

new VENTURES BC
COMPETITION

The “BUSINESS CASE”

May 5, 2011

(What Angels *Really* Want)

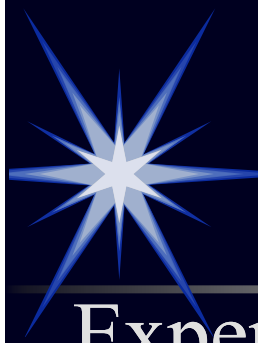
[\[www.mikevolker.com\]](http://www.mikevolker.com)

SFU

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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!

Innovation is *the* key to growth



R&D (Knowledge)

Talent:
Universities
R&D Orgs

Entrepreneurs

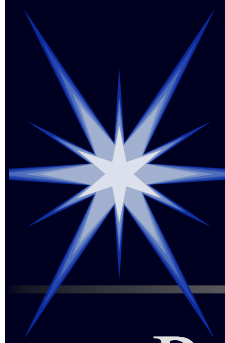
Markets
Consumers



gap gap
Angels VCs

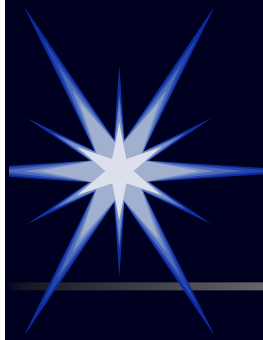


Entrepreneurs are the Champions of Innovation



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!



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



The Competition

Is New Ventures BC a....

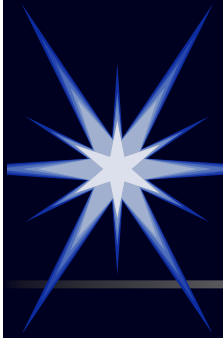
....*Business Plan* competition?

or

....*A Business* competition?

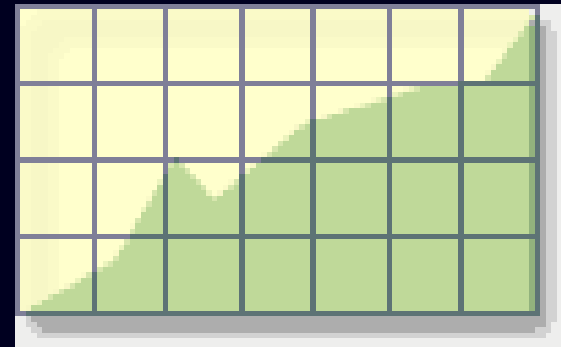
Answer: It's Both!

It's the *business* that counts,
but the *plan* explains it.

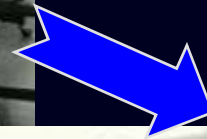


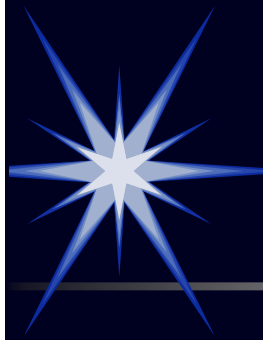
Judging

“pick the idea most likely to be commercially viable
with the greatest value”



Business Case: Key Punch Cards to CRT Terminal





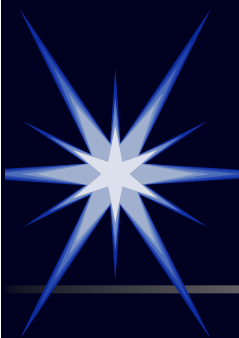
My First Business Plan

BMO: “Show me your
business plan”

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

(reference: mikevolker.com – Business Basics)





	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 (BT):	-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*

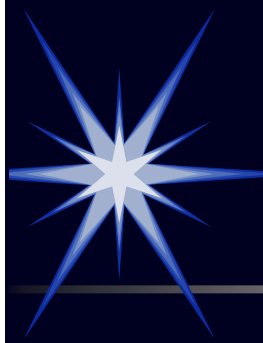
This?

- 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:

CASH FLOW #2(\$):	Month#10:			
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?



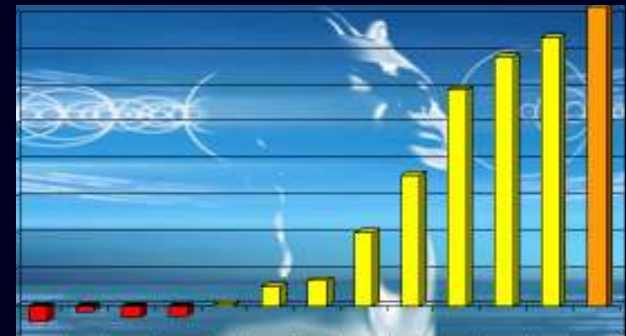
It's all about P&L:

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?

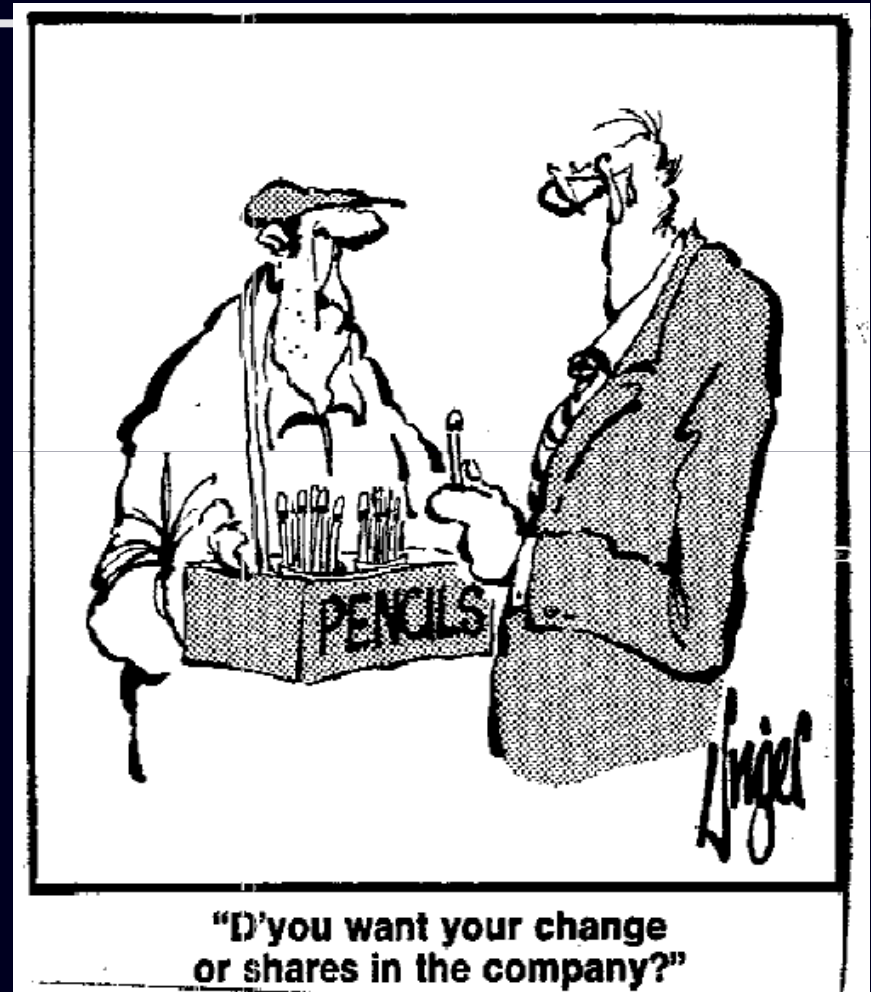
The \$100 million deal?

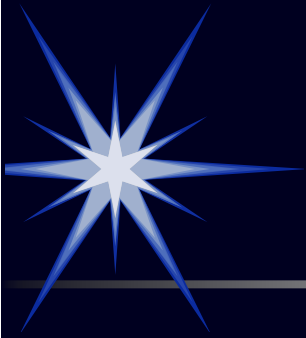
or

The “Lifestyle” Business?

YOUR DECISION.

Then sell your story
to the right audience!

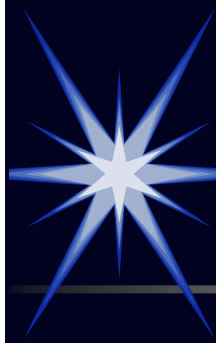




CONFIDENCE!



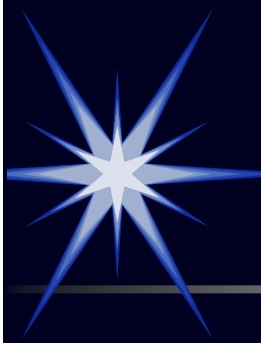
Is a Business Plan *really* necessary?
(*my RIM Story*)



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)





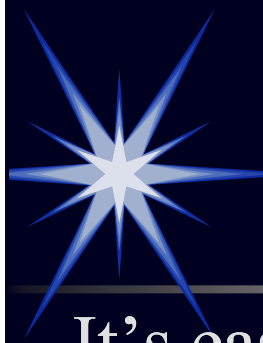
The Elevator Pitch

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 ____%.

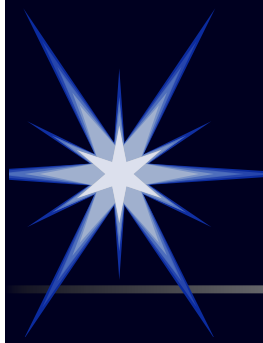
Example:

*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

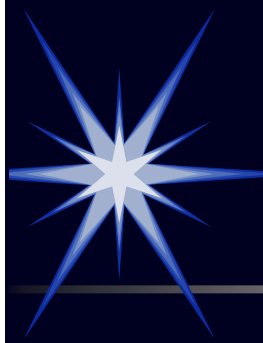


Cap Table (more likely)

		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 +/-

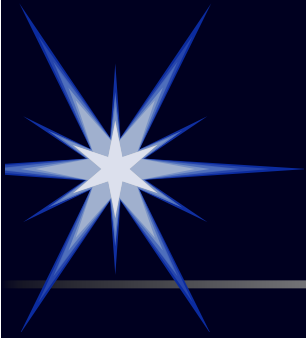
Note: This is not a VC deal!



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)



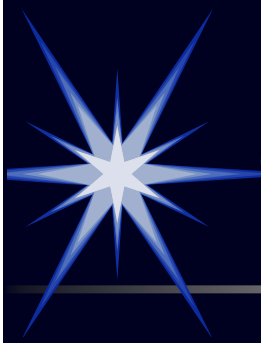


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ROUND #2

THE BUSINESS CASE

(5 pages max)



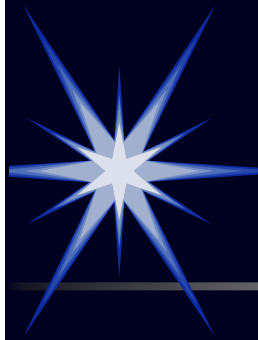
Questions: Round #2 and #3

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

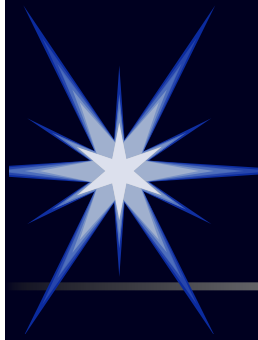
What is it?

Product or Service?
NOT the technology



How will revenue be generated?

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



Question #2: I.P.

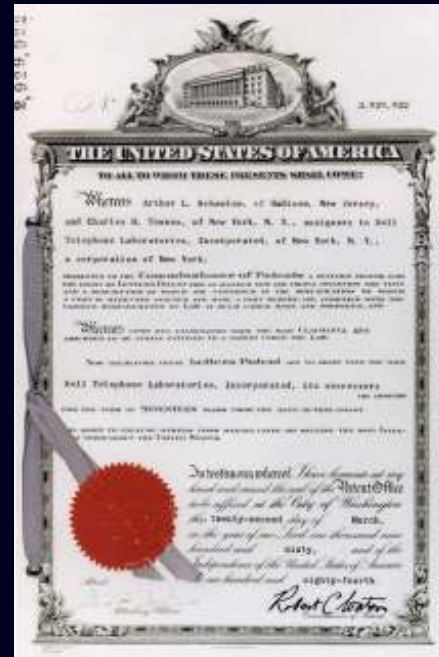
What is it?

Patentable?

Copyright?

Trade Secret?

Just an idea?



Question #3: TECH DEVELOPMENT

STAGE of DEVELOPMENT?

Idea?

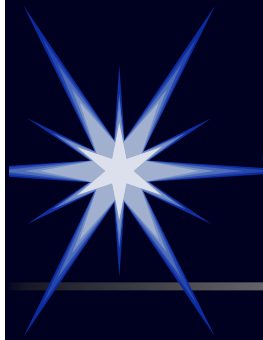
Prototype?

Beta model?

Production?



And...mention TIME FRAME

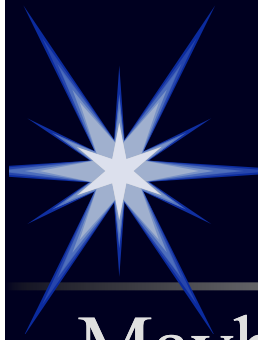


Question #4: Bus Plan Status

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!

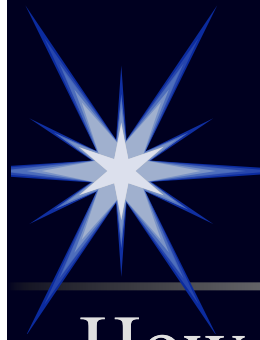
Who will buy it?

Why will they buy it?



Potential? Can you make money? How much?

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



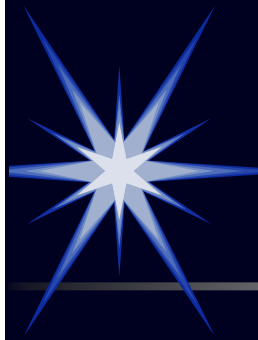
Question #6: DISTRIBUTION

How will they buy it?

Distribution channels (and margins)

Strategic Partners? OEMS? Chains?





Question #7: COMPETITION

There's no such thing as "no competition"

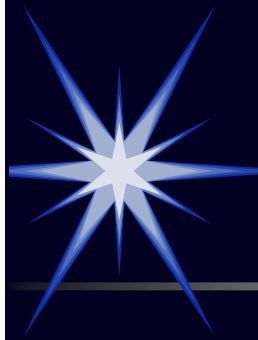
Uniqueness?

Substitutes?

Differentiators?

Barriers?





Question #8: THE TEAM

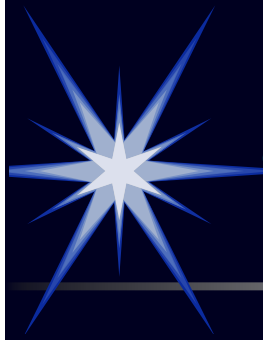
STRENGTHS

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)

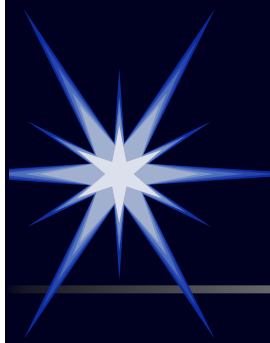
How much have you raised (from?)

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:

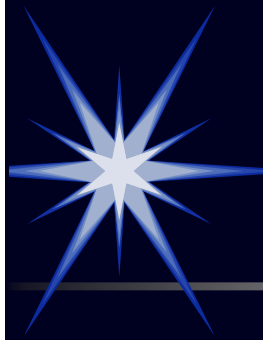
- they are liked! (it's really a courtship!)



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!





Contact Info



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THANK YOU!
(mike@volker.org)