



new VENTURES BC  
COMPETITION


# The “BUSINESS CASE”

May 8, 2013  
(What Angels *Really* Want)

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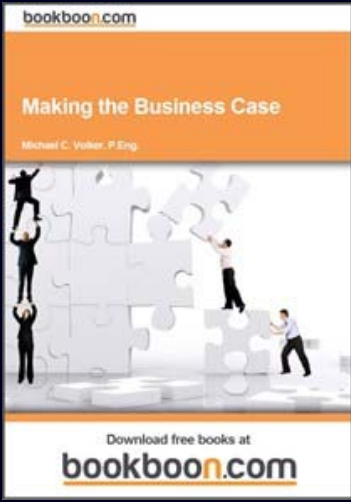


## Why did I write this book?

- What are you selling?
- Who will buy it? (and why?)
- How will you make money?
- What do you need to proceed?

- SEE FREE DOWNLOAD:

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





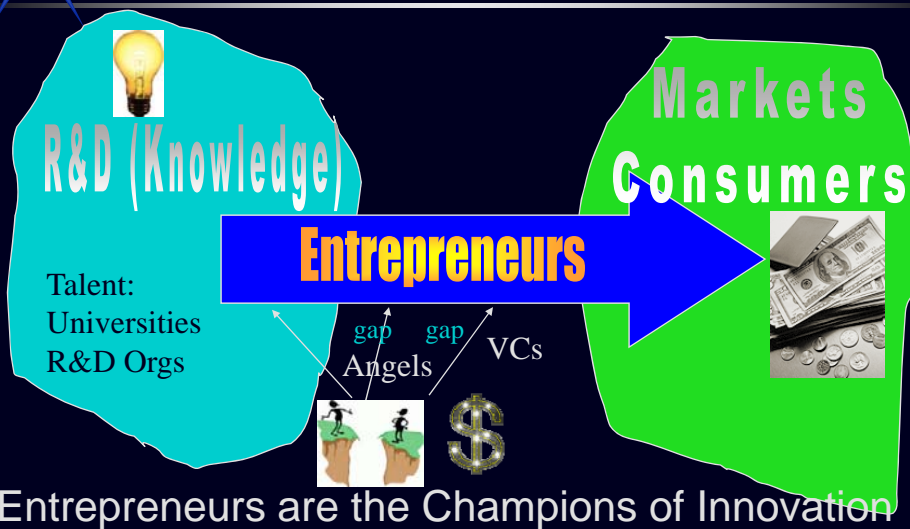
## The Good News

Observation over 35 years:

- “good” companies *will* always get funded
- startups are getting better each year
- more private capital available
- less VC money available



## Innovation is *the* key to growth





## 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](http://www.hitechbc.com))
- ↗ Special incentives: SBVCA - VCC program
- ↗ Make a list of all un-invented things!
- ↗ Americans will buy anything!



## What have I learned in 30 years

...as an Angel Investor?



Getting in is easier than getting out!



## 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  
(where are we with crowdfunding?)
- Tougher to use stock/stock options for employees
- More Angel Funds, eg. WUTIF, GreenAngel Energy



## Access to Capital



- ❖ Family Friends Relatives only go so far
- ❖ Less VC capital; mainly later stage
- ❖ Junior Public Market – not easy to do  
(*great if you want to be big!*)
- ❖ What about angels?  
Great, but <1% of population





## What about the other 99%?

CROWDFUNDING is a HOT TOPIC in U.S.A



But....

non-angels will be limited to very small amounts

(2% of income or \$2.5K max or 10% of income if over \$100K)



## But, Gambling is OK



But, you can't gamble on a less risky new venture!

FACT: 3 of 4 ventures fail, so why bet on them?

(when you can get one in a million? haha)

# Non-Equity Crowdfunding is OK


**KICKSTARTER** What is Kickstarter? Discover great projects Start your project Search projects HELP SIGN UP LOG IN

## Pebble: E-Paper Watch for iPhone and Android

by Pebble Technology

Home Updates 20 Backers 68,929 Comments 8,393 Palo Alto, CA Product Design

**Funded!** This project successfully raised its funding goal on May 18.



68,929 backers  
\$10,266,845 pledged of \$100,000 goal  
0 seconds to go

Project by [Logo] Secure Search

# The Law (BC Securities Comm)

It is **ILLEGAL** to sell shares to anyone unless...

you use a **PROSPECTUS** & are a **REGISTERED** dealer

OR.....

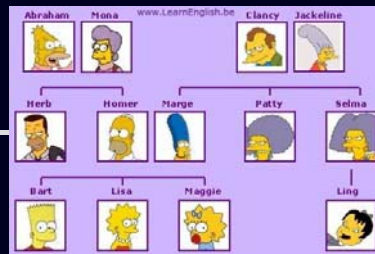
use an “Exemption” to the **PROSPECTUS** & **REGISTRATION** Requirement

**WHY???**





## Exemptions



- family, friends, business associates
- rich people (angels, “accredited”)
- minimum \$150K
- Offering Memorandum

There are many more.....but not enough usable ones



## The Offering Memorandum

- ❖ Like a business plan
- ❖ Why isn't it used more often?
- ❖ ....it's expensive, time-consuming, legalistic
- ❖ ....requires **audited financial statements**
- ❖ You will not longer be a “Private Issuer”  
(like the 50+ shareholder rule)
- ❖ But....It does permit equity crowdfunding NOW!



# Angel Types



## Cherubs

**\$\$:** little  
**Time:** some  
**Style:** pooling

## Angels

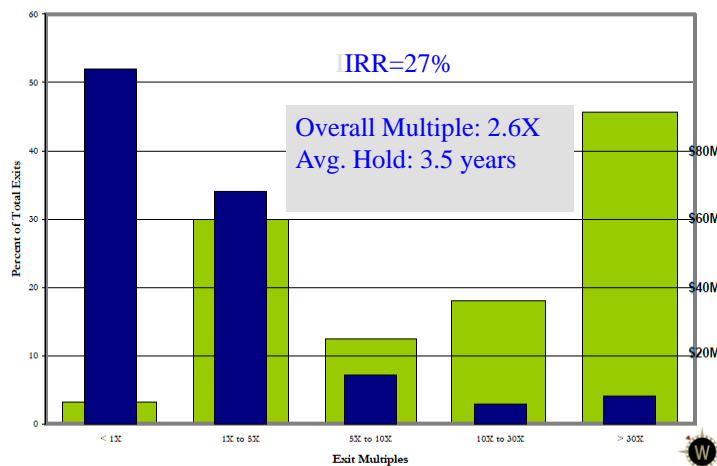
**modest**  
**lots**  
**co-investing**

## Archangels

**tons**  
**others**  
**VC**

# Angel Investing 101

## Distribution of Returns by Venture Investment



Study by Rob Wiltbank, Willamette Univ.



## WUTIF Angel Fund (wutif.ca) (Western Universities Technology Innovation Fund)

- Started in 2003 as a VCC
- *any* tech startup can apply
- >60 investments: \$100K average/company
- >100 investors
- 30% tax credits
- RRSP + Rollover = 100% capital return



## GreenAngel Energy Fund (greenangelenergy.ca)

- Started in 2009
- >7 investments
- >500 investors
- Publicly traded on TSX Venture Exchange
- No minimum; no hold



You, too, can be an angel investor!

TSXV: GAE

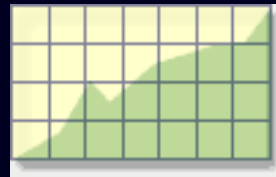
## *The Competition*

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

The collage consists of four images. The top-left image shows a large room with many people sitting at desks, each with a keypunch machine. The top-right image shows a similar room but with CRT terminals instead of keypunch machines. The bottom-left image is a close-up of a CRT terminal and a keyboard. The bottom-right image shows a room with people at CRT terminals, with a blue arrow pointing from the top-right image to the bottom-right image.


## My First Business Plan

BMO: “Show me your  
business plan”

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

(reference: [mikevolker.com](http://mikevolker.com) – Business Basics)

The photograph shows a man in a suit standing and talking to a man sitting at a table. There are other people at the table, and the setting appears to be a meeting or a business discussion.



	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:

					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

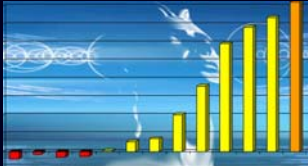
Or This?



## 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)



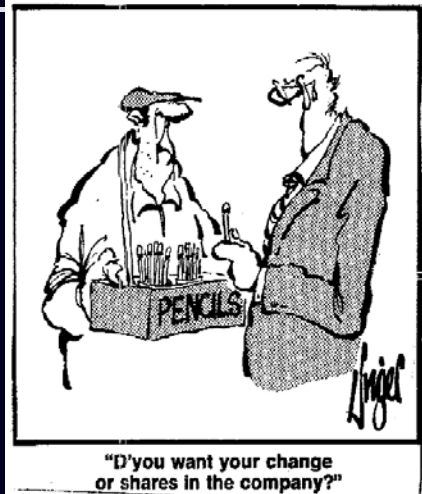


## What about Scale?

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

YOUR DECISION.

Then sell your story  
to the right audience!



## 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)



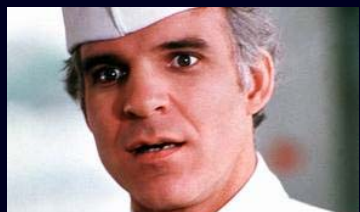


# Liars, Quitters & Jerks

Integrity



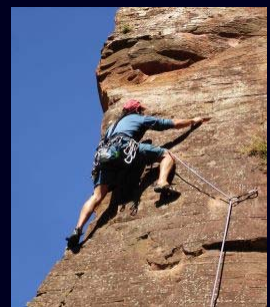
Intensity



Immediacy



# CONFIDENCE!



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



## 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.*



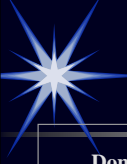
## The Investor Pitch

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

	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
Super Angels (maybe VCs)			\$3M (50%)	\$15M	5X
Market Cap	\$0	\$1M	\$6M	\$30M	

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





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## ROUND #2 THE BUSINESS CASE

*(5 pages max)*

*Due: May 9, 5:00 pm*



### 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

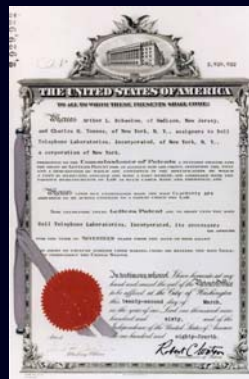
How will revenue be generated?  
E.g. selling a gadget, renting, licensing, etc



## 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

The most important question!

Who will buy it?

Why will they buy it?

Potential? How much can you sell?

TAM = Total Available Market

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

INSTEAD, READ: Regis McKenna's

*Marketing is Everything* (Harvard Bus. Review)



## 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!  
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