Optimize Your Raise

Position your company to optimize your next venture capital raise, with innovative strategies and practical advice from experts at Capchase.

Contents

zinklar

"With Capchase, we have been able to heavily invest in growth while taking our time when it comes to taking the next dilutive equity infusion, in order to be in the best possible position when we do decide to raise a round."

Jordi Ferrer
Founder and CEO, Zinklar.

Foreword by Przemek Gotfryd

Co-founder & COO of Capchase

As founders and CEOs, many of us live, breathe, and work tirelessly to generate rapid growth and build large and meaningful companies.

As a former venture capital (VC) investor and now Co-founder & COO of Capchase, I've had the privilege of speaking to hundreds of founders on how they do financial and capital planning and go about securing funding. Given the volatility in the financial markets driven by high inflation, interest rate hikes, war in Ukraine and the energy crisis, it is becoming obvious that careful financial planning and securing growth capital have become more important than ever in recent years.

Ultimately, regardless of the macroeconomic backdrop unless you run a cash-generating business, you will likely seek external growth funding - whether from a VC to which you sell a chunk of your business, or non-dilutive sources.

Being thoughtful about how and when you secure funding is how you stay on the path of growth and remain resilient for what's ahead in the changing global financial market.

At Capchase, we pride ourselves on being true growth advisors to our customers, helping them navigate changing market conditions and plan their capital journeys. Ultimately, we provide access to capital, which funds specific needle-moving initiatives. The better we understand your road ahead, the better we can tailor your frequency and sizes of draws to help minimize the true cost of capital for what you're trying to achieve while ensuring you have an adequate runway ahead.

We at Capchase cannot wait to talk to you and help you in your growth journey.

Changing market conditions have transformed the funding landscape

Not that long ago, interest rates were at an all-time low, which meant that there were few asset classes providing high returns: venture capital (VC) being one of the main ones. Vast sums of money poured in from investors, which led to more than $600 billion being deployed in the industry.

We started to see the biggest investment in startups ever, by size of investment – not by number of deals. Mega deals became very attractive, and subsequently very competitive for startups to achieve. As the returns in VC grew greater and greater, so too did the cost of that financing and the impact on founder equity.

This meant there was more money than ever chasing the same opportunities, which translated into sky-high valuations. Every additional proof point of traction could lead to tens of millions of valuation at the time of a round.

But the market has changed. With headline after headline about the impending recession, businesses are scrambling to make appropriate adjustments. Companies will need to go the extra mile to grow into the high valuations they raised at and prove strong fundamentals to raise at a higher valuation in the future. Every business is thinking about how to protect their runway and put themselves in the best position to secure their future in a much more competitive funding environment.

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“Companies will need to go the extra mile to grow into the high valuations they raised at and prove strong fundamentals to raise at a higher valuation in the future.”

How market conditions will affect your VC fundraising

The good news first: VCs still like the SaaS vertical: SaaS companies offer long-term, predictable recurring revenue.

But given the depressed valuation multiples and VC funds retrenching from the market, raising a round will be challenging as your revenue and growth will have to be much higher in order to achieve the desired valuation. You should expect rounds to take longer to close, as greater analysis and due diligence is required. And whether you're approaching new or existing investors, you can expect less capital invested, on less favorable terms.

The decrease in valuations at exit will also put pressure on your investors to drive more value creation per dollar invested in order to reach the same expected returns.

There are three ways for an investor to make this happen:

- Make the company go further with the capital they've already invested (avoiding further capital injections)
- Find additional capital without impacting the company's valuation (eg debt or non-dilutive financing)
- Invest more, but at a lower valuation

In any case, we advise founders and CEOs to ensure their companies have 24 months or more of runway as the macroeconomic environment is expected to remain uncertain until early 2024. This will buy time for growth to materialize or the market to improve.

Next, we will delve deeper into the above options.

How market conditions will affect your VC fundraising

Making your existing funds go further

There are many ways to make your existing funds go further in practice, without turning to external capital injections. Finance teams should conduct in-depth analyses to understand where they should be investing capital or pulling back on spend for the greatest contribution margin growth. Perform scenario planning early and often to stay in control: we recommend founders should switch from occasional financial planning to monthly recalibration, at a minimum. This has brought great results for our team and allowed us to 'pivot' quickly as needed.

And don't just evolve your planning in terms of frequency: if it doesn't already, make sure your capital planning and forecasting process includes hand-in-hand work with each of your business units. This company-wide coordination is critical to align the business on company-wide goals and spot problems and optimization areas earlier on.

Some areas we have focused on for runway preservation include:

Cash Cycle Improvement:
Advance receivables and delay payables to the extent possible. Sell more of your short-cycle products to generate cash or upsell current customers. The goal is to get to shorter sales cycles, faster.

Cost Containment:
Stay close to all your expenses, ensuring customer acquisition costs are streamlined, vendors are truly necessary, and exploring opportunities for tightening across the board.

Product & Engineering:
Prioritizing and phasing engineering and product resources is vital. Executing on hiring all at once could lead to faster growth but may require you to raise earlier.

People:
Hiring often leads to more hiring. Push business unit leaders to understand what the true need for an incremental hire is - you may be surprised to see how much lower your hiring plan could be if you tie each hire to critical initiatives.

At Capchase, we made sure we updated our shared understanding of growth and value creation, with a renewed focus on our unit economics. Our recommendation? Look at your unit economics and make sure that every $1 of customer acquisition spend is generating >$2 in contribution margin.

How market conditions will affect your VC fundraising

Raising new capital from VCs

Founders have traditionally extended their runway by raising additional VC funding.

Realistically, only businesses in the top quartile of the SaaS metrics have any hope of raising VC capital in the current environment.

For example, contrary to the standard ‘Rule of 40’ expectation that companies should aim for 40% ARR Growth % + Net Margin %, our analysis shows that top companies achieve at least 80% (R80), skyrocketing to >110% around $5-10m ARR.

Top early and growth stage businesses are also achieving ARR Growth between 100% and 160%, and Gross Margins of at least 80%.

Make sure you understand where you’re positioned before approaching investors. We created The Capchase SaaS Benchmark Report for just this purpose, to help founders assess their performance and trajectory, providing metric-by-metric deep dives using the live financial data of 439 SaaS companies at various stages.

If you’re not performing above the median, it’ll be wise to optimize those areas where you’re falling short first.

How market conditions will affect your VC fundraising

Raising capital will be more difficult and take longer than it has in recent years. If you're planning to do so, you'll need to:

Monitor your customers, cash and key KPIs monthly.

Be realistic in planning your best and worst case scenarios.

Prepare earlier than you normally would for fundraising.

Communicate clearly and often to your existing investors and providers that you're in talks with.

So, how should you think about optimizing your VC raise?

Optimize your Raise

1. **Understand the fundamentals and cost of VC fundraising**

VCs offer you a certain amount of funding in exchange for equity in your business. They make decisions based on a myriad of factors, including your team, business model, sales and marketing plan, and exit strategy.

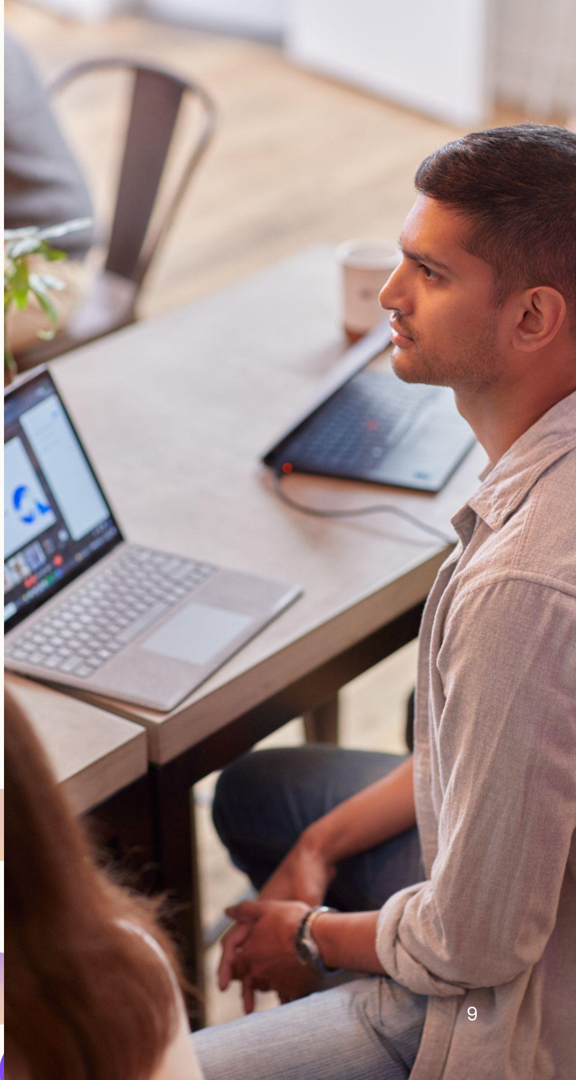
On the SaaS founder side of the fundraising process, you make two important decisions:

- How much money to raise — i.e. what length of runway will the raise support?
- What to raise the money for — i.e. which investment areas will the raise support?

Typically, the decision of how much venture capital to raise is driven by your P&L/cash flow model and things you want to prove out—or hypotheses to test—by the time the next fundraise comes around (e.g. series B if you just raised A).

Here's how a VC funding transaction may go, factoring in the "how much" and the "what for" elements:

- You present the VC with a plan full of ambitious milestones you need the money to achieve: say, over the next 18 months
- You build in a buffer of 30% to account for any unforeseen circumstances, thereby raising more than you need: a total of 24 months of runway
- Let's assume you are expecting an average burn of $200,000 per month
- To achieve that, you raise $4.8M and depending on the valuation you are able to achieve, give away a higher or lower % of your company (these days the % is likely to be on the higher end - up to 25-30%, given the macroeconomic environment)



Optimize your Raise

2. **Plan fundraising much earlier**

Raising venture capital takes a lot of time and attention. The equity funding process can take many months to complete. On average, it takes 60-80 days to close a deal once the VC company has the business plan. In that time, huge amounts of paperwork have to pass back-and-forth as the VC company does its due diligence, and you negotiate a term sheet that you both can agree on.

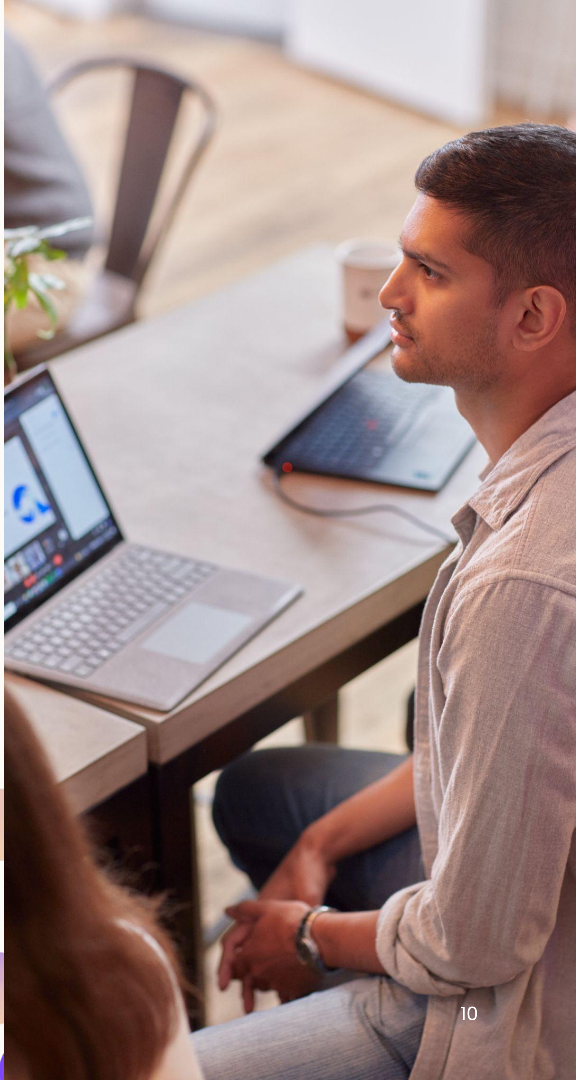
Expect slower fundraising processes, as more analysis and discussion will go into investor decisions in 2022. Decisions may be more cautious, and we're seeing lower roundsizes and valuations as well as less founder-friendly terms.

So plan fundraising months earlier than you would have, and lower your expectations of what you'll get from new and existing investors (amount to invest, valuation, key terms, etc.).

3. **Be cautious and have a contingency plan**

Beware of predatory behavior. Not all investors take a founder-friendly perspective during turbulent times. Beware of investors offering aggressive terms or changes to your shareholder agreement. Look for things like changing liquidation preferences or voting rights, or valuation step-downs. A down round (equity injection with valuation decrease) may be a valid last resort, but it risks negatively impacting motivation for founders, employees, and early investors.

It's wise to have a backup plan (and a backup plan to your backup plan) if you don't meet the requirements to access funding from the sources available to you today, or if the terms offered are not acceptable. This is a good time to start investigating alternative sources of financing.



Optimize your Raise

4. **Use non-dilutive financing to extend your runway**

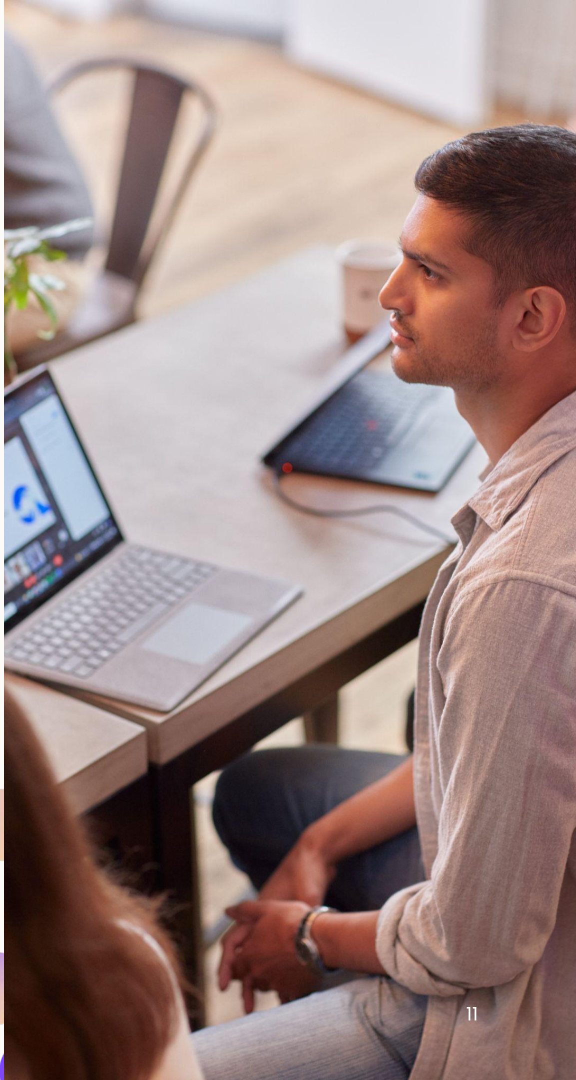
   Until recently, startups went on average 22 months between seed funding and Series A, 24 months between Series A funding and Series B, and 27 months between Series B funding and Series C, according to Fundz.

   With the turbulent market conditions, it may be tempting to try to raise as much as you can, as soon as you can, to safeguard your survival. On the surface, raising more capital upfront seems like a good way to extend your runway. But because of the dilutive nature of VC funding, this can often mean giving away more of the company as a result. While giving up equity can be worth it when used intentionally, it's a different matter if a founder feels they have no option but to do so just to keep the potential of the business afloat.

   By adding non-dilutive funding, like revenue-based financing, startups can leverage a 12-month funding runway provided by equity, for example, and often double it to 24+ months. And that reduces the time the business spends on the process of obtaining financing, which can take weeks or months, and work continually on growth.

   That specific extension of your runway not only keeps you from needing to raise another VC round so soon, it also can put you in a position to negotiate with a higher ARR when you do so, as a result giving up less of your company.

   So companies can look to raise the next series of equity funding later, when their metrics are more impressive, resulting in a bigger and better round of funding when they are ready.



What is revenue-based financing?

This is a type of alternative financing, outside the institutional finance system of banks and capital markets. These alternative financing solutions have emerged due to shifts in the economy, as traditional banks tend to evolve slower than newer solutions.

Revenue-based financing provides capital upfront against monthly or annual recurring revenue (MRR or ARR). It is non-dilutive and flexible: the provider will not take ownership in any part of your business, and you also do not pay them interest on the outstanding balance of your revenue loan.

Why do founders use revenue-based financing?

Fast decisions: The speed of obtaining capital may be faster than other options including — but not limited to — bank loans, venture capital investment, and venture debt. Companies use established and data-driven underwriting criteria to determine whether a borrower qualifies for capital, which means that it's possible to make a decision in 24 hours or less.

Non-dilutive: Founders, investors, shareholders, and employees do not need to give away company ownership in exchange for obtaining working capital.

Manageable repayment terms: Capchase, for example, uses intelligent data and software to align repayment plans with the forecast growth objectives. Proprietary CapScore™ software integrates directly with our customer's financial systems to calculate ideal monthly payments.

Cost-effective: Revenue-based financing can be the most cost effective option for balancing working capital constraints.

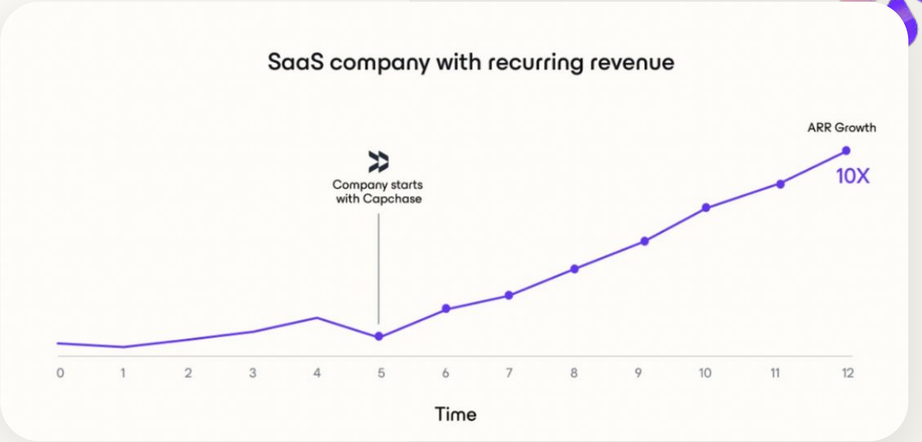
Aligning your funding strategy to your business model with dynamic financing

SaaS businesses are dynamic and recurring by nature. But equity raises are static and episodic. You can optimize your business - not just for your next raise, but for success in general - by using a funding strategy that is also dynamic and recurring, mirroring your business' structure.

At Capchase, we have a point of difference within the revenue-based financing space: dynamic financing. With the Capchase model of funding, we help you determine exactly how much capital you need and when. Then the system deploys that funding only when you need it.

Unlike static funding, Capchase funding happens in recurring installments and is designed to align to the dynamic nature of your business. It requires exceptional algorithmic modeling and data analysis. However, if done correctly, this on-demand business funding strategy can lead your SaaSCo to a much stronger financial position and a lower cost of capital as your funds don't sit around idly.

To illustrate this, imagine if instead of taking out $2M in funding, you take it out in chunks (e.g. 4x $500K), perfectly aligned with your marketing campaigns and ideally payback periods. That means you pay just for the funding you need, at the time you need it: saving money (a lot of it) in the process.



Dynamic financing can take companies to exponential ARR growth, putting them in prime position for their next raise

Benefits of dynamic revenue-based financing:

- Compared to static funding's typical return on investment (ROI) of 1.5x to 3x the cost of capital, your ROI with dynamic funding is usually between 8x and 11x. That's because with dynamic funding, every dollar you deploy is being used to generate returns, instantly.
- Dynamic funding results in reduced dilution when this strategy is layered atop the initial round of venture capital/equity funding.
- Dynamic funding is automated, so it's efficient, streamlined, and easy.
- Get working capital on demand to bridge cash flow gaps, use for marketing funding or growth funding.
- Say goodbye to long receivables time lines, pesky credit applications, toe-tapping vendors or partners on the payables end, and cookie cutter financial solutions.
- To prescribe dynamic funding, Capchase understands your business model and has a clear understanding of your cash inflows and outflows. As it prescribes the right amount of working capital needed month by month, every SaaS financing dollar is put to work immediately

Case study: Using revenue-based financing to optimize a raise

Using non-dilutive alternative financing is an intelligent strategy to reach higher valuations and minimize dilution, by getting further before your next raise. An example to illustrate this is Lawtrades, who used Capchase's dynamic revenue-based financing.

Using Capchase, Lawtrades grew their valuation 7x for their Series A round.

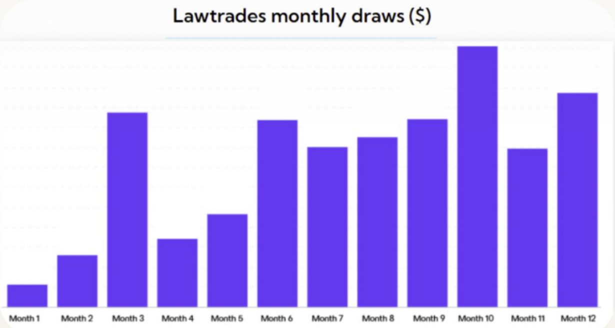
They drew on the Capchase facility to extend their runway, and the growth this financing helped them achieve meant that they were able to delay their equity round timing.

In the meantime, they invested the revenue-based funding from Capchase in their business growth and tripled their ARR in a year.

So when they were ready and felt they were in the best position, they could choose when to go for their next equity round.

And their newly strong financials meant that they achieved a 7x increase in valuation and significantly less dilution than if they'd been forced to engage in the funding round earlier.

- 3x growth in ARR
- 7x increase in valuation
- All with zero cash burn.



Using Capchase's Grow product, Lawtrades were able to draw funds frequently, when they needed them.

Lawtrades experienced exponential growth through an infusion of non-dilutive capital through Capchase.

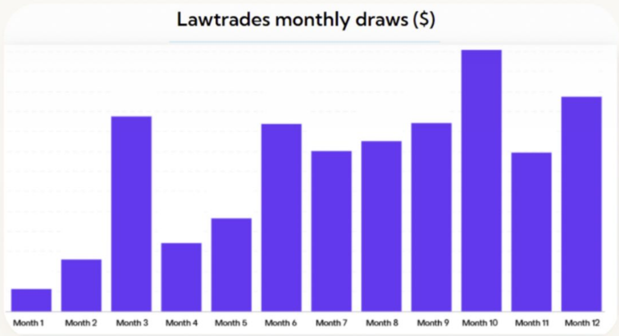
With Capchase, Lawtrades' CreditCap increased as their ARR increased.

Case study: Using revenue-based financing to optimize a raise

Using our core product Capchase Grow, Lawtrades was able to use funds to cover their supplier payments. They could also reinvest in research, product development, and more.

Our revolving credit line structure gave Lawtrades the flexibility to only pay for the capital they needed at any time, and as their business gained momentum, their CreditCap (funding available through Capchase Grow) increased alongside them.

They also avoided any arbitrary caps on funding, starting by drawing at a rate of around $100K at first and then millions in the coming months to fuel their incredible levels of intense growth.



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Optimize your revenue-based financing raise - *it's different than VC pitches*

Before approaching a revenue-based funding provider, you need to know what you're trying to fund and how much you'll be asking for.

Many founders make the mistake of pitching to alternative finance the same way they'd pitch to a VC. Although VCs and providers like Capchase are both in the business of providing capital to startups, they size up risks very differently, and you'll need to tailor your pitch accordingly.

While VCs want to hear about the big picture, your vision for your business's future, your product and leadership team, alternative finance providers are mainly interested in one thing: your financials. They need to understand your last 12 months, and what the outlook for your company is over the next 12 - 24 months financially. In short, if you only have thirty minutes to pitch to revenue-based finance, spend 1 minute on product, and 29 on financials.

Before approaching a provider, make sure you know and are able to delve into detail on the following metrics:

- **Revenue and growth**
- **Profit margins**
- **Unit economics**
- **Cash runway**
- **Cashflow**

It's key to know your KPIs: LTV/CAC, CAC Payback, year-over-year and month-over-month ARR growth. Also know your unit economics, and how good or bad those are in relation to market norms. We created our SaaS Benchmarking Report, with financial data from 400+ SaaS companies, to give you an understanding of these trends and where your business lines up.

Although this might seem basic, it's surprising how many companies pitch without knowing their KPIs. Not taking the time to prepare these KPIs ahead of a pitch will raise a red flag to providers, who could take it as a sign that you don't have a full grip on your business' performance.

Another thing you have to show is customer analysis - including who your key customers are, how much they pay, and when.

How Capchase works

Capchase makes it easy to turn recurring revenue into flexible growth financing.

We offer a layer of financing to complement your equity raise strategy.
We help you accelerate in growth areas, whilst preserving your expensive equity money. So you can invest in the performance you need to reach a higher valuation at your next round, avoiding a down round while the market corrects, with much less dilution.

Capchase's goal is to support your growth.
That's why you get a dedicated Capchase Growth Advisor. With backgrounds from VC to Wall Street, our advisors work with you on your growth and fundraising strategy, as well as offering support with your Capchase financing. Plus, your funding capacity with us grows as your business does.

'With Capchase it's like we're working with smarter people who know more about funding than us - that's an added value" - Lawtrades.

Fast capital
From sign-up to funds wired to your bank account in as little as 48 hours.

Flexible financing
Take the funds you need, when you need them – no penalties or fees – from $25k to $10M

Transparent costs
No hidden fees, warrants, covenants, or security interest. A discount fee as low as 7%.

Capchase will give you a bespoke offer of capital, after syncing your data and performing a full underwriting of your business. You will receive a funding overview, with the credit available to you, on the platform and by email.

If you'd like to learn more about how to take control of when to raise, maximize valuation and minimize dilution in your next round, find out more at www.capchase.com or start your funding journey here.

About Capchase

Capchase is the growth partner for ambitious software-as-a service (SaaS) and comparable recurring-revenue companies. Our mission is to help founders and CFOs grow their businesses faster through non-dilutive capital, market insights, and community support.

Founded in 2020 and headquartered in New York City, Capchase provides financing by bringing future expected cash flows to the present day – thereby securing funding that is fast, flexible, and doesn't dilute their ownership.

To date, Capchase has added 5,000+ months of runway to the SaaS industry, and launched Capchase Analytics, allowing founders to make real-time financial decisions based on their business' performance.

To learn more about Capchase, visit www.capchase.com.

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