ALBERTA INNOVATES

FUNDRAISING

JOURNEY MAP

April 2024

Alberta Innovates' Fundraising Journey Map is a strategic step-by-step guide for early-stage startups looking to raise capital, specifically focusing on the pre-seed and seed stages. It provides a comprehensive overview of the key elements and activities involved in raising private capital. This is important because your current early-stage funding round could impact the success of future capital raises.

EXECUTIVE SUMMARY

The Fundraising Journey Map provides a concise end-to-end overview of the fundraising process. It highlights the critical steps that startups typically take to effectively raise funds and fuel their growth. This summary serves as a quick reference for entrepreneurs, investors, and stakeholders, outlining the key stages and objectives of the fundraising journey.

KEY STAGES

- **Strategic Fundraising Blueprint –** Startups create a strategic plan to guide their fundraising efforts. They assess funding needs, define objectives, and identify potential sources of funding.
- **Building Bridges to Success –** Startups focus on building a strong network and engagement with potential investors. They identify ideal investor profiles and pre-qualify potential investors.
- **Negotiation and Deal Closure –** This stage involves conducting due diligence, negotiating terms with investors, and securing funding.
- **Beyond the Deal –** After securing funding, startups navigate the post-funding landscape, ensuring the efficient utilization of funds and achieving growth milestones.

The Fundraising Journey Map empowers startups to navigate the challenges of fundraising with a clear, structured approach. Following the approach contained in this guide can help startups increase their chances of attracting the right investors and securing the necessary capital to launch or grow their ventures.

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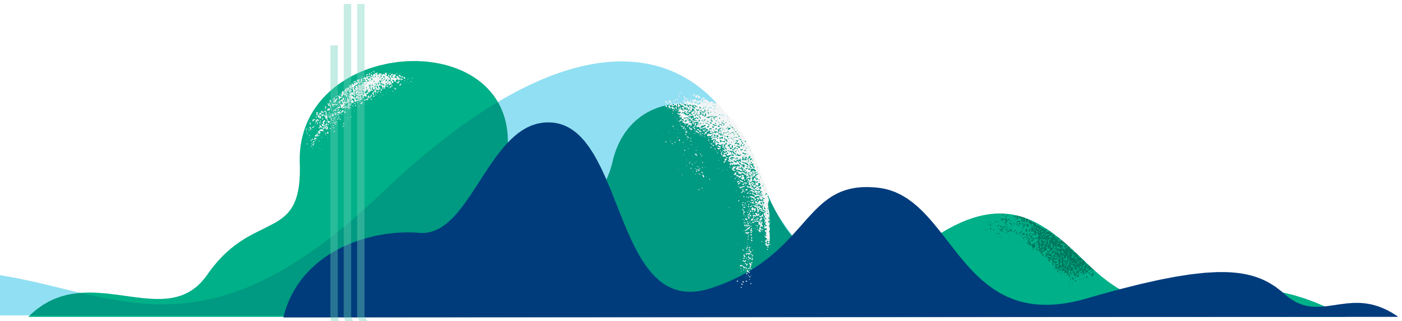
MAPPING THE FUNDRAISING STRATEGY



Developing a fundraising strategy requires several key steps you should be aware of. **These include mapping out key milestones, determining the target amount to raise, the type of capital being raised, fundraising instruments being used, and identifying potential sources of funding**. Following these steps will help you navigate the fundraising journey with clarity, confidence, and a well-detailed plan to attract the right investors and secure the capital needed for your company.

Throughout this process, your startup will need to evaluate different fundraising options with the goal of creating a compelling and comprehensive plan to maximize your chances of securing the funding to drive your business forward. Some questions to consider when mapping out your fundraising strategy:

Why:	Why are you seeking capital?
Who:	Who will you be seeking capital from?
How much:	How much are you looking to fundraise? How big is the financing gap to be covered?
When:	When are you looking to raise capital? What is your timeline?
How:	How are you going to secure the funding? What method or methods will you use?

DO THE MATH

Knowing your numbers sets the stage for a successful capital raise.

After determining that you need to raise capital, **the next step is to determine the amount of capital required to achieve your business objectives and milestones over a specified period.** This includes conducting a thorough financial analysis, creating financial projections, and assessing your growth plan.

It is important to understand your cash burn rate (how much money you spend monthly) and your cash runway (how long the money you have can take you considering your burn rate). This helps you gain an understanding of how much capital you'll need and what your timelines should be.

To make "educated" financial projections, startups and entrepreneurs can utilize a combination of tools, resources, and strategies to gather relevant data and insights. If you are looking to do a priced fundraising round, you can use a suitable valuation method such as Cost-to-Duplicate, Market Multiple, Discounted Cash Flow (DCF) Analysis, or a combination of these to determine what your company is worth to guide conversations with investors.

Further Reading

What is a Financial Model? - MATH Venture Partners

Start with Your Assumptions - MATH Venture Partners

The Income Statement - MATH Venture Partners

The Balance Sheet - MATH Venture Partners

Don't know where or how to start with building your numbers? Speak to an advisor or connect with us at Alberta Innovates.

DETERMINE YOUR TIMELINE

It is important to establish a timeframe with specific milestones to guide your fundraising efforts.

Typically, a 12–18-month window is realistic. However, it is good practice to augment your timeframe by about 40 per cent to accommodate any unexpected hurdles or situations. Generally, you would want to set timelines for the following:

- Preparing internally, including building your financial model, business plan, pitch deck, growth strategy, and utilization of funds.
- Reaching out and engaging with potential investors to nurture or warm up relationships.
- Conducting initial and advanced investor meetings which could also include due diligence by interested investors.
- Negotiating terms of investments, usually contained in term sheets.
- Finalizing the investment agreement and closing the deal.
- Planning for post-investment obligations.

It is important to note that fundraising timelines can vary based on market conditions, investor interest, your company's fundraising stage, or its unique circumstances. It is good practice to acknowledge the potential for flexibility and adaptability.

FORECAST YOUR CAPITALIZATION TABLE

Capitalization tables, or cap models, are typically the first documents created during the early stages of a startup or venture.

They organize and detail the ownership structure of the company, and document their securities including common shares, preferred shares, and warrants.

Creating a cap table records important details such as ownership information, the prices paid by investors for these securities, and the percentage of ownership each investor holds in the company. Additionally, it tracks the value of these securities and how ownership may be diluted over time.

Adapted from

Cap table in excel | Eqvista

SAMPLE CAP TABLE

Company Valuation	Total Value ($)	Per Share ($)	# of Shares	% of Total
Series A				
Pre-Money Valuation	$1,000,000	$5.00	200,000	22.22%
New Equity Raised	$3,500,000	$5.00	700,000	77.78%
Post Money Valuation	**$4,500,000**	**$5.00**	**900,000**	**100%**

Company Ownership Cap Table	Capital ($)	Common Shares	Pref. Shares	Total Shares	% Ownership
Shareholders					
Founders	$0	200,000	-	200,000	22.2%
Investor 1	$500,000	0	00,000	-	11.11%
Investor 2	$1,000,000	0	200,000	-	22.22%
Investor 3	$2,000,000	0	400,000	-	44.44%
Total	**$3,500,000**	**200,000**	**700,000**	**900,000**	**100.0%**

Note: Ensure your cap table remains well-organized by diligently monitoring and recording all relevant information, including terms, dates, funding amounts, and dilution. The table should track ownership percentages and equity holdings of your startup's shareholders. This practice will help keep the cap table accurate and up-to-date.

GENERAL STRUCTURE OF A CAP TABLE

A term sheet is a non-binding document outlining the key terms and conditions under which an investor or group of investors are willing to invest in a startup company. It serves as a preliminary agreement that lays the groundwork for negotiations and discussions before moving forward with the formal investment agreement. Incorporating this sample term sheet into the "Create Capitalization Table" step, can help you effectively plan and manage your equity distribution, consider investor expectations, and market conditions, and ensure a well-rounded approach to fundraising success.

I. Shareholder Information "Owners"
   - Founders
   - Team (Employees)
   - Potential Investors

II. Shares
   - Share Class
     - Common Shares
     - Preferred Shares
   - Number of Shares
     - The number of common shares held by each founder and employee
     - For potential investors, indicate the number of preferred shares subscribed to by each investor and include the total amount aimed to raise in a seed fundraising round. Typically, you would put in the previous total amount raised in the previous fundraising round.

III. Ownership Percentage
   - Calculate the ownership percentage for each founder, employee, and seed investor based on their total number of shares compared to the total shares outstanding.

IV. Fully Diluted Ownership Percentage
   - Show the ownership percentage for each shareholder on a fully diluted basis. Consider all potential conversions, exercises of options and warrants, and outstanding convertible securities (if applicable).

V. Total Shares Outstanding
   - Summarize the total number of common shares, preferred shares, and the fully diluted ownership percentage.
   - Identify the company's maximum and minimum affordable valuation caps.

VI. Others.

- Vesting Information
  - » If any shares are subject to vesting, include vesting information, such as the vesting schedule and the number of vested shares for each founder and employee.
  - » Investment Details
  - » Recordings of the detailed plan of the fundraising round, including the total amount to raise, the pre-money valuation (and considering post-money) of the company, and any specific terms or preferences to be granted to seed investors.
- Option Pool (if applicable)
  - » Include representing shares reserved for future employee stock options. Can include a specification of the number of shares in the option pool and any potential dilution resulting from future option grants.
- Convertible Securities (if applicable)
  - » Account for any convertible securities issued by the company, such as convertible notes or warrants. Detail the terms of conversion, such as the conversion ratio and any discounts applied.

DETERMINE YOUR FUNDRAISING OPTIONS

Conduct research to explore the various funding options accessible to your startup to determine the preferred type of funding.

This will be based on your company's specific requirements, terms presented by potential investors, and your long-term vision. Evaluate the pros and cons of each option to make an informed decision.

ARE YOU ASKING THE RIGHT QUESTIONS?

When considering fundraising options for your startup, asking the following questions can help you create a well-rounded fundraising strategy:

What type of financing is suitable for my startup?

- Explore different funding options such as debt, equity, safe notes, convertible notes, or grants. Consider their pros and cons in relation to your business model and objectives.

What are the terms and conditions of potential funding sources?

- Review the terms and conditions of various funding sources, including interest rates, equity percentages, voting rights, and any restrictions on operations.

How will fundraising impact ownership and control?

- Assess the impact of fundraising on your ownership stake and decision-making authority within the company.

Note: Asking yourself these questions will help you evaluate your fundraising options more effectively and make decisions that align with your startup's goals and financial needs.

Type of Financing	SAFE Note	Equity	Convertible Note	Debt	Non-dilutive (Grants)
What is it?	Cash investment that converts into equity upon a specified event.	Founders receive cash in exchange for equity in the company.	Loan that converts into equity upon a specified event.	A loan provided to the company, typically with a fixed repayment schedule and interest rate.	Funding provided to the company without requiring equity or repayment.
Pros	Easy to understand and use.	There is no collateral or debt to be repaid. Founders also benefit from immediate cash injection.	Acts as debt until conversion, with the investor typically having the same legal rights as a debtor.	Provides upfront capital without diluting ownership.	Helps to fund projects without diluting ownership or incurring debt.
Cons	Initial cash investment is not a loan or debt, leaving investors with no protection if the company fails.	Investor's shares may be diluted at subsequent rounds of raising capital.	Involves relinquishing some control of the business early on and limited time to convert the loan into equity or repay it.	Needs to be repaid regardless of the company's success or failure.	Availability and criteria for grants can make attaining them difficult.

Adapted from

How to Raise Funds via Convertible Note? | Zegal

BUILD A COMPELLING PITCH DECK

The goal of the pitch deck is to pique the interest of potential investors and get them excited about your startup.

Make it **compelling**, **easy to understand**, and **visually appealing**.

Practice and Refine

Practice your pitch thoroughly and seek feedback from mentors or advisors. Continuously refine your pitch deck based on the feedback you receive.

Start with a Strong Hook

Begin your pitch deck with an attention-grabbing hook. Clearly communicate the unique problem your startup is solving and why it matters. This should immediately capture the interest of potential investors.

Keep it Concise

Investors see numerous pitch decks, so it is important to keep yours to the point. Aim for around 10-15 slides and avoid overwhelming the audience with unnecessary details.

Use Visuals Effectively

Charts, graphs, and images make your pitch deck more engaging and easier to understand. Avoid text-heavy slides.

SAMPLE PITCH DECK OUTLINE

Content may be re-ordered based on preference and flow.

Title	
Introduction (Company Mission)	Concise and compelling overview. For example, sharing a story that grabs the attention of the audience.
Problem	Clearly articulate the problem your company is addressing and its significance in the market.
Solution	Present your innovative product or service and explain how it solves the identified problem effectively. Show product/service demo to emphasize the uniqueness that your company is offering.
Market Opportunity	How big is the market? Highlight the market size, target audience, and potential for growth.
Competitive Landscape	What makes your product/services different? Showcase the unique selling points and advantages over existing solutions.
Business Model	How do you plan to thrive? Explain how you will generate revenue or provide concrete evidence that your business model is successful by presenting actual figures.
Financials/Projections	Provide a realistic financial projection based on your market research and growth strategy. Be prepared to explain your assumptions and demonstrate a clear path towards profitability or exit.
Traction and Milestones	Highlight any early traction, customer validation, partnerships, or milestones achieved to date.
Go-To-Market Strategy	Marketing/Sales plan: Direct sales? Network effect? Expansion?
Team	Introduce your company's founding team members, expertise, and relevant achievements.
The Ask and Use of Funds	Explain your investment needs. How much and what type of funding is your company seeking? Where are you planning to use the funds? Underline the allocation of funds for different needs such as marketing, product development, hiring, etc.

BUILDING BRIDGES
TO SUCCESS

Relationship building plays a critical role in fundraising. It is important to establish valuable connections and networks with various stakeholders within the startup ecosystem as you grow and scale your business. The ecosystem includes investors, industry peers, mentors, advisors, accelerators, incubators, and other entrepreneurial support organizations.

Building bridges within the startup ecosystem is crucial for several reasons:

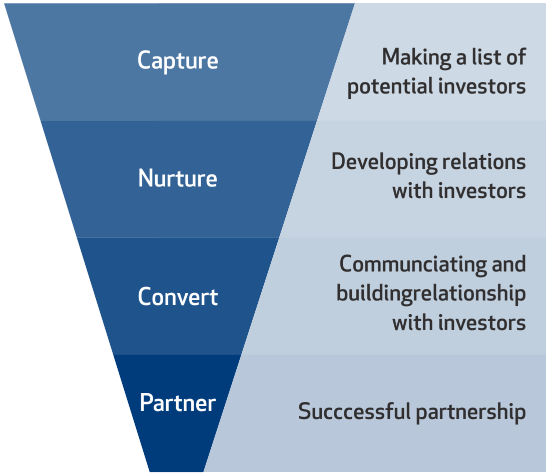
- **Access to Funding –** Engaging with investors and accelerators increases the chances of securing funding for the startup.
- **Knowledge Sharing –** Interacting with mentors and advisors provides valuable guidance and helps the startup avoid common pitfalls.
- **Validation and Support –** Connecting with peers and like-minded entrepreneurs offers validation for the startup's ideas and provides a support network during challenging times.
- **Visibility and Opportunities –** Being part of the startup ecosystem increases visibility, opens up partnership opportunities, and helps the startup stay updated with industry trends.

Networking lays the groundwork for your company's successful and strategic fundraising process. It builds meaningful connections and nurturing relationships within the entrepreneurial ecosystem. A healthy business ecosystem encourages innovation, efficiency, and better customer experiences—ultimately leading to increased competitiveness and overall industry development. Consider attending networking events, participate in pitch competitions, engage with accelerators and incubators, leverage existing contacts, and seek introductions and referrals.

THE INVESTOR QUEST

This next stage is about embarking on a strategic and well-organized process to identify, engage, and secure the right investors who align with the startup's vision and can provide not only financial support but also valuable strategic insights and mentorship.

SEED FUNDRAISING FUNNEL FOR STARTUPS



Source

Seed Fundraising Strategy for Startups (2muchcoffee.com)

Successfully navigating this step sets the foundation for securing the right funding and building long-term partnerships that can significantly impact the startup's growth and success.

INVESTOR EXPECTATIONS

Before proceeding to define, categorize, pre-qualify, and engage with potential investors, it is helpful to put yourself in the shoes of an investor, and envision what they seek in a promising startup venture. Understanding their expectations, such as solid market traction, a strong founding team, and a compelling value proposition, will lay a good foundation for building meaningful connections with investors. By immersing yourself in the investor's mindset, you can proactively address their needs and aspirations, ultimately paving the way for a successful fundraising experience and building lasting partnerships for your startup's growth.

What are the expectations of investors?

First address what investors don’t want:

- To lose money
- Lack of market traction or customer demand
- Weak or inexperienced founding team
- Unclear or unproven value proposition
- High burn rate with no clear path to profitability
- Unrealistic valuations or overly optimistic projections
- Poor financial management and reporting
- Negative industry trends or lack of competitive advantage

Then, address what investors want and expect from your startup.

- Solid market traction and growth potential
- A strong founding team with relevant expertise
- A compelling value proposition and unique selling proposition
- Scalable business model and clear path to profitability
- Transparent and effective communication with founders
- Realistic valuation and financial projections

DEFINE YOUR IDEAL INVESTOR PROFILE

Your startup should always have an **Ideal Investor Profile** for each fundraising round.

An ideal investor profile outlines the key characteristics, criteria, and values your company seeks in an investor. This serves as a compass, guiding your startup in its search for the perfect partners who will contribute significantly to its success. It should also revolve around finding investors who bring relevant expertise, industry connections, and additional value beyond financial resources. Their alignment should match your startup's current stage, sector, and funding needs.

DO YOU HAVE AN IDEAL INVESTOR PROFILE?

You can simplify the process of creating your ideal investor profile by considering the following factors:

- **Industry Expertise –** Look for investors with experience and knowledge in your startup's industry or related sectors. An ideal investor should understand the market dynamics, challenges, and growth opportunities.
- **Investment Stage –** Consider investors who are actively investing in startups at your current stage of development. Seek those who have a track record of supporting startups in the early growth phases.
- **Strategic Fit –** Look for investors who share a strategic alignment with your startup's business model and mission.
- **Value Beyond Capital –** Seek out investors who can offer strategic guidance, mentorship, and valuable connections. This can significantly contribute to your growth and success.
- **Long-Term Vision –** Look for investors committed to long-term relationships and supporting your startup's growth.
- **Reputation and Trust –** Consider investors with a reputation for being reliable and supportive partners. It is a great idea to reach out to their portfolio companies and find out about their experience with the investor.

- **Geographic Alignment –** Consider investors who have an interest in your startup's geographic region, as this can lead to more meaningful and accessible collaboration opportunities.
- **Most Recent Investment and Financial Capacity –** Verify the last time the investor made an investment to ensure they are still actively investing in new opportunities and have capital to deploy.
- **Risk Tolerance –** Startups inherently involve risks, and the investor should have a reasonable risk tolerance. They must be able to understand that not all ventures succeed and be willing to support your startup through ups and downs.

CATEGORIZE YOUR INVESTORS

After identifying the ideal investor profile, your next step is to categorize potential investors based on their characteristics and fit. This means organizing investors into different groups or categories according to their expertise, strategic value, investment preferences, and alignment with your startup's goals.

Categorizing investors allows you to prioritize and approach each group with a customized strategy, focusing on those who are most likely to be a good match for your business. By doing so, you can optimize your fundraising efforts and increase the chances of finding the right investors to support your startup's growth and success.

Startups assess and categorize potential investors based on various criteria, including but not limited to:

- **Alignment with Startup's Vision –** Consider whether the investor brings relevant expertise, networks, and resources that can benefit your startup beyond financial investment.
- **Industry Expertise –** Some investors specialize in specific industries or sectors. Categorizing investors based on their industry focus ensures that you approach those who have expertise and interest in you field or vertical. Investors with relevant industry expertise can bring valuable insights, mentorship, and connections to the table.
- **Portfolio Alignment –** Analyzing the investor's existing portfolio helps identify whether they have invested in similar startups or industries, indicating a potential alignment of interests or possible conflicts.
- **Investment Stage –** Investors may focus on different stages of startups, such as pre-seed, seed, or Series A+. This provides an understanding of their risk threshold and how receptive they might be to your opportunity.
- **Investment Size –** Investors have varying investment sizes they are willing to commit. Categorizing them by investment size helps identify those who can provide the amount of funding you need, or contribute to the funding size.
- **Strategic Network –** Investors with extensive networks can open doors to potential customers, partners, and other investors.

By categorizing investors, you are able to:

- **Prioritize Targeting –** Focus on investors who are most likely to be interested in your startup's value proposition, increasing the efficiency of the fundraising process. By prioritizing investors based on these criteria, you can focus your efforts on engaging with the most promising prospects first, increasing your chances of securing the right investors sooner.
- **Tailor Communication (personalize) –** Customize your pitch presentations to resonate with the interests and preferences of each investor category.
- **Build Meaningful Relationships –** Establish more productive and relevant conversations with potential investors, increasing the chances of successful partnerships.

EXAMPLE OF INVESTOR CATEGORIZATION

In the example here, the company categorized investors based on interest, engagement level, and connection strength—dividing them into three tiers:

Tier 1 – Dream Investor, fit in the same sector and round of fundraising.

Tier 2 – Might be good fit in either the sector or the round.

Tier 3 – Focus on generalized funds.

SCENARIO

The founding team of a HealthTech startup is seeking investors to fund the development and commercialization of a groundbreaking medical device. They categorized potential investors into three tiers:

TIER 1 - HIGH PRIORITY

These are investors who have a proven track record in the medical device industry, demonstrate a passion for cutting-edge healthcare technology, and have expressed strong interest in the startup's product type. The founding team prioritizes personalized outreach, tailoring their pitch materials to highlight the potential impact of the device in the healthcare sector.

TIER 2 - MEDIUM PRIORITY

These investors have relevant experience in the healthcare industry but may not be as specialized in medical devices. The founding team personalizes their messaging to showcase the unique advantages of their device for the broader healthcare market.

TIER 3 - LOW PRIORITY

These investors have general interest in health-related startups but may not have specific experience in medical devices. The founding team prioritizes efficiency in the outreach and aims to create awareness of their product's potential benefits.

PRE-QUALIFYING YOUR INVESTORS

After categorizing your potential investors, your next step is to pre-qualify investors. Pre-qualification involves conducting a thorough assessment of each investor within the identified categories to determine their suitability and compatibility with your startup's funding needs and long-term vision.

During this process, you will evaluate various factors such as the investor's investment preferences, industry expertise, track record in supporting similar ventures, financial capacity, and alignment with your company's values and goals. Here are some questions to help with the pre-qualification:

1. How well do their values and goals align with that of your company?
2. What gaps can the investor cover in your company?
3. Besides a big cheque, what qualities, connections, and support are you looking for in an investor?
4. What unique expertise does this investor offer that would be a significant value add to your company?
5. Can this investor provide valuable introductions and connections?
6. How financially stable is this investor?
7. Is the investor genuinely interested in mutual success, or solely focused on personal gains?
8. Do we share similar values and ethical standards?
9. Are they requesting a significant stock option pool, which might indicate plans to replace you?

BUILDING AN INVESTOR PIPELINE

An investor pipeline is a strategic and organized approach to managing and nurturing relationships with potential investors. This step brings together all the previous efforts and strategies—defining the ideal investor profile, categorizing potential investors, and pre-qualifying investors—into a cohesive plan to effectively attract and engage investors.

The investor pipeline serves as a roadmap for ongoing investor engagements, helping you focus your efforts on nurturing relationships with the most promising investors.

Focus on creating a diverse and comprehensive list of potential investors to approach. Prioritize them based on their fit with your startup's needs. Develop a systematic approach to engage with them, keeping track of interactions and progress. Make sure to gather relevant information and insights about each investor to tailor your approach later.

1. COMPILE YOUR INVESTOR PIPELINE

Create a centralized database or spreadsheet to compile the shortlisted, pre-qualified investors. Include relevant details such as investor names, contact information, investment focus, prior investments, and any specific notes from previous interactions. Here is some suggested information to include:

- Fund name
- Location
- Segment
- Fund size
- Ticket size
- Domain
- Name of investor
- Title of the investor
- Contact info of investor
- Type of interest (inbound / outbound)
- Reasons why you think this investor will be interested.
- Who can help you get a meeting?
- Status of intro
- Other notes

2. SEGMENT THE PIPELINE

Segment your investor pipeline based on the priority of engagement. Categorize investors into different tiers or groups based on their level of alignment with your startup and the level of interest already shown.

Tier 1 Investors: High-priority investors who strongly align with your ideal investor profile and show significant interest.

Tier 2 Investors: Potential investors with a good fit, but engagement needs to be nurtured further.

Tier 3 Investors: Investors who meet some criteria, but require more research and information.

Tier 4 Investors: Less likely matches, but worth keeping in the pipeline for future outreach

3. SET ENGAGEMENT GOALS

Define clear engagement goals for each segment of the pipeline. Establish objectives for initial meetings, followup communications, and timeline for further interactions.

4. DEVELOP PERSONALIZED OUTREACH

Craft personalized outreach strategies for each segment of the pipeline. Tailor your communications to address the specific interests and concerns of individual investors.

5. SCHEDULE MEETINGS AND FOLLOW-UPS

Initiate outreach to investors in the pipeline to schedule introductory meetings or presentations. For investors who have already expressed interest, arrange follow-up discussions to dive deeper into your value proposition.

6. PROVIDE ONGOING UPDATES

Regularly update investors in the pipeline on your startup's progress, milestones, and achievements. Share key performance indicators, customer testimonials, new contracts or partnerships and any recognition or award your startup has received.

7. ENGAGE IN INDUSTRY EVENTS

Attend industry events, conferences, and networking opportunities where you can connect with potential investors in your pipeline. These events offer valuable face-to-face interactions to nurture relationships.

8. MONITOR INVESTOR ENGAGEMENT

Track and monitor investor engagement in the pipeline. Keep notes on their level of interest, feedback, any specific requests they may have, and next steps.

9. ADJUST PIPELINE SEGMENTS

As you engage with investors and receive feedback, adjust the segmentation in the pipeline based on the level of investor interest and alignment. Reprioritize investors as needed.

Name	Firm	Investor Type	Typical Cheque Size	Tier	Why They Will Be Interested	Intro From	Can Make Intro?	Intro Made?	Other
Victor Ramirez	Vanguard Ventures	VC	$1M-$5M	Tier 1	Strong track record in HealthTech investments, expertise in regulatory navigation	Mark Johnson	Yes	Pending	Scheduled introductory meeting next week
Emily Wong	MedTech Angels	Angel	$500K-$2M	Tier 1	Focus on early-stage medical device innovations, provide mentorship and industry connections	Emily Chen	Yes	Yes	Intro already made
David Miller	LifeScience Ventures	VC	$500K-$3M	Tier 2	Interest in early to mid-stage life sciences companies, attracted to strong IP and market potential	David Smith	Yes	No	Waiting for response from investor
Sarah Patel	HealthTech Innovators Fund	VC	$1M-$5M	Tier 2	Specialized in HealthTech investments, focus on innovations with market potential	Sarah Patel	Yes	Yes	Scheduled follow-up meeting
Alex Kim	TechSeed Capital	VC	$250K-$1.2M	Tier 3	Interest in technology startups, potential for interest due to innovative approach	Alex Kim	Yes	No	Initial contact made, awaiting response

Adapted from

Build Your Investor Pipeline Worksheet (techstars.com)

ENGAGING WITH INVESTORS

Share your startup's vision, discuss the investment opportunity, and determine if there is mutual interest in moving forward. It is crucial to building rapport and addressing any concerns or questions the investor may have. Craft personalized pitch materials, including a compelling pitch deck and executive summary, tailored to each investor's interests and preferences. Be prepared to answer their questions and concerns effectively. Here are some tips for effective engagement with investors:

BEFORE MEETING

Be Prepared

Before reaching out to investors, ensure you have a well-prepared pitch deck and a clear understanding of your startup's value proposition, market opportunity, competitive advantage, and financials. Be ready to answer any questions they may have about your business.

Research Your Investors

Take the time to research and understand the investors' investment focus, portfolio companies, and past investments. Tailor your pitch and approach to align with their interests.

Build Relationships

Focus on building genuine relationships with investors, rather than solely pitching your startup. Networking events, conferences, and industry gatherings can provide opportunities to connect with potential investors in a more casual setting.

Start Early

Engaging with investors should begin well before you actually need funding. Building relationships early on allows investors to become familiar with your progress and growth trajectory.

Further Reading

Investor Update Email Templates:

Minimum Viable Update

Investor Update

Shorter version for email

Leverage Warm Introductions

Whenever possible, seek warm introductions to investors through your network or advisors. Warm introductions are more likely to be well-received and can help establish trust.

DURING MEETING

Respect Their Time

Investors receive numerous inquiries from startups, so be respectful of their time. Keep your initial outreach concise and to the point. If they express interest, be prompt and prepared for follow-up discussions.

Deliver an Engaging Pitch

When presenting your pitch, be confident, concise, and passionate about your startup. Tailor the presentation to address the specific interests and concerns of the investor.

Every investor is different, some are hyper-focused on the product/service while some aren't.

Show Traction

Demonstrating traction, such as user growth, revenue, or key partnerships, can significantly increase your credibility with investors. Highlight any milestones or achievements your startup has reached.

Be Transparent

Be open and transparent about your startup's challenges and risks. Honesty about potential pitfalls and how you plan to address them shows maturity and builds trust.

AFTER MEETING

Follow Up Appropriately

After meetings or pitches, send a thank-you note, and any additional information requested promptly. Avoid being overly persistent or pushy, as it may backfire.

Be Coachable

Investors often bring valuable insights and experience to the table. Be open to feedback and willing to adapt your strategy based on constructive criticism.

Further Reading

#GrowthTalks: Artie Lopez on Crafting Your Message

Manage Expectations

Fundraising can be a time-consuming process with no guarantees. Set realistic expectations and be prepared for possible rejections.

Stay Positive and Persistent

Rejections are part of the fundraising journey. Stay positive, learn from feedback, and continue to pursue investors aligned with your vision.

Nurture the Relationship

Building relationships with investors takes time. Continue to update potential investors on your startup's progress and milestones. Regularly share company updates and news.

Facilitate Further Meetings or Due Diligence

If the investor expresses further interest, be prepared to arrange additional meetings or facilitate deeper due diligence. This may involve sharing more detailed information about your company by giving the investor access to your data room.

Note: Remember that engaging with investors is not just about securing funding; it is also about building long-term partnerships. Be professional, transparent, and adaptable throughout the process. Rejections may happen, but each interaction is an opportunity to learn and to improve your approach.

BUILDING A DATA ROOM

A data room is a secure and confidential online repository where all relevant documents and information about your startup are stored and organized. It serves as a centralized hub for potential investors and other stakeholders to access critical documents and due diligence materials during the fundraising process. Steps in creating a data room for fundraising include:

IDENTIFY REQUIRED DOCUMENTS

Gather all the relevant documents that potential investors may need access to. These documents typically include financial statements, pitch decks, business plans, market analysis, legal documents, and any other essential information.

Here is a sample list of documents to include in your data room:

- Business plan
- Financial statements and projections
- Capitalization table and ownership structure
- Intellectual property documents (patents, trademarks, etc.)
- Contracts and agreements (customer agreements, vendor contracts, etc.)
- Marketing materials and sales collaterals
- Market research and competitive analysis
- Bios and resumes of key team members.
- Regulatory and legal documents

CHOOSE A DATA ROOM PROVIDER

Select a reputable and secure virtual data room provider that offers the necessary features, such as encryption, access controls, audit trails, and user-friendly interfaces. Google Drive or One Drive could be used, but may not offer the same level of security and control as other paid platforms.

ORGANIZE THE DOCUMENTS

Categorize and organize your documents into specific folders or sections based on their type and relevance. A well-structured data room makes it easier for investors to find the information they need quickly. Here is how to build structure effectively:

- **Categorization:** Divide the documents into logical categories based on their type and relevance. Common categories may include financial statements, business plans, market research, legal agreements, intellectual property documentation, team bios, and customer information. You can create subfolders as needed.

- **Naming Conventions:** Use clear and consistent naming conventions for documents to make them easily recognizable. Avoid vague or generic names and include relevant dates or version numbers if applicable. For example, “CompanyXYZ_BusinessPlan_2023” is more descriptive than “BusinessPlan.”
- **Index or Table of Contents:** Include an index or table of contents that provides an overview of the data room’s content. This helps users quickly identify the location of specific documents and navigate the data room efficiently.
- **Chronological Order:** Where relevant, arrange documents chronologically. This is particularly useful for financial statements, business milestones, and historical records, as it allows investors to trace the startup’s progress over time.
- **Access Levels:** Consider setting different access levels for specific document categories or individual files. For example, sensitive financial data might be accessible only to a limited group of investors, while marketing materials could be available to a broader audience.
- **Read-Me or Guidance Document:** Include a “Read-Me” or guidance document that explains the organization of the data room and provides instructions on how to navigate it.
- **Search Functionality:** If the data room platform offers search functionality, encourage users to utilize it to find specific documents quickly. This is particularly beneficial for large data rooms with an extensive collection of documents.
- **Document Version Control:** Keep track of document versions to avoid confusion and ensure that users access the most up-to-date information. Clearly label updated documents with version numbers or dates.
- **Folder Descriptions:** Provide brief descriptions or explanations for each folder or subfolder to give users a clear understanding of its contents.

UPLOAD AND SECURE THE DOCUMENTS

Upload all the documents to the data room while ensuring that sensitive information is properly encrypted and secured. Implement strict access controls to protect confidential data.

SET USER PERMISSIONS

Define user roles and assign appropriate permissions to different stakeholders. Investors may require more extensive access than other parties, such as legal advisors or accountants.

USER TESTING

Conduct testing with a small group of trusted individuals to ensure that the data room functions smoothly and that users can access the information they need without any issues.

COMMUNICATE WITH INVESTORS

Inform potential investors about the data room's existence and provide them with login credentials. Offer any necessary guidance or instructions to navigate the data room effectively.

MONITOR ACTIVITY

Regularly monitor data room activity to track which documents investors have accessed and their level of engagement.

Further Reading

How to build a data room? (notion.site)

FROM NEGOTIATION TO SECURING THE DEAL

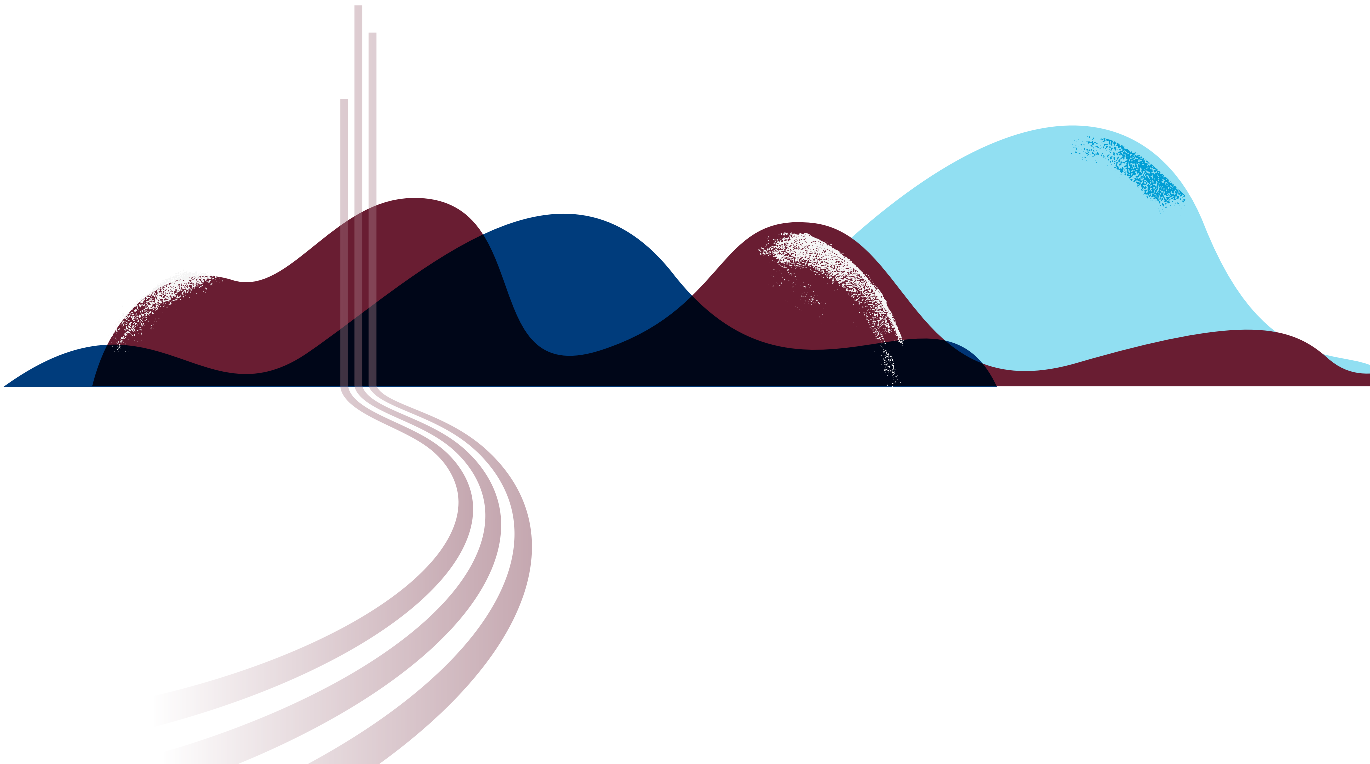
This is a critical phase in the fundraising journey where startups and potential investors **move from initial discussions to finalizing the investment agreement and deploying capital**. This involves detailed negotiations, thorough due diligence, and the preparation of comprehensive legal documentation.

It is important to manage the negotiation effectively as conflicting ideas about goals and timelines could lead to confusion and disagreements that can eventually hurt your company's success.

By following some essential considerations, such as setting realistic goals, fostering transparency, and addressing potential conflicts early on, you can avoid difficulties and foster a positive and productive negotiation experience. Being proactive in managing expectations can lead to a stronger foundation for the investor-founder relationship and increase the likelihood of securing the necessary funding to drive your startup's growth and success.

OVERVIEW OF THIS PHASE

Term Sheet Negotiation → Due Diligence → Negotiation Refinement → Legal Documentation → Finalizing Funding → Post-Deal Integration



TIPS FOR MANAGING EXPECTATIONS DURING NEGOTIATIONS

Clearly articulate your expectations

It is essential to establish your own set of expectations. Consider what can realistically be achieved within the confines of the current investment round, market dynamics, and how it aligns with the broader vision of your business. Define reasonable goals and timeframes that you believe can be accomplished with the agreed-upon investment capital. Allow some flexibility to account for unforeseen hurdles that could potentially impact on the schedule. Clearly communicate these expectations to investors, ensuring transparency and a shared understanding of what they can expect in return for their investment.

Understanding the investor's expectations

It is important to listen attentively to prospective investors, as they may offer valuable insights and expertise related to business, startups, or the market. Even if an investor lacks experience, their input on expectations within a defined timeframe is crucial to avoiding future conflicts. They may outline their expected milestones, such as product launch, prototype development, or revenue targets.

Finding Common Ground

To reach a mutual agreement, both parties must compromise. Failing to find common ground may jeopardize the entire deal. While you may need to adjust your expectations, avoid accepting unreasonable demands. It is preferable to work with investors who have achievable expectations and are supportive of your business.

Clear Documentation

Ensure that all terms and conditions discussed during negotiations are accurately documented in the term sheet and other legal agreements.

Timeline and Deadlines

Establish clear timelines and deadlines for each stage of the negotiation process. Meeting deadlines shows commitment and professionalism.

Addressing Conflicts Early

If conflicts arise during negotiations, address them proactively and openly. Resolving issues early on can prevent misunderstandings and roadblocks in the future.

TERM SHEET NEGOTIATION

Once an investor expresses serious interest in funding your startup, both parties negotiate the terms and conditions of the investment.

This negotiation process is usually documented in a term sheet, which outlines the key points of the deal, including valuation, equity percentage, investment amount, and other relevant terms.

WHAT IS A TERM SHEET?

A term sheet is a non-binding document outlining the key terms and conditions under which an investor or group of investors are willing to invest in a startup company. It serves as a preliminary agreement that lays the groundwork for negotiations and discussions before moving forward with the formal investment agreement.

It can vary depending on which fundraising round the startup is undertaking, how much is being raised, as well as the type of investors involved. Usually term sheets for pre-/seed rounds are much lighter and shorter than those for Series A rounds and beyond.

A startup Term Sheet should include:

- ☑ Valuation
- ☑ Capitalization Table and Shareholding
- ☑ Option Pools
- ☑ Liquidation Preference
- ☑ Participation Rights
- ☑ Dividends
- ☑ Anti-dilution Rights
- ☑ Board of Directors
- ☑ Investors Rights

SAMPLE TERM SHEET OUTLINE

By understanding these key points, founders can better navigate term sheet negotiations and secure a deal that aligns with their fundraising goals.

Valuation

A crucial aspect of your term sheet, valuation sets the perceived value of the startup. Investors evaluate your company's worth from two perspectives: pre-money valuation (before funding) and post-money valuation (after funding). It directly impacts their decision to invest in the startup.

Capitalization Table and Shareholding

The cap table is an essential part of the term sheet, providing transparency about the distribution of shares between investors and founders. It outlines the ownership percentages and liquidation possibilities for each party. Additionally, the price of each share is specified to establish the investment amount.

Option Pools

Option pools are reserved shares that founders set aside for specific purposes, such as employee compensation and incentives. Typically, it constitutes around 10 per cent of the startup's total equity. Investors are usually interested in how option pools are calculated, as it affects their potential returns in case of a liquidity event.

Liquidation Preference

This clause addresses investors who own preferred shares. It establishes the order in which shareholders will be paid in the event of a company dilution or liquidation. For investors, having a liquidation preference provides a layer of protection for their investments.

Further Reading

For more information, check out: Startup Term Sheet Template | Eqvista

Participation Rights

This gives investors the option to participate in future share issuances to maintain their ownership percentage. This clause can be complex and may lead to conflicts between founders and investors. Founders need to carefully consider the inclusion of participation rights and negotiate a fair cap value to avoid undue dilution.

Dividends

These are the returns paid to shareholders based on the company's profits. Startups at early stages may not be focused on dividend payouts, but investors still look into the type of dividends—cumulative and non-cumulative. Cumulative dividends can lead to significant payouts for preferred shareholders over time, while non-cumulative dividends provide more flexibility.

Anti-dilution Rights

These protect investors from future down-rounds or share issuances at lower prices. There are two types—full-ratchet and weighted average. Full ratchet is more favourable for preferred shareholders, while weighted average is considered fairer to common shareholders.

Board of Directors

The composition of the board of directors is crucial for investors and founders. Investors, especially those providing significant funding, may have preferences regarding the board's structure. Founders should strive for a balanced board that allows both investors and founders to have a say in key decisions.

Investor Rights

These grant specific privileges to investors, including the right to exclusivity during due diligence, access to company information, protective provisions in important decisions, voting rights, and affirmative action in specific actions or changes.

DUE DILIGENCE

After agreeing on the initial terms, the investor conducts due diligence to verify the startup's financials, legal documents, business model, and other essential aspects. The due diligence process aims to uncover any potential risks and ensure that all information provided by the startup is accurate.

SAMPLE DUE DILIGENCE CHECKLIST

Team

- ☑ Highlight the experience, skills, and achievements of your founding team and key employees.

Equity

- ☑ Cap Table
- ☑ Dilution Calculations (Shareholder Agreement) If you're looking for a site that can help calculate or plan how much the company is willing to dilute, check out: Equity Dilution Calculator- Neos Chronos
- ☑ Valuation – The objective is to find a valuation with which you are comfortable, that will allow you to raise the amount you need to achieve your goals with acceptable dilution, and that investors will find reasonable and attractive enough to write you a cheque.

Financials

- ☑ Three years of audited financial statements (if possible) and up to date tax returns

Points to include:

- ☑ Audited financial statements.
- ☑ Copy of loan agreements
- ☑ Capital structure.
- ☑ Proforma statements and capital budgets
- ☑ Strategic plans
- ☑ Details on customer contracts
- ☑ Office lease agreements
- ☑ Further shareholder details (location, voting rights, ownership)
- ☑ Revenue (break down by product type, region, etc.)
- ☑ General ledger
- ☑ Details on any company investments

Product

- ☑ Product roadmap
- ☑ Market research
- ☑ Competitive landscape
- ☑ Focus groups, interviews, surveys notes
- ☑ Traction confirmation
- ☑ List of clients/customers with contacts
- ☑ Partnership agreements
- ☑ Sales and distribution agreements
- ☑ Contracts with IT companies, HR firms, or other businesses
- ☑ List of outsourced workers

Risk Assessment

Adapted from

The Financial Due Diligence checklist is adapted from What is Due Diligence Checking? (+Due Diligence Checks List) (dealroom.net)

NEGOTIATION REFINEMENT

Based on the due diligence, further negotiation may be required to address any concerns or discrepancies that arise. The term sheet may be revised, and both parties may engage in discussions to reach a mutually acceptable agreement.

LEGAL DOCUMENTATION

Once the terms are finalized, legal documentation is prepared. This may include a Share Purchase Agreement (SPA) or an Investment Agreement that outlines the detailed terms and conditions of the investment. Legal counsel for both the startup and the investor review and finalize the documents.

FINALIZING FUNDING

With the legal documentation in place, the startup and the investor sign the agreements and the funding is transferred to the startup. This marks the formal closing of the deal.

POST-DEAL INTEGRATION

After securing the funding, the startup may need to undertake post-deal integration activities, such as issuing new shares, updating the capitalization table, and complying with any regulatory requirements.

BEYOND THE DEAL – WHAT'S NEXT?

Following the successful close of the funding round, it is crucial to navigate the post-funding phase with proficiency. This involves the effective utilization of raised funds, accomplishing significant milestones, and ensuring that investors are well-informed and involved.

The current state of the startup should be evaluated by reviewing the business plan, goals, and objectives considering the newly acquired funding. Identifying key priorities and allocating funds to areas that will facilitate the achievement of the next milestones is key.

NAVIGATING THE POST-FUNDING LANDSCAPE

There are several aspects in your post-funding journey, including a structured investor update plan. Key factors to consider include:

POST-FUNDING EVALUATION AND PLANNING

- **Financial Review –** Conduct a thorough assessment of the current financial situation of the company and ensure a clear understanding of how much runway the company has. Define the key milestones you plan to achieve with the new investment.
- **Resource Allocation –** Allot the capital strategically, prioritizing essential areas that help to achieve your milestones.
- **Business Goals –** Set specific and measurable short- and long-term goals that align with the expectations set with your investors.

INVESTOR RELATIONS AND UPDATES

- **Transparency –** Maintain open and transparent communications with your investors. Provide regular updates on the progress, challenges, and successes of your startup.
- **Reporting Cadence –** Establish a schedule for investor updates and ensure that it aligns with the timelines of your milestones.
- **Highlight Achievements –** Share key milestones and achievements to showcase the progress made with the funding.

PREPARE FOR FUTURE FUNDING ROUNDS

- **Growth and Milestones –** Focus on achieving key milestones that will make your startup attractive to potential investors in future funding rounds.
- **Investor Outreach –** Build relationships with potential investors for the next round of funding.

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