Investor Relations and Negotiations

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Speaker

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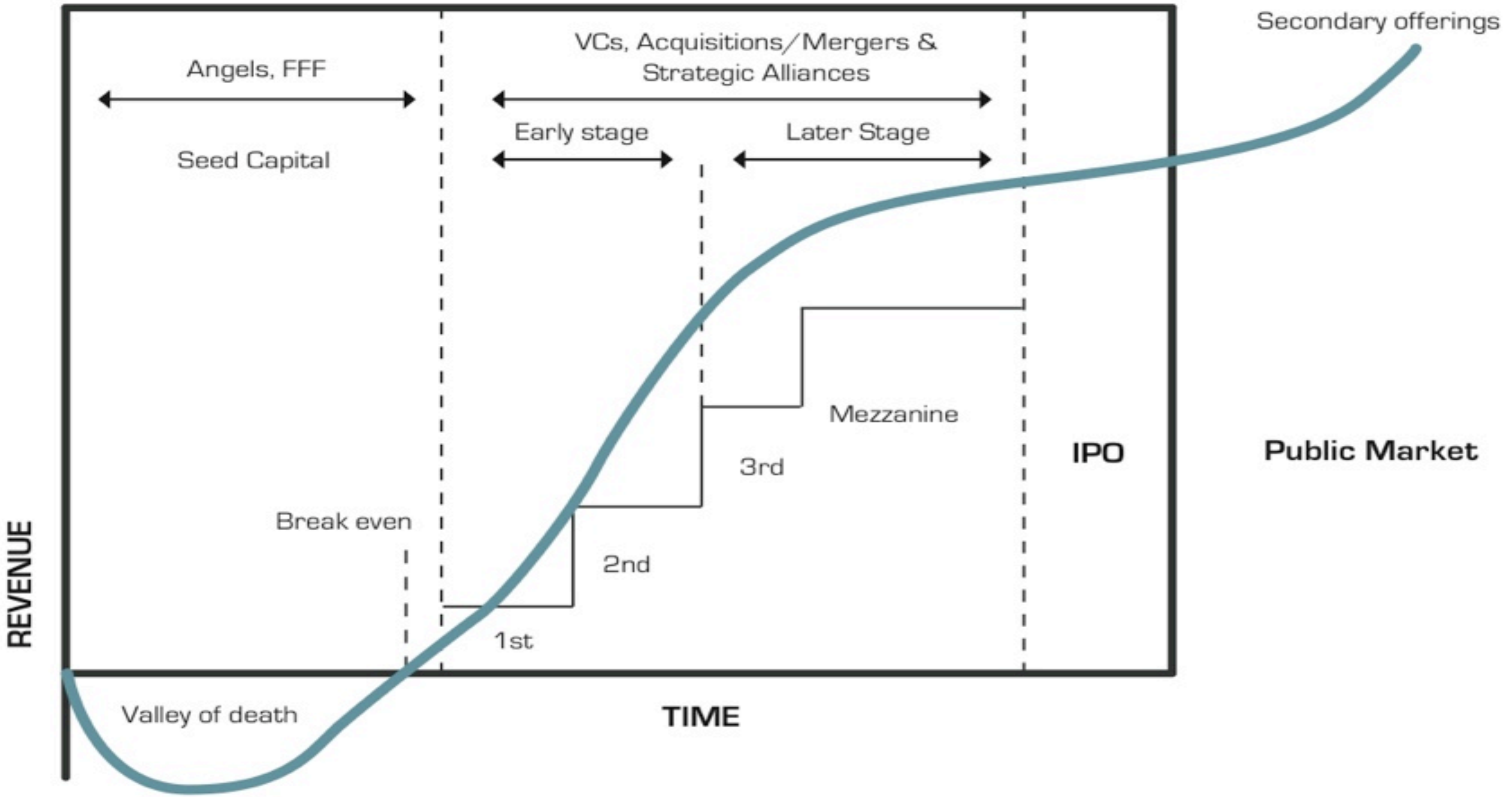
Introduction; what do investors expect from you?

- All investors’ primary goal is to get return for their investment!
  - Investors look for balance in potential risks and rewards: high upside required for high risks
- Investors expect your business to progress in the right direction as planned
  - Investors do not like surprises! Especially bad ones, but good ones are alarming too. Surprises are a sign of lack of control.
- Investors expect honesty and transparency
  - You can mislead an investor only once. He will not return. Ever.

Investors and lifecycle of your company



Typical characteristics of various investors

- Friends and Family
  - Help you get bootstrapped, but not much more
  - They will be there whatever happens
- Business angels
  - Private individuals investing their own hard-earned money
  - Individualistic and picky, but will work hard to help you once onboard
- Venture Capitalists
  - Professional investment firms investing other peoples’ money
  - Are under pressure to provide return to their investors

How should I approach the investors?

- Understand which investors are right for your company and its stage
  - If you're still in idea stage, your best bet is FFF and grants
  - Business angels are mostly interested in companies with MVP and pilot customers
  - VCs mostly invest in companies with business traction
- Do not hesitate to contact investors
  - Most are always interested in hearing about new ideas
  - Get in touch with many investors – most will not invest, but someone might

Presenting your company to new investors

- Prepare a concise presentation ("pitch deck")
  - What is it you do?
  - Who are your customers? Why should they be interested?
  - How are you going to market, sell etc? = Go-to-Market strategy
  - Your team
  - Financing round key figures
- Remember that most investors review 100s of companies every year
  - Get to the point

Your pitch should invoke interest, not deliver all information!

Negotiating the financing round

- Your most important negotiation with investors
- Have a lawyer support you
- Make sure you and other founders agree on
  - Who will represent founders?
  - What the investment round is for?
  - Working 100% for the company for at least 3 years
  - Investors need to have a say in your company's matters
- Usually investors want to use their agreement templates
  - If not, use a generic such as seriesseed.com templates

Key agreements

- Term Sheet
  - Non-binding agreement to negotiate: you promise to talk seriously with us, and no-one else!
  - Sets up rough basic terms that can/should be agreed on right away
    - Round size
    - Valuation
- Shareholder Agreement
  - Binding
  - Defines rights, roles and responsibilities of founders and investors
  - Defines in detail the investment round: who pays & gets what
  - Defines what happens to shares in various situations

Financial terms of the investment

- Most important: Pre-money Valuation
  - “Price” of your company: how much it’s worth before the investment
- Ticket
  - Amount of money expected from a single investor
  - Several ticket sizes are common: 25k, 50k, 100k
- Investment round size: how much money you want
  - This money pays for new shares in emission
  - Pre-money + investment = post-money valuation. Investors share of the company = his investment / post-money valuation.
- Subsidies and grants are not calculated into the investment round!

Valuation

- With startups, there is very little real data to base valuation on, only projections and estimates. → Valuation is mostly based on market price.
- For growth companies with ongoing business, valuation can be calculated based on several methods.
- Key factors add or subtract from baseline valuation:
  - Strength of team
  - Size and potential of market
  - Strength of IP
  - Existing customer contracts
  - Readiness of product/Service

Credit Note or Equity round?

- In Equity Round, investors own the shares immediately when the round is completed
- With Credit Note, transfer of ownership of shares is deferred
  - Credit Note can either be converted to shares at the end of the defined period, or be paid back with interest.
  - Period typically 12 months
- Europeans prefer equity rounds, US investors often credit notes
  - In US, equity round is expensive. Better to do it when company is more solid.
- Challenge in credit note is valuation
  - Valuation of the company should rise, if all goes well – company becomes more expensive
  - Often a valuation cap is defined
  - Typically there is a discount in share price to compensate at least partially

Things to look out for

- Liquidation preferences
  - 1x is normal
- What happens to founders' shares in various situations
  - Good leaver, bad leaver
  - Drag along, tag along
- Work obligation
  - Investors will want 100% work effort
  - If a founder quits within the work obligation period, typically other shareholders have a right to buy a portion of his/her shares at nominal price (bad leaver)

Routine relations: good practices and some useful tools

- Keep all investors up to speed on how you're progressing vs goals
  - Monthly/Quarterly Investor newsletter is good practice
- Investors expect honest, timely and transparent communication
- Provide a brief summary on your development to investors regularly
  - Typically a one-pager once a month
  - Reflect development on the plans, use Key Performance Indicators (KPIs)
- Set up a folder structure for agreements, financial plans and tools, sales pipeline etc, and share it
  - On Dropbox, box.com or something similar

Tips & hints

- Don’t overdo the material to present your case
  - A compact pitch deck is enough
- Maintaining good file archives will make life easier
  - Makes responding to investors’ Due Diligence requests much easier to you
  - Easy to share with board and current investors
- Have someone experienced help you with actual negotiations
  - There are dozens of pitfalls with SHAs

Summary

- To get funded, be prepared to approach many investors
  - Most will say no, don’t let that discourage you
- Make sure your message in clear and concise
  - Think of talking to ADD teens
- When negotiating contracts, don’t try to do everything yourself
- Once funded, keep your investors informed
  - You will very likely need another round, they will be your preferred investors
- Your investors are ready to help you in other ways than money, too!


Q&A
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Next E!nnovest investment webinar

- Selma Prodanovic, Cofounder aaia: Communication with Investors
- March 7, 2 PM CET

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