

# Seeking Venture Capital

Presentation to Bangladeshi IT Companies  
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Washington Technology Partners

# The Capital Formation Process

## ◆ Preparation

- Discuss Objectives
- Draft/Review/Revise Business Plan
- Draft/Review/Revise Executive Summary
- Draft/Review/Revise PowerPoint Presentation
- Estimate Enterprise Value and Price Offering
- Compile Due Diligence Book
- Conduct Mock Presentations



# The Capital Formation Process

## ◆ Road Show

- Contact Investors and Distribute Executive Summary
- Distribute Business Plan to Interested Investors
- Arrange Management Meetings
- Evaluate and Negotiate Term Sheets

## ◆ Expedite the Due Diligence Process

- Respond to Information Requests
- Evaluate Investor
- Actively Manage the Process

## ◆ Negotiate the Investment Agreement



# The Capital Formation Process

## Typical Timeline

Review/Revise Plan, Summary & Presentation  
 Est. Enterprise Value & Compile Due Dil. Book  
 Conduct Mock Presentations  
 Contact Investors & Distribute Summary  
 Follow-up and Distribute Plan to Investors  
 Arrange Management Meetings  
 Secure & Evaluate Term Sheets  
 Due Diligence  
 Negotiate Definitive Agreement  
 Close the Transaction

	Wk. 1	Wk. 2	Wk. 3	Wk. 4	Wk. 5	Wk. 6	Wk. 7	Wk. 8	Wk. 9	Wk. 10	Wk. 11	Wk. 12	Wk. 13	Wk. 14	Wk. 15	Wk. 16
Review/Revise Plan, Summary & Presentation	█	█														
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Due Diligence												█	█	█		
Negotiate Definitive Agreement														█	█	
Close the Transaction																█

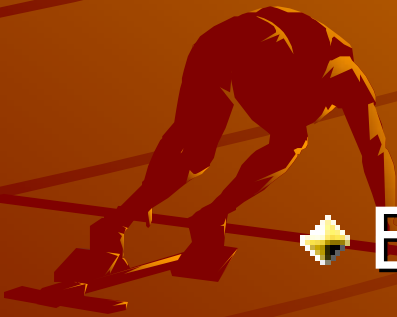


# Required Documents

## ◆ Business Plan

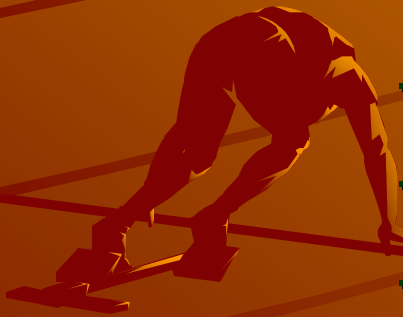
- Do not include proprietary information
- Include capitalization table
- Include detailed financial statements

## ◆ Executive Summary (critical)



# Required Documents

- ◆ PowerPoint Presentation
- ◆ Due Diligence Package
  - Articles of Incorporation
  - Bylaws
  - Board Minutes
  - Shareholder Agreements
  - Contracts
  - Client/Customer References



# Current Macro Market Trends

- ◆ Fewer but higher quality start-ups
- ◆ Lower valuations
- ◆ Economic uncertainty
- ◆ Large amounts of committed but not invested funds



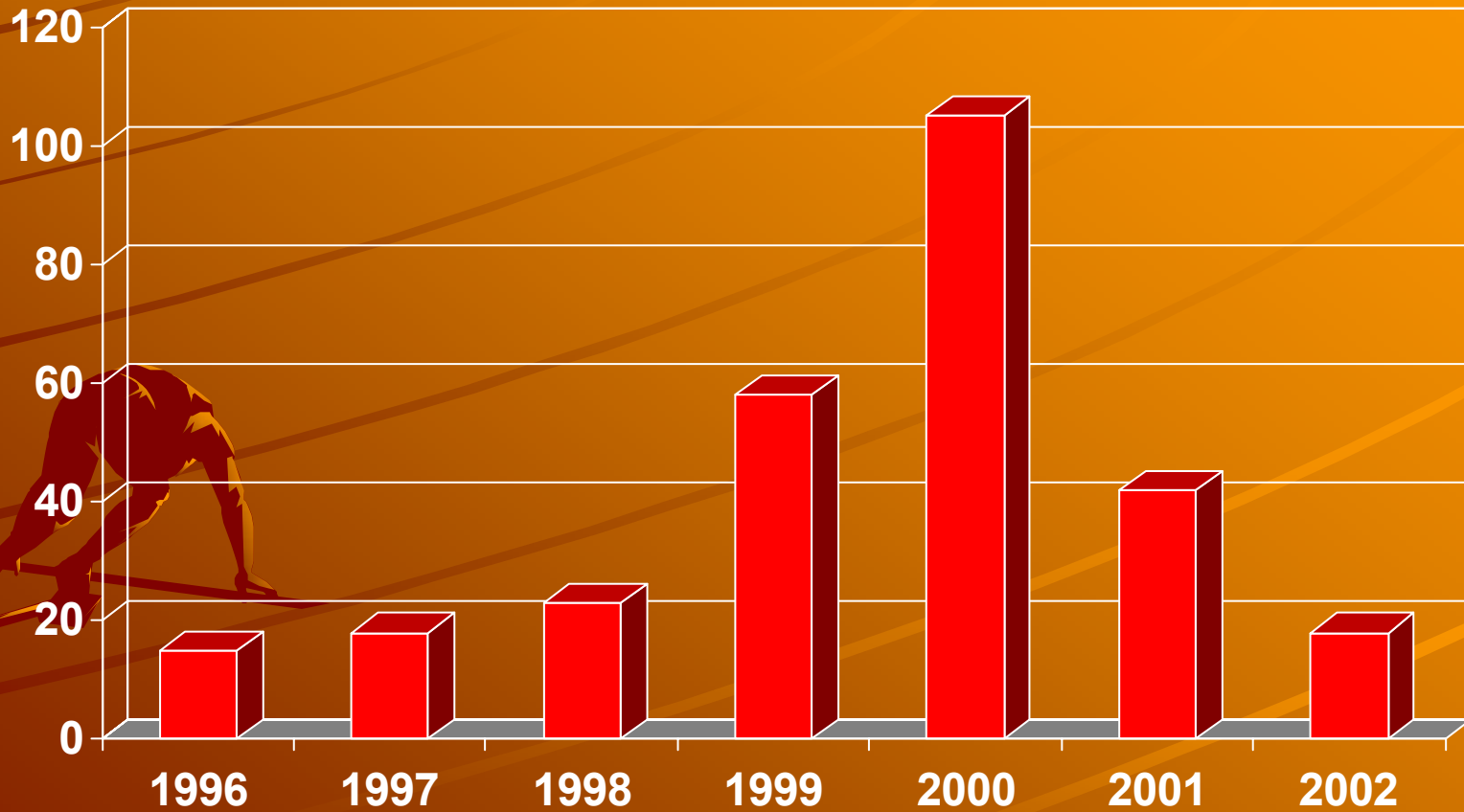
# Current Micro Market Trends

## Reduced Capital for New Investments

- ◆ Liquidity cycle lengthening – need to support existing companies longer
- ◆ Public opportunities for private investment
- ◆ Some VC's releasing commitments of limited partners

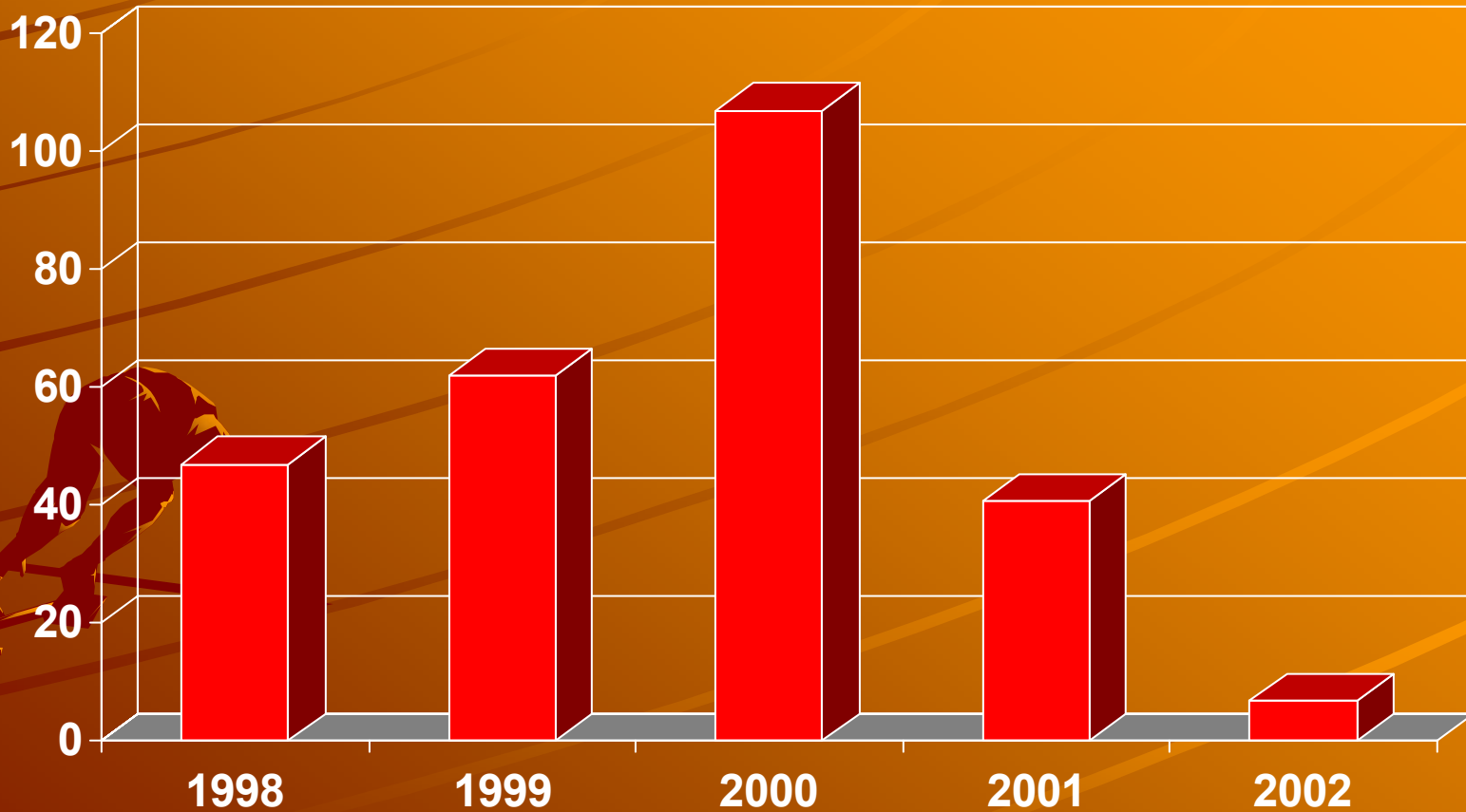


# Venture Capital Investments (\$ Billion)



Source: Venture Economics

# Venture Capital Raised (\$ Billion)



Source: Venture Economics

# Presentations Must Stand Out

- ◆ Gain insights into investors
- ◆ Prepare materials thoroughly
  - Optimize expense vs. output/milestones in plan
  - Focus on profits/liquidity
- ◆ Practice & Critique Presentation
  - Hit key questions head-on
  - Learn from each presentation
- ◆ Follow up and be persistent



# Common Mistakes in Business Plans

1. Grammatical and spelling errors
2. Written in narrative, rather than outline/bullet, format
3. Poor research and identification of the total addressable target market
4. Lack of internal logic in the financial model
5. Leaps of faith (unsupported assertions)
6. Focusing on the technology and not the business
7. Being an inch deep and a mile wide
8. Ignoring/dismissing the competition
9. Projections that are too aggressive or too conservative
10. Lack of a crisp two-page executive summary that clearly articulates the investment case and compels the investor to read the full plan

# “Key factors to get funded”



**Have a sound business model**



## NOT THIS:

“We are an online book rental company. Instead of buying books at full price through competitors such as Amazon.com, users can rent books at a third of the price.”



**Write clearly and concisely**





## NOT THIS:

“Our product is the first genuinely simple and affordable Internet experiences. In other way Connecting People Together (CPT) for the best cause. I have a plan to develop a product which would give the consumer an entirely new device and which enables them to have an immediately rewarding and satisfying online experience.”

**Be professional**



## NOT THIS:

“1st Round Funding Needed: \$1,000,000 in return for 50% equity with TWO seats on board of directors. >>We are Intelligent, Honest and the

Best. Invest in Us. ☺ Can you afford not to Invest in our Company? ”



**Be realistic**



# NOT THIS:

## Five Year Projections



Year	2001	2002	2003	2004	2005
Projected EPS (100M Shares)	\$0	\$0.25	\$1.00	\$3.00	\$6.00
Intrinsic Stock Value (multiple = 20)	\$0	\$5.00	\$20.00	\$60.00	\$120.00
Cumulative Returns = (based on \$0.10/share)	0	50 times	200 times	600 times	1200 times
Product-Life-Cycle Activities	#1 Design, Fast Time- to-Market	Rapid Sales Growth	Improve Product Quality	Cut Costs, Upgrade Product	Maintain Market Share
Incremental Growth =	0	50 times	4 times	3 times	2 times
\$100,000 Invested =	0	\$5M	\$20M	\$60M	\$120M

**Explain how you will execute**



## NOT THIS:

“We will generate revenues by marketing and selling our product.”



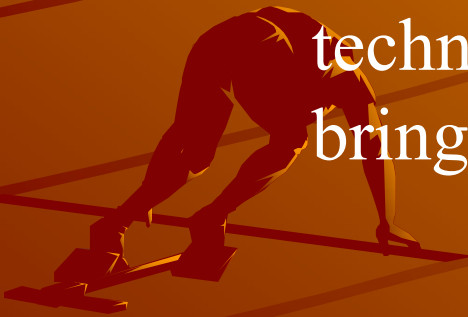
**Surround yourself with good  
management**





## NOT THIS:

“Fateh Ali is a visionary who analyzes trends and future capabilities with today’s technology. We need funding to invest in bringing in the IT team.”



**Explain your barriers to entry**



## NOT THIS:

“We will dominate our market space because we will have the HIGHLY INTELLIGENT PRIVATE MARKET SPACE SOFTWARE AND ABSOLUTELY MIND-BOGGLING RANGE OF PRODUCTS AND SERVICES. Our products will set the path to the future of B2B-commerce, as we know it today.”



# Common “Spin” by Entrepreneurs

1. “Our projections are conservative”
2. “Our market will hit \$40 billion by 2005”
3. “We’re about to sign a contract with [insert any Fortune 100 company]”
4. “Key members of the team will join as soon as we get funding”
5. “We don’t have any competitors”
6. “We’ve got first-mover advantage”
7. “[Oracle/IBM/EMC/JDSU] is too slow to be a threat”
8. “Our patents create barriers to entry”
9. “We *only* need 1% of the market”
10. “A number of VCs are interested”

# “VC talk”



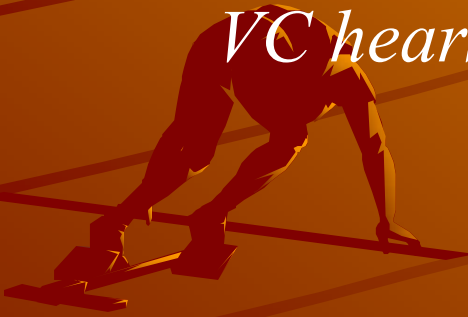


*Entrepreneur says:* “We will have 10% of the market in two years, 20% in three years and 50% in four years”

*VC hears:* “I smoke hashish.”

*Entrepreneur says:* “Forrestry Research indicates that our market will be \$3 trillion by 2010”

*VC hears:* “Forrestry smokes hashish.”





*Entrepreneur says:* “We expect to provide liquidity to our investors through an IPO in three to five years.”

*VC hears:* “You will never get your money back.”





*Entrepreneur says:* “We will join the Company on a full-time basis upon receipt of funding.”

*VC hears:* “Why should I take a risk when some fool like you can do it for me?”



*Entrepreneur says:* “By analyzing the present value of our future revenues, our Big 5 consultant determined that our valuation is approximately \$20 Million.”

*VC hears:* “My analyst was an advisor to Enron.”



*Entrepreneur says:* “Based on our projections, we will be cash-flow positive by the end of year one.”

*VC hears:* “I plan on winning the lottery.”

# Meeting With Investors

## Do:

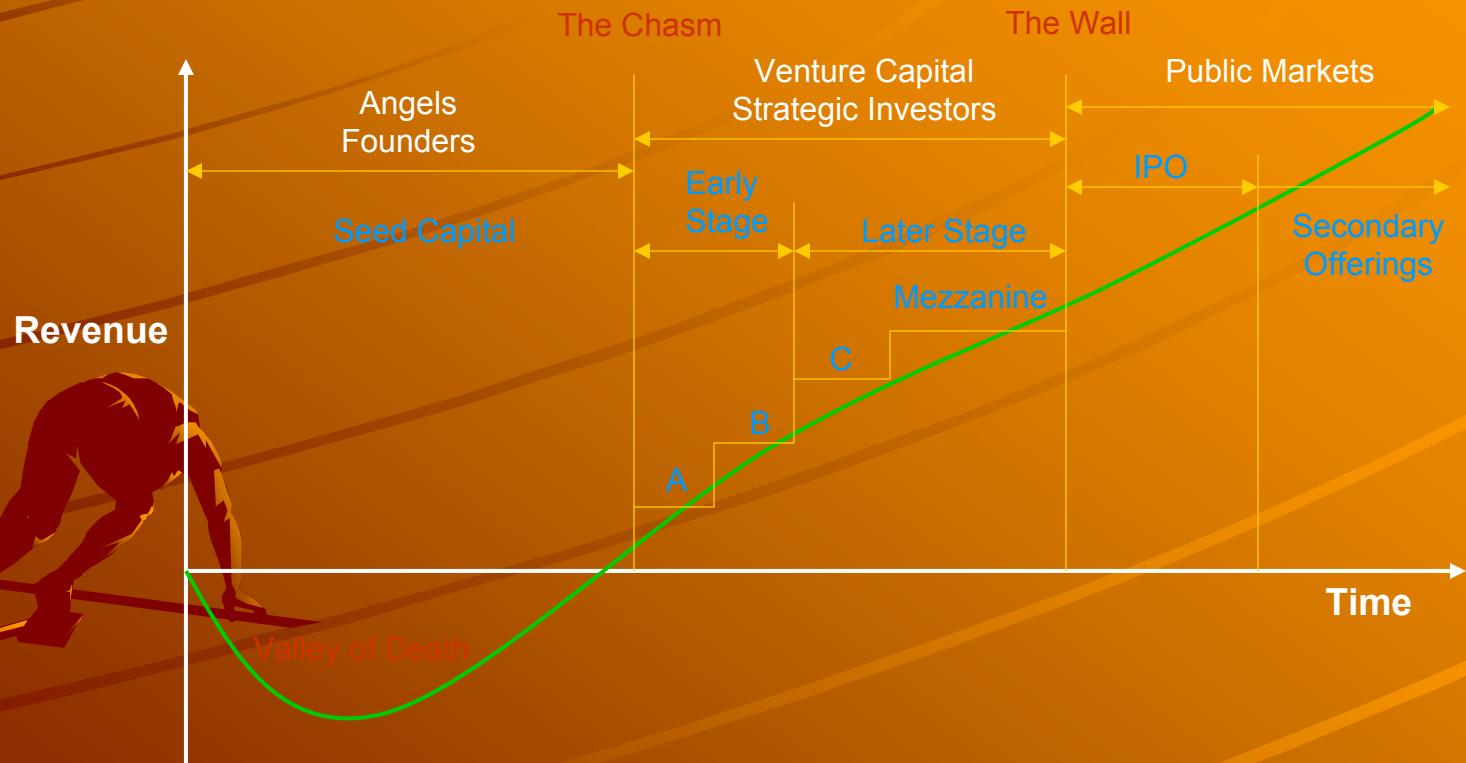
- ◆ Prepare a concise 15-minute PowerPoint presentation
- ◆ A dress rehearsal/mock presentation
- ◆ Have a team leader (CEO/President) who speaks for the company
- ◆ Establish an open and honest channel of communication
- ◆ Demonstrate passion for the business and strategy (but not to the extent that you can't see its risks and weaknesses, or are rigid and incapable of compromise)
- ◆ Demonstrate the personal commitment of the team to the company (all of your resources – personal, emotional and financial – must be committed before most investors will risk their capital)
- ◆ Be prepared to defend your key strategic assumptions and financial forecasts
- ◆ Have an exit strategy (IPO, merger/acquisition), but don't appear anxious to jettison the company

# Meeting With Investors

## Don't:

- ◆ Talk so much that you forget to listen
- ◆ Give evasive answers to specific questions
- ◆ Oversell
- ◆ Appear unfocused
- ◆ Go alone. Key team members should attend
- ◆ Dismiss the competition. You must clearly articulate your competitive advantage
- ◆ Attach your ego to your idea (i.e., don't be defensive when your strategy is challenged; investors want to know that you are open-minded and receptive to their suggestions)
- ◆ Forget that you are being evaluated from the moment you say hello to the moment you say goodbye, and that camaraderie and rapport play an important role in getting the investor to "yes".
- ◆ Go to the meeting without having a firm command of the company's key operating metrics and how they are/will be tracked and utilized.

# Financing Lifecycle



**Seed or Start-up:** Market research and product development.

**Early Stage:** Funding full-scale operations and selling products/services. Not yet profitable.

**Later Stage:** Funding expansion and new products. Near break-even.

# Valuations

- ◆ Present value of future earnings
  - Discounts will apply depending on stage of company
  - Sensitivity analysis will be performed on financials
- ◆ Comparison with similar companies
  - Market pricing for similar private equity deals
  - Public market benchmarking

# Investment Considerations

- ◆ Don't issue common stock to investors
  - Establishes value and impairs issuance of cheap options/restr. stock to employees
- ◆ Option Pool (10% - 25%)
  - Establish early but be reasonable – deemed issued for valuation purposes
- ◆ Securities to be issued
  - Convertible Debt
  - Warrants
  - Preferred Stock
  - Convertible Preferred Stock
- ◆ Registration Rights
  - Demand, Piggy-back, Lock-up
- ◆ Founders
  - Stock vesting, Non-competes



# Investment Considerations

- ◆ Anti-dilution Rights
  - Full Ratchet (harsh)
    - ◆ Purchase price reduced to lowest subsequent purchase price regardless of shares issued
  - Weighted Average (fair)
    - ◆ Adjusts using a formula based upon the number of shares issued
  - Carve-outs
    - ◆ Issuances under stock option plan, conversions, partners, lenders and in acquisitions
- ◆ Preferred Stock Voting Rights
  - Vote with common vs. special voting as a separate class on issuances, mergers, etc.
- ◆ Board Seats vs. Observer Rights
- ◆ Stockholder Rights
  - Transfer restrictions, pre-emptive and co-sale rts.

# Due Diligence Checklists

## Corporate

### 1. Management, Officers, Directors & Employees

- Key Management: *resumes & references*
- Directors & Officers of the company: *contact information*
- List all Employees: *job title, base salary, options/equity*
- Current Organizational Chart

### 2. Capitalization/Securities

- Capitalization Structure: *include a description of any rights attached to preferred shares*
- List any Non-Employee holders of any options or rights to purchase securities including warrants

### 3. Business Description

- Business Plan
- Executive Summary
- Investor Presentation

### 4. Marketing & Sales

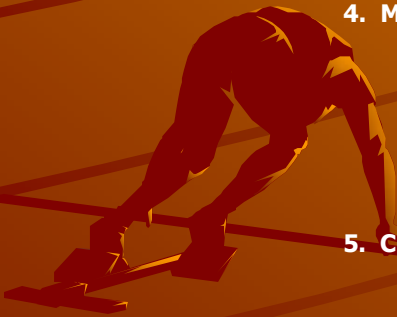
- Sales Plan
- Marketing Plan
- Company Marketing Materials and Brochures
- Historical Sales Data
- Customer Sales Pipeline for next 6 months
- Sales Literature describing Product Features & Applications
- Describe Sales Process

### 5. Customers

- Pricing Model and Current Price List
- Provide Complete Customer List
  - Detail on 10 biggest
  - Detail on 10 medium
  - Detail on 10 smallest
- Provide contact information for top 5 customers for product/service review

### 6. Target Market Sizing

- Provide any Third Party data supporting # of customers eligible to purchase Product/Service



**Continued...**

# Due Diligence Checklists

## Corporate

### 7. Competition

- Competitive Market Analysis

### 8. Operations

- List of Top 10 Suppliers: *include contact information*
- Organizational Chart for R&D
- Development Calendar for next 12-24 months

### 9. Information Technology

- List Proprietary Technology & Patent references
- Technical Literature describing Product Design and Functionality
- Key Information Technology (IT) Suppliers
- List any Third Party Embedded Code
- Provide Graphic Layout of Technology Platform

### 10. Financial Information

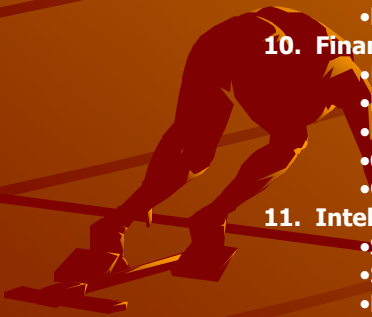
- Latest Financial Statements
- Latest A/R Aging Schedule
- Revenue/Sales Projections & Budget
- Capital Expenditures Budget for next 12 months
- Create a Win/Loss Report

### 11. Intellectual Property (Patent, Trademarks, Copyrights)

- Schedule of Patent Registrations/Applications identifying each patent by title, registration number, date of registration & status
- Schedule of Trademark Registrations/Applications identifying each mark by title, registration #, date of registration & status
- List any Licensing/Merchandising Agreements relating to Patents, Technology, Trade Secrets, Trademarks and Copyrights

### 12. Contract & Strategic Partnerships

- List any Joint Venture or Strategic Partnership Agreements
- List Legal & Accounting Firms: *include contact information*



# Due Diligence Checklists

## Technology

### 1. Company, Product and Service Documents

- Product Documents
  - User Manuals [including Installation Guides, etc.]
  - Reference Manuals
  - Architecture/implementation
  - Product Design Documents
  - Brochures, Product Fact Sheets
  - White papers
  - Industry Analyst Articles
  - Corporate and technical management biographies
  - Case studies / User Stories

### 2. Product Maintenance Information

- Problem Reports:
  - details by Customer, severity, resolution - past 6 months
  - trend report – monthly problems by product version, severity - preceding 1 year
- Product Release Documentation
  - Release documents for previously shipped 2 product versions/releases
  - Release planning documents [upcoming versions/releases]
  - Post-mortem documents on latest production release

### 3. Plans and schedules

- Project plans & schedules for current development projects
- Project plans & schedules for maintenance releases in progress

### 4. Customer reference information

- Customer technology testimonials, articles, papers, etc.

### 5. Process (Method) Documentation

- Development process
- Quality Assurance / Testing process
- Configuration Management process
- Change Management process
- Information Development (Documentation) process
- Packaging and/or Distribution process
- Client Support process
- Maintenance process
- Project plans & schedules for maintenance releases in progress



Sources/Adaptation from:

George Wilcox, Managing Director, Bessemer Trust, "Raising Early Stage Private Equity Capital"

Gina Gober, "Raising Venture Capital in Today's Market"

