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They invest in less than 1% of the companies they review. Your odds of raising money at the race track or in Las Vegas are better than your odds of finding a venture capitalist. I don't believe that it's worth your time and money to seek their investment in your company.

Venture Capitalists aren't Fairy Godmothers. If you won't give up 60%-70% of your company for the venture capital investment, you'll never interest a Venture Capitalist in your company. For most business owners, a contract with a Venture Capitalist is a deal with the devil.

Let's assume that your company is a winner of the Venture Capital Lottery. You'll become a minority shareholder in your company. Your job will be to make your company a business success.

The Venture Capitalist's first goal is to recover their investment in your company. The VC expects to recover their risk capital within twelve months. They'll do it by appointing several financial sales people to top management positions. This VC management group will prepare your company for its IPO. They'll encourage accredited investors to buy half the VC stock in your company at double the price paid by the VC. Within a year, the VC has recovered their risk capital and still owns 30%-35% of your company. It takes between 25% and 40% of the VC's investment in your company to allow the VC to breakeven on their investment.

No one risks money to break even. The VC's goal is to do an Initial Public Offering and take your company public. Once your company starts to trade, they'll sell their 30%+ stock in your company. The good news is the IPO will raise more money for your company. The bad news is the IPO shares will further dilute your ownership of your company. As a public company, you'll probably now only own 10% to 15% of your company.

It costs money to do a successful IPO. You'll find that those VC Financial Managers will divert your advertising budget into general advertising that acquaints potential stock buyers with your company. It doesn't bother the VC that none of the potential stock buyers are buyers of your product or service. The axiom is that when investors recognize the name of your company, they'll buy your stock. It's the VC's stock, not the company's product or service that is being sold.

It costs money to do an IPO. That money comes from your company's cash flow. Until you receive the proceeds from the IPO, you won't have the money to expand your business. If the cash flow isn't adequate to pay the IPO costs, expect the VC to issue more stock and dilute your ownership further.

You can invest in a search to find a Venture Capitalist. I don't think your VC strategy is sound. You are betting against the odds that you'll find a VC. If you find a VC, you'll lose control of your company.
When your company goes public, you could find that your insider group owns less than 15% of your company's stock. If you think that a VC strategy is a winning strategy, I wish you luck.

To contact the author: Visit the Beowulf Investments website:
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Venture Capital - What Happens After The Due Diligence Process

By Evan Carmichael

Venture Capital - What Happens After The Due Diligence Process

If the venture capitalists are interested in your company after completing their due diligence, they will offer a binding term sheet. It will reflect the draft term sheet that has already been agreed to but this one will be a legal contractual agreement. Then the real negotiations start.

There are different types of financing to consider: debt, equity, and mezzanine.

Debt financing is the most objective and is therefore the easiest to negotiate. If you have the assets to support the debt and the income to support the interest payments, the negotiation period will be very short.

Equity financing negotiating is more complicated and revolves around agreeing on valuation and percentage ownership. Discussions usually requires several days.

Mezzanine financing involves a mix of equity, debt, convertible debentures and preferred shares. Negotiating the technical aspects of each so that an agreement can be reached between the investor and your company can be time consuming.

Another dictating factor is the number and variety of financing offers that you receive. It is the intermediary's role to help you bring more than one offer to the table and assist you in evaluating and negotiating which one is best suited to your company's needs based on their previous experience.

Venture capital term sheets are time limited. You have to quickly make up your mind if you want to accept or reject the offer. The short time period is in place to prevent you from using one term sheet to solicit new offers from other venture capitalists.

Evan (http://www.evancarmichael.com) is an entrepreneur and international speaker. At the age of 19, Evan became an owner and Chief Operating Officer in Redasoft, a biotechnology software company. The company quickly grew to over 300 organizations as clients, including NASA and Johnson & Johnson, in 30 countries. As a presenter, Evan has spoken on Modeling Masters techniques to world leaders and entrepreneurs at APEC Forums in Mexico, Brunei Darussalam, and Taiwan in addition to being a keynote speaker at over 100 events in Canada. He also has a background in the venture capital industry helping entrepreneurial companies raise between $500,000 and $15 million to grow their businesses. Find out more at http://www.evancarmichael.com.

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