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How To Hunt Money

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Morgan Lewis attorneys have helped thousands of companies seek angel and venture capital investment. They've seen successes, they've seen failures. This advice is distilled from that experience.

<u>Before the Hunt, Sharpen Your Arrows</u>

Build a Fit Team. Angels and VCs prefer to invest in a management team full of "entrepreneurial athletes" (per Steve Goodman), "heat seeking missiles" (Josh Kopelman), "thunder lizards" (Mike Maples) and "hunter-gatherers" (Malcolm Gladwell). These all describe entrepreneurs who take aim at targets in large markets and either hit those targets or pivot quickly to aim at the next targets.

Pick your Advisors Carefully. It is critical to choose advisors (lawyers, accountants, mentors and technical gurus) who add value to your venture not only through their professional skills, but also through the people they know and the reputational "halo" they contribute to your line-up. They can help you build your team, and make targeted introductions to investors and strategic partners.

Know Your Defensibility. Investors will look hard at how you are positioned to defend market share from your competition. Depending on your industry, they will probe your IP position, branding strategy, strength of strategic partners, ability to scale, and speed to market. Advisors can prepare you to withstand the scrutiny.

Position for Fundability. Are you at the right stage for investment? Is the sum of money you're seeking adequate to achieve your business goals, yet appropriate to your stage and valuation? Does your financial model—profitability, cash needs, scalability, timing—make sense? What is a realistic valuation right now that will attract the right investment? Lean on your advisors to guide you to the right fundraising strategy.

During the Hunt, Be Cunning …

***Know Your Targets*.** As you would in any customer-focused sales strategy, research and prioritize your investor targets. Know who invests in what types of technologies and industries, and at what stage. Then create priority tiers of target investors likely to be interested in your business. Thoroughly research these targets, their people, their portfolio companies and their investment track record. Create an action plan for approaching the right investors at the right time to maximize your chances of success.

Exploit Advisor Networks. Begin your approach to investors through warm introductions from your advisors and others in your network. Angels and VCs pay the most attention to opportunities forwarded to them by people they trust because the opportunities have been well vetted. Also, since companies often get funded from investors outside their region, advisor firms with a national or global presence can open doors in other geographic areas that would otherwise be difficult to break into.

***Prepare a Great Pitch*.** A clear and polished investor presentation, elevator pitch, and executive summary are indispensible to any investment campaign. They give you the confidence to make good first impressions, hook investors, and compel them to make a deeper dive. Good communication also creates buzz around your opportunity. No matter how good you are, coaching can make a difference. Even entrepreneurs with fundraising experience need help "getting out of the weeds" to find and shape their message.

***Create Competition*.** Even if you are successful in luring in a few investors to take a serious interest in your company, it can be frustrating trying to seal the deal. Investors have little urgency to pull the trigger if delaying will only reduce risk—unless they are worried they might lose the deal to another investor. To force the issue, you may need to generate either real competition or the perception of competition. Competition can also help you clinch the most favorable terms for your company.

… and Patiently Persistent

Build Relationships. Fundraising can take six months or longer. Prepare for a long campaign of relationship building, not just the first few battles of investor meetings. Then you won't be discouraged if you don’t get funding right away. Know that many of the “overnight” funding success stories we hear about are companies that took a long time to overcome significant funding obstacles and build relationships.

Turn Every “No” Into Information. Ask for feedback from investors who turn you down or are non-committal about investing. They may have real interest, but are pausing over a deficiency in your model, or a risk that needs to be addressed. Being open to advice from an investor who is unlikely to fund you could convert that investor into an ally, a source of advice, and a valuable node in your network.

Take Every “No” as a “Maybe.” Investors who say no may have genuine interest but choose to wait to see if you can get more traction or to how the market plays out. By focusing on the relationship and remedying the challenges they identify, you may ultimately turn them around and secure their investment.

Don’t Forget Your Business. Your first job is to grow your business; investment is a consequence of that. Many entrepreneurs look at investor financing as a source of validation and try to fundraise too early. They end up wasting months or years chasing financing when they aren’t ready. Besides taking the risk of burning bridges with investors, they waste time that should be put into building the business and getting traction with paying customers. If you wait until your business is truly angel or VC ready, the money will follow.