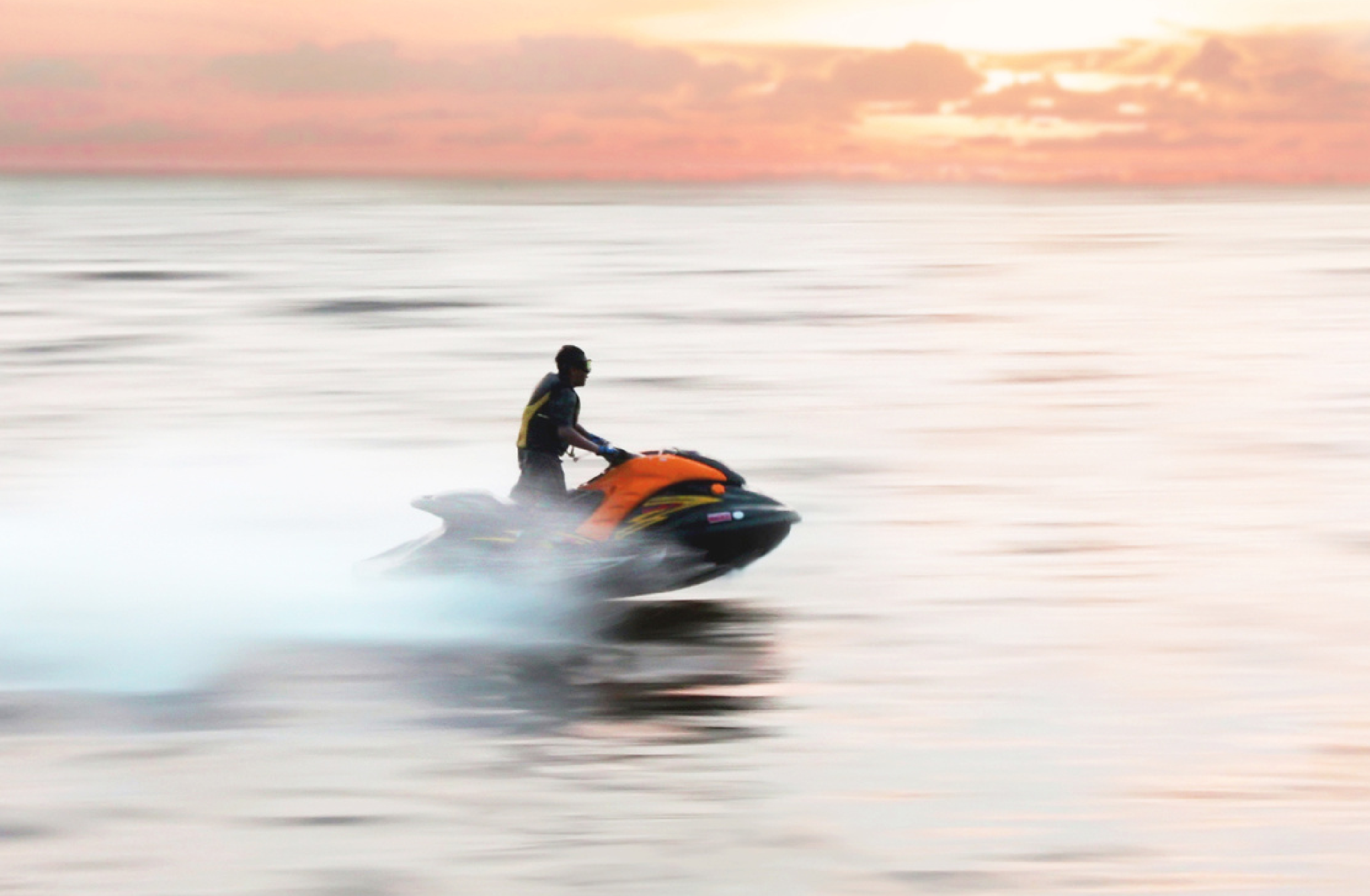
BEAN PARTNERS

The 3 Things Every Investor Will Expect You To Know When Pitching



Raising Capital

Essential Guide

The process of raising institutional investment (Series A and upwards) is highly competitive. Your standard venture capitalist (VC) will:

- See approximately 1,000 pitch decks each year
- Meet about one third of those companies
- Make an offer to around 30
- Invest in 10

If you're lucky enough to make it through the funnel, you want to be prepared to meet the expectations of the investor.

Key to strong communication with investors is an understanding of their motivations for investing. Whilst the capability of your leadership team, business story, performance and potential will all have sway, an investor is motivated to exit with a return. The opportunity for a great outcome at exit will trump everything else, and so it is important that you communicate this as a priority from the moment of outreach.

For an investor to be able to forecast their exit potential, they will want to be able to value the business both now and in the future. To understand how valuation works, we can use this simple formula:

Valuation = Earnings x Multiple

Whilst Earnings provide a good sense of business performance and growth rate, the Multiple has the potential to really drive valuation, and is largely based around measuring the 'Future Earnings' potential of the business. You can learn more by reading 'The 7 Biggest Levers to a Higher Valuation' here.

Being able to demonstrate your expected valuation growth will likely open the door to investor meetings and further conversations. Beyond that point, below are three primary focus areas for your conversations with any potential investor.

1

Business Model Metrics

When looking for indicators of 'Future Earnings', business model metrics give a sense of the predictability in your business model, which can give an investor confidence in how their investment will be used to drive growth.

Some examples of business model metrics are outlined below:

a. Gross Margin
Whilst there are exceptions to this rule, the majority of institutional investors will want to see true gross margin. While revenue is important, more important is that the revenue then contributes to development of the business.

The gross margin will indicate to an investor the impact that scaling the business will have on cash generation, and ultimately return on their investment. It can offer you real bargaining power when raising money for this reason.

b. Growth Rate
Growth rate gives an indicator of the scalability of the offering. Typically growth rate needs to be a minimum of double digit monthly growth and differs according to business models.

A good growth rate indicates to an investor that you have strong product-market fit, and that you have the capability in your team to invest wisely and scale your offering.

c. Churn
The stickiness of your customers is going to provide a great indication of the longevity of your offering within the market. Whilst it can be difficult to generate long-term data on this, the lifetime value of your customers will be important to investors.

If you are constantly needing to replace lost customers, this will be a red flag to any investor. The cost of acquiring customers will also come into consideration, and the ability to demonstrate a low or reducing cost for acquiring customers will also build investor confidence about the long-term impact of their investment.

2

Addressable Market

Any investor will expect you to have verifiable data about your Addressable Market. This means that any details you provide about the market you are targeting needs to be backed by credible data.

When communicating your Addressable Market, an investor will want to know that you are not in a crowded marketplace where the target market is already overserved. They will also want to know that the target market is large enough that there is plenty of room for growth.

Some examples of business model metrics are outlined below:

3

Competitive Advantage

An investor will want to have confidence that you are truly differentiated from other players in the market, and that you are able to effectively respond to new competitors as they emerge.

The first point comes down to being crystal clear on your market positioning – your key points of difference that will be acknowledged by your customer and make you 'easy to buy from' and first choice for your chosen customer segment(s).

Demonstrating your ability to respond to emerging competitors comes down to your team's capability. An investor will want to know that you react to changing market forces with agility and speed.

An investor will also want to ensure you have a solid plan for the use of funds, as this can give a sense of likely return. Businesses seek institutional investment to accelerate growth of both revenue, and value. Any capital raised will therefore typically be deployed according to the factors that drive value which can be determined by our valuation formula. To delve deeper into the levers that drive the Multiple of valuation, please read 'The 7 Biggest Levers to a Higher Valuation' here.

Both building and executing a solid deployment plan will further demonstrate your capability as a Founder/CEO.

Whilst achieving the backing of an institutional investor is competitive, it is important to remember that you are likely to be working with your investor on a journey through multiple rounds of funding. An investor will also take a seat on your Board, and have a key role in strategic decisions about the business. With this in mind, you are strongly encouraged to choose your investors wisely. Key things to consider include cultural alignment, where you will 'rank' in their portfolio and their history of investments and the performance of those investments.

To find out more about how to strategically and efficiently raise capital, schedule a free 30-minute call with the Bean Partners Team via our website.

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