

GDC 09 Austin

September 15–18, 2009

Game Developers Conference® Austin
Austin Convention Center | Austin, Texas

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Funding Fundamentals

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Funding Fundamentals

- ④ Convincing the Wealthy to Finance Your Wild Schemes



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Who am I?

- ⊕ Scott Dodson
- ⊕ Chronic Entrepreneur
 - Tenacious Games
 - Flying Rhino Studios
 - Divide by Zero Games
 - Not an MBA, CPA, Attorney, etc.



Overview

- ④ Making a Company Fundable
- ④ Structuring an Offering
- ④ Sources/Avenues of Funding
- ④ Closing Successfully

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Making a Company Fundable

- ④ I: Structure
 - C Corp vs. LLC
 - Shares Authorized/Issued
 - Cap Table
 - Building a case for Pre-Money Valuation
 - Option Pool
 - Repurchase Rights



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Making a Company Fundable

⊕ II: Team

CEO critical

No single-founder companies

Balance of technical/business founders

Name/track record not to be underestimated

Augment with Board & AB members,

Third party providers/partners

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Making a Company Fundable

III: Market Problem

Define the Market

Find pain in the Market

Support with data



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Making a Company Fundable

⌚ IV: Documentation

Executive Summary

Fin Plan

Business Plan

⌚ Product Roadmap/Marketing Plan

⌚ Market Proof/Customer Traction

Risk Factors/full PPM

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Structuring an Offering

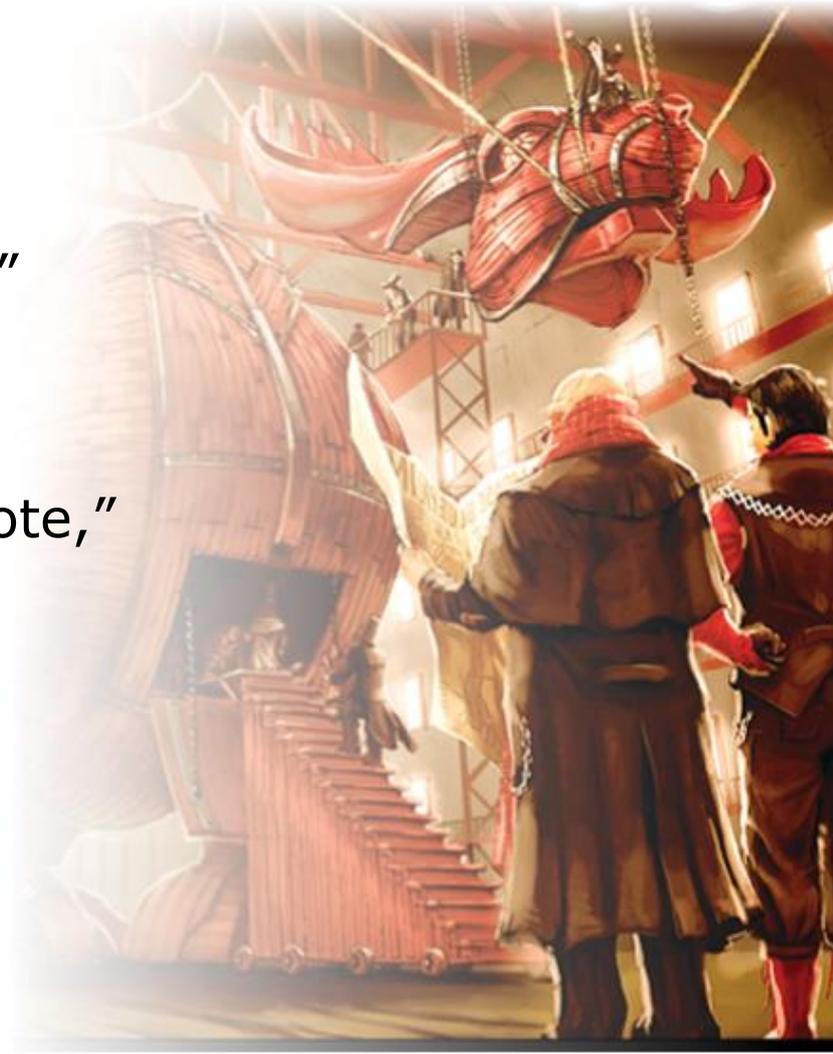
⊕ Basic Offerings

Equity

- ⊕ "Priced Round,"
- ⊕ "Series A"

Debt

- ⊕ "Convertible Note,"
- ⊕ "Debenture"



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Structuring an Offering

⊕ Equity

Preferred Series A

Types of Preferences

- ⊕ Liquidation
- ⊕ Conversion
- ⊕ Voting
- ⊕ Dividend
- ⊕ Registration Rights
- ⊕ Anti-dilution



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Structuring an Offering

⊕ Debt

Convertible note typical

Lower risk for investor

⊕ first position

No argument over valuation

Interest and/or warrant coverage

Bridge to a “priced round”



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Sources of Capital

- ④ Two Principal Types of Funders
 - Venture Capital Firms (VCs)
 - Angels
 - All Accredited Investors*

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Sources of Capital

🌐 VC Overview

Later stage, investments \$3mm+

Follow-on investments

Goal: 7-10X returns

Terms dictated/negotiated

Bottleneck is not capital but the Partner

Liquidation Preference

Entrepreneur needs awareness of
Fund Lifecycle and Focus

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Sources of Capital

- ④ VCs want:

- Opportunities which can be very big

- ④ Growth Strategy: Follow-on or Acquisitions

- To work with people they know and trust

- Strong, veteran leadership

- Flexibility from & degree of control of management

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Sources of Capital

🌐 Angel Overview

Earlier stage

\$10K-\$500K investments (\$25-\$50K avg.)

Goal: 3-10X returns

Many closing conversations

Company must authorize the offering

🌐 Adapting to early or large angel OK

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Sources of Capital

- 👤 Angels want (in order):
 - To know how & when they will see a return
 - To work with people they trust
 - To be excited about the business
 - To believe the team can execute
 - To be a part of something

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Sources of Capital

⊕ Specifics

Personal: Founders, Friends and Family

Network, BoD, AB

Angel Groups

⊕ Keiretsu, NWEN, AoA, Tech Coast Angels

VC's

⊕ thefunded.com, entrepreneur.com/vc100

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Being Successful

- ④ Conditions
- ④ Techniques
- ④ Pitfalls
- ④ Qualities
- ④ Summation



Being Successful- *Conditions*

- ④ Skin in the game
- ④ Team/Directors/advisors enrolled & engaged
- ④ A great pitch
 - 1) Practice!
 - 2) Get FeedbackRepeat 1 & 2
- ④ Marathon not a Sprint
- ④ Show traction over time

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Being Successful- *Techniques*

④ Creating Urgency

Small Tranches

Closing Dates

- ④ Valuation only increases when your round is closed

Process of Soft/Hard Circling
Events



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Being Successful- *Pitfalls*

- ④ Don't have a pitch deck that looks like this
- ④ Communicate jargon-free
- ④ Focus on the Business not the Product
- ④ Never stop expanding your prospects



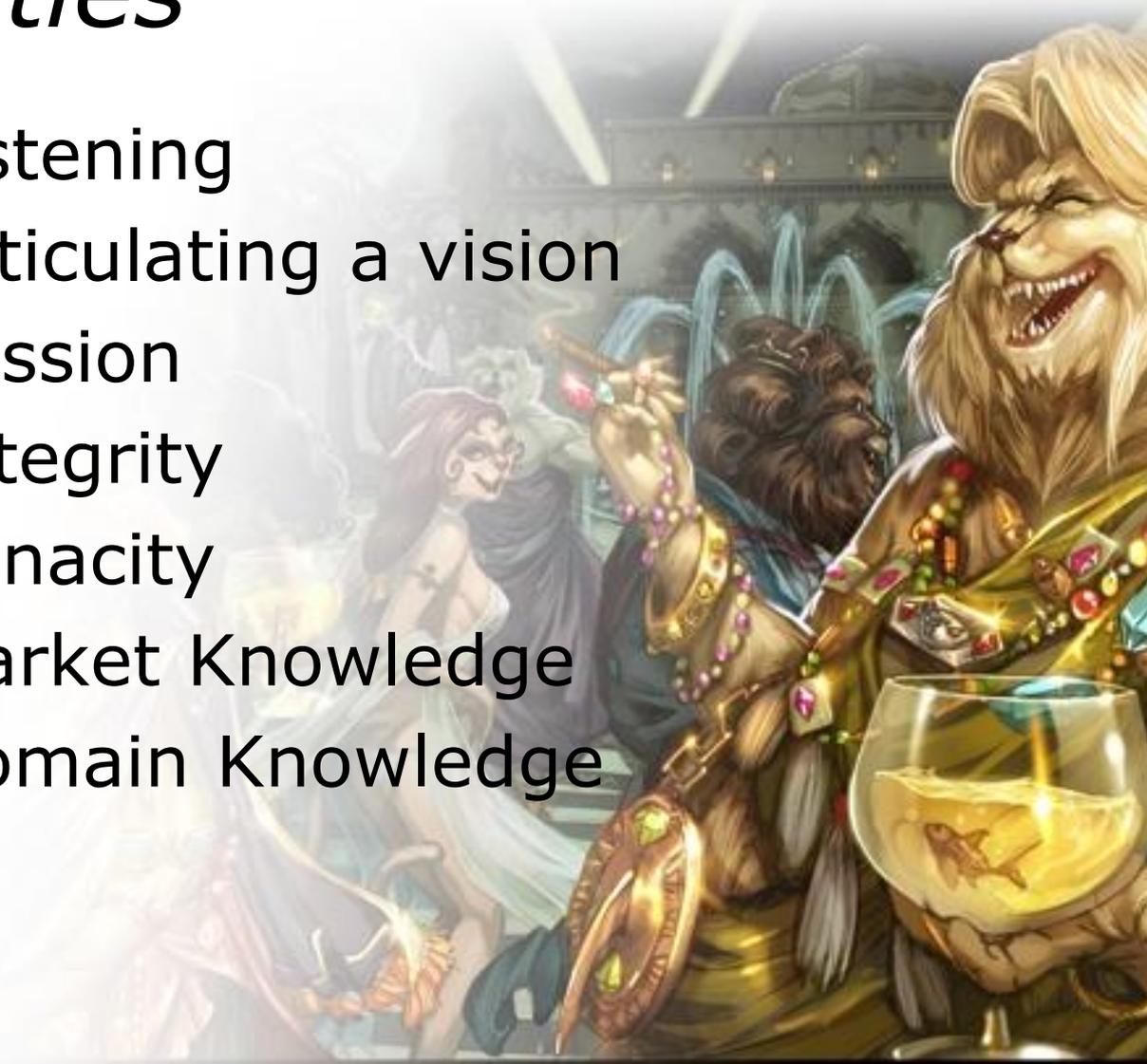
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Being Successful- *Qualities*

- ③ 1) Listening
- ③ 2) Articulating a vision
- ③ 3) Passion
- ③ 4) Integrity
- ③ 5) Tenacity
- ③ 6) Market Knowledge
- ③ 7) Domain Knowledge



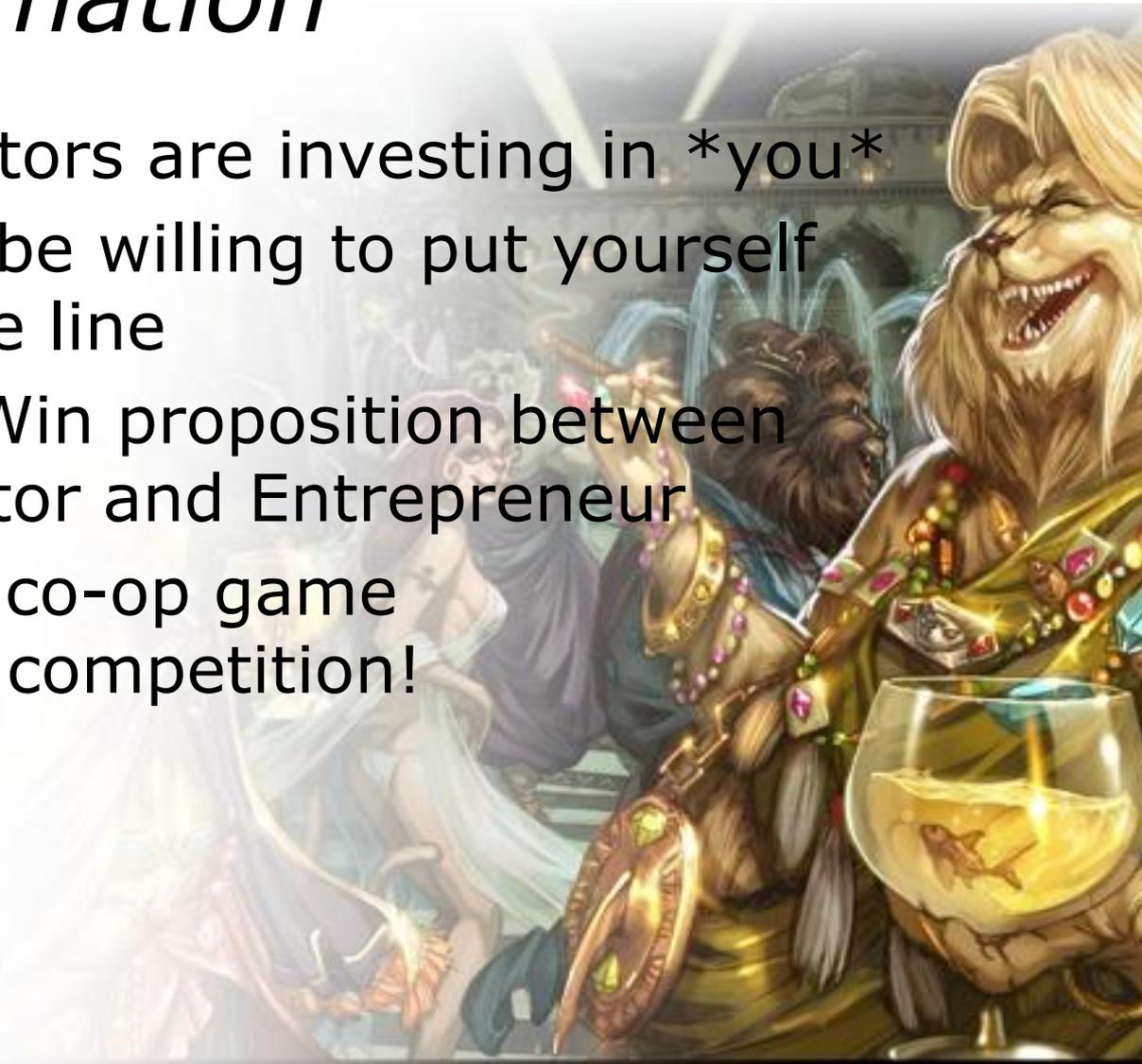
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Being Successful- *Summation*

- ④ Investors are investing in *you*
- ④ Must be willing to put yourself on the line
- ④ Win-Win proposition between investor and Entrepreneur
- ④ It's a co-op game not a competition!



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