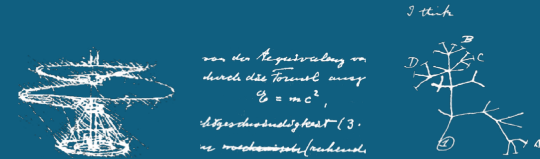


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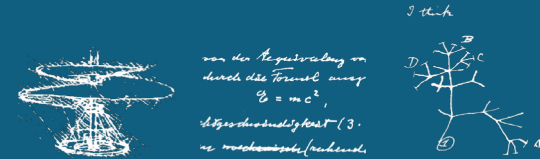
The Pitch Deck

- Fewer slides are better for an in-person pitch
- More slides if presenting on-line
- Tailor pitch decks to specific audiences
- Include appendices so can quickly get to a detail slide if necessary
- You'll get a lot of conflicting advice on the deck
- Investor rejection doesn't mean your deck has to change



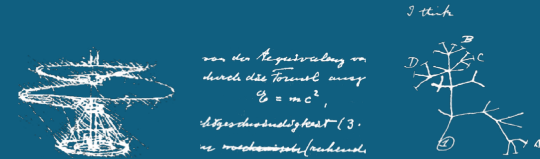
Pitch Deck Components

- Executive Summary (NO!)
- **Problem:** Must Have
- **Solution / Value Proposition:** Must Have
- Market Validation / Why Now?: Good to Have if strong story
- Product: Optional - Include if not obvious from narrative
- Demo: Optional - Include if necessary to clarify product
- Product Roadmap (if there's a roadmap)
- Market Size: Good to Have
- **Business Model:** Must Have
- Underlying Magic and/or IP: Include if Compelling
- **Competition:** Must Have
- Competitive Advantage / Barriers to Entry: Only include if super strong
- **Customer Acquisition / Go-to Market :** Almost-Must Have
- **Founding Team:** Must Have (why are you the ones)
- Advisors: Optional - Only include if Actively Engaged
- Traction / Milestones: Include if you are post-launch
- Testimonials: Only if compelling and key to narrative
- **Fundraising:** Must Have - Tied to an inflection point
- Use of Funds: Optional - Consider including with Fundraising Slide if possible/desired
- Financial Projections: Optional
- **Exit:** Must Have - How do the investors make money?



Goals of the Pitch

- Instill greed in your prospective investors
- Put yourself in the investor's shoes
- Sell investors what they are looking to buy, not what you want to sell
- Eliminate friction
- Be clear about these three things quickly:
 - What's the **problem**
 - What's the **solution**
 - How does it make the investor **rich**



Pitching

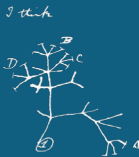
“The difference between the right word and the almost right word is the difference between lightning and the lightning bug.”—Mark Twain

“Hidden talent counts for nothing.” — Nero

- Tell them the problem first, not the product
- Find a pithy way to frame the story
- Take the investor on a journey, with the exit as the ending
- Don't tell investors what to think
- Investors are at maximum gullibility at the beginning
- Give clear, short, to-the-point answers during Q&A. No Waffling!

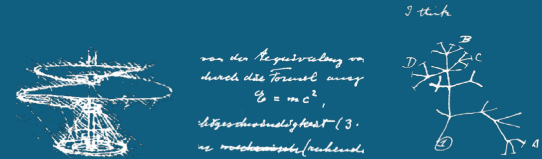


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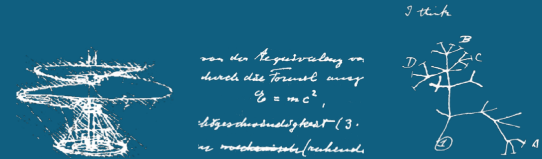
Deal Killers

- Don't Lie
- Don't say or imply "I don't have any competition"
- Don't not know about or understand your competition
- Don't say it's not a crowded marketplace, when it is, in fact, a crowded marketplace
- Don't say you're going to IPO, or that IPO is part of your strategy
- Don't say that your moat is your tech (unless you're *really* sure)
- Don't get defensive



Closing the Deal

- You can find a lot of advice on generating FOMO
 - “I’m not raising right now, but...”
 - The round is closing soon...
 - We’ve spoken with <well-known VC> and they want in on the A round
- Set a time limit
- Offer a discount for early \$
- Always ask for the money
- Find out what it will take to get to “Yes”

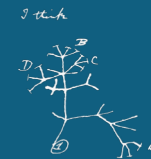


“No” and What to Do with It

- Investors are looking for a reason to say “no”
- You’re going to hear a lot of “no”. There are three kinds of “no”:
 1. Absolutely no.
 2. No, because... reasons.
 3. No for now, but come back later.
- You deserve to get a “no” as fast as possible
- **Respect** the “no”
- **Learn** from the “no”
- **Always** ask for referrals



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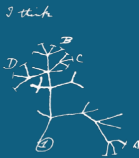


Examples of “No”

- *“You are a little too early, keep us updated.”*
- *“We may have interest for our next fund.”*
- *“We’d like to see [x] more months of [hitting your targets | engagement data | numbers].”*
- *“Love the [idea | team | space] but am not comfortable with the [idea | team | space | strategy | IP | competitive landscape | etc.]”*
- *“We don’t lead. When you get a lead investor, come back to us.”*
- *“No, because... reasons.”*
- Silence.



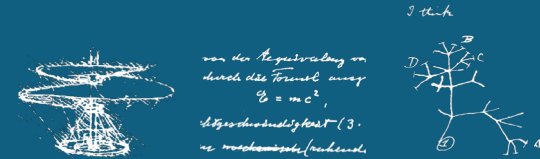
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Go-to-Market & Product-Market Fit

“Last year 1 million quarter-inch drill bits were sold — not because people wanted quarter-inch drill bits — but because they wanted quarter-inch holes.” — Leo McGivena, 1969

- Product-market fit is the biggest risk on the table
- Sales is hard
- Most early-stage founders fail to convince investors they have a good sales strategy



Final Thoughts

"Obstacles are those frightful things you see when you take your eyes off your goal." — Henry Ford

- Do right by your investors
- Align interests / be generous with equity
- Remove all friction to investing
- Maximize the value of your investors
 - Send monthly newsletters with an “ask”
 - Ask for investor referrals

