

FUND RAISING FOR DIGITAL SIGNAGE NETWORKS

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EnQii has been working with several of its clients to help them position their companies to raise funds to roll out networks. These have been challenging times for many companies raising venture capital and digital signage is no exception—capital markets are tight, digital signage goes in and out of fashion and often companies have good stories, but don't position themselves as well as they could. This paper seeks to identify key general requirements for fund-raising and describes a few requirements specific to digital out of home networks.

The 3 key questions any company needs to have in mind when embarking on fund-raising are:

- 1) What is my business?
- 2) What types of investors should I go after?
- 3) What is my Plan B?

1) What is my business?

This may seem like a ridiculous (and possibly insulting!) question to ask an entrepreneur. However, while a manager obviously know the business they are in, they are often not very good at explaining it to others. It is very important to step back and pare down what you do to the essentials and then communicate the key factors that will enable you to succeed. Specifically in relation to the out of home advertising space, some of the attributes that enable a network to succeed are:

- a) Signing up an estate with a large, well defined and attractive demographic. This could range from a chain of doctors' offices to a chain of grocery stores. The key things to focus on are your exclusive access to the eyes of the consumers in that estate and the value proposition that will make them want to look at your screen and thus allow you market to them.
- b) Having a management team that has a track record of success. If you have done it before and can demonstrate that you know what works (and what doesn't) and, hence, not make the mistakes a first timer in the space might make you are more likely to succeed.
- c) Creating a realistic business plan and raising enough money to execute on it. Many people launching advertising networks believe that they can bootstrap their way to a large national network by raising money incrementally: they believe that they can raise money for 20 sites, sell advertising on those sites and then use that money to fund the next 20 sites and so on. Unfortunately this very rarely works as advertisers are unlikely to be interested in networks that do not have critical mass, which might be 100+ sites. Consequently the revenue generated by the first 100 sites can be very low and then rise dramatically above the 100 site threshold. This means that funding is needed for the first 100 sites and not just the first 20. Funders will be very cognizant of this and will want to see that the entrepreneur understands the dynamics of the business to also realise this.

A final test: Can you describe your business and key proposition in three sentences and 90 seconds?

Once you have clarity on your business you should develop a structured, consistent business plan. The appendix shows the main sections you will need in your plan.

2) What Types of Investors should I go after?

As companies go through different stages so there are investors that fund companies of different stages and it is important to target the appropriate stage of investor for your company.

The main stages of a company are

- a) Seed: an idea and a nascent team. Normally 0-1 year.
- b) Start up: some key customers signed up, key management in place, some revenue. Normally 1-2 years.
- c) Maturing: Model is being proven, good revenue momentum but still not profitable. Normally 2-3 years.
- d) Profitable growth. Normally 3 years +
- e) Ready for exit. Normally 5 years +

Typically Seed stage companies are funded by the entrepreneurs themselves and friends and family.

When a company gets to stage b), good teams can find angel investors and early stage VC's. Government sources can also participate at this stage of a company's fund-raising life with grants or equity investments.

Stage c) tends to be the sweet spot for most venture capital funds.

Stage d) is where companies are looking for expansion capital. VC's are very active in this space as well as a few Private Equity funds and Hedge Funds.

Stage e) is where it is possible to get bank and other types of mezzanine financing if the company is doing well, generating cash, and showing good exit potential.

One of the biggest hurdles most companies face is getting past stage b) – this is the trickiest part of the company growth cycle to navigate as companies are showing some traction but the risk of failure remains high. This is where entrepreneurs need to be creative and ensure that they keep costs tight and grow their estate/intellectual property as efficiently as they can.

3) What is my Plan B?

Fund raising takes a lot of time: it typically takes 6-12 months to close a round of investment. Capital markets remain tight and it is important for companies to proactively develop a Plan B—slowing down growth, keeping costs tight, identifying potential merger partners—and not wait to hit a wall before starting to think through these issues.

Raising capital for a new digital signage venture is not a straightforward process. It is often a complicated, time consuming, non-linear process that can become a frustrating experience for those unaccustomed to its peculiarities. We hope that this brief overview provided some useful insight for entrepreneurs navigating this world. Please feel free to contact us at EnQii if you'd like to discuss this further.

Appendix

Sections you need in your business plan

- a) **History of the company including funding to date**
- b) **Market you are going after and the problem you are trying to solve**
 - a. Is it a large market with strong growth?
 - b. Is it a real pain point for customers/consumers?
 - c. What part of the value chain does the company participates?
- c) **Customers and Partners**
 - a. Who are your current customers?
 - b. Who are your current partners?
 - c. What is your sales pipeline like?
- d) **Value Proposition and Business model**
 - a. What is your current value proposition?
 - b. What is your business model?
 - c. What are your routes to market?
 - d. Who are your competitors?
 - e. Why would your customer pick you over the competition? How do you differentiate yourself?
 - f. What is your long term strategy?
- e) **Team**
 - a. Who are they key team members?
 - b. What experience of success do they have in your market?
 - c. Which are the main positions you still need to fill?
- f) **Financials**
 - a. Historic
 - b. Future
 - i. Revenue Sources
 - ii. Pricing assumptions
 - iii. Gross Margin assumptions
 - iv. Overheads
 - v. Profit
 - vi. Cash needs
 - vii. Number of employees and their functions
 - c. How big could the company be? What are the blue sky success scenarios?
 - d. What are the main risk factors?
- g) **Fund Raising**
 - a. How much money are you trying to raise?
 - b. Who are the current investors?
 - c. How do you plan to use the money?
- h) **Exit**
 - a. What are your exit plans for the company?
 - b. Why may be likely buyers?
 - c. What is your time horizon?
 - d. What is the expected exit valuation based on your business plans and industry comparables?

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