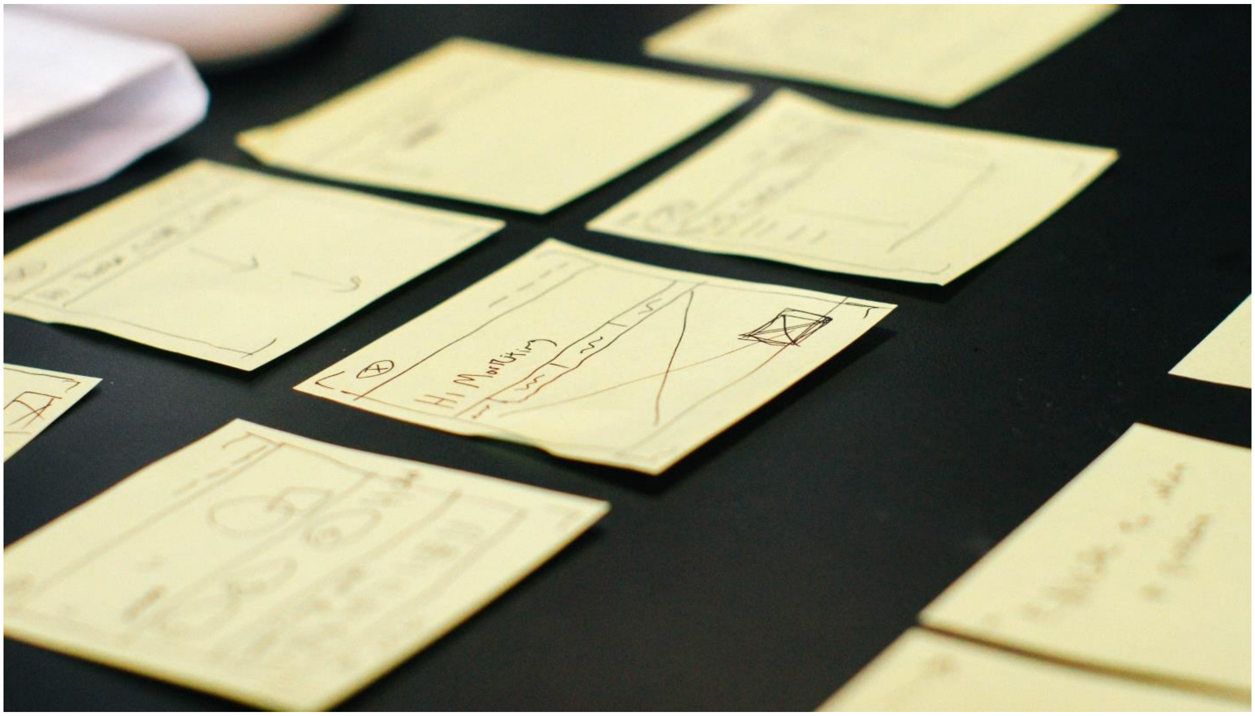
Five Tips for a Winning Fintech Pitch



Spotlight on Fintech: Attracting Venture Capital

Raising money is hard. So hard, in fact, that it is usually the first thing entrepreneurs ask us about. Since Connecticut just launched a $5 million global pitch competition for fintech and digital health companies, I thought it would be an opportune time to take another look at what makes a pitch attractive to investors. These five recommendations can apply to just about any tech startup, but given the focus of VentureClash, I've emphasized topics of particular interest to the fintech industry.

Tip #1: Perfect the basics.

Ask Connecticut Innovations' investors why, out of the hundreds of pitches we see each year only a handful stand out, and you will hear that we go into every pitch meeting hoping to see: 1) an excellent management team backed by a solid advisory board/board of directors (more on this later); 2) a significant innovation with a large potential market (evidenced by strong customer interest), and 3) proprietary technology.

In our 20 years of investing and advising startups, the blueprint for making a startup compelling to investors hasn't changed much, so it's important to know the basics. "You need to have a differentiated story in a large market opportunity and you need to network directly into investor groups that you think would make good partners," says Tyler Newton of Catalyst Investors. The last point is essential, as fundraising ability is often job number one for a venture backed CEO.

Keep in mind that even if you have all of the above elements, the chances of securing funding shrink significantly if you struggle to convey your potential. "Until you can quickly and clearly articulate your one sentence and one paragraph description of why you are unique and why you can make lots of money for [investors], trees die unnecessarily." says growth expert Gary W. Patterson, author of *Million Dollar Blind Spots: 20/20 Vision for Financial Growth.*

When pitching, make sure to home in on the areas that make your startup attractive. In other words, emphasize how your idea is going to make money for your backers. "Very early-stage companies tend to focus too much on the excitement factor of their idea versus spending time and energy understanding customer needs, highlighting the strengths of the team, and understanding the missing links and the customer acquisition landscape," says Terence Channon, managing director of SaltMines Group, which offers services to early-stage businesses. "VCs and angel investors are becoming increasingly wary of wow-factor ideas and want results. Early-stage companies in particular that focus their pitch on metrics and accountability, including goals and results to date, market size, customer acquisition and having a complete team with the diverse skill set, will fare better in attracting capital and investor interest."

If you catch the attention of investors, you also need to make sure you can demonstrate expertise in your market. “Fintech is no longer a new category, so investors have many successful and unsuccessful companies to reference,” says SimplyAfterschool.com CEO Gary Tuch, who recently completed a round for his fintech/edtech company. “The more data there is, the more fine-tuned your deck needs to be. Investors will compare your projected revenue to real numbers, and if you’re way off it looks like you don’t know what you’re talking about, and no investor is going to be a part of that.”

Not every investor is risk-averse, though; in fact VCs are used to betting on long odds, and most are realistic about the risks involved. “The most important thing is to show the future value of the company through the disruptive capabilities, scalability based on technology, the business model, etc. We want to see that the company will be big—risky, but big,” said serial investor Ariel Arrieta, CEO and managing partner of NXTP Labs, an accelerator program across Latin America that is currently recruiting fintech companies.

Tip #2: Consider your reputation (or, why you should focus on your board)
Why is a strong advisory board/board of directors so critical? Marc Prosser, co-founder and managing partner of **Fit Small Business**, who grew his previous company to more than 700 employees, says getting funding is all about who you know. “Getting support and funding in the fintech industry is all about reputational risk. People want to be seen partnering with the leaders in the space. As a new company, it’s unlikely you have that. Instead, you have to create a sense that you’re on your way to being a leader.” To do so, Prosser says you need to make sure you have a “first-rate” board of advisors and board of directors. “If you have a managing director or C-level executive from a billion-dollar financial services company on your board, potential investors will see that those people have done their due diligence and will consider your company worth a look. You’re effectively paying people to

put their reputation on the line for your company. These are people who can both make introductions for your company and allow you to use their names in meetings and presentations."

Tip #3: Show that you don't need the money.

Probably the best way to raise funds in a choppy VC environment is to show that you'll be successful even without it, says John Turner, CEO and founder of QuietKit. "Not all startups can do this, but if you can show ramen profitability, which is the ability to cover all costs and expenses from revenue, you can show that you'll survive even when VC dries up," he says.

Tip #4. Try alternate funding sources.

To build credibility with investors, you could also try alternate sources of funding. "Startups can use crowdfunding to test the market and raise funds before approaching a venture capitalist. This creates proof points that show they are ready for an investment and increase the likelihood of receiving interest from a VC," says Shelly Watts, a fundraising expert and founder of Thoughtful Missions.

Code Cubitt, a venture capital investor with Mistral Venture Partners, offers three additional strategies for raising capital outside the VC world.

1. Bootstrap. "Build a business by servicing customers—add professional or consulting services to your offering to help alleviate cash needs," Cubitt says.
2. Tap friends and family. "It's an obvious one, but if you really believe in yourself, your friends should, too.
3. Look to your customers. "Impress your customers so much that they are willing to invest in your business for the long haul."

Bonus tip: Stay optimistic.
There is plenty of money out there for good deals. "The ability to get funded hasn't changed that much," says Newton. "There is still more venture capital than there are good deals. Valuations may have come down, but good ideas should still get funded."

Threat Stack, which offers a cloud security platform, has seen this firsthand. The company recently secured $15.3 million in Series B funding by sticking to the basics. "We're a company with a realized vision and demonstrated results of exceeding financial commitments quarter over quarter," said CEO and chairman Brian Ahern.

Double bonus tip (We're generous that way): What to do when offered a deal
If you use these tips to secure funding, I didn't want to leave you hanging when you do get a deal. So make sure you plan for a successful outcome. The Alternative Board, an international for-profit peer board and advisory organization, recently released its quarterly survey results, which focused on how business owners acquired funding and how they would do it differently if they were given a second chance. Some statistics of interest for startups:

- The most important lessons entrepreneurs learned from securing external funding are: borrow at the right time (34%), from the right source (34%), at the right amount (19%) with the right advisor at your side (13%).
- Looking back, business owners indicated that they should have borrowed more (29%) rather than less (11%). So don't be overly concerned with dilution, instead focus on growing the pie. In Connecticut, we see too many companies raising small rounds instead of going for the $5 Million plus round that would allow the company to quickly scale and win market share.

Offering insight into the results, TAB Vice President David Scarola says entrepreneurs should secure funds early and consider their options. "Work to get the funding in advance of being in crisis mode (when it will be much harder to secure). Be aware of all of the options available. And, if you have multiple potential sources, opt for the investment partner who you feel most comfortable working with. Finally, be very clear on how you will deploy the investment, and then ask for a little more than you need, which will allow you some breathing room."

Please let me know how it goes.

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