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CATALYZE

Resource
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"How soon can we close?"

This is one of the most common questions asked once a company finds an investment partner. Naturally, after spending the time and effort to land an investor, your team will be eager to get the funds in the bank and get back to business. So, what should you expect in terms of timeline when undertaking a fundraising process?

As a general principal, it's important to understand that financing timelines are not hard and fast rules, as each deal will have its own features and milestones to be achieved in order to close. Factors like the complexity of the deal, the preparedness of the company and investors to act quickly and the amount and type of negotiations involved will all play a role in how fast the parties can get to closing.

That said, there are some general expectations that are reasonable to have based on the type of financing you're raising. Here, we'll discuss these in the context of a company raising a seed/early stage financing with new investors.

The Pitch

While the timeline of each stage of the process can vary greatly, none vary more widely than the pitch stage. How long it will take the company to find a partner willing to provide investment capital can depend on many factors, some of which won't even be within the company's control. The company's progress, product-market fit, prevailing market conditions, access to VCs with interest in the company's products or services, the quality and refinement of the pitch, and the team's relationships or reputation in the industry can all be factors. Pitching can take months for new companies, with some suggesting three months on the quick side and nine or more on the longer end (assuming that you'll eventually be able to raise the capital).

Term Sheet

Company executives and even board members will often be under the impression that once the company receives an offer in the form of a Term Sheet, it's off to the races and the company can close basically immediately – which is not the case! Before even moving on to the primary document negotiation and diligence phases, the negotiation of the Term Sheet itself needs to be addressed, as it covers some key principal terms that need to be initially agreed between the company and the investors.

If the parties have discussed the terms of the investment (and the initial draft of the term sheet reflects those conversations) then the finalization and execution of the term sheet might be very quick—sometimes involving little to no negotiations at all. In that case, you may be able to settle the terms and execute the term sheet in as little as a day or two—if not hours—with only a few iterations or "turns" of the draft term sheet document.

On the other hand, if the terms are not previously discussed in detail, or if new terms are introduced when the draft term sheet is offered up, the parties may go through various turns of the term sheet and negotiations on multiple deal points. In these cases, timelines can land anywhere from a few days to multiple weeks, depending on the amount of open deal terms involved.

We always suggest that you get your GD team involved in this process as soon as possible—even in seemingly straightfoward deals—to make sure you and your team are effectively and efficiently reviewing and responding to a proposed term sheet.

Due Diligence and Deal Documents

After a term sheet is executed, the parties will generally move quickly toward drafting investment documents for the deal, while at the same time the legal due diligence process will generally commence (or pick up steam if already underway). These two processes are usually done in parallel in order to preserve time and to move to closing as soon as possible.

In a typical seed or early stage equity financing—assuming no complications arise in diligence and the parties aren't proposing any unprecedented deal terms—a company can generally expect this stage to take a few weeks. Estimates for an early stage venture financing may be 3-4 weeks on the quick end or 6-7 weeks on a more extended timeline (obviously depending on the deal's particulars).

It's customary for company counsel to prepare the first drafts of the investment paperwork. It may only take a few business days for your Gunderson team to create these intial drafts and review them with your team. The timing for finalizing them will then heavily depend on how long the investors take to review and respond and how long it takes the parties to work through any deal points to be negotiated. Your Gunderson team will always be as efficient as possible in pushing the documentation process forward to keep moving toward closing.

Ultimately, it's important to keep in mind that every deal timelin is different. How long your deal will take depends on many factors, including whether negotiations are limited or more protracted, if the investors raise any diligence issues, the need for any other parties to be involved (like existing investors, for example), as well as simple external factors, like the availability of any persons needed to approve deal points or sign documents. If the head of the VC fund is unavailable because they're on vacation, you may need to add a few days to your timeline! Communicating with your counsel early (and often) about timing expectations, key deadlines and team availability will help ensure an efficient process.

Closing

Coordination of all of the parties will be the key timeline driver for closing. For example, if the company's board wants to meet to do a final overview of a deal, accommodating that request would likely add a couple extra days to the deal timeline. Likewise, if the stockholder base needs to be contacted to provide approvals, these communications may extend your timing. The key takeaway when thinking through closing is that this is a multiparty process: all of these elements, and the speed with which outside parties can act, will impact closing timing. Be sure to reach out to your Gunderson team early in the process to prepare a plan for coordinating your closing and for managing the expectations of your team.

Timeline: Key Takeaways

Everyone aims to have their fundraising happen as fast as possible to land the investment and get back to the business of building their company. But it's important to remember that fundraising isn't a unilateral process and doesn't operate on any specific clock or cadence. There are rules of thumb and approximations, but there's ultimately no way to exactly predict your fundraise timeline. Some deals might be simple and expedited and some might become complicated and protracted, often for reasons outside of the company's control.

You and your company should seek to be as prepared as possible, including discussing all of your key dates and goals with your Gunderson team. There are many things you and your team can do to prepare for the various stages of the process, like honing in your pitch and preparing your company to be ready for the diligence process. However, getting to closing depends not just on how fast the company can move, but also the speed of all other stakeholders—not just the new investors, but also the company's board of directors, current stockholder base and any other parties that will need to be involved.

Talk with your Gunderson team whenever you're planning to raise capital, and your team will help you get in the best position possible to dive into your process efficiently.

Venture Financing Process

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3. Due Diligence
4. Negotiating Terms and Transaction Documents
5. Closing
6. Post-Closing
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