• incubators vs. accelerators.
  ○ Accelerators provide networks but take equity.
• Angel investors:
  ○ Types:
    ▪ Checkbook angels: 5K - 25K (passive)
    ▪ Capital A angels: 50K - 250K (active) who may want advisory role.
    ▪ Superangels: 500K - 2 million (investors)
  ○ Invest twice as much as VCs.
  ○ Investments:
    ▪ Enthusiasts: 10K - 100K. Short work schedule. Like “making the deal”
    ▪ Professionals: 35K - 100K. Paranoid, want to be hired. Main goal, income.
    ▪ Micromangers: 100K - 1M. Serious, savvy, own business successes. Board seat.
    ▪ Corporate: up to 200K. Former senior managers at Fortune 500 cos.
  ○ Gap in Series A and Angel investments.

Getting funded

• Due diligence process:
  ○ Preparation and cooperation.
  ○ What to ask, when to ask, how to ask.
  ○ Search and destroy mission.
  ○ Organize and analyze data provided.
  ○ What are they looking for:
    • Overdue tax liabilities.
    • Inadequate systems.
    • Related-party transactions.
    • Unhealthy reliance on customers/suppliers.
    • Overdue accounts or unrecorded liabilities.
Sources of capital

Language

New Venture Finance: Startup Funding for

- How to close the round.
- How to tell your story?
- Convertible notes:
- Term sheets:
- Bootstrapping:
- Private investors and institutional investors.

-○ Provide investment options.
-○ Pick a closing date for your financing.
-○ Don’t create “tall tales” that could come back and haunt you.
-○ How well does a founder’s life explain what they’re doing at their company.
-○ Who are you? why are you doing this?
-○ Put financial projections, headcount, milestones or timelines in appendix. Pull them up if asked (that’s good
-○ Last five:
-○ They care that:
-○ They don’t care how your product works.
-○ They invest in what they know.
-○ Anti
-○ Automatically converts on a “Qualified Initial Public Offering”.
-○ Convertible into common stock at the election of the stockholders.
-○ Certain voting and convertible rights.
-○ Equity with some debts characteristics.

- Terms:
-○ Unsecured.
-○ Not convertible into other securities.
-○ Never bluff.

- What are they looking for:
-○ Don’t delay, focus on cash flow, be frugal not cheap.
-○ Acts as a substitute for early stage capital.
-○ FBO’s: Wealthy families with financial managers.
-○ Also overseas investors.

- Examples:
-○ Impact capital formation options available.
-○ Feeds cash flow statement but timing of revenue collection and expense payment are “unknown”.
-○ Shows projected profit/loss.
-○ Needs to show that the majority of cash is spent on:
-○ Don’t put too many perspectives.
-○ Eliminate contradictions.
-○ Do not ignore competition.
-○ Design an interesting cover page with a nice logo, if possible.
-○ A sprawling plan makes a bad first impression.
-○ Shares reserved for future hires.
-○ Provides that all shares vote together as a single class on an “as
-○ Avoid “super pro
-○ percentage ownership.
-○ Right (but not the obligation) of an investor to participate “pro
-○ preferred stockholders.
-○ Forced conversion.
-○ Too low cap dilutive vs. priced round.
-○ Could crowd out investors in next round.
-○ Valuation caps/discounts.
-○ Deferred pricing.
-○ Downside protection for investor as debt holder.
-○ Less paperwork, reduced legal fees.

- May include “cap” money valuation but expressed in terms of post

- Estimated exit value of a company.
-○ Entrepreneurial: 200K
-○ Enthusiasts: 10K
-○ Checkbook angels: 5K

- Limited partnership:
-○ General partnership:
-○ Capped:

- □
- □
- □
- □

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-◊
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- Distributions without taxable gain.
-○ Avoids double taxation.
-○ No more than 75 shareholders.

- For
-○ Profitability of investment.
-○ Fulfillment from helping startups.
5. Market size: supported by research.
   - Last five:
     2. Competition: why you’re better. Don’t knock competition.
     3. Go to market strategy: how will you gain customers.
     4. Traction: what have you already accomplished: revenues, users, partners.
     5. What you need: how much, how used.
   - Put financial projections, headcount, milestones or timelines in appendix.

- How to tell your story?
  - Who are you? why are you doing this?
  - How well does a founder’s life explain what they’re doing at their company?
  - Don’t create “tall tales” that could come back and haunt you.
  - If your business is complicated, focus on the problem you solve.
  - Be genuine.
  - Project emotion and passion.
  - Your story is part of your company’s culture.

- Do’s and don’ts:
  - Don’t:
    - Talk about projections without a plan.
      - Lie or exaggerate.
      - Forecast “hockey stick” growth.
      - Say “I have no competitors”.
      - Focus only on positives.
      - Dwell on issues - tell how you will solve them.
      - Read your slides.
      - Become argumentative or defensive.
      - Not listen.
      - Leave your technology turned on during the pitch.
      - Try to answer a question you have no answer for.
      - Obsess about your financial state.
  - Do’s:
    - Connect emotionally.
    - Give product demo.
Entrepreneurs

New Venture Finance: Startup Funding for

- How to close the round.
- How to tell your story?
- Convertible notes:
  - Pros:
  - Cons:
- Incubators vs. accelerators.
- Corporate structure:
  - Income statement:
    - Cash flow is the most important one.
  - Voting rights:
    - Pro
    - Non
- Liquidation preferences:
  - Pre
  - Post
- Preferred stock redemption rights.
- May include “pay to play” provisions. Future rounds.
  - Automatically converts on a “Qualified Initial Public Offering”.
- Valuations are based on:
  - money valuation vs. post money valuation.
  - “What would I do with the money and are there other ways to obtain those resources?”
- 70% of all startups are bootstrapped.
- Also overseas investors.
- Also strategic or corporate VCs.: they spiked in 1Q of 2014 to nearly 3 Billion.
  - Estimated exit value of a company.
- Business model: how you make money.
- Entrepreneurial: 200K – 2 million (investors)
- Corporate: up to 200K. Former senior managers at Fortune 500 cos.
- Profitability of investment.
- Capital A angels: 50K – 25K (passive)
- Level of interaction with the public.
- Number of owners involved.
- Free transferability of interest.
- Limited Liability Partnership
  - Member/manager may be required to treat income as self employment income, subject to employment income tax at source.
  - Death or withdrawal of members triggers dissolution.
  - No formalities post incorporation.
  - Management authority can be delegated.
  - LP limited liability, makes them more willing to invest. (advantage).
  - Obligates the company to leave “space” in subsequent rounds to accommodate investors with proportional ownership.
  - Non majority of shares given.
  - Capped: No more than 75 shareholders.
- Corporation:
  - A legal entity (not individuals) owns assets and is liable for debts.
  - Treated as partnership for Federal tax purposes.
  - Certain U.S. Federal tax characteristics:
    - Member/manager may be required to treat income as self-employment income, subject to employment income tax at source.
    - Failure could impact you and your family.
    - Failure could impact you and your family.
- Search and destroy mission.
- Ask for adequate funding.
- Leave time for questions.
- Leave your technology turned on during the pitch.
- Not listen.
- Become argumentative or defensive.
- Dwell on issues.
- Incorporate feedback.
- Eliminate contradictions.
- Don’t get boring.
- A plan cannot appeal to every audience.
- It has to be a plan.