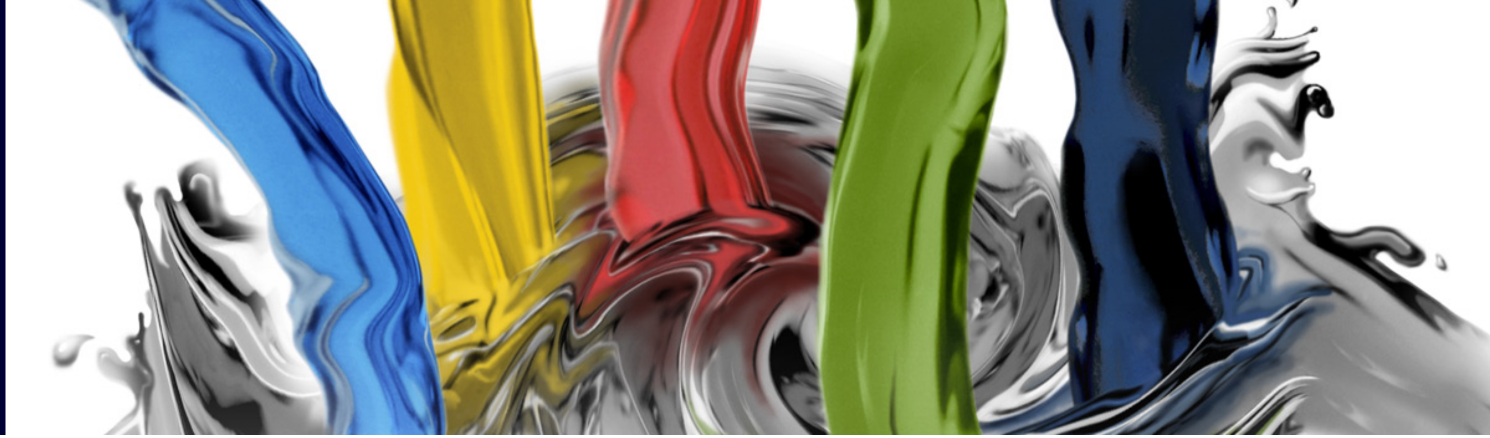
Clear2Pay



Do’s and Don’ts of Fundraising

Jürgen Ingels

Background

- General
  - ° 16 March 1971
- Education
  - Master in Political and Social sciences
  - MBA at the University of Antwerp
- Former senior investment manager of Dexia Ventures (venture capital department of Dexia Bank ; board member of Xenics, Metris, equipnet, …)
- Career
  - Founder, Managing Director & CFO of Clear2Pay
  - Co-founder of NGData
  - Board member of Projective NV, Itineris NV, Ribrain NV, Ncentric/ Citymesh
  - Member of investment committee Vinnof
  - Member of the investment committee of Sniper investment
- External advisor of several technology companies regarding fund raising and international expansion
- Chairman of the board of Startup.be

PRIOR TO FUND RAISING

The Top 10 lies told by VC's

- I liked you company but my partners didn't
- If you get a lead, we will follow

- We are all in the same boat (but we sit priveliged in the lifeboat)
- Show us some traction and we will invest

- We love to co-invest with other venture capitalists
- We are investing in your team

- I have lots of bandwidth to dedicate to your company
- This is a vanilla term sheet

- We can open doors for you at our client companies
- We like early-stage investing

The Top 10 lies told by Entrepreneurs

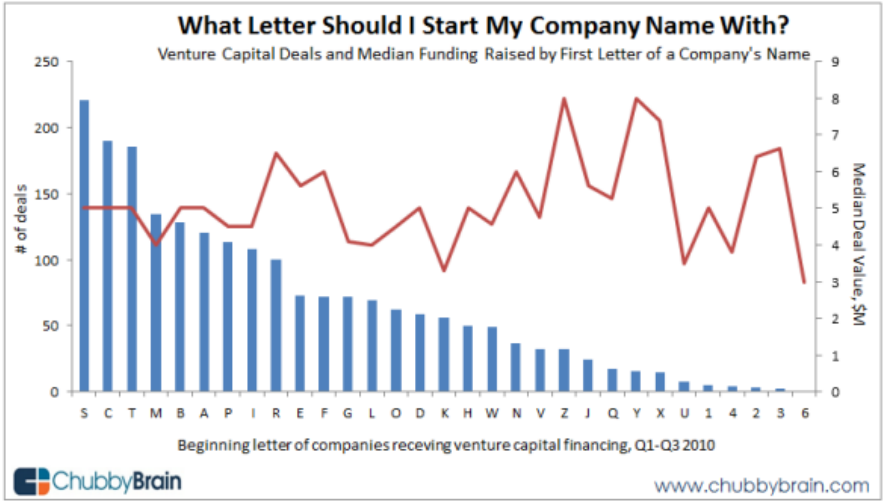
- Our projections are conservative
- (A well know and reputable market research firm) says our market will be $50 billion in 2015
- (A fortune Top 50 company name) is going to sign our purchase order next week
- Key employees have committed to join us as soon as we get funded
- No one is doing what we are doing
- No one can do what we are doing
- Hurry because several other VC's are interested
- (A fortune Top 50 company name) is too bil/dumb/slow to be a threat for us
- We have a proven management team
- All we have to do is get 1% of the market

General preparation (1/2)

- ✓ Realize that VC's spend more time making **spreadsheets** than understanding the business. Make sure that you have the necessary figures and excel sheets
- ✓ Don't hesitate to present ambitious figures, but make sure you can defend them when needed
- ✓ Avoid **R&D activation** and **window dressing**, but handle "*what you see is what you get*"
- ✓ Don't ever write a complete **business plan**, but limit the presentation to maximum 15 slides
- ✓ Don't make a **financial planning** for more than 3 years

General preparation (2/2)

- ✓ Don't make a **financial planning** for more than 3 years
- ✓ See that your company can realize an increasing gross margin. If not, don't look for VC capital
- ✓ Study **similar business models**
  (growth model, gross margins, R&D, G&A, S&M)
- ✓ Make, as from day 1, a **database** with all legal, financial and operational information to have a smooth audit (due diligence)
- ✓ Recruit **top management** in order to facilitate the negotiations



Choice of the VC

- Select a VC with a widespread **network**
- Realize that the world of VC in **Belgium** is young, inexperienced and limited
- Contact foreign VC's; don't hesitate to go to the **US/UK**
- Study the existing **portfolio** of the VC and contact a number of portfolio companies
- Choose a VC with an **added value for your company**
- Request a follow up from **1 investment manager only** during the complete process and ask for a manager with relevant knowledge
- Provide **buzz** about your business; VCs talk to each other and rely on what other VCs think about your business (flock)

FUND RAISING PROCESS

The process (1/2)

- ✓ Keep the investment process in your **own** hands
- ✓ Never do a **presentation** on your own, but always in team and give everbody the time to speak (no ego!)
- ✓ Give no **exclusivity**. Work with 2 VC's till the end and keep them competitive
- ✓ Tell the **truth** and be honest to the VC
- ✓ Send a **teaser** from maximum 3 slides and leave some issues unanswered to make them curious. Do the follow-up by e-mail and this on several occasions

The process (2/2)

- ✓ Realize that making valuations is **not an exact science**, whatever the VC may say. The “carpet model” prevails!

- ✓ Make sure that the VC is not able to put you **‘offside’** when your business has a dip (fluid assets!)

- ✓ Provide **press articles** during the fundraising. "If it's in the paper, it will be good and true‟

- ✓ **Test and adjust** your slides. Go first to the less interesting VC’s to dry run

Legal structure (1/2)

- ✓ Choose a **lawyer** with experience concerning VC contracts. Avoid incompetent lawyers
- ✓ Combine the capital increase by issuing free **investor warrants**. VC's don't like to lose money; respond to this
- ✓ Avoid **complex** legal structures which are an obstacle for acquisitions. Align the interests of the VC en the company (same boat)
- ✓ Avoid step by step funding; this slows down implementation of the business plan and allows the VC to have a "second look"
- ✓ Avoid different **categories** of shares, considering 25% blokkage

Legal structure (2/2)

- ✓ Make sure that there is more than 1 VC in your **board**, so they keep each other busy ☺
- ✓ Try to get an **option** with a fixed annual return on a part of the share from the VC
- ✓ Do not accept **anti-dilution** protection. In times of prosperity the VC will not give any gifts. If unavoidable, go for the average anti-dilution
- ✓ Provide 10% as **SOP** during the discussions and make sure that 10% remains constant. Afterwards, this is difficult to obtain

POST FUND RAISING

Post fund raising

- ✓ Don't get tempted to let your **cash** burn faster than foreseen (usually on demand of the VC). If you are out of cash, they will present the bill.
- ✓ Provide direct **communication** with your VC and bring him bad news immediately
- ✓ Let the VCs **work**. Expect certain things from your VCs and impose them certain tasks from the board (studies, market research, competitors analysis, etc.)
- ✓ Create ONE **reporting set** for the VCs and refuse to send each VC his own format
- ✓ Send the **cash position** on a regular base to VCs
- ✓ Realize that VCs like a monthly **weighted and unweighted sales pipeline**

Each other's perception

VC's think entrepreneurs

- Are arrogant, young and egocentric
- Are stubborn and don't listen
- Forget that they would not be where they are without the money of the VC
- Are obsessed with valuation and dilution
- Are overly optimistic
- Are not good at giving appreciation
  If the company is a success, it is an accomplishment of themselves and they had to give up way to much for their stock
  If the company is a failure, the VC is to blame because he does not understand the business

Entrepreneurs think VC's

- Are arrogant, inexperienced & egocentric
- Are a necessary evil
- Are heavily overpaid and somehow believe themselves that the earn this.
- Are Risk-adverse and play with other people's money
- Think they can make a difference
- Lack operational experience
- Are never there but always feel the need to meddle
- Are not capable of contributing added value
- Are eager for power without taking any responsibility

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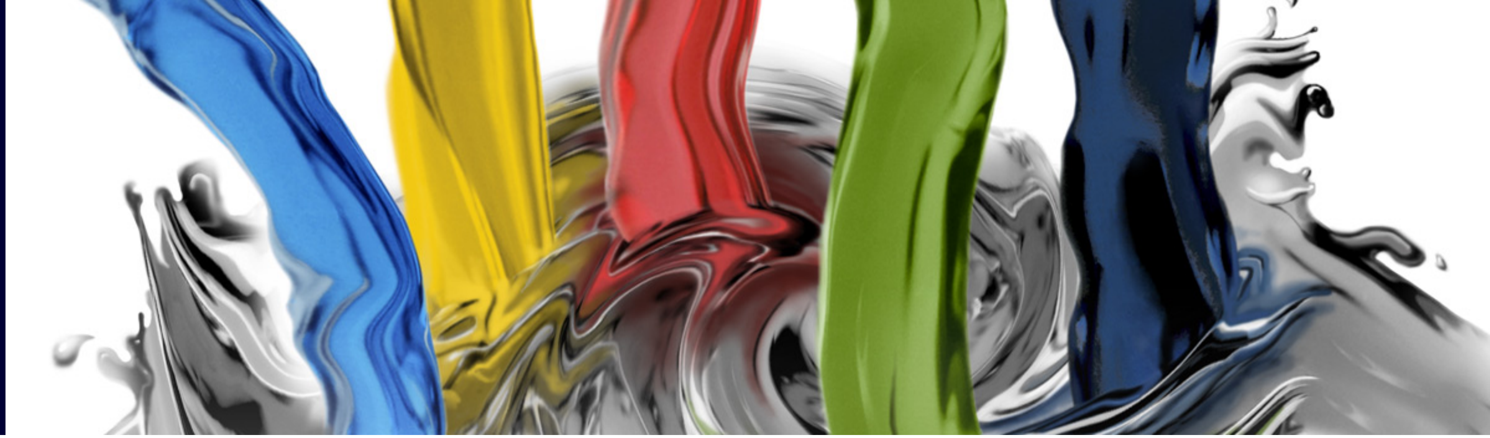

"I am not terribly scared of my fellow competitors but of a small team of engineers bootstrapping and ready to go through hell to make it happen."

(John Chambers, Cisco)