Let's Talk: Raising Capital

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By Rebecca Thacker

How to get investors to sit-up and listen.

Entrepreneurialism is thriving in Australia and according to Forbes.com 35 per cent of Australian startups are based in Sydney followed by 14 per cent in Melbourne and 9 per cent in Brisbane. So, when it comes to seeking investors, competition is fierce.

According to co-founder of BenchOn, Tim Walmsley, "Investors are searching for a team that has the commitment, resilience, and ability to execute a business model."

The skill to concisely convey your message, understand industry key drivers, and the ability to pitch market knowledge and passion are essential to getting investors to sit-up and listen.

It is also "best if you have a history of entrepreneurial ventures that prove you have the grit to plough through challenging times," adds Founder and CEO of Employment Hero, Ben Thompson.

In the highly competitive startup industry, it is now more important than ever to make your business stand out and in this week's Let's Talk we asked several business leaders for their tips on 'how to get investors to sit-up and listen'.

Alan Manly, CEO, Group Colleges Australia

Despite rumours to the contrary investors are human. They, like any business person are always on the lookout for an opportunity deemed to be "good". Don't expect too much expansive language from an investor. Investors are at a major disadvantage in business because they have to rely on others to manage the business. Therefore getting an investor to judge an opportunity as good is akin to applying for a senior executive role in their world. They seek a person who has sound understanding of the proposed investment, proven leadership and financial success. By combining the credentials of the past with a golden opportunity, known as blue sky, such as a major company expansion that needs cash, they will sit up and listen.

Leo Tyndall, Founder, Marketlend

If your business is 0-5 years, the more responsible way to raise money is for you to consider using a convertible note, which might be redeemable or not. Look to use the people investing in that note for guidance on how to run and grow your business. What you don't want to do is deplete your cash flow by taking out a loan that will only give you money that may feel good at the time but have punishing interest rates and fees (we call this "sugar high" lending, the harsh fees are hidden and it typically leads to a crash). If you do choose to borrow money look at trade credit and invoice financing options, as well as transparent platforms that clearly tell you the cost of funds. You want an option that match your payment cycles because it improves your balance sheet and profitability and you have more money to invest in the things you need to grow. The wrong kind of loan will impair your ability to raise funds in an equity round, and also make it harder to borrow from other lenders.

Jerry Stesel, General Partner, Our Innovation Fund

At Our Innovation Fund we see 15-20 new investment opportunities per week on average and these each typically have extremely passionate founders and well presented decks. There are a few things that catch our attention. We're passionate about founders that are not only passionate, but who know their market, their business and their opportunity intimately. Whilst they're optimising strategy, hiring, unit economics, product and other metrics, they understand the key drivers in their industry, the key levers in their business and they have a firm grasp of their numbers. We're also excited when they've taken time to understand us and our focus. As we typically focus on B2B SaaS businesses with existing market traction, when a founder approaches us via our network or directly and they understand and convey what we look for and why we'd be a suitable partner and fit, that adds an additional layer of interest. Ultimately we back the founder first and foremost and so the founder being able to convey all of this to us in that first pitch is key for getting us wanting to dive deeper into the opportunity.

Detch Singh, Co-CEO and Co-Founder, Hypetap

There are three essential ingredients I've found investors are looking for:

- Traction — You'll need to show you have a clear vision on where your business is going, but more importantly you need the numbers to prove that your business is actually gaining traction amongst customers. Depending on the type of business, this means being able to detail in-market success including everything from sales, current user-base and recurring revenue.
- Technology — They'll want to know your offering is unique and defensible. Is there a market need; how is it different from others already in market; is it scalable; are you investing in R&D? This information will help investors understand the unique selling proposition of your company, which is crucial to get them to listen.
- Team — Your team can be a make or break factor for investors. Investors want to know the founders have the skills and expertise to run and continue growing the company. Have they worked in the specific industry before; how close are they to the problem they're looking to solve? When investors invest in a company, they are investing in the founders, so they need to feel confident and comfortable that you have the experience to lead the company.

Nailing these three ingredients will give you the best chance of attracting the right investors who understand your business and believe in its potential to succeed.

Mark Fletcher, CEO & Co-founder, Cohort Go

When it comes to pitching to potential investors: Less is more. You need to concisely convey your message, and stick to tried and tested methods. Along with the basics, to get investors to sit up and listen, you must do five things when developing your pitch deck:

- Describe your customer's pain point and how you solve it
- Demonstrate the extent of your market size
- Explain how you will make money
- Team members are key – ensure you profile your team's experience and execution capability
- Most of all, show your passion and get your audience excited by the opportunity

You also need to consider the overall presentation. A pitch deck needs to be personalised to the team member delivering the pitch, with a concrete understanding of the presentation format. Will it be a one-on-one, round table or lecture style forum? This may dictate how formal or conversational you can be in delivery. Finally, preparation and research are key. You've likely only got one shot with an investor, so make it count.

Ruth Hatherley, Founder and CEO, Moneycatcha
It's important to know your story and always start with "Why" – too often we move straight to the solution and tech before articulating the problem – know the problem you're solving, why there's a demand for your solution and why customers would choose you over your competition. Try to understand the investors' journey as part of your company strategy and where they have an opportunity to gain a return on their investment in future. Be bold in articulating this. You should clearly outline your growth and exit strategy, and underpin with supporting evidence of how this will be done. Most important of all – the investor will buy into you as the founder before the company. If you aren't compelling in your pitch, vision and competency it will be hard for you to gain their trust to invest in what you've created.

Ryan Parsons, Chief Financial Officer, GO1

Firstly, you need to be able to clearly articulate what your product is and importantly how it solves the problems or satisfies the needs that your current and prospective customers, or partners are experiencing. Backed by a product that customers want, show how your business model will get you to a position where you have a sustainable competitive advantage – what are the industry dynamics and market context that provide an opportunity to get to a defensible position. To give further context you'll need to establish the size of the market you are in (the Target Addressable Market) – investors will want to understand just how valuable your business could be in determining the returns they could make. For growth stage companies it's also vital to demonstrate your grasp on the metrics (both financial and non-financial) that have driven the business to where it is and how these early observations scale with access to further capital. Whilst investors at different stages will look for different things, a business model that enables an in-demand product to be distributed within a sizeable market and supported by strong key metrics will always get their attention.

Ben Thompson, Founder and CEO,Employment Hero

Show investors a compelling vision that solves a massive, preferably global, problem in a unique way. Provide proof that you are all over your core metrics and that you are highly capital efficient so they know you won't be wasting their money. Your past experience should prove that you can deliver. It is best if you have a history of entrepreneurial ventures that prove you have the grit to plough through challenging times. Even if you might have failed in the past you should be able to explain why you did and what you learnt from the experience. Finally, make sure you are surrounded by a great team who are equally committed to your vision and whose skills complement yours.

Troy Douglas, Global CEO & Co-Founder, Nexba

Raising capital is a strategic choice to step change the growth of your business. It will be emotional, challenging but ultimately an incredibly rewarding experience. In the words of Amanda Price from KPMG High Growth Ventures, be fierce and deliberate. At Nexba, our capital strategy supports the execution of our business strategy. If you are your authentic self and have the mindset of being custodians then you can transform pitching into sharing the story of your business. VC's, family offices, angel investors want to hear of your deep understanding of the commercials, the market and the competition – so know your stuff. Your strategy will rarely go to plan so seek valuable investors whose experience can provide insights through challenging times and when they are on board remember to communicate through both the wins and the challenges. In the beverage industry, we're up against huge MNCs and the key to our success has been in being flexible and passionate about our vision to be Australia's Naturally Brave brand delivering Naturally Sugar Free innovation to the world. In recent years larger companies have stepped up to the sugar 'being the new tobacco' sentiment by substituting with artificial ingredients. By understanding why you exist, and listening to the facts and trends of your customers, consumers, you can translate this into a clear opportunity for your business provides the solution that investors can more easily understand and appreciate.

Tim Walmsley, co-founder, BenchOn

When raising capital in the early phases of a startup, it's important to remember that investors want to believe in the potential success of a founding team. Founders and their teams need to show that they are passionate and capable. Good ideas are great, but execution is everything. Investors are searching for a team that has the commitment, resilience, and ability to execute a business model.

When pitching to investors, make sure you explain who you are and why you are the best person (or team) to make this business a success. Convey why solving this problem is so important to you – why does this solution excite you enough to get you out of bed every morning and stay dedicated to solving this problem even when times get tough? Resilience and tenacity are what will get a startup through the inevitable dark times so if you can show that side of you, then investors will take notice.

Edwin Onggo, Founder and CEO, Giggedin

How can you get investors to sit up and listen? By having the following things:

- A huge vision
- An epic team
- A systems thought approach towards how you plan on making it all happen
- Traction/Momentum
- A chance they will miss out on the deal

Carl Hartmann, Co-founder & Chairman, Shortlyster

As someone who has both raised a lot of capital and is now on the other side of the fence as an Investor – to get investors' attention it comes down to two things. One, an understanding that people invest in people, and Founders that have passion, focus and unrelenting tenacity are the qualities that make someone "investable". Two, and equally important, a clearly defined market opportunity with validated, defensible and sensible unit economics, which can demonstrate the potential for returns. It's all well and good to say "this is a $1BN market, and we are going to take 10% of it" but unless you execute like an absolute machine, or have no competitors – that's probably not going to happen, especially not for a first-time founder. What is more investible is "we've built a minimum viable product with $1M ARR using $500K in seed capital, and now if we deploy $5M of new capital we can demonstrate that by maintaining our current growth rate over the next 3 years, we can generate $10M ARR which would still only represent 1% of the global market, meaning there is lots of blue sky for even larger returns". A path to the next milestone, which either commands a nice growth round or starts to become an interesting acquisition target (with lots of companies being able to afford it at that point) ultimately sells the thing investors are looking for – the potential for solid return. Their bet is the belief that the Founder has what it takes, and the unit economics are sound enough for them to be able to achieve such a result.

Emma Poposka – Managing Director, BronTech

To get investors to listen, you should pitch a big vision on how what you are building will have a dramatic positive impact on the world. Talk about the big picture and "the why" of what you are creating is important, and why you are the right person for the job. They would want to know that you have an intrinsic motivation to succeed and cross over all the potential barriers and pitfalls.

To sum up, you should be clear that what you are creating will be a big deal if successful and you are the right person to do it.

Natasha Davidson, Group General Counsel, Ansarada
Critical to the success of every capital raise is investor support. Investor communications advance the rationale of the raise and help illustrate the strategic direction of the business. This is the beginning of a partnership.
Our approach at Ansarada has consistently been to deploy our technology to transparently communicate with investors enabling them to understand who we are and our value proposition.
We designed our technology platform with this firmly front of mind and it has worked for us, and countless Ansarada customers. The differentiator that we champion is readiness and the confidence that underpins that readiness. The market is still learning the potential of technology and how it can positively influence business behaviour.
By adopting smart technology, material information required for a capital raising is centrally assembled and then nimbly surfaced for any corporate action. The due diligence process is almost automated which delivers obvious operational benefits. A business can devote more time to communicating with investors and aligning on the strategic vision than being stymied by manual processes.
Tim Bos, co-founder and CEO, ShareRing

To get investors to sit up and listen, you need:

1. An experienced founding team that has a track record of successfully building businesses and knowing what it really takes to get a business up and running. A combination ofcomplementary skill sets, and qualifications is a must.
2. A genuine 'market need' for your product/service: what problem is your business solving, how big is the target market (potential prize), what's different about your businesses vs those already operating in the space? I've heard a number of investors say, 'could I see myself using this product' as a test for market need. It's an easier sell if investors can see themselves using the product.

3. Credible cornerstone investors: investors will follow other credible investors. The first dollar you raise is the hardest. If you have backing from credible investors, it’s an easier sell to others.
4. Foundation partners/clients: early stage partnerships with ‘best in class’ businesses turn investor heads. Investors cannot be experts in every market. Having credible brand names associated with your business means you have gone through a level of due diligence with an organisation that could well be an expert in the market segment you are operating in. This helps demonstrate to investors a credible business model.

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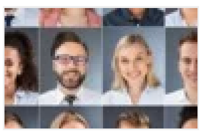

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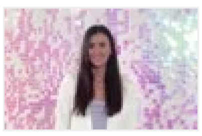

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