How to Raise Funding Episode 21

[00:00:00]

Hall T. Martin: Hello. Can you hear me? This is Hall Martin. Hi there. Oh yeah. There you are. Good. Good. Yeah. Good to catch up with you. How are things going there for you guys?

Guest 01: Yeah. Tedious. Fundraising is tedious. No question. In the diagnostic space. Yeah. So that's, [00:00:20] uh, that's really, that's really special. So

Hall T. Martin: are you still raising funding for it?

Guest 01: Uh, we have, uh, some, uh, I talked to, to people from Arabia states,

Hall T. Martin: Middle East Qatar. Yeah. We have people that work the Dubai Qatar [00:00:40] circuit all the time. It

Guest 01: looks like they have too much money.

Hall T. Martin: They invest,

Guest 01: they write checks, of course they want

Hall T. Martin: to see very high gains too, it's not, not free money.

Guest 01: Okay, this, this is what we, what we didn't talk so far, but, uh, uh, I don't, I don't know yet, so we'll, we'll [00:01:00] see.

They are also looking, so, uh, They want to see IVD approval. Yeah, that's, uh, and they don't have much experience in diagnostics. Yes. Okay. Please talk to a person who could follow. Uh, he, he was, he knows cancer a bit, yeah. So also [00:01:20] a few, few technologies there, which is something, yeah. So because he's, you know, starts from scratch there, that's, that's not, um, it's, it's not easy.

I think, uh, I, I told you we were selected last year. [00:01:40] Um, in Heidelberg for a pitch, uh, out of 140 companies in Europe. And, uh, well, I came there, I gave a talk. Um, they said it was very nice talk, but, uh, none of those 40 VCs invested in, uh, into diagnostics. Yeah, [00:02:00]

Hall T. Martin: well, you know, a couple of thoughts and looking at your deck there.

Number one is I couldn't quite figure out how much you're raising. Cause there's, there's no number in there as far as dollars or euros or what have you, that you might want to raise. What are you raising right now? We are raising

Guest 01: 6 million.

Hall T. Martin: 6 million. Okay.

Guest 01: 6 million. And, uh, which is, [00:02:20] uh, so the value of the company we think is about, um, 20, 25 million.

Okay. Yeah. And, uh, so you're raising 6 million and this is for, uh, introduction of the first three products. Yeah.

Hall T. Martin: So what we coach on is when you raise a [00:02:40] substantial amount of funding, more than a million dollars, in this case, 6 million, you want to break that down into three rounds and you want to give a low valuation to the first round, higher to the second, even higher to the third.

So if you think you're worth 20 million, I would be putting the first round at And we're going to raise 1 million at [00:03:00] 10 million valuation. Then we're going to raise 2 million at a 15 million. We're going to raise, uh, another 2 million at a 20 million. Uh, and you can figure out what those numbers are. But what you do when you do that is you break it down into steps and stages.

And for each step, you put some part of some milestone that we're going to accomplish. With 1 million, we're going to do [00:03:20] this. With 2 million, we're going to do these things. With another 2 do more. And as we're building traction and clinical proof and trials and so forth, uh, we can raise our valuation because we're getting proof that it works.

And that's what VCs look is they, they, they want a better price. And so my role is they can have a better price. But they have to go [00:03:40] first, not last, but first. And if you were saying, you know, keep the valuation the same all the way across. Well, guess what? We all want to be the last one in the deal, but we can't all be the last one in the deal.

Someone's got to go first and you have to give them a reason to, and a better valuation is one way to do it. And if you break it into these smaller chunks, like a million, two and two. You can run what I [00:04:00] call deadline campaigns. You can go and say, when we're at six, 700 raised so far, we say we're closing in six weeks and we have 300 left, uh, and the interest in committed, those who are saying they're interested is 2 million, you know, something like that.

So you show that there's demand for that, [00:04:20] that. That that money that's left to be raised. There's others that are out there. We've already raised a big chunk of it. It's about to close. And if you don't make it in, you have to go to the next round. You don't mind paying more. It'll be a higher valuation. It goes up by 50%.

And so that gives people pause about waiting and just thinking is that. [00:04:40] Now there's an incentive to come in now because it's only going to get more expensive later. So that's one fund raise strategy you may want to consider is breaking it down because some people just get scared at six million. I can't do six million, but I could do a million, you know, or it could be a part of a million dollar raise, especially angel investors work better when they're smaller rounds.

And we got, we've broken it [00:05:00] down to easier steps to go through.

Guest 01: Okay. Okay. Now that's, That's certainly something we can do that we lower the value of the company first. Yeah, so they get a higher share and, uh, that's good. And, uh, but what is the trick? What did you say, um, [00:05:20] to get more momentum into it? So if, if, uh, we want to have the first million, What are good arguments here to, uh, to attract them given a deadline?

Uh, it's not, not that easy to press them for.

Hall T. Martin: Well, we, we had to show that we have compelling [00:05:40] technology. Things are going very well. Here's the evidence that is doing well. And for. Sophisticated investors. You can talk about the science for non sophisticated investors. People who don't know your space, angel, angel groups, or, you know, they're good business people, but they really aren't scientists.

They don't know the space. [00:06:00] And we can spend half our presentation trying to educate them and give them a degree in this space. But that's, that, that can be a, still a daunting challenge to do. And so you want to come up with the layman's version of your presentation. So people understand. You know, we're making good progress here, you know, there's good value, but you don't have to be a [00:06:20] scientist to understand or appreciate it.

So we have to simplify it in a way that people get into it. And they, they, you know, analogies and metaphors and things like that. Can be useful for the layman's. If you're talking to VCs, they're sophisticated. You're talking to angels. They're they're typically not some angel groups are, but [00:06:40] many are not.

And so we, we just need to get to show the business case for it as well. You have a business case in here. I think it looks interesting. I don't know if it's compelling. What I find is if you're in neurology or oncology, you don't really have to make the business case. There's money there. [00:07:00] Everybody knows there's money, but if you're in anything else, you have to make the case that we can make good money with this product.

We can sell it for a high price. You could have recurring revenue. It could have a razor, razor blade model. Uh, it could have a good margin, you know, which means it's very cheap to build, but you could sell it for a very good price and [00:07:20] these are the things that, uh, get investors excited is we're building something that we're going to be selling, uh, you know, make good money.

So when it comes time to sell the business, of course, people will want to buy it and pay a nice price because we're making good money. Margins on it. And I don't know if that comes through in your current deck. I don't really get a sense. This is a big moneymaker. [00:07:40] I think we can make some money, but it doesn't look like big money to me.

So we had to figure out how to make it look more impressive on the money side. Because once you make the technical case, you now have to make the business case.

Guest 01: Okay. Okay. That's a good point. I have to look at what kind of, uh, [00:08:00] slides I sent you, but, uh, yeah, uh, one of those investors, possible investors, um, he came back and said, so, uh, uh, when do I double my investment?

When do I have a 5X of my investment? Right. That was [00:08:20] good. So I made a slide of, of our return of invest. Yeah. And, uh, I don't know yet. So, um, but the,

Hall T. Martin: the exit slide is not very clear here in the, the presentation. I don't know who would buy you or why they would buy you or how much they would pay. But I find in [00:08:40] this space, the exit is all important.

In fact, when we ask about your customer, we're talking about the pharma company that's going to buy you, not the patient that's going to use the, or the clinician that's going to use the, the diagnostic. We're really talking about the pharma company and the best presentations are the ones that say I'm raising, uh, two, [00:09:00] 3 million now, and I don't have to raise any more money between there and the exit.

And from there to the exit, it's going to be. 24 to 36 months. It's just two, three years before we get to an exit. So it's a short window. It's a clearly known path to who's going to buy it. Why? And some idea about how much they're going to pay. [00:09:20] And I don't really see that in the slides. As far as the exit goes, who would pay you for this deal?

And you always want to choose the earliest one, especially angel investors fear dilution. If I'm in this deal five, 10 years, I'm probably going to get diluted by follow on raises. And so they're not interested. So they want a short path. [00:09:40] VCs, you know, they'll go a longer path, but it's got to be a very, very substantial exit as well.

So I didn't see the exit come through that, that strongly in the deck.

Guest 01: Yeah, that's, that's right. It's difficult. It's, it's different in diagnostics, you know, and, uh, here we usually, if it's coming to an exit, uh, you [00:10:00] offer it not really, yes, sometimes pharmaceutical companies, but more diagnostic.

Hall T. Martin: So how does the investor get paid back in that scenario?

Guest 01: Um, you have, for instance, there was, uh, last year there was an interesting Bye bye. It was a [00:10:20] pretty much unknown company. It's called Haystack company was, was bought by, by Quest Diagnostics in the U. S. And they paid, uh, 400 million.

Hall T. Martin: Yeah. That's a good, good exit and so forth. We

Guest 01: theorize we have never heard about Haystack company first.

Yeah. And [00:10:40] we have no, I see no publication, nothing. Uh, and we know their technology now. Yeah. And, uh, we think we can certainly compete with this. But, uh, some, somehow they made it, uh, had a very good, uh, marketing or good approach, uh, to, to, uh, such companies. [00:11:00] Yeah, because we know other cases, um, also quite high.

Yeah. Also at least 200 million. One is 8 billion. Uh, the most prominent one is Braille. You may have heard about this, but, uh, that's the European community. They stopped the takeover of Braille. [00:11:20] Also, the U. S. stopped it now, uh, and, uh, this was, uh, and it's not a good, turns out, more and more, it's not a good technology.

But, uh, uh, there is a lot because there's a huge need in cancer diagnostics for cancer care. [00:11:40] Uh, but it's not really realized, you know, so by the, by the VCs at least, uh, And, uh, that's a good point because I have now two or three private investors here. They think to, to, uh, uh, to participate, to really, uh, lower [00:12:00] that, um, that's the value of the company, uh, making it.

That's a, that was a good advice. Yeah. So we'll see. Yeah, that's a good point there. In the back and they, what they say, what they claim, I don't know. That's good. They say it [00:12:20] was a, it was a good echo there from the crowd, but, uh, I don't know why I didn't hear much. And so the usual way they just, uh, just, uh, don't shut up.

Hall T. Martin: Okay. [00:12:40] No, that sounds good. So if you need help with the fundraise, we can help at our, at 10 capital. We help run investor relation campaigns. We have online events. We now have a hybrid in person event. We're starting February 7th in Austin. We got 20 investors signed up so far, come out and hear people pitch.

And then we have, [00:13:00] uh, people zooming in to watch the presentations as well. And then we're also moving to, uh, do in person events where we bring 10 people together for a dinner and we go through the presentation with them. And we do these in Austin, Dallas, Bay area, Chicago, New York, uh, because getting investors [00:13:20] together for a D evening is not hard to do.

There's a meal there. They get to meet other people. And then we go through the presentations, but we're, we're basically 3k a month for a three month commitment, uh, for doing our program. And then the, there's no backend fee or success fee. It's just that. So if you're of interest, I can see more detail about how we work.[00:13:40]

Guest 01: Yeah, I think we talked about this. I mean, you, you, you sent me some, some links or they were, they were recently some, some

Hall T. Martin: We sent you the, uh, Austin hybrid event links, cause we just came out with that. It's coming up February 7th. So if you wanted to check it out on zoom there in Germany, you can, or we can, [00:14:00] uh, you know, if you get a chance to come to the U S you can meet some of these investors as well.

Uh, when you met these last investors, I guess you said it in Heidelberg. Do you ever come to the U S for investors or is it just in Europe?

Guest 01: Um, I participated in the in the virtual meeting in San Francisco and, um, actually was was good. So I got seven or eight [00:14:20] responses there and it's still open. Uh, they think about what to do.

But, um, usually, uh, I mean, we do, we show up in the U. S. virtually, so to say. If there is really, um, uh, a [00:14:40] very good chance, I would, I would certainly travel.

Hall T. Martin: Okay. All right. Well, very good. Well, like I say, uh, let me know if you need help with the fundraise. Appreciate your taking time to talk today. Did you have any questions for me?

Guest 01: Not yet. Yeah. I think about what you said and then I will come. Okay. [00:15:00]

Hall T. Martin: All right. Very good. Have a good

Guest 01: one. Bye. Bye.