

Five Things to Avoid When Pitching Investors

While there is no standard way to pitch potential investors, there are certainly some basic areas that need to be covered in any investment presentation. Entrepreneurs know (or should know) these topics well: define the problem, size the market, explain the solution, review the competitive landscape, and so forth – these must-haves are well documented. Since everyone should know what to say, spend some time preparing what *not* to say during an investor pitch. Below, I highlight a few landmines to avoid when speaking with potential investors.

- **“We don’t have any competition”** – This statement may sometimes be true in a narrow sense. That is, no other company may be approaching the problem the same way, but that is not the same as stating that your startup has no real competition. There are usually other technologies, current or in development, that could be applied to your market or application. There is certainly the status quo approach, which may be good enough from the customer’s standpoint (which means your problem is not painful enough). There are always potential competitors, no matter how tangential you might consider them. Think twice before saying that you have no competition.
- **“We are going to go public in five years”** – This proclamation is guaranteed to call your credibility into question as it shows a lack of understanding of the current financial market challenges. Yes, companies are indeed going public, but not those barely removed from their first round of venture funding. In fact, according to the National Venture Capital Association, only 12 VC-backed companies went public in 2009; and 2010, while better than 2009,

has only seen 40 initial public offerings through the third quarter – mostly from far more seasoned companies. The reality is that exits these days are through mergers and acquisitions, not an IPO.

- **“Series A investors will own 10 percent of the company post-deal”** – Avoid unrealistic valuation expectations. While there is no set formula in computing valuation for an early stage company, probably between 30 and 50 percent of the company will be owned by the series A investors, depending on the size of the round. Hearing a start-up entrepreneur say that \$2,000,000 buys you 10 percent of the company, sets off alarm bells instantly. The entrepreneur is, again, not realistic and doesn’t necessarily value what a good investor brings to the table (contacts, experience, etc.). It’s not a good idea to start the negotiations with unsupportable and unrealistic expectations.
- **“These projections are conservative”** – I have never sat in a pitch and heard anyone say that their projections were anything but conservative, even when revenues are projected to grow from zero to \$100 million in five years. While I applaud the enthusiasm and conviction evident in projections like those, please don’t try to intrigue or somehow capture the attention of potential investors by calling these kinds of numbers “conservative.” There is a very high probability that the company will not come close to these projections, and calling them conservative will only hurt your credibility, not score you extra points. Please, balance passion with reality.
- **“Are you invested in any [fill in the industry] companies?”** – This might be the worst of the bunch. If entrepreneurs haven’t taken the time to do some basic

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research before meeting with potential investors, then they are probably not worth backing. In this information age, one should have a detailed understanding of the potential investor’s portfolio, background, blogs, tweets, etc. Founding and running a successful startup requires continually giving 110 percent effort, and making it obvious that you are not willing to do that is not smart. Do your homework.

It’s hard enough to convince some venture capital investors to part with their capital these days, so make it easier on yourself by avoiding these pitfalls.

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