

# EXPERIENCE. SOLUTIONS. RESULTS.

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## The Capital Raising Process

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Amherst**Partners**

# Process Overview

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## 1. Preparation

- ❖ Discuss Objectives
- ❖ Draft/Review/Revise Business Plan
- ❖ Draft/Review/Revise Executive Summary
- ❖ Draft/Review/Revise PowerPoint Presentation
- ❖ Estimate Enterprise Value and Price Offering
- ❖ Compile Due Diligence Book
- ❖ Conduct Mock Presentations

## 2. Road Show

- ❖ Contact Investors and Distribute Executive Summary
- ❖ Distribute Business Plan to Interested Investors
- ❖ Arrange Management Meetings
- ❖ Evaluate and Negotiate Term Sheets

## 3. Expedite the Due Diligence Process

- ❖ Respond to Information Requests
- ❖ Evaluate Investor
- ❖ Actively Manage the Process

## 4. Negotiate the Investment Agreement

## Investment Considerations

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### **VCs evaluate potential investments based on:**

- ❖ Management
- ❖ Concept
- ❖ Scalability
- ❖ Market conditions
- ❖ Fit to the fund's objectives
- ❖ Capital needs
- ❖ Potential returns

## Common Mistakes in Business Plans

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1. Grammatical and spelling errors
2. Written in narrative, rather than outline/bullet, format
3. Poor research and identification of the total addressable target market
4. Lack of internal logic in the financial model
5. Leaps of faith (unsupported assertions)
6. Focusing on the technology and not the business
7. Being an inch deep and a mile wide
8. Ignoring/dismissing the competition
9. Projections that are too aggressive or too conservative
10. Lack of a crisp two-page executive summary that clearly articulates the investment case and compels the investor to read the full plan

## Meeting With Investors – Do's

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1. Prepare a concise 15-minute PowerPoint presentation
2. A dress rehearsal/mock presentation
3. Have a team leader (CEO/President) who speaks for the company
4. Establish an open and honest channel of communication
5. Demonstrate passion for the business and strategy (but not to the extent that you can't see its risks and weaknesses, or are rigid and incapable of compromise)
6. Demonstrate the personal commitment of the team to the company (all of your resources – personal, emotional and financial – must be committed before most investors will risk their capital)
7. Be prepared to defend your key strategic assumptions and financial forecasts
8. Have an exit strategy (IPO, merger/acquisition), but don't appear anxious to jettison the company

## Meeting With Investors – Don'ts

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1. Talk so much that you forget to listen
2. Give evasive answers to specific questions
3. Oversell
4. Appear unfocused
5. Go alone. Key team members should attend
6. Dismiss the competition. You must clearly articulate your competitive advantage
7. Attach your ego to your idea (i.e., don't be defensive when your strategy is challenged; investors want to know that you are open-minded and receptive to their suggestions)
8. Forget that you are being evaluated from the moment you say hello to the moment you say goodbye, and establishing good chemistry plays an important role in getting the investor to “yes”.
9. Go to the meeting without having a firm command of the company's key operating metrics and how they are/will be tracked and utilized.

## What You Need to Know About Your Lead Investor

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How well does it know your industry?

Are any of its portfolio companies competitors? Potential partners/customers/suppliers?

What is its reputation in the financial community? How effective will it be in helping attract co-investors for this round? For the next round?

Is it seeking any special terms/compensation for acting as the lead and how will this effect potential co-investors?

Will it participate in the next round if the company meets its milestones?

Beyond capital, what assistance will it offer? Executive recruiting, key strategic partnerships, high-profile board members?

How frequently and in what manner does it prefer to communicate with management?

If a strategic investor, what is motivating its investment and will it seek to block partnerships with or an acquisition by its competitors.

## Legal Considerations

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- ❖ Don't issue common stock to investors
  - Establishes value and impairs issuance of cheap options/restr. stock to employees
  
- ❖ Option Pool (10% - 25%)
  - Establish early but be reasonable – deemed issued for valuation purposes
  
- ❖ Securities to be issued
  - Convertible Debt
  - Warrants
  - Preferred Stock
  - Convertible Preferred Stock
  - Participating Preferred Stock
    - Resist or cap participation (2x – 3x)
  - Redeemable Preferred Stock
  - Super-preferred Stock
    - Converts to red. and conv. pfd. – adverse tax impact to investors upon conversion
  
- ❖ Registration Rights
  - Demand, Piggy-back, Lock-up

## Legal Considerations (Continued)

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### ❖ Anti-Dilution Rights

- Straight Percentage (harsh, rare)
- Full Ratchet (harsh)
  - Purchase price reduced to lowest subsequent purchase price regardless of shares issued
- Weighted Average (fair)
  - Adjusts using a formula based upon the number of shares issued
- Carve-outs
  - Issuances under stock option plan, conversions, partners, lenders and in acquisitions

### ❖ Preferred Stock Voting Rights

- Vote with common vs. special voting as a separate class on issuances, mergers, etc.

### ❖ Board Seats vs. Observer Rights

### ❖ Stockholder Rights

- Transfer restrictions, pre-emptive and co-sale rights

### ❖ Founders

- Stock vesting, 83(b) elections, Non-competes

### ❖ No Shop (resist, limit duration and scope)