



The "BUSINESS CASE"

Apr 30, 2008

(What Angels *Really* Want)

[www.mikevolker.com]



Mike Volker (mike@volker.org)
University/Industry Liaison 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!

Innovation is *the* key to growth



A Great time to start a Company

- Prime at 4.75%, low inflation, GDP: >3.0%
- Lower taxes
- Low R&D costs
- Great Infrastructure (see www.hitechbc.com)
- Overhaul of securities regs (easier financing)
- Special incentives: SBVCA - VCC program
- Make a list of all un-invented things!
- Americans will buy anything!

The Competition

Is Telus New Ventures BC a....
....*Business Plan* competition?
or
....A *Business* competition?

Answer: It's Both!
It's the *business* that counts,
but the *plan* explains it.

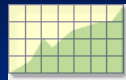
What is the BEST Deal?

- low risk?
- high growth? (hot product and market)
- profit potential (and when)?
- top talent? (proven track record)
- strong IP position (competitive)?
- socially responsible?

Answer:
THE MOST LIKELY TO SUCCEED...
...WITH THE GREATEST POTENTIAL



Who will Win this Competition?



INSTRUCTIONS TO JURY:

"pick the *most* likely to be
commercially viable
with the greatest value"

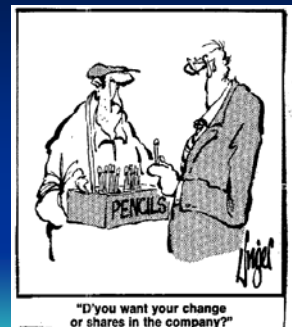


What about Scale?

The \$100 million deal?
or
The Lifestyle Business?

YOUR DECISION.

Then sell your story
to the right audience!



Getting Started

Type of Business?

- Proprietorship
- Partnership
- LLP Partnership
- ☞ Corporation – BC or Canada?



Structure

- Who owns it? (for what....?)
- Who runs it?

Early Stage vs Startup?

- Early stage:
 - Team
 - Products
 - Business Plan
 - Customers
 - VCs – maybe



- Start Up:
 - one or two people
 - ideas and/or IP
 - VCs – forget it!

[See www.garage.com]

Shareholders' Agreement

- Protect your baby!
- How to bring in new shareholders
- How to buy/sell shares
- Vesting vs Escrow Provisions
- Rights – pre-emptive, piggy-back, etc, etc
- Ask: What's the worst that can happen to me?
- Caution: Don't go with Boilerplate!
(or someone else's template)



You have to sell your story

At the start, the *only* asset which you have to sell is *your* story.

Sell to who?

- to yourself
- prospective partners/team
- employees
- investors



What Angels Want

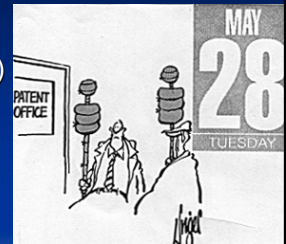
1. Fun
2. Interesting Opportunity
3. A willing protégé
4. To use one's resources
5. Attractive Return:
10X to >>100X
6. 3 I's: Intensity, Integrity, Immediacy (person)
7. 3 G's: Goodness, Greatness, Greed (company)



And....how to achieve this?

Through....
The People (why you?)

Your Idea.....
(your I.P.)
and
how will it make \$\$\$?



My First Business Plan

My introduction to *business plans*
The Bank of Montreal story
The INCO Story

And, the happy ending....

- made me think about what I was doing
- gave me a vision, goals, and....
what I had to do to achieve these
- and, I got the \$\$\$!

It's all about P&L:

What are you selling, who will buy it, how
much will you make?
(Profit & Loss)

Why you and your team?
(Passion & Leadership)



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

CONFIDENCE!



Is a Business Plan *really* necessary?



ROUND #2 THE BUSINESS CASE

(5 pages max)

Questions: Round #2 and #3

ROUND #2 (5 pgs)

1. Product
2. Intellectual Property
3. Technology Development
4. Business Plan Status
5. Market
6. Distribution
7. Competition
8. Team
9. Financial (basic)

ROUND #3 (8 pgs)

- + Technical Team
- + Market Scope & Need
- + Barriers to competition
- + 18-36 months proj

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

Maybe the most important question!

Who will buy it?

Why will they buy it?

Potential? Can you make money? How much?



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?



Cap Table (Ideal)

	CAP TABLE				
	StartUp	Angel Round	VC Round	Exit	Gain
Founders/Mgmt	\$0 (100%)	\$0 (75%)	\$0 (60%)	\$60M	1000X
Angels		\$500K (25%)	\$500K (20%)	\$20M	40X
VCs			\$2M (20%)	\$20M	10X
Market Cap	\$0	\$2M	\$10M	\$100M	

Cap Table (more likely)

	CAP TABLE				
	StartUp	Angel Round	VC Round	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 +/-

The Terms Sheet?

- Offering:
 - Common vs Conv Deb vs Prefs
- Valuation:
 - Trading cash for futures
 - Use accretive approach for performance
- Vesting for founders:
 - 50% Linear over 3-4 yrs
 - 50% on liquidity event
- Capital & Structure:
 - avoid options – use trust shares
- Governance:
 - board rep/independence
- Shareholders Agreement:
 - standardize

A. Terms of Offering for WFITP	
Company:	Company Inc. (the "Company")
Offering:	10,000 Units at \$1.00 per unit, each unit consisting of one Common Share and one preferred share, a warrant to purchase an additional common share at a price of \$1.25 per unit for twelve (12) months from the date of issue.
Price per Unit:	\$1.00
Amount:	\$10,000.00
Offering Jurisdiction:	The Offering will be sold in the Province of British Columbia.
For Details:	Company is an eligible business corporation and an eligible small business under the terms of the British Columbia "Warrant Capital Corporation" ("WCC") Act.
Resale Rights:	The Offering will allow all appropriate and available exemptions from prospectus requirements.
Closing:	Closing shall take place within fifteen (15) days of the date when Company has received irrevocable deposits in full, additional financing of \$100,000 and has provided evidence of such financing satisfactory to WFITP.
Anti-Dilution:	Holder of this round of common shares, as well as holders of all previous rounds of common and preferred shares in Company, will be protected with respect to anti-dilution protection until December 31, 2010.
Audit Requirements:	Company shall provide audited financial statements to WFITP from the year ended December 31, 2010.
Board Participation:	WFITP shall be entitled to nominate one director to the Board of Directors.
Dividend:	No dividends have been made for the payment of any dividends for the immediate future.

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
- don't be given to hyperbole; confident humility can go a long way
- show leadership!! (the reasons for failure always point to lack of leadership)
- never procrastinate!



ADDENDUM THE BUSINESS PLAN *(Some Content Guidelines)*

Who's it for?

- YOU
- Partners, employees, advisors
- Friends and Relatives (Love Money)
- Business Angels
- Seed Investors
- Granting & Funding Agencies
- Venture Capitalists
- Corporations and Institutions
- The Public

Note: They all have different criteria!

What's in a Plan?

- Executive Summary
- The Company
- Marketing
- Operations
- Financial
- Risk Factors



What's in a Plan?

Executive Summary

- Vision Statement
- Mission Statement
- Statement of the opportunity
- Salient features (management, IP)
- Statement of sales and profit potential
- Investment highlights (if appropriate)

Elevator Pitch: a *summary* of the exec summary!

What's in a Plan: The Company

- People (management, experience)
- History (background) of company
- Ownership structure (stakeholders)
- Board of Directors
- Board of Advisors (e.g. scientific)

What's in a Plan: Marketing

- The Opportunity
- Product(s) or services offered
- Market Mix (the 4Ps of marketing)
- The Sales Plan (not a *forecast*, but a *plan*)
- Competitive strategy
- Competitive analysis (and positioning)

What's in a Plan: Operations

- internal organization (who does what?)
- facilities description
- details on how product(s) is to be produced/sourced
- research and development activities
- logistics
- The Human Resource plan (recruiting)

What's in a Plan: Financial

- Profit and Loss Pro forma statements (2-5 yrs)
- Balance Sheets
- Cash Flow statements
- sensitivity & breakeven analysis
- funding requirements (worst case, best case)
- sources & uses of funding
- the "deal", i.e. the financing proposal, ROI
- Share capital, options plan
- Cap Table

What's in a Plan: Risk Factors

- Identification of risks
- Potential problems
- Contingency plans
- SWOT (strengths, weaknesses, opportunities, threats)
- Other issues and Concerns

Contact Info



<http://www.newventuresbc.com>

<http://www.mikevolker.com>

<http://www.hitechbc.com>

THANK YOU!
(mike@volker.org)