

CHAPTER 20

Selecting and Meeting the VC

“There are always three speeches for every one you actually made. The one you practiced, the one you gave, and the one you wish you gave.”

Dale Carnegie

The infusion of VC funds in your business would commit you to work with the VC over a period of about three to five years. During this period, you will be managing the business in a manner that meets the commitments you have made in your business plan and the investment agreement. A good relationship with the VC would get you his support during the tough situations that every business passes through before finally becoming successful. A VC relationship, once legally formed, is not easy to dissolve. Therefore, it is wise to spend time in ensuring that the VC who invests in your business suits your temperament and would add value to your business through his experience and network.

Selecting the VC

The first step is to shortlist the possible VC candidates who are likely to invest in your company. You have to define your investment preferences and then make a list of those VCs whose preferences match yours. As explained in the Chapter 4, VCs do not invest in every opportunity that comes their way. They target their investments:

- In industry sectors they understand and in which they have experience.

- At development stage investments which approximate to the risk they can take.
- In geographical areas where concentration of resources, or where monitoring of their investments, is easier.
- According to the minimum and maximum amounts, they would like to invest.
- According to the length of time they can remain invested in a business.
- To meet their preferred mode and timing of exit.
- To meet their requirement of the number of board seats they take in their investee companies.
- To suit their post-investment monitoring style, which can be “hands-on” or “hands-off”.

You should approach the VC Industry Association in your country and buy their members directory. Also, get in touch with the regulatory authority of the VC Industry and use their reports to understand the nature and size of investments being made in industry that your business is operating. In India, the industry association is the India Venture Capital Association (www.indiavca.org) and the government regulator is the Securities and Exchange Board of India (www.sebi.gov.in). Apart from these two sources of information, you should use the internet extensively to visit VCs' websites and other sites that provide information to facilitate venture capital investments in your kind of businesses.

Having made a list of VCs who could invest in your company, the second step is to evaluate them on the following criteria:

- Is the VC a specialist in your industry? Does he have the experience and the contacts in your industry as well as understanding of the way your industry works? Apart from putting money into your business, how else can he add value to your business?
- What is the corpus of his fund and does he have the financial standing to be able to invest in multiple rounds of funding in your business, if required? Delve into his history and ensure that he actually provides additional rounds of funding to the other ventures he has invested in.
- Will he be able to help through your next round of financing?
- What are the other investments that the VC has made? Have the businesses that he invested in turned out to be big winners? Did such businesses gain by their association as with the VC concerned?

- What is experience of the VC's other investee companies with regard to the VC's his style of working with the management / founders?
- What is your chemistry with the VC's representative who would be responsible for monitoring the investment in your business?
- Does the VC work with a syndicate or does he invest alone?
- Do you already have existing investors who have helped you to bring the business to its current level? If yes, you would have to ensure that there is positive chemistry between them and the incoming VC.
- What are the VC's return expectations?
- How much equity does the VC usually take in businesses in which he invests?

Essentially, you should select a VC who will maximise the probability of success for your company, support you by being your partner in a real sense, and add value to your business by his presence and participation.

Making Contact with the VC

There are many ways to contact VCs. The traditional way is an introduction through your bankers, auditors or solicitors. If you have selected your directors and advisory board members carefully, you will find that they will also be able to introduce you to the relevant VCs. This method of introduction by your well-wishers and associates is very much in vogue.

With widespread use of the Internet, all VCs have websites that provide you with the details of their requirements. The website will explain their preferred mode of contact and the information they would need during the first contact. Most VCs would like to see at least an executive summary of 3 to 5 pages of your business plan at the point of first email contact. Some would want to see the full business plan at that time. You should get familiar with the policy of the VCs by visiting their websites to ensure that the information required by them for initial screening is available with you when you make contact. For example, some VCs may want a presentation in a specified format, even to the extent of specifying the number of slides, their order and the content of each slide. Some may want your business plan in summary in the specified format and website

form. Some others may be happy to receive the executive summary of your business plan in the format that you have prepared it.

The main point here is that VCs like to receive only very specific information at the first point of contact. The information that they want should be adequate, appropriate, sufficient and complete enough to enable them to make their go / no-go decision. Therefore, do not think that more information and fancy statistics and charts will floor the VC into inviting you to the negotiating table. Brevity and sufficiency are the key words to remember while making the first contact with the VC.

The first contact with the VC may also be made at venture meets organised by industry forums or intermediaries. Here, you should be well prepared with your elevator pitch, which you should use to explain your proposition. You could also carry your business plan on a disk and hand it over to the VC who expresses interest in funding your business after hearing your elevator pitch.

Most entrepreneurs are worried that the information they supply about their business or ideas may either be misused or may leak out into the public domain which may harm their business interests. If you have this concern, you may wish to enquire whether the VC would be willing to sign a confidentiality letter. Mostly, VCs don't do so, but if the initial idea looks appealing for an in-depth evaluation, the VC may agree to sign such a letter. It is best to clarify this with the VC before initiating any discussions.

If the VC does not sign a confidentiality letter, then you can use "phased disclosure" as a mean to safeguard your interests. You should prepare a third document, namely a 2-page concept paper. Your initial contact document would then be the concept paper and if the VC finds this appealing, you may then present the executive summary of the business plan, keeping the detailed business plan for the last. The idea is to leave out the more confidential data in the initial contact document. Also, mark the document that you send as confidential and include the following statement in such documents:

"This is a confidential document and is meant only for the purposes of private use of ABC, Venture Fund and its advisers and consultants to evaluate the investment potential of the business / idea described herein

and should not be disclosed to any person not connected with such evaluation.”

Another way to safeguard your interest is to investigate whether the VC has any conflict of interest, such as an investment in your competitor. To do this you may review the investments that the VC has already made. This information is usually disclosed on the VC’s website.

Box 20.1

Preferences of Indian VCs

You can contact them directly . . .

On being asked whether they had any reservations against being contacted directly for funding, no VC was against it. Close to half of the VCs expressed a clear desire to be contacted directly while the remaining were open to being contacted directly provided the entrepreneur had at least a concept paper, executive summary or a business plan ready. Only a few years back most VCs would have preferred to be contacted through reliable references. However, a fast changing environment where too much money is chasing too few good deals a direct contact could mean the vital difference between who gets the fish and who doesn’t.

You can contact them through email . . .

Many (43.9%) VCs desired that they be contacted through email. A third had no particular preference and was open to any means of contact. Most (86.7%) replied in the negative when asked whether there were any deal flow facilitators, which entrepreneurs could contact to help them in contacting the VCs.

VCs may sign confidentiality agreements . . .

About 34.5% of the VCs were not in favour of signing confidentiality agreements with entrepreneurs contacting them with their concept papers. However, the remaining VCs were not against signing such agreements if the proposal seemed attractive enough, or if the entrepreneur insisted. Once again, changes in the business environment have made VCs more amenable and flexible. A few years ago most would have rejected signing of such agreements.

Source: VentureAhead.com survey of Indian VC Industry Practices.

If the VC is interested in moving to the next level of discussion, you should get a call within 7 to 10 days of your email to set-up a meeting where you will be required to make a presentation of your business plan.

Before the VC Calls You

After receiving the summary information from you, the VC has to take a decision whether to proceed to investigate the investment opportunity further. The next step would be to ask for the business plan. Or, he may just skip the detailed plan and ask you to meet him and make a presentation to the VC team explaining your business case. If he finds that your proposition has merit, he will review the business plan in detail.

In their initial screening of the executive summary and then the detailed review of the business plan, the VCs look for answers to the following questions:

1. Does the investment in the business fit with our investment philosophy?
2. Does the business case, as detailed in the business plan, have the potential to be a scalable growth business and provide us (the VC) with the required investment returns?

As stated earlier, like all other industries the VC industry is segmented and operates on the basis of addressing the target audience which best fits their risk and return expectations and their skills and experience. The components of the VC's investment philosophy are:

- Industry sector of their interest and specialization.
- Stage of businesses at which they think they can put their money at risk.
- Maximum and minimum amounts they consider worth investing and managing.
- Geographical limitations within which they focus their investments in order to give themselves better control and understanding of their investments.
- Investment monitoring preferences, that is, whether they wish to have hands on involvement in their investments, or do they look for ventures that require minimum application of their time.

- Co-investment preferences relate to the VC's attitude towards businesses that require investment from more than one VC investor. So VCs who prefer to invest alone would find a proposal for co-investment unattractive, even if the business case is demonstrating investment potential.

The second filter during initial screening is to ascertain whether the business is scalable. The principles that determine the investment potential of the business have been discussed earlier in Chapter 8.

Typically, only about 15% of the businesses that pass through the VC's initial screening move on to the stage of business due diligence.

Tips for VC Presentation

The VC presentation advisory can be structured into three categories, namely, before the presentation, during the presentation, and post-presentation tips.

Before the Presentation

1. The importance of preparation before meeting the VC has been highlighted earlier. It is important to prepare an effective elevator pitch and a 20-slide presentation using the tips explained earlier. If you have done this well, then you are well positioned to convince the VC about your proposition.
2. Do a dry run of the presentation with your team. You should know exactly what to say about the content of each slide. If some aspects, such as technical or financial aspects, need to be explained by other members of your team, you should rehearse and prepare for the timing of such inclusion or handover.
3. Know your detailed business plan completely. Be ready to discuss details during or after the presentation.
4. Brainstorm and prepare a list of questions which the VC is likely to ask you. Prepare and rehearse your answers. Also, decide on who will answer questions needing technical details.
5. Don't commit on unrealistic time frames for achieving milestones in your eagerness and anxiety to get VC money.

6. If your business involves funding of a web-based product, ensure that the product is fully functional, or as functional as you are representing it to be.
7. Carry the prototype or plan for the product, just in case you need to explain the workings of your product after the presentation is over.
8. If you are presenting through video conferencing, you should familiarise yourself with both its limitations as well as the opportunities.
9. Decide on the presentation team and roles of different team members during the presentation.
10. Carry copies of your presentation to distribute to the VC team. Preferably, do not distribute it till after your presentation is over. This is to make sure that all eyes are on you during the time you are making the presentation.

During the Presentation

1. Make your presentation in about thirty minutes or so.
2. Do not use too many jargons.
3. Be brief, to-the-point and clear in what you say.
4. Be alert for body language cues which indicate lack of understanding or interest. Also, watch out for any signs of boredom or scepticism. If you note any of these attributes, try and explain yourself better.
5. Invite questions.
6. Use neutral and non-judgemental language to make your point.
7. Explain yourself convincingly but avoid getting into an argument with the VC. If the VC makes any judgemental remarks, be nimble and side step them rather than get into an argument.
8. Do not make statements that you cannot back up with facts and figures.
9. Demonstrate passion, enthusiasm and commitment to your idea and business but guard against inflexibility and over sensitivity to criticism.

After the Presentation

1. Do not expect the VC team to stand up and clap. Your ideas and products may have the potential to change the world, but the VC

sees too many of these ideas every day and hence is not easily carried away.

2. Answer all questions that the VC team raises regarding your idea and the various elements of your business plan. Don't get flustered or excited even if you feel they are taking time to understand your explanations. Just remember that if the VC decides to invest, you will be facing similar questioning at every board meeting — so take it as a preparation for the post-VC investment scenario.
3. Before leaving, check who in the VC team is responsible for the interface with you.
4. Even if you get rejected, do set up a meeting with your coordinator to discuss where you went wrong. The lessons thus learnt should be incorporated in your approach and presentation to the next VC.

If your presentation goes well, you may expect the VC to start negotiating with you to invest in your business. He would send you a term sheet containing the conditions on which the VC would be willing to offer you money. With the draft term sheet in your hands, you are one more step closer to your goal of raising venture capital for your business.