The Capital Raise Quandary

Lumps, Dumps, and Lessons Learned in a Start-Up Capital Raise.

By Jay Taffet

You can take any word associated with entrepreneurship that excites you, like opportunity, growth and success, and completely remove any pleasure it arouses simply by adding the prefix “capital”.

At least, that’s how it felt to me over the past year. I had spent several years creating, what I considered, the perfect plan to disrupt a high-profile, established industry with a long-term solution that requires minimal capex, virtually no overhead and immediate start-up viability. It was one of those “holy moly” moments once it all came together in narrative and numbers. In fact, it was so compelling, I had friends and family asking to invest from the moment I revealed what had just emerged from my incubator!

But the friends and family capital component – my first generation “Angel Investors” – only got me a few strides into the $700,000 capital raise. I had to identify the non-related Angel Investor prospects and $500,000-range Venture Capital/Private Equity groups to solidify the project capital piece. I started the canvassing full of enthusiasm and, nine months later, I’ve kicked over every pebble on the beach without successfully finding that pot of gold.

So, here are some thoughts and conclusions on my seemingly interminable capital raise that I hope will help you, my fellow entrepreneur, if you're pursuing your own raise right now or planning one soon. And, maybe more importantly, this might be a valuable script and Rx towards a healthy outlook on the process from day one.

Compulsion is King

I am extremely meticulous and thorough when it comes to business planning. I appreciate the value of the "story" as much as the financial model that validates the plan. Both pieces – the narrative and the numbers – are equally important, and there is no short-cut to creating a viable business plan without both spheres.

So, if you're not a right-brain/left-brain kind of entrepreneur, but you have the "killer" concept that deserves its day in capital court, then you need to recruit the participants that can complete your plan. It's your choice if these participants will be consultants or team members in the venture, but you can't overlook the importance of having all the requisite skill sets at the table from the start.

Why? Well, as you might know from experience or assumption, you only get one chance in front of a prospective investor. Either you tell the "whole truth and nothing but the truth" at your initial inquiry or you'll be filed away quickly. That is to say, if your lead-in pitch doesn't fully answer the core questions of "Opportunity, Management and Exit" in your first reach, most prospective investors have enough project depth on their bench to simply move on without asking why.

Defend Assumptions, not Omissions

So, what is that complete package to entice a prospective investor? It's a compendium of assumptions, narratives, models and exhibits with more heft than a doctoral thesis, but boiled down to 5 or less pages that can be digested in 3 minutes. Pretty tall order.

You start with a detailed narrative of the why, how, where, when and who, and reduce that to a one-page summary that hits the highlights from each section. You build a financial model that looks like it was prepared on Wall Street, complete with a summary of assumptions, capital budget, capex burn schedule, year 1-3 income statement (cash and accrual), balance sheet and cash flow model (by months), and boil that down to a one-page financial highlight that is encapsulated on the one-page narrative summary.

Next, you attach all relevant exhibits that underpin the full venture plan, including your resume, vendor agreements, the proposed entity operating agreement, collateral samples, and applicable industry research that validates your assumptions. And then you reduce this entire soufflé to a separate slide presentation that hits the highlights from every component of the venture plan, giving the investor a format choice in the review process.

Finally, you take all these dishes you've just prepared and wrap them in professional branding and graphics (yes, hire a designer if it's not your forte), and add a link to a professionally designed website (and intro video, if applicable) that

tells your “post-capital raise/now a business” story to your customer. And then put all these components – the full business plan, the financial model and the presentation – in a Dropbox folder that you can share via link in your initial email inquiry.

So, that’s the Full Monty of a promising venture plan that might make it to the review stage with an investor. The key here is not to be asked to create something by a capital prospect. Demonstrate at the introduction that you are the most meticulous entrepreneur on the planet that has thought of everything! Let the rejection be based on your conclusions, not because you appear to be half-baked.

Better yet, make your conclusions so air-tight and the plan components so complete that the only rejection a prospective investor can offer is that the venture is too small, too early, and/or outside their target industries. In the world of start-up capital, that’s a very loving rejection.

Convert Rejection into Referrals

Unless your venture is in the sweet spot of tech, code and connectivity that dominates the investment capital world today, it’s most likely going to be a long, challenging road to the promised land. Thus, you’re going to have to canvass like a grass-roots political campaign, going door-to-door in search of your supporters.

Sure, there are formulaic approaches to the capital raise – identifying the Angel Investors, Venture Capitalists and Private Equity based on investment range and

target industry – but why should that limit you? Your plan just might be the compelling platform for an investor prospect to widen the scope and take a chance on something new.

But, even if you don't convert an incongruent investor prospect, the most important reason to cast the biggest net you can is that every target is a potential referral source. That's right, even if your venture is sub-$1 million, pre-revenue and in an outlier of an industry, you should still go after the Private Equity firm that advertises its investment preference at $2-5 mm revenue, growth capital and focused on industries remote from yours.

You have to remember that these seemingly unapproachable investment firms are comprised of people, individuals who may be struck by the creativity and ingenuity of your plan and willing to pass your information on to someone that is a better fit. In my experience over the past year, my most interested prospects originated from referrals, not my direct reaches.

Finally, gratitude. Every investor prospect that answers your email with a polite rejection and possibly a referral, deserves a hearty thank you. But, take it one step further: If a prospect refers you to another potential investor, regardless of the outcome, you need to express this gratitude on a grander scale, like a hand-delivered gift basket or something along those lines.

Gratitude is your calling card to the investor community. It's not your plan or your pitch. It's your confidence to say "thank you" for the opportunity to share

my idea. That's what people will remember well beyond the potential of your plan.

Jay Taffet is an entrepreneur, consultant and pilot. He lives in New Orleans with his wife and two daughters.