Getting financed by Capital Ventures

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Choose and connect

Is Venture Capital financing for you?

Most Venture Capitals invest between $1 million and $25 million in the companies they fund. The amount they provide often reflects the size of their funds.
They typically follow a due diligence process when assessing the potential investment targets (see below): if you are interested to apply for the financing of a Venture Capital, it is therefore important to note that this process will take you some time and that you need to be ready for it before you apply.

The summary of pros and cons about VC financing will help you take a decision:

Pros	Cons
Large amounts of capital raised	Your ownership is reduced
Networking	VC financing is hard to get
Visibility	Time consuming process
Help to raise more funds is offered	Room to negotiate is rare

Connect with Venture Capitalists:

Before reaching out to a VC, you should select and target the ones that you really want to work with, as finding the right Venture Capital firm is absolutely critical.

Create a list of a maximum of 10 VCs that:

- Have experience in your industry (personally, or through their portfolio): they will understand your challenges and potentially bring you additional expertise and networking opportunities. Furthermore, your industry must of course be aligned with the sectors the VC aims at funding, as many of them only focus on a few specific sectors that have a potential high return on investment.
- Are located in your region: most VC will invest in a specific geographic area.
- Focus on the stage you're at: For instance, some VCs prefer early-stage ventures where the risk is great, but so are the potential returns. Conversely, some VCs focus on providing capital to established companies to bridge capital gaps before they go public.

Venture Capitalists get a lot of requests and can not answer to all of them. It is therefore recommended to be introduced through a mutual acquaintance or to identify the most appropriate limited partner and contact them first to create a personal connection.
You can usually get introduced by other entrepreneurs, your current investors (e.g. business angels or an incubator), market specialists you work or have been working with, lawyers or consultants etc.

Get ready to meet a VC

To prepare for the Venture Capital's assessment, here are the following documents and information that you need to prepare.

Assess your Business Value:

The business valuation usually is a critical issue for both the entrepreneur and the Venture Capital investor. It refers to the value of the company agreed upon before the VC invests. Although valuation is almost always out of your control, it stays negotiable. So, do your homework, don't overestimate but don't underestimate either.
The following assets are key for the valuation:

- The experience and past success of the founders;
- The market size and financial forecast;
- The existing product and potential Intellectual Property Rights already acquired;
- Company's initial tractions;
- The road to commercialisation and potential for scalability;
- The capital efficiency of the business model (how much money will the company need before reaching profitability?)
- The valuations of similar companies;
- The fact that several investors are chasing the company or not.

Prepare your pitch deck and business plan:

Don't make your Business Plan too lengthy. Keep in mind that investors look through hundreds of business plans, so making yours stand out by being relevant and concise, is a smart thing to do. Use graphs and charts when needed to convey information more precisely.

The pitch-deck is probably the first things potential investors will look at. It takes the form of a slide deck (10-15 slides) which shortly present:

- The problem you've identified and how you're solving it;
- The market;
- Your product and demand for it;
- Your team and competition;
- Financial forecast and expected budget needs (don't overestimate it!).

Get ready to meet a VC

Show your strengths:

Your product is the key for financing. If you already have a minimum viable product, be prepared to bring it to the investors. It will put a face to your solution and demonstrating it will help investors to assess its potential with customers. If you can't demonstrate your product yet, don't worry. Bring at least the project documentation that you have.

References are also important. They can include recommendations from sectorial experts or first customers prospects.

Understand the different forms of investment to negotiate:

- Convertible preferred stock investment is the most common form of investment for a VC. It gives the VC a preference over common shareholders on a sale of the company, as well as privileges and rights (e.g. information rights, some insurance obligations, right to participate in future financings etc.)
- Other forms of investment include convertible promissory notes and SAFE (Simple Agreement for Future Equity). These allow the investor to convert their notes into stock issued in the next round of financing, with promissory notes bearing a maturity date and interests.

Due diligence phase

One you have been introduced to a VC and have first presented your company, you still have a long way to go until you can celebrate having secured financing. This involves the following steps.

Investment negotiation:

The things that you might negotiate on are:

- Pre-money and Post-money valuation;
- Investment type: More often than not, these are convertible preferred stocks;
- Stock option pools: They are rights given to the holders to buy shares at a predetermined price;
- Liquidation preferences;
- Board seating rights;
- Expenses – the expenses incurred by a VC are usually expected to be reimbursed by the business and can include legal, consultation, and travel.

Due Diligence:

This is the period where you're cross-checked with all the data that you provided. Be compliant and proactive. The more you're prepared, the faster this process is.

Typical steps of the due diligence process include:

- Initial screening of the company's business plan, market opportunities ad management team.
- Market research to determine if there's enough demand for the product and potential risks.
- Financial analysis.
- Legal review of the governance structure, contractual obligations and intellectual property.
- Technology assessment and customer validation, to assess the quality, capabilities, limitations and scalability of the product and ensure it's going to meet customer needs.
- Management evaluation and reputation check.
- Due diligence report, that will recommend to invest or not.

Due diligence phase

Closing the deal up:

This includes a lot of important paperwork. Some of these documents include:

- Investment agreements
- Amendments to the bylaws
- Voting agreements
- Certificate of incorporations
- Stock purchase agreement

References:

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