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A Snapshot of Early Financing

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Demonstrating her lesson using a case study of a medical device company, KPCB partner Beth Seidenberg offers an illustrative example of what angel and first-round financing might look like for the upstart enterprise. Her advice includes tips on seeking seed money, and why a small company shouldn't go out for financing too soon. Incrementally building dollars around real milestones is critical for real investment and corporate success.

Transcript

A financing might look something like this.. You probably have seen this or something around this type of scheme.. As I mentioned earlier, this is a device company.. Device companies typically take less money than biotech, life science to get to market where you'll spend, in a biotech company, the big number out there is a billion dollars to develop a new therapeutic.. You can do it for less, but this is about $80 million.. It costs sometimes $100 million or $200 million for a device.. Don't go out for venture money too soon.. Try and get your ideas formulated.. The good news about Silicon Valley, which I didn't put on the slide, is there are a lot of angels.. Angels are friends, family members..

There are funds that are literally startup funds that will give you anywhere from $50,000 to sometimes up to a million dollars to help bring your idea forward, help you write a business plan so that you can go to a venture capitalist, and then get in the range of $3 million to $7 million.. On the reasonable financing perspective, if you look at this slide, you see that it's an incremental build of money that comes in; series A, B, C, D and E and then IPO.. You don't have to have that.. You can do a series A and then go IPO.. It really varies, but the bottom line here is that when you see companies announce that are receiving $50 million to $100 million for their first financing, that should be just a red flag because you can't spend money effectively that fast.. Well, you can, but the people who gave you that money may not be thrilled with that result.. So having milestones, having a set of expectations that say, "My seed round, my incubation is going to be to build a business plan, put a team together, and then go out and get money." Series A, let's say, in a device, is to get the design specs around the device.. I can do that for a few million dollars.. Then, series B may be to get the first clinical experience around that device or to get a regulatory approval for the device.. Series C may be early launch or later-stage clinicals..

So incremental build around clear milestones is very important in building a successful company...