Raising venture capital: 12 tips

By Jeff Lehrer

1. Select the proper advisors to guide you

Select informal and formal advisors *eg*, board members, attorneys, accountants, advisory members, bankers who are skilled in emerging company and venture capital markets. Ask colleagues and acquaintances for recommendations and references. The correct advisors will save considerable time and money.

2. Prepare two documents before meeting with investors

- Executive summary (1-2 pages)
- Investor PowerPoint presentation (10-14 slides)

And before you send these materials to your investors, each should be reviewed by your attorneys, financial advisors and/or someone else who regularly sees these types of documents. When preparing these documents, remember to write well. If you aren't confident of your skills as an author, ask a friend or mentor for assistance, research investor meeting prep online, or hire someone.

Key ingredients of investment documents

Your goal is to get funded. These materials should illustrate why this is a great investment opportunity. Your executive summary and investor PowerPoint presentation should include the following:

- Problem/pain
  - Describe in dollar amounts the problem/pain your products or services solve.
- Market size
  - Detail in dollar amounts your target market and the size of the opportunity. List the verticals you intend to target.
- Product/service description
  - Explain the secret sauce. Describe your must-have product or service so that non-technical people not only understand it but want to invest in it. What innovation do you have that your competitors don't? Do you have a working minimum viable product?
- Customers and sales channels
  - Who are your existing and target customers? Describe how your products or services get to market and who your key distribution partners are.
- Management team background
  - Communicate the team's background, expertise and credentials.
  - If the management team has not successfully started a company before, surround yourself with credible board members and advisors.
- Competitor analysis

- There's always competition. Competition is not a bad thing; it validates the market.
- Fully understand your competition and be able to differentiate.
- Include such factors as barriers to entry and your competitive advantages.

- Financial projections
  - Develop detailed three to five year financial projections that demonstrate your plan to gain revenues and ultimately achieve profitability.
  - Be prepared to explain your underlying assumptions.
- Path to liquidity
  - Have a relatively short *ie*, three to seven year path to liquidity (IPO, sale of the company)
  - Show a strong return on investment *ie*, 5x to 10x.

For more tips on developing good pitch decks, please see our post on "Building the Perfect Pitch Deck."

3. Develop your target investor list

Do your homework. Look at one of the innumerable websites that track investments to find out who is investing in your space, what investments they have made, what are the ranges of check size, what the terms are and how you meet them. Consider the preferences of potential investors, including current industry sector focus; industry contacts; investment stage preference (*eg*, seed, development, expansion, pre-IPO); geographic preference; how much the fund has left to invest; the amount of capital needed and valuation; and portfolio companies that are potential partners or competitors. The most well known and well branded venture funds might not necessarily be the best partner for your company. Think holistically about fit.

Keep a spreadsheet that tracks everyone you have met or want to meet and all of the various touchpoints, and pick your best entry point. See our sample tracking sheet. A partner at a top-tier venture capital firm gave some great advice at DLA Piper's Tech Summit in 2016: the best entry point for most VCs is another entrepreneur that he invested in. Start from there.

Be disciplined. Do not attempt more than one entry point per person and per firm. Don't ask multiple people to make intros to the same VC. That's annoying. And if you get introduced to one VC in one firm, don't take a pass and then seek an intro to another VC at the same firm. There is no faster way to lose credibility.

Once you identify whom you should meet and your best entry point, ask someone to make an introduction on your behalf. This introduction usually takes place by e-mail and follows the rule of "double blind" or "double opt-in." The person making an introduction for you must first confirm with you that you are open to a new introduction to a specific person, without copying the other person. Then, that person checks with the other person to find out whether that other person is open to an introduction to you. Both parties must opt-in freely to make it work.

The request for an introduction has to be clear, and the recipient must be able to understand the ask quickly in order to determine efficiently whether it makes sense to pursue. It should be personal and should be designed to be answered with a "yes, I'd like to meet" so and so.

When you reach out, start with an informative, self-contained forwardable email that sets forth your elevator pitch. In that email, be concise. If you can't say it in five lines of one-line bullets, start again. Make sure the content is accurate and targeted. You need to make a strong first impression, and this might be your only shot.

4. Rehearse, don't rush, and think ahead

When possible, consider securing initial funding from angels, friends and/or family to get you to key milestones. You typically have only one bite at the apple to meet with a limited number of qualified investors, so only go when you're ready. Have rehearsal presentations with your advisors to make sure you're delivering your best pitch. After meeting with one or two investors, discuss with your advisors difficult questions that were asked and the best way to respond. The best time to raise VC money is at least one year before you'll run out of cash; after you sign that huge deal; or immediately following a seed round.

5. Practice your elevator speech

Take your elevator speech very seriously. Practice it in front of friendly but critical audiences who will identify weaknesses and test you with lots of questions. Continually refine your speech until it is persuasive. It must be succinct and communicate your vision, value proposition and team's superior positioning for success.

6. Keep up with your corporate entity and legal housekeeping

Most VCs require companies to be a Delaware corporation. LLCs and partnerships likely won't cut it. Have your attorneys set up documents suitable for a VC-funded company, including bylaws, stock option plan documents, employee confidentiality agreements and stock restriction agreements.

7. Protect your intellectual property

IP-intensive businesses should be reviewed by an experienced IP attorney. Understand what is proprietary and what can be protected as a patent, trademark, copyright or trade secret. Confirm that all IP belongs to the company, including IP developed by founders, former employees and consultants. Several other articles on Accelerate that go into more detail about different types of intellectual property and how to protect them see our article providing an overview of intellectual property rights and a more detailed discussion about copyrights, patents, trademarks and trade secrets.

8. Review term sheet prior to starting

Understand VC term sheets before starting the process, including liquidation preferences, veto rights, antidilution protection, pay-to-play provisions, dividends, redemption, preemptive rights, etc.

9. Understand company valuation and capitalization

Know the basics of corporate capitalization *eg*, authorized vs. issued stock; reserved option pool vs. granted options. Prepare a capitalization table. Understand the difference between "pre-money" and "post-money" valuations. Be realistic in what you expect as a valuation. Please see our article on valuations.

10. Due diligence ease for investors

Facilitate the fund raising process and give the impression of being highly organized by preparing a due diligence binder containing the following:

- Basic financial and corporate documents
- Debt and equity financing documents
- Important contracts
- Capitalization table
- List of IP
- Stock option plan
- All employee agreements
- Management team resumes

For more examples of the types of documents a typical VC investor will want to review when conducting due diligence on a prospective investment, see a sample due diligence request list.

11. Small things may matter

Have the following:

- Business cards
- Website
- List of references
- List of customers

12. Non-disclosure agreements

Most VCs will not sign an NDA. Don't ask.
