Funding

Entrepreneurship Courselet

[ pro and cons of funding sources ]

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
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<tr>
<td>ANGEL</td>
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<tr>
<td>- friends &amp; family</td>
<td>- Less expensive $$$</td>
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<tr>
<td>- experienced investors</td>
<td>- Industry expertise</td>
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<tr>
<td></td>
<td>- Willing to take higher risk</td>
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<tr>
<td>VENTURE CAPITAL</td>
<td>- Deep pockets</td>
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<tr>
<td></td>
<td>- Professional expertise</td>
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<tr>
<td></td>
<td>- Focused effort</td>
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<td>- Rich network</td>
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[ how venture capital works ]

Limited Partners
Institutional investment $$
Wealthy individuals

Funding Process

Venture Firm Manages $$
Public Equities or $$

Venture Fund
$$ for Private Equity

Start-up Companies

[ what do VCs invest in ? ]

- Business model
- Product/technology
- People
- Markets
- Financials

Sound way to make $$
Need and risk
Experience in area
BIG & fast growing
Timing, amount $$, return on investment

Venture Capitalists Focus on Risk Reduction

[ investment criteria overview ]

Return to Investors
[first point of confusion]

- Technology
- Product
- Company
- Business

[market]

- Substantial market opportunity (> $500M)
- Immediate, near-term opportunity
- Long-term market growth potential
- Need for a new company
  - Market players
  - Competitive landscape

[product]

- Real market demand & cost justification
- Response to customer need
- Defined customer group & accessibility
- Proprietary technology, reasonable implementation
- Technology risk level, way to prove feasibility before large investment
- Reasonable adoption curve

[team]

- Team Quality
  - "The Best" at what they do
  - Realistic roles relative to experience
  - Experience as operator of profitable business
- Team Completeness
  - Positions filled/unfilled
  - Ability to recruit
- Team Chemistry
  - Among players
  - With investor

[business model]

- How do they make money?
- Pricing & revenue model
- Sales cycles & distribution model
- Cost to build, maintain, extend
- Unfair advantage?

[financial issues]

- Existing deal structure
- Amount of money needed
- Amount of time needed
- Valuation & terms
- Ability to raise more money
- Exit strategy
**[factors determining valuation]**

- Similar VC deal valuations
- Market size & opportunity
- Financials: timing / size of revenues & profits
- Industry multiples: PE, market cap to sales
- Completeness and quality of team; CEO is crucial

**[valuation depends on return expected for risk perceived]**

- Money needed this round & total before liquidity
- Expected valuation next round
  - > 2-3 times per round for early stage companies
- What is HOT and what is NOT

**[valuation over time]**

- FDA Approval; Product Launch
- Distribution Agreement
- Hired CEO; Key management in place
- FDA submission
- Animal studies completed; Start clinical trials
- Patents Disclosed; Funds raised
- Company View
- Investor View

**[timing and amount of funding]**

- Completion of Major Milestones
- Series A
- Series B
- Series C
- IPO

- More expensive Money
- Less expensive Money

**VC’s Investment Criteria**

- High growth industries
- Breakthrough technologies
  - Platform that enables multiple applications
- “Killer” market applications
  - First mover in market space
  - Global distribution plans
- World class management… execution!
- Credible, achievable milestones
- Compelling business model
  - Revenue, margins, profit, cash flow
- Excitement and cachet
VC’s Value-Added Roles

- General Partners’ own start-up experiences
- *Seen it before* experience and wisdom
- Sounding board to management
- Stable of resources and relationships
  - Interim and turn-around CEOs
  - Attorneys, accountants, consultants
  - Bringing in senior outsider directors
  - Corporate joint venture relationships
  - Executive recruiting firms
  - M & A experience (mergers and acquisitions)

Showstoppers for VC Financings

- Intractable, inflexible egos
- Naivete of founders, entrepreneurs
- Unrealistic expectations of founders
- Bad references, ethics, professionalism
- Product line, not company builder
- Research project, not business enterprise
- Mucked-up startup financings
- Too many plays in market already
- Market too small or hard to address
- Poor “chemistry” of interaction

Product Line vs. Real Company

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<tr>
<th>Product Line</th>
<th>A Real Company</th>
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<tr>
<td>- Nominal innovation</td>
<td>- Breakthrough enabling technology “platform”</td>
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<tr>
<td>- Enables single product</td>
<td>- Multiple products (or applications)</td>
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<tr>
<td>- Evolutionary product</td>
<td>- Will build a major company</td>
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<tr>
<td>- Build small company</td>
<td>- Revenue potential $100M plus</td>
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<tr>
<td>- Revenue potential $10-20-30M</td>
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