Module 8 - Raising Capital
PRE-WORK: READING

1. Overview

Get funding from the right investors at the right time with the right terms.

What does the fundraising process usually look like?

2. Types of Investors and the Pros & Cons of Each

Types of investors

a. Angel - Friends & Family
   i. An angel investor (also known as a private investor, seed investor or angel funder) is a high net worth individual who provides financial backing for small startups or entrepreneurs, typically in exchange for ownership equity in the company. Often, angel investors are found among an entrepreneur's family and friends. The funds that angel investors provide may be a one-time investment to help the business get off the ground or an ongoing injection to support and carry the company through its difficult early stages.

b. Venture capital
   i. Venture capital is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. This capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital is typically allocated to small companies with exceptional growth potential, or to companies that have grown quickly and appear poised to continue to expand.

c. Private equity

i. Private equity is an alternative investment class and consists of capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. Institutional and retail investors provide the capital for private equity, and the capital can be utilized to fund new technology, make acquisitions, expand working capital, and to bolster and solidify a balance sheet.

A private equity fund has Limited Partners (LP), who typically own 99 percent of shares in a fund and have limited liability, and General Partners (GP), who own 1 percent of shares and have full liability. The latter are also responsible for executing and operating the investment.

3. Types of Capital, Terms, and Timing

Types of capital

A. Equity

i. Equity is typically referred to as shareholder equity (also known as shareholders' equity) which represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off.

Equity is found on a company's balance sheet and is one of the most common financial metrics employed by analysts to assess the financial health of a company. Shareholder equity can also represent the book value of a company. Equity can sometimes be offered as payment-in-kind.

ii. There are various types of equity that extend beyond a corporation's balance sheet. In this article, we'll explore the different types of equity including how investors can calculate a corporation's equity or net worth.

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B. Convertible notes

Convertible notes are bonds issued by corporations that are convertible to company stock, depending on the circumstances. Learn more about when buyers may want to convert notes into company stocks.

Which type is best for your company at what time?

4. Financials

How much to show investors early on.

a. 3 Year Profit & Loss

b. Gross Revenue

c. Gross Margin Percentages

d. Net Profit or EBITA

Too Much!

Annual Profit & Loss Summary Projections

	2019	2020	2021
Gross Revenue	$ 2,758,190	$7,769,203	$16,202,818
Natural/Specialty	$ 875,784	$1,885,595	$3,196,758
Conventional Grocery	$ [illegible]433	$3,506,573	$6,800,949
Food Service	[illegible]	$1,519,456	$4,110,346
E-Commerce	$ [illegible]988	$857,579	$2,094,765
Net Revenue	[illegible] 2,458,222	$7,014,167	$14,601,141
COGS	$ 1,547,265	$4,4[illegible]102	$8,585,544
Gross Profit	$ 910,958	[illegible]	$6,015,597
gross margin	[illegible]	36%	41%
SG&A Expenses			
Sales	[illegible]	$ 594,793	$ 1,234,942
Advertising & Marketing	[illegible] 249,200	$ 524,659	$ 866,027
Personnel Costs (employees o[illegible])	[illegible] 481,083	$ 726,638	$ 748,309
Professional Fees	$ 63,600	$ 133,200	$ 200,400
Travel & Entertainment	$ 31,800	$ 7,200	$ 8,850
G&A	$ 65,220	$ 140,647	$ 199,712
R&D	$ 42,000	$ 60,000	$ 42,000
Total Expenses	$1,148,837	$2,187,138	$3,300,240
Operating Income	$ (237,879)	$ 368,927	$ 2,715,357
operating margin	-10%	5%	19%
EBITDA	$ (237,879)	$ 368,927	$ 2,715,357
	-9.7%	5.3%	18.6%
Interest	$ -	$ -	$ -
Corporate Taxes	$ 737,467	$ 2,104,250	$ 4,380,342
- Taxable Income.	$ -	$ 1,735,323	$ 1,664,986
Net Income	$ (237,879)	$ (151,670)	$ 2,215,861

5. The Pitch

What investors expect to see? Focus, clarity, potential return on investment

What questions will they ask? Anything to make sure you are focused and understand the business.

What they will expect you to know off the top of your head? COG's, gross margins, your plan to execute and raise capital.

What a compelling pitch deck should include, how to practice your pitch, and what to expect.

The 10/20/30 Rule of PowerPoint as proposed by Guy Kawasaki. It's quite simple: a pitch should have **ten slides**, last no more than **twenty minutes**, and contain **no font smaller than thirty points**. The goal of your pitch is to catch an investor's attention and interest so you can share more information with them later. Don't try to throw everything in the pitch deck, less is more!

- **Ten slides.** Ten is the optimal number of slides in a PowerPoint presentation because a normal human being cannot comprehend more than ten concepts in a meeting—and venture capitalists are very normal. (The only difference between you and venture capitalist is that he is getting paid to gamble with someone else's money). If you must use more than ten slides to explain your business, you probably don't have a business.
- **Twenty minutes**. You should give your ten slides in twenty minutes. Sure, you have an hour time slot, but you're using a Windows laptop, so it will take forty minutes to make it work with the projector. Even if setup goes perfectly, people will arrive late and have to leave early. In a perfect world, you give your pitch in twenty minutes, and you have forty minutes left for discussion.
- **Thirty-point font**. The majority of the presentations that I see have text in a ten point font. As much text as possible is jammed into the slide, and then the presenter reads it. However, as soon as the audience figures out that you're reading the text, it reads ahead of you because it can read faster than you can speak. The result is that you and the audience are out of synch.

Pre-Exercise - for those who don't yet have pitch decks

Reference Our 10-Page Pitch Deck Template and Draft Your Own

Additional Resources:

How to create a great investor pitch deck for startups seeking financing | Forbes

Pitch deck templates | Slidebean

Why private equity firms are buying food and beverage brands | FoodDive

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