



new VENTURES BC
COMPETITION

The “BUSINESS CASE”

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

[www.mikevolker.com]



Mike Volker (mike@volker.org)
Innovation Office
Simon Fraser University

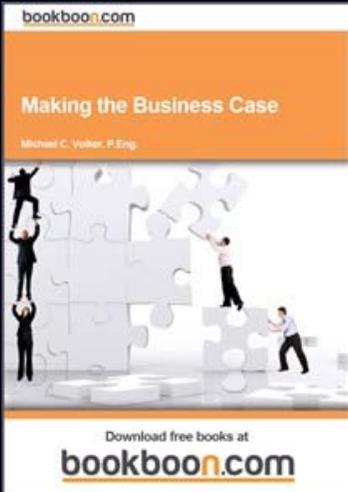


Why did I write this book?

- 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



bookboon.com

Making the Business Case

Michael C. Volker, P.Eng.

Download free books at
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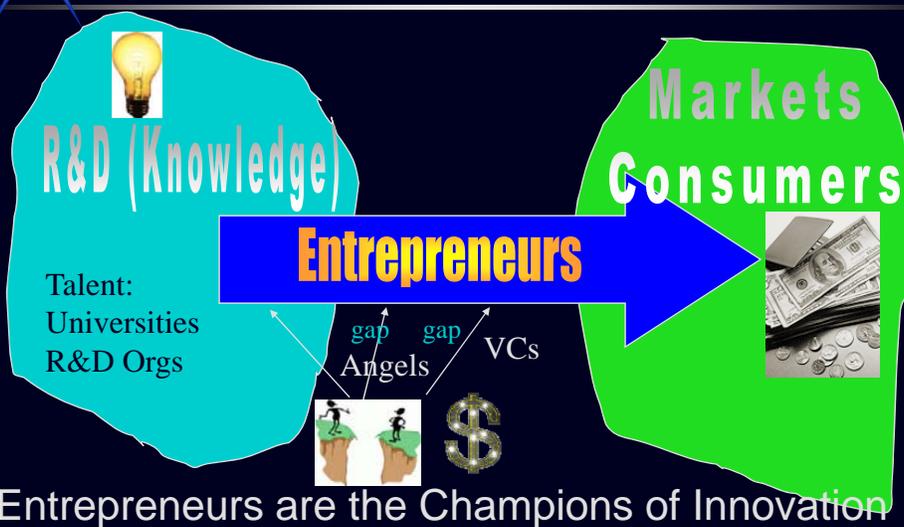
The Good News

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)
- ↗ 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

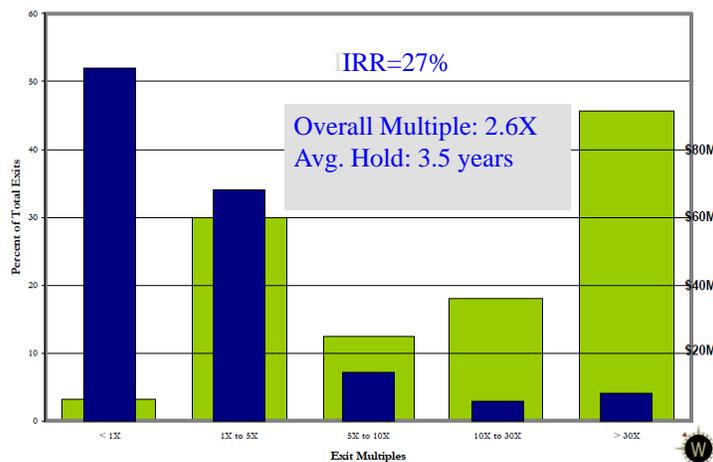
modest
 lots
 co-investing

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

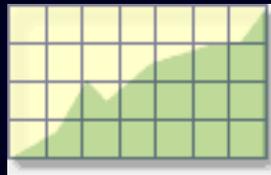
The Competition

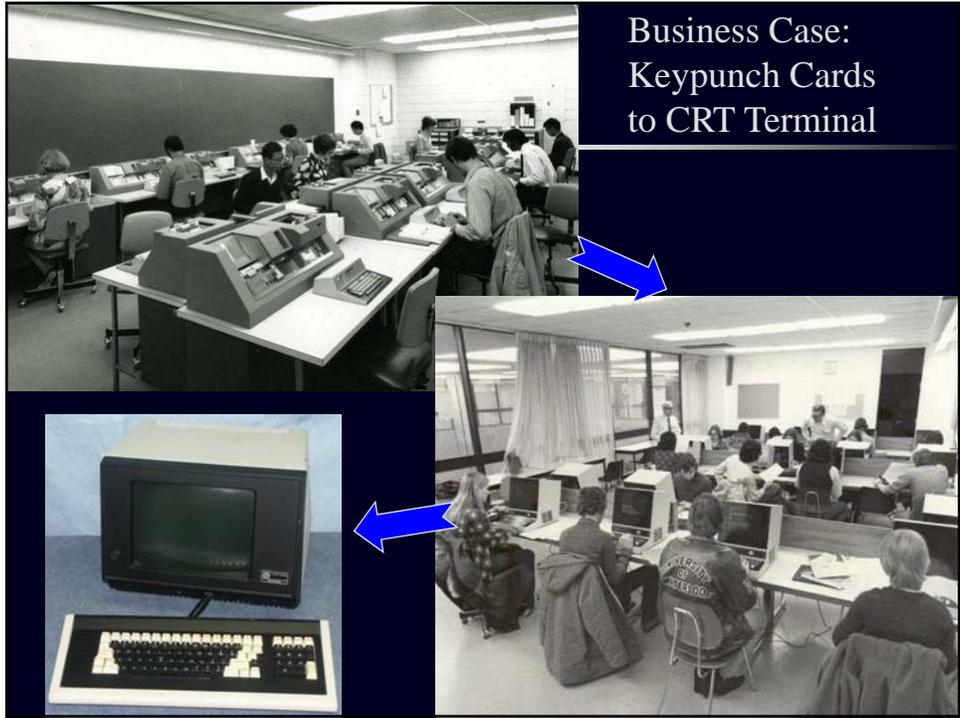
Is New Ventures BC a...
...*Business Plan* competition?
or
...*A Business* competition?

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”





 **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:

					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)



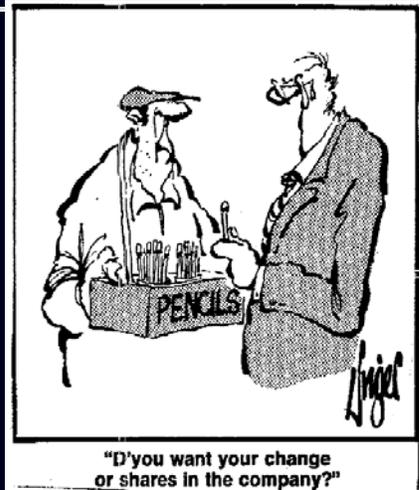


What about Scale?

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)



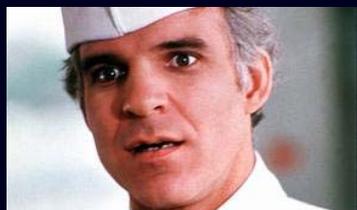


Liars, Quitters & Jerks

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!



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?

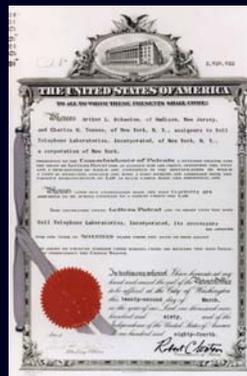
E.g. selling a gadget, renting, licensing, etc



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?

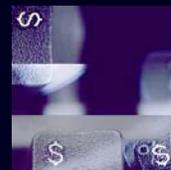


And...mention TIME FRAME

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



<http://www.newventuresbc.com>

<http://www.mikevolker.com>

<http://www.hitechbc.com>

THANK YOU!
(mike@volker.org)