What Every Startup Should Know to Avoid Financing Pitfalls

UNIVERSITY STARTUP DEVELOPMENT WEBINAR SERIES
SPEAKERS

Glenn Vonk, PhD
Director of Business Development and Alliances
Former Director of Advanced Technology, BD

Kenneth J. Polk, Esq.
NCET2 Startup Development Officer
and Innovation Counsel, American Chemical Society
BACKGROUND ON THE STARTUP DEVELOPMENT PROGRAM
Congress seeks to understand commercialization of SB137 annual R&D in Fed Labs / Universities

NCET2 Congressional Commercialization Summit – Corporate Sub-committee Formed

Model Vetting Roadshows: CA; PA; NY

First Model Proposed

NCET2 Congressional Commercialization Summit – Corporate Sub-committee Formed

Congressional Briefs

(Pilot) First Demo Day

Second Demo Day

Startup Development Officers Pgm Announced

IP2 Startup Pgm Announced
Startup Development Program

• Congress funds $137 billion in federal funded research at universities and federal labs

• Excellent opportunity for researchers and entrepreneurs to build a university startup around that IP
  – Universities have programs to help you

• NCET2 Fortune 500 members and SDOs who will partner with university startups to help develop and fund those startups
Startup Development Program

• NCET2 Startup Development Officer will also help university entrepreneurs, faculty, researchers, and students create, develop and fund market aligned university startups (http://ncet2.org/sdo)
SDO SERVICES

• Early management teams of university entrepreneurs, graduating students, faculty, and researchers
  • Business plan
  • proof-of-concept
  • prototyping
  • early product development
  • SBIR, Angel, and VC funding
  
  – “Commercialization Experiments”
    • Get to work with Fortune 500 companies, angels, VCs, and serial entrepreneurs to help commercialize university and Federal Lab technologies
Benefits

• Startups/Entrepreneurs/Faculty/Researchers/Students
  – Access to professional SDO talent to help create, develop, and fund your startup

• Universities
  – Moving IP to market for significant market impacts
  – Graduating students into startups and working with Fortune 500 and SDOs
Engage with NCET2 and the SDOs

1. Submit your IP or startups to NCET2
   - The SDOs and Corporates can review your IP or startup to determine if you are a good candidate for the Startup Development Program
   - Email us at startupdevelopment@ncet2.org to request a copy of the sample Application Forms (so you can prepare the information)

2. Become an NCET2 SDO
   - Open to: Ex-Corporates in Open Innovation/Venture Capital, Serial Entrepreneurs, Active Angel Investors
   - Send your CV and with a short note about wanting to know more about being an SDO to startupdevelopment@ncet2.org
SPEAKER

Kenneth J. Polk, Esq.
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https://youtu.be/GLS5OvCe_F0
What Every Startup Should Know to Avoid Financing Pitfalls

Kenneth J. Polk, Esquire
November 8, 2017
NCET2’s Startup Development Program is designed to help university entrepreneurs, faculty, researchers, and students create, develop and fund market aligned university startups.

As a Startup Development Officer, I’m interested in assisting early management teams with their business planning, prototyping, and efforts to raise funding from sources of private equity.
More than 25 years of legal experience in enterprise formation & technology commercialization

Held executive positions in startups and small businesses

Holds a Juris Doctorate and 2 Engineering Degrees

Licensed as an Attorney and Professional Engineer in the Commonwealth of Pennsylvania since 1988

Led and counseled business units during 10 year career at ACS
Fundraising is Like Landing a Plane – Bigger Runways are Needed for Larger Planes
What is your end game? When do you foresee exiting will help in determining how much money to raise.

Perhaps, do don’t need OPM (Other People’s Money) at all

Funding is a precious finite resource

You are not entitled to external investment, you need to earn it through a compelling value proposition

Raise what you need, not what you want
Avoid Wishful Thinking
- Investors are purposefully opaque. Sometimes, their motives are intertwined with testing the veracity of the inexperienced founders.

- These collisions of skepticism and optimism often times lead to intense disappointment and resentment.

- Take discussions less personal, be more business-like, and move on when the dialogue isn’t suggesting success.
Don’t Raise Money Until It Wants You
Rapid growth raises money, not valuation
Funds become more available when revenue leads the discussion
Situations can arise when raising money won’t help
Maybe building out your management team might not add the value you anticipate
Perhaps, earning a bit more revenue will allow for a larger infusion round
If money doesn’t offer rapid growth, think again
Fundraising is Distracting – Be All In or Not at All
- When you fundraising, everything seems to get put on hold – there is an unforeseen opportunity cost here that must be considered.

- Startups generally do not have time to fundraise for long periods of time – establish an investment window.

- Attracting and negotiating with investors is time-consuming. Spend more time negotiating and less attracting.

- The force of your personality is not enough.
There Is A Competitive Nature to Raising Capital
Considering risk and return with your own money, how are you invested? Not much is different for private investors.

Lower risk, less return is perfectly suitable to some.

Other investors consider Board seats and management implants as a mechanism to help mitigate their risk.

In the end, it’s a numbers game – ROI, risk, return horizon, stage-gated investments and so on.
Valuation Is Not a True Measure of Value, Revenue Is
Sometimes valuation is perceived by founders as some badge of honor, like getting good grades.

What drives valuation more is revenue.

Revenue, cutting-edge product opportunities, large target markets, and clear customer needs drive valuation more than establishing an 8 figure valuation from a 7 figure one.

Revenues are the single greatest value creator as they signal customer adoption and working capital.
Avoid Investors Who Don’t Lead
I want to invest in you, but I don't lead," really means that "No, I won’t invest, unless someone else thinks that you will turn out to be a hot deal."

And since most investors think that about any startup, they've essentially just told you nothing.

You will need to decide whether pursuing such investors is worth your time and energies.
Plan Your Burn, and Stay Close to It

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November 8, 2017
Burn is read by investors differently than management.

Burn to investors amounts to when they might need more capital. Investors typically expect a follow-on round.

Burn to management is all about expenditures which may or may not deliver value.

Spending close to your projected burn signals to investors that you can manage funds well.
Know Thy Investor – Manage Them Well
- Leaving investors in the dark will often reward you with a lawsuit
- Investors are often an important source of follow-on funds – maintain a good relationship
- Manage expectations – under promise and over deliver
- Manage investors in proportion to their investment
- Inform, but don’t let them run the company
Watch for the Hidden Costs of Money
• Board seats and voting blocks could inhibit your ability to direct your startup

• Don’t assume that a management implant from an investing group is a good thing.

• MFN clauses could foreclose your ability to seek higher valuations from follow-on rounds

• If allowed, may seek to run the company
What is an “Optimal” Financing Plan
- Reasonable Objectives - Raise Amounts, Markets, Expenses
- Incremental Raises - ‘Significant’ Value-Added Milestones (e.g., Prototype)
- Founder, Family, & Friends (“3Fs”) – Show ‘Skin’
- Dilution at Earlier Stages (Tip: Investor Friendly) – Big Stake / Risk
- Minimize Management’s Efforts – Need to Develop Product Too!
Have Multiple Plans
- Determine what you are raising and tell investors what you're doing.

- One size doesn’t fit all investors.

- Provide multiple plans with varying amounts of raise targets to enable investors to better assess their investment risk.

- Think raise amount that gets you to profitability first, and not just a raise that helps you build out your management team.
Questions