FUNDRAISING

The Do’s and Dont’s

LIES & PERSPECTIVES

The Top 10 lies told by Entrepreneurs

- Our projections are **conservative**
- (A well know and reputable market research firm) says our market will be **$50 billion in 2015**
- (A fortune Top 50 company name) is going to **sign** our purchase order next week
- Key employees **have committed to join** us as soon as we get funded
- **No one is doing** what we are doing
- **No one can do** what we are doing
- **Hurry** because several other VC's are interested
- (A fortune Top 50 company name) is **too bil/dumb/slow** to be a threat for us
- We have a **proven management** team
- All we have to do is get **1% of the market**

The Top 10 lies told by VC's

- I liked you company but my partners didn't
- If you get a lead investor, we will follow
- We are all in the same boat (but we sit priveliged in the lifeboat)
- Show us some traction and we will invest
- We love to co-invest with other venture capitalists
- We are investing in your team
- I have lots of bandwidth to dedicate to your company
- This is a vanilla term sheet
- We can open doors for you at our client companies
- We like early-stage investing

Each other's perception

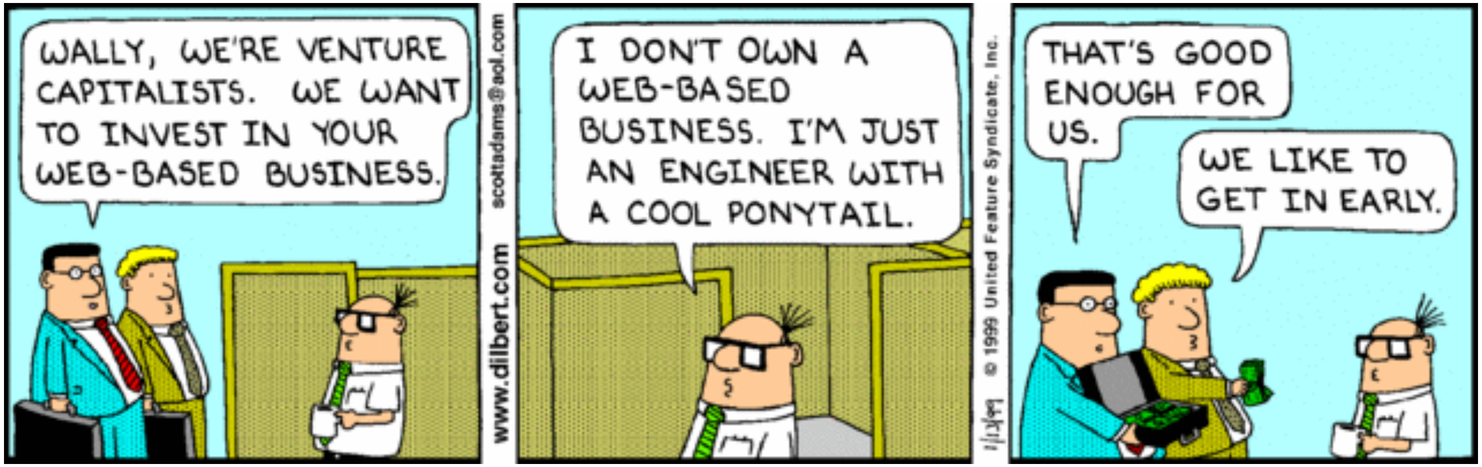
VC's think entrepreneurs

- Are arrogant, young and egocentric
- Are stubborn and don't listen
- Forget that they would not be where they are without the money of the VC
- Are obsessed with valuation and dilution
- Are overly optimistic
- Are not good at giving appreciation
- If the company is a success, it is an accomplishment of themselves and they had to give up way to much for their stock
- If the company is a failure, the VC is to blame because he does not understand the business

Entrepreneurs think VC's

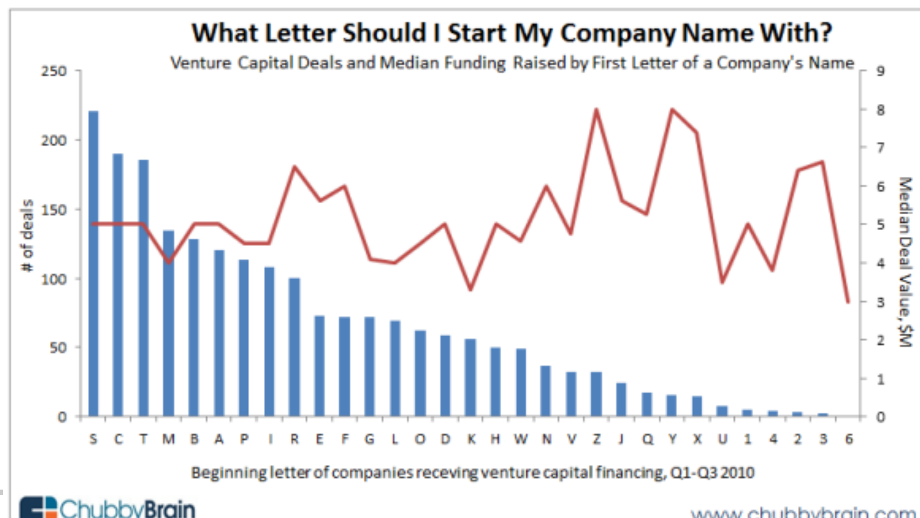
- Are arrogant, inexperienced & egocentric
- Are a necessary evil
- Are heavily overpaid and somehow believe themselves that the earn this.
- Are Risk-adverse and play with other people's money
- Think they can make a difference
- Lack operational experience
- Are never there but always feel the need to meddle
- Are not capable of contributing added value
- Are eager for power without taking any responsibility

BEFORE FUNDRAISING



General preparation

- ✓ Study and compare other **business models** used in your sector (Gross margins, R&D, G&A, S&M, contribution)
- ✓ Prepare **a slide deck** of 15 pages – never show a whole business plan on slide
- ✓ Make sure you can realize a growing **bruto margin**. If you can't, don't look for VC's
- ✓ Vc's spend more time on **analyzing numbers** then reading your business plan. So provide detailled and correct numbers !
- ✓ Present **ambitious numbers** but be able to defend them
- ✓ Don't make a **financial plan** for more then 3 years
- ✓ "What you see is what you get" – **Avoid window dressing & R&D activation**
- ✓ Prepare as of day 1 a detailled **dataroom** with all official documents (legal, financial, operational) given a possible due diligence
- ✓ Hire **top management** to assist negociations



Choice of VC

- ✓ **Select a VC** and don't be selected. Select one with a broad network
- ✓ Send a **teaser** of max 3 slides and keep some points open. This will make them curious and will make them contact you
- ✓ Organise a **follow up** via mail and contact them on different moments
- ✓ Realise that Belgian VC's are relatively young and unexperienced. So don't hesitate to **go abroad**; go to US / UK and take the initative to contact them. Don't be modest
- ✓ Study the companies a potential investing VC has invested in. You can also contact them and ask for their relation with a particular VC
- ✓ Choose a VC who can realize **added value** for your company. Make sure they can bring business on board
- ✓ Ask for **one investment manager** of the VC company to be the contact person during the whole process. Make sure you have directors who have experinece with this investing process
- ✓ Create "**buzz**" and sell your company – VC's know each other and talk about opportunities.

Legal structure

- ✓ Chose a **laywer** with experience in VC contracts. Avoid others.
- ✓ Combine a capital raise with free **investor warrants**. VC's don't like loosing money
- ✓ Avoid complex **legal structures** who will be discussion points in case of a merger / acquisition, Align the interests of the VC and your own company / founders.
- ✓ Avoid different types of **shares** (blocking majorities)
- ✓ Try to get **different VC's** on your board so they can entertain each other
- ✓ Negociate an **option** with a yearly and fix return on a certain number of shares of the VC
- ✓ Don't accept any **anti-dillition** protection. You will neigther get a present of the VC
- ✓ During negocations, include 10% as **SOP** and make sure the number holds
- ✓ Avoid **partial payment** of shares or funding in different steps. These will only delay the business plan and will allow the VC to take a "second look"

THE FUNDRAISING PROCESS

The process

- ✓ **Take control** over the whole process
- ✓ **Never present alone.** Go with a team and let eveybody speak (no ego's)
- ✓ Never give any kind of **exclusivity**.

  Negociate with 2 VC's untill the end and make them compete
- ✓ Tell the truth and **be honest** to VC's
- ✓ Know that company valuations aren't an **exact science**
- ✓ Make sure the VC doesn't **sqeeze** you when the company is short in cash
- ✓ **Publish press articles** during the fundraising process

  "if it is on the news, it must be good"
- ✓ Make sure you have **enough people** available to prepare and participate in the discussions

AFTER THE FUNDRAISING

Post fund raising

- ✓ **Don't burn your cash** faster then initally calculated.

  If you are short, the VC wil present the bill
- ✓ Set up **direct communication** lines with the VC and bring bad news immediately
- ✓ **Make the VC work.** You can expect certain tasks to be executed (studies, market research, analysis of competitors, ...). Use the network of the VC
- ✓ Make **one reporting tool** for all VC's and avoid send different information to each
- ✓ Send your **cash position** on a regular basis
- ✓ VC's like monthly **weighted and unweighted sales pipeline**
- ✓ Never forget that VC's are **not joining for charity**