

CHOOSING AND MAKING THE MOST OF A VENTURE CAPITAL “PARTNER”

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Raising capital from one or more venture capital (VC) funds involves much more than simply effecting a capital raising transaction. It commences a long-term “partnership” in which representatives of the VC firm typically become active strategic consultants and advisors as well as members of (and rather vocal voices on) the board of directors. The VC firm – incentivized by its investment position and the need ultimately to realize investment returns – can and properly should function as a value-added partner, assisting and guiding the business in its funding, development, growth, plan-achievement, governance and ultimate exit strategy.

With a substantial number of well-capitalized funds chasing a relatively small group of promising, high-growth, well-positioned emerging companies, some capital-seeking business owners and managers are faced with several interested VCs and proposed term sheets and, as a consequence, have a “choice” concerning which firm(s) should become their investment funding partner(s). This choice should not be taken lightly. Selecting the right partner can be as important as securing key talent or bringing the right idea to market at the right time, and can even signal a turning point that shapes a venture’s future success.

In selecting the right VC partner, business owners and managers should research, consider and evaluate a variety of factors, the importance of which will vary from venture to venture. This requires a pro-active, concerted effort, in concert with the advisory team (as well as existing investors and board members), in advance of sending out executive summaries or seeking indications of interest from potential funding sources. Prior to selection, the company should research, question and assess – and, once the investment transaction is closed, should work actively to take advantage of – some or all of these factors:

- How well the VC firm understand your business, market and industry (which can be measured, in part, by the background and experience of its professionals, the thoughtfulness of the firm’s approach, questions and due diligence and, of course, the quantity, comparability and success of the firm’s other portfolio investments in your company’s industry and markets).

- The VC firm's level of interest in and commitment to your company and transaction (among other things, given your stage of development), and its desire and willingness to reach and implement a shared vision in the growth and development of the company.
- The VC firm's (and its designated representative's) commitment to devote time, effort and resources to the company and its development and growth; the availability of senior firm representatives (who will be the point persons for your company), including the number and extent of other portfolio company/board of director commitments, should also be assessed; also, the quality, depth and diversity of the VC firm's professional staff, consultants, and external contacts network, as well as its relevant industry contacts and perceived reputation.
- Strong "fit" and chemistry with the VC firm's designated representative(s), including your comfort in spending significant time with the representative(s), and a shared strategy, approach and point of view; his/her "smarts", creativity, flexibility, responsiveness, openness and honesty; and the representative's devotion and passion for guiding management and contributing to portfolio companies, level of planned involvement in oversight, management and operational matters, and ability to function calmly in a crisis (remember, you will be spending a lot of time with this new partner).
- The VC firm's "patience" (e.g., anticipated timeframe for achieving operational and growth milestones and ultimate exit strategies) and record for dealing with portfolio companies that have experienced unexpected delays, issues and difficulties in achieving important goals along the way.
- The VC firm's ability (based on prior experience), willingness and expectation to provide or assist in securing additional capital in the future; also, the ability of the VC firm to attract other funding sources and capital market participants (including strategic investors, financial sponsors and investment bankers) to the current round and follow-on investment rounds. (Note that a single capital raise may be - and often is - insufficient to fund an emerging company's entire business and development plan to an exit/liquidity event.)

- The VC firm's views on the depth, coverage and adequacy of your management team, and the VC investor's track record, willingness and ability to assist in recruiting, hiring and retaining critical management personnel (including through its portfolio companies, relationships and contact network); also, the VC's views on fair compensation for the management team (you should expect a significant emphasis on incentive compensation designed to align the interests of management and the VC firm in the business's progress, plan-achievement and ultimate success).
- The specific investment terms, preferences, rights, restrictions and conditions the VC firm is requesting or requiring as a condition to its investment (including those relating to governance, controls, reports, restrictions and exits).

Some of the keys to improving your company's chances of successfully raising venture capital include: being uniquely and strongly positioned in a large and rapidly growing market; assembling a strong, cohesive management team; preparing a clear, concise business and execution plan; working with experienced advisors; and understanding potential investors' needs, objectives, and goals. Most of the opportunities submitted (an estimated 80% to 90%) are screened out and eliminated after a very brief scan because they do not fit with the VC's objectives, criteria, and preferences, or because they were poorly thought out, prepared, or introduced. [See the attached "Common Mistakes in Pursuing Venture Capital."]

Like any sound and healthy business partnership, the company-VC fund relationship requires real and substantial investment and serious, sustained effort to make it work. The advisory team - which should be deep with experience in the venture market and venture capital investment transactions - can provide invaluable insight into and advice concerning these and other important matters that can help to guide selection of one or more VC firms suitable to "partner" with as well as post-closing "good partnering" practices.

Researching, assessing, and making a thoughtful selection of a VC firm to provide important funding to your business is essential to transforming (what could otherwise be) a one-time funding event into a long-term, value-added, impactful strategic partnership. Those who devote the time, effort and resources to a proper and considered selection, and a two-way-street partnership, should be well rewarded.

Common Mistakes in Pursuing Venture Capital

There are far too many (true) stories told about entrepreneurs and emerging business owners who, in the process of seeking venture capital funding for the first time, make costly yet avoidable blunders, ensuring a premature end to the investment screening process. Here's a list of ***Top 10 Mistakes to Avoid in Pitching for Venture Capital Funding:***

1. Failing to treat a first call or meeting with the respect and preparation it deserves; talking too much (about too little) and failing actively to listen (and respond fully and truthfully to questions asked)
2. Telling half-truths or presenting a “half-baked” business plan (including with vague, unrealistic or even unobtainable plans, forecasts, milestones or statements); also, presenting a weak, incomplete, disorganized or messy executive summary or business plan (your executive summary/business plan will likely be the “first impression” you make on the VC audience - make sure you proofread it, and that projections are realistic and supported by defensible sources, studies or data)
3. Failing to have your “act” together (and corporate, stock, financial and accounting house in order)
4. Focusing too much on the “idea” and too little on the market, the “solution”, the use of investment funds, customer traction, management and plan execution
5. A strategy or solution that requires a lot of funding to reach validation milestones (and/or not having a clear validation plan for the use and deployment of the funds you're seeking to raise)
6. Too much “hair” and complication - having many/various undocumented arrangements and relationships, or non-arms'-length affiliations, or perhaps outstanding disputes, with investors, lenders, “partners”, employees, customers, suppliers or others

7. Failing to properly factor and explain future projections in the context of past performance (in particular, past customer, costs/expenses, revenues, cash flow and capital management)
8. “Dissing” - or failing properly to respect, assess and address - competition and barriers to entry and growth (what is the current and expected competition and what are your and their true competitive advantages)
9. A board of directors (and/or senior management team) which (i) includes inexperienced (or no value-add) investors, (ii) is geographically dispersed, or (iii) is aspirational (in the works or “on the come”) only (who is your current committed team and how will they execute!)
10. A management team that suffers from but fails to appreciate fully one or more of the above factors



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QUICK FACTS REGARDING THE FLORIDA VENTURE FORUM

- The Florida Venture Forum, Inc. is Florida's oldest, largest and most prestigious statewide support group for venture capitalists and entrepreneurs. As an entrepreneurial networking group, the Florida Venture Forum educates entrepreneurs and assists them in identifying sources of venture capital.
- The Florida Venture Forum has been in existence for 27 years.
- The Florida Venture Forum has generated more than \$2.5 Billion dollars of venture capital funding for their presenting companies.
- The 21st annual Venture Capital Conference will be on January 31 - February 1, 2012 at the Naples Grande Beach Resort in Naples, Florida.
- The 4th annual Early Stage Venture Capital Conference in conjunction with the inaugural Statewide Collegiate Business Plan Competition will be held on October 5, 2011 at the Reunion Resort in Orlando, Florida.
- The Florida Venture Forum is a 501 (C) (6) organization. The organization is comprised of 40 Board of Directors and two full time employees.
- The Florida Venture Forum hosts monthly meetings on a statewide basis which assists entrepreneurs in providing sources for venture capital funding and educates entrepreneurs in the process.
- For additional information please go to the website at www.floridaventureforum.org.