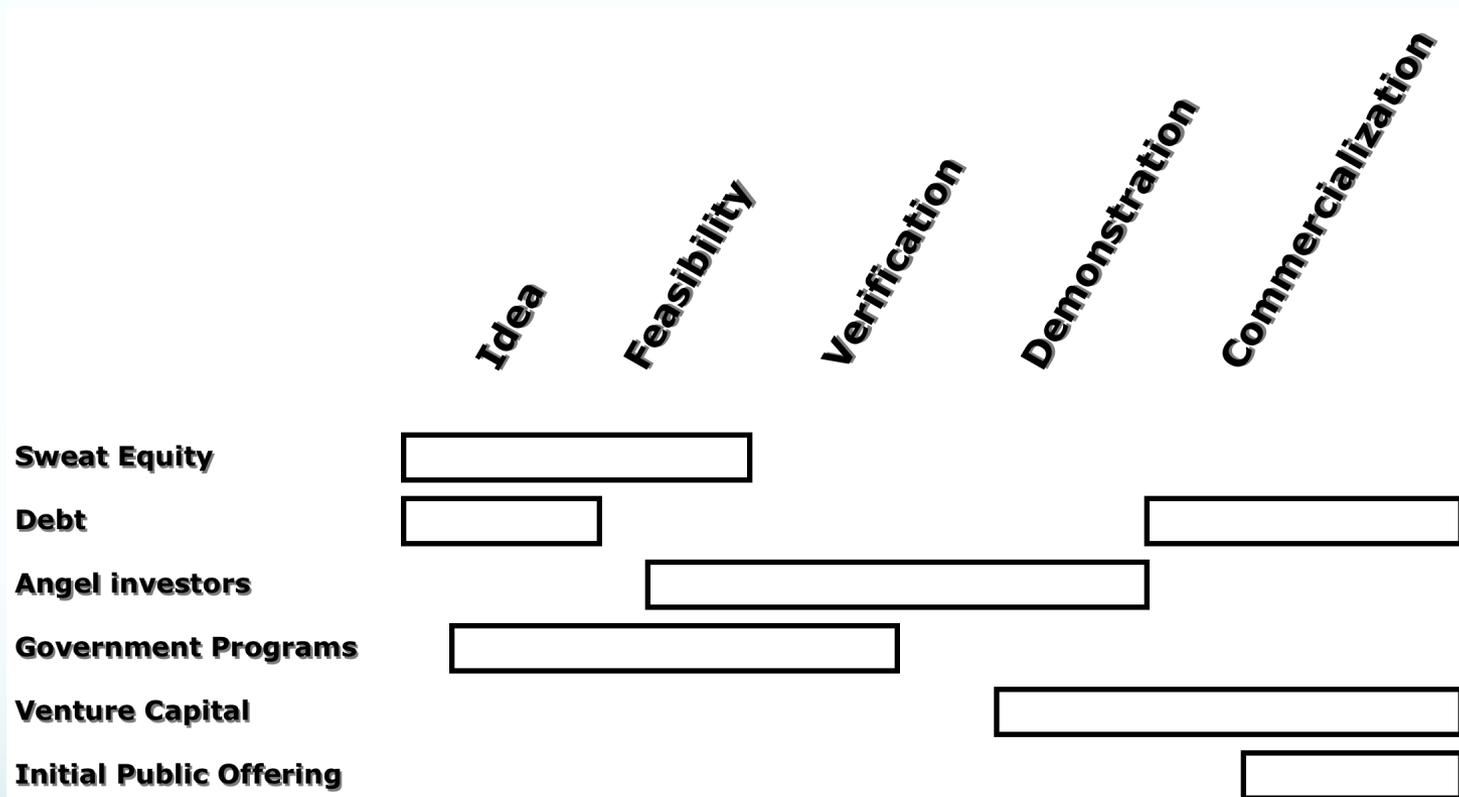


Raising Capital from Investors

Frank Demmler

Sources by Phase



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

THE BUSINESS

THE PEOPLE INVOLVED IN THE BUSINESS

	KNOW	DON'T KNOW
KNOW	<ul style="list-style-type: none"> • quick decisions • great anchors • halo effect • can add value 	<ul style="list-style-type: none"> • quick decision • lower economic cost • highest psychological cost
DON'T KNOW	<ul style="list-style-type: none"> • moderate decision time • halo effect • higher return expectations • can add value 	<ul style="list-style-type: none"> • 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!**