Early Stage Fundraising: Terminology, Milestones, Expectations

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The all-important question:

Are you fundable?
Is There a Market?
HOW LARGE IS YOUR MARKET?

Any buyer and seller willing to transact makes a market

• How many more customers are out there?
• How much money is currently being spent each year?
• Is this market growing? By how much?
• Who are your competitors?
• What is the path to $1B valuation?
PRODUCT MARKET FIT (PMF)

Is there demand?

Desirability
- “Must Have”
- “Nice to Have”

Unit Economics
- Can you sell at a price for more than your cost?
- How much more?

Are you Differentiated?
- Unique IP?
- Stellar team?
- Unique business model?

Can you scale?
- Are your sales repeatable?
- What is the sales cycle?
ASSESSING THE MARKET

**TAM vs SAM vs SOM**

**TAM (Total Addressable Market)**
- The total market demand for a product or a service, calculated in annual revenue or unit sales.

**SAM (Serviceable Available Market)**
- Portion of TAM served by a company’s products or services.

**SOM (Serviceable Obtainable Market)**
- Also called “Share of Market.” SOM represents the percentage of SAM that is realistically achievable.
COMPETITION

If you don’t have any, is there really a market?

- The Temptation of Visionary Entrepreneurs
- Creating and growing brand new markets is really hard
- Entering crowded markets can also be challenging
REGULATED INDUSTRIES

Are you operating in a regulated industry?

Factor in increased time to market and related costs

Expect longer sales cycles
TIME TO MARKET

What does it take to get to market?

Raising Capital
- Raising capital is a full-time job
- Don’t underestimate the time it will take to close a deal

Setting up Operations
- Incorporating (where? Which type?)
- Finding an attorney
- Payroll, HR, financials, benefits, office space

Hiring a Team
- Hiring plan
- Sourcing
- Vetting
- Closing

Getting to MVP
- SW and/or HW?
- Sourcing
- Financing
- Logistics

The Sales Cycle
- 18-24 months from first meeting to executed agreement
- Longer in certain industries, particularly regulated ones (healthcare, government, banking)
Do you have traction?
When starting a company today: **GTM Traction is King**
So, what are the two key components to GTM (go-to-market)?
Customer Traction (Paid Pilot)

MVP/Beta (Working Prototype)
Pilot Program
Finding Your Pilot

Finding Contacts

Customer Validation Process
Finding Your Pilot

Finding Contacts
Customer Validation Process

Negotiating Your Pilot

Identifying Metrics
Securing Automatic Rollover Contract
Finding Your Pilot

Finding Contacts
Customer Validation Process

Negotiating Your Pilot
Identifying Metrics
Securing Automatic Rollover Contract

Achieving Revenue
Metric Tracking Methods
Internal Tracking
Beta Program
Goal: Testing for COMMERCIALIZATION

- Align metrics with pilot
- Step by step metric-focused methodology
- Use case based - multiple metrics at once
### The Components of a Testing Program

#### Gates

<table>
<thead>
<tr>
<th>Use Case</th>
<th>First Gate</th>
<th>Second Gate</th>
<th>GTM GATE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Metric 1 - 1st Goal</td>
<td>Metric 1 - 2nd Goal</td>
<td>Metric 1 - 3rd Goal</td>
</tr>
<tr>
<td></td>
<td>Metric 2 - 1st Goal</td>
<td>Metric 2 - 2nd Goal</td>
<td>Metric 2 - 3rd Goal</td>
</tr>
<tr>
<td></td>
<td>Metric 3 - 1st Goal</td>
<td>Metric 3 - 2nd Goal</td>
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Example: A robot meant to “shadow” a human

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<tr>
<td>Robot follows walking human</td>
<td>Robot follows human with maximum 30 feet gap</td>
<td>Robot follows human with maximum 20 feet gap</td>
<td>Robot follows human with maximum 9 foot gap</td>
</tr>
<tr>
<td>Robot keeps pace with running human</td>
<td>Robot can move at 1 foot per second</td>
<td>Robot can move at 5 feet per second</td>
<td>Robot can move at 10 feet per second</td>
</tr>
<tr>
<td>Robot stops when human stops</td>
<td>Robot stops within 5 seconds of human stop</td>
<td>Robot stops within 3 seconds of human stop</td>
<td>Robot stops within 1 second of human stop</td>
</tr>
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Goals of Pilot/Beta Program
Before Fundraising
## Matrix of Products

<table>
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<tr>
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<th>Hardware</th>
<th>Software</th>
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<tbody>
<tr>
<td>B2B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B2C</td>
<td></td>
<td></td>
</tr>
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<td>--------</td>
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<td><strong>B2B</strong></td>
<td>Initial quality must be within expected parameters of customer pilot/Iteration expected</td>
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**Beta**

**Gmail is still in “Beta”**

**Extraordinarily rigorous Beta testing**
Customer Traction

**B2B**

**Hardware**
- Paid pilots have begun/Pilot contract includes automatic rollover into official customer once certain metrics met

**Software**
- Paid pilots have begun/Often these contracts simply rollover to a higher MRR once a certain time barrier occurs

**B2C**

**Hardware**
- CAC assessment/Digital landscape review/Beta customer testimony

**Software**
- CAC (actual)/User data/DAU/etc.

*Longer ramp based on HW iteration cycles - test customers early traction data*

*Shorter ramp assumed - early traction data based on customer willingness to pay or engagement*
<table>
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<th>Signed contracts/ARR</th>
<th>Hardware</th>
<th>Software</th>
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So you’ve got the market and the traction:

Time to Get Funding
OPTIONS

BOOTSTRAPPING

DEBT

EQUITY
EQUITY INVESTMENT

IS YOUR COMPANY VC-BACKABLE?

WHY VCS DO IT

WHY START-UPS DO IT
Types of Equity Investment
## FUNDRAISING TERMINOLOGY

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<th>Pre-Seed</th>
<th>Seed</th>
<th>Series A</th>
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<td><strong>Angels, Incubators, Grants</strong></td>
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<td><strong>Go-To-Market</strong></td>
<td><strong>Scale</strong></td>
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<td>• Round Size: $250-750k</td>
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<td>• Some customer validation</td>
<td>• Prototype</td>
<td>• Multiple pilots</td>
<td>• $2M+ in ACTUAL ARR</td>
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<td>• Tech plan</td>
<td>• Secured/Securing Pilot</td>
<td>• $500k-$1M in BOOKED ARR</td>
<td>• Significant revenue from multiple clients</td>
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**Round Size:** A measure of the amount of capital raised in each financing round. **Valuation:** A measure of the company's worth based on metrics such as revenue, market size, and growth potential.
FUNDRAISING TERMINOLOGY

Venture Capital/Corporate

**Angels, Incubators, Grants**
- **Concept**
  - Round Size: $250-750k
  - Valuation: Under $5M
  - Some customer validation
  - Tech plan

**Pre-Seed**
- **Product Market Fit**
  - Round Size: $1-2M
  - Valuation: Under $10M
  - Prototype
  - Secured/securing Pilot

**Seed**
- **Go-To-Market**
  - Round Size: $3-5M
  - Valuation: Under $20M
  - Multiple pilots
  - $500k-$1M in BOOKED ARR
  - Converted to revenue for at least one contract

**Series A**
- **Scale**
  - Round Size: $8-20M
  - Valuation: ???
  - $2M+ in ACTUAL ARR
  - Significant revenue from multiple clients
EQUITY INVESTING

B2B vs B2C

Time
Traction

Investor Priorities

Stage
Traction

Fundamentals

Dilution
Series of Bridge Rounds
TIPS FOR ENTREPRENEURS

Identifying Investors
- Leverage for start-ups
- “Smart” vs “Dumb” Money
- Lead vs. Follow Investor

Types of Rounds
- SAFE
- Convertible Notes
- Priced Rounds

Deal Terms
- Term Sheet
- Rights
- Boards
How Investors Look at Traction
Previous Series A Investment Strategy

- IP Solution A
  - VC Investment
- IP Solution B
  - VC Investment
- IP Solution C
  - VC Investment
- IP Solution D
  - VC Investment

Market Traction
Current World of Investment - Market Traction Drives Series A Funding

Market Traction

Tech Solution A.1 → VC Investment → Tech Solution A.2 → Tech Solution A.3 → Tech Solution A.4 → VC Investment

Open Source, Knowledge Sharing
What questions to ask an investor
What do you need before a $15M valuation?
Pre-Seed Stage

Idea + Prototype + Pilot

- Beta
- Pilot
- Financial Forecasting
- Business Model Creation
- GTM Strategy
- Reliable CAC/CA Strategy
- Customers Signed - $1M ARR

Product Market Fit + GTM Plan + Launch Plan + Messaging + Partnerships + Channel Strategy

Seed
What is “doing diligence” in early stage?

**Screen for Thesis**
- Hardware
- B2B
- RaaS

**Initial Meeting**
- Pitch deck review

**Tier 1 Diligence Meeting**
- Demo
- Target Market
- Team
- 1st scorecards

**Tier 2 Diligence Meeting**
- GTM
- Business Model
- Milestones
- Industry calls

**Tier 3 Diligence Meeting**
- Technical Deep Dive
- Customer calls
- Reference calls
- Final scorecards
- Beta Sit in
- 2nd Beta Sit in
- Staff sit-in

**Partner Meeting**
- Scorecard review
Your Role In the Company: One Key Question

What do you want to do all day?