Raising Capital from Investors

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Sources by Phase

- Idea
  - Sweat Equity
  - Debt
- Feasibility
  - Angel investors
  - Government Programs
- Verification
  - Venture Capital
- Demonstration
  - Initial Public Offering
- Commercialization
Investor Perspective

- Looking for a “black box”
- Looking for a reason to say “No”
  - Many investment alternatives
  - Limited time to evaluate
  - Very quick and “brutal” screen
- Looking for “acceptable risk”
  - Investor’s perception of risk
  - Areas of risk
    - People
    - Business
## Segment Characteristics

<table>
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<tr>
<th>KNOW</th>
<th>DON'T KNOW</th>
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| • quick decisions  
  • great anchors  
  • halo effect  
  • can add value | • quick decision  
  • lower economic cost  
  • highest psychological cost |
| • moderate decision time  
  • halo effect  
  • higher return expectations  
  • can add value | • long decision time  
  • highest return requirement  
  • costly & time intensive because of due diligence  
  • largest pool of capital |
Sequencing strategy

- Run as many parallel paths as possible
- Initial commitments reduce the perceived risk
- Use commitments strategically
Other risk reduction techniques

- Stage the investment with milestones
- Build in “go-no go” decision points
- Cite relevant analogs
- Obtain third party endorsements
- Use intermediaries
  - For introductions to investors
  - For fundraising
- Use halo effect of board members or advisory board participants
Deal Structures

- Investors fall on a continuum

Lock in higher-than-market rates  Risk everything on a homerun
Structures

- Notes with high interest rates
- Notes with warrants
- Convertible notes
- Notes with options & buybacks
- Preferred stock
- Common stock
Comments

- Each structure has pros and cons
- Match sources, structures, and personal desires
- Must have an exit plan
- Pursue multiple paths
Time to Raise Capital

- Clean up a business plan
- Initiate investor overtures
- Respond to investor requests
- Investor due diligence
- Negotiate deal
- Prepare legal work and close
Are There Alternatives?

- Less money?
- Stage the investment?
- Customers or suppliers?
- Economic development agency?
- Grants?
- Strategic partner?
- Boot strap?
CASH IS KING
ABSENCE OF CASH IS DEATH
HAPPINESS IS POSITIVE CASH FLOW
CASH IS MORE IMPORTANT THAN YOUR MOTHER!