



The Dos and Don'ts of Venture Financing

Montgomery Law Group CEO Roundtable

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Funding Process



- Referral through someone who knows the venture firm
- First meeting to articulate opportunity
- Initial due diligence to validate market/team
- Follow-up meeting to answer open questions + meeting with other partners
- Expect developed market and team references
- Presentation to full partnership
- Termsheet discussions

NOTE: Always feel free to ask “where are we” in the process

Introduction/Overview



■ Do's

- ◆ Start high level—think elevator pitch
- ◆ What is your business, product and customer issue you're addressing
- ◆ Practice, practice, practice

■ Don'ts

- ◆ Get pulled into “rat holes” early on
- ◆ Ignore time constraints of meeting
- ◆ Assume “one pace fits all”—ask audience to guide you on when to speed up and when to slow down

■ Do's

- ◆ Domain expertise and relevance to new venture
- ◆ Articulate track record of engineers delivering relevant commercial products
- ◆ Talk about people you might know in common
- ◆ Key adds to CXO/VP team over next 12 months

■ Don'ts

- ◆ Gloss over team backgrounds
- ◆ Be shy in discussing accomplishments of past
- ◆ Ignore holes in skill set of the team

■ Do's

- ◆ Know economics of customer's pain
- ◆ Get market validation day 1. What does this mean?
- ◆ What's different? Why there is an opportunity now?
- ◆ Know stories of successful VC funded companies in your market or analogous markets

■ Don'ts

- ◆ You're going to target getting 10% of a \$2B Market
- ◆ Ignore the known issues with your market (long sales cycles, difficult channels, low margins, etc)
- ◆ Target "double if" markets

■ Do's

- ◆ Use pictures/colors to show what you do
- ◆ Why it's unique and why differentiation is sustainable
- ◆ Describe why it's a must have, not nice-to-have
- ◆ Quantify customer benefits

■ Don'ts

- ◆ Build story on 2nd product
- ◆ Work against industry economics (Moore's Law)
- ◆ Be too narrow or too broad
- ◆ Take too long and too much \$ to get first product to customers for hands-on feedback

Competition



■ Do's:

- ◆ Show good understanding of competitive environment
- ◆ Examples of customers where you have beaten incumbents/others; who else really matters?
- ◆ 2 X 2 matrix OK

■ Don'ts:

- ◆ 2 X 2 matrix with fuzzy/meaningless axes!
- ◆ Big feature matrix
- ◆ Incrementally better, faster, cheaper 2 years out
 - ▶ Compare price/performance to what they will have when you ship

Business Model / Going-to-Market



- **Do's:**
 - ◆ Sales & distribution strategy should be in line with lifetime customer value
 - ◆ Examples of business models of other companies like you => Eg, datacenter appliance is like F5 Networks
 - ◆ Should reflect your vision of building a \$50-100M company in x years
 - ▶ Eg, direct first, then VAR channel
- **Don'ts:**
 - ◆ Expect OEMs to drive demand or quick revenue for you

Customer Traction / Pipeline



■ Do's:

- ◆ Customer validation of pain/need is a hinge factor in decision to continue process or pass
- ◆ Case studies to illustrate the way some of your customers use the product or service
- ◆ Know the total revenue opportunity each customer represents
- ◆ Include and discuss a pipeline (w/ deal sizes)
- ◆ Saving references for serious investors OK

■ Don'ts:

- ◆ Optimize for quantity of customers vs. quality
- ◆ Discuss un-referenceable customers

- Do's:
 - ◆ Financials should reflect an operating plan
 - ◆ Gross margin assumptions/discussion
 - ◆ Should map to product/team milestones; should include reasonable sales cycle assumptions
 - ◆ Headcount and expense rate information important
 - ◆ Quarterly for '03, yearly for '04, 05
- Don'ts:
 - ◆ Over-aggressive revenue estimates/growth rates
 - ◆ Balance sheet, cash flow discussion

- **Do's:**
 - ◆ **Include slide on financing history**
 - ◆ **Discuss possible deal, but flexibility is desirable**