



Fundraising

For Startups and SMEs





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What and why fundraising is important?



Not long ago, starting a business from scratch was often seen as doing something foolish that was not worth the risk. That way of thinking is not without reason, as most startups and SMEs fail to make it past their fifth year. So, it can be said that starting a business is not ideal for everyone.

Not many people have the entrepreneurial spirit and commitment to risk putting all their energy, time, and resources into an unproven enterprise.

However, as time went on, the stories of Steve Jobs and Steve Wozniak, founding Apple in their garage, and Mark Zuckerberg, who founded Facebook in Harvard, made some wonder whether they could create the next revolutionary product. This thought may be irresistible for some.

The most widely used definition of a startup is a business with less than 10 years under its belt. Regardless of age, having adequate cash is crucial for all businesses to operate and survive. However, a startup may need it more than established companies as they still need to find their footing in the industry, whether it is for product development purposes or a rapid growth model.

Without sufficient reserves, startups' chances of bankruptcy significantly increase, as evidenced by a Statista finding that said 38% of startups disappeared in 2021 due to running out of cash. While it is true that you may start your business by using your personal wealth, that can only get you so far. Ultimately, most startups will embrace the fundraising route.

It is a process where startups obtain additional cash from investors so the business can evolve further, including hiring more employees, renting an office space, or developing a product. In most cases, founders must present a pitch deck and convince investors that their business is the next game-changer or disruptor in the industry, following the footsteps of Grab, Gojek, and Lazada.

As one of the most innovative hubs in Southeast Asia, Singapore presents startups with many opportunities to connect with business leaders and visionaries willing to place bets on new companies. Singapore-based startups successfully secured S\$11.2 billion in funding in 2021, doubling the amount raised in 2020. Not to mention its business-friendly environment and a stable government that supports startups via various laws and regulations, including tax incentives, making it the ideal place for startups to flourish.

Preparations before fundraising



Although Singapore is a fertile ground for startups, fundraising is not as easy as it may seem. Fundraising requires a long and meticulous process before your business is ready to raise funds. Additionally, it is important to remember that fundraising is not a one-time affair but a continuous one, consisting of multiple rounds, ensuring your business is operational in the long run, not just in the short term.

Here are four things you need to do before fundraising for your startup.

1. Creating a Pitch Deck

A business plan and pitch deck are the first things investors will want to see when considering investing in a company. It is the blueprint of how you will run the business effectively and how the business will grow to generate revenue and profit. It needs to engage the interest of the investor, and it is a common practice to include the following information:

- Your business objective
- How are you going to accomplish and execute your objective?
- How will funds given be allocated for the betterment of the company?
- Projected growth or sales in the future

“As an investor, I have come across dozens of pitches with graphics, illustrations, and lengthy explanations, but at the end of the day, what matters most is whether they have a proven business case and viable business calculations. If both have piqued my interest, I’ll be diving in for more details,” shares Talgat Kantayev, CFO and founding member of Paladigm Capital, during our Lanturn Forum.

Talgat used the same principle when he tried to fundraise for his startup, where two pitch decks were prepared; one was very lean with five pages, and the other was a longer version when the investors wanted more information. “On the first pitch deck, we provide very brief but crucial information. And if anyone is interested, we would provide a second pitch deck with all the information, disclosing all the details, so the important but secondary parts of the business,” shares Talgat.

2. Know your value

Before every fundraising, you should know how much cash and assets your company has. This is called a pre-seed valuation, meaning the total assets you own before investors inject additional money into your business. Afterwards, determine how much money you need to be operational in a given period. As a rule of thumb, Jason Atkins from Cake suggests giving up 15 - 20% of your equity when it comes to fundraising.

“The simplest way to evaluate pre-seed and seed stage companies is by answering how much money you need. Then, negotiate between 10 to 25% of your equity, depending on the circumstances. This is a rule of thumb and standard practice for startups,” says Jason during the CAKE webinar.

Remember that your value proposition not only comes in monetary form but also in the form of an existing user base, which allows you to make sales or growth projections. These figures are one of the main things that potential investors first look at. However, keep these figures realistic as nothing turns off investors more than pie-in-the-sky projections.

“Try to keep it on the more conservative side. It’s always good if you overcome your plans. But if you put too optimistic numbers and cannot reach it, you may end up in a not very good situation,” reminds Talgat.

3. Know the right people

It can be challenging to get your foot in the door and meet the right potential investors when you are first starting without connections in the industry. While platforms such as LinkedIn and Crunchbase may help you find investors that might be interested in your product, cold outreaches like this usually go nowhere. That is why cultivating personal relationships and networking is key.

While it is true that when you first start, you will need to use your personal wealth to get going, once your business grows, you may start reaching out to high-net-worth individuals as angel investors for additional funds.

After you reach certain milestones and want to expand, this is when venture capital usually enters the picture. Each type of investor has its advantages and drawbacks. While angel investors are not typically involved in daily operations, their reach depends on their personal network only, whereas venture capital may offer a larger sum and support. They will likely appoint someone to be involved in daily decision-making in your startup.

Regardless of which investor you choose, networking is a must to ensure your business is backed by the right people, increasing the chance of success in the future.

4. Have a good corporate secretary and lawyer

While it is understandable that startups want to save money, hiring a good corporate secretary and lawyer is advisable, especially on fundraising matters. As a startup, the business may not have a firm footing yet, meaning there will be many company resolutions to consider, such as the appointment of new directors or the issuance of new shares when a fundraising round is completed.

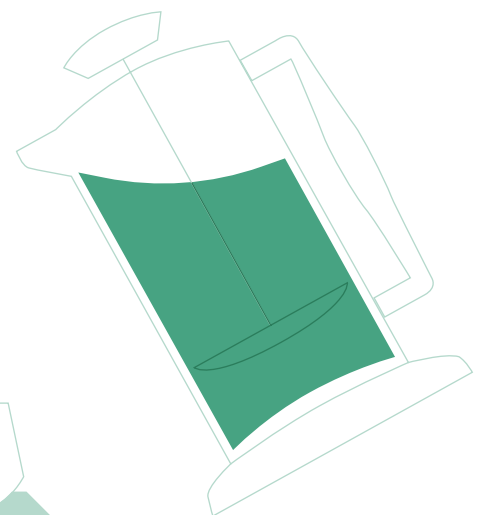
These resolutions need to be agreed upon by the majority of shareholders via a general or annual board meeting, where a corporate service or secretary plays a part in making such a meeting occur. Moreover, potential investors will ask their corporate secretaries to do due diligence and compliance checks. At this stage, having a reputable lawyer to represent one's startup business interest is a must, meaning the agreement between the two parties is clear and above board.

"I have seen VCs walk away from investments because the documentation was such a mess, they could not understand who owned what" reflects Velisarios Kattoulas, the CEO of Lanturn, during one of Lanturn's webinars.

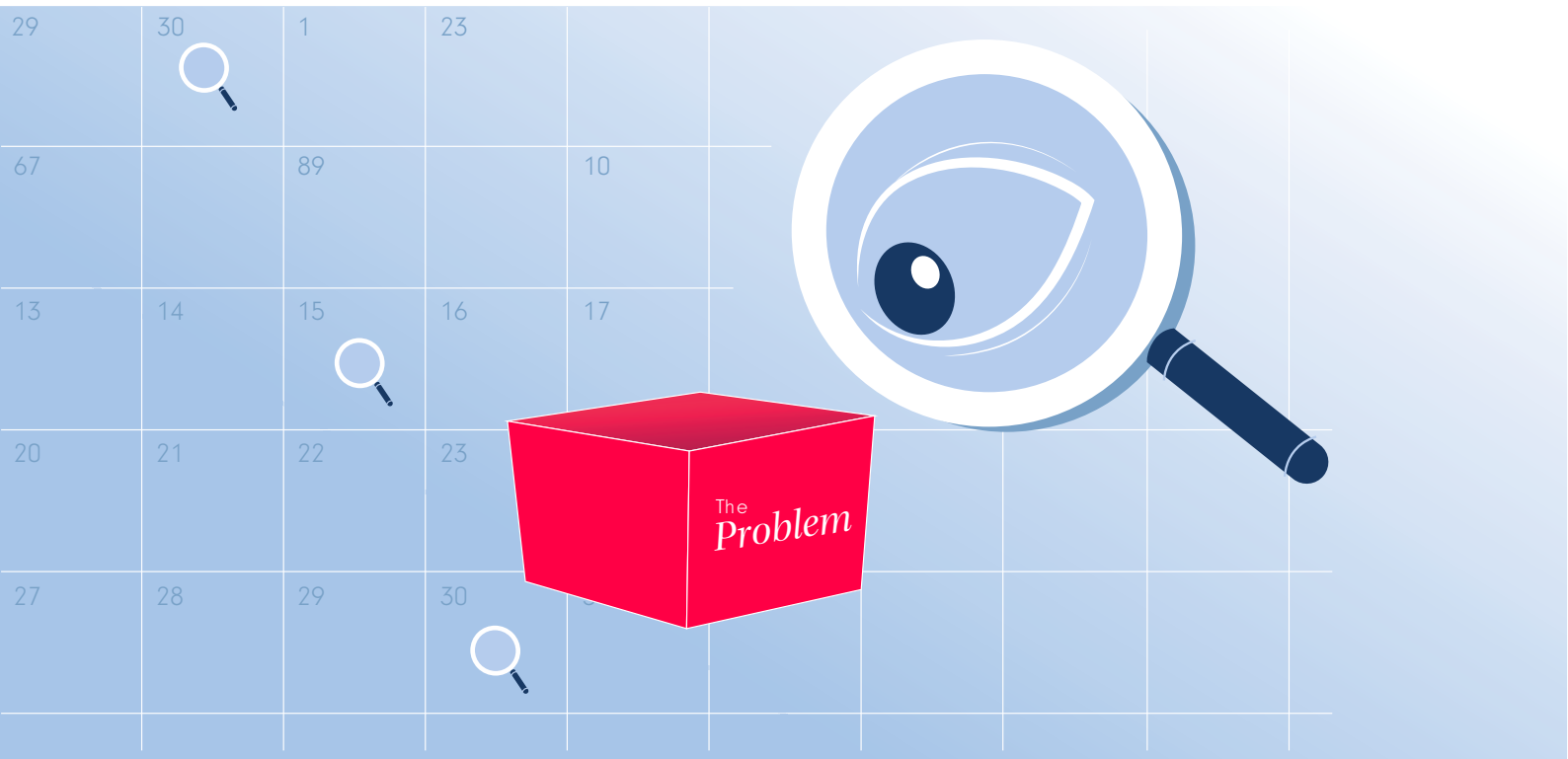
Nikhil Kapur, a partner at STRIVE, chimed in, "The VC circle, as well as the founder circle, is tiny in Singapore, so suddenly people will know if investors backed out after initially agreeing. This signals that something must be wrong with the company, resulting in a bad reputation around these circles. Therefore, choosing the right corporate secretary and lawyers is a must from day one. Put them on retainer if possible; it might be cheaper in the long run."

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Velisarios Kattoulas
CEO of Lanturn



Tips on Fundraising



1. Reaffirm the problem you are trying to solve regularly

More often than not, businesses are founded so that they can solve a problem that society faces. The iPod was created so people could enjoy thousands of songs on a device instead of a single CD in a walkman. Grab was created to ensure a safe hail ride service, transforming into a Super App that includes food delivery services and payment and investment services.

“A lot of naive or first stage founders have the mindset of; this is the problem, this is the solution, and this is how we are going to get there,” says Ashwin Purushottam, founder of Gobble, during the CAKE webinar. The truth is it is not that straightforward. The problem you stated when starting a business is a hypothesis; it may change as you enter the field, especially as you get new customer data in today’s ever-changing landscape.

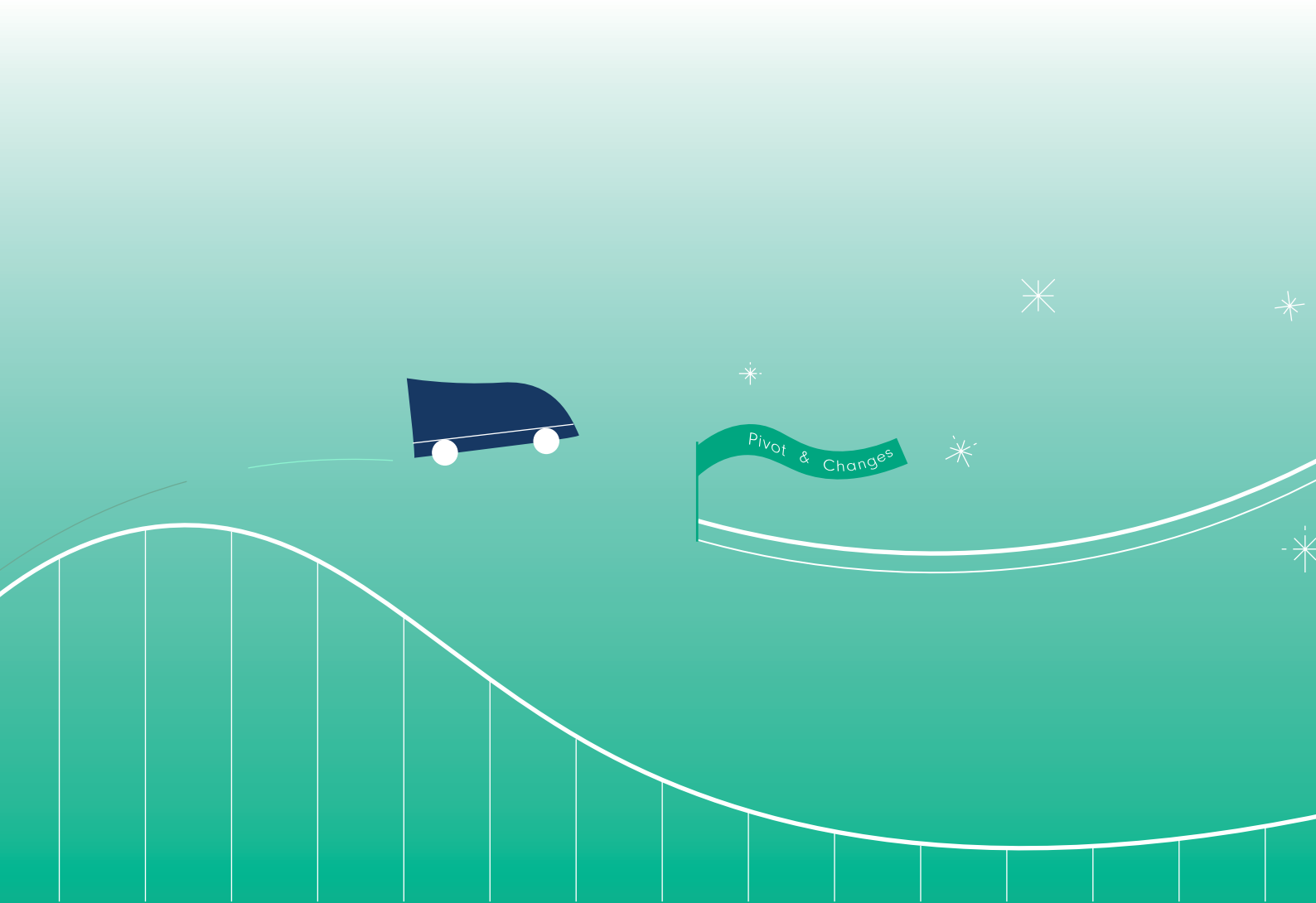
“I tried to reaffirm the problem monthly at a town hall-style meeting. While it is true that your solution and goals may change as you get new data, if you really love the problem, it keeps you motivated to keep going and solve the problem,” adds Ashwin.

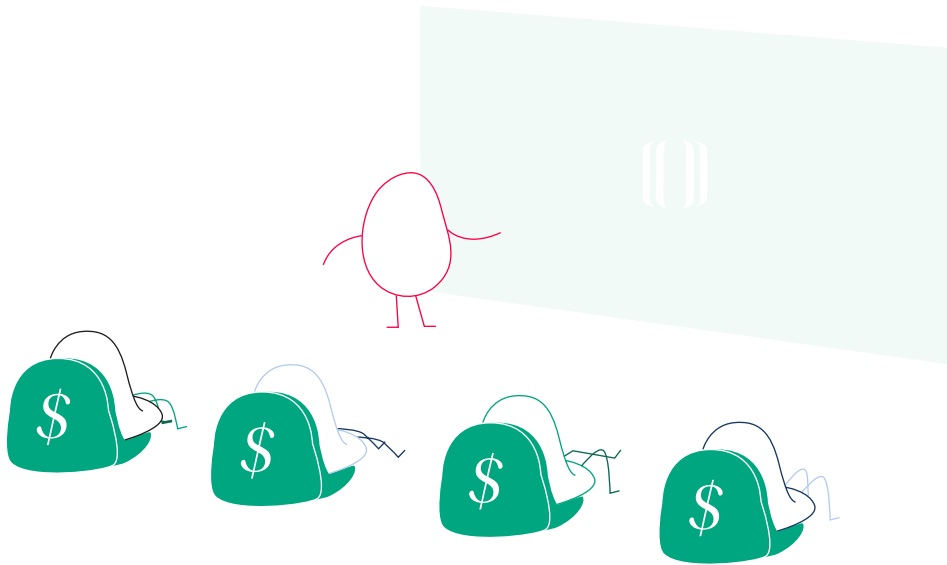
2. *Be open to change*

Did you know that most startups will pivot their business model? As you get feedback from your customers, you will find out what your customers want and need. They will tell you what features work and what is lacking. Such data is helpful for you to serve your customers better and help you structure your company the right way to survive.

Before becoming a social media giant acquired by Facebook, Instagram, previously known as Burbn, was a prototype co-founder Kevin Systrom built while learning how to program. An early version included check-in features, photo-posting options, and the ability to earn points. The feature was so well-liked that the founders decided to pin it down to only posting, commenting, and liking features. Today, Instagram is trying to pivot again to the video world with its Reels feature as an answer to one of their biggest competitors, TikTok.

The only sure thing for every startup and business is there is no constant; they must always evolve to keep up with the times. Do not be too rigid with your business plans; be alert to what is happening in your industry. After all, you would not want to be the next Nokia, right?





3. Develop a thick skin

As mentioned above, fundraising is not a one-time thing, it is a repeat process as startups rarely get funded on their first try. There will be tens to hundreds of no's before you find the investor that sees your vision and is willing to support you.

It is essential for you to take rejections well. Moreover, do not rely on a single person, reach out to as many people as possible. This is why networking is a must.

4. Filter the feedback

As you go for pitches with different investors, they might have ideas that they think will benefit your startup. While this may be true, you are the one who ultimately operates the business on a day-to-day basis, knowing your vision and goal inside and out, so it is crucial to filter their feedback. Do not be a "yes" man so you can get funded, but lose track of your goal in the end.

"Absorb the feedback, but think it through before doing anything because in most cases, I found that you should ignore these comments," remarks Veli.

5. Follow up twice

Ghosting not only happens in the dating or employment world; it exists in fundraising as well. Nikhil advises that startup founders may want to follow up once or twice. After which, if there is still no response, it is best to move on. "Most likely, you will reach out to 50 and 100 investors, all you need is one, so it is best to close that loop and find other investors," he adds.

The convertible instruments



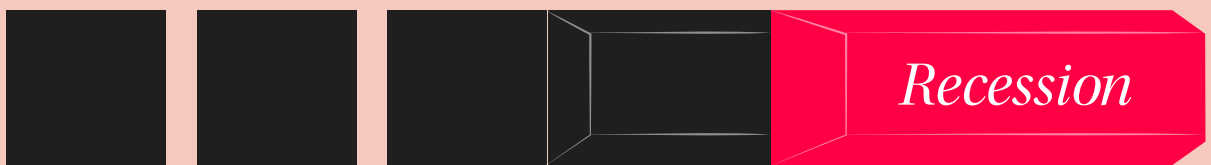
As a startup, it is difficult to determine the value of your shares. Typically, it will take months to negotiate, which you may not have the cash runway to survive. Therefore, equity fundraising mostly comes in the form of convertible, meaning you agree to set aside several shares that can be bought on a future date as the business grows. Two of the most common options are convertible notes and a SAFE note (simple agreement for future equity).

One significant difference between the two is that a convertible note functions as a debt, and a SAFE is not. A SAFE Note is converted once the next round of fundraising is underway, while a convertible note comes with interest and is applicable once a threshold is met. Suppose you choose the SAFE route with a \$100 investment. This means the investor will be entitled to \$100 worth of shares in the next fundraising round.

Meanwhile, an investor with the same amount of investment under a convertible note will end up with more worth of shares down the line. Suppose the interest rate is 15% annually, and the investment will be converted into shares once the startup reaches \$1 million. A year later, the startup reaches the milestone, and the investment is converted to \$115 worth of shares.



The investor mindset



With inflation and the ongoing war between Ukraine and Russia, the global economy has shown signs of slowing down, which led some to believe we are entering an economic recession on a global scale. This may deter some investors and venture capitalists from investing, as evidenced by the report in the Financial Times that found global fundraising in capital markets shrank by \$900 billion in the first quarter of 2022.

A similar sentiment was also found in a Crunchbase report. Venture investors globally spent \$22.3 billion in the late- and growth-stage sectors—down 38% from the 2021 May monthly average of \$36.2 billion. The report found that the seed stage was the most resilient, with \$3.1 billion invested in seed-stage companies, an increase of 11% from the average \$2.8 billion invested monthly at seed in 2021.

“For sure, the growth stage has been hit; the later stage has been hit for sure; in terms of both valuations and willingness among VCs to even write term sheets. But, for seed stage companies, that’s not really a problem yet. It may take you slightly longer to get a funding round done, but there doesn’t seem to have been a major shift in either valuations or willingness among early stage fundraising,” echoes Veli.

However, it is important to note that the benchmark for early-stage companies has shifted regarding fundraising. While the growth of the customer base used to be a key metric, even when some of these customers were “subsidised” by investors. It may have worked during a bull market, but nowadays investors are looking for profitability, not just potential. They are looking for startups that have a lean marketing effort while still gaining subscribers and profits.

Common mistakes to avoid

Asking for money too early

While the urge to fund your venture as quickly as possible might be strong, please remember that investors are highly selective, especially in the current climate. Therefore, they are no longer looking at the potential of a startup, but they are more inclined to invest once the business has generated revenue and has an existing user base or business model. All of which may take months to build, not something you can reach overnight.

It takes time to build your business foundation and relationships with prospective investors. You must have a sense of mutual trust before doing business together. Do not ask for money when you first meet a prospective investor.

Not finding product-market fit or demand

“Remember, having 50 or 500 clients doesn’t mean you have a sustainable business in the long run,” reminds Veli. This means you must create a product or service that appeals to the masses and not just a niche market, so determining if there is enough demand for it is vital. After all, one of the top reasons for startups going bankrupt, aside from limited funds, is non-existent demand in the market.

Too focused on marketing

While marketing is necessary to get your product known to the public, remember that at the end of the day, your product is what differentiates you from your competitor. Your service or product is why customers will stay loyal or find another alternative. Yes, promos and marketing tactics can gain customers’ attention for a while, but it is not a sustainable strategy; it all comes down to what you are offering.

“Don’t be too aggressive on marketing. Focus on business development by getting advocates, ambassadors, and early adopters on board, and spend your money on building a great product instead,” says Veli.



Why Singapore?

Aside from being a fertile ground for startups to raise funds, the Merlion city is also an ideal place for startups and businesses to be incorporated in.

Here are three reasons why:



Ideal location

Singapore is situated in the heart of Southeast Asia and is a gateway to an emerging market of more than 600 million people. Market access to India, China, Hong Kong, Indonesia, Malaysia, and the Philippines are very close at hand.



Tax Incentives

Friendly corporate tax rates in Singapore, particularly towards SMEs, include up to S\$200,000 of your company's income being exempt from corporate taxes. The exemption is applicable for the first three financial years.

Even where tax is payable by your company, it will be at a flat taxation rate of 17%, which is a far lower corporate tax rate than other developed regional economies, such as Japan and South Korea.



Stable Government

Singapore has a strong rule of law and a stable political climate. It is consistently at the top of global ranking lists concerning "ease of doing business," which means you can confidently make business plans in the country.

Fundraising is inevitable for virtually every startup; it is a continuous process that needs careful planning, ranging from knowing the right investors to having a reputable lawyer and corporate services to help you complete the fundraising stage smoothly. Not only is Singapore the ideal place to raise funds, but it is also the perfect place to find the expertise, know-how and a startup community to help you realise your company's vision.

