

Five Steps to Preparing for Your Venture Capital Financing

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1. Consider Whether Venture Capital is Right for Your Business

As a foundational matter, carefully consider whether raising venture capital is appropriate for your goals and the needs of your business. If you do decide that raising venture financing is appropriate, determine how much capital you want to raise. With this, research your prospective investors. Not every venture investor will invest in every industry or stage of development. Having a targeted list of appropriate prospective investors will save you a great deal of time.

2. Prepare your Material

In advance of approaching investors, take the time to write and refine a full business plan, pitch deck, and a brief executive summary of your business plan. Preparing this material and engaging with it deeply will help prepare you to anticipate questions from investors and refine your plan.

3. Refresh and Understand Your Capitalization Table

Make sure all your equity records are complete and current, and that your capitalization table and equity ledgers are correct. Once you've done this, prepare a pro forma capitalization table so you can model various scenarios (e.g., amount raised, valuation and the expansion of any option pool). This will help you have a clear understanding of the dilutive impact of any deal terms. Having a pro forma capitalization table prepared in advance of any detailed negotiations will facilitate understanding and finalizing these terms efficiently.

4. Prepare for Due Diligence

Almost all professional investors will ask for additional information about your company in connection with any financing. When you sign a term sheet, investors will conduct a detailed due diligence investigation of your company and will request copies of, among other things, your formation documents, equity documents, capitalization table, material agreements, employment agreements, and board records. You want to be able to focus on the material terms of your deal and operating your actual business, not chasing down your records once your term sheet is signed. To prepare for this, prior to launching your fundraising efforts you should prepare a current, complete, and organized data room. (See also – [How Organized are your Corporate Documents?](#))

If your data room isn't complete, feel free to contact us and we will share a customary due diligence request list.

5. Focus on the Material Terms of the Term Sheet

When you receive a term sheet, it is important to work with an experienced startup lawyer who can help you understand the material economic and control terms, as well as market practice. While a term sheet will have many provisions that have significant economic and control implications, not every term is material. Work with your team to focus on the terms that have meaningful economic and control implications.

For more information on how to prepare for your venture capital financing, please contact [Dan Wilcox](#).