



new VENTURES BC
COMPETITION

The “BUSINESS CASE”

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(What Angels *Really* Want)

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My Passion: Tech Startups

Experience:

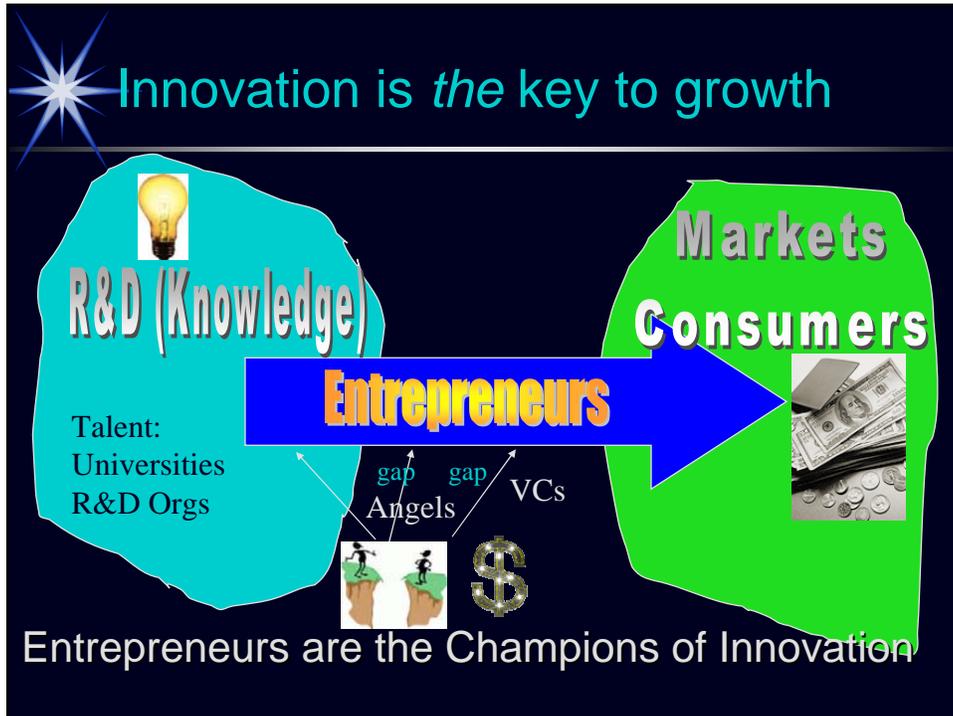
- starting them (tech entrepreneur, mentoring)
- raising capital for them & investing in them

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 2.25%, low inflation, GDP: ? %
 - Lower taxes (small bus. rate, cap gains exempt)
 - Low R&D costs (SRED Credits)
 - 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!



What's New?

- Lower Valuations
- More investors at smaller amounts
- Business Structuring is getting more attention
- It's all about EXITS!! – need a “Plan”
(What's better 5X in 5? Or 10X in 10?)
- Politics?



The Competition

Is 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.



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 \$\$\$!



CONFIDENCE!



Is a Business Plan *really* necessary?

(my RIM Story)

(my Rudy Story)



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”



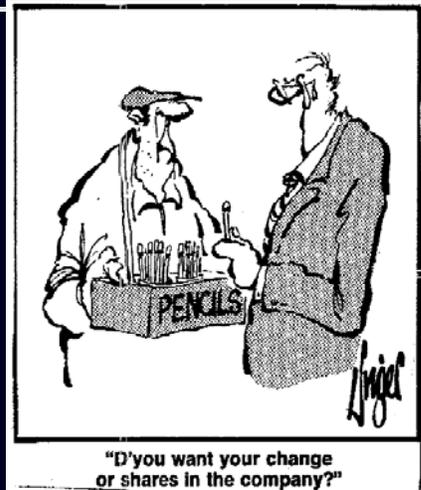


What about Scale?

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

YOUR DECISION.

Then sell your story
to the right audience!



Getting Started

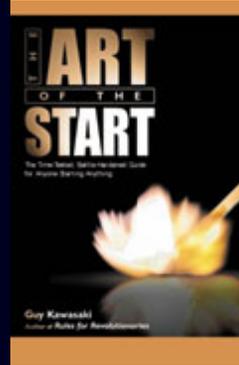
Type of Business?
Proprietorship
Partnership
LLP Partnership
👉 Corporation – BC or Canada?

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]

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

- ❖ 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)
[btw: What do VC's want??]



And....how to achieve this?

Through....

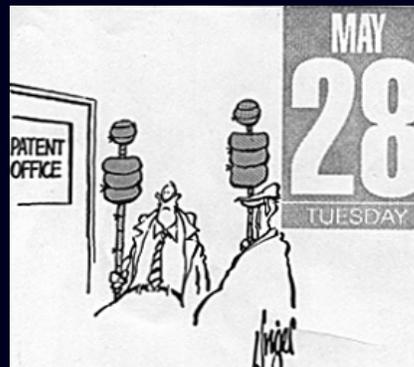
The People (why you?)

Your Idea.....

(your I.P.)

and

how will it make \$\$?





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)



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



ROI? How to calculate?

- ⌘ eg: 2.6X in 3.5 years (ROI = 28%)
- ⌘ Use .xls function = IRR(values, guess)
- ⌘ eg: 12*IRR(D128:AT128,0.2/12)
- ⌘ monthly vs annual compounding?
- ⌘ Examples:
 - 2X in 5 years = 15%
 - 5X in 5 years = 38%
 - 10X in 10 years = 26%
 - 50X in 10 years = 48%



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 +/-
 Note: This is not a VC deal!



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

At Terms of Offering for WUTIF	
Company:	Company Inc. (the "Company")
Offering:	10,000 Units at \$1.00 per unit, each unit consisting of one Common Share without par value and a Warrant to purchase an additional common share at a price of \$1.25 on or before two years from the date of issue.
Price per Unit:	\$0.00
Amount:	\$100,000.00
Offering Jurisdiction:	The Offering will be sold in the Province of British Columbia.
Tax Credits:	Company is an Eligible Business Corporation and an Eligible Small Business under the terms of the British Columbia "Venture Capital Corporations" ("VCC") Act.
Exemptions:	The Offering will utilize all appropriate and available exemptions from prospectus requirements.
Closing:	Closing shall take place within fifteen (15) days of the date when Company has raised, subsequent to Sept 16, 2004, additional financing of \$150,000 and has provided evidence of such financing satisfactory to WUTIF.
Anti-Dilution:	Holder of this round of common shares, as well as investors in all previous rounds of common and preferred shares in Company, will be protected with normal industry standard anti-dilution provisions until December 31, 2005.
Audit Requirements:	Company shall provide audited financial statements beginning from the year ended December 31, 2004.
Board Participation:	WUTIF shall be entitled to nominate one director on the Board of Directors.
Voting:	Each common share will be entitled to one vote.
Dividend:	No provision has been made for the payment of any dividend for the foreseeable future.



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)



ROUND #2
THE BUSINESS CASE
Due: May 27th

(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?

5-year projections?
Beware the hockey stick sales curve:
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
- 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)

<http://www.sfu.ca/~mvolker/biz/busplan.htm>



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!

Investor Pitch: What's the Exit "Plan"?



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



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THANK YOU!
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