What Every Startup Should Know to Avoid Financing Pitfalls

UNIVERSITY STARTUP DEVELOPMENT WEBINAR SERIES

SPEAKERS

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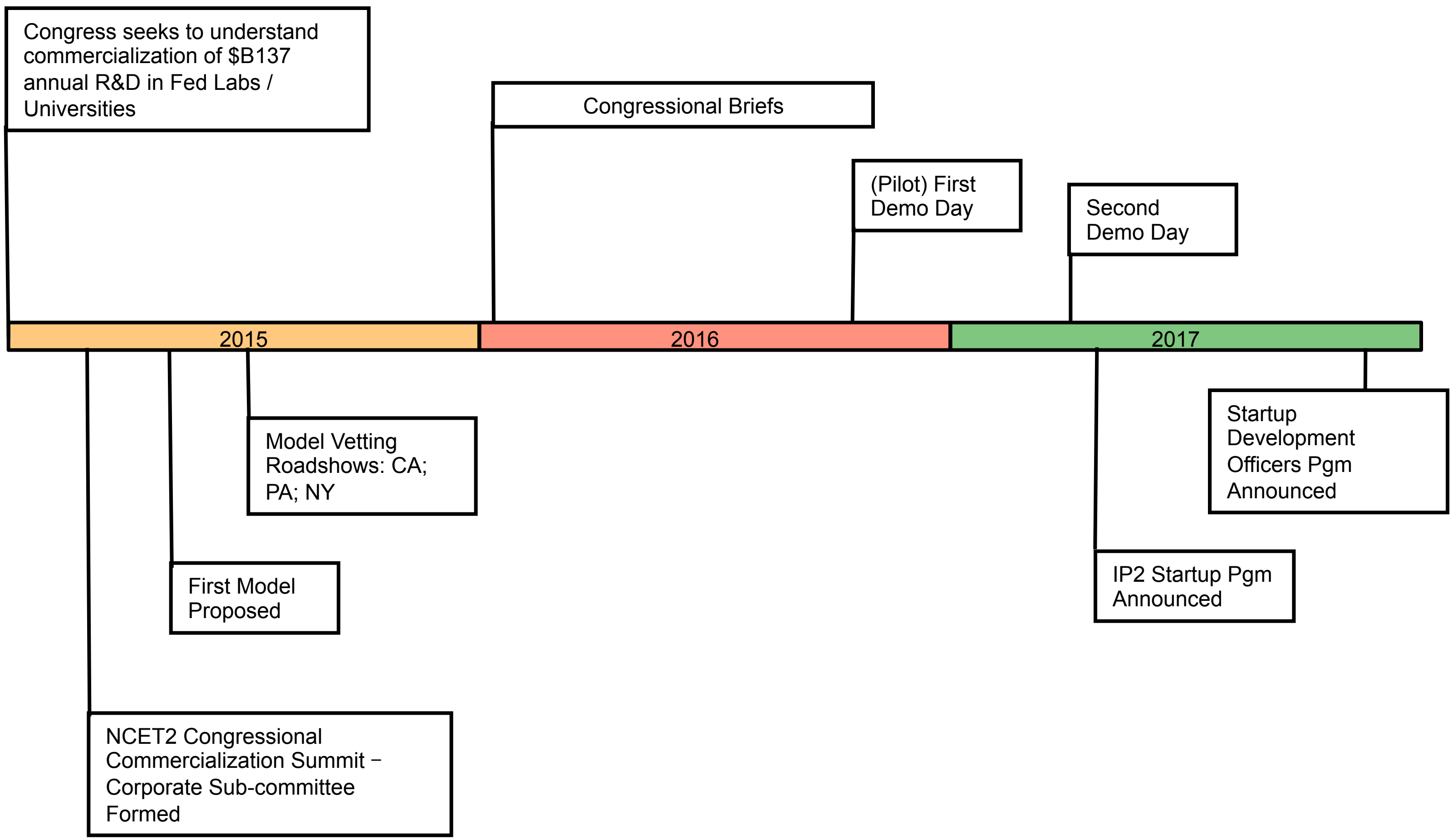
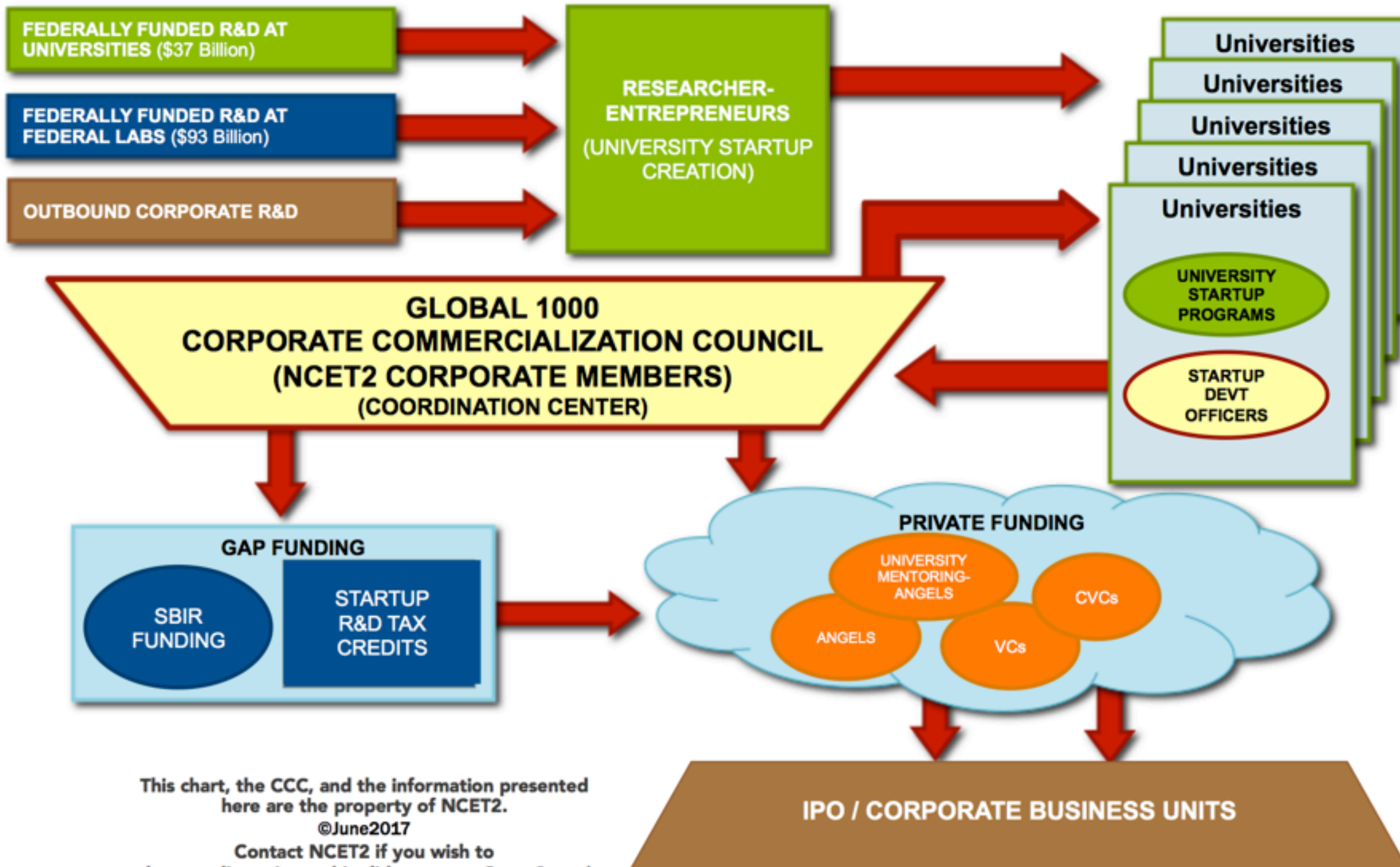
BACKGROUND ON THE STARTUP DEVELOPMENT PROGRAM

Commercialization Model Timeline



CORPORATE COMMERCIALIZATION CENTER (CCC)



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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 collision of skepticism and optimism often times leads 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

- 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