



Newsletter June 2015

Many promising early stage companies fail to attract much sought after Series A funds. Do you know how to position your company to enhance the likelihood of raising a Series A?

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Each month we present a short article on an industry or transaction topic of current interest, and notable transactions in our industries completed during the prior month.

This month's newsletter explains how to position your company for a Series A funding round. We welcome your questions or comments.

To comment or subscribe, email steve.gaynor@mobilesolve.com

POSITIONING FOR THE SERIES A

By [Steve Gaynor](#) and [Neeraj Baghel](#)

Among the most vulnerable times in the life of a company is between the seed and Series A funding stages, when a company must use the small amount of cash it raised to position itself for its first, and sometimes only, substantial institutional round. Seemingly exacerbating the problem is what has become known as the "Series A Crunch," where promising early stage companies fail to attract much sought-after Series A funds. Thus positioning successfully for the A-round can literally be a life or death matter for the company. This article explains strategies available to enhance the likelihood of raising the Series A round.

After the Seed Round

Let's assume you have raised what is today a typical seed round for a non capital-intensive technology business of \$1 Million. The basis on which the money was raised was your vision of the importance of the company's solution to solving a big problem, the timeliness and growth prospects of your solution, and your ability to execute the plan and lead the company to success.

With the initial financial capital in place, your next step in developing the business is to attract the human capital needed to build the company, such as filling out the team from its few co-founders, finding advisory board members who have the time and expertise to provide valuable assistance, and establishing important relationships with larger companies who may be customers or partners for your business.

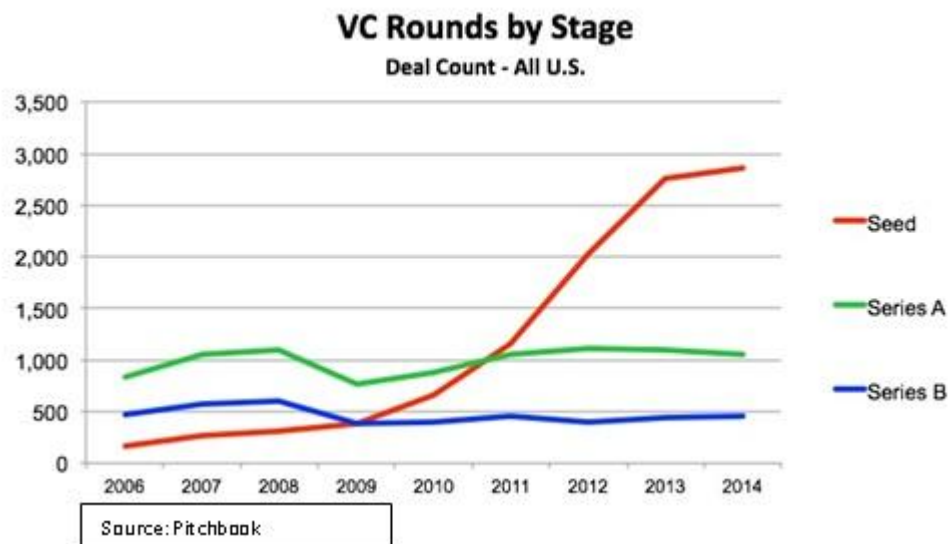
If you haven't yet done so, the new funds will be spent in completing a prototype or the software of the product you will sell, or acquiring initial customers, and getting feedback from those new customers to ensure your product will meet their needs. You will also keep an eye on competing solutions, and take steps

to maintain your lead and competitive advantage.

While all these tasks are necessary, they may not be enough to attract Series A financing.

The Series A Crunch

Discussion of what has become known as the Series A Crunch emerged about 2011, and has become a topic of much conversation since. It refers to the noticeably increasing number of startups that successfully secured seed funding, but failed to obtain A-round financing. While initially there was great consternation the Crunch was indicative of a lapse in the venture capital industry, it quickly emerged that the culprit was the huge growth in the availability of seed funding as shown below:



The number of A-rounds in the U.S. has held fairly steady over the last decade with a not unexpected small dip during the Great Recession of 2008 followed by a recovery. It is the number of seed rounds that has exploded and created a large imbalance between seed and Series A financings. In that regard, a better name for the Series A Crunch, which names the wrong culprit, might be the "Seed Tsunami."

The multiple sources of the "Seed Tsunami" are not hard to identify for an observer of early stage financing, and there are multiple ones:

- The recent outstanding multi-year performance of the equity markets has provided more investment capital to wealthy individuals, who, benefitting from their equity investments understandably want more;
- The huge growth in the number of new channels for making early stage investments, notably crowdfunding websites and new groups of angel investors in major commercial centers around the world; and
- The recent emergence of dozens of "accelerators," similar to the "incubators" of the late 1990s that provide seed rounds, advice, office space, and other helpful things to new companies.

Thus the essential problem of the seed-funded entrepreneur is not only to show his company has a better solution than its direct competitors, but also to stand out among the dozens of other promising startups led by smart, capable people who are addressing other markets, but seeking the same finite Series A investment funds.

Strategies for Raising the Series A

It is helpful first to recall how the Series A fits into the order of funding rounds; i.e., what is its purpose? Stated simply, the funding rounds are:

- Seed: Refining the product and verifying demand, albeit on a small scale
- Series A: Scaling the business, and refining the business model
- Series B: Growing the company, and creating defensible barriers
- Series C, forward: Accelerate growth, and expand geographically or to other vertical markets

As the focus of the Series A is to scale the business and demonstrate your company can become large, there are three operating strategies that can guide your post-seed activities to position the company to complete a successful A-round:

- **Build a Small "Scale Engine"**. Demonstrate the business can scale by penetrating a small but meaningful industry or customer segment, and with additional resources that early success can be replicated in larger numbers.
- **Generate Real Revenue**. Drive meaningful revenue from a number of customers in your key vertical markets. This will prove you have established the correct product-market fit, and are ready to take-off. This strategy relates especially to B2B business models.
- **Build Audience Momentum**. Focus on marketing to develop a large number of users with a credible plan to monetize them. This strategy relates especially to B2C business models.

Keep in mind that whatever operating strategy is selected, the fundamentals of competitive strategy still apply. You still have to build your business around a meaningful differentiation that is both defensible and sustainable over the long term. And you still need to assemble a team that investors believe can effectively execute the business plan.

Finally, there are examples of companies that successfully raise funds without one of the above operating strategies, but based on the founder's vision, a high-profile board of advisors, glowing press, etc. But this strategy is reserved for entrepreneurial "rock stars" who have a stellar track record.

Timing of the Series A

A guideline for raising the Series A is nine to twelve months following the seed round. But what is most important is to wait until the company demonstrates it can grow large pursuing one of the strategies described above. Once that has been achieved and you organize to raise the Series A, be sure to prepare carefully, as professional institutional investors are generally more demanding than angel and similar seed round investors.

When you are ready, expect the fund raising process to last several months. Run a disciplined tight process in your approach to the market. Rarely, if ever, is there a second chance at an A-round. Good Luck!

Source: MobileSolve Research

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Comments and Questions on the above articles are welcome.

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Transactions

The following are notable M&A transactions and capital financings announced or completed in the last month.

Notable M&A Transactions

| Target | Target Industry | Acquirer | Transaction Value (in \$ millions) | Transaction Highlights |
|---------------------------|----------------------------|---------------------------|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IBM TEM Business Division | Telecom Expense Management | Tangoe | 22 | Tangoe Inc acquired the business and assets of the rivermine telecom expense management business of IBM |
| Mobiento | Mobile Marketing | Deloitte Digital UK | - | Mobiento produces mobile campaigns, mobile web sites and mobile applications |
| SoThree | Mobile Apps | Dropbox | - | SoThree, Inc. develops and builds mobile platform applications. Its aims to enable people to passively, through sound, expand its knowledge for their ever-increasing busy lifestyles. |
| WiSpry | Semiconductors | AAC Technologies Holdings | - | WiSpry, Inc. manufactures RF-CMOS integrated circuits and components. |

Notable Capital Financings

| Company Name | Industry | Amount Raised (in \$ millions) | Total Amount Raised (in \$ millions) | Business Description |
|--------------|----------|--------------------------------|--------------------------------------|----------------------|
|--------------|----------|--------------------------------|--------------------------------------|----------------------|

| | | | | |
|-----------------------|-------------------|-----|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Benefit Mobile | Mobile Payments | 1 | 1 | Benefit Mobile is a pre-paid mobile payments platform that empowers individuals to give the things that matter most through in everyday transactions. |
| BlueLine Grid | Mobile Messaging | - | - | BlueLine Grid provides identity-based mobile communications platform. |
| CradlePoint | Mobile Networking | 48 | 65 | CradlePoint, Inc. develops and supplies wireless networking products and docking solutions for mobile enterprise. |
| General Specific | Mobile Video | 2 | 4 | General Specific, Inc. launched an iPhone app that makes it easier for users to save and share the videos created on their phones. |
| Joya Communications | Mobile Video | 5 | 5 | Joya Communications, Inc. provides mobile video communications and technology services. |
| Movidius | Mobile Imaging | 40 | 87 | Movidius, Inc. provides multimedia applications for mobile phones and other electronics. |
| One Mobikwik Systems | Mobile Payments | 25 | 30 | One Mobikwik Systems Pvt Ltd. provides a platform for mobile recharge and paying bills online. |
| RetailNext | Mobile Analytics | 125 | 184 | RetailNext, Inc. provides in-store analytics solutions. Its products include people counting and conversion, staffing optimization, shopper activity maps, display and window effectiveness, mobile in-store analytics, video management, guest WI-FI and personalization. |
| Robosoft Technologies | Mobile Apps | 12 | 16 | Robosoft Technologies Pvt Ltd. designs and builds mobile applications and games for iOS, Android, Windows, BlackBerry and Mac platforms. |
| Wrap Media | Mobile Apps | 4 | 4 | Wrap Media LLC provides a storytelling mobile user interface and interaction platform. |

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