HOW MUCH TO RAISE IN YOUR NEXT ROUND

SHOCKWAVE INNOVATIONS

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INTRODUCTION

Determining the right amount of funding to raise is critical. Too little, and you'll run out of cash before being able to accomplish meaningful outcomes upon which to raise again. Too much, and your equity (and others) will get excessively diluted. Deciding how much to raise is part art and part science.

In this workshop you will come up with a strategy for your next funding round.

Prerequisite Content: *This assignment leverages content from the video module titled "How Much to Raise & When". Also helpful is the video titled "Demonstrating Traction".*

RECAPPING KEY CONCEPTS

Investors care much less about how you are going to spend the money (activities) versus what you're going to accomplish with their money (outcomes/accomplishments). And it is those outcomes that you will leverage to raise money again in the future at a significantly stepped-up valuation, thereby keeping future equity dilution reasonable.

One of the best ways to determine how much you should raise is to envision a set of significant outcomes you can accomplish over some time period (commonly 6-9 mos for pre-seed, 9-15 mos for seed and 18-24 mos for Series A). Then evaluate what sort of resources will be needed and what other expenditures like marketing programs, lab equipment, legal fees, etc will be incurred. The combination of time, resources and other expenditures guides you to the amount of money needed to accomplish your desired outcomes. Of course, if you might have offsetting income (revenue) from product sales, which definitely helps but just be conservative in your projections.

The concept follows the diagram below, but worked from right to left so that the emphasis is on achieving the desired outcomes using the funding raise.

OTHER HELPFUL HINTS

- Since things don't usually play out as planned, include a buffer for contingencies. You can do this by extending the timeline (ie – planning for 15 mos when you really think 12 mos is sufficient) or setting a cash balance floor (ie – at the end of 12 months you project having $80K still in the bank).

- When estimating costs for employees, don't forget the extra burdens of benefits (if offered), payroll taxes, and travel (if appropriate for the role).

ASSIGNMENT

1. Come up with a list of 3-5 significant outcomes/accomplishments that you can accomplish and anticipate being exciting to investors, both today's investors and in the future when you likely need to raise money again.
    - For each outcome, briefly describe why it is significant (ie – validates something, de-risks something, suggests bigger upside).
2. How long (months) will it take for you to accomplish the identified outcomes?
3. How many and what type of resources will be required (employees, contractors, consultants)? Also, what other key expenditures will be required? Feel free to reflect this in a high-level budget or financial model.
4. How much should you raise in order to accomplish the above and allow for some contingencies?
    - It is typical to round up to the nearest $50K for a pre-seed round, nearest $100K for a seed round and the nearest $0.5M for a Series A.

ADDITIONAL READING MATERIAL TO SUPPORT THIS ASSIGNMENT

- Article: "Investors Write Checks for Outcomes, Not Activities"
- Article: "Your Series A Readiness Scorecard" – if this is for a seed round that is intended to setup you up to raise a Series A next

See Optional Exercise on Next Page

OPTIONAL EXERCISE

This workshop doesn't cover the issue of dilution. If interested, do some hypothetical calculations of dilution based on a range of valuations you're able to get investors to agree with. Valuation discussions usually start with pre-money valuation (what you're supposedly worth before raising money) but dilution is a derivative of post-money valuation. The formulas for dilution are as follows:

Post Money Valuation = Pre Money Valuation + New Money Raised

Dilution = New Money Raised / Post Money Valuation

If you use a convertible security as the fundraising instrument for this planned round of funding, you won't actually experience the dilution until it converts to equity in the future. However, for this optional exercise on estimating the dilutive effect of the round, the formulas still work.

- A cap table simulator can be used to actually model the dilution from multiple rounds of funding over time, including starting with rounds that use convertible securities. You can find such a simulator at www.shockwaveinnovations.com/resources (look in the fundraising resources section).