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How to prepare your company for venture capital funding

Raising venture capital funding can be a challenging and rewarding process for founders. It can help you scale your business, access new markets, and attract talent. However, it also requires careful preparation and due diligence to ensure that your company is ready to meet the expectations and requirements of potential investors. In this article, we will outline some of the general housekeeping steps you need to take to position your company to raise institutional funding, and some of the common mistakes you should look to avoid.

General housekeeping steps

Before you approach any venture capital firms, you need to make sure that your company has a solid foundation and a clear vision. Here are some of the general housekeeping steps you need to take:

- Have a compelling pitch deck that showcases your problem, solution, market, traction, team, and financials.
- Have a realistic valuation that reflects your stage, sector, and potential.
- Have a detailed business plan that outlines your strategy, goals, milestones, and projections.
- Have a strong team that covers the key functions and skills of your business.
- Have a clear legal structure that defines your ownership, governance, and rights.
- Have a robust intellectual property (IP) strategy that protects your core assets and innovations.
- Have a clean and compliant financial history that shows your revenue, expenses, and cash flow.
- Have a well-maintained cap table that tracks your equity distribution and dilution.
- Have a reputable and experienced legal advisor that can guide you through the fundraising process and negotiate the terms of the deal.

Mistakes to avoid

While preparing your company for venture capital funding, you also need to avoid some of the common mistakes that can jeopardise your chances of securing a deal or cause problems down the road. Here are some of the mistakes to avoid:

- Not having proper IP assignments and ownership agreements for your founders, employees, and contractors.
- Not having standard and enforceable employment agreements for your team members, especially those with equity or options.
- Not having up to date and accurate cap table and statutory books that reflect your share capital and transactions.
- Not having proper due diligence documentation and disclosures for your financial, legal, and operational aspects.
- Not having a clear and consistent communication strategy with your potential investors, especially regarding your progress, challenges, and expectations.
- Not having a realistic and flexible negotiation strategy that balances your interests and needs with those of your investors.
- Not having a clear exit plan or vision that aligns with your investors' goals and timelines.

Conclusion

Securing venture capital funding can be a great opportunity for founders to scale their business. By following the general housekeeping steps and avoiding the common mistakes outlined in this article, you can increase your chances of securing a successful deal and building a long-term relationship with your investors. Getting venture capital funding can be daunting, but you do not have to do it by yourself. A smart move is to get help from a law firm that knows start-up financing, like Shoosmiths.