Preparation for the First Meeting is Crucial to Raising Capital

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Attempting to raise capital is always fraught with the risk of failure – never more so than these days, given the turmoil in the credit markets and banking sector.

If management has committed to attracting institutional investors, it is helpful to think of the process as a series of steps, beginning with an initial meeting.

Every financing transaction begins with that initial meeting. The goal of the meeting is to generate sufficient interest in your company on the part of a prospective investor so they will request a second meeting to follow up and gather more information.

Given the challenges facing firms that are seeking capital, it's vital to take the steps to ensure that you have maximized the probability of achieving that second meeting:

- Historical financials in good order: It is going to be difficult to convey any credibility to an outside party if the company does not have accurate financial statements. In the best case, these would be audited statements. (If they are not, it might well be a condition of closing a transaction that audited statements be prepared beforehand.)

One exception to this rule might be a very early-stage startup that is in conversations with angel investors.

- Reasonable, carefully thought out projections: These are going to be of key importance for several reasons. Perhaps most fundamentally, they demonstrate management's grasp of the key metrics that drive the business. They also will show management's ability to anticipate and plan for infrastructure and other required investments, and whether it is making thoughtful decisions as to how to manage the resources necessary to develop the business. Finally, they often will play a part in determining the valuation at which an investor will make an investment.
- Understand your market: At that first meeting with an outside investor, management should provide succinct, accurate information that demonstrates the size of the market the company is addressing, where the company plays in that market, and how much market share it currently enjoys. (The projections above should support this, as well, by showing growth opportunities.) This also should show anticipated market growth over time so that an investor can fully appreciate how attractive this opportunity could potentially be.
- Understand your competition: There should be a summary of the company's chief competitors: names, size, competitive products and how they compare with the company. Management should be able to demonstrate where the company fits in to the competitive landscape and why it should prosper, given the competitive challenges that it faces.
- Valuation expectations: Valuations of the company and the potential deal is a topic that properly shouldn't come up at an initial meeting – because it can prematurely kill a deal. I would strongly urge management to defer discussing it during the meeting.

However, it is a key topic and one that management needs to be prepared to address eventually. Rest assured: If an investor is serious, the issue will be raised at some subsequent point.

Given what is at stake, it would be entirely appropriate and prudent for management to rigorously research this topic beforehand in order to come up with a reasonable estimate for negotiating purposes.

There is no reason why management should not be able to prepare appropriately for any interested financing source. By focusing on these areas, management will be better positioned to demonstrate to potential investors compelling reasons to learn more about the investment opportunity at hand.

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