
When & How to Raise Venture Capital



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Topics



- ◆ Types of venture investors
- ◆ How does VC works?
- ◆ VC math
- ◆ When to look for VC?
- ◆ Fundraising tips
- ◆ Startup Funding Resources at NYU
- ◆ Q&A



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Types of Venture Investors



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investor | in-'vestər |

noun

one who expends money with the expectation of achieving a profit or material result by putting it into financial schemes, shares, or property...



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Myth:



Venture Capital funds are
the primary source
of startup funding



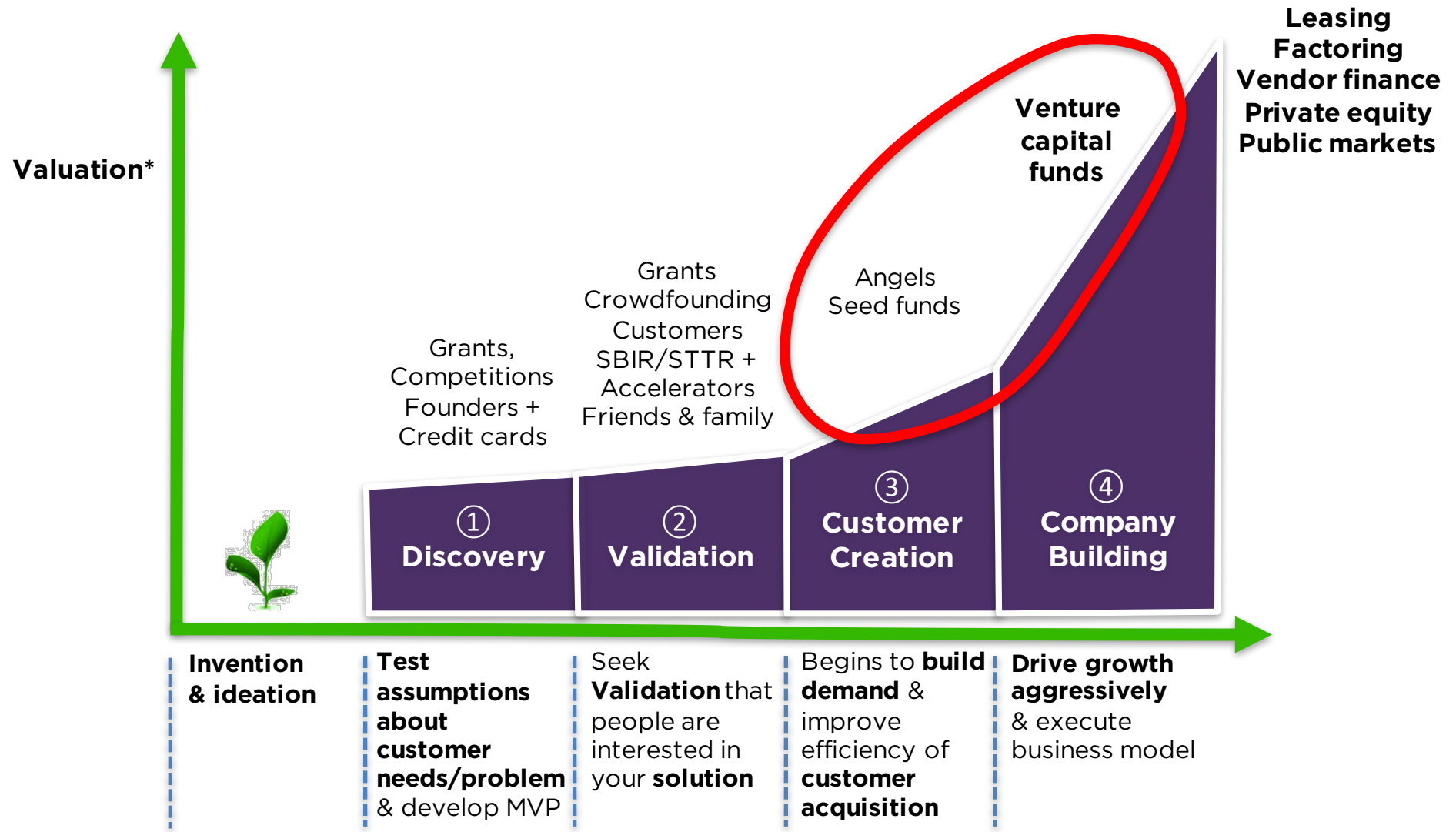
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Venture Funding Lifecycle



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Types of Venture Investors



Stage	Pre-Seed	Seed/Startup	Early	Late
Type	Founder(s), friends & family	Individual angels/groups & seed funds	Venture Capital Funds Financial Investors Strategic/Corporate	
Typical Amount	\$5,000 to \$250,000	\$25,000 to \$1,000,000	\$2,000,000 and up	
Source of Funds	Individuals	Individuals	Institutional Investors, Family Offices & Corporations	
Number of rounds	Single	Single	Multi	



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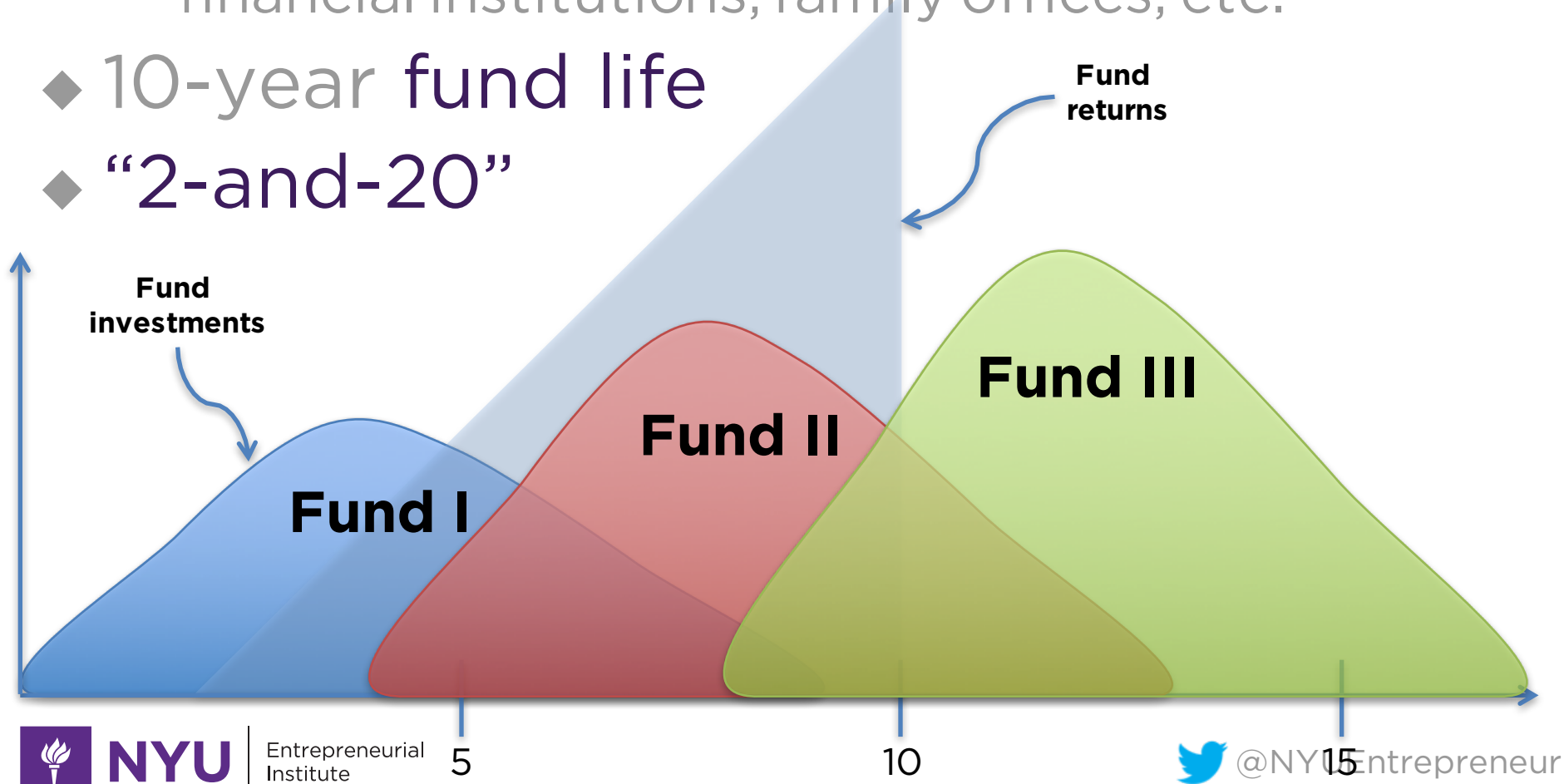


How VC works

The Basics



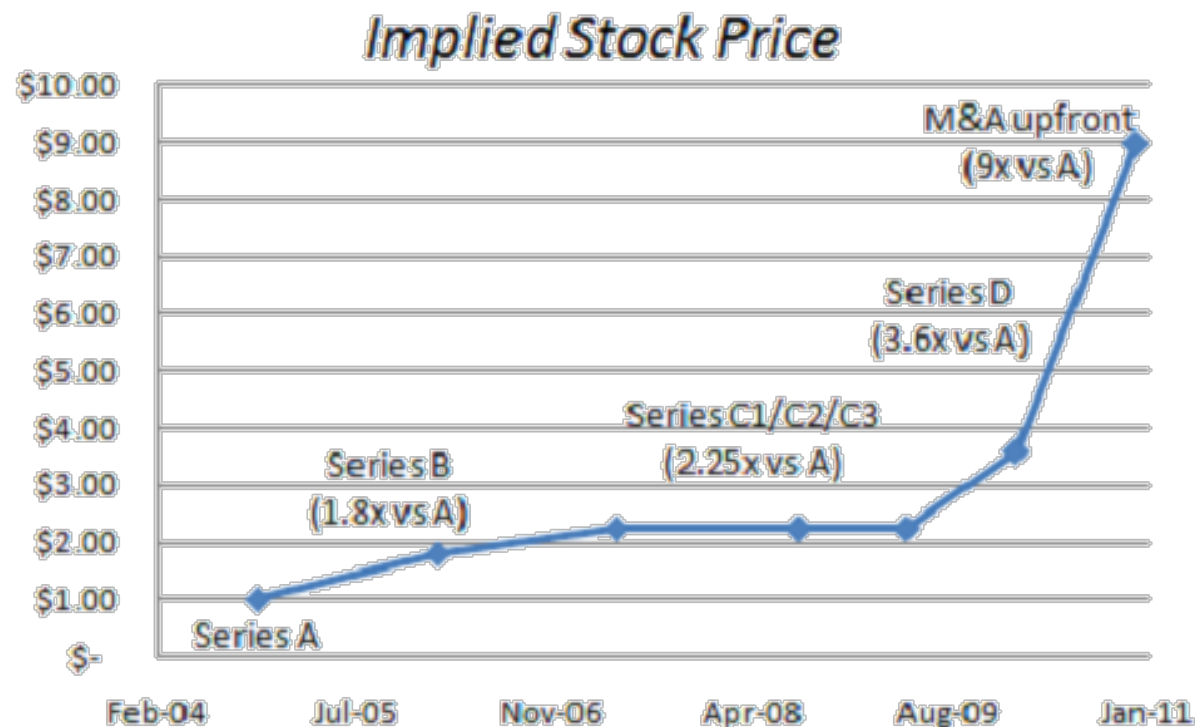
- ◆ VCs manage “OPM”
 - Pension funds, foundations, endowments, financial institutions, family offices, etc.
- ◆ 10-year fund life
- ◆ “2-and-20”



How do VCs Make Money?



- ◆ Investing at low valuation (through multiple rounds at increasing valuations) and then...



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How do VCs Make Money?



- ◆ Investing at low valuation (through multiple rounds at increasing valuations) and then...
- ◆ Exit (a/k/a liquidity event) at a higher value
 - Initial Public Offering (IPO)
 - Merger into a Public Company
 - Merger into another private company
 - ~~○ Return of capital from cash flow~~
 - ~~○ Asset sale~~



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Myth: VCs make money on every deal





75%

of startups
fail to return
investors capital

Shikhar Ghosh
Harvard Business School



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VC Math

NB: Figures and sequencing are intended to be illustrative. Your mileage will vary.



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From idea to incorporation



Inspiration & ideation

Customer discovery

Customer validation

Problem-Solution Fit!

Develop prototype

Test prototype

Retain McCarter & English

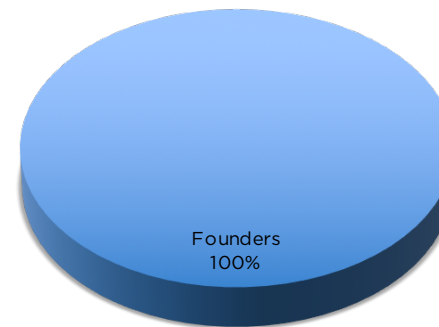
Form SLE

Split founders equity

Open account at Silicon Valley

Bank

Fully Diluted Ownership



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In search of Product-Market-Fit



Continue to test prototype Fully Diluted Ownership



Customer discovery

Customer validation

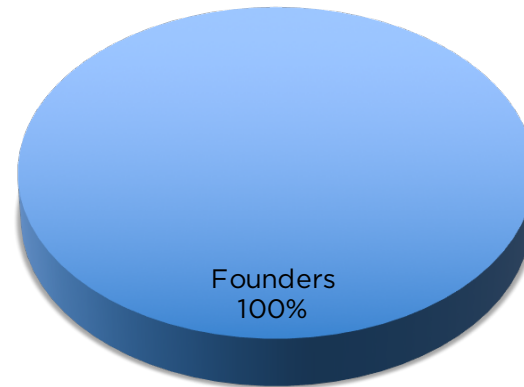
Secure early adopters

Product market fit!

In TechCrunch!

Begin to craft seed pitch

Commence fund raise!



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Raise seed round



3 months & 30
pitches later

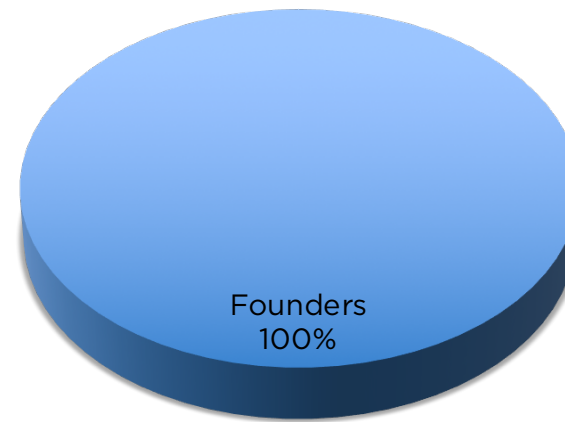
Fully Diluted Ownership

Greycroft Leads Series Seed

Pre-\$ \$3.00m

Raise 1.00

Post-\$ \$4.00m



NYU Innovation Venture
Fund & 3 angels complete
round

Raise seed round



3 months & 30
pitches later

Greycroft Leads Series Seed

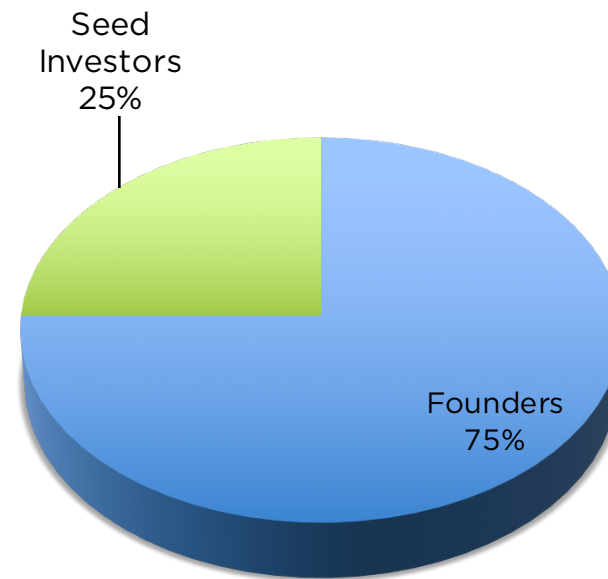
Pre-\$ \$3.00m

Raise 1.00

Post-\$ \$4.00m

Deposit \$1.0m with SVB
Pay McCarter & English
Back to work

Fully Diluted Ownership



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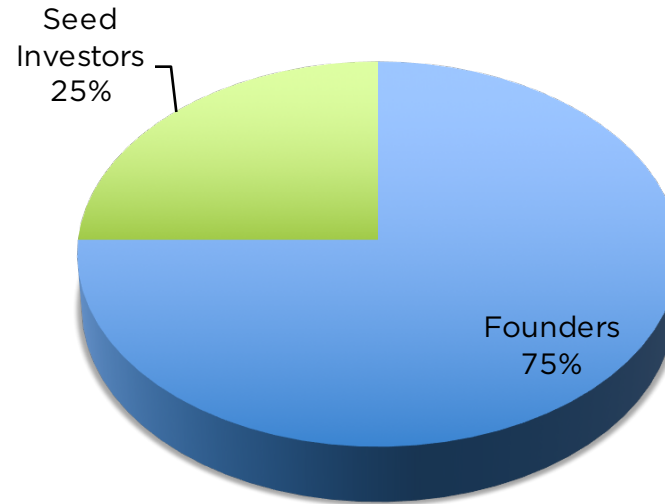
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Hire first employees



Add 10% Option Pool

Fully Diluted Ownership



What are Options & Why?



- ◆ Definition: Right to buy common stock at a specified price within a pre-determined time
- ◆ Aligns incentives
- ◆ Why use options instead of shares?
 - Simplifies governance
 - Saves money for the company & investors
 - Tax & capital efficient for employees
- ◆ 10-20% pool is customary



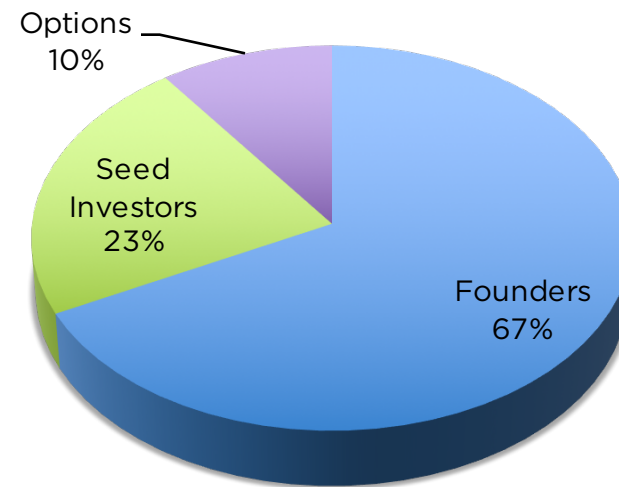
Hire first employees



Add 10% Option Pool

Fully Diluted Ownership

Hire first employees



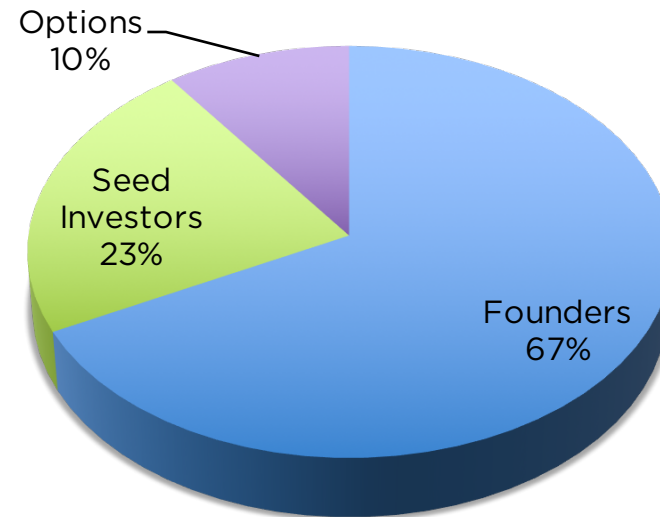
Hire first employees



Add 10% Option Pool

Fully Diluted Ownership

Hire first employees
**Identify repeatable &
scalable business model**



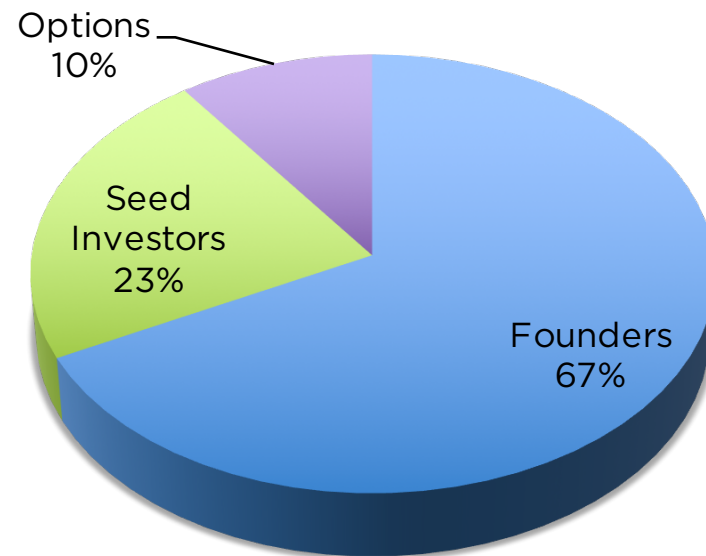
Hire first employees



Add 10% Option Pool

Fully Diluted Ownership

Hire first employees
**Identify repeatable &
scalable business model**
In NY Times!



Hire first employees



Add 10% Option Pool

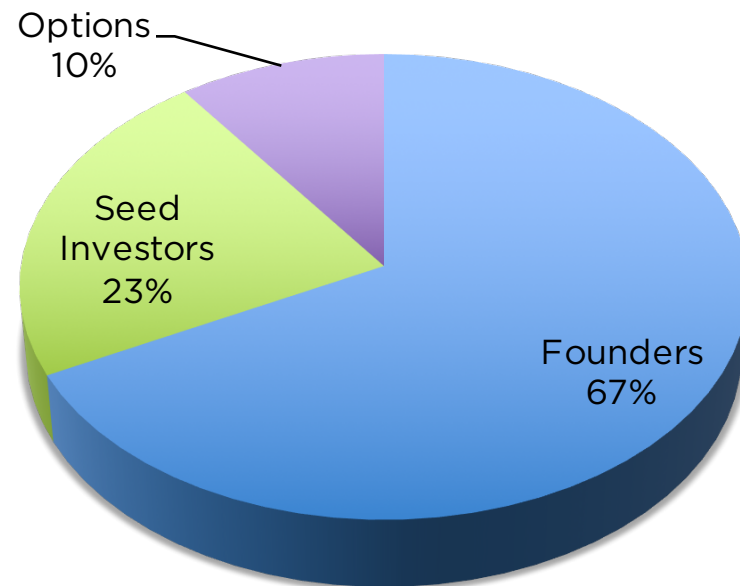
Fully Diluted Ownership

Hire first employees
**Identify repeatable &
scalable business model**

In NY Times!

Draft VC pitch

Commence VC raise



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5 months & 40 pitches later



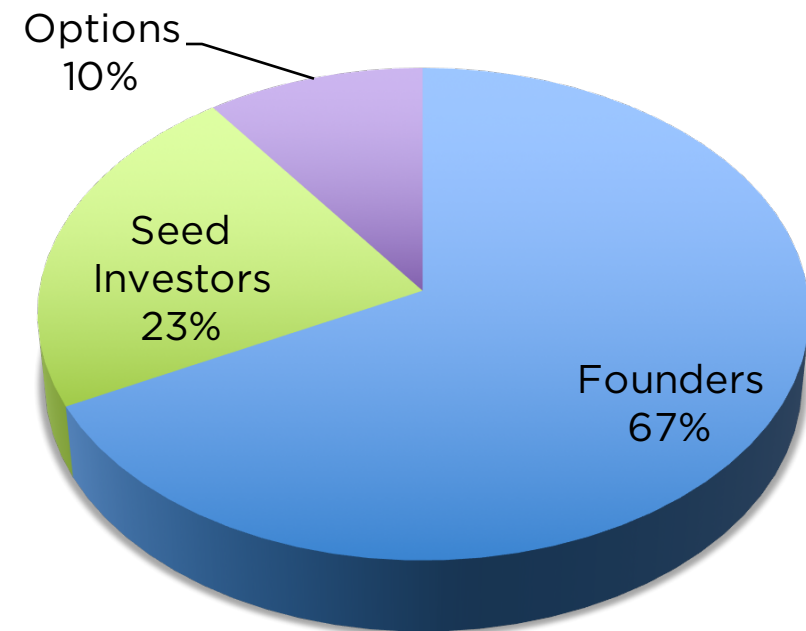
Flybridge Capital Offers

Pre-\$ \$7.50m

Raise \$2.50m

Options 15% *

Fully Diluted Ownership



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Make room for more options!

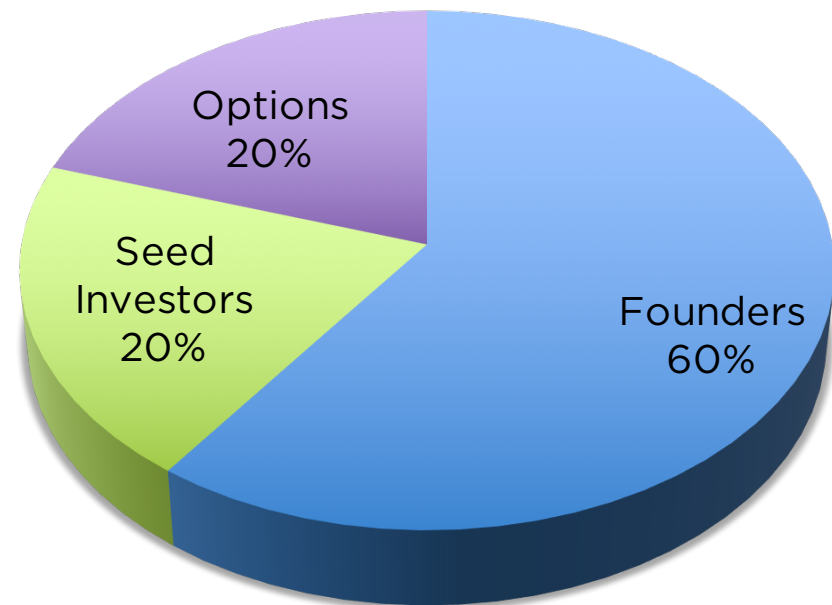
Flybridge Capital Offers

Pre-\$ \$7.50m

Raise \$2.50m

Options 15% *

Fully Diluted Ownership



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Smaller piece of a bigger pie!

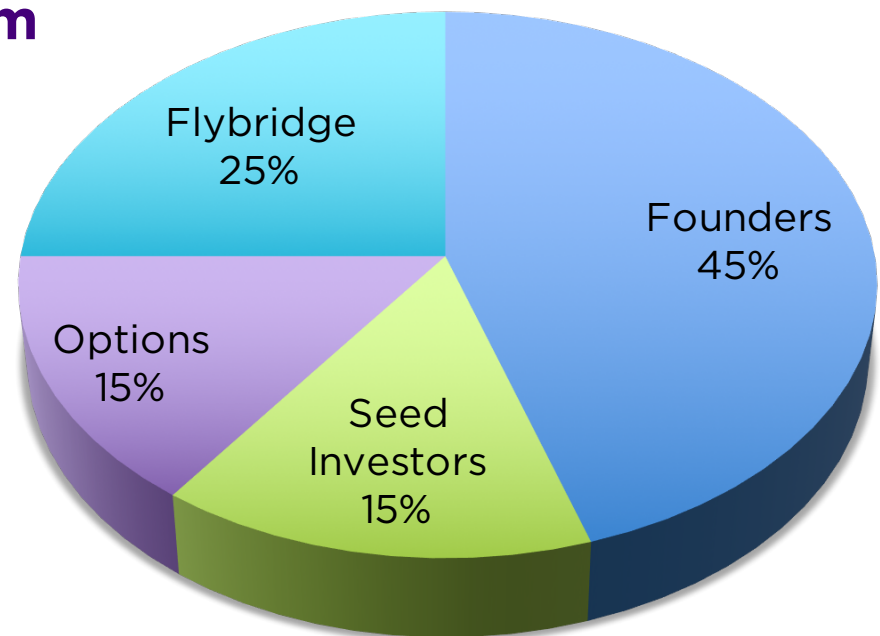
Post Money Value

Founders	\$4.50m	} \$7.50m Pre-\$
Seed	1.50	
Options	1.50	
<u>Flybridge</u>	<u>2.50</u>	

Post-\$ \$10.00m

- ◆ 50% step-up from Seed!
- ◆ \$2.5m in the bank
- ◆ John Elton & David Aronoff on your board
- ◆ Growing a team
- ◆ Scaling a business
- ◆ Life is good!

Fully Diluted Ownership



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VC Math Lessons Learned



- ◆ If you raise \$, you will be diluted
- ◆ Options come out of your hide, not theirs
- ◆ Timing of your raise will be key
- ◆ Valuation nor your % ownership is everything
- ◆ Focus on things that drive enterprise value, not just what maximizes your ownership



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A Complex Process



On Lawyers...

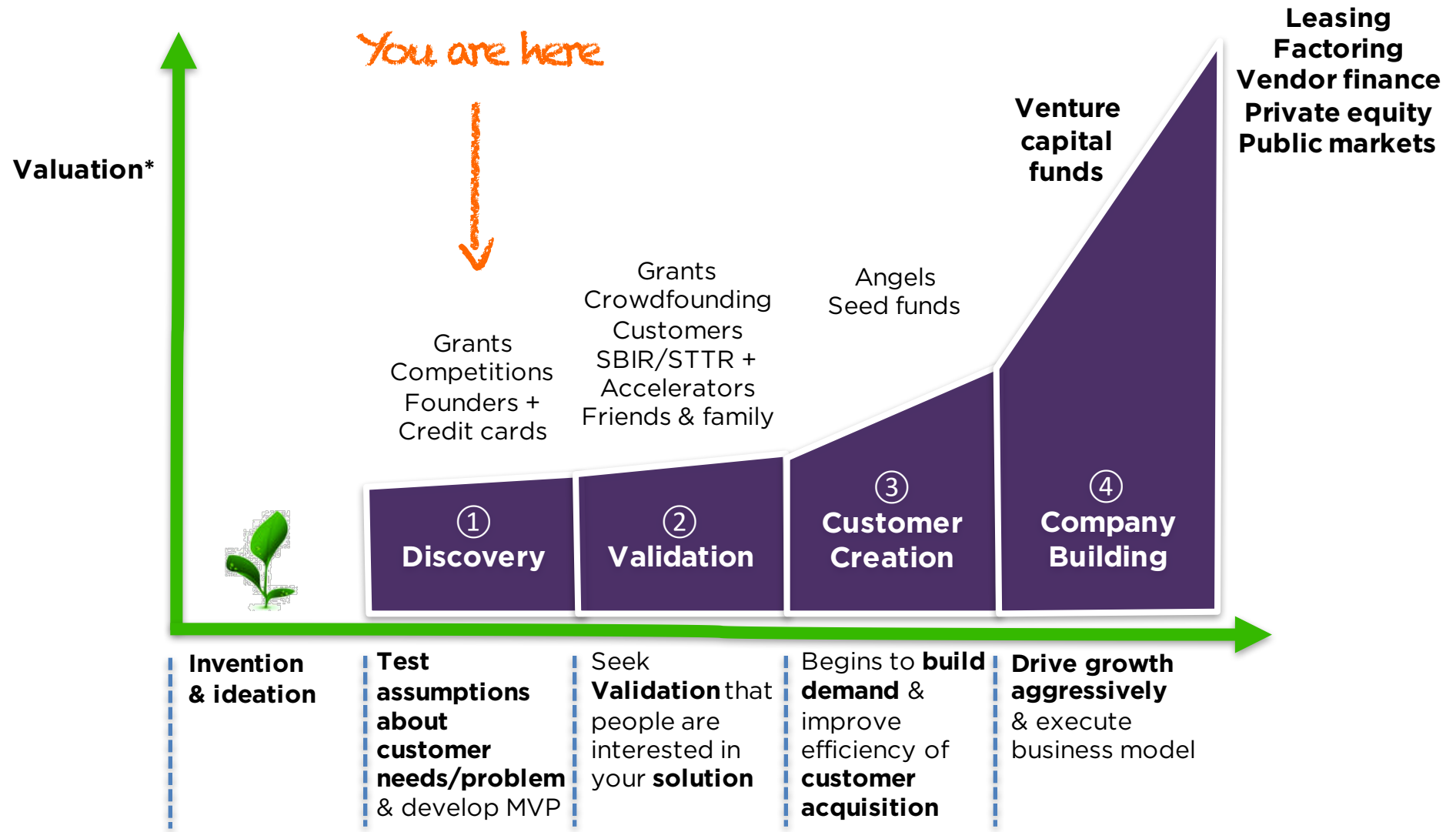


- ◆ Important to pick a **very experienced** one
 - Not the top Wall Street lawyer you can find
 - Not your cousin Murray
 - Not your patent attorney
 - Not the guy who did your will/mortgage refi
 - ...someone who does venture financings daily
- ◆ Doesn't have to be local, but it helps
- ◆ We are **happy to recommend several**



When to Look for VC?

When to Look for VC?



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Why defer raising money?



- ◆ A time consuming, distracting process
- ◆ Minimize dilution (when your valuation's low)
- ◆ Hard to stop spending once you start
- ◆ You will spend it on the wrong things
- ◆ 1st round raised on the promise...
2nd on the progress
- ◆ If you're wrong (and don't hit your milestones),
you're dead
- ◆ Many other non-dilutive sources of \$\$\$





Getting Funded Tips



What do VCs look for?

Myth: VCs Invest in Technology



VCs invest in businesses.



Not ideas.

Not technologies.

Your technology/IP is only one
of the many critical pieces necessary
to build a business.



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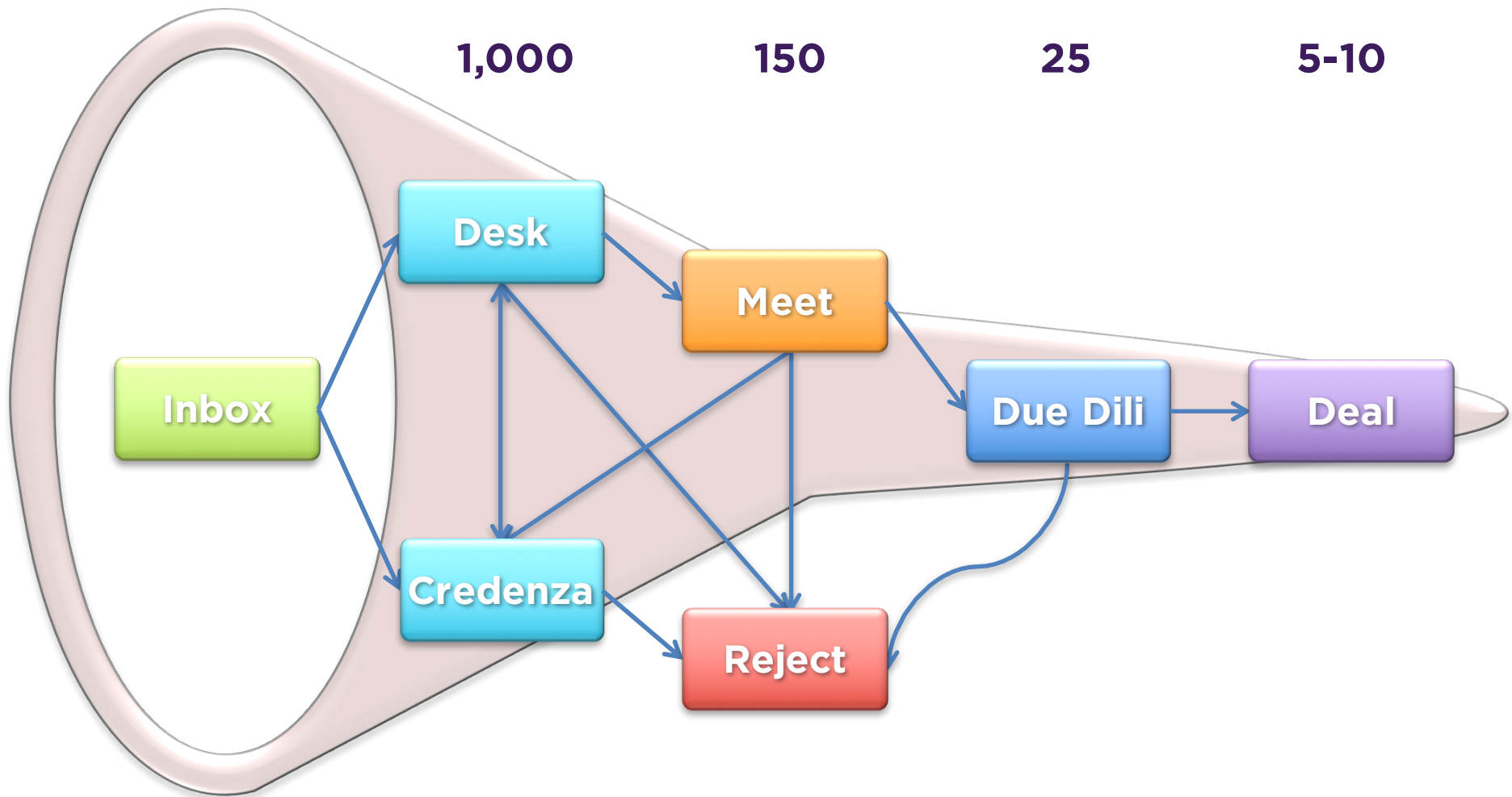
What do VCs look for?



- ◆ Serve unmet need in large & growing market
- ◆ Differentiated solution(s) + supporting data
- ◆ Customer validation of pain & gain
- ◆ Scalable & repeatable *business model* that generates high ROI
- ◆ Focused teams with proven ability to execute



VC Dealflow Funnel



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Your initial goal is to get a meeting!



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Myth:



Raise money when you need it!



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Raise money when you can raise it!



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Running out of money is not a milestone!



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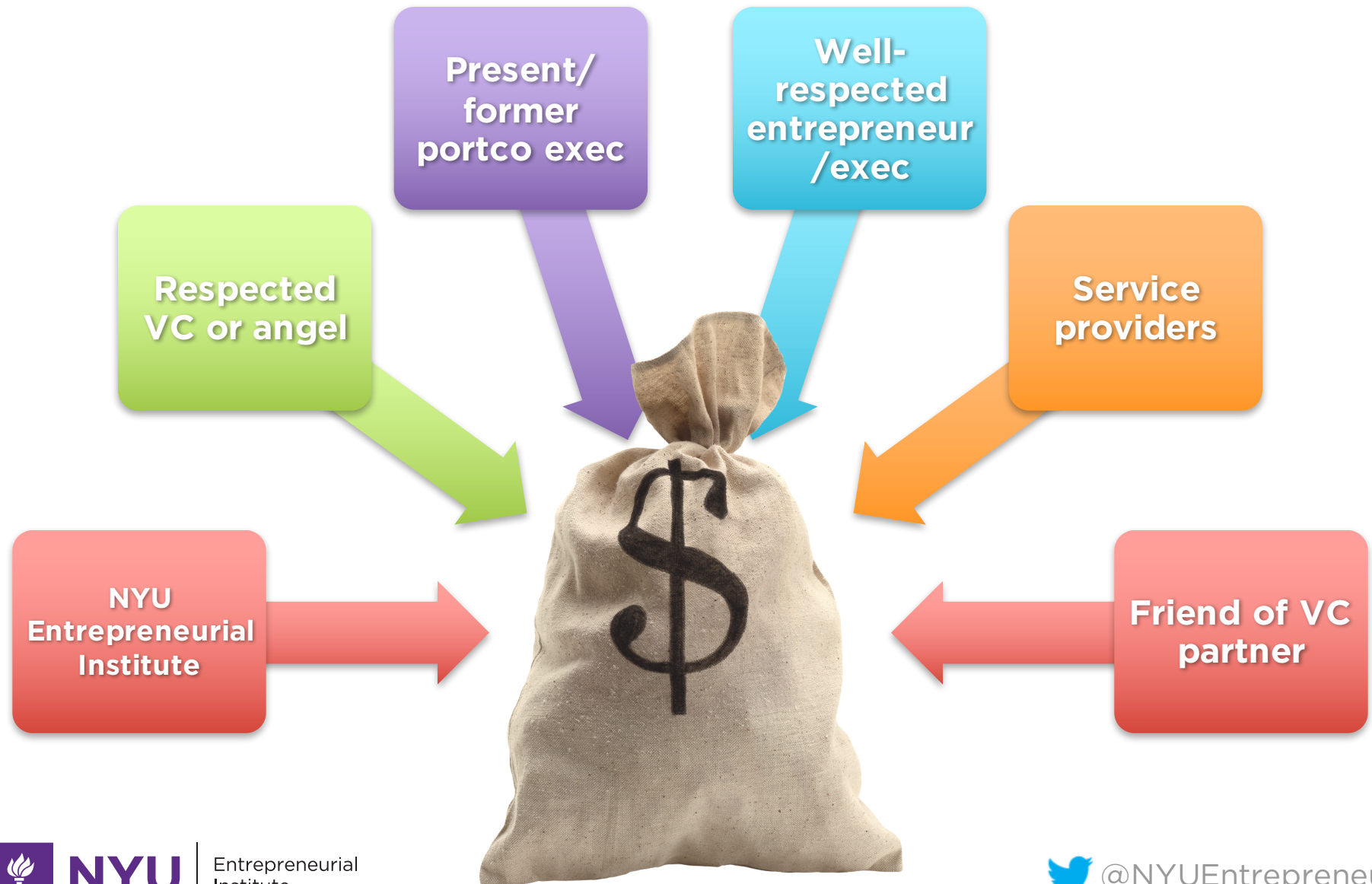
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Myth: VCs are hard to meet!



VCs are easy to meet!



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Myth:



Don't approach VCs until you are ready to raise money



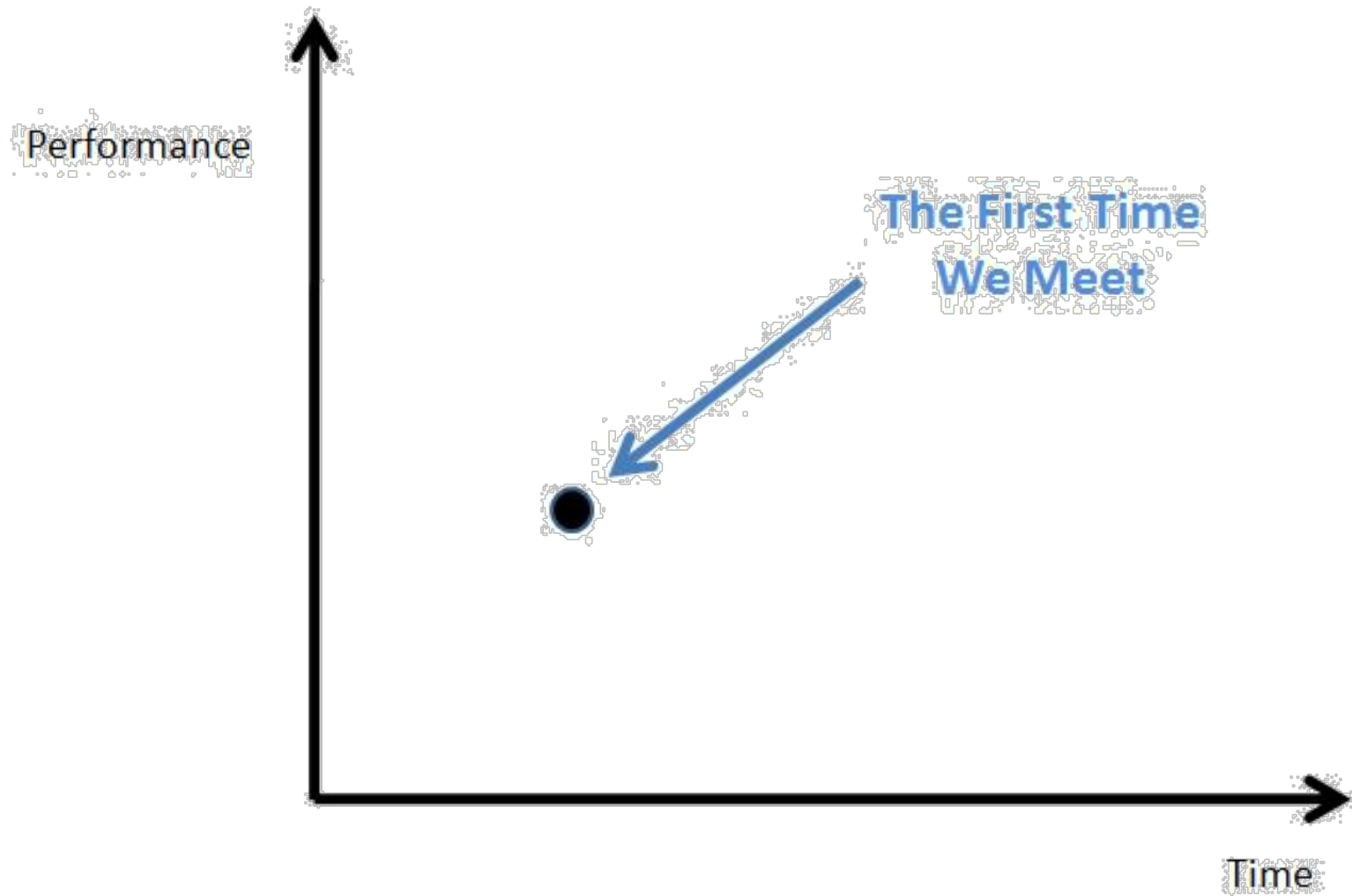
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Lines not Dots

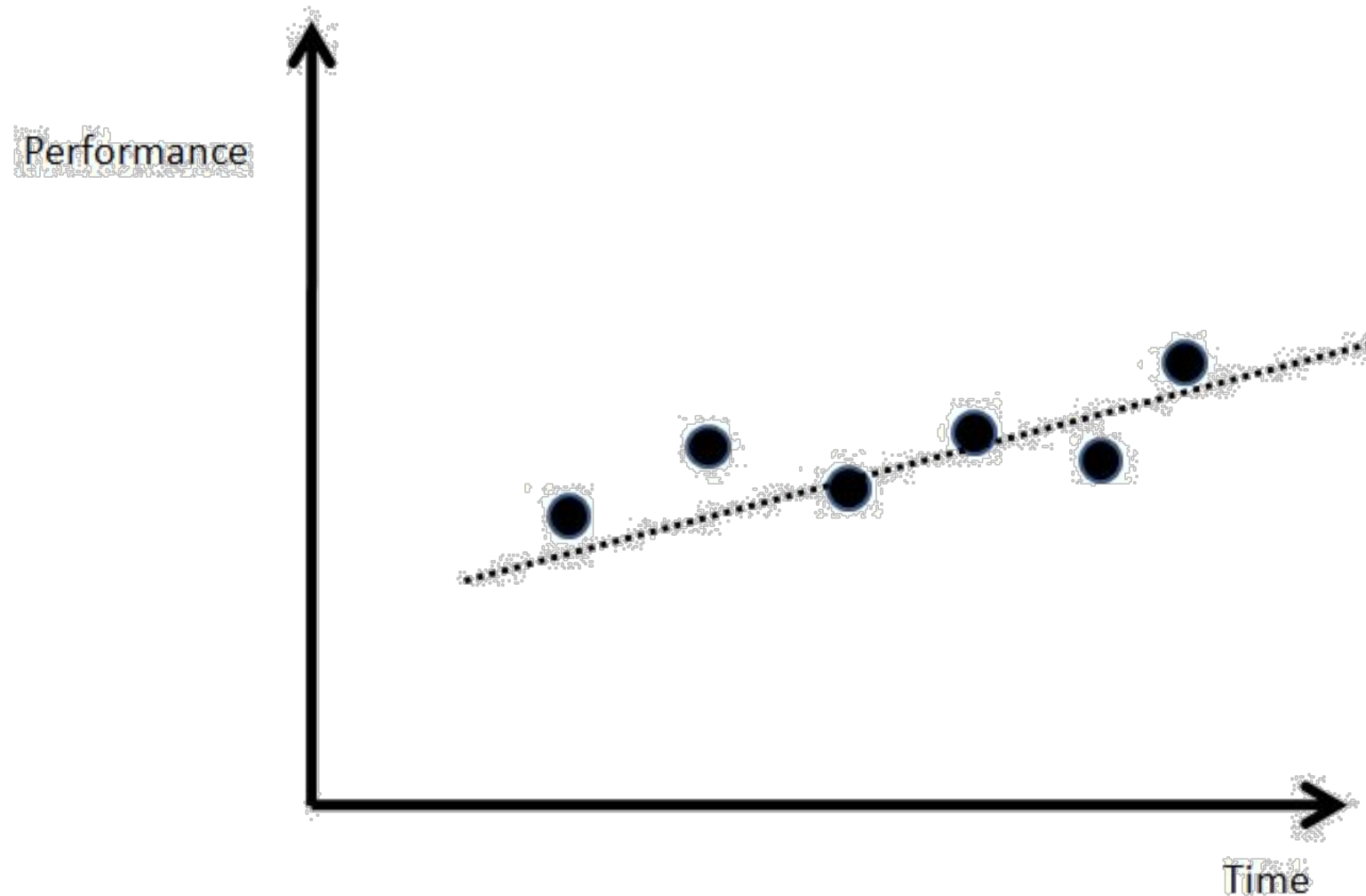


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Lines not Dots



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Myth: VCs Invest in Teams with Strong Data





VCs invest in the trend!



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Final Thoughts on Fundraising



- ◆ Diligence investors like they diligence you
- ◆ Be prepared, but less is more
- ◆ You do not need a prospectus/biz plan
- ◆ You want professional investors



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Final Thoughts on Fundraising



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Final Thoughts on Fundraising



- ◆ Diligence investors like they diligence you
- ◆ Be prepared, but less is more
- ◆ You do not need a prospectus/biz plan
- ◆ You want **professional investors**
- ◆ Never hire an agent/banker



Final Thoughts on the Pitch



- ◆ Investor pitch is a proxy...

Final Thoughts on the Pitch



- ◆ Investor pitch is a **proxy**...for *your ability* to:
 - Recruit **talent** & lead a team
 - Sell to **customers**
 - Attract **partners**
- ◆ Tell a **story** & engage your audience
- ◆ Cover the bases...not just your product/tech
- ◆ But, remember it **doesn't** stop with your **pitch deck**



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Lessons Learned



- ◆ Many sources of capital...VC comes later
- ◆ VCs are professional money managers
- ◆ Focus on things that drive enterprise value
- ◆ Investors fund businesses, not tech/ideas
- ◆ Get to know investors early in the process
- ◆ It's a complicated process...arm yourself
- ◆ You want professional investors
- ◆ We are here to help!



Questions?



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