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RESI Recap

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Tales from the Road

In this session, experienced entrepreneurs reflected on their fundraising experience in the various ventures they had been involved in. This session was all about how to find investors, keep them engaged and then close the deal.

Finding investors can be hard, but expanding your own networks and reaching out to high net worth individuals (e.g. business school contacts) and family offices (via investor databases and conferences like RESI) is a good start. Industry organizations like OBIO can also help with this.

Medical device companies often get traction with Angel groups, family offices, and with high net worth clinicians who understand the technology involved.

Financing is a sales process: You sell part of your company to an investor. Hence you will need to create a sales funnel, carefully assess supply and demand, and follow successful sales processes: reach out, refine, qualify leads, and close. You may need to contact 100+ investors which may give you 10 which will do shallow due diligence. Of these 4 will progress to deep due diligence and ideally you may get 2 term sheets out of this. It's a numbers game where you constantly refine your message to make it resonate and ask for next steps to keep investors engaged (you don't get if you don't ask). Create tools (e.g. spreadsheet, SalesForce) where you track all investor interactions and follow-ups.

In your pitch make sure you sell the benefits and not the features of your product. For non-Canadian investors point out that SR&ED will give a 20% kick to their investment.

It is important that you know as much as you can about the investors you interact with. Don't just get information from their website and linked-in profiles, but also consider contacting some of the CEO's from portfolio companies (qualify!), and create a structured due diligence process for evaluating investors so that you are prepared to talk and negotiate with them. In fact, they expect that you do your homework on them.

Seasonality of fundraising**:** Timelines for fundraising are long, so you need to plan ahead and be aware of the seasonal nature of this process. It's rare that things will move ahead much during the summer, thanksgiving, Christmas, and right after large investor/partnering conferences such as JP Morgan and BIO. Hence most ventures start raising in the fall or winter and use the slow summer period to mend things up (revamp presentation, update business plan, expand due diligence room, etc.)

Managing investor interest**:** Companies use a quarterly (monthly, if things are progressing fast) non-confidential newsletter to their stakeholders to keep everyone informed and up to date. This also goes out to any investors that want to be kept in the loop. In the newsletter make sure that you don't over-promise and under-deliver. Also, it is important to realize when an interaction with an investor goes stale and make sure that this does not occur. Having a SalesForce type CRM (or just a spreadsheet) to manage investor interactions or follow-ups is essential.

Valuation dance: To arrive at a mutually agreeable valuation of your company you again have to do lots of homework. Know your comps (comparable companies), know your investors, and look up their deal flow and the type of returns they expect (or would like to have). Also, talk to CEO's of other firms they have invested in. Ideally having multiple (at least two) term sheets will help you negotiate.

Syndication**:** Folks say that finding the lead investor is 70% of the effort. Once you have someone taking the lead you should try to get a term sheet early on which you can then use to get other investors on board. Ideally with two terms sheets you will need to keep the two syndicates apart so that they don't join up. This can be done if different syndicates are different investor types (e.g. VC's vs. family offices, vs. Angels). Also, you may be able to keep folks apart if they are from different locations.

Closing: Going from term sheet to closing is just as difficult as getting to a term sheet in the first place and requires careful management of expectations, and skilled and responsive communication. Allow for plenty of time for closing – 3-5 months but can be up to 9 and more months. Having two or more term sheets will instill a sense of urgency with investors. Be prepared to walk away if you get a sense that the investor just wants to string you along to put you into an increasingly desperate position (this is an investor you don't want). In short you need to be actively driving toward a closing, as the investor will rarely take on this responsibility.

When asked what would they do differently**:** Folks replied that with their next venture they would be more organized around investor targeting, managing investor relationships, and constantly updating their due diligence room. Also, companies need to actively drive closing of a deal and not leave it to the lawyers.

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