



The “BUSINESS CASE”

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(What Angels *Really* Want)

[www.mikevolker.com]

SFU

Mike Volker (mike@volker.org)
Innovation Office
Simon Fraser University



My Passion: Tech Startups

Experience:

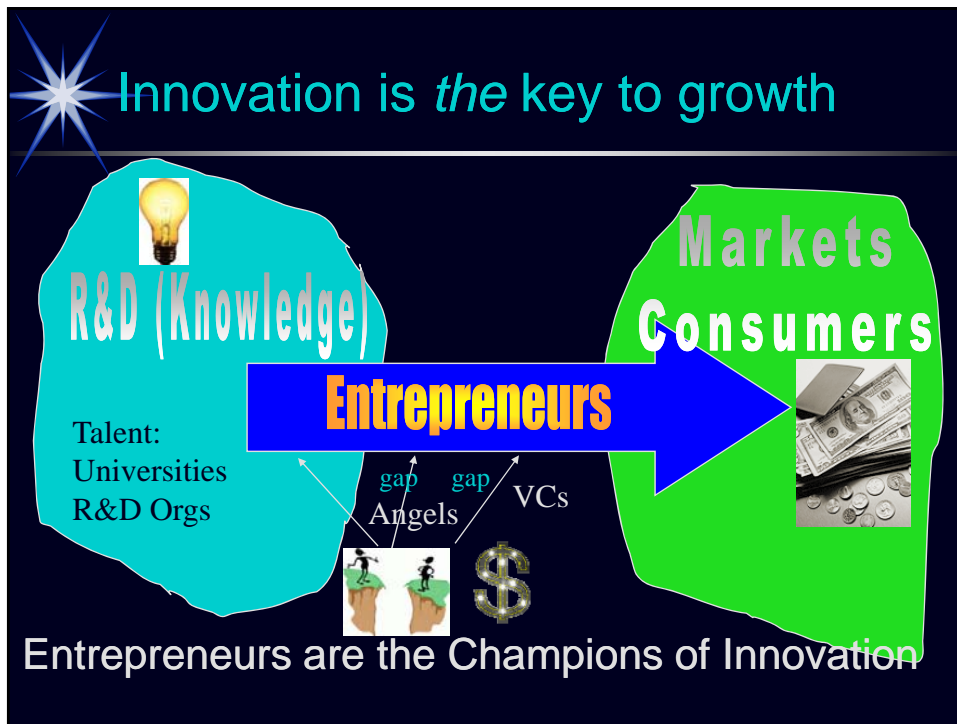
- starting them (tech entrepreneur, mentoring)
- raising capital for them & investing in them

Observation over 30 years:

“good” companies *will* always get funded
startups are getting better each year

Conclusion:

It’s all about Entrepreneurship & Leadership
Beware of the E-myth!



- A Great time to start a Company**
- Prime at 3.0%, low inflation, GDP: >2 %
 - Lower taxes (small bus. rate, cap gains exempt)
 - Low R&D costs (SRED Credits)
 - Great Infrastructure (see www.hitechbc.com)
 - Special incentives: SBVCA - VCC program
 - Make a list of all un-invented things!
 - Americans will buy anything!
 - You can go for gold!



What's New?

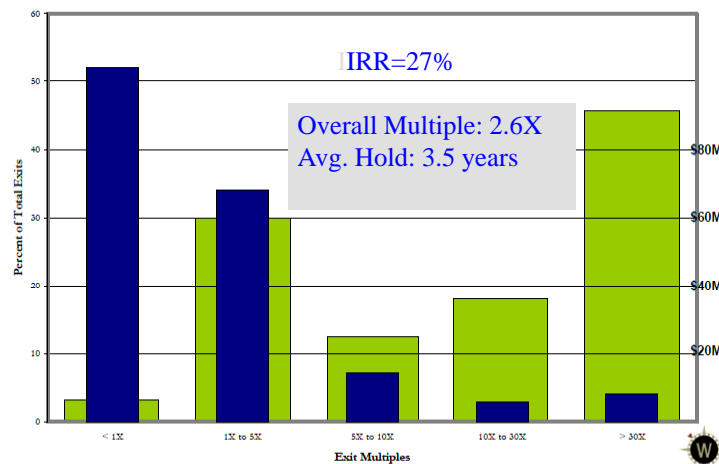


- Lower Valuations
- More investors at smaller amounts
- It's all about EXITS!! – need a real “Plan”
(What's better 5X in 5? Or 10X in 10?)
- Tougher to tap non-accredited investors
- Tougher to use stock/stock options for employees
- Corporations have lots of cash for acquisitions



Angel Investing 101

Distribution of Returns by Venture Investment



Study by Rob Wiltbank, Willamette Univ.



Innovation Incentives (B.C.)

- SRED tax credits: up to 68%
- NRC-IRAP, ICE Fund, STDC, NSERC I2I, etc
- 30% VCC Tax Credit (Combine with RRSPs)
- Examples:
 - Fusion Energy Ventures (VCC) Inc
 - REV Technologies (VCC) Inc



Business Case:
Keypunch Cards
to CRT Terminal





My First Business Plan

BMO: "Show me your business plan"



#1 is CASH FLOW
(How much \$\$ do you need?)

(reference: mikevolker.com – Business Basics - see sample XL file)



	MONTH#1	MONTH#2	MONTH#3	...	FYTOT:
GROSS REVENUE (\$):	11200	27720	54886	...	2162713
COST OF GOODS SOLD:	7680	19008	37636	...	1483003
GROSS MARGIN:	3520	8712	17250	...	679710
EXPENSES:					
Sales:	9060	8167	12222	...	199954
R&D:	1100	867	1022	...	92044
G&A:	1100	1267	1322	...	93944
TOTAL EXPENSES:	11260	10300	14567	...	385942
NET PROFIT (BI):	-7740	-1588	2683	...	293768
(The following rows have been added for CASHFLOW purposes..)					
CASH FLOW #1 (\$):					Month#7:
Open Balance:	0	-7680	-26748	...	
+ Cash from Sales:	0	11200	27720	...	
- Cash re Expenses:	0	-11260	-10300	...	
- Cash for Prodn:	-7680	-19008	-37636	...	
= Closing Cash:	-7680	-26748	-46964	...	-106384

THIS is a cashflow forecast

This?

- receive production supplies 3 months (not 1 month) before shipping
- receive payment from customers in 2 months (not 1 month)

Cashflow#2 rows now replace the Cashflow#1 rows to produce the following spreadsheet details:

					Month#10:
CASH FLOW #2 (\$):					
Open Balance:	-26688	-64324	-142651		
+ Cash from Sales:	0	0	11200		
- Cash re Expenses:	0	-11260	-10300		
- Cash for Prodn:	-37636	-67067	-97750		
= Closing Cash:	-64324	-142651	-239501		-721842

Or This?

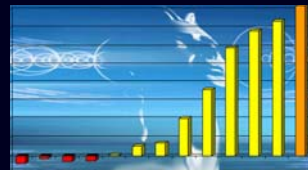


It's all about P&L:

What are you selling, who will buy it, how much will you make?

(Profit & Loss & CASH FLOW)

Why you and your team?
(Passion & Leadership)



What about Scale?

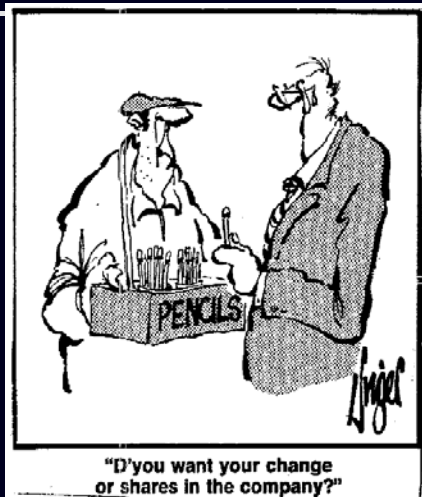
The \$100 million deal?

or

The "Lifestyle" Business?

YOUR DECISION.

Then sell your story
to the right audience!





CONFIDENCE!



Is a Business Plan *really* necessary?
(my RIM Story)



What Angels Want

- ❖ Fun
- ❖ Interesting Opportunity
- ❖ A willing protégé
- ❖ To use one's resources
- ❖ Attractive Return:
10X to >>100X
- ❖ 3 I's: Intensity, Integrity, Immediacy (person)
- ❖ 3 G's: Goodness, Greatness, Greed (company)





The Elevator Pitch

It's easy! Just fill in the blanks:

We, (Company) _____, are (doing?) _____ for (who?) _____ who need (address what pain?) _____ that unlike (existing solutions) _____ will (do what?) _____ unlike _____ (competitors).

Example:

We, Ace Corp, are making a personal GPS tracker for parents who need to know where their children are that unlike cell phones and other devices will, via a web browser, provide real-time location, speed, and path information.




The Investor Pitch

It's easy! Just fill in the blanks:

We, (Company) _____, require (\$\$) _____ for (what) _____ in return for ___% of the Company. Our plan is to be acquired by (name some): _____ in ___ (year) for \$ _____ million to give you an IRR of ___%.

Example:


We, Ace Corp, require \$500K mainly for production tooling & hiring sales staff in return for 30% common shares. Our plan is to be acquired by Polycom for \$15M in 2014. This will give you a 5X return in 5 years (ie IRR=38%).



Angel's BS Bingo:

Domain Expertise	ProActive Management	Unique Proposition	Low Burn Rate	Best of Breed
Enabling Technology	Empowered Team	Ground Floor Opportunity	First To Market	Platform Technology
Market Driven	World Class Products	<u>PROFITS</u>	Competitive Advantage	Renowned Board
Proprietary Technology (no competitors)	Revolutionary Business Model	IP Portfolio	Favorable Valuation	Liquidity Event (Exit Strategy)
Revenue Traction	NASDAQ IPO	Mezzanine Round	Defensible Strategy	Visionary

Credit: mikevolker.com



Cap Table

	CAP TABLE				
	StartUp	Angel Round	Round 2	Exit	Gain
Founders/Mgmt	\$0 (100%)	\$0 (75%)	\$0 (37%)	\$11.25M	1000X
Angels		\$250K (25%)	\$250K (12%)	\$3.75M	15X
VCs			\$3M (50%)	\$15M	5X
Market Cap	\$0	\$1M	\$6M	\$30M	

Conclusion: Start-Up Valuations = \$1 million +/-
 Note: This is not a VC deal!

(see sample Cap Table Spreadsheet at wutif.ca – under “companies”)



Case in Point: Anon Tech Corp

What's wrong with this picture?

	Seed (\$250K)	Round 1 (\$500K)	Round 2 (\$500K)	Exit
2007	\$1M			
2008		\$2.2 M		
2009			\$3.3 M	
2011		Less than Round 2		\$3.2 M*
Founders	Great deal! But -- is it "fair" to investors?			\$1.5 M
Investors	\$1.5 out on \$1.25 in? Less than even money for Round 2 investors!			\$1.5 M
Optionees	Some out-of-the money -- zero return plus dilution to investors			\$0.2 M



Investment Terms (new)

- Down round protection (including exit)
- Anti-dilution participatory rights
- Minimum ROI Guarantee
- First out provision
- Founders vest over time AND on exit
- Vesting vs Escrow Provisions
- Clear, Clean Cap Table – No OPTIONS!
(see article on shares vs options at mikevolker.com)
(see sample term sheet at wutif.ca – under “companies”)





Making the Case:

Questions to Answer

(This is what investors want to know
– it all comes down to a believable
plan to achieve sales!)



Question #1: PRODUCT

What is it?

Product or Service?
NOT the technology



How will revenue be generated?

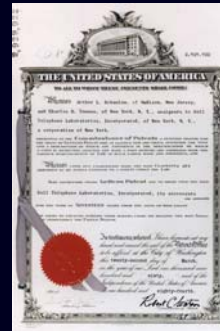
E.g. selling a gadget, renting, licensing, etc



Question #2: I.P.

What is it?

- Patentable?
- Copyright?
- Trade Secret?
- Just an idea?



Question #3: TECH DEVELOPMENT

STAGE of DEVELOPMENT?

- Idea?
- Prototype?
- Beta model?
- Production?



And...mention TIME FRAME



Question #4: Bus Plan Status

How much background research done?
i.e. pertaining to business viability

What still needs to be done?
e.g. checking out costing, competition, etc



Question #5: MARKET

This most important question!

Who will buy it?

Why will they buy it?



Potential? Can you make money? How much?

DO NOT SAY: 1% of a \$1 Billion market!

DO SAY: We will “own” our market (you define it!)
(see Harvard paper by Regis McKenna)

Question #6: DISTRIBUTION

How will they buy it?

Distribution channels (and margins)

Strategic Partners? OEMS? Chains?



Question #7: COMPETITION

There's no such thing as "no competition"

Uniqueness?

Substitutes?

Differentiators?

Barriers?





Question #8: THE TEAM

STRENGTHS

- Participants (now & planned)
- Advisors (now & planned)
- Board Members (now & planned)



WEAKNESSES

- Know your shortcomings!



Question #9: FINANCIAL

How much MONEY do you need?
(e.g. to positive cash-flow milestone)

How much have you raised (from?)

How much have you spent?

5-year projections?

Beware the hockey stick sales curve:
Reality: 0.5% of startups achieved \$50M in 6 years!





So why do deals get funded?

Because the people behind them are:

- credible (domain knowledge, esp. market)
- realistic (show how they can achieve goals)
- aware of what they don't know (use experts)
- not alone (had a team)
- in control (leadership, contingencies)

But mainly because:

- they are liked! (it's really a courtship!)



A Few Final Tips:

- don't make the "only 1% of market" claim (it's the kiss of death!)
- don't compromise by saying what you think investors want to hear
- avoid hyperbole; confident humility can go a long way
- show leadership!! (the reasons for failure always point to lack of leadership)
- never procrastinate!



Contact Info



<http://www.newventuresbc.com>

<http://www.mikevolker.com>

<http://www.hitechbc.com>

THANK YOU!
(mike@volker.org)