



RAISING CAPITAL FOR TECH STARTUPS

How To Get The Funding That Maximizes Your Value

INTRODUCTION

Fundraising before you are completely ready will slow you down, add costs, and, in some cases, damage your reputation.

Regardless of the stage of your tech business — nascent startup, launching a new product line, expanding your staff — securing financing is crucial.

Capital won't just fall into your lap, though, especially if you're pursuing equity funding from venture capitalists or financial "angels."

Hurdles abound. Even after months of pursuing investors, only about 1% of startups will get VC financing. Raising debt may be easier, but some forms of debt funding require that your startup meet minimum requirements.

Attempting to raise funds before you are completely ready can slow down your startup's growth, add costs, and even damage your reputation, hindering future fundraising efforts.

Whether you are seeking equity or debt funding, this guide examines the key things you must prepare, consider and understand to land the best possible deal for your needs.

Let's get started.

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MENTALLY PREPARING FOR FUNDRAISING

Next to committing to launch a tech startup, how you'll fund its growth is the biggest financial decision you'll face — a decision that will determine your startup's trajectory and long-term value. The process of raising capital will twist and turn and will take far more energy, time and resources than you anticipate.

These steps and guidelines will help you.

LEARN ABOUT ALL YOUR FUNDING OPTIONS

The abundance of available funding options — venture capital, angels, super angels, angel networks, crowdfunding, corporate venture, revenue-based financing, tech banks, peer-to-peer lending — is a good-news/bad-news scenario. Every financing source has its own complexities and suitability to different objectives, company types and growth stages.

Beyond that, entrepreneurs can become fixated on raising a particular type of capital because it is readily available, is what they know, or is seen as a stamp of approval or success. It's important to know that securing funding is not an end in itself, but rather a pivot point, the beginning of a new phase requiring work and dedication toward the company's growth.

Before you seek capital, do your homework and educate yourself about the pros, cons, and consequences of heading down a particular fundraising path.

Fundraising commonly falls into one of three paths. As you dive into your financials, metrics, business plan, and projections, you can better determine how much capital you will need and which source of capital will best suit your needs.

THINGS TO KEEP IN MIND

Talk to as many of the different sources of capital as you can. Position these conversations as opportunities to learn. Don't start pitching before you're ready.

Seek out entrepreneurs that have used a funding option. Try and learn the good, the bad and the ugly. Many investors will list their portfolio companies on their websites — try reaching out to one or two or search your network for someone to introduce you.

Bring someone into the process who knows you, your startup and raising capital. Someone whom you trust to give you the brutal truth. Lean on your business lawyer or a professional CFO, or scour your network for those with the right background if you don't have professional funding advice to rely on.

Follow investment industry experts and news. Keep abreast of the investing cycle and what's hot and what's not. Just make sure not to get caught up in the hype.

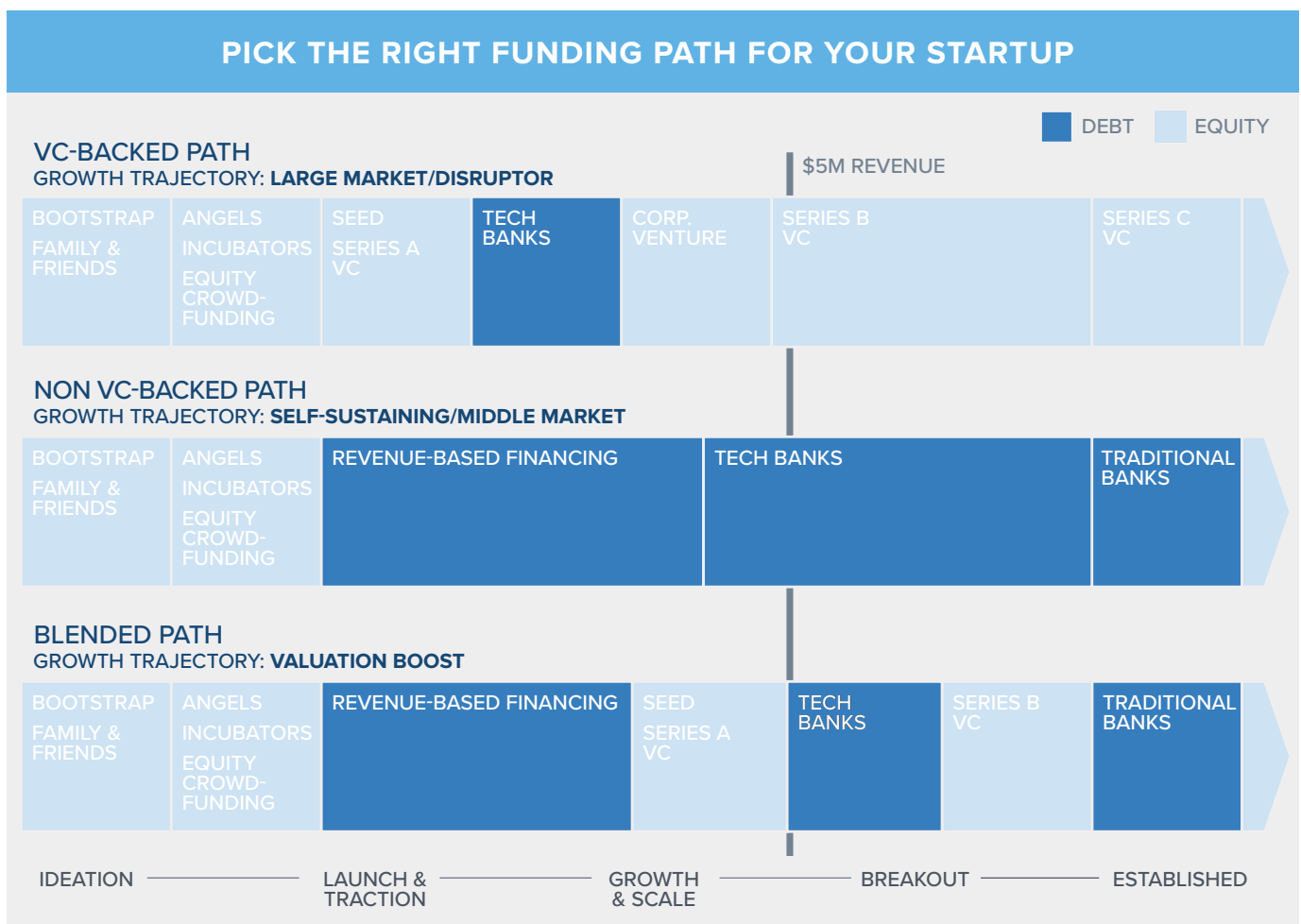


Figure 1. This is from our guide [How to Choose the Best Funding Path for Your Startup](#), which is a great place to start learning more about various funding options.

SET A REALISTIC TIMELINE

Many entrepreneurs underestimate the requisite preparation, time, and resources. Doing diligent research, creating solid financial projections, organizing your financial data and metrics, making connections, moving through the approval process, and finalizing agreements will take more time — and more of you — than you anticipate.

Factor in this time, and plan how the company will progress while you're focused on fundraising, or your startup could languish or even collapse while you focus on funding.

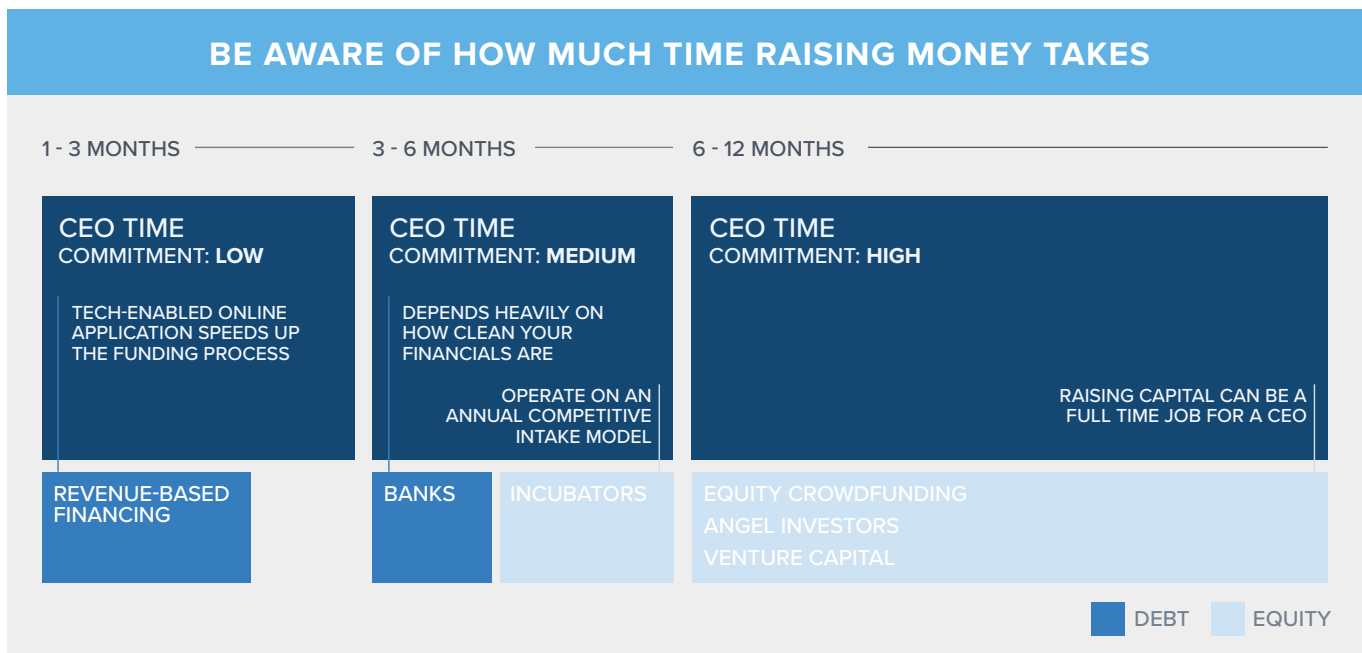


Figure 2. This is from our guide [How to Choose the Best Funding Path for Your Startup](#), which is a great place to start learning more about various funding options.

MENTALLY PREPARE YOUR TEAM

You don't want your company to languish and need lots of attention to get back to where it was before you started fundraising.

No matter how much you try to stay involved in your company's day-to-day management during your fundraising efforts, it would be foolhardy to rely solely on your personal leadership to keep sales figures up and your product development on schedule.

Ideally, someone on your management team can take over major responsibilities, but a Catch-22 arises when the funding you're seeking is precisely the money needed to hire people for that purpose.

SO WHAT CAN YOU DO?

Make sure your key people know when you'll be distracted by fundraising.

Create plans they can focus on without your help.

Make sure they are prepared to step up and fill the gap.

Identify duties you can easily delegate.

Hire someone with skills in a specific area, such as sales, bookkeeping or product planning.

DO NOT NEGLECT CULTURAL FIT WITH INVESTORS

A startup's potential can suffer when the relationship between investors and entrepreneurs breaks down.

As you think about what capital sources make sense for you, don't underestimate the importance of finding an investor you can work with.

With debt financing, most lenders are not trying to influence or exercise control over your day-to-day operations and decision-making. Still, make sure they align with your mission and that they treat their customers fairly.

Once you secure an equity investment, you'll work closely with your investors for a long time, because they'll become de facto partners. You'll need to establish strong relationships and clear communication with them. If you're offered an investment on great terms but you don't have a strong personal relationship with the investor, think twice about the deal.

When the relationship between investors and entrepreneurs breaks down, the startup can fail to meet its potential, leaving the entrepreneur with no value realized from the startup. If you're constantly clashing with your investors over the direction of the company, how to do reporting, or what the role of the Board of Investors should be, you'll be sapping energy from running and developing your company.

Before you commit to any financing deal, consult with entrepreneurs who've worked with the investors, and find out what it's like to partner with them — in good times and bad.

DO THE LEGWORK TO BUILD A NETWORK

When raising capital, it helps to have a strong network. Being active in your local or industry community helps build your credibility and profile. Investors will want to work with someone who is highly regarded and passionate about engaging with and contributing to their communities.

Start building networks where you live and within your industry.

TIPS TO GET YOU STARTED

LinkedIn is your friend. Inventory all your contacts, and add them to your social networks. Then browse those contacts for second-degree connections you might want to engage with.

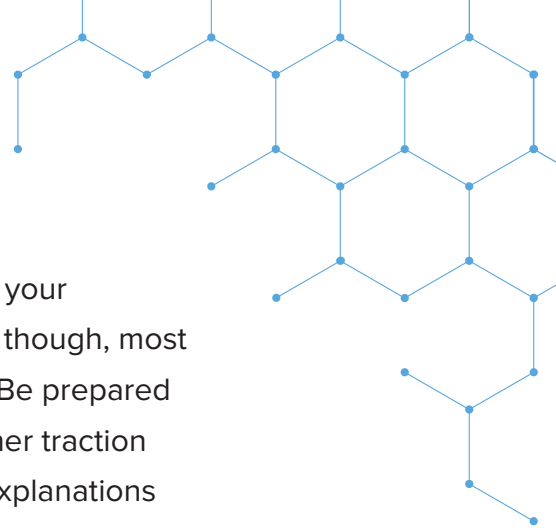
Plug into your local community. Get out and make face-to-face contacts. Attend local meet-ups to connect with other entrepreneurs and industry insiders.

Help people in your network whenever you can. Offer to mentor or volunteer at a local university. Teach workshops and seminars in your community to highlight your expertise.

Make the most of social media. Establish a strong online presence. Create professional profiles that accurately portray you and your company. Publish valuable content that people want to share, and participate in relevant conversations.

Get to know your local bankers. A bank loan is probably the cheapest form of capital you can get. Though banks are more likely to invest in non-tech firms than in tech firms, you have a shot at getting some capital. Establish relationships with local bankers, open an account, and invite them for coffee to initiate the relationship. They are more likely to invest in an account holder they know as a member of their community.

KNOWING THE METRICS THAT MATTER MOST TO INVESTORS



In due diligence, investors will crunch numbers to evaluate whether your company is a solid investment with sufficient growth potential. First, though, most will ask to see preliminary data that shows your startup’s trajectory. Be prepared to explain your company’s progress, from historical revenue and other traction metrics (with supporting data) to financial projections with rational explanations for your key assumptions.

For traditional debt financing, your historical data will be crucial. By contrast, equity investors will focus on metrics indicating fast growth and market potential. Base your presentation on metrics — and make sure they add up — or your credibility will suffer.

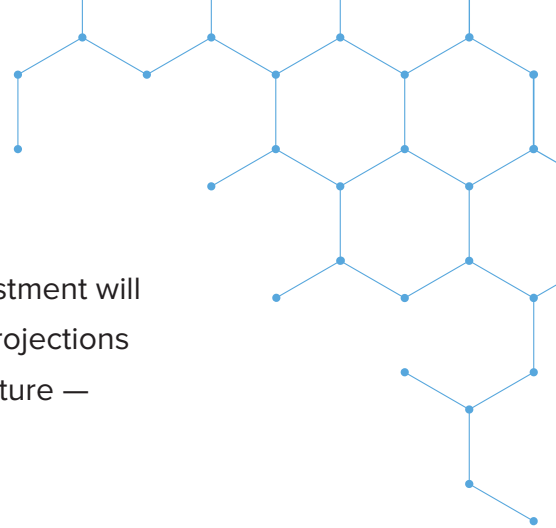
FINANCIAL METRICS

	TRADITIONAL DEBT INVESTORS	REVENUE-BASED FINANCING	EQUITY INVESTORS
REVENUE	Consistent revenue year-over-year flat is fine for traditional banks	Growing typically between 20-200% year-over-year	Growing by 100%+ year-over-year
MRR	Not applicable. MRR Line of Credit from tech banks may be available if your annual revenue is over \$5M	Growing through new customers or existing customers by at least 20% per year	Growing at 100%+ per year and showing strong traction with existing and new customers
GROSS MARGIN	Positive gross margins	Gross margins of at least 50%	High margins are preferred, but scalability to sustain hyper growth is more important
NET INCOME	Positive net income	A path to profitability — startup can have negative net income now but needs to have a way to reach breakeven	Net income loss is fine but generally like look at the 40% rule
OUTSTANDING DEBT	No other outstanding debt	Institutional banks and convertible debt are okay	Prefer no other outstanding debt

GROWTH METRICS

	TRADITIONAL DEBT INVESTORS	REVENUE-BASED FINANCING	EQUITY INVESTORS
CUSTOMERS	A strong and diversified customer base is important. Need to see consistent payment from customers	Require more than 5 customers with growth year-over-year	Customer growth is critical, since product-market fit is a major stepping stone equity investors want to see
CHURN	Not applicable.	Less than 20% for sales to large enterprises, and 20-40% or sales to SMBs	Less than 20% for sales to large enterprises, and 20-40% for sales to SMBs
CAC RATIO	Not applicable.	Depends on the LTV of your customers — If they stay with you for 3 years, 0.5 is fine. If they are only 1 year customers you need to be at the minimum of 1.	Love to see 1 or better
CUSTOMER LIFETIME VALUE	Not applicable.	Higher than the cost to acquire	Depends on the investment horizon of the investor
PRODUCT MARKET FIT	Not applicable.	Need to see sustainability and adoption of product in the specific markets	Large definable market and clear differentiated space is required

CREATING SOUND FINANCIAL MILESTONES AND PROJECTIONS



Investors want to know your startup's objectives and how their investment will help you achieve them, so present attractive yet realistic financial projections when raising capital. Tell your startup's story — past, present, and future — all with supporting data and analysis.

Follow these guidelines:

Use your historical data as a baseline

Typically, investors seek two to three years of historical financials to ground them on your current status. If your company is younger than that, offer all you've got. Historical financials convey what you have accomplished, setting a foundation for future scale and efficiencies. If you have a multi-year track record, historical financials can illustrate how you've managed your business and prior investments.

Show all expenses needed to achieve revenue projections

Is your gross margin declining? Are your incremental expenses decreasing with scale? Is your net margin increasing to align with mature competitors? If your revenue is projected to triple year over year while you've doubled your fixed costs, you can demonstrate a path to profitability. Top-line growth is always attractive, but without profit/loss efficiencies, a business is not sustainable.

Connect the dots

Determine what investments will help you achieve your growth targets.

Should you:

- Expand your sales team?
- Increase back-office staff?
- Invest in additional product development?
- Hire additional key executives?
- Pay for a significant marketing push?
- Invest in infrastructure, fixed assets or inventory?
- Raise additional equity?
- Try to obtain debt financing?
- Raise equity and debt to maintain a strong balance sheet?

The answers will help you determine which investments would fuel your growth. Include them in your projections so an investor understands the commitment needed to achieve your goals. Show a judicious cash management approach — including minimal cash burn and controlled spending — in your projections.

Answering these questions will help you determine the investments that need to be made to fuel your growth and guide you towards the type of capital you need to raise.

Strive for plausible optimism

Investors will discount your projections, so be aggressive — but truthful. Show that your startup has significant potential to scale and generate attractive profits, but do so in a manner grounded in realistic fundamentals.

Start with a realistic base case and include an upside scenario showing the potential if the stars align. Make the projections achievable for both your company and prospective investors; all the parties want to be in sync. Appeal to the investor's ego, showing what their capital can do to promote rapid scalability for your joint venture. Keep it hopeful but feasible.

Create that realistic baseline by diligently gathering historical information. Attention to detail and keeping clean books will give investors confidence in your prospects. Your monthly projections should provide granularity showing how you are spending investments and converting dollars into profits. As needed, adjust for seasonality.

Do your homework and show your expertise

By showing a clear strategy around unit pricing, sales team structure, and operating efficiencies, you will demonstrate your deep knowledge of your industry sector.

Do your market research so you have comparables on metrics; investors often evaluate peer companies for reference. If, for example, the average gross margins of a mature company are 70% and you're showing 80% margins in year two, questions may arise.

Iterate until you get it right

Creating financial projections is a bottom-up exercise, so it might take a few iterations to substantiate your desired story. Start from basic components and build up to generate top-line projections. If the story doesn't tie to your vision, adjust the components to create your ideal path.

You'll see how different investments and business initiatives pay off or don't pay off — which is exactly what an investor will ask. Precise record-keeping, granular projections based on unit economics, and thoughtful analysis will help you in your fundraising effort, as well as make you a savvier and more informed entrepreneur capable of operating a sustainable business.

Create solid milestones

Set key benchmarks for your investment capital, such as hiring employees, developing a product or feature, increasing sales by a certain amount, or capturing a certain percentage of your market share.

Investors require milestones that:

- have a discreet outcome and deadline, such as “Develop new app by month 6,” or “Hire a VP of Marketing by month 9,” or “Double sales by month 12.”
- are achievable and will improve the company's bottom line.
- significantly increase a startup's value and put you in a good position to raise the next round of funding at favorable terms.

PROVIDE THE DOCUMENTS INVESTORS REQUIRE

Traditional debt investors will focus on historical financials and data; equity providers will require details of your idea and its future potential.

Here's a checklist to get you started:

TRADITIONAL DEBT INVESTORS	REVENUE-BASED FINANCING	EQUITY INVESTORS
<p>Historic financials, at the minimum quarterly financials for the last 12 months</p> <p>Any institutional lending source will require that you produce monthly financials, so getting this ready will serve you down the line</p> <p>Customer contracts for top customers</p> <p>A/R Aging Report</p> <p>Tax Returns</p> <p>Legal documents</p> <p>Any schedule of any personal assets that you are willing to use for the guarantee</p>	<p>Historic financials (24 months of monthlies) including P&L, balance sheet, and a cash flow statement, if you are accrual</p> <p>Growth projections, along with the financial models used to create those projections</p> <p>Top 10 customer information and a standard contract</p> <p>Product overview</p> <p>Amount of funds needed and use clearly defined</p>	<p>An investor pitch email containing:</p> <p>A three-sentence description of the company.</p> <p>Five bullet points with your best five growth metrics that show great traction, great customers, great existing investors, or whatever it is that's going to make your company look good</p> <p>An investor deck — not too long, but it should give a decent idea of the startup. Keep it under 15 slides (you can always have an appendix if you think something is really needed) The current standard of excellence is to hire an outside design firm that specializes in designing pitch decks</p> <p>Backup information slides with one slide for each major question you think you'll get</p> <p>A good product demo — the most compelling way to communicate what you are tryin to achieve</p> <p>Financial projections — a full model is best</p> <p>Legal documents. Retain a great lawyer to ensure you have your legal house in order.</p>

Ok here's a list of what we require for just the initial application:

- Product Offering Overview (what it is, who you sell to, how you bill/get paid, etc.)
- Historical financials (monthly P&L and monthly balance sheet dating back 36+ months or as long as operational)
- Churn data (24+ months)
- Top 3 customers (names and revenue levels)
- Existing debt details (lender name, loan amount & structure)
- Use of funds (for Lighter's loan)

We also eventually technically need all of this before funding, but we don't ask for it until they sign the term sheet - not sure if you want to include, but up to you:

- Bank account connection (read-only; API with Plaid) or Bank Statements
- Tax Returns
- Charter/Corporate/Formation docs
- Criminal and Credit Background Check for Key Employee (e.g. CEO)
- Downside/Monthly Cash Flow Projections for next 12 months (optional)
- Customer Reference Calls/Surveys (optional; if large customer concentrations)

AVOID COMMON PITFALLS

Financial sloppiness will turn off investors. Some essentials:

Don't track your financials in Excel.

Entering your numbers in a spreadsheet raises questions about their accuracy. At the very least, you should be using Quickbooks or Xero or another service synched with your business accounts.

Understand what your numbers mean.

If you present your financials to investors with the wrong conclusions, they will doubt your business acumen.

Make sure your financials match your investment roadmap.

When you're approaching a debt lender for a loan, for example, know what your burn is. A high burn rate limits your financing options. If you seek a \$160,000 loan and you're burning through \$40,000K a month, you'll use up the investment in four months — a red flag for debt lenders.

Have a professional look over your financials.

Ask your tax accountant to review them. They'll let you know if you are doing anything blatantly wrong. If you run into bigger issues, consider getting help from a specialist in startup financials.

No unsigned contracts.

This one may seem obvious, but it's not uncommon for signators to miss a signature line or an initials box.

Make sure your references are solid.

You may think your customers are delighted with your product, but before you use them as a reference, check that they will wholeheartedly endorse you; they should not hesitate about whether they'll renew their subscription when asked by a lender or investor.

Sweat the details.

Take care of essential details, like making sure your company is in good standing and filing your tax returns.

TELLING AN IRRESISTIBLE STORY THAT MAKES YOUR COMPANY SHINE

Your initial encounters with an investor or lender could be a formal pitch meeting or a tweet, a phone call, a text message, a webinar, an email, or an online application form.

Whatever the format, you should be able to explain:

- the core problem your product is solving;
- the benefits for your customers;
- how investing in your company will benefit the investor.

Once your investors are intrigued, they will grill you for details, and you can impress them with all the information you've gathered. Check off the following to gain and keep their interest.

TELLING A GREAT STORY

To tell a story well, be simple, passionate, and articulate, and provide real examples. Ask yourself the following as you craft your narrative.

Can a layman understand what you do?

Investors don't have the time to research your idea, so you must succinctly explain the concept, the market, and the plan of attack. Talk to a family member and explain what you do. You know you've hit it when they don't zone out and sincerely respond, "I get it!"

Can you articulate your competitive edge?

Where do you sit within the marketplace? How is your product or service different from others and why? Present the lay of the land, demo your product, tell customer stories, and focus on your unique offerings.

Still have your passion?

Think about why you started the business and how you feel about it now. If you've thought through all the reasons why you're still in the game, you'll be much more convincing when you talk about your company's future.

Is this real?

Having customer anecdotes and stories ready is the best way to get your message across. Real-life stories make your pitch land and stick.

PRESENT YOUR COMPANY IN THE BEST LIGHT POSSIBLE

Even a small startup must look as professional online as established companies. Follow these guidelines to enhance your online presence, which often provides potential clients, partners and investors their first impression of your company

HAVE A GREAT WEBSITE THAT TELLS YOUR STORY WELL

Don't reinvent the wheel

- Research your competitors' sites, and outdo them on every single page.
- Make sure your point of difference is clear.
- Don't waste time and money on the slickest designs and bells and whistles for your site.

Include keywords

- Use the language investors and customers use when they search for information related to your industry.
- Look in your site analytics suite for the search terms visitors use on your site.
- Research keyword ideas in Google's Keyword Planner.

Your contact info is gold

- Make sure your contact information is the first thing visitors see; otherwise they can be gone in seconds.
- Include a phone number (or several, as needed), an email address, and a contact form. Don't discount chatbots; they can direct customers to the right rep quickly and inexpensively.

Make your site mobile-friendly

- Test how well your site displays on a variety of devices.
- Make sure you pass Google's mobile test.

Manage your investor-facing profiles

Create multiple online matchmaking profiles — and keep them up to date. At Lighter Capital, we look at applicant profiles on Crunchbase and AngelList to get a quick idea of their capital raising history and the investors that have been involved. To connect with investors, create presences on an array of platforms, and stick with the most productive.

LINKEDIN IS YOUR OTHER WEBSITE

Potential investors will check you out on LinkedIn before they get to your site so take your profiles seriously.

Treat your LinkedIn profile as a resume. For key team members and for your company. Investors not only invest in products they also invest in teams.

Include a summary on your profile of what your company does. In addition to your job description, include the 30-second elevator speech for what your company does, along with a link to the company's website. And make sure you have a professional looking picture.

Create a company page on LinkedIn. Reach a wider audience for your blog posts by sharing them on your company page.

Show an interest in the investors you are courting. Some investors won't even consider you if you don't check out their LinkedIn profile.

Depending on your industry, your target audience may frequent other social networks. The key to managing social media successfully is to be consistent. Prioritize and focus.

“ We were looking for a VC partner, but we wanted to retain equity. I discovered Lighter Capital, who offers VC style services, but doesn't require equity. Their non-dilutive funding and strategic partnership has proven to be a win-win situation for Numeracle.



SCOTT SEHON
CFO



ABOUT LIGHTER CAPITAL

Lighter Capital is the leader in founder-friendly financing. Our unmatched combination of up to \$4 million in non-dilutive financing, professional networking resources, product discounts, and capital partner connections have helped hundreds of US, Canadian and Australian startups succeed on their terms. Founders find our application process easy and prefer how our financing features no hidden fees, equity, warrants, or covenant requirements. We've already financed numerous startups, yours could be next.

INTERESTED IN APPLYING FOR A LOAN?

If you're ready to expand your tech startup and still want to maintain ownership and control, connect with our investment team by [applying for funding today](#).