

QuickLaunch University Webinar: Seed Fundraising: How to Get Organized, Attract Investors and Close Your First Round

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Webinar Guidelines

- Participants are in listen-only mode
- Submit questions via the Q&A box on the bottom right panel
- Questions will be answered as time permits
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Agenda

- Preparing for the Financing Process
- Sources of Capital
- Financing Alternatives
- How to Close the Deal
- Legal and Regulatory Overview
- Raising Capital: Do's and Don'ts
- Conclusion



Preparation: Raising Capital

What are the **goals** in seed rounds?

- Close the funding!
- Seek sophisticated, value added seed investors
 - Who are “accredited investors”
 - Who know angel investing and its risks
 - Networks and experience
- Seek standard terms and conditions
- Speed
- Minimize transaction costs
- Minimize number of investors
- Don’t create future legal and other hurdles



Preparation: Get Your Legal House in Order

Do the diligence that an investor will:

- Equity ownership records clean?
- IP owned by the Company?

Assemble all documentation in a central repository



Preparation: How Much Money Should You Raise?

Know exactly how much you want / need to raise and how you intend to use those funds:

- Plan for your valuation inflection points
- The “why” is a critical part of your pitch



Sources of Capital: Who Do You Ask For Money?

Research potential funding sources and connections within your network:

- Who invests in my space?
- Who invests at this stage of company development?
- Who is investing now?

Network relentlessly



Sources of Capital: How Do You Find a Lead Investor?

Often it is difficult to attract investment until an investor is willing to take on the lead role

Lead investor:

- Negotiates the price and other terms
- Leads the due diligence process



Sources of Capital: How Do You Determine Valuation?

Before you ask for money, do your best to get a sense of your Company's value:

- Leading indicator-comparable companies
- VC Method-Project exit value and discount it back to today
- Net Present Value (NPV)
 - Based on discounted cash flow analysis
 - Difficult for startups because it's assumption upon assumption

In reality, there's no magic formula but you must start somewhere. The more reasoned the approach the better.



Financing Alternatives: Do Early-Stage Investors Care?

Four primary ways to raise money:

- Incur debt (traditional loans, convertible debt)
- Debt/equity hybrid-SAFE (Simple Agreement for Future Equity)
- Sell preferred stock
- Sell common stock

Debt always has first claim on the Company's assets;
stock has only a second, "residual" claim



How Do You Create Momentum to a Close?

Investors have no incentive to invest early if they can invest later at the same price. How do you bring the financing to a closing?



Legal and Regulatory Overview

Securities Law Compliance

- Under federal securities laws, every issuance of a security must either be registered under the Securities Act or exempt from registration
- All issuances of securities that are not being registered with the SEC must also be reviewed for compliance with state securities laws, or so-called "blue sky" laws
- Almost any fundraising falls into the purview of the securities laws



Legal and Regulatory Overview: Keeping It Private

- Key is not to do something that requires registration as a public offering
- Traditional prohibition: No "general solicitation" or "general advertising", JOBS Act has changed this, allowing general solicitation to accredited investors only
- Accredited investors
- Regulation D Safe Harbor and Section 4(2) of the Securities Act



The JOBS Act: Crowdfunding

- JOBS Act Benefit-Introduction of Crowdfunding concept--a broadening of Rule 504 which will permit general solicitations
- Limited to offerings of \$1,000,000 (including amounts raised within prior 12 months)
- Not limited to accredited investors but can only be done through a registered broker or funding portal
- VERY specific disclosures required
- Specific limits on investment amounts by individual investors



Raising Capital: Do's & Don'ts

Do have a business plan

- Focus on the executive summary
- Highlight your market, competitive advantage and team

Do understand financing structures and terms



Raising Capital: Do's & Don'ts

Don't just take money from anyone who offers or from unaccredited investors

Don't utilize a “finder” to secure investments

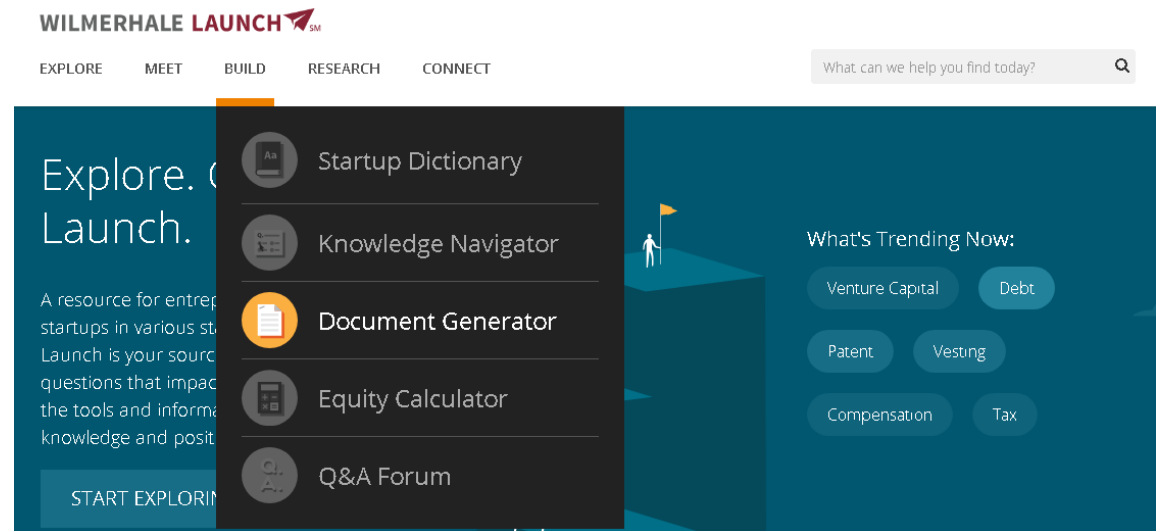
Do comply with ALL securities regulations

- Rescission liability
- Broker-dealer issues

Additional Resources

For more information visit [WilmerHaleLaunch.com](https://www.wilmerhale.com/launch)

- A website full of vital information, tools and connections needed to position entrepreneurs and startups for success
- Draws on expertise of WilmerHale's extensive team of lawyers practicing in areas critical to emerging companies in various stages of growth
- Features a growing library of video insights from lawyers, investors and other experts
- Allows entrepreneurs and investors to build knowledge, research topics with everyday impact and connect with dedicated lawyers
- Contains Document Generator





Questions?

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