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THE CAPITAL NETWORK

Roundtable Breakfast - Pitching the Plan

January 12, 2010

Strategic Financing Plan & Execution

- How much outside capital should you raise now?
 - Generally - the least capital you need to get to next major valuation milestone (with 90-120 day / 10-20% cushion). You need enough cash to:
 - Hire critical team members
 - Attract Customers / Convert beta customers to paying customers
 - Acquire critical technologies, systems and resources
 - Cover 4-6 months of cash burn (not accounting expense)
 - Deal with unanticipated opportunities or setbacks
 - Counterpoint: Consider the time cost & disruption of raising capital incrementally
 - Optimizing capital raised for:
 - Business Outcomes (Business Growth / Market leadership / Flexibility)
 - Personal Outcomes (Wealth / Control / Operating Role)



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Strategic Financing Plan & Execution

- How much capital will you need later?
 - Continued R&D
 - Sales and R&D Development Teams
 - Sales and Marketing Efforts
 - Growth and Expansion
 - Impact on valuation and dilution
- Debt vs. Equity
- Strategy > Optimum investor base
 - Funds
 - Groups
 - Individuals
 - Friends & Family

Strategic Financing Plan & Execution

- Dilution Impact Comparison – Assume you need \$4m over 2 years.

Raise all Capital in Advance

Date	Pre-Money Value	Amount Raised	Founder %	Investor % Round	Investor % Cumulative
01/01/10	\$2,000,000	\$4,000,000	33.33%	66.67%	66.67%
07/01/10	0				
01/01/11	0				
07/01/11	0				

Raise Capital in Tranches - Assume Uprounds

Date	Pre-Money Value	Amount Raised	Founder %	Investor % Round	Investor % Cumulative
01/01/10	\$2,000,000	\$1,000,000	66.67%	33.33%	33.33%
07/01/10	\$4,000,000	\$1,000,000	53.33%	20.00%	46.67%
01/01/11	\$6,000,000	\$1,000,000	45.71%	14.29%	54.29%
07/01/11	\$8,000,000	\$1,000,000	40.63%	11.11%	59.37%

Raise Capital in Tranches - Assume Flat Rounds

Date	Pre-Money Value	Amount Raised	Founder %	Investor % Round	Investor % Cumulative
01/01/10	\$2,000,000	\$1,000,000	66.67%	33.33%	33.33%
07/01/10	\$3,000,000	\$1,000,000	50.00%	25.00%	50.00%
01/01/11	\$4,000,000	\$1,000,000	40.00%	20.00%	60.00%
07/01/11	\$5,000,000	\$1,000,000	33.33%	16.67%	66.67%

CREDIBILITY

Credibility is critical in fundraising – it leads to investor confidence, lower risk assessments and ultimately fundraising success.

- Honesty – Don't make up answers, information, customers, results, etc.
- Authenticity – Be genuine: Tailor your messaging not your company, your ethics, your vision or your passion.
- Forthrightness – Be upfront with the problems, risks and unknowns – “I don't know” is a better answer than B.S.
- Confidence – Have confidence in the vision and in your ability to assess and overcome the problems, risks and unknowns.
- Humility – Accept that you don't know everything – learn from everyone (including investors) and from every meeting.
- Passion – Be passionate about the problem, your solution, your team and your vision - not about the money you will make.



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The Fundraising Sales Process

- Financing Plan
- Identify optimal (and backup) potential investors
- Gather direct and indirect contact information
- Prioritize Prospects
- Systems – Prospect Tracking
- Contact / Get Introduced – Networking and Social Networking
- Optimizing first impressions
- Don't Pitch! Get a Meeting!
- Create an internal champion
- Sell the opportunity to participate in value creation
- Close, or move on
- Deal syndication
- Investor Coalition Politics

Marketing Materials

- Matching Materials and Process to Investor Type and Setting
 - The full Business Plan - When and Why?
 - The 5 Page Executive Summary
 - The 1 Page Summary (the “Teaser”)
 - The 15-20 Slide Deck
 - The 10 second oral presentation pitch (the “Elevator Pitch”)
 - The 30 sec -2 min oral presentation (the “Quick Conversation”)
- Tailoring the emphasis of materials for the specific investor (similar to tailoring a resume) vs. Consistency across all iterations
- Tracking distribution of materials

The Pitch Deck – Purpose and Overview

- Use as organizing and homework tool
- Selling the Investment Opportunity
 - Solutions are more important than technology or “coolness”
 - Value creation is more important than revenue model
- What do investors want to know
- How to anticipate and address investor concerns: Risk Analysis
- Optimize pitch and presentation; Use of Appendices
- Problem: The Perfect Deck vs. Running Your Business
- 10/20/30
- Do you need each item and each slide?



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The Pitch Deck – Organization

1. Cover Slide with Logo and Contact Info
2. Problem – Core Customer Introduction
3. Solution – When and where to use pictures and demos + Global Vision
4. Value Proposition and Differentiation – The Value Triangle
5. Business and Revenue Model – Who is your customer – how do you get paid?
6. Sales and Distribution Model – How do you get product/service to Customer
7. Defensibility
8. Team
9. Total Market / Addressable Market / Competitors / Current Advantages
10. Current Status
11. Risks and Plans
12. Financial Overview / Cash Burn
13. Funding Requirements
14. Vision, Contact Info and Tagline
15. Appendices



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The Pitch Deck – **Page 1 - Cover Slide with Logo and Contact Info**

- First Impression
- Use of tagline may be useful to assist recall and give an overview
- Include contact information
- Include name of the investor/group to whom presentation is delivered

The Pitch Deck – Page 2 - Problem – Core Customer Introduction

- Who has a problem?
- What is the magnitude and frequency of the problem per customer?
- Cancer Drug vs. Aspirin vs. Vitamin?
- Does the pain create pain for 3rd parties?
- Can you quantify the pain per customer or industry wide?
- Can you explain WHY the pain exists?
- For consumer products – can you explain desire?
- How did you discover or determine the existence of the problem?

The Pitch Deck – **Page 3 - Solution**

- Explain if it is a product, a service or a mix
- What does it do:
 - Provides customer with cost savings or time/cost efficiencies
 - Drives revenue to customer
 - Drives customer's acquisition of customers
 - Provides customer a same priced product that provides additional critical benefits
 - Allows customer to offer its customers a superior value proposition
 - Decreases risks to customer
 - Leverages customer's existing customers or solutions
- Don't get too detailed
- Unless you are a deep engineering company – don't get too detailed
- Assume technical matters will be validated later
- Diagrams or pictures of product may be useful to explain complex matters

The Pitch Deck – Page 4 – Value Proposition and Differentiation

- What does your solution do better, faster or cheaper than the existing solutions
- How much better, faster, cheaper?
 - When is 2% savings in time or cost huge?
- Can you itemize the specific ways in which your solution is “better”? Do you have data to indicate that such items are meaningful to the customer?
- Can you quantify value proposition to the customer?
- Can you quantify a Return on Investment (ROI) for customer based on comparison of solution cost to quantifiable solution benefits?
 - ROI to customer should be a portion of the incremental value created by solution; the remainder
- Example:
 - SellCo spends \$25 to create a solution that it sells to BuyCo for \$50. BuyCo obtains \$100 in gross benefit from solution (a 2:1 ratio).
 - Higher margins for SellCo often represent higher ROIs to SellCo’s customers.

The Pitch Deck – Page 5 – Business and Revenue Model

- Explain who YOUR customers are.
- If your customers are resellers, explain who THEIR customers are as well.
- How do you get paid?
- When and how much do you get paid? Average \$/customer?
- What is your cost structure – fixed vs. variable portions?
- Is the business model well understood or newer? Ex. Digital consumer goods
- Streamlining and prioritizing multiple revenue lines
- Examples:
 - Direct Sales
 - Indirect Sales
 - Razor and blades business model
 - Auction / Arbitrage
 - Digital Marketplace
 - Publishing / Digital Publishing
 - Subscription
 - Advertising
 - Professional Services
 - SAAS
 - Licensing
 - Maintenance Contracts
 - Insurance
 - Loyalty business models
 - Freemium business model
 - Premium business model
 - Professional open-source model
 - VAR
 - Multi-level marketing business model
 - Cost Savings Share
 - MLM
 - Franchise
 - Data Broker
 - Sponsorship
 - Government Contractor

The Pitch Deck – **Page 6 – Sales and Distribution Model**

- How you deliver solution to customers.
- Marketing and distribution strategy
- How you create customer relationships
- How you incentivize and compensate sales
- Explain geography and expansion strategy
- Discuss critical distribution partners and options

The Pitch Deck – **Page 7 - Defensibility**

- Not just Intellectual Property in the legal sense
- Patents, Trademarks, Copyrights
- How unique is your solution?
- Ease of replication?
- Know how and Trade Secrets
- R&D development lead
- No-“out” Contracts
- Relationships and Team
- “First Mover”
- Monopoly

The Pitch Deck – **Page 8 - Team**

- Current Team
- Experience with startups, with industry and with customers
- Soft commitments from prospects
- Board Members
- Board of (technical) Advisors
- Key Thought Leaders

The Pitch Deck – Page 9 - Market

- Size, growth and characteristics of YOUR market
 - How much can you and your direct competitors sell in the coming years
 - Target market and addressable markets
 - Avoiding silly statistics
- Hard data about your marketplace
- Business model or technological shift in that marketplace
- Monopoly problems
- Distribution bottlenecks
- Other concerns that would compress margins or eliminate expansion opportunity
- Current major competitors and why you will beat them
 - Avoiding the “no-competition trap”
 - Explaining their trends of growth or contraction

The Pitch Deck – **Page 10 – Current Status**

- Solution Development
 - Context of development timeline
- Critical development partnerships
- Team
- Critical distribution partnerships
- Customer Acquisition
- Customer conversion rates

The Pitch Deck – **Page 11 – Risks and Plans**

- Technology risks – Will the solution work?
- Business Model risks – Can you sell the solution at margin?
- Supply risks – Can you acquire and manage critical vendors
- Market Dynamics risk – Do customers and distributors have cash and will to spend?
- Distribution Risk - Can you acquire and manage critical distribution and sales points?
- Customer Adoption Risk – Will the Dogs eat the Dog Food?
- Financial risks – Will you have positive cash flow? Will you have sufficient capital?
- Legal / Regulatory risks – Are there barriers beyond your ability to influence?
- Team risks – Is our product or customer knowledge distributed and accessible?

- For each identified risk – plans to assess, address and overcome.

The Pitch Deck – **Page 12 – Financial Overview / Cash Burn**

- Cash in the bank
- Cash burn
- Time to cash flow positive
- Additional investment required before cash flow positive

The Pitch Deck – Page 13 – Funding Requirements

- How much do you want and need?
- What will it be used for?
- How far will it take you?
- Preferred deal structure?

- Dangers of including suggested valuations



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The Pitch Deck – **Page 14 - Vision, Contact Info and Tagline**

- Restate the company name, vision and tagline
- Again add contact info
- Finish as strong as you start

The Pitch Deck – **Page 15+ - Appendices**

- All of the information that may backstop your conclusions
- Case studies
- Customer testimonials
- More detailed technical or product information
- More detailed market or customer information

Financials and Projections

- P&L / Cash Flow / Balance Sheet – Historical + 3yrs
- Segment by revenue type
- Bottom-Up vs. Top-Down projections
- % of China Problem
- Assumptions Pages
- Perfect vs. Functional
- What does “conservative” mean
- Use of High / Medium / Low
- Market Metrics and Information
 - Addressable vs. Total Markets
 - Use of selective statistics
- Anticipating investor cutback
- Matching of pre-money valuation to end market valuations assuming dilution

The Presentation – Part 1

- Know your material cold! Don't wing it.
 - Use note cards & appendix slides for easy access to specific information.
- DON'T READ your presentation.
- You should have answers to likely questions, even if you don't intend to cover such material in your core presentation.
- It's okay to not know everything – no one does. Unless someone asks you something that you clearly should know, it is okay to directly state that you don't have an answer and that you will get back to someone. This builds credibility with your audience.
- When possible, know the room. Arrive early, walk around the speaking area and practice using the microphone and any visual aids.
- Wear clothes that represent you and which reinforce your authority and confidence.
- Work to control filler words such as “Um” “Ah” “Eh” or “Like”. Try to limit distracting repetitive hand or body gestures.
- Realize that audiences want you to be interesting, stimulating, informative and entertaining. They're rooting for you.

The Presentation – Part 2

- Prioritize and eliminate less critical points.
- Be flexible – be prepared to be interrupted.
- Understand the goal of your presentation. Is it to inspire, to educate, to connect, to get attention, to get a second more personal meeting? Your focus should help you prioritize.
- Modulate your pace, pitch, volume, tone and enthusiasm – like when you are telling a story. This helps keep the audience focused.
- Use humor, personal stories and conversational language where possible. Your use of easy to understand analogies can help you draw in the audience and create traction.
- Practice. Practice. Practice! Rehearse out loud with all equipment and with a timer. Allow time for the unexpected.
- Every slide should be consistent with your corporate image – each should bear the company name and should have a background or theme consistent with the company type or culture.
- Slides should HELP the oral presentation, not BE the presentation. Avoid writing down your presentation on the slides.

The Presentation – Part 3

- Always bring a backup copy of the presentation with you in paper and on a flash drive (it is also useful to have it available by web email).
- The professionalism of the powerpoint may convey information to the audience about your credibility. If it looks like a last-minute effort, it probably was.
- The deck is just a tool. If the computer or projector cease working – you should be able to carry on with your presentation without getting flustered. Remember, this is just a tool, it is not the presentation.
- **RELAX, BREATHE and SLOW DOWN**



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Securities Laws Concerns

- Public Offering Concerns
 - Web / MHT / Business Plan Competitions / Trade Org Meetings
- The improper use of Social Networking
- Accredited vs. Non-Accredited Investors



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Accredited Investor

(Rule 501 of Regulation D):

- a bank, insurance company, registered investment company, business development company, or SBIC;
- an employee benefit plan under certain conditions
- a charitable organization, corporation, or partnership with assets exceeding \$5 million;
- a director, executive officer, or general partner of the company selling the securities;
- a business in which all the equity owners are accredited investors;
- a natural person who has net worth that exceeds \$1 million at the time of the purchase;
- a natural person with income exceeding \$200,000 (\$300,000) in each of the two most recent years; or
- a trust with assets in excess of \$5 million under certain conditions.



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