



new VENTURES BC  
COMPETITION

## The “BUSINESS CASE”

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(What Angels *Really* Want)

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## My Passion: Tech Startups

### Experience:

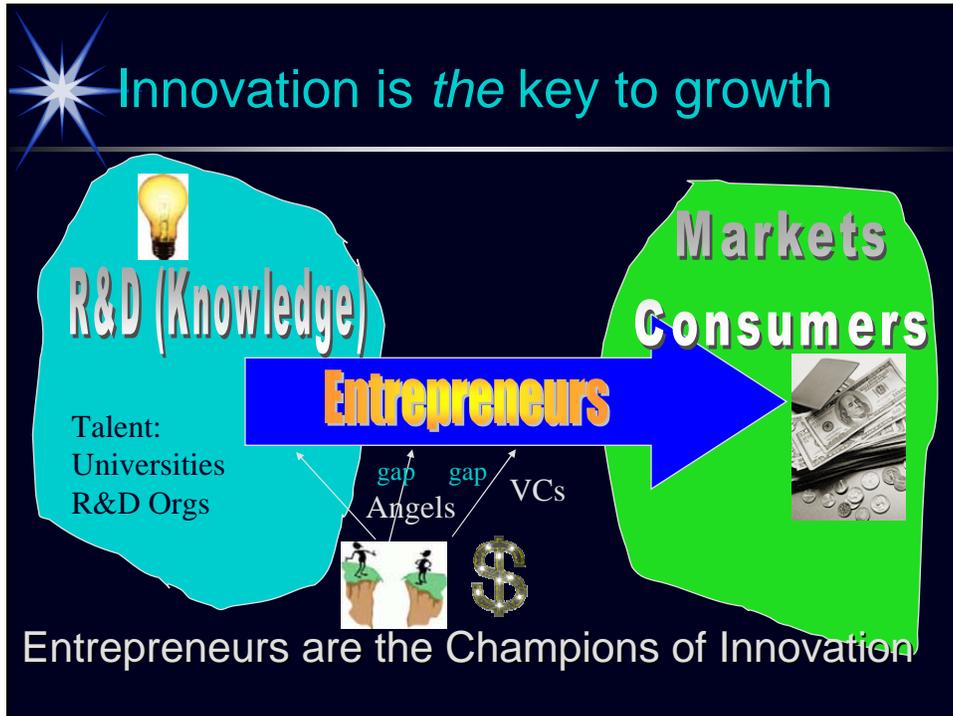
- starting them (tech entrepreneur, mentoring)
- raising capital for them & investing in them

### 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](http://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”



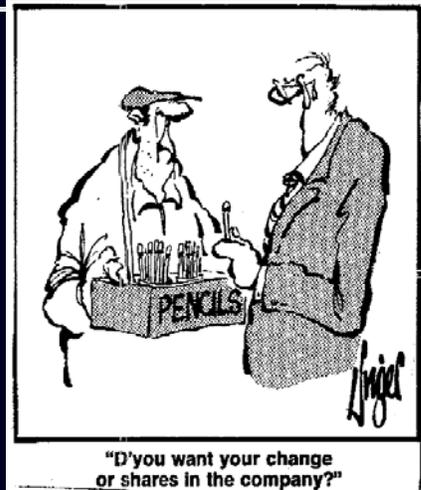


## What about Scale?

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

YOUR DECISION.

Then sell your story  
to the right audience!



## Getting Started

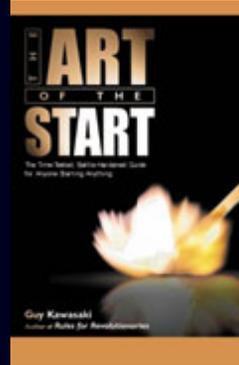
Type of Business?  
Proprietorship  
Partnership  
LLP Partnership  
👉 Corporation – BC or Canada?



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](http://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....

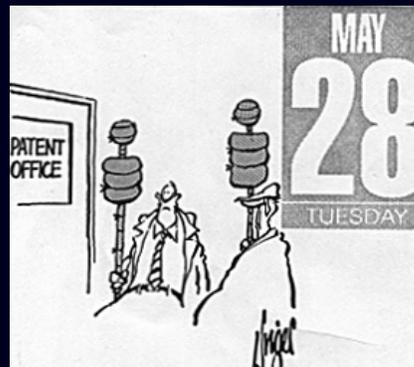
The People (why you?)

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
<b>Founders/Mgmt</b>	\$0 (100%)	\$0 (75%)	\$0 (60%)	\$60M	1000X
<b>Angels</b>		\$500K (25%)	\$500K (20%)	\$20M	40X
<b>VCs</b>			\$2M (20%)	\$20M	10X
<b>Market Cap</b>	\$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:	\$1.00
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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