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How I ... Raised $10 million in venture capital

By Jing Cao

In June, Modus closed on $10 million in funding to significantly expand its national presence. This was the company's second infusion of capital investment — its first was in March 2012. Buergari told us how he did it.

Abtin Buergari said he leaned on his CFO, Stewart Curley, to guide him through the financing process with two outside VC firms.

Joanne S. Lawton / Staff

When did you decide that Modus needed new venture capital?

In March 2012, Modus acquired a company called Ivize. As we started to organize and organically lead the sales and infrastructure from that organization, we started to see that we had a really powerful message to show the rest of the country and that we could accelerate our growth through a shot of venture capital. In December, we saw that we had something really important to say and that our clients are attracted to that messaging, so we sat down with the board. We said that we can go through next year's growth organically or we can go at an accelerated rate. There's a lot of room for us to capture the market and there's a lot of opportunity in our industry right now.

What was your first step in trying to find investors?

Honestly, a big portion of this was led by our CFO. I went to him and asked, "What do you think?" He said, "Let me make a couple of phone calls." And I made a couple of phone calls, and we talked to our existing board members. We said, "How much do you want a play in this?" The board members wanted to do this as well, so they called their contacts. That's how it really started. For venture capital, it's about whether there is something valuable in what you're doing and what kind of growth you are tracking. We've been growing at two times revenue every year. They see that the market is hot, that this company is doing really well, they'll check your customer references. They need to know you have a solid foundation. They look at the management team and ask, "Are they capable of making good decisions, and is it going to go to grow?"

How did you get in touch with Harbert and Azalea?
This story goes back to March 2012. Azalea is a private equity company, and they reached out to us for about six to eight months. They really wanted to do business with us. They made a huge investment outright to work with us, and we folded them into our board. Harbert is another major investor, but we didn't reach out to hem. Azalea and Harbert worked together to establish funding for the second round. That's between their businesses. When a private equity gets into a deal, that's a little bigger than they can handle themselves. They reach out to their networks and work together to seal the deal. We're really fortunate to be working with Harbert because they're a pretty large company.

How many presentations did you make before Harbert and Azalea showed interest?
For March 2012, zero. In fact, [Azalea] really reached out to us and made a lot of presentations about how they can help us. At the time, when they came to us, I was not of the mind frame that we need capital right now. They showed us what we can do with capital for our growth. And it made a lot of sense. At that stage in our company, we needed to make a capital investment. In our industry, there's a huge consolidation of small players who were dying away, and we were watching the market. This is a perfect time to go nationwide because we can absorb all the market share that came from these small companies.

What about for the second round of investment?
I brought the idea to our board in November. I said we don't really know what it looks like yet, but these are the basics. Then in December, we put on a four-hour presentation of what we prepped them for in November: Here's 2011, here's 2012 and here's what 2013 will likely look like. Here are the major areas of weakness in the business — where investment could really help springboard growth — here are the specific springboard controls we could put in place, here are the likely returns we can see through thought-through timed investment, here is the worst-case scenario, here is the best-case scenario, and here's how much money we could probably make from this. Azalea worked hard on taking my presentation and putting it into statistical analysis. Our CFO also built our financial planning — we got into the meat and bones of that.

What did you do after the presentation?
Throughout, there were a lot of questions. Some I could answer on the spot, some of which our executives didn't have the answer to. We took good notes, we covered all the questions, and we wrote a really powerful response. Not all the answers were right, but they had us thinking, and that coaching that came from our investor base was critical. We talked about what we would do if that happened. As we did that and responded to them, I'm sure they read through and thought OK, at least they're thinking about it. That was the next step.

What happened after sending out the memo?
Then we had a management meeting where they asked more questions, dug deeper into what was going on. Once that was all wrapped up, we did a call with our shareholders, with our board, and we got that moving.

How did you work with your team?
It took a couple of months to put it all together. I'm not the finance guy, and I trust the team that I'm around. It really captured the meat and heart of what we talked about. They helped put together all those other pieces together. As a team, when we sat down around the table with our investor base, it made sense. Here are all the variables, here are all the control levers. Some of the things are going better than we wanted to, some of them we pulled on control, some of them we have on reserve. Having all of these processes in place, we can accelerate our company's growth rapidly.

You also decided to invest some money yourself. Why?
I invested with this round of capital, which shows that I'm not scared of the possibility of it not working out.

Did that change talks with Harbert and Azalea?
I'm sure it did. So this is what I believe: The key to a really powerful company is the executive team that believes in what they're doing. Part of that is putting equity back into the business, and that's monetary, that's sweat equity. If we're all in it together, we're all in it together. For us, the executives at Modus, we looked at this as: Are they on board to make this thing happen? They are. In the same way, they looked at us and said, "You guys are on board, you guys are ready to do this with us." There's all sorts of investors out there — any intelligent investor would tell you that the best bet you can make, no matter what kind of investment you're making, you have to believe in it. Do research in it, but also invest in it. In some way, our emotions are connected to the things we invest in, so are the people who are vested in it. It affects the investor base, it affects the shareholder base. People understand that the motivation behind the investment is to grow the business.

How did you decide on $10 million as the total amount?
We didn't start with a number. We started with, "These are the needs we have," and they kind of circulated and turned into $10 million. I think the number was actually a little over $10 million. Ultimately, it really started from the groundwork: This is where we are, these are the specific areas we need investment for, what parts can we organically grow without needing the capital. We did all that financial planning, and it resulted in what we decided we needed.

How did you negotiate the investment terms with them?
There are different types of investments. There are investors who want a very big windfall at the very end and will take a bigger risk, and there are investors who want to

minimize risk. There's this category of low-risk and this other category of high-risk investment. We measured that for each kind of investor. The total amount is this, and who wants to be involved? Our investor base was not all the same type. Some of them wanted to take a lot of risk, and some wanted to take little risk. We tried to be palatable to the different types of people at the table.

What are some lessons learned from that negotiation process on terms?
You just really need a good team of investors. You need good people that you're working with. The guys at Azalea, the guys at Harbert — they're really good people, they're willing to teach you. I'm new at this stuff, and they're willing to coach me, and they're trustworthy. It's a mutual respect we have for each other. You also have to have a really experienced, good CFO — that is, if you personally don't have the level of financial experience, you need someone to lean on and you need someone you can trust as well. You're either building credibility or you're removing it. We built some good credibility with one another. That's a really good quality in investment.

In any emerging technology company there are ebbs and flows, there are changes in the business, there are all these crazy things. It's important to have a good investor base that understands all these things, that believes in the executive team. They [should] see the vision of the company — money is not the purpose. They get the purpose of the existence of the company. When you have a good investor base, they understand that for a company to be successful it takes having a purpose, goals, and you have to equally feel you can trust them. When we sit down for board meetings, we go through numbers every single time. That dialogue could become really ugly if you pick the wrong people to work with.

What are some things entrepreneurs don't realize in that process?
The best deal is the best deal for you, but it's never the best deal. When you're in the middle of a negotiation, if you see is that this thing is really awesome for you, you're at a good negotiating point. It's got to be a win-win around the table. If you try to get the best deal possible, and if it's a lose for any party, you'll get a disinterested party six months to a year from now. When everybody is winning at the table, at that point, the negotiation is over. You don't need to draw the last ounce of blood out of people. I would call that inexperience. You don't have to take all the cheddar home.

Why don't you want to push any further?
You might have leverage today, and you might push on it. And if that person is not in a win-win position with you, and they're in a lose-win, in the future, the tables might turn. Most importantly, they're always going to remember how you won more than they did. Investments are like marriages. You can't at the beginning say, "I'm going to get one over on you."

How do you deal with the pressures and expectations of outside venture capital for fast exits?

I would argue that if you have an investor who's pushing you for a faster return, you probably picked the wrong investor. Maybe you didn't meticulously plan what that process would look like, so you've mis-set the expectation.

How do you avoid mis-setting the expectation?
It's not about cooking a grand plan of overwhelming success. It's got to be about, "This is how I'm getting to my numbers, how I see the next year looking. Do you guys have any questions? Because I might be wrong." Let them give some feedback on this. Those sort of educated investments are not going to lead to "we need to exit." But if you ever get into that posture, there is a sea of investors out there. There are so many people who want to give you money. Focus on building the business, focus on planning and execution and refinement, and that's the key.

How will you use the capital you got?
Our capital in large part is going toward building a stronger sales and marketing presence. We have a really amazing delivery vehicle and people need to know about our product. We're looking to open up in New York, the West Coast. We also want to strengthen the overall underpinning organization through the addition of a few awesome executives. In large part, we're just executing down the path, and that's going to be a large presence in the country.

When do you think you'll have to do this all over again for more funding?
I don't know. The reality is, we're not calling them back to the table for another round. We're just not there yet. We're about four months down the plan, and I don't see that need existing yet or anywhere in the near future.

What will you do differently?
We did a really good job of planning, and I have found that planning is the key to really powerful successful organizations. I would say even more planning, honestly. I'm not ready to say there are things we've done wrong yet. I've got some really great coaches. This is the hidden secret of a lot of CEOs. And that's in the form of our board of directors — all these other guys that have been through this stuff before — they're excellent coaches. Keep your ears open and be humble. It's inevitable that we make mistakes in the things that we think and plan. The key to that is constantly look for improvement in what you do and listen to these people who've been through these exercises before. The next time, a thing I might do is reach out to more folks who've gone through this stuff before.

Who helped you the most through the venture process?
The best advice I had was from our CFO. He's been through six other emerging tech companies, so listening to him and getting advice from him was critical. I've got a few friends and family members in the world of investment, and I got some coaching from them in things I should look for. We baked a plan that was a win-win for everybody, where nobody was trying to overreach. Everybody's happy? OK good. It was a lot of

feedback, not closing our ears was a big part. Azalea saying, “What about this, what about that?” The coaching for that, that’s lots of Stew giving good coaching, and just sitting down and wanting to have a good working relationship with the people you’re doing business with.

There are many technical and legal aspects to the process — how did you learn what to do to ensure Modus would be protected? You need to hire the absolute best lawyer that you can afford. When it comes to lawyers, there is very big difference between a good lawyer and a great lawyer, and what a great lawyer does is he or she protects you and tell you when you have to back out of a deal, because the pieces aren’t right. I hired a great lawyer and I still stay in touch with him. He cost an absurd amount of money, and I never regretted it. He had my back.

What do the investors get in return?
The whole concept in investors is the windfall. Both Azalea and Harbert are very sophisticated portfolios. They have high-risk companies and low-risk companies. You have to take the time to figure out where you fit in this spectrum, and you need to craft an investment plan that fits their model. Some of these guys have different positions, bottom lines. The main thing is, they’re all going to do pretty well.

Modus
What it does: Provides data management to predict returns on legal discovery spending
Leadership: CEO Abtin Buergari, CFO Stewart “Stew” Curley
Headquarters: D.C.
Employees: Over 200
Clients: Law firms
Revenue: $3.1 million in 2010, $7.9 million in 2011, $18.03 million in 2012
Website: www.discovermodus.com