

RAISING VENTURE CAPITAL

DON'T BORE YOUR VCS >
HIT THEM WITH THE

SEX AND VIOLENCE

RAISING VENTURE CAPITAL IS NEVER EASY, IT IS IMPORTANT TO REMEMBER THAT VCS SPEND THEIR LIVES MEETING MANAGEMENT TEAMS AND SIT THROUGH MEETING AFTER MEETING WITH POTENTIAL NEW BUSINESSES – SO MAKE IT INTERESTING, HIT THEM WITH THE 'SEX AND VIOLENCE'! – GET THEM EXCITED ABOUT YOUR BUSINESS AND THE OPPORTUNITY.

RAISING FUNDING TAKES APPROXIMATELY SIX MONTHS FOR EACH FUNDING ROUND AND THERE ARE EFFECTIVELY SIX STAGES TO THE PROCESS:

STAGE 1 – THE BUSINESS PLAN

The business plan is the starting point, get it as good as you can and send it out to the VC targets that invest in your sector and funding range.

Keep it concise and make sure you are conveying a business and not a concept, the stronger and the more substantive the better. Lengthwise, keep it to about twenty-five pages.

Write a punchy two page executive summary, this is usually e-mailed ahead of the plan and enables a VC to take a quick evaluation of the proposition, it should convey what is hot about the business and at a glance should make a VC want to take the full plan. One of the first things the VC will glance at is the financial summary, so make it easy for him to spot. Whilst they are taking two seconds to look at the summary they will be having quick thoughts along the lines of, "like the sector, team appear good, signed up some big name customers, interesting technology, financials £3 million investment, forecasting £30 million in revenues for year 5, worth spending some more time on it, lets get the full plan and organise a meeting".

STAGE 2 – VC PRESENTATIONS

This is your opportunity to impress and bring your plan to life. Typically you will have one hour. You must convey clarity of vision and strategic thought, great knowledge of the market and why you believe you have what it takes to create a successful business.

STAGE 3 – PRELIMINARY DILIGENCE

The deal is moving now. Second meetings have been set up for the VC to find out more about the business, how it operates, the market and the technology. Usually this preliminary diligence will cover commercial issues. The VC may also invite an industry expert to take a close look at the sector and the technology. If they like the technology, then it's all about the market and the routes into the market, the pricing model and what existing customers think. If this stage goes well then it gets to the fun bit – the term sheet – this sets out the indicative offer and terms on which the VC will invest.

STAGE 4 – SELECTING THE PREFERRED INVESTOR

The principle objectives of running the VC process is to end up with the cash required to develop your business, with the right investor on the right terms. This is the part of the process, which should achieve these objectives.

Other critical factors are the subjective issues like, does the chemistry feel right between the investor and the business, are there lengthy internal procedures on the part of the VC which could add risk into the deal completing, are they over-promising on what they can deliver, where is the value add, how remote or how involved as investors do they become, how will they be through tough times, what do other investors think of them. The reputation of the VC could have implications for attracting new investors into the business, are they a good name to have on the shareholder register and do they have deep pockets for further funding rounds.

STAGE 5 – LEGALS AND DUE DILIGENCE

It can be a scary time once you have made the choice of investor, as the pendulum of control swings in favour of the VC. Up to this point they have been courting you to get preferred investor status. Once they become the preferred investor they get a period of exclusivity in which to complete the deal. From hereon into completion they have the power. If you fall out of bed during this final run, it can be very difficult to go back to the other investors, they become suspicious of why the deal has not completed, or they may be pre-occupied with another deal.

What can go wrong at this stage? Unfortunately quite a bit – ranging from a market shift in sentiment, some poor due diligence, bad references on the management team, disagreement over the raft of legal documents which underpin the deal, a decline in the trading performance of the business, a new unknown competitor emerging with clout, problems with the development of the technology, alliance partners or reference customers not coming through as planned, problems over protection of the IPR, key employee decides to leave – there are a huge amount of things that can derail a deal between choosing the preferred investor and closing the deal. The trick is to close a deal as fast as you can between choosing the VC investor and completion.

AS EVERYONE WILL TELL YOU THE DEAL ISN'T DONE UNTIL THE CASH IS IN THE BANK.

This is prime risk time, heavy diligence is now being paid for, legals are kicking off, you are getting deal fatigue and just want to get back to your business, so it's a time for toughing it out, keeping focused, determined and above all calm.

It is also a very nervous time for the VC. During this period he will constantly be checking the risks, evaluating the diligence information, checking there are no issues on the legals and generally ensuring the all round feel of the business remains good.

STAGE 6 – COMPLETION

Completion date set, reams of documents to be signed, money sent to your bank, quick party then back to the real task and the hard work of turning the cash invested into a hugely successful business. Barbados is still along way off.

Alan expands on this article in the forthcoming book 'E-commerce From Cradle to Grave: A Practitioner's Manual' published by City & Financial. (www.cityandfinancial.com)

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