

How To Finance Your Invention

“Well, I think that there's a very thin dividing line between success and failure. And I think if you start a business without financial backing, you're likely to go the wrong side of that dividing line”

Sir Richard Branson

Emory Innovation Brown
Bag Lunch Series
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John Lowery

Agenda

1 **Forms and Methods of Financing**

2 Preparing to Raise External Funds

3 The Fund Raising Process

Forms and Methods of Financing

- Raising External Capital
 - Non-Dilutive Capital
 - Personal Funds
 - Government Grants – R01, SBIR, STTR, etc. from NIH, DoD, FDA, NSF, etc.
 - Non-Profits / Charities / Foundations / Gifts / Awards
 - ❖ Georgia Research Alliance (GRA)
 - ❖ Wallace H. Coulter Foundation
 - ❖ Gates Foundation
 - ❖ Wellcome Trust
 - ❖ Many others
 - Non-Equity Crowdfunding – e.g. Kickstarter, Indiegogo, etc.

Forms and Methods of Financing

- Raising External Capital
 - Non-Dilutive Capital
 - Debt
 - ❖ Sources – Traditional commercial lenders (e.g. banks), non-traditional commercial lenders (e.g. Kabbage), SBA, 3F's, etc.
 - ❖ Personal Guarantee Required?
 - ❖ Costs – Origination fee plus interest
 - ❖ Payback period and terms – interest only, etc.
 - ❖ “Huge key consideration” – debt often very difficult to obtain without assets (collateral), personal guarantee and/or operating history and cash flow

Forms and Methods of Financing

- Raising External Capital
 - Dilutive Capital
 - Equity
 - ❖ Sources
 - ✓ 3F's
 - ✓ Angels Investors and Groups
 - ✓ Institutional / Professional Investors - Venture Capital, Family Offices, Hedge Funds, etc.
 - ✓ Strategic Partners
 - ❖ At What Price? – Valuation Considerations
 - ❖ Securities Laws
 - ❖ Common vs Preferred
 - ❖ Stock vs Stock Options / Warrants

Forms and Methods of Financing

- Raising External Capital

- Hybrid

- Convertible Debt – A debt instrument that is designed to convert into equity in the future at the time of a ‘qualified financing’
 - ❖ Key elements – interest rate, conversion terms, discount/valuation cap, maturity timeframe, prepayment
 - ❖ Appears as debt on the company balance sheet until the next qualified financing otherwise due at maturity
 - ❖ Repaid first in the event of a liquidation
 - ❖ Advantageous to the company due to no focus on pre-money valuation and simple(r) documentation/process
 - ❖ Advantageous to an investor due to interest / conversation discount and to investor receiving same terms as a professional investors in next

Forms and Methods of Financing

- Other ways of 'financing' your invention
 - Strategic Partnerships
 - Licensing
 - Outright sale
 - Vendor financing (e.g. equipment purchase)
 - Customer prepayments

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“Business Planning”

While ***business plans*** have largely fallen out of favor, ***business planning*** remains crucial

Business Plan Outline from ***Venture Capital Due Diligence***, circa 2002:

- The Business 'Overview' - Company's business, Strategy and Potential Exits, Mission statement
- Product Offering - Product description, Development schedule and launch dates, Product differentiation, Revenue model
- The Market - Historic and projected sizes in dollars, Market trends, Industry Analysis
- Customer Analysis - Key customers, Customer acquisition strategy, Sales channels and distribution, Partnerships and JV
- Competition - Key competitors, Competitive advantages, Barriers to entry
- Management Team - Roles and responsibilities, Background of team members, Board composition
- Financials - Historic and forecasted P&L (first two years by quarters), Projected cash flow (first two years by quarters), Current balance sheet, Projected head count by functional area (G&A, sales, marketing, product development), Capitalization schedule
- Risk Factors and Mitigation Strategies (including how to get to market quickly!)
- The Deal - Amount to be raised, Anticipated valuation, Use of proceeds, Current company legal formation and capital structure

The Essential Tool – The "Pitch Deck"

Suggested Pitch Deck Outline (20 slides max)

- Title
- Introduction (Problem defined)
- Our approach and solution (Product / Solution defined)
- Intellectual Property
- OPTIONAL - Why we do what we do
- Market Size and Growth
- Major Competitors (and substitutes)
- Business Model (how to make money)
- Go-To-Market Strategy
- Sales and Marketing
- Distribution / Operations
- Financial Projections / Comparable Exits
- Management Team
- Progress to Date, Funding Goals, Use of Funds/Milestone Goals
- Contact / Next Steps

Guy Kawasaki's Pitch Deck Outline

Slide	Content	Comments
Title	Include your business's name, your name and title, and contact information.	The investor can read the slide—cut to the chase and summarize what you do (for example, we sell software, we protect the environment). Open simply with, “This is my company and this is what we do.” You want to get investors thinking about the potential for your company and the size of the market.
Problem	Explain your investors the pain that you're alleviating. The goal is to get everyone nodding and buying in.	Avoid looking for a solution that is searching for a problem. Minimize or eliminate citations of consulting studies about the future size of the market.
Solution	Describe how you alleviate this pain and the meaning that you make. Ensure that the audience clearly understands what you sell and your value proposition.	This is not the place for an in-depth technical explanation. Provide just the gist of how you fix the pain.
Business model	Explain how you make money—who pays you, your channels of distribution and your gross margins.	In general, a unique, untested business model is a scary proposition. If you truly have a revolutionary business model, explain it in terms of familiar ones. This is your opportunity to drop the names of organizations that are already using your product or service.
Underlying magic	Describe the technology, secret sauce or magic behind your product or service.	Aim for less text and more diagrams, schematics and flowcharts on this slide. White papers and objective proofs of concepts are helpful here.
Marketing and sales	Explain how you will reach your customer and your marketing leverage points.	Convince the audience that you have an effective go-to-market strategy that will not break the bank.
Competition	Provide a complete view of the competitive landscape. Too much is better than too little.	Never dismiss your competition. Everyone—customers, investors and employees—wants to hear why you're good, not why the competition is bad.
Management team	Describe the key players on your management team, board of directors and board of advisors, as well as your major investors.	Do not be afraid to show up with less than a perfect team. All startups have holes in their team—what's truly important is whether you understand that there are holes and you are willing to fix them.
Financial projections and key metrics	Provide a three- to five-year forecast containing not only dollars but also key metrics, such as number of customers and conversion rate.	Do a bottom-up forecast. Include long sales cycles and seasonality. Making people understand the underlying assumptions of your forecast is as important as the numbers you've fabricated.
Current status, accomplishments to date, timeline and use of funds	Explain the current status of your product or service, what the near future looks like and how you'll use the money you're trying to raise.	Share the details of your positive momentum and traction. Then use this slide to close with a bias toward action.

Other Key Preparations for Fund Raising

- The Elevator Pitch, Website, Email
- Forming a company
 - Advantages / Disadvantages
 - Types of business entities – LLC, S Corp, C Corp, etc. and location
 - Using a lawyer vs DIY
- Offering Documents / Securities Laws
- Intellectual Property
- Building the Right Team
- Bank Account
- Bookkeeping
- Technology Licensing Considerations

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The Fund Raising Process

- Prepare your materials
- Practice your pitch to non-investors – ask for constructive feedback
- Identify initial funding targets – look for sources of introductions
- Prepare yourself for an inefficient, time-consuming, exhausting, frustrating, and emotional process
- Fund raising is very similar to sales

Fred Wilson of Union Square Ventures describes the only 3 things you need to do as a CEO:

- 1. Sets the overall vision and strategy of the company and communicates it to all stakeholders*
- 2. Recruits, hires, and retains the very best talent for the company*
- 3. Makes sure there is always enough cash in the bank***

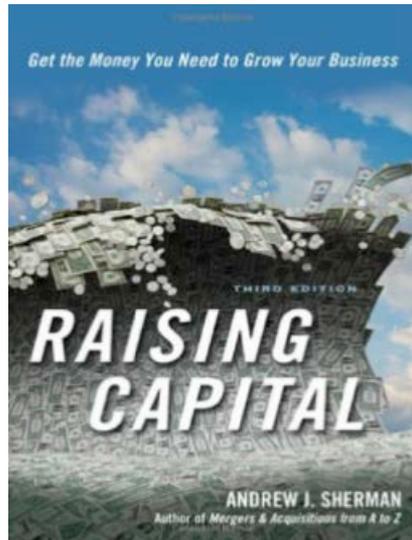
Identifying Potential Investors

- The 3F's – Friends, Family and Fools
- Angel Investors
 - Look for angel investor networks (Atlanta Technology Angels, Bio/Med Investor Network, Silicon Valley Angels, etc.)
 - Networking is critical
 - Seek personal introductions whenever possible
- Venture Capital
 - Attend conferences – SEMDA; GA, SE and National BIO; NY, NE and SF Venture Summit; Venture Atlanta
 - Examine other startups in your industry and check who has invested
 - Seek personal introductions whenever possible – VC's rarely invest in someone 'cold'

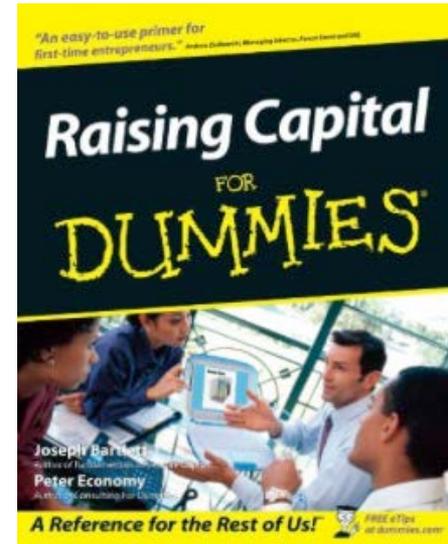
Fund Raising – Tips from Lessons Learned

- Be confident and prepared, yet humble and flexible
- Sell your product *and* yourself – investors want to see that ‘walk through walls’ mentality
- Know when to move on
- Timing and diligence are everything
- Leverage your network; personal connections mean *a lot*
- Attend entrepreneurial and networking events – the entrepreneurial community is, by and large, extremely willing to offer help
- “If you’re looking for money ask for advice, and if you’re looking for advice ask for money”
- Be forthcoming about where you stand – pros and cons
- Take feedback and advice seriously, but also with a grain of salt

Sound Fund Raising Advice?



464 pages



336 liberally spaced pages

Chapter 17: Ten Best Sources of Fast Cash

Playing the Lottery

Okay, we know it may sound a little kooky, but you just never know. Playing the lottery is far from a surefire way to raise capital for your business. In fact, depending on where you live and which game you play, you probably have a much better chance of getting hit twice by lightning than of hitting the jackpot. Yet people do still win the lottery every day of the week, and, if it's time for things to go your way, it just may be your lucky day!

Thank You

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