

January 2024



# Startups: Raising Capital





# Agenda

01 Overview - Fundraising

02 Pitch Dynamics

03 Funding Mechanics

04 Q&A

01

# Overview

- Why, When & How
- Fundraising
- Valuations



## WHY?

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**To Fuel Growth and Innovation:** Funds are pivotal for scaling operations, enhancing product development, and securing competitive market positioning. Startups raising funds typically see 30-40% faster growth.

## WHEN?

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**At Strategic Business Phases:** Raise during the seed stage for initial growth and Series A for scaling with a proven business model. Timing is key: ideally 6-9 months before major milestones to ensure continuous progress.

## HOW?

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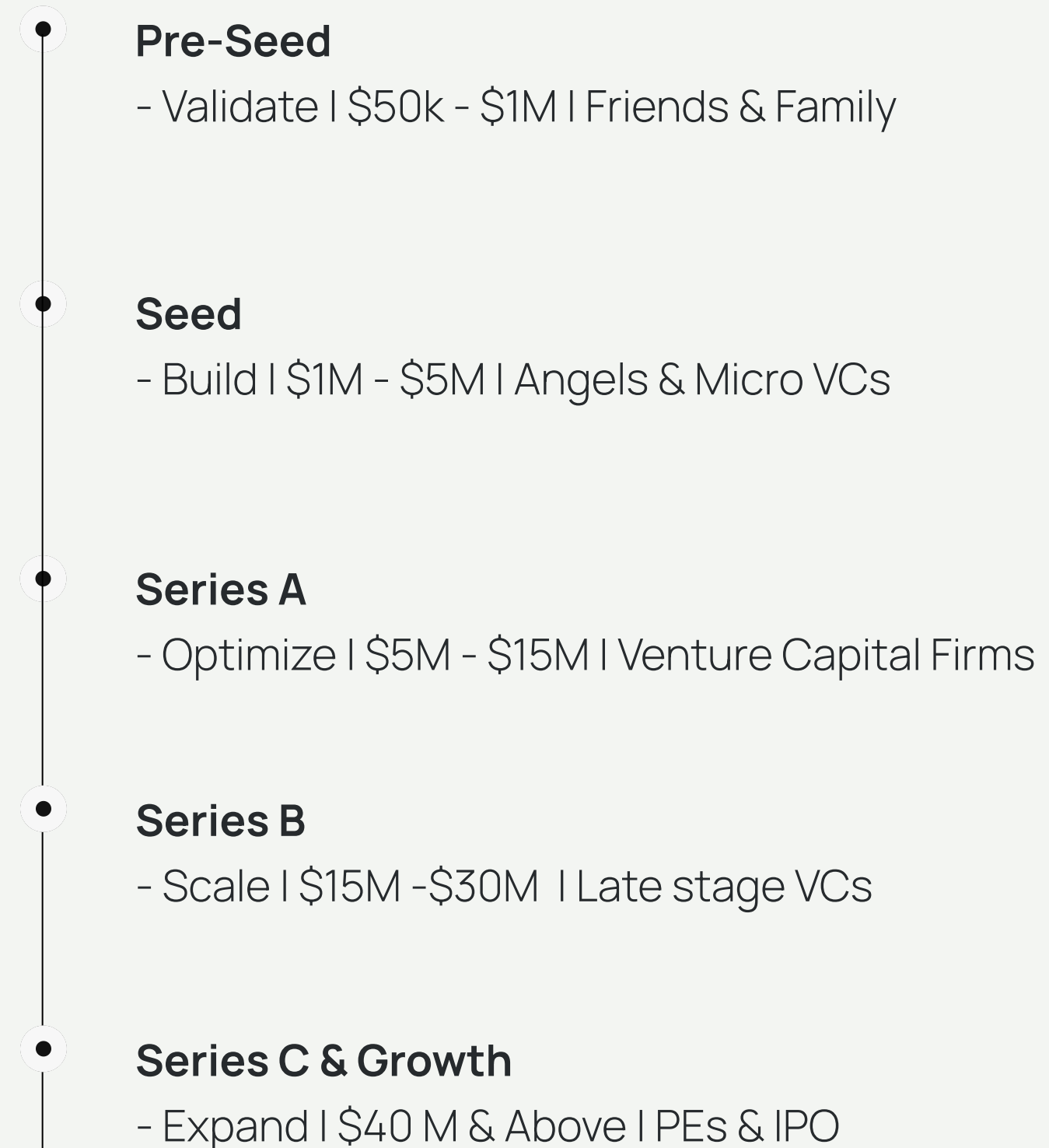
**Through Tailored Strategies and Preparation:** Identify suitable investors, craft compelling pitches, and utilize networking. Ensure legal and financial diligence for a smoother process.

# Fundraising —

Fundraising is financial support from investors to launch, grow, or expand a business.

Capital can be raised through various instruments like:

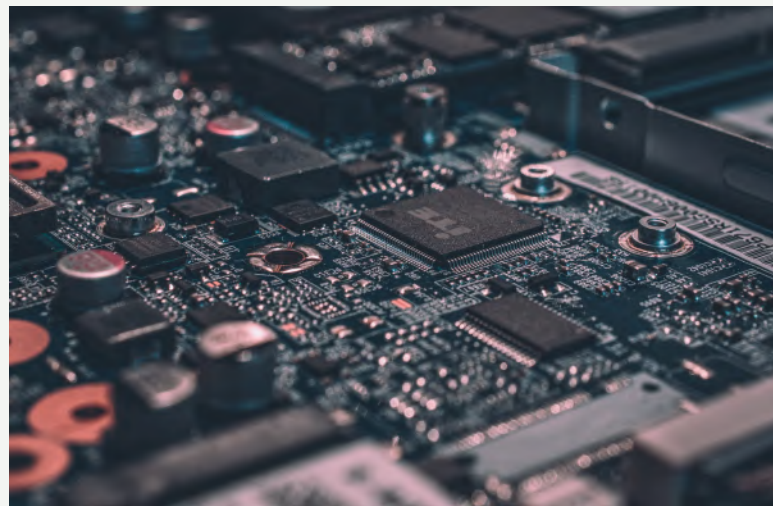
- Equity
- Convertible Notes
- SAFE Notes
- Debt Financing





# VALUATION

Determining the current worth of an asset or a company. In the context of startups, it involves estimating the potential future worth of the business.



## Technology & Intellectual Property

Clear MOAT on tech-stack;  
Patents & other IP.



## Revenue & Traction

Revenue, Customers,  
Partnerships & LOIs.



## Market Opportunity & Competition

Size of the opportunity &  
competitive advantage.



## Financial Forecast

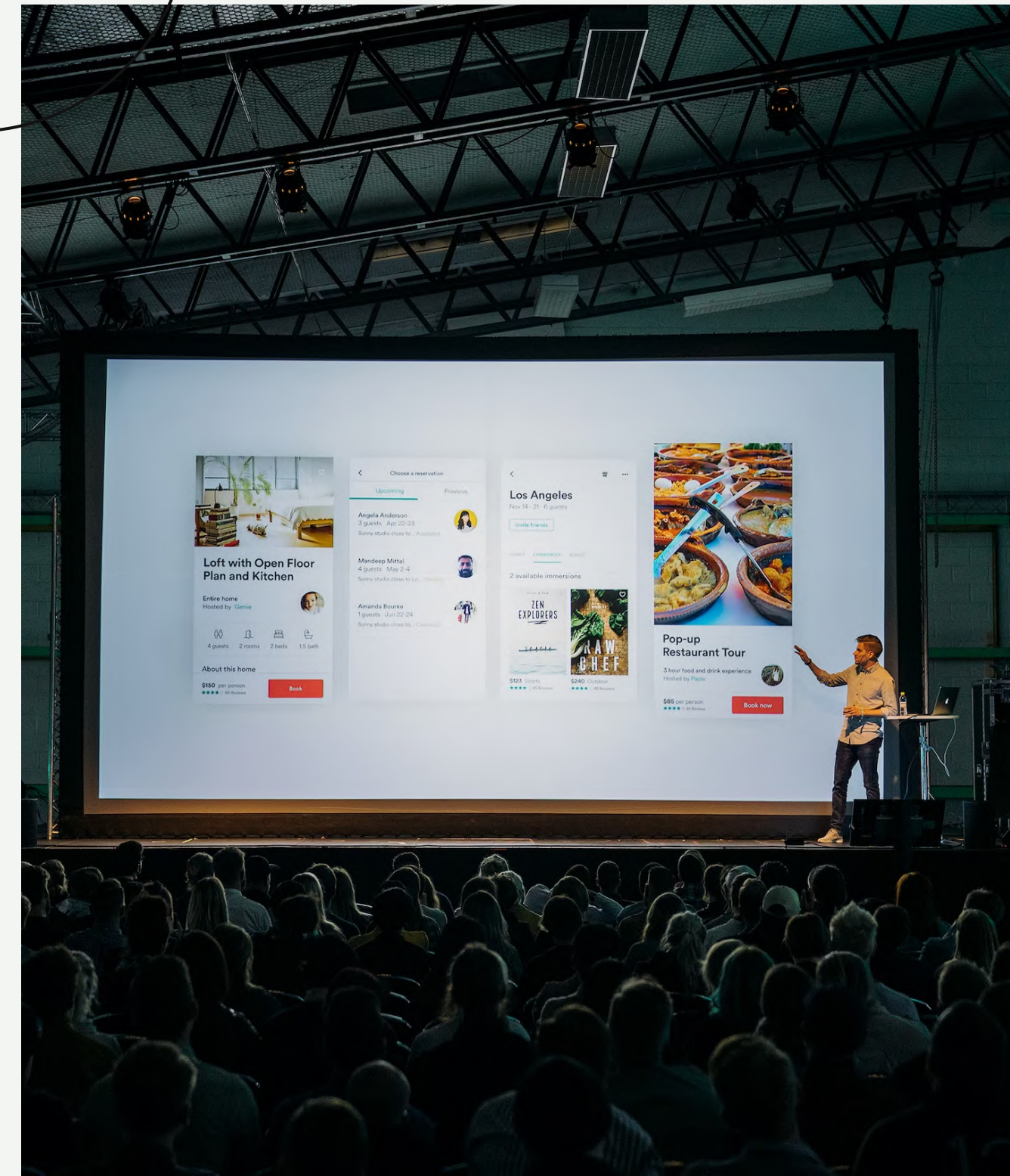
Future revenue, profit  
projections, and cash flow.



02

# Pitch Dynamics

- Pitch Deck
- Problem & Solution
- Traction & Financials
- Investment Ask



# Pitch Deck

Pitch Decks and their content always vary depending on stage, early stage decks revolve around opportunity, team and value proposition; later stage decks highlight traction, revenue & scale.

01

## Problem Statement

Describe and Quantify in the problem you aim to solve.

02

## Clear Value Proposition

Define your clear solution and value proposition.

03

## Market Potential

Quantify the market size. Identify your SAM, SOM & TAM.

04

## Competitive Advantage

Analyse competition and highlight a superior USP.

05

## Traction

Current customers, pipeline and partnerships.

06

## Financials

Historical and Projected Revenues.

07

## GTM

Elaborate on GTM strategies, Distribution; use this to back your Financial Projections.

08

## Investment Ask

Calculate your investment ask based on priority goals & funds utilization.



# Problem & Solution Slide

## Identifying the Problem Clearly

Describe a specific problem that your target audience faces. Use data to quantify the problem's impact, e.g., 40% of our target market experiences X, leading to Y inefficiency.

## Demonstrating Deep Understanding

Convey a deep understanding of the problem. Include insights from market research or customer feedback to show you've thoroughly analyzed the issue.

## Presenting the Solution

Introduce your product or service as a solution. Explain how it addresses the problem effectively, e.g., Our solution simplifies X, reducing Y by Z%.

Provide real examples or testimonials that demonstrate your solution's effectiveness. For instance, "In our pilot test, users experienced a 50% reduction in issue X."

## Differentiating from Competitors

Highlight what sets your solution apart from existing alternatives. Focus on your UVP that directly tackles the problem more efficiently or effectively.

# Traction

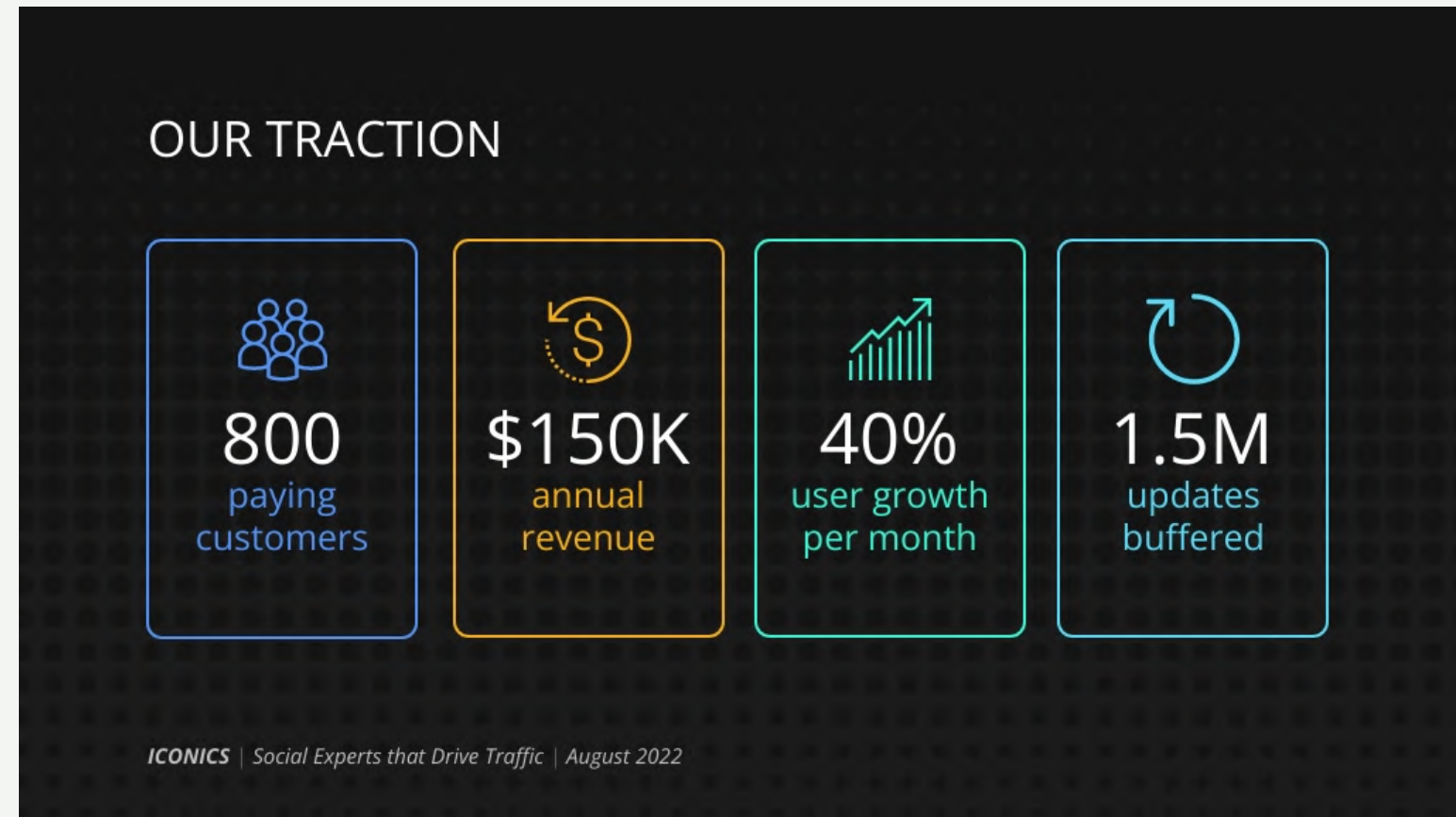
## Key Performance Indicators

**(KPIs):** Present clear KPIs that demonstrate growth, such as user acquisition rates, monthly active users, or revenue growth.

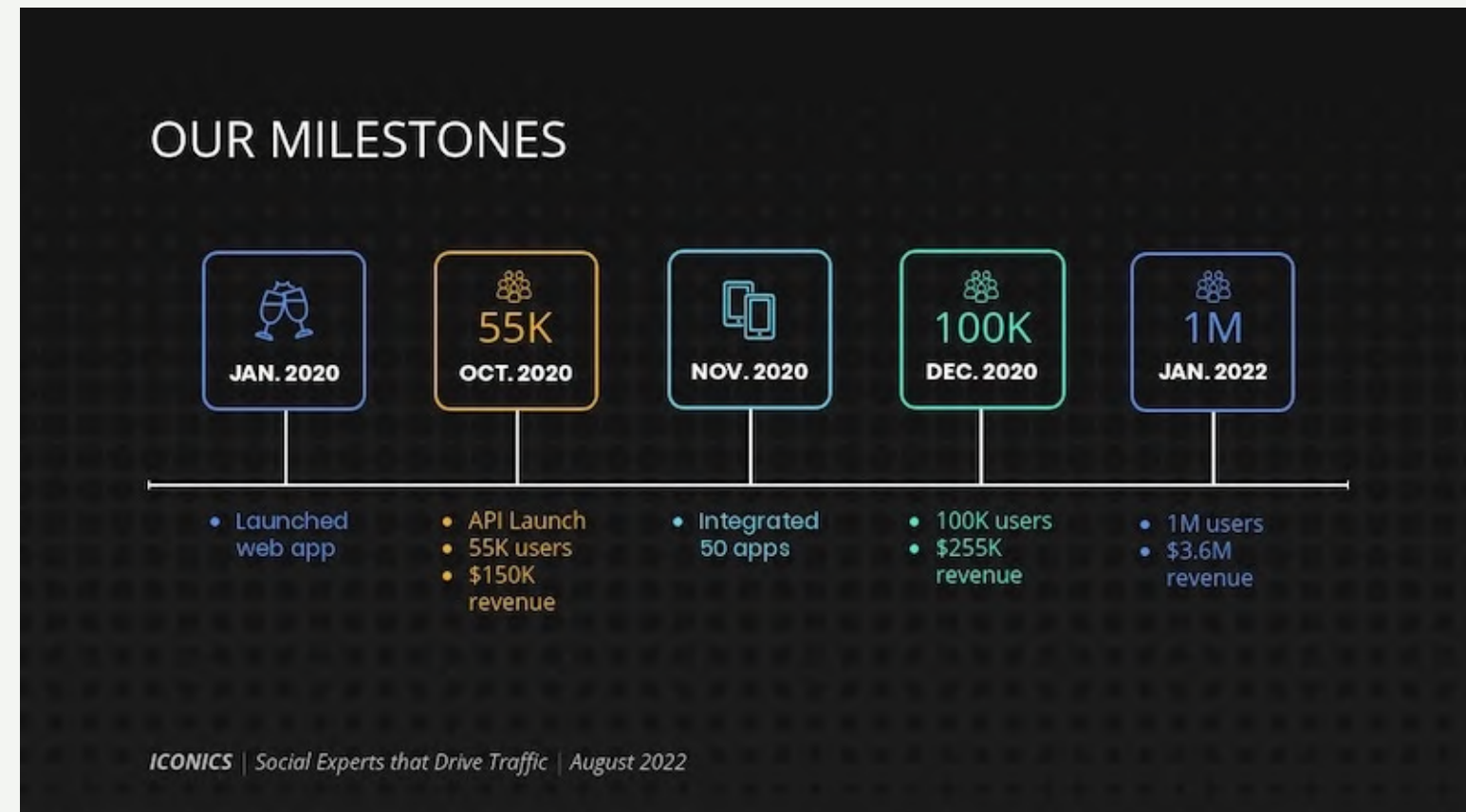
**Timeline of Progress:** Highlight significant milestones, like product launches, key partnerships, or market expansions. Use a timeline graphic for clarity.

## Customer Testimonials and Case Studies

**Studies:** Include quotes or case studies from key customers to validate market demand.



Example from Ionics



Example from Ionics



# Financials

**Clear Revenue Streams:** Detail your startup's revenue model, including main sources of income.

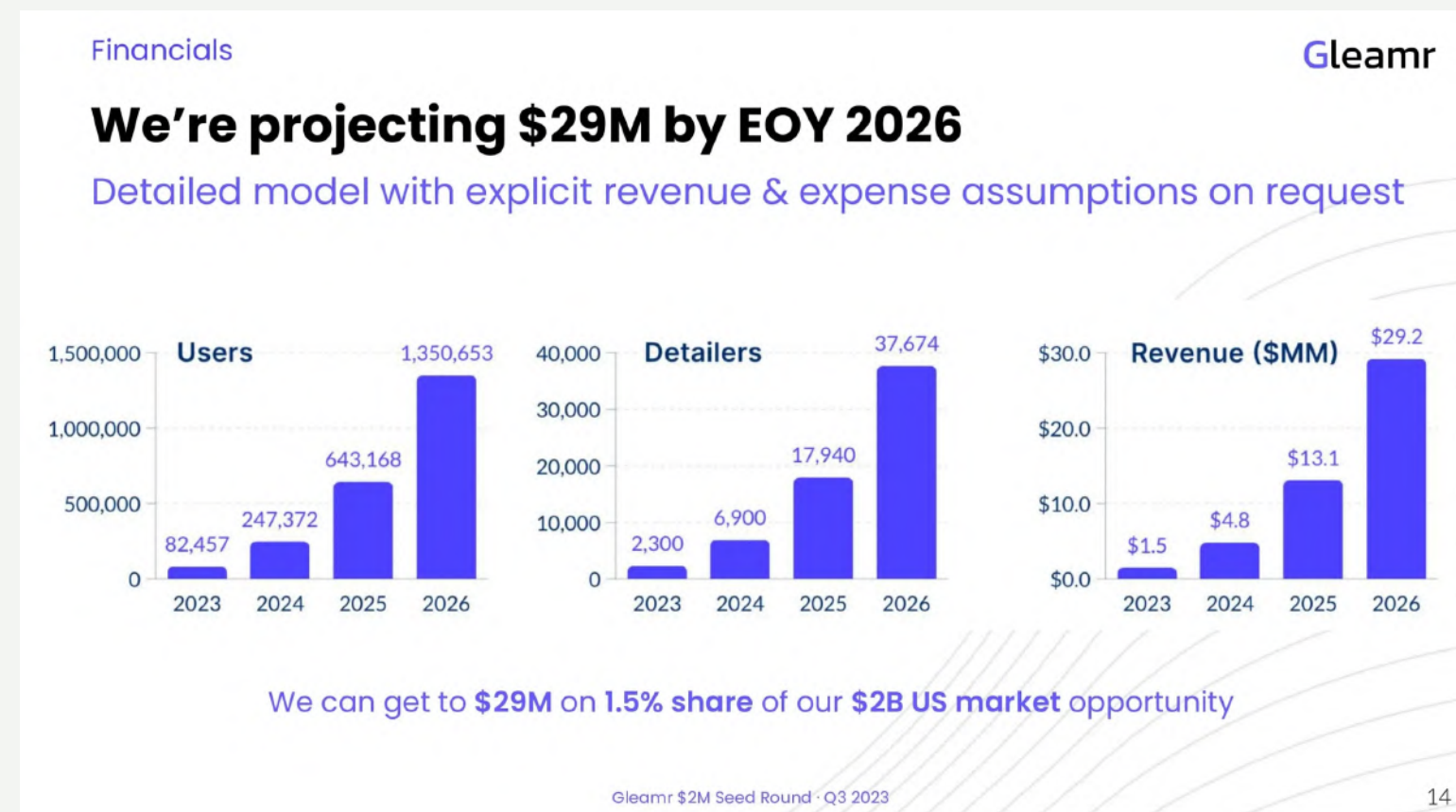
**Income Statements and Growth:** Present past financial data, such as annual revenue, profit margins, and EBITDA.

**Financial Health Indicators:** Disclose your current burn rate and cash runway.

**5-Year Forecast:** Offer a 5-year financial forecast, highlighting anticipated revenue growth and when you expect to break even or achieve profitability.



Example from Ionics



Example from Gleamr

# Investment Ask

01

## Factors Influencing an Investment Ask

- **Market Size and Growth Potential:** Larger market size and higher growth potential can justify a larger ask.
- **Current Valuation and Metrics:** Base your ask on your current valuation, ensuring it aligns with industry multiples. Consider metrics like user growth rate, revenue, and burn rate.
- **Range Rather Than Fixed Amount:** Present a range (e.g., \$3M-\$5M) to allow flexibility. Be prepared to negotiate and justify your valuation and the use of funds.

02

## Equity & Valuation Considerations

- **Raising Funds at Higher Valuations:** Minimize dilution by raising capital at higher valuations, indicative of company growth and success.
- **Impact on Future Fundraising:** Future investors will assess previous rounds of dilution. Significant dilution might affect terms of future investments. Negotiate term sheets carefully. Pay attention to clauses like anti-dilution provisions, liquidation preferences, and voting rights.
- **Employee Stock Pool Management:** Allocate employee stock options judiciously. Consider creating an employee stock pool that's a percentage of your post-money valuation before raising.



03

# Funding Mechanics

- Equity Dilution
- Due Diligence
- Optimized Use of Funds
- Investor Relations & Reporting
- Exits



# Equity Dilution

Equity dilution in startups occurs when new shares are issued, reducing the ownership percentage of existing shareholders.

It's crucial for startups to strategically manage this dilution to balance growth with control.

10% - 15%

Seed

\$500k - \$2M at \$3M - \$6M Valuation

20% - 30%

Series A

\$3M - \$15M at \$10M - \$30M Valuation

15% - 25%

Series B

\$7M - \$30M at \$30M - \$60M Valuation

15% - 30%

Series C

Upwards of \$50M at \$100M to \$NB Valuation



# Due Diligence

Due Diligence is a critical step in fundraising, all investors conduct due diligence before transferring capital to evaluate compliances, financials and any other red flags.

01

## Legal & Compliances

- Review of all legal documents including incorporation, patents, trademarks, and compliance with regulations.
- Assess any legal risks, ongoing litigations, or potential legal disputes.

02

## Financial

- Examine historical financial statements, cash flow, profitability, debts, and liabilities.
- Validate revenue models, pricing strategies, and future financial projections.

03

## Market

- Analyze the market size, growth potential, and competitive landscape.
- Evaluate the startup's market position, customer base, and market trends.

04

## Operational

- Investigate the operational structure, business processes, and supply chain.
- Review the efficiency, scalability, and sustainability of operational processes.

## Preparing for Due Diligence

- Ensure all financial statements, tax returns, and cash flow projections are accurate and up-to-date.
- Prepare incorporation papers, patents, trademarks, and any legal agreements.
- Organize records of business operations, including customer contracts, supplier agreements, and any operational data.

30%

Of startups fail even after raising capital.

42%

Of startups fail because of burning capital & ineffective use of funds.

23x

More likely to succeed if the startup employs a data-backed approach to fund utilisation.

01

## Key Principles of Fund Optimization

- **Strategic Allocation:** Spend on what drives growth. The goal is to generate the highest possible ROI from each expenditure.
- **Lean Operations:** Minimizing overhead costs, negotiating better terms with suppliers, and ensuring operational efficiency.
- **Flexibility:** Market conditions change rapidly. A flexible budget allows for quick adaptation.

02

## Common Pitfalls & Avoiding Them

- **Neglecting Cash Flow Management:** Leverage tools like QuickBooks and Xero for effective budgeting and cash flow management.
- **Inadequate Investment in Key Areas:** Allocate at least 20-30% of the budget to developing core competencies and market expansion activities.
- **Overhiring or Underinvesting in Talent:** Align hiring with growth and revenue targets.
- **Lack of an Emergency Fund:** Maintain an emergency fund covering at least 3-6 months of operating expenses





# Investor Relations & Reporting

Consistent and transparent communication is key to building and maintaining trust with investors.

- **Regular and Structured Communication:** Schedule regular updates to keep investors informed about progress, milestones, challenges, and financial health.
- **Detailed Financial Reporting:** Include detailed income statements, balance sheets, and cash flow statements.
- **Market and Competitive Analysis:** Provide insights into market trends, competitive landscape, and how these factors impact your business.
- **Strategic Updates:** Share insights on strategic decisions, product development progress, and future plans.
- **Feedback and Engagement:** Encourage investor feedback during meetings.
- **Transparency and Honesty:** Always maintain transparency, especially when discussing challenges or setbacks, as this builds trust and credibility.
- **Reporting Platforms:** Integrate platforms like Visible.vc & Investory.io which enable easier reporting and transparency.



# Exits

An exit strategy is a critical component of a startup's business plan, outlining how the founders will leave the business, realizing the value of their investment. It's essential for attracting investors, as it provides a clear pathway to them recouping their investment.

Merger and Acquisition (M&A)	Initial Public Offering (IPO)	Secondary Market Sales	Management Buyout (MBO)
On average, M&A deals in the tech sector can value a startup at a multiple of 2-3 times its revenue, depending on the industry and market conditions.	For startups with strong financials and market presence. The average IPO can increase a company's valuation significantly, often more than 10 times its revenue, but requires solid and sustainable growth metrics.	Early investors sell their shares to private investors in subsequent rounds realizing a multiple of return.	Suitable for businesses with strong internal management. On average, MBOs value a company at around 4-6 times its EBITDA.

## Preparing for an Exit

Financial Audits & Valuations	Strengthening Key Business Metrics	Operational Efficiency
Conduct regular financial audits. Startups aiming for an exit within 2-3 years should seek professional valuations annually.	Focus on improving metrics like customer acquisition cost (CAC), lifetime value (LTV), and revenue growth rate. Aiming for a LTV to CAC ratio of 3:1 is ideal.	Streamline operations to maximize profitability. Aim to have an EBITDA margin of at least 15-20% prior to exit.



04

# Q&A

