

COMMONWEALTH CAPITAL VENTURES

The Capital Network

October 2, 2007

Experienced investors guiding outstanding
entrepreneurs from startup to success

COMMONWEALTH CAPITAL

TCN

Commonwealth Capital Ventures IV

FUND: ~ \$600 million under management

CCV IV - \$250 million venture capital fund

STAGE: 75% early stage / 25% venture growth

SECTOR FOCUS:

- Software and services
- Communications technology
- Instruments and systems

GEOGRAPHY: Northeast US

MODEL: ~25 companies
\$3-5M initial investment, 15-30% ownership
Lead, active investor; board seat

Experienced, Cohesive, Stable Team

Commonwealth Partners:

- Mike Fitzgerald
- Jeff Hurst
- Steve McCormack
- Justin Perreault
- Elliot Katzman

Team highlights:

- 75+ years combined venture investing experience
- 10+ years together at Commonwealth Capital
- Cohesive team with strong chemistry and reputation
- Proven organization, model, and results

Experienced Team

Elliot Katzman
General Partner

Joined CCV Dec. 2006

5 years in VC

> 20 years in technology entrepreneurship

"It's easy to start a company but hard to build a great business. Elliot helped me build SolidWorks from a startup into what has become a \$300 million business."

Jon Hirschtick, Founder and CEO



MyPerfectGig



Epoch Systems



Prior Experience: Kodiak Venture Partners, General Partner

MyTeam (now Active.com), CEO

SolidWorks, SVP and CFO

Atria Software, CFO

Epoch Systems, CFO

Current Investments: Me.dium, MyPerfectGig, Vela Systems

Prior Investments: Groove Mobile, Mindreef, Newforma, SpaceClaim, Watchfire, Wis.dm

Education: BSBA, Salem State College



*Great Idea + \$ =
Success*

What does it take to build a successful business ?

Great idea

Receptive market (people will buy)

\$ to execute

Product

Distribution (Sales)

Economics - business model that makes \$

People, people, people

Culture, Culture, Culture

**My focus
this AM**

Businesses Are About People



- People are your employees
- People invest in your business
- People buy your products
- Buying is a human behavior

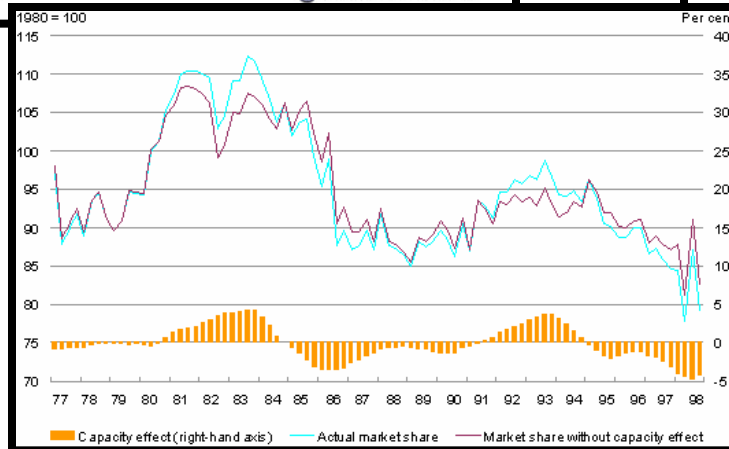
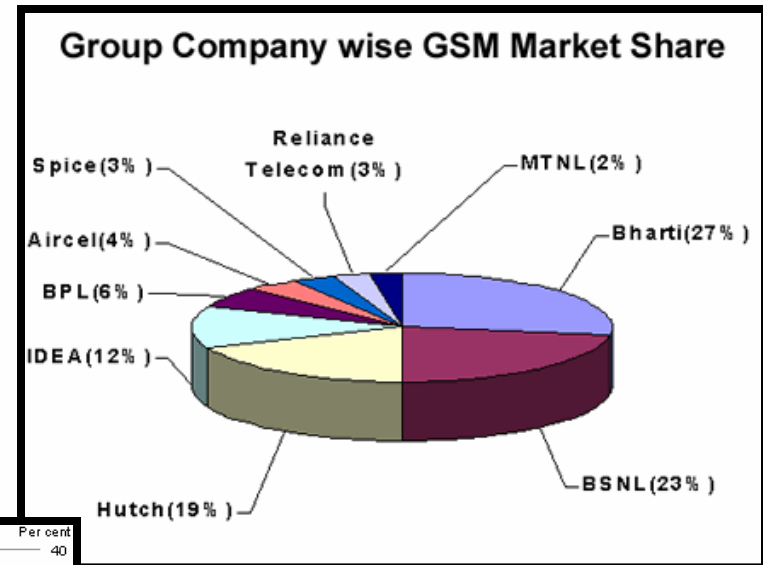
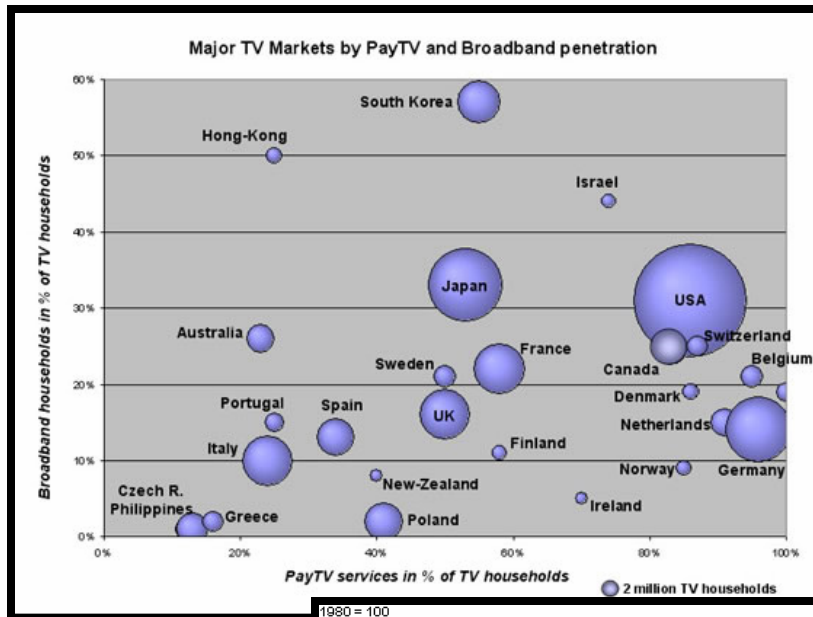
Team is MOST IMPORTANT !!!

- Startups NEVER go in straight line from concept to liquidity.
- Management needs to constantly “bob and weave”, assess and reassess
- Good people work for / with good people.
- **What defines a Good team?**

Thinking about what makes a good team.....

- Is there a Domain Expert – someone who truly understands the customers PAIN?
- Is there at least one world class individual ?
- Have members been part of a success before / know what it is like to win?
- Will individuals create a positive culture?
 - High achievement
 - **Mutual respect / trust**
- Will initial team be able to recruit the needed talent to build the business
 - Will they hire people that scare them with their competence?
- Are all skills properly represented and balanced?

Thinking About Markets The Business School Way...



A Better Market Image



Build Products That People Will Buy



Buying Is A Human Behavior



Apple iPod 30Gb



Creative Labs Zen Vision M 30Gb

Buying Is A Human Behavior



Apple iPod 30Gb
Fewer Music Formats
No Radio
No Voice Recorder
\$249

75% Market Share



Creative Labs Zen Vision M 30Gb
More Music Formats
Radio
Voice Recorder
\$222.99

<10% Market Share

iPod Lessons



Apple iPod 30Gb

Buying is a *human behavior*

Less is more

Low frustration

Great styling

Whole user experience (web, iTunes, etc)



Creative Labs Zen Vision M 30Gb

It ain't just features and price

Why are Financial Statements Important

- Making \$ is important
- Financial statements provide an opportunity to make your company come alive
- Translate product / market and distribution success into financial story
- Financial statements and **ASSUMPTIONS** allow you to demonstrate YOU UNDERSTAND HOW TO MAKE \$

Financial Assumptions

- Understand every # is WRONG from an absolute perspective
- Relationship of #'s is important
 - Unit sales is a function of market demand and sales productivity
 - Sales expense relates to revenue
 - Service / subscription annuity is function of installed base
 - Etc.
- Explain what you know **and what you don't know**
- Challenge your assumptions - You can easily convince yourself that assumptions are realistic.
- Don't make assumptions that essentially say "all the trees have to fall north to be successful"
- Be Conservative but on realistic side
- Discuss opportunity for expansion and upside !

Perhaps even let investors find the upside!

Identify Key Metrics

- Cash is KING! Focus on cash NOT accounting
- How much cash will it take to bring product to market?
- How much cash to build business post release to breakeven?
- What is value of a customer - how much \$ will customer pay over 5 years compared with cost of sales and support ?
- What are switching costs?
- What is sales productivity model
- Is there an annuity?
- Etc.

Business Model Orientation

- Discuss Business model – not just the #'s
- *Allow investors to “**feel the business**”*
- Discuss leverage points to business
 - **Annuity** model for service - most software companies
 - **Addictive** nature of product - i.e. config. mgmt.
 - *The more you use it, the more you need it, the more you use it.....*
 - **Long term** value proposition - i.e. storage mgmt.
 - **Pain** with switching...

Business Model Discussion

Can you guess what business model is for –



Movie example – Make Investor Feel the Business

Example Movie Exhibitor –

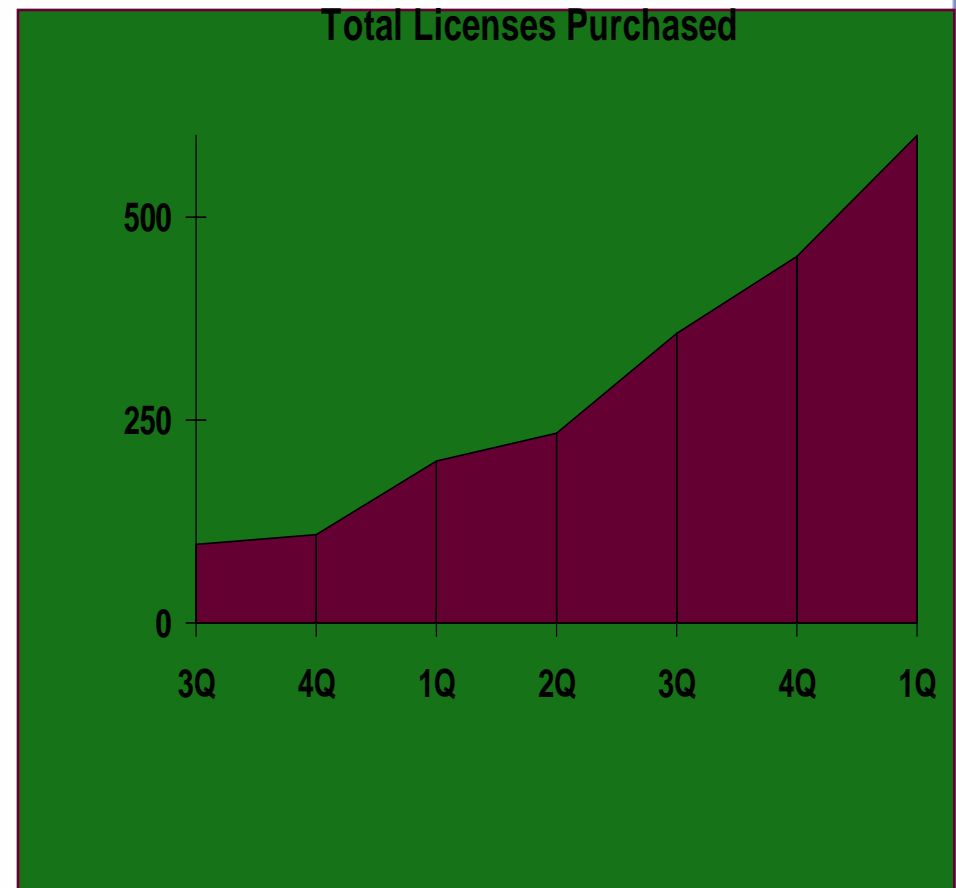
- Lose \$ on movies – make \$ on concessions
- Average concession sale is \$.xx / person
- Most people go to movies as a couple
- Average point of sale is \$ Y
- Repeat purchases are...

Case Study #1: Major Telecom Manufacturer

- Penetration into 9 divisions
- Less than 15% of potential

One chart / many themes

- Well known multi national company
- Repeat business over many quarters
- Future growth opportunity



Summary

Soft Items are very important – People, Culture, Relationship

Make sure you “feel the business” in order to make investor feel it

From product perspective – don’t get lost on features