

Thoughts on Pitching a Plan to VCs



Education, Resources and a
Community for Entrepreneurs
Seeking Funding

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Raising Capital in Four Steps

- **Evaluating Needs**
- **Creating Materials**
- **Fundraising**
- **Evaluating Term Sheet(s)**

Before you Start ...

Your company is VC–fundable iff :

- You have a business model that “proves” you will make money
- You have non-trivial reasonsu to win
 - Eliminate real “pain”
 - Not just “nice-to-have” benefits
- You have sustainable competitive advantage and/or IP rights
- You have demonstrable exit opportunities
- You have an insatiable need to do this

Creating Your Materials

- **10–15 second oral pres. (an “Elevator Pitch”)**
- **1–2 minute oral pres. (“Quick Conversation”)**
- **1–2 page Teaser**
- **5–8 page Executive Summary**
- **10–20 Slide Deck**
- **Financial Model**
- **Good resources:**
 - **NVCA**
 - **Angelsoft**

How to Recognize a VC



Elevator Pitches, Teasers, and Exec Summary

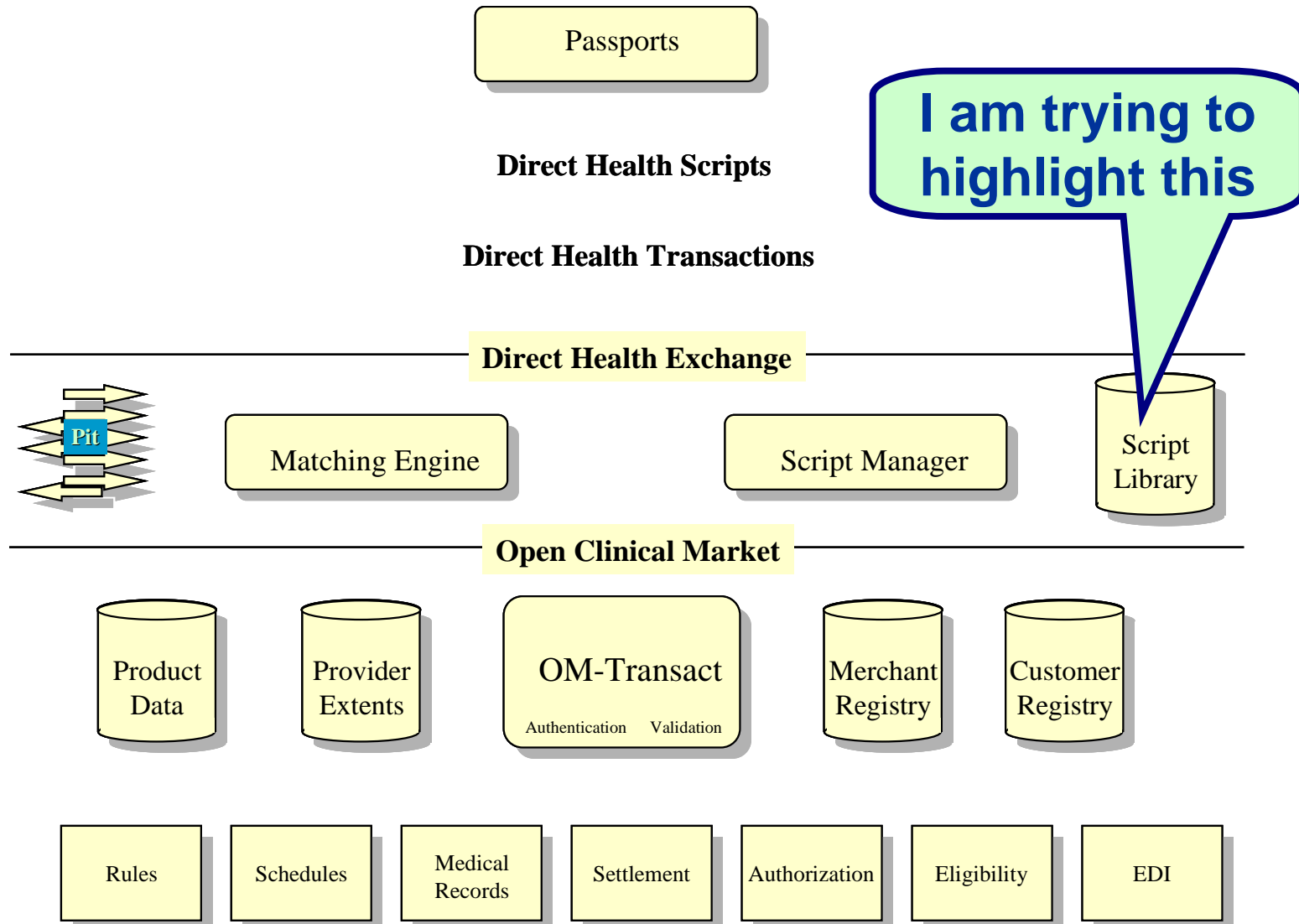
- **Elevator Pitch needs to be a “Grabber”**
 - Hook the reader / listener into learning more
- **Areas to cover in follow-on materials:**
 - Business problem (“pain”) → product (“solution”)
 - The market (*not* “too big”, *not* “too little”, ...)
 - Who pays you? Is it the same as: Who benefits?
 - Competition – be expansive in defining
 - Your team – who? why right? where are holes?
 - Use of Funds; Alignment with Milestones
 - Financials – bottom-up & top-down sanity check



Creating Materials: The Slide Deck

- **A good slide deck \leq than 20 slides**
 - The best may be only 10 slides
 - Be prepared to depart from your script
- **Storyboards and other tools (e.g., videos) for great presentations**
- **In a conference room projection, can a 50-year old VC read it w/o squinting?**
 - Especially your spreadsheets
 - Do callouts on exhibits such as letters, quotes

Can a 50-Year Old VC Read It – 1 ?



Can a 50-Year Old VC Read It – 2 ?

Pro Forma EPS Calculation

	Fiscal Year Ended November 30,	
	2003P	2004P
RED Net Income ⁽²⁾	\$11,320	\$14,600
Plus: WHITE Pro Forma EBITA ⁽³⁾	9,558	10,514
Plus: Estimated Merger Synergies ⁽⁶⁾	1,125	1,319
Less: Incremental Interest Expense / Foregone Interest Income	3,857	3,857
Incremental Intangible Asset Amortization	2,833	2,833
Incremental Depreciation / Amortization	0	0
Incremental Income Taxes @ 40.0%	4,615	2,057
WHITE Net Income Contribution	12,715	13,085
Pro Forma RED Net Income	12,715	17,685
RED Shares Outstanding ⁽²⁾	9,760	10,610
Plus: New Shares Issued @ \$32.75 ⁽⁵⁾	92	92
Pro Forma Shares Outstanding (pre conversion)	9,852	10,702
Plus: New Shares Converted @ \$40.94	1,832	1,832
Pro Forma Shares Outstanding (as if converted)	11,684	12,534
RED Pre-Acquisition EPS ⁽²⁾	\$1.16	\$1.38
Pro Forma EPS (pre conversion)	1.39	1.65
Accretion / (Dilution) - Dollars	\$0.23	\$0.28
Accretion / (Dilution) - Percent	20.0%	20.1%
Pro Forma EPS (as if converted)	\$1.37	\$1.59
Accretion / (Dilution) - Dollars	\$0.21	\$0.21
Accretion / (Dilution) - Percent	17.0%	15.6%
EBITDA without synergies	10,375	\$ 11,331
EBITDA with synergies	11,500	12,650

How about a 20-Year Old?

Fuhgettaboutdit!

(1) Per Company financials as of August 31, 2003. Some portion of cash may be required to pay bonuses. Company has \$29.6 million of preferred stock.

(2) William Blair research as of October 3, 2003.

(3) Estimated 2004 EBITA after depreciation of \$817,000. 2004 EBITA grown at 10.0% over 2003 estimated EBITA.

(4) Assumes all goodwill intangibles.

(5) As of November 28, 2003.


(6) Merger synergies assumes 10.6% of corporate and administrative expenses of \$12,435.

(7) Includes \$12.7 million from August 2003 follow-on offering.

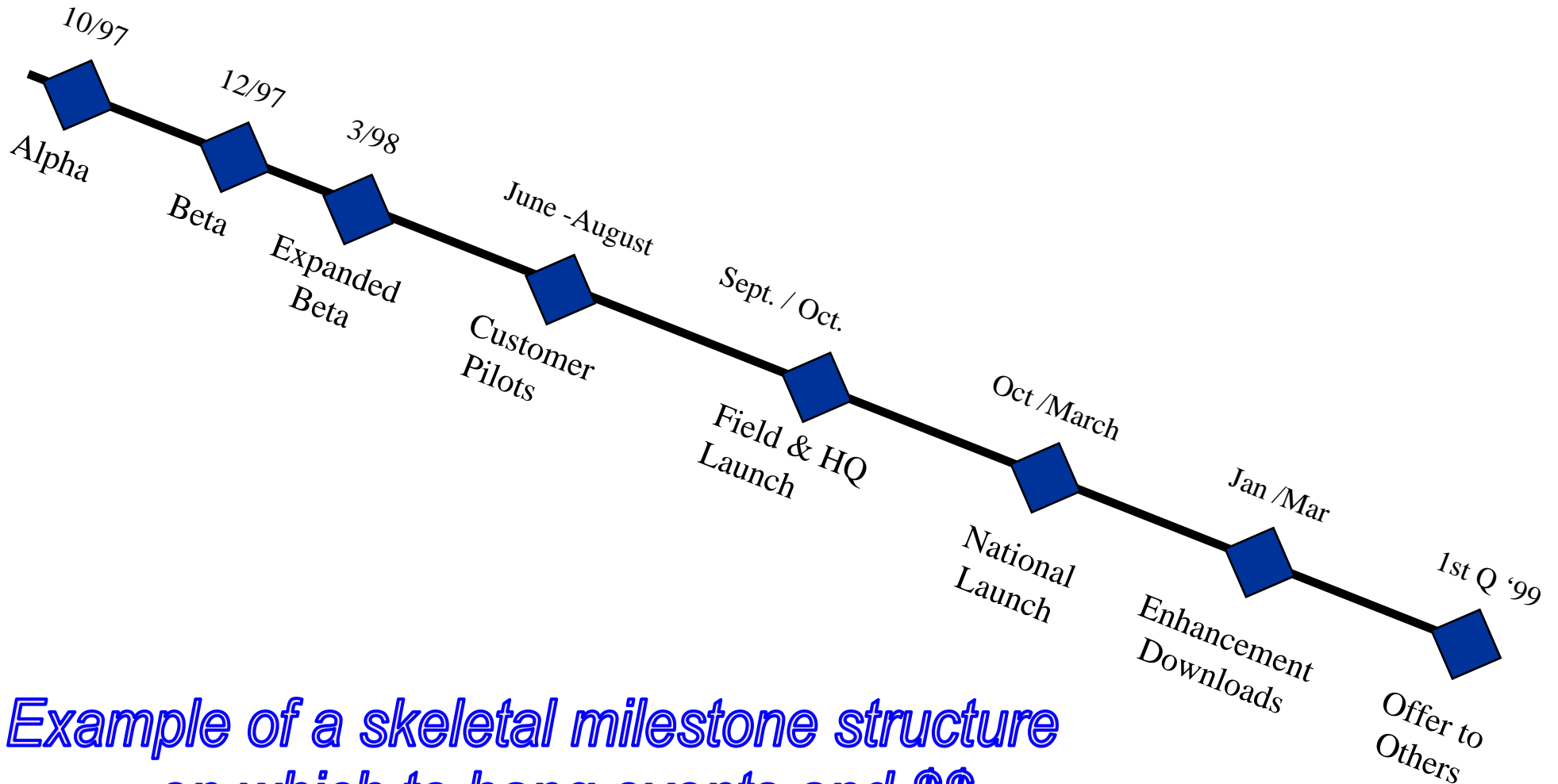
EBITDA Reconciliation

2003P EBITA	\$ 7,852
Depreciation	817
Overperformance	1,706
Adj. EBITDA	10,375
Synergies	2,425
Adj. EBITDA	\$ 12,800

Creating Your Materials: The Ask

- How much should you raise?
- Issues:
 - Proof of concept: Σ of all 3
 - Technical Proof 
 - Pilot success / Re-order / Scale-up
 - Product/service should not require CEO selling
 - Alignment with Milestones
 - Expect \$\$ to be invested in tranches
 - Valuation & Control
 - Subject of other TCN seminars !

Alignment with Milestones



*Example of a skeletal milestone structure
– on which to hang events and \$\$*

Finding the Right Investors

- Your stage & funding requirement
- Their size & fund cycle
- Strange commonalities, prior investm'ts.
- Where to find them (a few examples):
 - Lawyers, CPAs
 - NVCA directory
 - Old-fashioned networking
 - <https://www.ideacrossing.org/>
 - <http://angelsoft.net/>
- Getting their attention – **trusted source** !

Tips on the Pitch



- **Be friendly (VCs *may* be normal people)**
- **Listen ! Don't interrupt !**
- **Be honest ! Exude integrity !**
- **Handle their easy/tough questions**
 - **S.P.I.N. Selling, Xerox PSS, ...**
- **Get rid of the \$000's & false precision**
- **Be explicit about exit opportunities in 3–7 yrs.**
- **Ask your own questions; e.g.:**
 - **If not they, then whom should you see ?**


Get Rid of the \$000's & False Precision

Scenario / Stage	Investment	Alternative Pre-Money Values	Percentages			Percentages		
			Initial		Post-Money Value	Final		
			Mgmt. %	Seed %		Mgmt. %	Seed %	Venture %
2-B	\$5,000,000	\$4,000,000	75.00%	25.00%	\$9,000,000	33.33%	11.11%	55.56%
\$5 m Venture:		\$5,000,000	75.00%	25.00%	\$10,000,000	37.50%	12.50%	50.00%
Range of Pre-Money Values		\$7,500,000	75.00%	25.00%	\$12,500,000	45.00%	15.00%	40.00%
		\$10,000,000	75.00%	25.00%	\$15,000,000	50.00%	16.67%	33.33%
		\$11,666,667	75.00%	25.00%	\$16,666,667	52.50%	17.50%	30.00%

Scenario / Stage	Investment	Alternative Pre-Money Values	Dollars		Post-Money Value	Dollars		
			Initial			Final		
			Mgmt. \$ Stake	Seed \$ Stake		Mgmt. \$ Stake	Seed \$ Stake	Venture \$ Stake
2-B	\$5,000,000	\$4,000,000	\$3,000,000	\$1,000,000	\$9,000,000	\$3,000,000	\$1,000,000	\$5,000,000
\$5 m Venture:		\$5,000,000	\$3,750,000	\$1,250,000	\$10,000,000	\$3,750,000	\$1,250,000	\$5,000,000
Range of Pre-Money Values		\$7,500,000	\$5,625,000	\$1,875,000	\$12,500,000	\$5,625,000	\$1,875,000	\$5,000,000
		\$10,000,000	\$7,500,000	\$2,500,000	\$15,000,000	\$7,500,000	\$2,500,000	\$5,000,000
		\$11,666,667	\$8,750,000	\$2,916,667	\$16,666,667	\$8,750,000	\$2,916,667	\$5,000,000

Fuhge + taboudit!

More Common Mistakes

- **#1 – Over-focusing on pre-money valuation**
- **#2 – “F--- %’s”** 
 - Diluted % do *NOT* lead to lower \$\$ holdings unless a “down round”
- **#3 – Being too willing to meet w/o a VC partner present**
- **#4 – Letting others negotiate for you**
- **#5 – Being overly impressed; they’re just people ... albeit, people with a lot of \$\$**
- **#6 – Not listening ! Interrupting ! Not Learning !**
- **#7 – Taking everything I say too literally**

GOOD LUCK !

