eBook / Best practice guide

INVESTOR PROSPECTING

A Short overview for Startup Founders Who Want to Leverage Best Practises

BRAD FURBER

2021

Welcome, and congratulations on taking the next step on your startup fundraising journey

This short overview is designed to help startup founders map out a strategy and a process to identify, target, and close funding from their ideal sources of capital.

The [Investor Readiness Test]() and research (conducted by Aery Advisors from August 2018 through December 2021) with more than 8,332+ startup founders reveals a massive knowledge gap when it comes to raising capital from third-party sources.

Most founders don't know what they don't know. Especially those who are launching their first startup. In our experience, founders who know what they don't know are in a much better position, as they are open-minded and motivated to learn. Founders that already know the drill are in the best position, of course, and they are generally also most willing to seriously invest in the process. They already know this: it takes money to raise money.

The road you are on is not for the faint of heart. Most startups never manage to secure enough funding from third parties to take their big idea and make it a reality (much less from their dream sources of capital), and there's a good reason for it. For some founders and management teams, they are unwilling to do the work to learn what it really takes. And for some, once they do learn what it takes, they decide it is too much time and effort...it's too damned hard.

Ask any successful startup founder what the hardest job they had to do is and they will usually tell you the same thing: raising capital to keep the dream alive and grow their startup to meet (or even exceed) its potential.

Of course, just because something is hard does not mean it's out of your reach.

Even if you have never raised outside money before, you can learn. In our experience, anyone can learn how to tap into third-party funding sources, if you have the will.

If you have a great idea - a product or a service that has real potential - you can raise outside capital. In fact, since the dawn of human civilization, there has never been a better time to raise outside capital than now.

But doing this successfully will come down to three things.

1. **First,** you need to take stock of where you are right now. How close are you to being able to raise the capital you need? Once you understand this, you need to learn exactly what you need to do next to close the gap. (In our experience, there is always some gap.)

2. **Second,** you need to prepare. It means you need to prepare your company to be "investor ready" (prepare a due diligence locker/data room). Your top-level choice of

entity and jurisdiction and your form of financing offer/deal should match the preferred deal parameters of the sources of capital you will be prospecting. Many sources of capital have strict deal parameters, so it is important not to waste time or money prospecting those who cannot do your deal. Many sources have preferred deal parameters but may be willing to make exceptions in rare cases. Like a fly fisherman casting a fly over a river or a lake, you want to make sure your offer is going to be appealing to those you seek to attract. Further, even if you do get a nibble or a bite, in order to successfully negotiate and close a deal you will also need a team, including a qualified corporate and securities lawyer to efficiently and competently wrap up the deal with a bow on top.

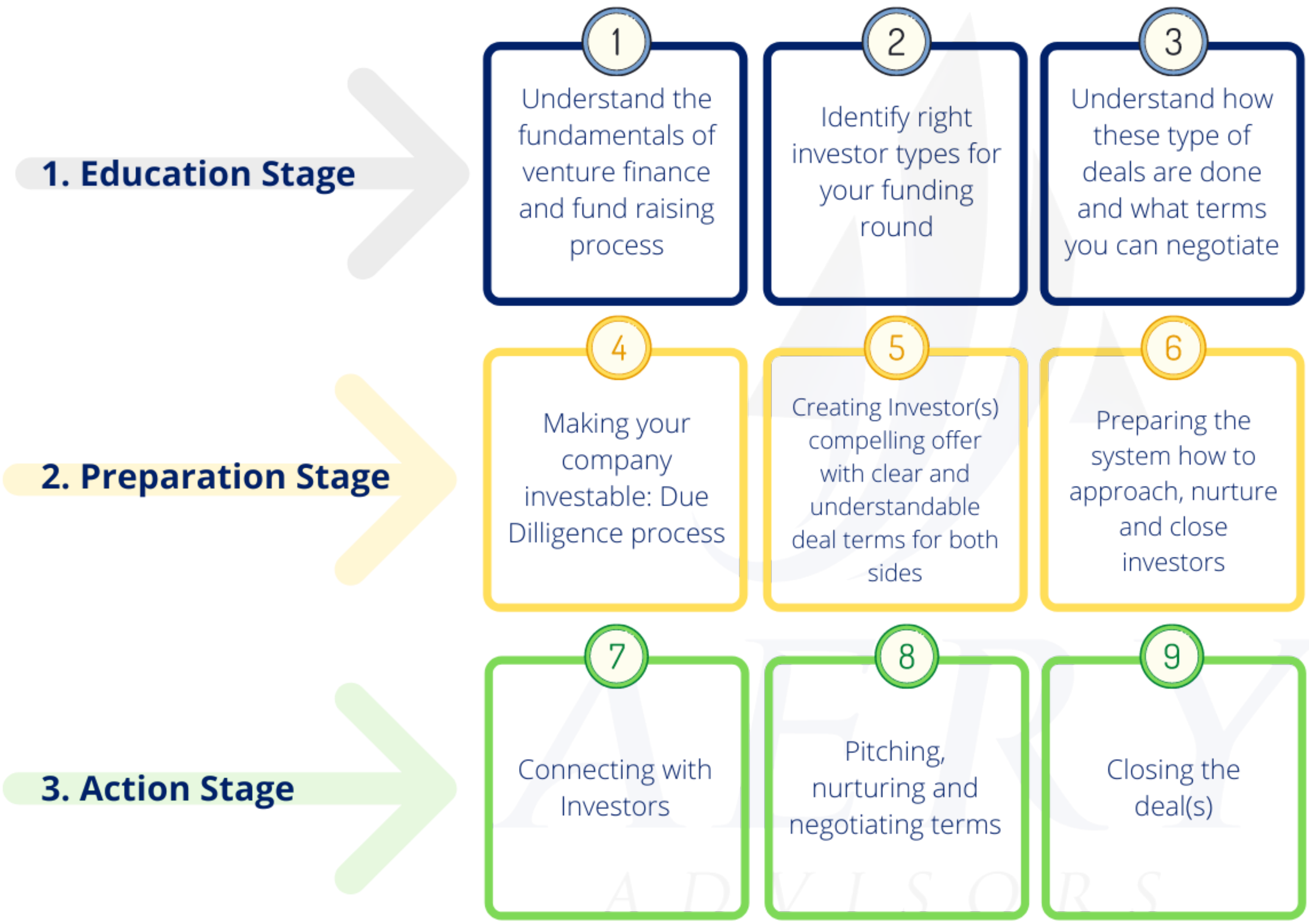
3. **Third**, assuming you don't want to settle for just any old investor, and you want to attract capital that is truly capable of helping you strategically, now and into the future, then you need to expand your prospect list (top of the funnel) to improve the probability that you will be able to pitch your story to the right audience - your "dream list" of potential capital sources. When you "go to market" with your offer, you should have a large enough prospect list to enable you to beat the odds. Although it is true that you may only need one investor to fund your next round, it is best practice to put your venture in a position where you have several options on the table from which to choose.

Raising money is like climbing a mountain. From the base, it's easy to see the top of the mountain. You might be tempted to think you can ascend to the top of the mountain solo. From a risk management perspective, however, that's generally not wise. For climbers seeking to scale mountains in Nepal, most choose to engage the assistance of a local Sherpa, or guide. That's considered best practice. Likewise, for startup founders looking to execute a fundraising campaign, it's important to make sure you have the right advisors on your team.

If you are looking for a Venture Finance advisor for your startup, please book a free call here: https://aeryadvisors.com/venture-finance-advisor/

OK, now that we have the basics outlined - let's dive deeper into the subject matter of Investor Prospecting Best Practice.

Fundraising Road Map



Here you can see a basic roadmap of the Startup Fundraising Journey. Even if you have successfully raised capital from third parties previously, the capital market dynamics and deal terms are always changing, so it is important to make sure you are up to speed with current knowledge.

In this Investor Prospecting Best Practice Guide, we won't go into details of each step as our focus here is to cover best practices solely for engaging with prospective investors. But if you are interested in learning more about the whole venture finance process, see the Resources section at the end of this guide.

There are a few different stages/rounds of startup fundraising that involve different types of investors and your startup preparation level. Let's have a quick overview of them.

The pre-seed investment stage

Idea, prototype, no MVP, and MVP stage.

The earliest stage of funding a new company comes so early in the process that it is not generally included in the “rounds” of funding at all. Known as "pre-seed" funding, this stage typically refers to the period in which a company's founders are first getting their operations off the ground. The most common "pre-seed" funders are the founders themselves, as well as FFF (friends, family, and fools). Depending upon the nature of the company and the initial costs associated with developing the business idea and recruiting the right team to execute, this funding stage can happen very quickly or may take a very long time (even years).

Put simply, a Pre-Seed round is a pre-institutional seed round that either has no institutional investors or is a very low amount, often below $150k. The pre-seed round gives a startup the opportunity to continue developing a product and create a plan to generate significant revenue.

Seed investment round

Seed funding is generally considered the first official equity funding stage.

The term seed capital refers to the type of financing used in the formation of a startup. Funding is provided by private investors—usually in exchange for an equity stake in the company or for a share in the profits of a product. Much of the seed capital a company raises may come from sources close to its founders including FFF, professional angels, or even micro-VCs. Over the past few years, larger VC firms, family offices, and even hedge funds have been “crossing over” into seed-stage deals. Obtaining seed capital is generally the first of four funding stages typically required for a startup to become an established larger business.

Seed funding rounds vary significantly in terms of the amount of capital they generate for a new company. According to research published by Crunchbase, the median size of seed rounds led by multistage venture capital firms has increased from $1.5M in 2010 to $4M in 2020. For some startups, a seed funding round is all that the founders feel is necessary in order to successfully get their company off the ground; these companies may never (voluntarily or otherwise) raise a future Series A round of funding. In recent years, research shows that only 20-30% of companies that raise seed rounds successfully close a subsequent Series A round.

Series A investment round

Once a business has developed a track record (an established user base, consistent revenue figures, or some other key performance indicator), that company may opt for Series

A funding in order to further optimize its user base and product offerings. Opportunities may be taken to scale the product across different markets. In this round, it's important to have a plan for developing a business model that will generate long-term profit. Oftentimes, seed startups have great ideas that generate a substantial amount of enthusiastic users, but the company doesn't know how it will monetize the business. Typically, Series A rounds raise approximately $2 million to $15 million depending on industry and region, but this number has increased on average due to high tech industry valuations, or unicorns. Over the past few years, with the increase in "cross over" funds participating in seed and Series A rounds, the term "Series A round" has increasingly been used whenever the company and investors decide to call it that.

Growth stages (Series B and beyond)

Series B rounds are all about taking businesses to the next level, past the development stage. Investors can help startups to get there by expanding their market reach. Companies that have gone through seed and Series A funding rounds have already developed substantial user bases and have proven to investors that they are prepared for success on a larger scale. Series B funding is used to grow the company so that it can meet these levels of demand.

Series B appears similar to Series A in terms of the processes and key players. Series B is often led by many of the same characters as the earlier round, including a key anchor investor that helps to draw in other investors. The key difference with Series B is (usually) the addition of a new wave of other venture capital or other "cross-over" firms that specialize in later-stage investing. This can also be valuable to avoid "insider" conflict of interest situations, as the terms and valuation are generally set by the new investors..

Businesses that make it to Series C funding sessions are generally quite successful. These companies look for additional funding in order to help them develop new products, expand into new markets, or even to acquire other companies. In Series C rounds, investors inject capital into the meat of successful businesses, in an effort to generate returns of 3-5X (cash on cash) within one to three years. Series C funding is focused on scaling the company, growing as quickly and as successfully as possible.

Pre-Exit investment round

Companies that do continue with Series D funding tend to either do so because they are in search of a final push before an IPO or, alternatively, because they have not yet been able to achieve the goals they set out to accomplish during Series C funding. It can be a red flag if a firm has a cap table that looks like "Alphabet soup" (e.g., it runs to Series F1, F2, F3 and then G1, etc.), because it raises the question of whether this company will ever achieve cash flow positive or go public. In any case, in general, investors in this stage have expectations to generate aggressive returns of 1.5-4X (cash on cash) within a relatively short time frame, perhaps as short as 3-6 months to as long as 18-30 months.

Funding rounds overview

The different rounds of funding operate in essentially the same basic manner: investors offer cash in return for some kind of return on investment (usually an equity upside stake) in the business. In addition to equity, there are a number of other non-equity based sources of financing, including research grants, revenue-backed notes, venture leasing/debt, and traditional debt. Between the rounds, equity investors and other sources of capital make slightly different demands on the startup.

Company profiles differ with each case study but generally possess different risk profiles and maturity levels at each funding stage. Nevertheless, seed investors and Series A, B, and C investors all help ideas come to fruition. Pre-exit investment rounds help bridge a company through to an IPO, SPAC, or M&A trade sale. Series funding enables investors to support entrepreneurs with the proper funds to carry out their dreams, perhaps cashing out together down the line in an IPO, SPAC, or M&A event.

Preparing a system to schedule, pitch, negotiate and close investors

So you have the foundational knowledge, your house is in order, and you know how to create a compelling offer. You also know that there needs to be a sales and marketing strategy in order to maximize your likelihood of success.

In this part, we're going to focus on fishing where the fish are, and helping you get the fish (investor) that you want into your boat (your startup).

1. The essential toolkit

1.1. Minimum viable finance offer

What will you need in order to effectively present yourself to the market? In our experience, you will be well served to have a minimum viable finance offer: something that you're comfortable with, something you believe is reasonable and “in the ballpark” as a talking point during the meeting, and something that you can send via email promptly if the prospect is willing to go to the next step with you.

1.2. One-pager

You definitely are going to need to have the basic marketing materials, which include the one-pager. The one-pager sometimes is two pages, which is a bit weird, but everybody calls it the one-pager.

Here you can find some one-pager examples.

1.3. Powerpoint pitch deck

You are going to need a PowerPoint pitch deck, preferably 10 to 15 slides that you can present in fewer than 20 minutes, preferably 10-15 minutes if you really need to power through.

1.4. The three-paragraph written synopsis

You should have a three-paragraph written synopsis that you can use to tee up the meeting with an email or send to one of your advisors as a template to help them tee you up through a warm email introduction.

1.5. Professional Video

You should also have a video, three to five minutes long, professionally produced, something that's pretty memorable and that enables you to tell your story in a way that is compelling. In the age of YouTube, a professionally-produced video is something that folks remember.

1.6. Post-meeting follow-up

You should also have a post-meeting follow-up script. So some kind of a short synopsis of the key points raised during the meeting, along with proposed next steps to continue the discussion or to close the deal.

1.7. Strategic action plan and CRM system

You need to have a strategic action plan, including a CRM system because you're going to be talking to a lot of people. You need to be able to effectively sort them, rank them, and move them through a pipeline. For low-tech CRM, check your members area for our standard Track Investor Template.

That is the basic toolkit. Obviously, you might decide you want to have a few more things, but in our experience, it's hard to be effective if you have anything less.

2. Mindset and resources

In addition to your toolkit, maybe the most important thing is your mindset. How committed are you to do what it takes to get this done? It's very time-consuming. It's not a walk in the park. It requires a lot of focus.

It's probably going to require travel. Less so now than prior to Covid19, but still best practice. Unless you live in one of the tech or financial centers where they have access to deep pools of capital, it has been our experience that you probably will need to do some sort of roadshow. You need to be willing to do that, if necessary, especially if the profile of the investors that are your ideal investors actually live in a different place. You can't expect investors to come to you.

You absolutely, positively, must invest in high-definition video conferencing capabilities with ample bandwidth so there are no “technical difficulties or hiccups”. Be respectful of others time, and make sure everything is easy to access and works. If you do that, you can get a lot done through this medium.

You need to invest in a team. If you're serious about trying to raise real amounts of capital, in addition to getting your house in order, you must have professional service providers experienced drafting, negotiating, and closing the type of financing you seek. That includes a qualified corporate and securities lawyer.

So realistically, in addition to investing your own time, you need to invest upfront in getting the right professional advisors (and some of them aren't cheap) and all of the other kit and equipment to enable you to be successful. So think of it as if you're going to climb Mt. Everest. You need the kit, you need the team, and it's going to be a journey. It's going to take some time and it's not easy.

3. Action Stage

Now we got to the last and the most important stage. If you prepare your business correctly (as described in our various video courses), then you will be ready to connect with investors, build relationships, pitch your startup investment offer, nurture your prospects (investors), negotiate terms and close the deal(s).

If raising money for your startup is your #1 strategic priority, then you and your team must all be “all in”! It’s either you are raising money or not. There cannot be anything less than full commitment. You must have the right mindset to be successful at this stage.

In the action stage, you will need the right mentors, advisors, and coaches to help you maximize the opportunity to raise more money from your ideal capital sources on the best terms and conditions. Every business is different. There’s no “one size fits all.” That’s why you need expert, personalized help to take the final steps of the funding journey.

Pitching

Presenting the offer

But what have you got to do when your opportunity comes? Meetings are better than calls, although meetings take more time on both your part and their part. In some cases, a quick call is better to qualify the lead.

We talked about the toolkit. If you've got that toolkit, using it shouldn't take up too much time.

But before you have the call and the opportunity to present, it's our view that less is more. You need a three-paragraph description that can be communicated in an email or a calendar invite just to give people a nutshell of what you're doing, together with the one-pager. That's enough to whet their appetite – to see whether they want to take the meeting or the call. Once your on the call, your pitch must be practiced and polished. If your pitch is wanting, then you need to practice, self-educate by watching pitch coach masterclasses and/or hire a pitch coach to make sure you and your venture stand out and shine for all the right reasons.

If you're doing the meeting remotely, we strongly recommend one of the video conferencing capabilities, such as Zoom or Teams, that offer high-quality resolution and screen sharing capabilities. Do not ever be even one minute late, or do not go over the scheduled time slot. It is critical to be respectful of everyone's time.

What can you expect?

What is a prospect going to give you? 30 minutes? 45 minutes? 60 minutes? In our experience, 60 minutes is on the long side, and you should be prepared for just 30 minutes. First and foremost, you need to understand how much time you have. And then you tailor your pitch to give you enough time to present the big idea and also to engage in a conversation.

If you've only got a 30-minute meeting (remote or in-person), by the time you do the pleasantries (2-3 minutes) and the pitch (12-15 minutes), you want to give yourself at least 10-12 minutes for Q&A. If you've got 45 minutes or up to 60 minutes, obviously you can get into a longer discussion. But respecting their time (and yours) is extremely important.

Even if the other party has not said, "Hey look, I've got a hard stop in 2 minutes," it's important that you respect other people's time. That's big. Because on both sides of the table, there are a lot of meetings happening, exploring lots of different opportunities/deals, and no one wants to waste anyone's single most important commodity: time.

What's your next step?

The good news is that, right now, the world has never had more capital available, especially for innovative businesses enabled by science and technology.

Are you truy ready to take your next step into the venture finance arena?

If you found this overview helpful and you are interested in talking to us about how we can help you and your team in connection with your plan to enter and win in the venture finance arena, please click on this link: https://aeryadvisors.com/venture-finance-advisor/

Resources

Free resources

Investor Readiness Test

If you are contemplating raising outside funding, take the Investor Readiness Test. It's a free tool that helps to find out how ready you really are to pitch, negotiate and close financing for your startup.

Venture FInance Youtube Channel

Here you can find video archives of short lessons, interviews and podcasts.

Venture Finance Newsletter

Our monthly newsletter covers topics such as fundraising challenges for startups, tips, insights, strategies, and more.

Venture Finance Blog

The venture finance blog includes interviews, TermSheet battles, insights, lessons, startup success stories and more.

Venture Finance Case Studies

Case studies of Aery Advisors members and their journey to successfully raising venture finance for their startups.

Global Venture Finance Directory (Investors database)

A lot of startup founders who have taken the Investor Readiness Test tells us they don't know where to start looking for third-party financing.

Based on that feedback loop, we undertook to research, curate, and develop the Global Venture Finance Directory (™) (currently in beta), which currently boasts more than 3,867+ sources of capital, including venture capital, private equity, angel investors, angel networks, accelerators, media channels and the like. And even better, you can access it for FREE.

Follow us on social media platforms

Facebook LinkedIn Youtube Twitter Medium

Paid Courses and Services

[Venture Finance Masterclass](https://aeryadvisors.com/masterclass/)
https://aeryadvisors.com/masterclass/

Boost Your Startup Fundraising Skills. 3,000+ founders already did!
The short two-hour Venture Finance Masterclass goes into more depth about the four key principles of raising money. Also will get 7 bonuses worth €785.

Venture Finance Advisory Services

Investor Prospect Dream List
https://aeryadvisors.com/services/investor-dream-list/

A service that delivers a customized dream list of TOP 100 institutional investors from one of the largest global proprietary databases based on your industry, region, and stage of development. Based on your specific inputs, we produce the ideal outputs in just 7 days (or 3 days for the premium package).

Additional services for Dream List clients can be requested after the initial order is completed.

- Additional 100 Leads
- 10 Full Investor Profile Reports, includes management, investment activity, assets, financials, and more.

VF Consultation
https://aeryadvisors.com/services/pit-stop/

Get independent, objective, insights and advice. When a problem or an opportunity is big enough, it's always a good idea to seek independent, objective, insights and advice from more than one source.

We are frequently asked to weigh in on proposed alternative and/or preferred financing strategies, securities offers (e.g., pre-seed valuation caps vs discounts vs warrants, etc.), deal point negotiations (in both Angel and VC lead financings, aka Term Sheet Battle (TM), co-founder equity allocations (and divorces), value creation (built to sell) models, university tech transfer, corporate innovation/CVC, liquidity options through private and public secondary markets, intermediary engagement terms, buy and sell-side mandates, and the like.

Venture Finance Audit
https://aeryadvisors.com/services/audit/

We review your startup's current state and help you to become investors ready, and coach you through the process during a period of up to three months.

Venture Finance Academy
https://aeryadvisors.com/services/academy/

We help you get investor-ready, and coach you through the whole process, from beginning to end, through the ups and downs. The 12-month program is your opportunity to get objective, neutral, and inspiring coaching and advisory services on your journey to investment readiness and success. You will not be alone, as we also have bi-weekly coaching calls with others on the same journey, and invited subject matter experts. It has been designed based on 30 years of venture finance experience and involvement in thousands of deals.