CHECKLIST: INVESTORS

The power is in the investors' hands: if you want to reverse it, the first thing is to know them and to think like them by putting yourself in their shoes.

BEGIN LOCAL

We are used to hearing that it is more difficult to raise money in Europe. The truth is that there is less money available for startups in Europe but there is also less competition and less pressure. Moreover, everything in the Silicon Valley costs 3 times what it costs in Europe: raising $1M there equals €250k in France in terms of means. Salaries, rents, everything is cheaper. Don't take it wrong: Silicon Valley is expensive because it is the most efficient place on earth. It is like living in the center of Paris vs the suburbs. But the more early-stage, the more local your investors. The more successful, the more international.

DO NOT HESITATE TO TAKE LOVE MONEY

Love money is money that comes from people who do not care about what happens next and above all it is money that comes without any constraint. If your family and friends can give you money, take it - don't feel ashamed or guilty.

FOCUS ON THE WHO

For your first fundraising, "Who" gives you the money is as important as how much they give you: 1€ does not equal another, depending on who it comes from. Every investor has an impact, especially in Europe where everybody needs to sign everything before proceeding. No money is better than bad money. Beware of big names. An easy due diligence is to call someone from their portfolio, to talk with people who actually work with the investor. If it is your first company, play it simple: avoid non-traditional investors such as hedge funds, business people, industrial figures...

BE CLEAR ON THE WHAT

"What" is how much and which kind of money (capital, loan,...) you want to get. First round valuations are very low in Europe, or even unacceptable, such as 150k€ for 30% shares. First round valuation should be between 1.5 and €2M, never less. The first valuation is totally artificial so you have to put a high level. Do not wonder how to reach that valuation: reverse the problem. You should fundraise only if you reach that valuation. Try again and again until investors are ready to pay that valuation. Fundraising is an auction. A good strategy is called the "double divide": divide by 2 the amount you want to raise and divide by 50% the valuation you are looking for. This way investors have the feeling it is cheap, you end up having more term sheets, you then double it all and you finally raise at a higher valuation than you expected, and for more money.

DO NOT DO A BUSINESS PLAN

Playing with numbers is useless. Cash flows are unpredictable, especially for startups. A BP consists in building forecasts based on the past: as an early-stage startup, you don't have a past, so making a BP makes no sense. Plus, it is your job to be optimistic, so of course you'll come up with exponential forecasts, but it is really rare to reach them. So give your budget, show how you plan to spend the money and explain that the goal of this 1st fundraising is to establish a model you can believe in. If an investor in the first round puts a BP as a condition, they are not the right Who.

BEWARE OF THE HOW

"How" is about the legal terms. What's dangerous is that the conditions negotiation always comes after the money negotiation. The simpler the conditions offered, the better the investor. Do not search for equality with your investors, search for risk alignment.

BE TRUE ABOUT THE WHY

Investors are not sincere about the "Why" and entrepreneurs lie to themselves: it cannot work on the long run. If you are ready to sell at some point, say it, if not, say it. No one cares about the "Why," but this is the true parameter that will make your relationship with your investors work.

CELEBRATE

A successful fundraising is a nice milestone. Of course it doesn't mean anything about your future, of course it is just a beginning and not an achievement, but still it is social proof, it boosts morale - enjoy it.

USE THE MONEY SMARTLY

Every investor knows that when they invest in a company, the following month is always the worst month ever in terms of performance. The pressure goes down and the entrepreneurs need a few weeks to get back on track (and some of them never do). A successful fundraising is a hard test for founders: the only way to know if they are capital-efficient is to give them capital. Remember that raised money makes you go faster only if it is well spent.

BECOME A STAR AT REPORTING

Reporting is not just about tracking data: you have to make that data understandable for people who have one hour to dedicate to you per month. Data reporting is key to your investor relationships and the future of your business. Your goal is to instill confidence with your performance.

PROTECT YOURSELF BY BUILDING YOUR OWN INSURANCE

Whatever happens to you, your VCs get paid. So do not feel too uncomfortable losing their money: put it to work, if it pays off it will pay big for you and for them. Also, realize that anyone can be fired, including founders, so be comfortable with that. Our opinion at The Family is that you should build personal wealth from serie-A to secure yourself and your family. A basic way to do it is through secondary: secondary money is money that goes in the pocket of the one who sells its shares, vs primary money which goes into your company through new issued shares bought by external people. To do secondary, when you fundraise, you sell shares that you own with a 20 to 30% discount (never more). The discount comes from the fact that the money going in your company generates value, not the money going in your pocket.