The Funding Process From The Entrepreneur’s Perspective

Dan Dykens
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My Background

- Hedge Fund business 10 years
- Built software to address internal needs
- $225 million industry software acquisition announced
- Inspiration to start a software company
- Evaluate the market size
- Ask others who have “been there done that”
- Just do it
Where is the Money?

- Friends & Family?
- Angels
- Venture Capital
- Government
- Banks
- Hedge Funds
- Strategic Investors
Who Will Invest?

- **Friends & Family:** If they don’t trust you why should a stranger?
- **Angels:** They often know your business because they were in your business
- **Venture Capital:** Don’t hold your breath
- **Government:** Johnny Bravo Investors “Only if the suit fits”
- **Banks:** Must be an established business with diversified AR
- **Hedge Funds:** Difficult to get to
- **Strategic Investors:** Far & few between but value your business more than others
Angel Investors

- Individual or member of a group
- High net worth
- Typically industry veteran
- Likes helping develop businesses
- “Been there…done that”
- Not as valuation sensitive as VCs
- Make quick decisions
Venture Capital

- Professional investors
- Heavily invested in Tech, Telecom & Healthcare
- Funds and deals getting bigger
- Shying away from pre-revenue deals
- Willing to pay more for less risk
- Require internal consensus
- Process oriented
- May pressure you for a premature exit
- Follow the herd
- Quick to remove management
VCs No Longer in the Business of Funding Start-Ups

Percentage of VC Dollars Invested in Seed Deals by Year
The Numbers

Odds of dying from a gunshot wound:
1 in 314 (0.0032%)*

Odds of getting funded by Battery Ventures:
1 in 357 (0.0028%)**

*Source: National Safety Council
**Source: Boston Business Journal June 15, 2007
Angels vs. VCs

First Half 2006
Angel Investment
Source: UNH CVR

$12.7 Billion
24,500 Deals
Mostly Early Stage

First Half 2006 VC
Investment
Source: PricewaterhouseCoopers

$13 Billion
1,736 Deals
Mostly Late Stage

396 Early Stage
136 Seed

Early
Stage

Late
Stage
Government SBIR Grants

- American-owned and independently operated
- For-profit
- Principal researcher employed by business
- Company size limited to 500 employees

- Department of Agriculture
- Department of Commerce
- Department of Defense
- Department of Education
- Department of Energy
- Department of Health and Human Services
- Department of Homeland Security
- Department of Transportation
- Environmental Protection Agency
- National Aeronautics and Space Administration
- National Science Foundation
Strategic Investors

- Large industry players who know your business
- Don’t need the “education” on why they should invest
- Can be leveraged for industry contacts and client introductions
- Potential acquirers
- Willing to pay higher price because they value your business more
- May reduce acquisition interest from their competitors potentially resulting in a smaller exit
Norbury Funding

- Self funded $400k & spun technology out
- Raised $675k from a who’s who list of financial technology angels and hired a team
- Raised $1.3 million from a more diverse group of angel investors and started generating sales
- Raised $700k from existing investors and launched major software upgrade
- Closing on $2 million bridge round with two hedge fund managers
- In discussions with a bulge bracket investment bank about a large strategic investment
- 4 VCs have expressed interest in investing after we sign a distribution deal with the above mentioned investment bank
Need a Thick Skin

- Hedge fund manager never ran a software co.
- Hedge funds are overheated “bubble market”
- Soft dollars are going away
- Thick client is too difficult to build and maintain
- If this is such a good idea why hasn’t someone already built it?
- Your valuation is too high you won’t be able to raise needed money
- Your market isn’t big enough
Advice

- Recognize what you are good at and what you are not
- Focus on your strengths
- Hire a great supporting cast to fill talent gap
- You need to have done it before…if have not, you need to be an expert in your industry
- Be open to suggestions but do not blindly follow
- Avoid VCs if you can
Questions & Answers