

new VENTURES BC  
COMPETITION

# The “BUSINESS CASE”

May 14, 2014

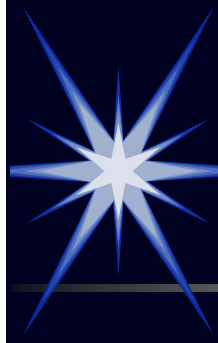
(What Angels *Really* Want)

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

SFU

Mike Volker (mike@volker.org)

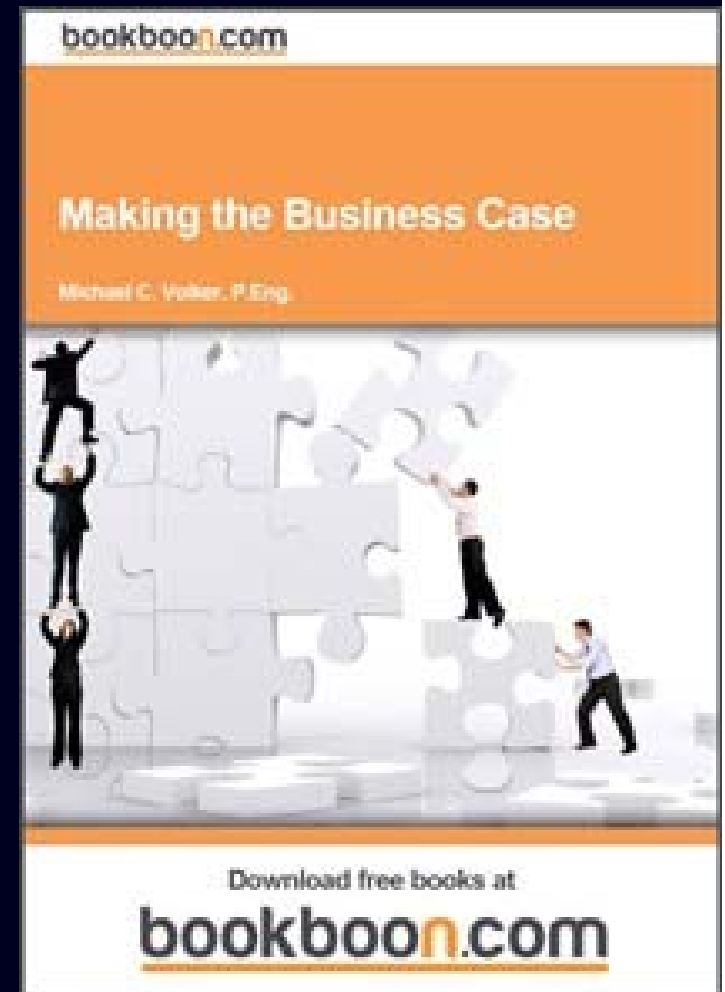
Innovation Office  
Simon Fraser University

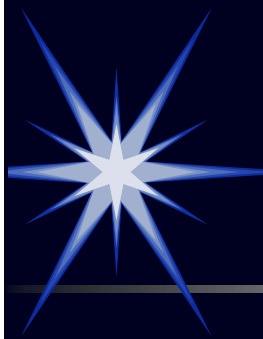


# Why did I write this book?

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

FREE DOWNLOAD:  
[www.mikevolker.com](http://www.mikevolker.com)





# Observations

- “good” companies *will* always get funded
- startups are getting better each year
- more private capital available
- Equity Crowdfunding is coming!
- less VC money available
- Most companies fail!  
(>50% in 5 yrs, >80% in 10 yrs)



Innovation is *the* key to growth



R&D (Knowledge)

Talent:  
Universities  
R&D Orgs

**Entrepreneurs**

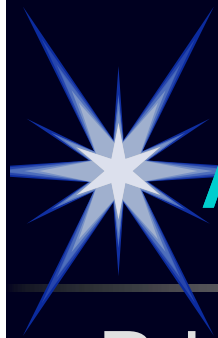
Markets  
Consumers



gap gap  
Angels VCs

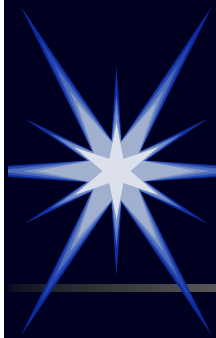


Entrepreneurs are the Champions of Innovation



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



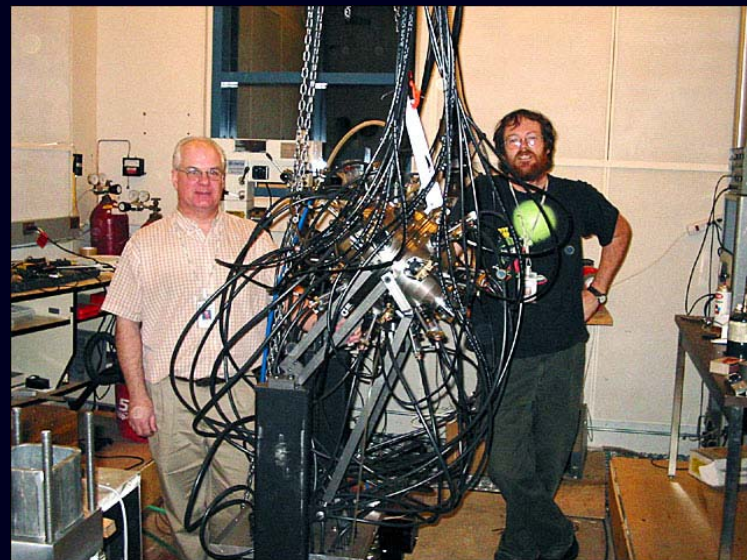
# Innovation Incentives (B.C.)

Example: Fusion Energy Ventures (VCC) Inc:

- SRED tax credits: up to 68% - Good as Cash!
- NRC-IRAP, ICE Fund, STDC, NSERC I2I, etc
- 30% VCC Tax Credit (Combine with RRSPs)

Raised \$400K

(investors get \$\$ back if  
it fails!)



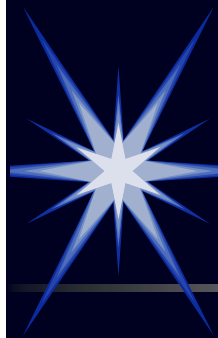
# What have I learned in 30 years?

...as an Angel Investor?



Getting in is easier than getting out!



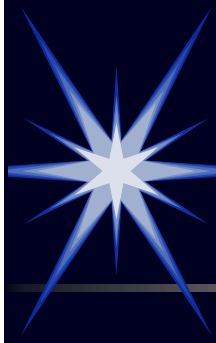


# Recent Trends



- Lower Valuations (\$2M avg)
- 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?)
- Harder to use stock/stock options for employees
- More Angel Funds, eg. WUTIF, GreenAngel, e-Fund



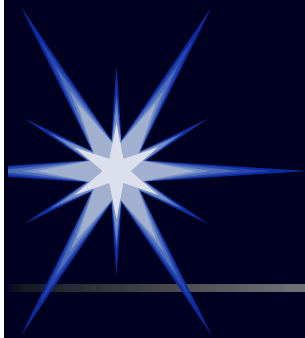


# Access to Capital



- 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





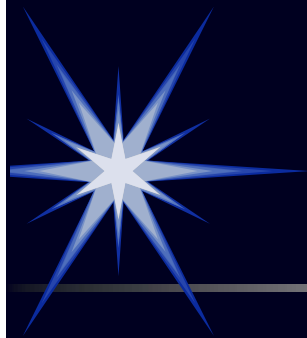
# What about the other 99%?

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!  
Why invest in a B.C. company when you can get  
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

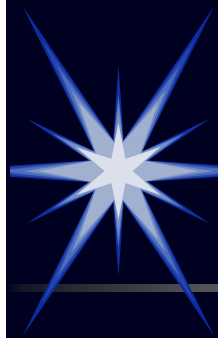
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seconds to go

Project by



Secure Search



# The Law (BC Securities Comm)

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

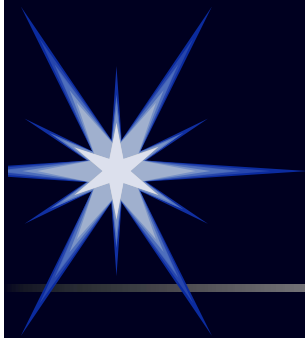
you use a PROSPECTUS & are  
a REGISTERED dealer

OR.....

use an “Exemption” to the PROSPECTUS &  
REGISTRATION Requirement

WHY???

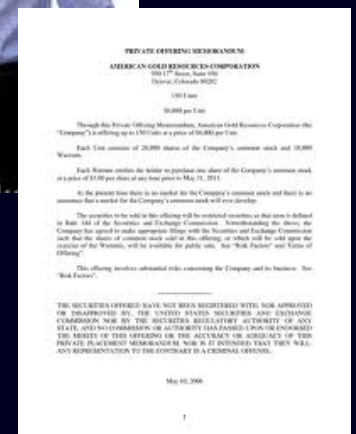
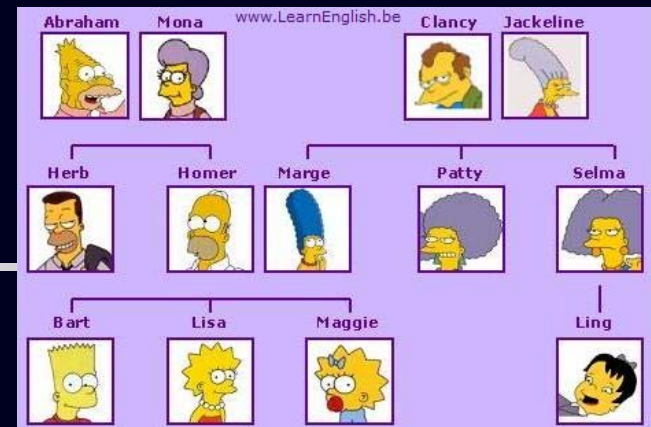




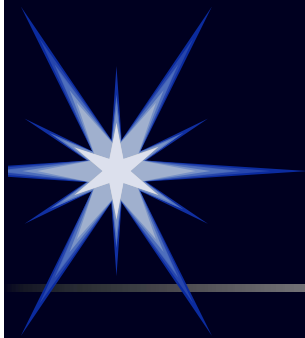
# Exemptions

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

There are many more.....but mostly useless for you







# 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) [no big deal!]
- But....It does permit equity crowdfunding NOW!





# Angel Types



## Cherubs

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



## Angels

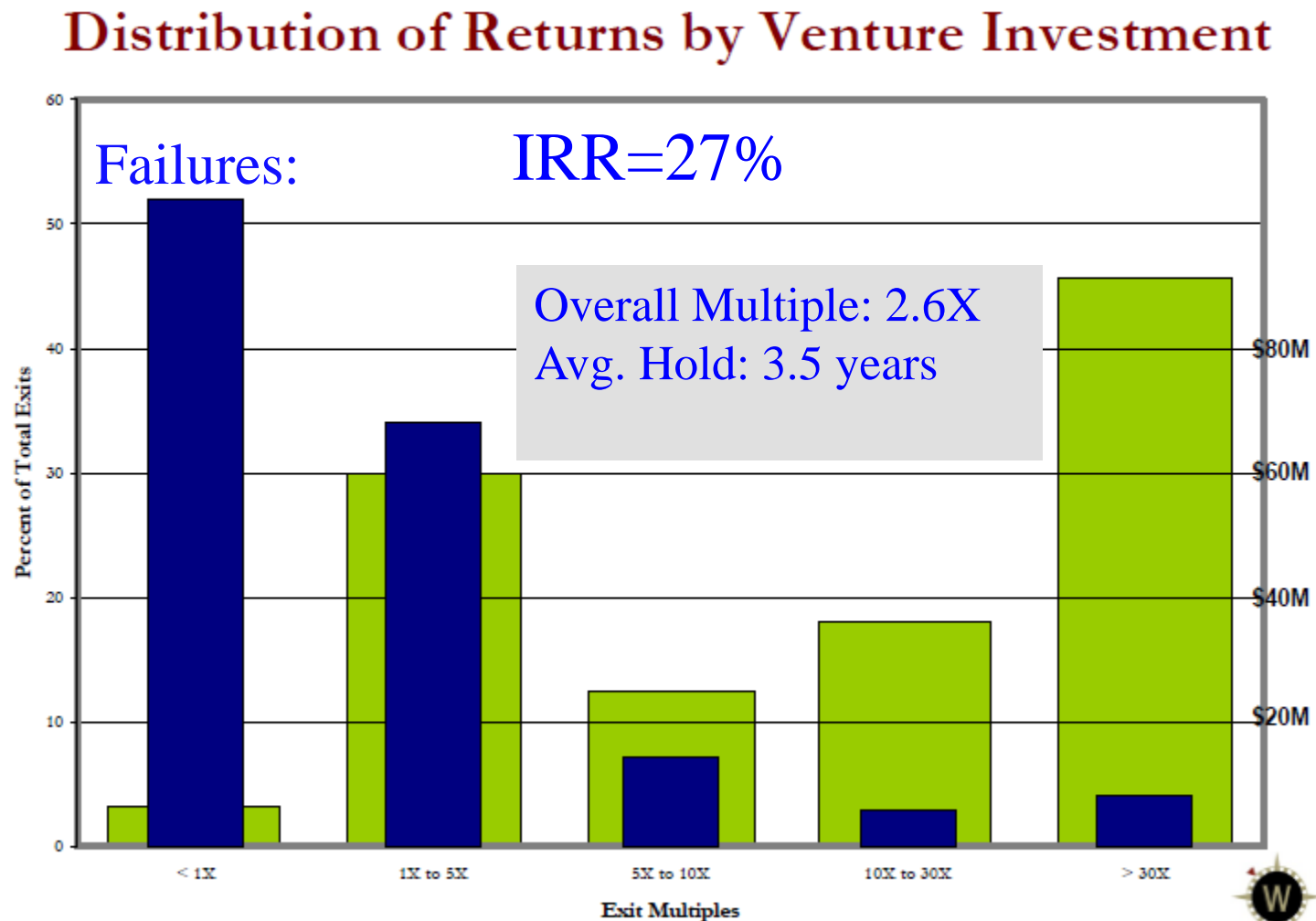
modest  
lots  
co-investing



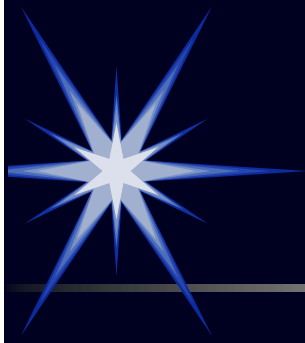
## Archangels

tons  
others  
VC

# Angel Investing 101



Study by Rob Wiltbank, Willamette Univ.



# Findings

Angels did better when they....

- had a large portfolio (hard to pick winners)
- did extensive due diligence (with good terms)
- provided post-investment support





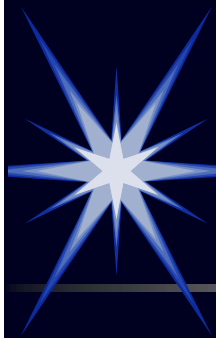
# WUTIF Angel Fund (wutif.ca)

(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

**WUTIF**

Western Universities Technology  
Innovation Fund



# 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

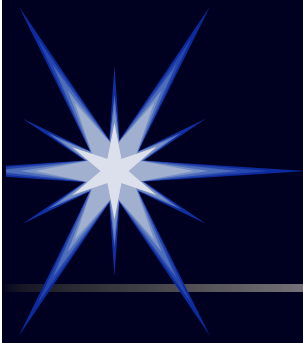


# PowerHaus Angel Net & Fund

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- Focus on Green Tech
- Supported by NRC-IRAP
- Focus on people first, money second

[www.powerhaus.info](http://www.powerhaus.info)



# *The Competition*

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Is New Ventures BC a....

....*Business Plan* competition?

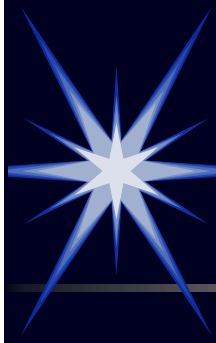
or

....A *Business* competition?

*Answer:* It's Both!

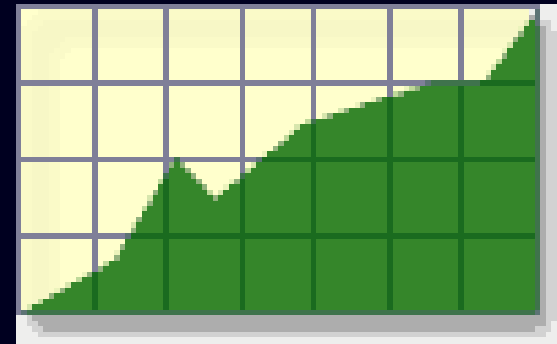
It's the *business* that counts,  
but the *plan* explains it.

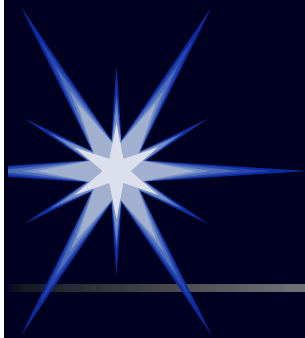




# Judging

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





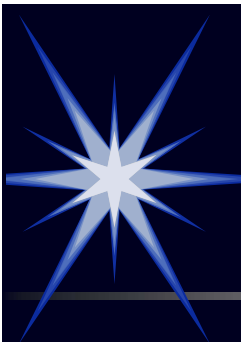
# My First Business Plan

BMO: “Show me your  
business plan”

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



(reference: [mikevolker.com](http://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*

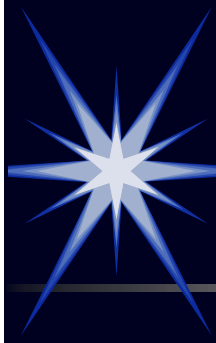
This?

- 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

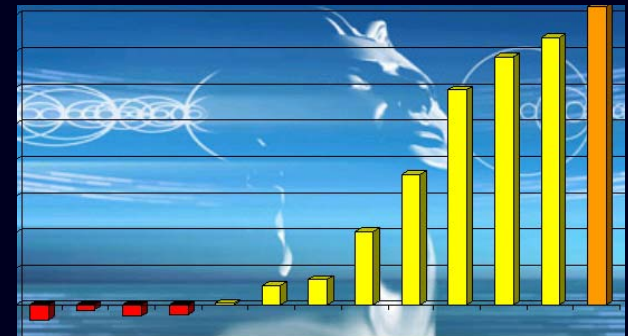
Or This?



# 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?

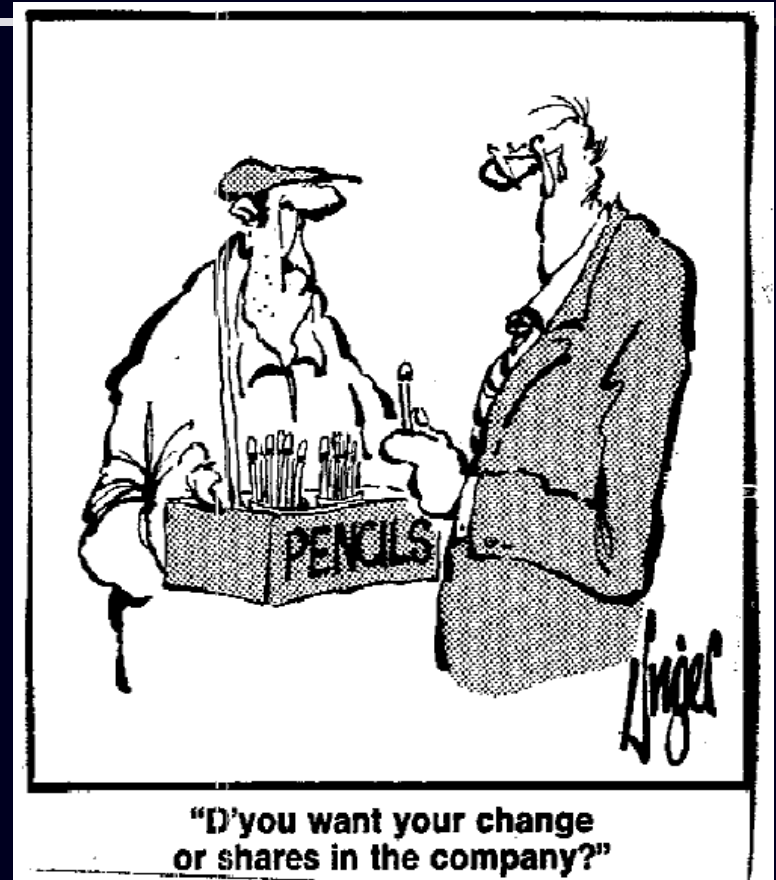
The \$100 million deal?

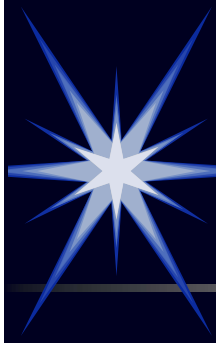
or

The “Lifestyle” Business?

YOUR DECISION!

Then sell your story  
to the right audience!

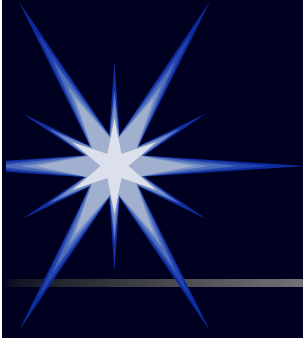




# What Angels Want

- 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)



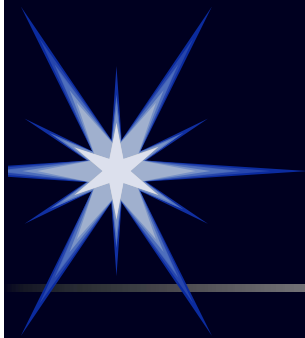


# CONFIDENCE!



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





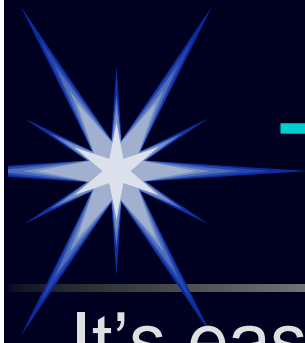
# The Elevator Pitch

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 \_\_\_\_%.

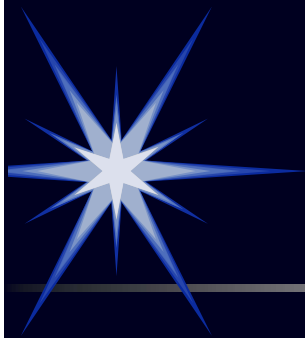
*Example:*

*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:

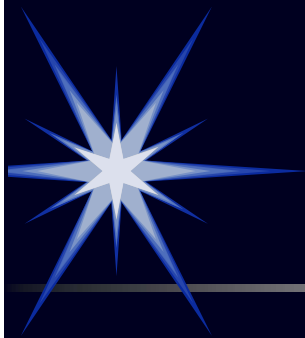
<b>Domain Expertise</b>	<b>ProActive Management</b>	<b>Unique Proposition</b>	<b>Low Burn Rate</b>	<b>Best of Breed</b>
<b>Enabling Technology</b>	<b>Empowered Team</b>	<b>Ground Floor Opportunity</b>	<b>First To Market</b>	<b>Platform Technology</b>
<b>Market Driven</b>	<b>World Class Products</b>	<b><u>PROFITS</u></b>	<b>Competitive Advantage</b>	<b>Renowned Board</b>
<b>Proprietary Technology (no competitors)</b>	<b>Revolutionary Business Model</b>	<b>IP Portfolio</b>	<b>Favorable Valuation</b>	<b>Liquidity Event (Exit Strategy)</b>
<b>Revenue Traction</b>	<b>NASDAQ IPO</b>	<b>Mezzanine Round</b>	<b>Defensible Strategy</b>	<b>Visionary</b>



# 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	

Start-Up Valuation = \$1 million



# Cap Table Reality

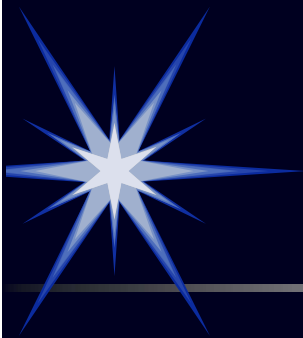


	StartUp	Angel Round	VC Round	Exit	Gain
<b>Founders/Mgmt</b>	\$0 (100%)	\$0 (75%)	\$0 (17%)	\$400K	1000X
<b>Options, etc</b>				\$600K	1000X
<b>Angels</b>		\$500K (25%)	\$500K (17%)	\$500K	1X
<b>Super Angels (maybe VCs)</b>			\$2M (66%)	\$3.5M	1.75X
<b>Market Cap</b>	\$0	\$2M	\$3M	\$5M	

Start-Up Valuation = \$2 million

VC Round: participating preferred shares

Option Pool



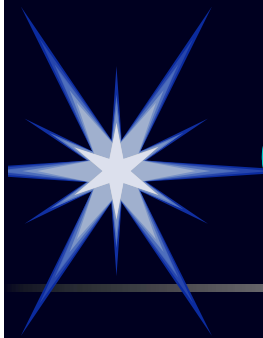
new VENTURES BC  
COMPETITION

# ROUND #2

## THE BUSINESS CASE

*(5 pages max)*

*Due: May 8, 5:00 pm*



# Questions: Round #2 and #3

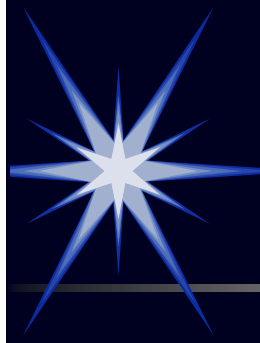
## ROUND #2 (5 pgs)

- 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





# Question #1: PRODUCT

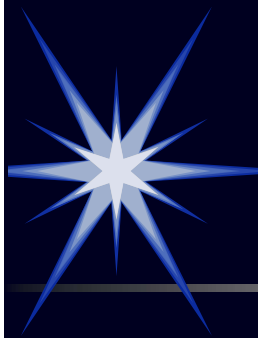
What is it?

Product or Service?  
NOT the technology

How will revenue be generated?

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





# Question #2: I.P.

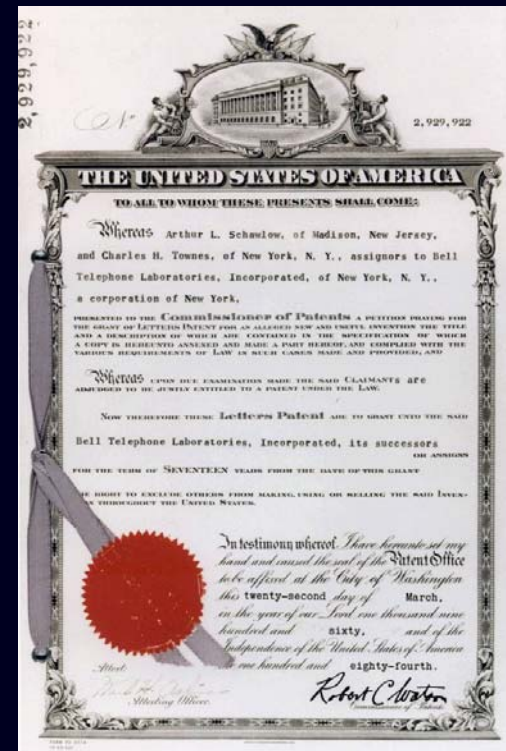
What is it?

Patentable?

Copyright?

Trade Secret?

Just an idea?



# Question #3: TECH DEVELOPMENT

STAGE of DEVELOPMENT?

Idea?

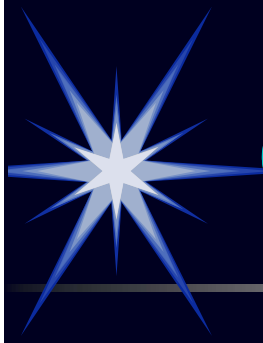
Prototype?

Beta model?

Production?



And...mention TIME FRAME

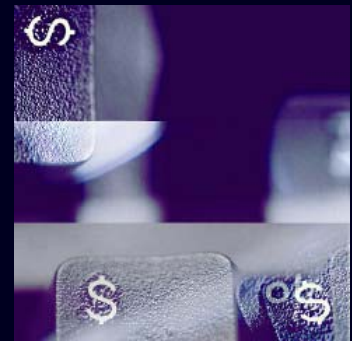


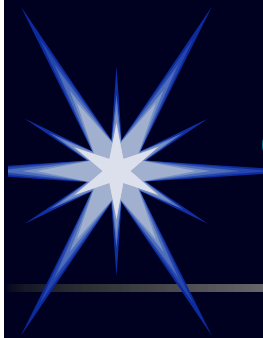
## Question #4: Bus Plan Status

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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?

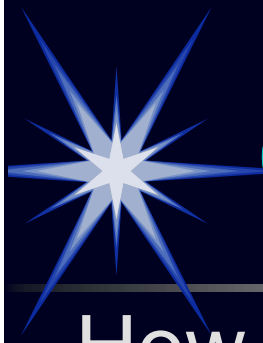
Potential? How much can you sell?

TAM = Total Available Market

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

INSTEAD, READ: Regis McKenna's  
*Marketing is Everything* (Harvard Bus)





# Question #6: DISTRIBUTION

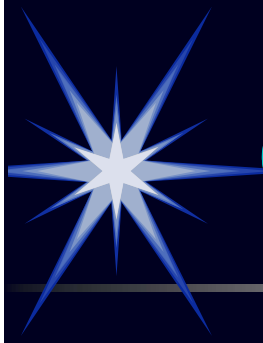
How will they buy it?

Distribution channels (and margins)

Strategic Partners? OEMS? Chains?







# Question #7: COMPETITION

There's no such thing as "no competition"

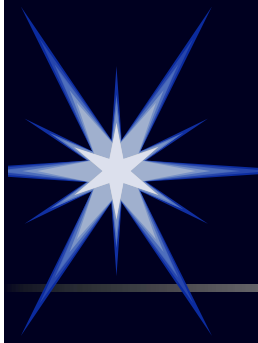
Uniqueness?

Substitutes?

Differentiators?

Barriers?





# Question #8: THE TEAM

## STRENGTHS

Participants (now & planned)

Advisors (now & planned)

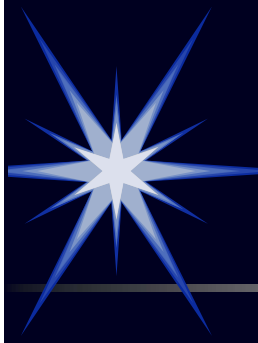
Board Members (now & planned)

## WEAKNESSES

Know your shortcomings!







## Question #9: FINANCIAL

How much MONEY do you need?  
(e.g. to positive cash-flow milestone)

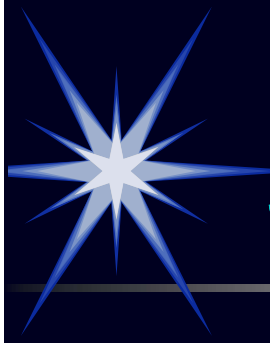
How much have you raised (from?)

How much have you spent?

5-year projections?

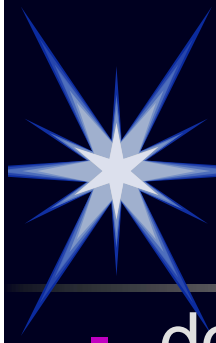
Beware the hockey stick sales curve:  
0.5% of startups achieved \$50M in 6 years!





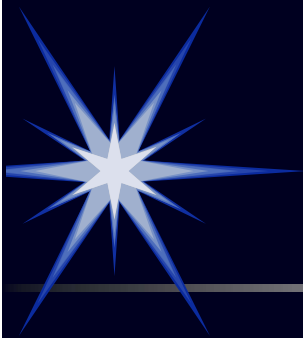
# So why do deals get funded?

- 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!)

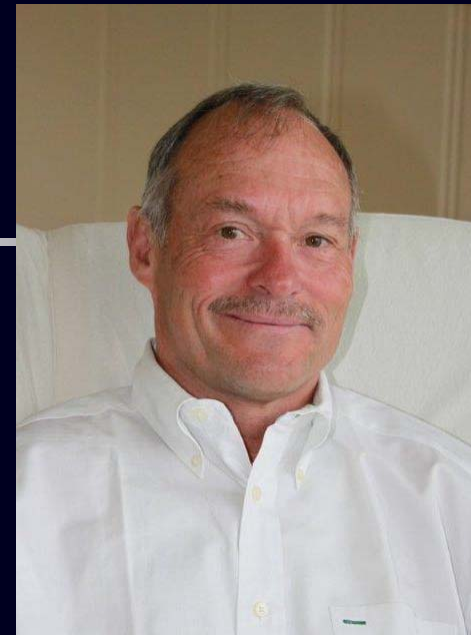


## A Few Final Tips:

- 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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