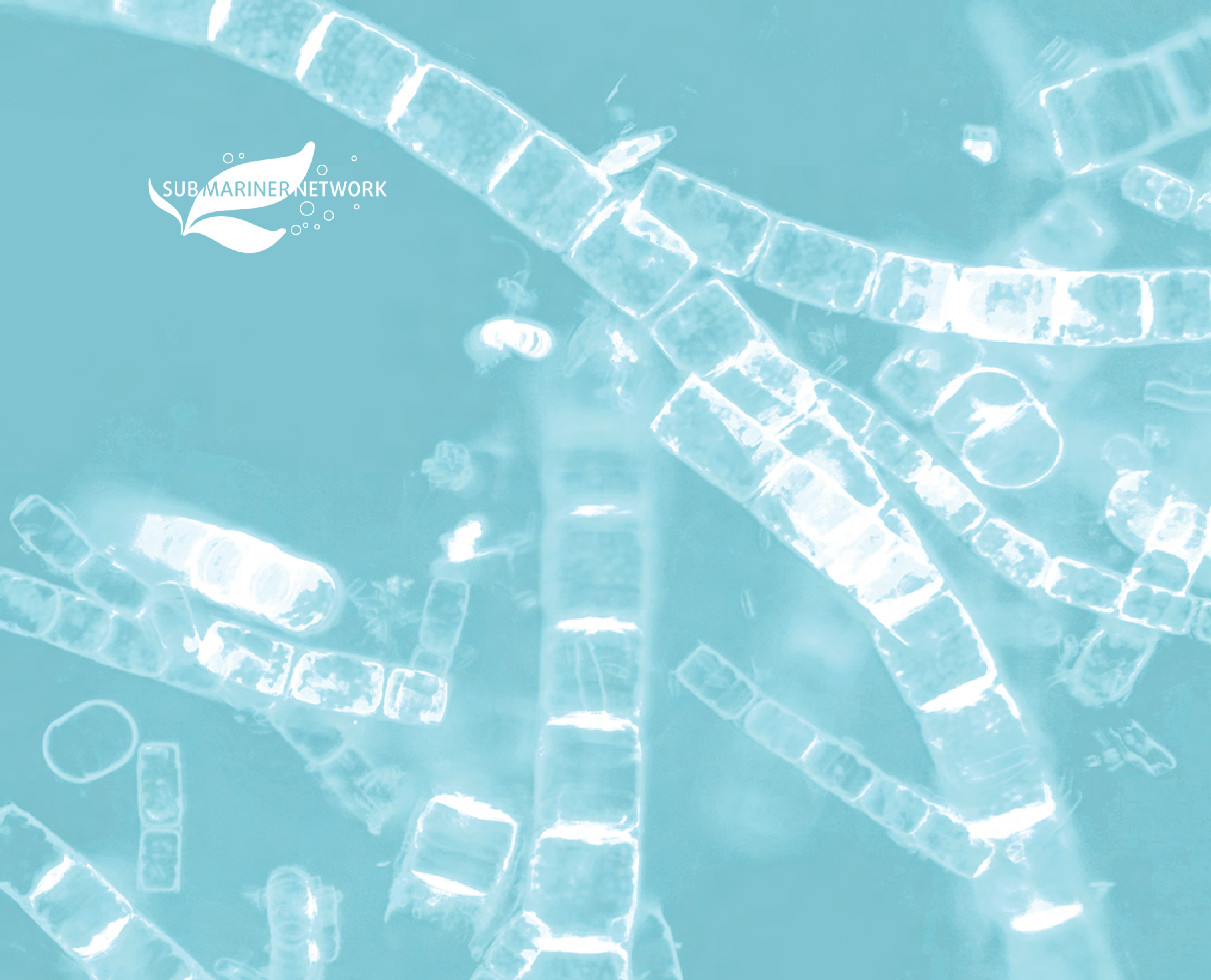

SUBMARINER NETWORK

Baltic Blue Biotechnology Alliance + project (2019-2021)

FUNDRAISING GUIDE FOR BIO TECH STARTUPS

The Baltic Blue Biotechnology Alliance + project was
co-financed by INTERREG BSR (2019-2021)

Baltic Blue Biotechnology Alliance + project (2019-2021)

FUNDRAISING GUIDE FOR BIO TECH STARTUPS

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INTRODUCTION

Together we can improve the Baltic Sea environment.

SUBMARINER Network for Blue Growth EEIG promotes innovative approaches to the sustainable use of marine resources and offers a cooperation platform to related actors and initiatives in the Baltic Sea Region.

SUBMARINER Network is a unique platform that brings together actors from the whole Baltic Sea Region to actively promote innovative and sustainable uses of marine resources. It operates across the whole knowledge triangle (education, research, and innovation), by integrating perspectives from local to transnational scale, different science disciplines as well as policy and economic institutions.

1. Identifying actors, competences and initiatives
2. SUBMARINER match-making: website, newsletter, events, projects
3. Members connected to right partners - taking their idea further in joint initiatives

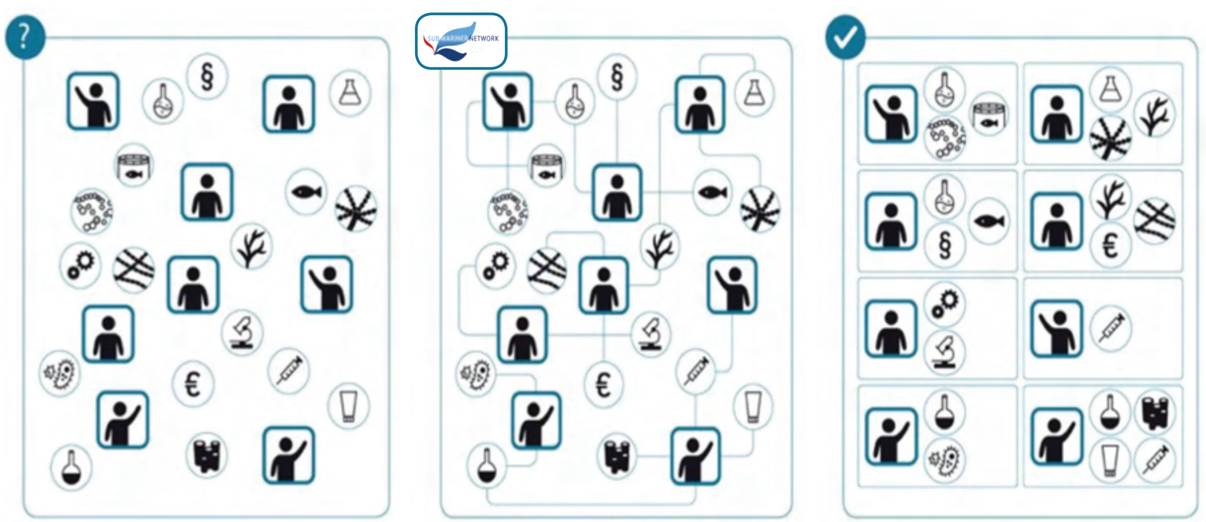
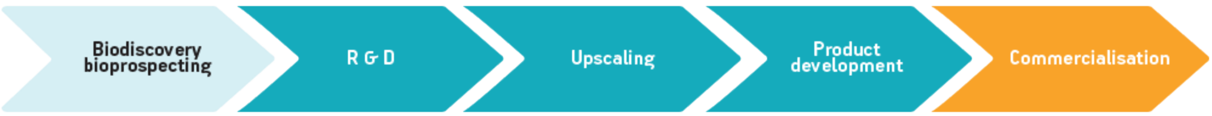


FIGURE 1. SUBMARINER Network connects people and ideas to solve both regional and global challenges involving Baltic marine resources as identified in the SUBMARINER Roadmap 2021-2027.

From Alliance to the Accelerator for Blue Growth

SUBMARINER Network manages the Accelerator for Blue Growth that is a niche network accelerator and mentoring programme that leverages capacities of 80+ mentors from blue bioeconomy and blue growth areas and has mentored more than 40 cases since 2016.

The aim of the Accelerator is to accelerate innovation, tech-transfer and product development across the Baltic and beyond by mobilising experts needed across the value chain.



The Accelerator was developed during the Baltic Blue Biotech Alliance project (co-funded by Interreg BSR) to develop and pilot the mentoring programme, followed by the Alliance + project (co-funded by Interreg BSR) which supported the operationalisation of the Accelerator beyond 2021.

Accelerator toolbox

Other tools developed by the Alliance project that are available to cases and mentors of the Network are:

- ✓ **A Mentoring programme and a process** for companies that seek support on scienfitifc, technical and business dimensions.
- ✓ An **experts forum** of mentors, service providers, mentees and supporters, meeting monthly online.
- ✓ An array of **business relevant physical and online events**, workshops on tech transfer, financing and business development, thematic B2B events with pitching competitions, panel discussions, trainiing sessions, bootcamps and lobbying activities.
- ✓ **Online service database** for match-making experts and cases.
- ✓ **Online Bioresources Database**, on where to find marine bioresources (biobank infosheet).
- ✓ **Business Awareness Assessment Tool**, a full guide to find what is the next steps in startup business development.
- ✓ **Legal toolbox** with templates, model agreements and check lists for startups.
- ✓ **Market studies** for niche sectors, and links with developers.
- ✓ A 100-pages report on: **Findings from the Alliance mentoring and accelerator programme with recommendations on future actions within blue biotechnology in the Region** (2019-2021).
- ✓ **Open 365 recruitment process.**
- ✓ A **Blue Detectives** community of scouts and promoters.
- ✓ A fully illustrated **handbook for new mentors.**

In addition, on **SUBMARINER** website, can be found:

- ✓ **A Blue Actors Adress book of 6,000+ actors** from public and private organisations in the blue bioeconomy in the Baltics and beyond, among which are companies, and innpvation support organisations, such as funding programmes, investors, accelerators and other supporters.
- ✓ **Repository webpages on blue biotechnology, aquaculture, algae, marine litter and more,** with projects, actors, reports, tools and actors active on the field in the region.
- ✓ A portal with **career and placement services** also in blue biorechnology and ocean literacy.
- ✓ A online **Baltic catalogue of blue bioeconomy companies and products** in the market.

The present **Fundraising Guide For Biotechnology Startups** was developed by Klaipeda Science and Technology Park in Lithuania during the Alliance+ project, and it represents an integral part of the toolbox that the Accelerator offers to enrolling startups and SMEs and the work with the mentors/ experts.

This manual is for bio tech start-ups which differ from other tech start-ups due to high investment, long development cycle and so on. It aims to give advice on what investment mechanisms are available in the field of biotechnology work.

SUBMARINER NETWORK

For more information about the Accelerator for Blue Growth, check out the homepage:

https://submariner-network.eu/

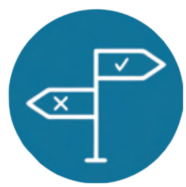
FUNDRAISING CHALLENGES

Specifics of biotechnology start - ups

For most ordinary start-ups, funding is rarely an obstacle to a good business idea. However, biotechnology is different for a number of reasons. First of all, unlike consumer product companies or even a software company developing a new platform, proof of concept and prototyping costs are extremely high in biotechnology. Even the initial R&D requires access to laboratories, industrial machinery, chemical components etc. Furthermore, costs for highly experienced and trained team members come at a premium. In general, start-up capital comprises a large percentage of the overall investment.

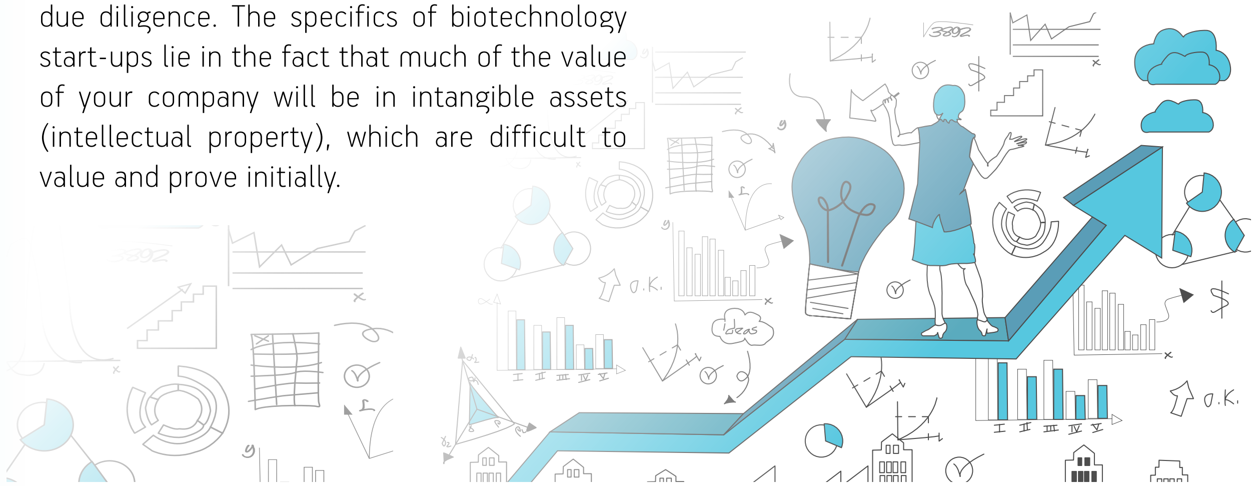
Another requirement for funding is extensive due diligence. The specifics of biotechnology start-ups lie in the fact that much of the value of your company will be in intangible assets (intellectual property), which are difficult to value and prove initially.

Decide who will be responsible for fundraising



A crucial first step is to appoint a co-founder responsible for fundraising and meeting with investors. Other co-founders will focus on technology development during the fundraising process. Being a good storyteller will make a pitch memorable and trigger discussions, so one co-founder should be nominated to present. Personal relationships with potential investors, partners, and good connections should be started immediately, even before the fundraising phase.

Perseverance and patience are two of the best traits needed for fundraising. Rejections are inevitable but this should not be taken personally. Anticipating rejection in advance will counteract feelings of discouragement.



The fundraising mindset

A successful mindset for fundraising is to be willing to step out of one's comfort zone. Quantity is just as important as quality in this respect. It is advisable to have several meetings with different investors before making a final decision on the partnership. Detailed preparations for the fundraising stage will ensure success and avoid disappointment. Fundraising is a process that takes time. The process is not always easy, so start networking and developing relationships as early as possible, before the actual fundraising stage.

- ✓ Every meeting adds to experience and expands your knowledge. Rejection is inevitable, but this is all part of the learning process. Be prepared and don't take it personally. Assess what isn't working and update your fundraising material accordingly or even the business model itself if necessary.

- ✓ Rejection from an investor is not the end of the story. Take it as a lesson learned and the next meeting will be better.
- ✓ Analyze feedback from meetings. This will often include very valuable and frank advice, sometimes in the form of straightforward criticisms but also subtle hints or even personal remarks.
- ✓ Develop the habit of writing down questions asked and comments from the meetings. Revisit them the next day and draw conclusions on how to improve for next time.

Every investment proposal is different

The best time to raise capital is before it becomes critical for the business, so you can still walk away if the deal is not good enough. Having clear development and fundraising milestones defined will help in this regard.

Should the situation arise where an investor asks for more than 25% of the equity, be very careful. Giving up too much equity and control over the decision making too early might make future investors doubt your capabilities to successfully develop the business.

Do plenty of research on potential investors, get to know them but stay sceptical, even if their financial proposal looks great. This will help to avoid bad working relationships or incompatible values.

Be open to different types of investors

Not every investor is equally valuable, even if they offer the same amount of capital. Funding sources will be discussed in more detail later in this guide, but first it is beneficial to anticipate meeting different types of investors, including but not limited to the following:

- ✓ Investors with little understanding of the content, but with their own opinion and assumptions about the product and business. In this case, focus on facts and new hypotheses to be checked, not on their opinions and assumptions.
- ✓ Investors who don't have the money and don't intend to invest, but still claim to be active in the market. If they don't have demonstrable ongoing investments or clear intentions to invest in a new business, don't waste your time!
- ✓ Investors who want to know every detail of the plan for the next three to five years, even though some details will be impossible to predict. Explain your plan and the conditions and assumptions under which the plan is built. Try to avoid getting into details, since a startup is not the same as an established business. At this early stage, expect there to be many directional changes.
- ✓ Investors who give good feedback and could help, but only want to commit together with another investor - this is a good sign. Find out as much as possible about their doubts. Are they relevant to your startup or are there limiting factors? Increase your efforts to find additional investors and maintain a relationship with the investors who expressed interest.
- ✓ Investors who are extremely helpful and want you to succeed, but want to see more traction before they invest - also a good sign! This constitutes a good relationship with a future partner and demonstrates which problems to overcome to get to the next stage. Listen to investor's advice and get more traction.
- ✓ Investors who want to invest but don't agree with the business valuation, asking for more equity than was offered. This is not a problem, but don't rush to sign a deal. Ask first how they arrived at their valuation. Do they point out any significant issues? It might be wise to make some fundamental changes in your business to maximise the valuation before fundraising. Secondly, seek outside advice and prepare to defend your offer. Finally, before committing to a deal, go to meetings with other investors and listen to their offers for comparison.
- ✓ Investors who are interested in your business, but doubt the team members' abilities. This may feel personal. Instead of responding emotionally, ask them to explain their perceptions of your team. There may be some reasonable concerns to address. If they do not offer sound arguments, don't take it personally. Seek for other opportunities with other investors.

FUNDING SOURCES

Various financing options can be pursued as a biotechnology startup. During the research phase into funding, there may be potential to access multiple different types of funding. Furthermore, the wider your circle of connections, the greater the access to opportunities.

1 Grants and Public Funding

Grants from government, corporate, or research organizations could constitute a significant contribution if your business focuses on a scientific or research-oriented field, as biotech startups usually do. It's worth the effort to research what grants you could apply for, as there are a number of available grants for biotech startups. This is especially advantageous for earlier-stage companies still in R&D phases which need foundational capital to kickstart their business.

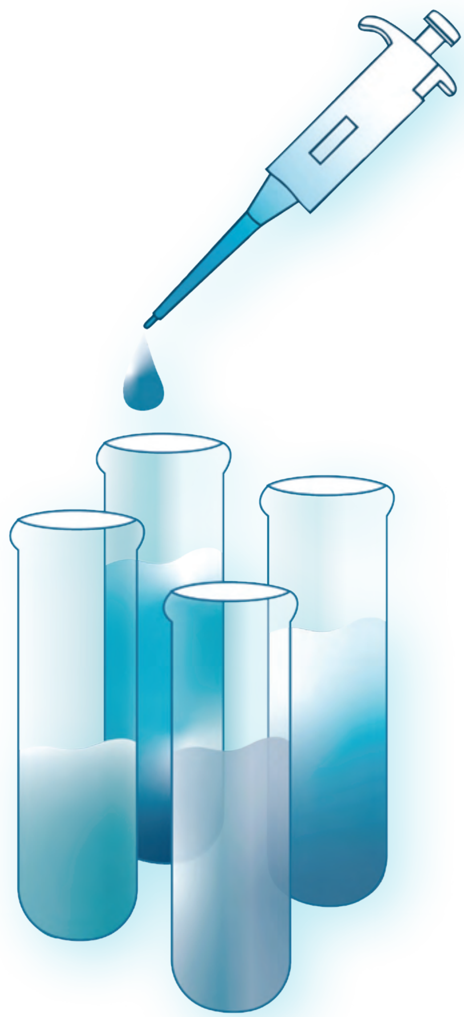
Each grant has different eligibility and submission requirements, often with awards. Grants are not only highly prestigious but also an amazing growth engine for your business, without having to give up equity or pay back interest.

Similarly, many established corporate biotech companies (like Pfizer) or larger nonprofits (Prevent Cancer Foundation) sponsor different size grants for biotech startups at different stages. Many are intended for post-graduates or post-docs, but some are aimed at health professionals, so it's worth researching what's available.

If you intend to pursue partly financing your biotech startup through grant funding, it'll involve a lot of research. Grants are highly competitive, so check the requirements and work hard on the application. It might take time, but it will make a big difference to your business. We recommend using Science's biotech grant search tool to begin.

2 University Funds

Many biotech startups originate from university research spin-offs. If your biotech company is the product of a university innovation program or an academic incubator, there might be some financing options. These could consist of financial backing or access to valuable university resources. Look into any potential opportunities at your local university if this is relevant to your business.



3 Startup accelerators and incubators

Another option is to apply to accelerators and incubators. There are plenty of them and their requirements are varied. An accelerator generally works with startups for a specified amount of time (90—120 days is most common). Accelerators can also offer startups a certain amount of capital (usually up to 30,000 EUR). In exchange for their guidance, capital and services, most accelerators require anywhere from 3 to 10% ownership of your company. Joining the accelerator is not the only solution to your startup funding. The main goal is to prepare your startup to raise larger amounts of capital. Accelerators try to grow the size and value of a startup as quickly as possible to prepare it for an initial round of funding.

Incubators focus less on growth, instead helping startups with mentorship, often lasting over a year. They usually do not provide upfront capital like accelerators and take little to no equity in your company. Many incubators are funded by grants through universities, allowing them to provide their services without taking some equity out of your startup. It's far more difficult to get into an incubator because many startups are competing to receive help without losing part of their ownership. An incubator is unlikely to give funds to develop a startup, but being in the incubator may help to develop your startup much faster and attract investors from other sources.

SUBMARINER's Accelerator for Blue Growth, is positioned between an incubator and an accelerator. Although is taking no equity, and offers mentoring startups and SMEs, it offers also bootcamps and tools aiming to accelerating product development.

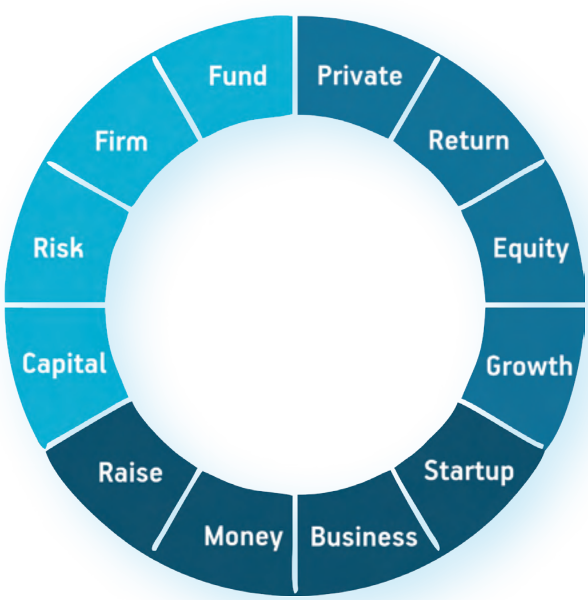
4 Angel Investors

In the early stages, it may help to seek private investment from experts in the biotech field. Especially prior to having a good amount of hard data, where capital is needed for R&D, it makes sense to approach someone who deeply understands the topic. This is one of the most popular options for startup seed funding. Angel investors are wealthy individuals with significant experience and networks in a particular industry giving their own money to a startup project (typical investment might be anywhere from 20,000 - 100,000 EUR). Angel investors mostly don't want full control of the company, but expect a large portion of equity, so that they share more of any profits.

Angel investors can not only offer seed money but also valuable mentorship. They use their network connections to grow the startup and earn revenue faster. Although these investors can have a strong personal interest in your project, they have busy lives and other investments, so they can't always be relied on for support when it's needed.

Most early stage startups don't limit themselves to working with one angel investor, but try to attract several of them to have stronger overall support.

Seed firms are small venture capital funds that have professional, savvy investors and pursue investments on a full-time basis. The usual investment amount ranges from 150,000 to 1 million EUR in a startup, therefore they have a greater financial interest in a startup's success. The advantage here is that seed firms can provide additional capital beyond the initial investment if needed. The downside of working with this type of investor is that seed firms may not always be the experts in your industry, plus they are involved and many other deals, but might be willing to take responsibility for your business decisions.



5 Venture Capital

Many biotech startups pursue financing from venture funds because biotech is capital intensive by nature, and the R&D process is prolonged. When VCs consider their investments, they need to know that they're investing in a highly promising prospect with a strong potential for return. They also know they have a large enough stake that their time and advisory work will be worth the effort. This often means that VCs hold out until biotech startups have hard data to prove they are ready for the larger round of investment.

A venture capital (VC) fund is a professional group that looks specifically to fund startups. This type of investor holds a lot of money available to invest in startups, but there are a few major downsides. Venture capital typically looks for larger opportunities that are likely to be stable. It means that your startup should have a strong team and the need of a few million dollars to scale effectively. To secure their investments, these funds might require having some level of control in your startup.

If VCs funding fits your strategy and you decide to pursue it, first of all narrow down the types of VC you are targeting. VCs come in different shapes and sizes. They can be categorized along a few main dimensions: size and purpose of the typical investment, location, and industry sector. Generally, there are few main types of VCs based on the purpose of the investment:

1. **Early stage financing:**
   - ✓ Seed financing is usually a small amount that enables a company to get a start-up loan
   - ✓ The purpose of start-up financing is to finalise the development of products or services
   - ✓ First stage financing is used when the company has spent starting capital and needs funds for taking business activities to full-scale
2. **Expansion financing:**
   - ✓ Second-stage financing is used to begin a startup's expansion in a particular way
   - ✓ Bridge financing may be provided as a short-term, interest-only finance option as well as a form of monetary assistance to companies willing to employ the IPO as a major business strategy.
3. **Acquisition / buyout financing** (even though it is not a VC fund by itself, it might be worth to have this financial solution in mind):
   - ✓ Acquisition financing assists in acquiring a certain part of or an entire company.
   - ✓ Management (so-called leveraged buyout) financing helps a particular management group to acquire a particular product from another company.

After narrowing down the list of targeted VCs, look at their most recent investments. Research how many investments they have made, what types of companies they invested in, and if they specialize in a biotech or a related industry (i.e. potential users of your biotech product).

6 Advance business income

Selling products before they are launched is increasingly practised by many startups, but this may not be a viable option for early stage biotech startups. At a later stage, don't neglect this self-funding opportunity. Approach major clients and give them the option to pre-order your product in advance for a better price or priority delivery. This allows development of your biotech business with your own business income, instead of using investment and giving away part of your equity.

7 Personal savings and startup Loans

Most investors and future partners take investments more seriously if you invest at least some of your personal assets. In other words, if a business owner won't personally invest in their own business, why should anyone else? Here are few possibilities on how to get initial funding as an individual:

- ✓ **Loans for financing equipment** may be an option, depending on your time in business and revenues. As a self-collateralizing loan, equipment financing is easier for many newer businesses to access. The purchase of gear, equipment, machinery, or anything similar, can be applied for from a lender with an equipment quote and a good personal credit rating.

✓ **A personal loan** might be a solution if you have an excellent credit history. If your startup isn't a company yet, talk to the bank and apply for personal credit. They will want to see a plan of how the loan will be spent and what income sources will cover the financial obligation. However, as a biotech startup, the problem remains that it will need to be a large initial investment. Still, equipment financing and personal loans might serve to get the business off the ground.

✓ **Credit cards** usually have a high interest rate, therefore it's not wise to overuse them. However, if you need short-term cash to make progress in your startup and become more interesting to potential investors, this option should at least be considered. There are in fact specific credit cards designed for entrepreneurs. Call your bank to talk about possible options.

✓ **Family and friends** usually have much more confidence in you than any bank. They might support your idea financially before you have real customers and revenue. Borrowing from friends and family is an interesting and more dynamic alternative as you can come to an agreement faster than with a bank, often with low or even no-interest credit. It is recommended that these commitments be done in writing with some kind of condition.

✓ **Peer-to-peer lending platforms** might be considered as a small business loan alternative if they are available. A peer-to-peer lending platform is a financial marketplace which connects people willing to lend their money to people—and sometimes companies—who want to get a loan. This is not a crowdfunding platform. This requires paying back the loan with interest sometimes higher than a bank. The difference is that you don't owe a single amount to a bank, rather many small amounts to multiple people.

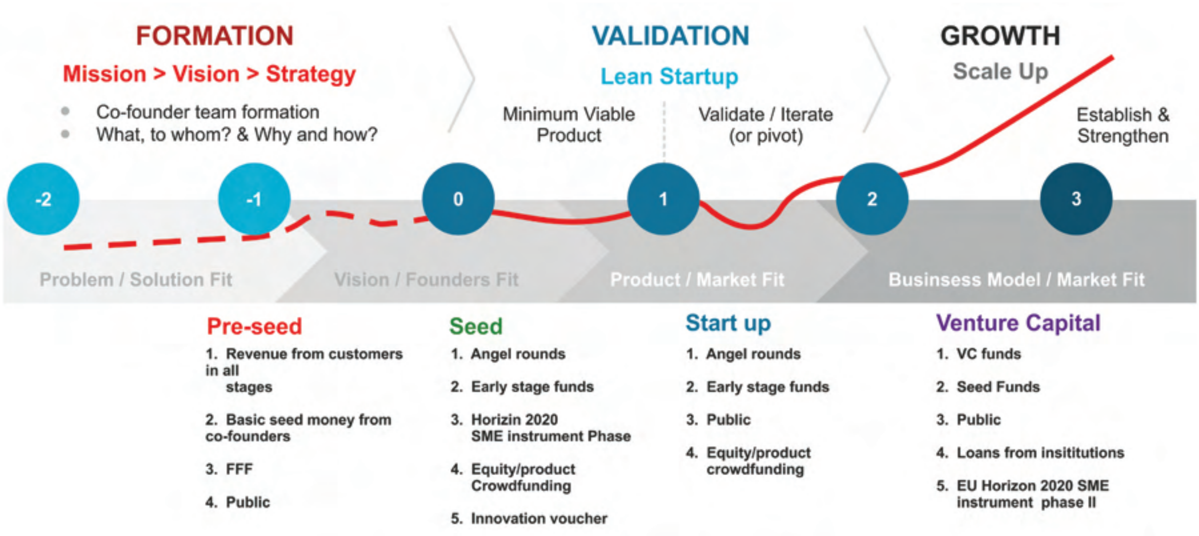
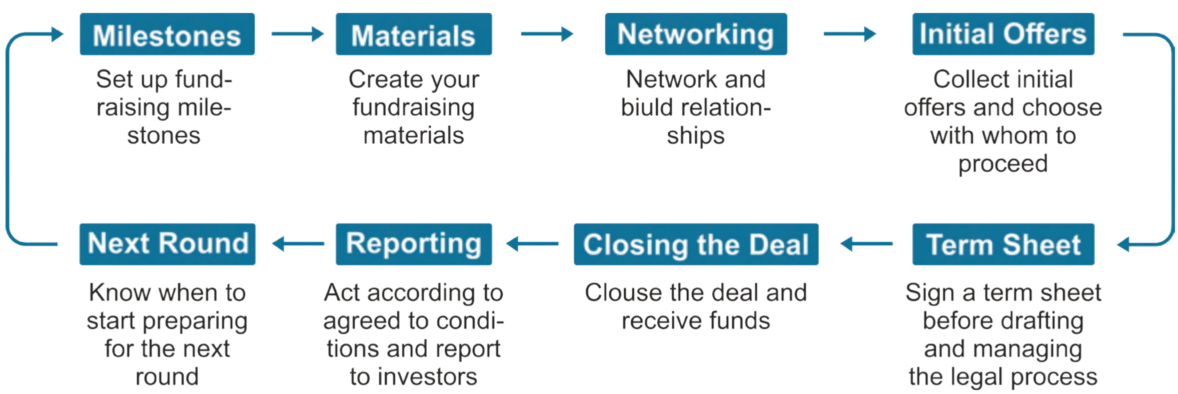


FIGURE 2. Startup Development Phases - From idea to business and team to organization.

FUNDRAISING PROCESS

For most startups, fundraising is not a one-time affair. It's a process which has different stages, strategies, and tactics. Here is the general outline what the fundraising process looks like:



1. **Set up fundraising milestones.** For each milestone, be absolutely sure when money will be needed, how much, what for, and how much time you'll have to raise this amount.

2. **Create your fundraising materials.** Basically, this means doing your homework. It doesn't make sense to go fundraising with nothing to show or prove the potential of your business idea. As we have discussed, a valuable relationship can be built without any fundraising material, but if you want to seek investment in your startup, you must do your homework first.

3. **Network and build relationships.** If up until now networking was suggested as a recommendation, now it is an essential activity. Startups will seldom get funded without serious networking, so actively and consistently build valuable relationships.

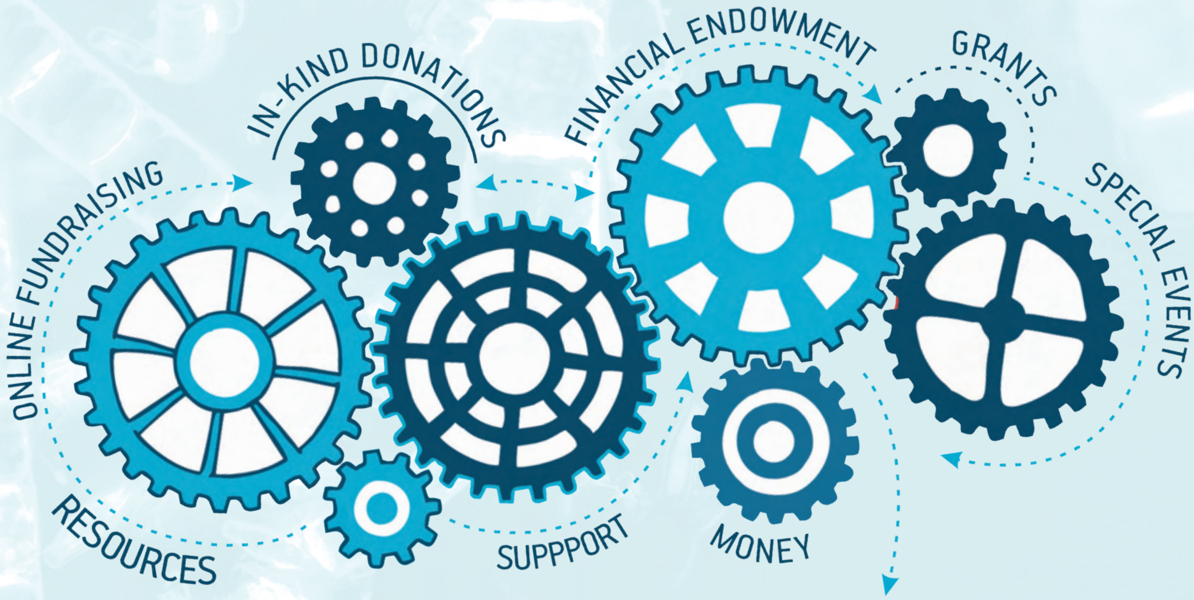
4. **Collect initial offers and choose with whom to proceed.** Make sure you have several proposals to choose from. Put effort into meeting as many potential investors as possible and collecting their offers. It goes without saying that the more offers you receive, the better the odds of securing investment.

5 **Sign a term sheet before drafting and managing the legal process.** If you feel confident about an offer, gain agreement on the term sheet before working on the final offer.

6 **Close the deal and receive funds.** It's probably the most anticipated moment, but fundraising doesn't end here. By accepting investments, you are agreeing to follow particular conditions.

7 **Act according to agreed to conditions and report to investors.** This step is quite often underestimated. If you don't act according to the agreement, you might lose the investment you attracted and might not receive the next release of funding (in the case of a tranche investment). Investors talk to each other, so if obligations aren't met or the relationship with your current investor is spoiled, it will be much harder to succeed in the next round of fundraising.

8 **Know when to start preparing for the next round.** Scalable startups don't limit themselves to a single round of investment. They aim to achieve rapid growth and tremendously high valuation. Therefore they plan for several fundraising rounds which might include: seed round, angel round, series A round, series B round, series X round. The final target of scalable and buyable startups might be the Exit strategy: to sell the company to one of the industry giants (M&A strategy, which stands for Merge and Acquisition) or through IPO (Initial Public Offering).



FUNDRAISING ACTION PLAN

1. Indentify the key milestones of your startup development
2. Estimate your financial needs relatively to key milestones
3. Decide on the right time to start fundraising
4. Desfine your preferred conditions
5. Maximize your startup valuation
6. Create a list of at least 30 targeted investors
7. Become visible and regularly update your online presence
8. Reach out your target investors regularly

PITCHING TO INVESTORS

1 Identify the key milestones of your startup development

Startup milestones are specific events. They usually mark the most important points in a startup's history, such as validating problem-solution-market fit, creating a prototype, hiring key employees, launching the product, obtaining a certain number of customers and first revenues.

Planning for these milestones allows focus on specific aspects, so as to put maximum effort into achieving them. The general types of milestones are as follows:

Is your startup investable?

If there is no:

PRODUCT
TEAM
MARKET

Then there is **NO VALUE**

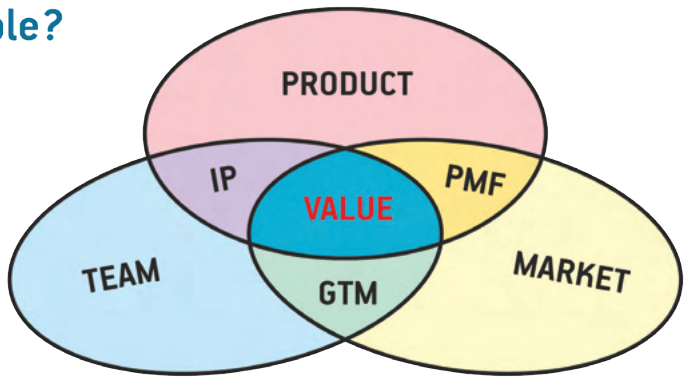


FIGURE 3. Investable startup.
GTM – Go To Market strategy; PMF – Product Market Fit; IP – Intellectual Property

- ✓ **Market milestones** (first customers, price verification, distribution channel verification etc.). These milestones can be defined as gaining proof from the market that, for instance, your business can effectively reach a target audience of at least 1 million customers; that the product is useful to particular segments; that the business is scalable (growing to $1 million revenue per year); etc.
- ✓ **Product milestones** are related to prototype production, product launch, and updates. The examples could be building a working prototype, testing it in a laboratory, testing in real environmental conditions, producing the first batch of product, introducing an upgraded version of the initial product or providing some kind of major enabler.
- ✓ **Human resources milestones** are attached to hiring or otherwise onboarding key people that will make a strong impact on your startup. Building a full management team is an example of a human resources milestone.
- ✓ **Funding milestones** include not just the fundraising rounds, but significant proof that your startup is ready for fundraising. For instance, the proof that your business idea is worth potential investors' attention, the proof that you are ready to talk to and negotiate with investors, and the proof that you are efficient with money (you know how to use funds to get the maximum result and you actually do that).

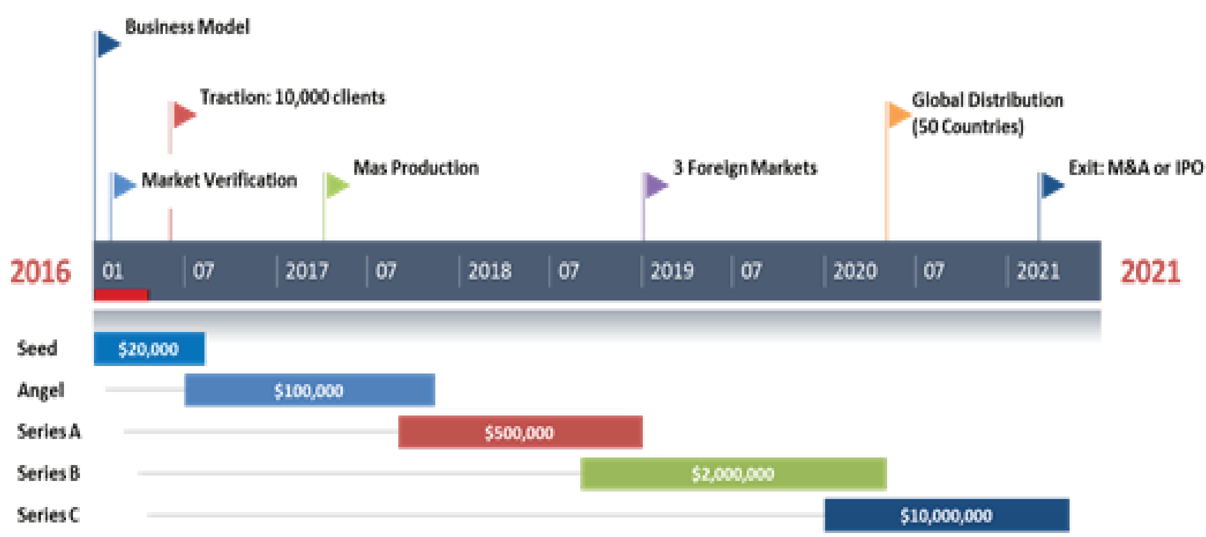


FIGURE 4. Fundraising milestones example

All investors seek to minimize risk without losing the opportunity to invest in a startup with huge potential. Investors are looking for the least risky point at which to invest. Therefore, the best time for a startup to seek funding is either right before or right after achieving key milestones. In any case, your fundraising strategy should use these milestones to your benefit without getting caught between them with no cash in reserve.

Some fundraising experts advise trying to raise as much money as you can. There is, of course, a contrary opinion: don't raise more money than you actually need to complete key milestones and become a self-sustaining company (i.e. earn a revenue). The message is simple: the more money you raise, the more equity investors will require in exchange.

2 Estimate your financial needs relatively to key milestones

An investor may not necessarily know the exact amount your business will need to grow to the next key milestone. Therefore, calculate how much money will be necessary to achieve each of the key milestones. Investors usually rely on your ability to make and communicate your financial plans. If they can't rely on that, they won't invest! A reasonable investor will review your cash needs relative to your stated goals (the milestones you want to achieve) and check the structure of your monthly cash burn rate (the amount of money you spend each month). Investors might make weighted assumptions about ways to reduce your cash burn rate, so prepare to be offered a smaller amount than originally sought to achieve your next key milestone. Usually, this form of communications works quite well:

"This is what I need: {ideal amount of investment you estimated to be sufficient to achieve the next major milestones} to achieve {major milestones you are targeting}, but this is what I can accomplish {one or two smaller, but yet meaningful milestones} with this {smaller amount} investment."

3 Decide on the right time to start fundraising

The process of looking for investors until a deal is reached and funds are transferred to your account may take quite a long time. It's not unusual for the early stage startup round to take up to eight months from the initial meetings to closing the deal. Bear in mind that a lot of work must be done before any investor will agree to a face-to-face meeting.

A study by Tom Eisenmann (2015) showed that it takes 12.5 weeks on average from meeting until the deal is closed in early stage investment rounds. There's no doubt that your chance of success and the time required depends heavily on communication, networking, and fundraising skills. The main challenge is to work out when to start meeting with chosen potential investors in order not to stall the development of your startup, so as to avoid running out of money without having achieved key milestones.

4 Define your preferred conditions

Not all investors and investment conditions are as good as each other. Be sure to know what you are looking for. Despite being merely a guideline, it's good to know in advance what investment conditions would satisfy your business needs. Special attention should be paid to tranche investments as they are quite popular among investors who are ready to fund a startup but still want to minimize their risk if the upcoming milestones are not met.

Typical tranche investment is similar to an investor transferring half of the investment once the deal is signed, and the other half either once the revenue reaches a predefined amount, or another specific milestone. Most investors find such an approach a useful tool to motivate founders to reach milestones and reduce risk. However, tranche investment could also be a sign that the investor is not ready for a full commitment or that there are some unaddressed doubts, neither of which is good. In such instances, the following should be considered:

- ✓ Agree on simple and clear milestones without any possible interpretations and unexpected conditions.
- ✓ Reduce the amount of money and set a closer-term milestone to be achieved (discuss the possibility of setting smaller milestones instead of one major).
- ✓ Define what help to expect from the investors (for example, an investor with good connections to enter a new market sets a milestone related to export

revenue, but the investor won't take enough time to share his connections, technically the milestone might not be completed and that will be your responsibility).

During the negotiation process with investors, all these conditions might be put under scrutiny and modified to create a clear vision, in order to comprehensively communicate your preferences and expectations to investors interested in your startup.

5

Maximize your startup valuation

The amount of funding investors are willing to provide will depend not only on your progress to date, but also on how much equity they will get for their investment. This is directly related to the pre-money valuation of the startup. Raising money based on the valuation of your startup will save time for direct business development work.

Understanding how the valuation of a startup works is important for planning the exit strategy. Most startup founders get their revenue not from profit or salary, but from selling their equity. Obviously, the price of your startup stocks will directly depend on the valuation of your startup. Generally, there are two main approaches to startup valuation:

- ✓ **The top-down approach** is when an early-stage investor tries to estimate what the likely exit size could be for a company in a similar sector. They then judge how much equity their fund should have in the company to reach their targeted return on investment. If an investor knows what percentage they own after they put their money in and they can guess the exit value of your company, they can divide the size of investment by the percentage of equity and get a cash-on-cash multiple of what their investment will give them.
- ✓ **The bottom-up approach** basically takes the average entry valuation for companies of a particular type and stage. Investors typically see and value startups relative to entry averages. The entry average used by the bottom-up approach is based on a figure that will likely give investors a meaningful return on an exit for the industry in question. During negotiations, investors might offer a similar proposal to the top-down approach, estimating what amount of money your startup might need to achieve in order to hit particular growth targets and thus, how much your startup is worth at the current stage.

It's good to keep in mind that investors will consider both where similar deals in the same sector are being priced, as well as the amounts of recent exits. Both of these factors can dramatically affect the valuation of your startup. Therefore, check what valuations are in the market before speaking to investors. Try to find other startups like yours that have already raised money and see if they'll share with you what valuation they were given and how much they raised when at a similar stage to yours. It's very important to keep track of news in your industry, which might occasionally offer important information to update or revise your valuations.

External investors, such as VCs and angel investors, will use a pre-money valuation to determine how much equity to demand in return for their cash. A business owner wants a high, pre-money valuation while investors want a low, pre-money valuation. The more arguments made to prove a higher pre-money valuation of your startup, the better the chances of keeping equity in your hands. Investors will be willing to pay more for your company if it occupies a trending sector, has a great management team, a functioning product, traction, and a sustainable competitive advantage. Your startup valuation could also be much lower than the sector average if you start the business while margins in the sector are decreasing, if competition is increasing and you have no solid differentiation, if your management team has no track record, there are some technical issues with your product, you are running out of cash, or some other problems.

Generally, there are four main factors that influence your startup's pre-money valuation: performance of your startup, market specifics, competing funding offers, and negotiation skills.

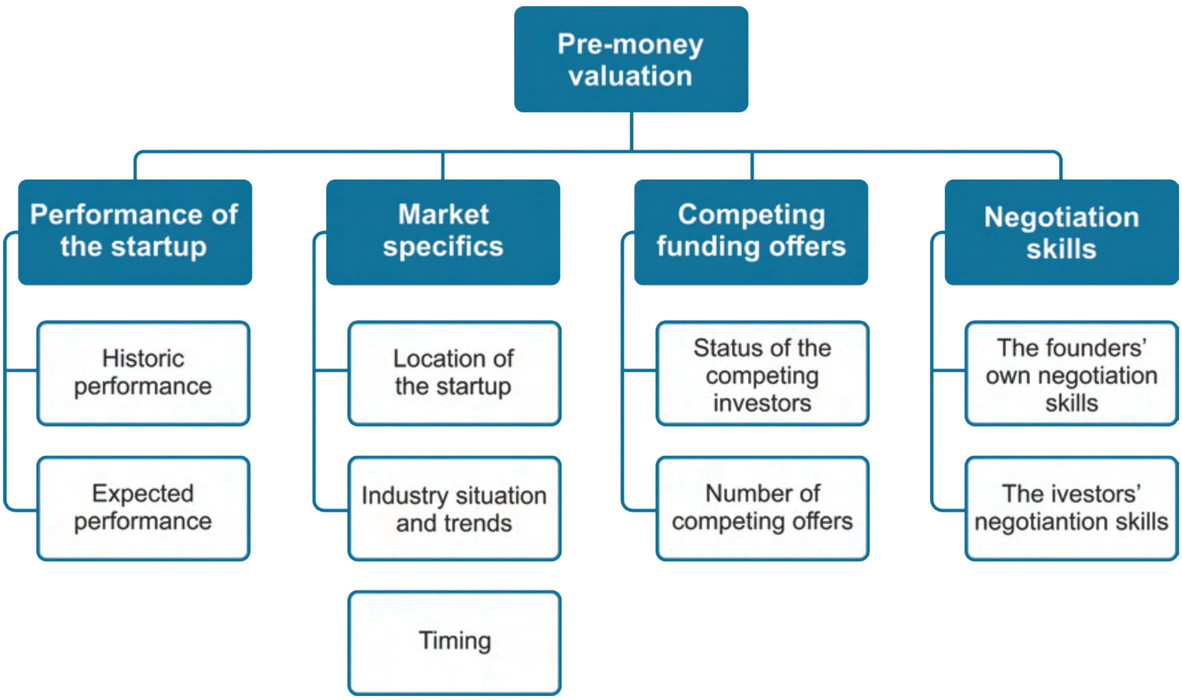


FIGURE 5. Factors influencing startups pre-money valuation

It goes without saying that if the startup makes good revenue or even profit, the company is really valuable. The paradox is that some startups get a really high valuation with no significant traction. This is because investors evaluate not only the results you have achieved so far but also your expected performance in the future.

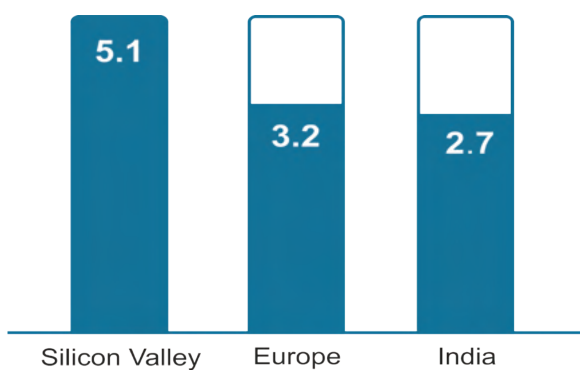


FIGURE 6. Average seed valuation by regions (million $)
Source: https://angel.co/valuations (2018)

Historical data shows that startups in particular locations tend to get higher seed evaluation compared to startups founded in other locations. Simply put, if your startup is situated in Silicon Valley, it will have a higher average initial evaluation than if you were based in Europe or India. You can check AngelList for more statistical data about average valuations.

Competition for funding offers is another very interesting aspect that sometimes remains underestimated. A founder can get investors to compete, bid, or even form alliances. Sometimes the news that a well-known business angel or VC fund became interested in your startup might attract other investors or at least make them more receptive. That is why it is so important to have a clear and structured fundraising process. The goal is not to wait for one or two offers, but to establish clear calls for fundraising with the exact dates when the deal should be closed. Having this process structured has the following two advantages:

1. Potential investors will see how well organized you are.
2. Showing alternative options can encourage competition, resulting in better offers.

Negotiation skills are also important in fundraising. There is no one-size-fits-all formula for setting the value of your startup and each potential investor can have different goals, investment policies, and rules. Fortunately, you needn't rely solely on your personal communication and negotiation skills. Your advisory board members (if you have any) can come in very handy. You've already on-boarded investors from previous fundraising rounds who share a common goal with you. They want to have as high a pre-money valuation as possible because they are already shareholders in your company and want to keep a relatively large part of their equity. If it is your first fundraising round, seek out mentors and specialized consultants. There are also consultants of different levels and their fees are not necessarily high. When it comes to starting the first fundraising round, getting professional help to back up your assumptions on the pre-money valuation could be very useful when you sit down at the negotiation table with potential investors.

Most investors don't have any problem paying the right price for equity, they simply seek to avoid high-risk investments with a dubious potential for return. The best way to prove your company's value and its potential is to show that people want your product, they are willing to pay for it, and the market is growing.

6 Create a list of at least 30 targeted investors

A good practice is to make a list of at least 30 investors you would like to work with as well as a list of at least 30 investors to whom your pitch should be highly interesting. Find the match between those two lists and come up with a list of between 30 and 50 investors to contact. List them in the priority according to your own preference. Keep in mind that time is limited, thus you should focus your efforts and don't spread yourself too thin. If none of them will agree to invest, something may be wrong with what you're pitching or how you are developing your startup. Take their feedback seriously and make necessary changes (at least in the pitch) before contacting other investors.

7

Become visible and regularly update your online presence

Try to become more visible on larger and smaller online platforms for startups like Angel List, F6S, Startup Valley, InnMind, etc. Create your profile, submit projects, product photos, and upload videos. Some of them are large and well known while others are for niche prop projects targeting a specific sector or geographical market. It doesn't take much time to create a profile and post a few updates when they are available.

These platforms won't necessarily bring you investors on their own, but once you are in touch with your targeted investors, don't miss an opportunity to show that you are a serious startup and your professional profile is available on all the popular platforms. There are two totally different scenarios after sending a one-pager or pitch deck to potential investors. In one case, they might get slightly interested and decide to look and see what other information is available about you online, where they might feel that your startup is being listed on too many - or too few - platforms.

If you want to create a good profile, look at the startups being featured on AngelList. Don't copy them, but get an idea on how to improve yours. Also, a good idea is to check startups in your sector who succeeded in fundraising and were featured in the media.

8 Reach out your target investors regularly

Having created a list of 30 target investors and ranked them according to your preference, start to focus on the top 5 angel investors or VCs you'd love to work with. Try to avoid "cold-calling" emails or online form submissions. These approaches have some chance of success, but not much.

The best way to approach an investor is to identify a specific partner, principal, or employee in the investor's company. Find them in your network and get to know them: check their Linkedin profile, read their blog and tweets, and see if they were featured in the media. A good idea would be to get an introduction from another founder who has been funded by them or another third party who has had recent and frequent contact with the target investor. It's not always as difficult as it may seem.

The first connection could come from recording a personal video where you address them individually (say their name and explain why you are seeking their attention rather than another investor). Furthermore, in the same video, you could reveal how you took your previous funding round and hit all the milestones agreed with your earlier investors. Then explain how the amount in the current funding round will help you reach the next stage of your startup, when you plan to raise additional funds, and what they could expect in terms of the valuation of your company, thus, the benefit of becoming an investor for the current stage.

During your meetings with investors, try to have a discussion with them instead of pitching to them. This is not a pitching competition. You are looking for partners and if you are sitting at the same table, it means you have at least some interests in common.

PITCHING TO INVESTORS

When it comes to fundraising, many founders get an uncomfortable feeling. It's like doing a presentation back at school and having to answer the teacher's tricky questions, without knowing how well they did their homework and what questions the teacher will ask. The good thing about fundraising is that preparation well in advance will give you confidence about your pitch.

Elevator pitch

The main goal of an elevator pitch is to hear the magic words, "I'd like to know more," from a potential investor. Experience shows that the structure of the positioning statement is one of the most effective forms to start your elevator pitch. Thus, success mostly depends on the very essence of the business idea rather than the form of the pitch.

Start crafting your elevator pitch with one sentence explaining what problem you are solving and why your solution will be a success in the market. Then add another sentence explaining what has already been achieved. The last third sentence should define what you are looking for in terms of investment.

Investor presentation and the pitch

Introducing your business idea verbally (pitching) will require a simplified presentation with fewer details compared to the pitch deck, which is shared with potential investors. The main focus during the pitch should be on verbal communication. A very detailed and overloaded presentation won't give investors much of an opportunity to grasp the main concept - they will simply switch off and stop listening.

There are different recommendations as to what aspects should be included in an investor presentation, but these are the key points that should be covered:

1. Problem - Clearly identify a real and huge problem in less than 10 words so that investors can see you are addressing a real and current need.

2. Solution - Simply explain how your solution addresses the problem you've described. Don't go into too much detail, but show quantifiable solution benefits, if possible.

3. Market overview - Define your target customers in less than 10 words and include an image or two to visualize your target customer's profile. Show the size of the potential target market, how fast it is growing (% and actual numbers), and who is already working in it (competitor market share).

4. Competitor analysis - Show the best available alternative solutions to the problem for customers.

5. Unique selling proposition (USP) - Explain why your solution is the best choice for target customers. Don't brag or boast, stick to proven value propositions.

6. Marketing Plan - Explain the main aspect of how you'll communicate your USP to the target market, what the sales funnel/pipeline will look like, what tools you will use and what conversion rates are expected (don't forget to prove your numbers by experiment results, for example).

7. Traction - Provide evidence on your progress, including an overview of what you've already done and how it made your startup stronger. Basically, provide proof of the concept by showing that your startup is getting traction, which will lead to revenue and profits (for example, how many customers and distribution partners you have, what is your presence in media and does it drive qualified leads to you).

8. Intellectual property - List all of the intellectual property you own that helps to strengthen your USP and the whole business model (for example, patents, trademarks, copyrights, domains, special know-how, etc.).

9. Team - Introduce founders, executives, advisors, investors, and key people who are involved in the startup. Try to show how each of them contributes to your startup success and how their input will be valuable in the future.

10. Milestones - Show completed and targeted milestones of your startup development. Try to prove that you've already done a meaningful amount of work and that you clearly know what to do next to create a profitable and scalable business.

11. Financial data - Provide key indicators such as your cash burn rate, revenue, customer acquisition costs, profit margin, etc. Be very thoughtful with the content, as investors will probably spend the most time on this section.

12. Offer for investors - Explain how much money you are requesting, and your general terms (this one is optional because you might want to offer different conditions to different investors), what those funds will be used for, what your exit strategy is and why it is realistic.

References and contact details should be final slides of the pitch deck. It's up to you whether to show the list of statistics and research sources upon which your assumptions are based. You can put links to specific sources where facts are mentioned or provide a list of references at the end of the presentation. This will provide additional credibility.

Online profiles and media

Now it's time for your startup to become more visible so that investors can spot you. Register your startup on major startup-investor matchmaking platforms like AngelList, F6S, and other meaningful platforms that are typically used to learn more about startups. Don't sit and wait for a miracle to happen - creating professional and appealing profiles on these platforms is a very important step. Even if you reach investors directly, most of them will check to see what public information is available about your startup. Therefore, it's important to be visible and credible.

Try to get noticed by the media and save the links to posts, articles, and podcasts where your startup is mentioned. It can serve as proof of traction and that your startup is doing something meaningful and a new trend is coming.

Financial assumptions model and cap table

Once you ask an investor to become your partner and tell them about your funding requirements, be prepared to show your financial assumptions and current ownership situation (cap table) in detail. As a startup founder you should always be ready to discuss the following:

- ✓ Cash burn rate - The amount of money you burn through each month.
- ✓ Aggregated investment - The amount of funding you have already raised.
- ✓ Cap table - Equity distribution among your team members.
- ✓ Option pool - The reserve of equity which is a remuneration for your existing and future employees, directors, and advisors. There is no rule of thumb, but in most cases, the option pool ranges from 5% to 20% depending on the company's stage and upcoming hiring needs.
- ✓ Round size - The amount of money you are raising to achieve your stated milestones.
- ✓ Pre-money valuation - The value of your startup company prior to the new investment coming in.
- ✓ Post-money valuation - The sum of the pre-money valuation plus the round size.

If you are not good at finances, prepare your financial assumptions with the help of a mentor, consultant, or at least a freelancer who can guide you through the process of completing blank templates and finalising a professional financial assumption set.

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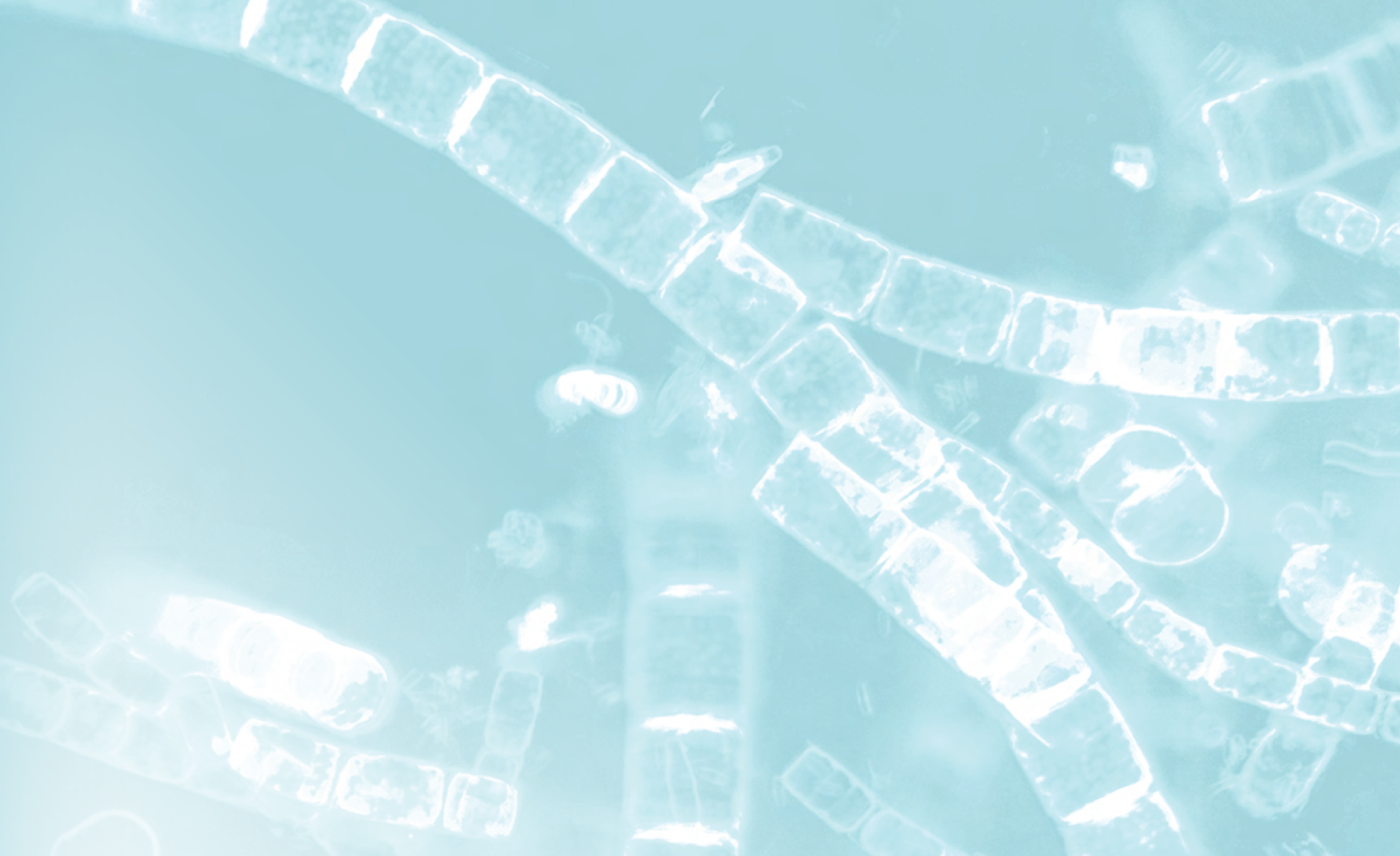

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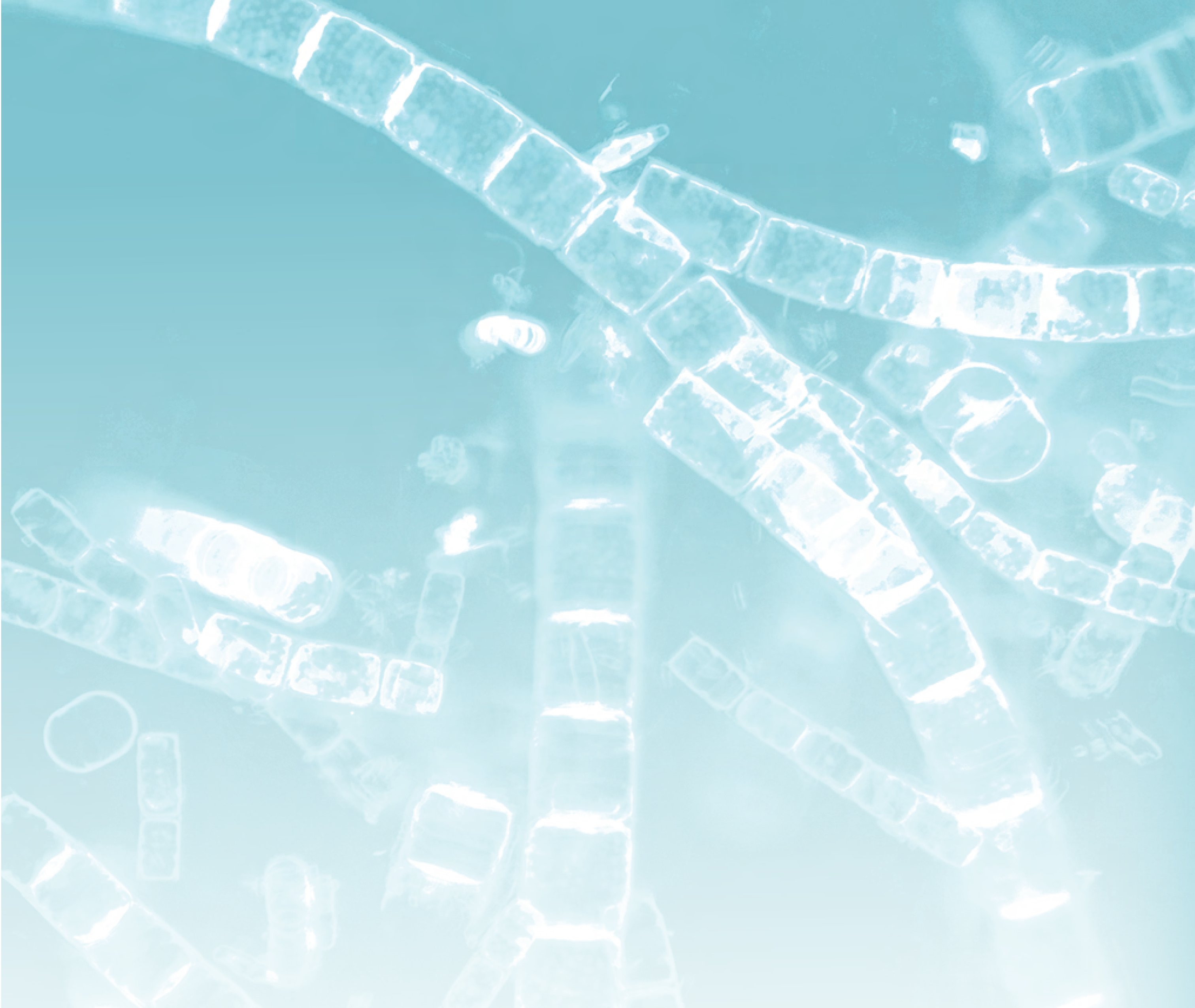

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