

Fox Rothschild Podcast

Legally EmpowHERed Podcast

Episode Five

Featuring Partner Sahara Pynes with Elizabeth D. Sigety

Sahara Pynes: Welcome back to Legally EmpowHERed. I'm your host Sahara Pynes and I'm really excited to bring this podcast to you. As an attorney and former business owner myself, I'm passionate about drawing on my own experience and insight to set my female clients up for success. I know my guest today feels the same.

Today's guest puts her money where her mouth is. Not only does Liz Sigety serve as chair of Fox's national Emerging Companies and Venture Capital practice group, she is an angel investor in more than fifty early stage companies—many women-led. She has more than 30 years of experience serving as a trusted advisor to emerging companies and entrepreneurs, handling both business and financial transactions such as financing, mergers and acquisitions, securities, private placements and working with franchise companies. Liz frequently speaks and writes on issues of importance to women in business, and she's an active member of the Alliance of Women Entrepreneurs, which helps female founders who are actively scaling their businesses. She has way too many awards and recognitions to mention here, but her accolades include being named among women leaders in the law by ALM, being named among the most powerful and influential women of Pennsylvania by the National Diversity Counsel, and she has for many years been recognized by Chambers USA as a recognized practitioner for startups and emerging companies nationwide.

Thanks so much for being here, Liz. I'm super excited to chat about pitches and fundraising with you.

Elizabeth Sigety: It's an honor to be here. Thank you for inviting me.

Sahara Pynes: Absolutely. I'd love to start with the current landscape of what is out there for female founders. So, what is happening right now still in COVID times?

Elizabeth Sigety: I'm going to spew out some facts and figures here. I did take a look around and, for high growth ventures—we're talking about emerging companies, ones that want to go through cycles of financing and perhaps grow quickly and exit someday if everything goes right—for these types of companies in 2020, according to the Angel Capital Association Halo Report, 15.8 percent have female CEOs. That's a fairly small number and it hasn't really changed much from prior years.

From the VC Female Founders dashboard on Pitchbook, for 2020 to date, female founded companies have accounted for about 6.5 percent of the number of venture capital deals. Co-founded companies account for around 16.7 percent, so that would be a team with both male and female. That is down from 17.5 percent in the prior year.

But while numbers have generally increased in the past five years, there has been a bit of a turnaround during COVID. In 2020—and this is the stat that I think is the most important—female founded companies got 2.2 percent, according to Pitchbook; or 2.3 percent, according to CrunchBase, of venture capital funds. Of all venture capital funds invested. That is down from 2.8 percent in 2019, which was an all time high. So, it seems like it is dropping lower this year, even with the emphasis on supporting diverse teams and female founded teams.

Sahara Pynes: I'm floored with these numbers. You haven't shared these with me before, and these are like crazy low and a little disconcerting, I think.

Elizabeth Sigety: Yeah, it is. It gets a little better for teams that are co-founded between female and male. In 2020, it was 12.6 percent, which was down from 14.6 percent in 2019. One theory is that women have been leaving the workforce during COVID, which is something that has been oft cited, and that maybe that is something that is affecting the trends for female led companies.

Sahara Pynes: OK. Do you have any data for women of color, and how that affects them?

Elizabeth Sigety: Yes, I do.

Sahara Pynes: Yeah, the numbers are not trending very well right now.

Elizabeth Sigety: For black women, the percentage so far this year is .34 percent of all dollars raised, with some good news that the amount raised for black women this year is \$494 million, which is already surpassing the total amount raised in 2020.

Sahara Pynes: That's great.

Elizabeth Sigety: Yeah, so that at least is getting better, but it's still really, really small. One thing that is interesting is around 1/3 of funding for black led startups, male and female, goes to companies led by black women, while overall funding for female founders is consistently in the single digits. I thought that was an interesting statistic. Black women are rocking it within their group.

Sahara Pynes: I suspect that we'll see maybe an increase coming out of Black Lives Matter, and so many new initiatives to be aware and to fund these entities – could that maybe be a fair prediction? Not that I'm in the business of predicting.

Elizabeth Sigety: Hopefully. I think people are getting more used to the diverse founder teams, and also so many of the laws now that are coming out on all different levels, whether it's state-based laws, or recently the Nasdaq came out with some regulations about diverse boards of directors, people have to have a woman on their board. I think this is becoming more normal. In addition, there have been many studies that show that diverse teams, teams that have both men and women on them, are better for business.

Sahara Pynes: OK, so what is the evidence of that?

Elizabeth Sigety: Well, some groups have done some studies because results defy reality here when you have so few companies that are co-founded. But the results, according to a few groups, are that companies do much better when they have women on their team, so it really doesn't make sense. A study by Boston Consulting Group, evaluated 350 companies, part of the mass challenge program, and revealed that for every dollar of investment raised, female run startups generated 78 cents in revenue, whereas male run startups generated only 31 cents.

Sahara Pynes: Interesting.

Elizabeth Sigety: Yeah. According to the venture firm First Round Capital, which is a very well-known early stage venture capital company, its investments and companies with at least one female founder performed 63 percent better than those with all male founders. So, there you go.

Sahara Pynes: Awesome! So, keep creating businesses, keep pitching stuff because we're doing really well once we can get out there and get funded.

In terms of the pitch, what are some of the essentials for women founders specifically to include in a great pitch?

Elizabeth Sigety: I'm not sure that it's that much different for women and men, other than perhaps some of the responses to questions. Every good pitch should include a description of the product said in very simple language, not scientific language or tech language, something that everybody can understand. A solid knowledge about the market and competition, and for somebody to say that there is no competition because they have a different type of product that's not out there – there is always competition, so my advice is to never say there is no competition. The management team is of huge importance, of course here we are talking about diversity in so many ways is becoming more and more important on the management team, but obviously experience, having someone who has been in the entrepreneurial side is also very

helpful, having somebody who understand finance and business so that it's not all a team of scientists or technologists. Talking about traction, how you're going to acquire customers, how you're going to break into an industry with a new model. If you have intellectual property, that's important to talk about. Financials and projections, we all understand for an early stage company it's hard to do projections, but you need to give it a shot because that shows knowledge of your business. What your exit may be, these companies are companies are expected to exit, either through going public or being sold, so what are the other exits out there – who do you expect will acquire you or why do you expect that you will have a successful public offering? The terms of the financing, for the founders, or someone on the team, to be able to understand what they're offering, what sort of security or financing they're doing and the terms is important and it's very surprising to me how often the presenters really have no idea what that financial part of their company will look like.

Sahara Pynes: Right. So how many people are typically on a pitch since I've actually never seen one?

Elizabeth Sigety: It depends on how early the company is. I'm chair of an angel group, so I've seen hundreds of pitches over my life. Sometimes one person just comes into pitch, but I find it's often good to have two people present. One person should be the main person to pitch because you often don't have much time. But, if you're not the scientist of the businessperson, bring the scientist along, or if you're a technologist, make sure to bring along the businessperson or financial person so you can really cover all of the questions. I'm talking about when you get up in front of a room and you're pitching. Of course, there are other types of pitches that are more personal, when you're sitting across a table from a venture capitalist, and you just have to be very careful to understand the format.

Sahara Pynes: I know you have seen hundreds of pitches and are an investor in many, many companies. I'm going to put you on the spot: what is one of your favorite pitches for a company that just stands out in your mind, you don't necessarily need to mention the company, but why does it stand out for you? I'm just curious.

Elizabeth Sigety: One that stands out is probably my most successful investment.

Sahara Pynes: Well, that makes sense, right?

Elizabeth Sigety: I'll always remember that pitch because it was my very best investment that went public and has been doing very, very well. It was a woman and she was a scientist, but she was able to bring a very complicated pharmaceutical product and explain it to people who were not scientists, were not doctors, and bring it down to the business level. The important thing to remember is that you are pitching to people who are making an investment, not people who are going to buy your product. You have to explain why those people are going to make money,

you have to make it understandable so they're not sitting there scratching their heads after listening to five other pitches. She just did a great job about being very clear about what the investment premise was, why we should invest in it, but also why if this works it will do great things for the world. I don't want people to go too crazy with that, because sometimes people come in and give a pitch and it's just one long story about why they started their company, and you don't want to take all your time on that especially if you only have five or ten minutes. She really crystalized that and it was great to hear.

Sahara Pynes: Great tips. What about on the opposite end of the spectrum? Some of the most common mistakes that you see?

Elizabeth Sigety: I could go on for a half hour about this one. It is shocking to me how often people are not prepared to pitch. They have an opportunity to come in and give it anywhere between five and twenty minutes and sit up there in front of a group and pitch their company, and they just blow it. It takes a whole lot of time to do a pitch well. It is an art. You need to really, really prepare. For our startup company program at Fox Rothschild, we provide a pitch consultant for five hours because I've seen so many of my clients not be able to do this.

Big mistakes: not telling in the very beginning what your product is. How many times have I sat through a pitch and not known until halfway through what the company does? You will lose the people listening to you immediately if they're still puzzling over what the product is. Say it in a clear, simple voice. The crazy hyperbole—"we are going to make a billion dollars in a year," just crazy claims. You're usually talking to people who are fairly sophisticated and who have listened to pitches many times, and you're not going to snow them over, generally. It's amazing to me how often people think that is going to work. The scientific speak I've already talked about. Missing the time—if an angel group tells you, or if a VC tells you, they're going to give you five minutes, or they're going to give you ten minutes, time your presentation for that. Or if it's a pitch competition. I judge pitch competitions all the time and somebody hasn't even gotten to who the management team is by the time their five minutes are up. You need to be very careful about your time.

Sahara Pynes: Makes sense. So, are there differences in what a female vs. male founder is going to encounter when they're pitching?

Elizabeth Sigety: There can be, especially depending upon what their company is. Some companies are focused on female focused products and if you're pitching to a room of men who don't understand why—this actually happened to me—why their wife should have more than one lipstick, then there may be a little extra explaining to do and you have to be very focused on why this is going to make people money.

Sahara Pynes: Because people like me buy lipsticks like once a week, that's why.

Elizabeth Sigety: Exactly. This was one of those cosmetic box companies where they send you a new box every month, and why would that work type of thing. There were a few studies that I'll cite, which I thought were incredibly interesting, about how people react to women pitching vs. men pitching. One did a study controlled for industry type, so it did not have female focused product, and they presented the same pitch, somebody read the same pitch with a male and female voice to a panel of investors. This was a few years back, so I would hope this would have improved, but 68 percent of the funds for the same presentation went to companies with a male voice.

Sahara Pynes: Insane.

Elizabeth Sigety: Yeah, so women have to be very careful about their presentations. A lot of people talk about women coming off as being "too aggressive," whereas people are used to men being aggressive. Sometimes people fund things they can related to, and if there are more VCs out there—and there are way more VCs out there who are male—maybe they will relate better to male presentations or male products, and it's harder for women to break the cycle.

One other thing, I've done a lot of speaking on this, and one other thing—a tip, I suppose.

Sahara Pynes: Yeah, I was going to ask, are you answering questions differently, or are you receiving different questions, based off of your gender?

Elizabeth Sigety: Yes. There was a Harvard Business School study about this. We hear repeatedly, at least I do, in the press and studies and in formal conversations, that women are sometimes less comfortable promoting themselves than men. So, a woman who has a large amount of experience in an area may be less willing to promote her skill than a man who has dabbled in that area. With that in mind, Harvard Business School did a study and they examined 140 prominent venture capitalists, 40 percent of them female so they got a lot of female venture capitalists in the room for this and that is something I found to be very interesting. They were at an annual startup funding competition and they studied video transcripts of the question and answer sessions, and they found that VCs posed different types of questions to male and female entrepreneurs. Tending to ask men about the potential for gains, and women about potential for losses. I would classify one as a promotional question (the potential for gain), or a prevention question (being potential for losses).

Sahara Pynes: So, giving men an opportunity to promote themselves, and give themselves a pat on the back, whereas putting females on the defensive. Would that be fair?

Elizabeth Sigety: That would be fair. That's exactly the situation. And 67 percent of the questions asked of the male entrepreneurs were promotional, while 66 percent of the questions

asked of female entrepreneurs were prevention oriented. The big thing here, ladies, is that male and female investors both did this. Women can be just as tough on women as men can sometimes. We have to be aware of this.

For both sides, 85 percent of the entrepreneurs answered in kind. So, if it's a prevention question they answered in a defensive way, if it was a promotional question they answered in a promotional way. The big tip here is to turn a prevention question into something that is promotion.

Sahara Pynes: OK, can you give us an example?

Elizabeth Sigety: Sure. So, one of the questions could be a prevention question: how do you think you will be able to prevent others from taking market share away from you? One way to answer that, without taking market share away, it would be to say something like "even if market share goes down, we will experience growth, and with our expected patent portfolio and first mover in our industry, we should be able to maintain a competitive advantage." If you're an investor in the room, that's a perfectly good answer, but it sounded, at least to me, a little bit defensive. How does that compare to: How do you think you'll be able to prevent others from taking market share from you? Instead say, "our target market is huge, the market share we showed you on slide three is very conservative and we will be able to meet or exceed our next milestones. Our product, as we've demonstrated, is superior to anything out there right now, and with our first mover advantage and the portfolio of intellectual property we are building, others will have a hard time catching up to us."

Sahara Pynes: Very helpful.

Elizabeth Sigety: Clearly that's a little more promotional.

Sahara Pynes: Yeah, so much more positive and, yeah, promotional. That's the right term.

What can early stage companies do to prepare themselves for the "shark tank" and the raise?

Elizabeth Sigety: There is a lot to do to prepare. The first thing I would say is to give yourself a lot of time, and don't underestimate the effort it will take to get out and raise money. There are different types of preparation. One is the actual writing and talking. Everyone has heard of the elevator pitch. An elevator pitch is supposed to 2-3 sentences, and it's named the elevator pitch because it comes from, if you get on that elevator and that one person you've been trying to meet for so long is on that elevator, you have 2-3 floors of elevator time to get through to them. When I go to conferences, entrepreneurs come up to me all the time, even though my main job is to be a lawyer, as an angel investor they come up and start talking about their company. At conferences you're trying to talk to a lot of people, and they sort of corner me and it gets very

uncomfortable when they go on and on and on. It's much better if you can have your elevator pitch ready, give your card and follow up. This is something you need to rehearse. You can't do it off the top of your head, then you can't do it right. The next thing is the executive summary. You need to have a 1-2 pager—and this takes a lot of time to prepare, just because it's short doesn't mean it takes no time to prepare—that summarizes your company. A VC or an Angel does not want to read through your business plan on day one. They want a quick summary where they can get a gist of this in a couple minutes. Then the last thing that you have to prepare is your PowerPoint. Your PowerPoint has to be somewhat flexible so you can do that five minute pitch, or that twenty minute pitch. Maybe it has to have an appendix. It also takes a huge amount of time to do a really snazzy, well thought out PowerPoint that describe your business. That's preparing for the pitch, but then you have to prepare for what comes after the pitch.

Sahara Pynes: What does come after the pitch?

Elizabeth Sigety: If you are lucky with your pitch, you still have a ways to go before you actually get the money. And you don't have money until it hits your bank account. You have to be ready for due diligence, you have to have your company legally setup properly, you have to have your intellectual property, your employment arrangements. If you have a digital due diligence space where you can park all your documents, you have to be ready to respond. If a venture capitalist comes and says, "we're interested, send us your due diligence materials." It doesn't look good if it takes a month for you to put that together. Also, there are legal things that if you don't do them on day one, you can't really do them later. If you mess it up at the beginning, it's very hard to fix later. Also, taxes. Just because you're a startup doesn't mean that what you do on day one can't affect what you may pay in taxes later on. Actually, it will, I guarantee you.

We have a Fox Rothschild Launch Program where we work with startups for a discounted flat rate to try to prepare them very well in advance for all of these contingencies, and a lot of the large firms in this space do have different types of programs, so I encourage people to look into this.

We have a virtual incubator within our firm that is called the Fox Launchpad. I call it a virtual incubator because it does have discounted flat fee legal services that have been very carefully designed to support a startup company and get them started on the right path immediately. So, we will put together, to form the company, we'll consult with the client about what the right form of the company is, we'll issue shares to the founders, we'll put together an incentive equity program, invention assignment agreements for the founders – a whole host of documents. What we found is, we do charge something for that, but it's a very low amount of money, it's predictable and it provides full access to the lawyers to ask questions and to get advice. We set up the cap table. Then, non-legal, we have some free stuff – five hours of services of some consultants to help with a pitch. The digital data room is free. We do background checks for free, if you have a big investor or founder or someone you want to bring on your team and you

don't know them. This is actually very important, to make sure you check them out. It includes a free subscription to Carta, which is a cap table management and electronic share issuance platform. Some other stuff as well. You can have meetings in our office across the country. You could have a meeting in LA.

Sahara Pynes: That's right, come visit me.

Elizabeth Sigety: Once the offices are open again, after the Pandemic. We do what we can to help out our clients on many levels and to get them to funding as efficiently as possible.

Sahara Pynes: Yeah, I've had the pleasure of working with many members of your team on some of the employment-related issues sometimes, and it's just such a great group of people and attorneys, and really clients as well. Love working with you guys.

Elizabeth Sigety: Oh, thanks.

Sahara Pynes: Any parting advice for our listeners? We've covered so much. What are the big takeaways here?

Elizabeth Sigety: A couple of things. First of all, and maybe this should be the last point, but raising money is hard for everybody – men, women, people from all backgrounds. It's really hard, and it takes time. Listen to the advice you're getting and try not to jump to the immediate conclusion that it is because you're a woman or because of whatever reason. Listen to what people and incorporate it and try to improve every time. It's hard and it takes a long time, so leave enough time to raise money. It is important to have a great team of advisors, both on your team inhouse and outside, whether they're accountants, or financial advisers, or lawyers. It's really important to have a great team. I guess the only other thing I would say is one of my favorite quotes from Michelle Obama a few years ago when she spoke at the Pennsylvania Conference for Women. She said that "women are increasingly asking for a seat at the table. If you get one, it's your duty to speak up and use that seat. Otherwise, move over, because someone else will."

Sahara Pynes: I love that.

Elizabeth Sigety: Use your seat and go out there.

Sahara Pynes: Absolutely. Thank you so much for being here, Liz. I think our listeners gained such a tremendous amount of insight and I hope it will all be helpful in their next pitch.

Elizabeth Sigety: Me, too. Me, too. Thank you very much, once again, for inviting me.