

# What's in Your VC Plea?

by Rebecca Lynn, Morgenthaler Ventures, 2010

Let's say you have an ingenious new business idea, and you're ready to seek venture capital. Knowing what venture capital investors look for in a pitch could mean the difference between a term sheet and a rejection.

As a VC, I've seen hundreds of pitches. And I can tell you that in today's environment, the best PowerPoint slide decks--whether delivered by first-time entrepreneurs or veteran company builders--share similar structure, content, and zing.

First, what's changed? I recently hosted a panel called "The Secrets of Pitching to VCs" at the University of California at Berkeley, and I realized how much the environment has changed over the past two years. Good ideas on paper are no longer being funded. Today, entrepreneurs need to show real traction even for angel rounds. That said, the funding environment has been improving significantly since the first quarter of 2009.

The pace of angel investing is an early indicator. One angel with whom I spoke in early March had already completed 18 deals this year. Angel rounds themselves are getting larger. I've spoken with three angels in the last month who are planning to raise institutional money and funds of up to \$50 million.

You've heard this before, and I'll say it again: It's a great time to start a company. More than half of the 2009 Fortune 500 list of largest U.S. companies started during a recession or bear stock market, according to a study by the Kauffman Foundation. More relevant to our discussion, some of the most successful VC-backed companies were started in a stressed economy. Count Apple, Microsoft, Dell, and Intuit among them.

So for those who hear the siren call, the question is, "How do I pitch VCs?" It isn't rocket science, but it can often go wrong for those who aren't prepared. Here's what I shared at the event for entrepreneurs at UC Berkeley:

## **Talk to the right person**

Figure out if you should reach out to an angel or a VC. Angels are appropriate for companies raising \$25,000 to \$1.5 million. You should target a VC, if you're raising more money than that (unless you know a lot of angels). Keep in mind that all angels and VCs are not created equal. You should find out the following:

1. Is the firm currently investing, and does it have funds?
2. Does the firm invest in your space? And, if so,
3. Which partner at the firm is the best fit for you? Targeting a clean-tech partner for your gaming start-up will not get you very far.

## **Get or make an introduction**

How do you get a meeting, once you've identified the right firm and partner? The best, perhaps the only, way to do this is to get an introduction. Cold calling or blindly sending in an e-mail will likely get you nowhere. An introduction can come from someone at one of the firm's portfolio companies, an attorney, a professor, or anyone the VC knows. If this is not possible, then go where the VCs go. Find a conference that they will attend, and introduce yourself. If you are going to start a company, selling yourself is something you'll have to get used to.

## **Hone your pitch**

Many entrepreneurs have a hard time putting together a compelling pitch. My advice is to keep it simple. No matter what the sector, all VCs look for the same things:

1. A disruptive technology or business model
2. A team that can execute
3. A billion-dollar addressable market (or one that will be created)
4. Timing that is right for the market, and
5. Some level of traction

## **The Deck: What VCs want to see**

There are really just 10 to 15 slides you need in your PowerPoint presentation. That's it. You can make generous use of an appendix, and this is where you should put any specific answers to questions that you anticipate.

**Slide 1:** Tell me what you do. What customer pain do you address? Include a short tagline here so I understand immediately. For example, "Lending Club connects borrowers to lenders, and thereby disintermediates banks." Whatever you do, do not hide the ball and take me through a number of background slides about the market before you tell me what you do. You'll lose me on Slide 2, and I'll be annoyed. Get my attention right off the bat, and focus the conversation. Lead with your best stuff--tell me now, if you are profitable, have exponential growth, or have just landed a big deal.

**Slide 2:** Who is on your team? How are they relevant? Who is missing? Only discuss the relevant experience of the team--do not give a full biography. I should be able to see what each team member will uniquely contribute. Proactively point out whom you need to hire. And, if relevant, discuss important advisers and board members. One note here: do not have venture capitalists or angels as board members, if they have not invested themselves. This is a red flag. (If you present a good investment, they'll invest.)

**Slide 3:** Introduce your product, and tell me how it solves a customer pain point. How does it uniquely solve the problem? What is your competitive advantage? What are users saying about it? A demo here is always nice.

**Slide 4:** How big is your market, and why is the market ready now? Identify the segment of the market you believe you can capture. Importantly, why is now a good time to invest? What is changing in the market, such that the timing is right for your company? Remember--being too early is no different from being wrong. Thus, you need to convince me that now is indeed the right time. (For example, Autonet had to convince us that the timing for the [car](#) to be connected to the Internet is

2012.) If your company is part of a new market, speak to how it is evolving, and address the need for your product.

**Slide 5:** What is your go-to-market strategy, and how are you going to acquire customers? How will you enter the market, and what are all the trigger points for expansion? What success criteria will you need to see before moving to the next phase? What is your customer acquisition cost, and is there any way to acquire customers virally?

**Slide 6:** Where are you now--how much traction do you currently have? Show any growth and revenue you have. If you have users who signed up and continue to use your product, show a vintage analysis so we understand how sticky the product is.

**Slide 7:** How do you get big? What is your vision? There are a lot of businesses out there that can run profitably and spin off a couple million dollars a year. However, in order to be venture-investable, we must see a way that all the stars can align, and you can be a billion-dollar opportunity. What assumptions have to be true to make this happen?

**Slide 8:** What is your exit strategy? In the current market, IPOs are highly unlikely. As a result, we need to know who would buy you--and why they would need you. Are there any applicable market comparables?

**Slide 9:** What is the competitive landscape? No matter what, you have competition. Never come in and say you don't. Be open about who your competitors are or will be and, of course, tell us why you are better. Remember--if there is no competition, this is likely not an interesting space to be in.

**Slide 10:** Tell me about your financials, with key assumptions. For early-stage deals, revenue is a guess. What VCs primarily look at is how your head count and expenses ramp up; this will tell us your burn rate and how soon you'll need more funds. Ensure that the numbers are believable and line up with company initiatives. Do not project financials more than three years in the future.

**Slide 11:** The Ask. How much money do you want to raise, and where will it take you? How much have you raised to date?

**Appendix:** Here is where you include information to answer questions you may be asked.

Finally, be prepared to go "off deck." If a VC is excited about your company, you will likely not get past slide 2 before they start asking you questions. You have to be nimble enough to take them to the right place and answer their questions, and then move on. Do not rigidly stick to your presentation, forcing them to walk through it slide by slide. You may well find yourself skipping the formal presentation all together and entering into a dialog. This is a good thing.

Of course, what's in your deck is less important than the passion and conviction that needs to come through during your delivery. Having a tight, professional presentation tuned to how VCs think will allow you to focus on being yourself and impressing us.

*Disclosure: Morgenthaler is an investor in Lending Club and Autonet.*



At Morgenthaler's Menlo Park office, Rebecca focuses on early-stage investments in consumer verticals including financial services, advertising, health care, and education. Previous to Morgenthaler, Rebecca led brand- and direct-marketing programs at Procter & Gamble and NextCard. She is an inventor on several issued patents and has a JD/MBA from the University of California at Berkeley.