Funding Your Innovation: Capital Options; Equity Economics; Working with Investors

Disrupting Old Habits

University of San Diego, MRH Warren Auditorium
September 21, 2018; San Diego, California

Martin Kleckner III PhD MBA

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Strategic Partners

From Their Perspectives
3rd of a Four-Part Series

July 12, 2018: SBIR STTR – The Basics

August 23, 2018: SBIR/STTR Phase II – Beyond the Basics

September 21, 2018: Funding Your Innovation: SBIR Phase I & II Grants, SBIR Phase III Support, Business Alliances, Private Equity; Corporate Funding; Term Sheet – Economics & Control Parameters; Capitalization Table

October 18, 2018: Roadmap to Commercialization
For Our Discussion

1) Setting the Stage: Buy-In Behavior
2) Positioning Ourselves
3) SBIR Seed Reiteration
4) Commercialization
5) Early Stage Investing
   ▪ Business Model
   ▪ Alliances
Addendum

I – “Crossing the Chasm”

II – “Investor Pitch Academy”

III – Overviews

- The Term Sheet:
  (a) Economic, (b) Control
- Capitalization Table
- Convertible Debt

IV – Telling Our Story
Where I’m Coming From

1) Six Launches; Two Exits
   ▪ RegeneMed
   ▪ InSilicoMed
   ▪ SpyFinder (Sold)
   ▪ Sal-Flex (Sold)
   ▪ + RefluxMD, U P Labs

2) Not-For-Profit 501 (c) 3 pediatric cancer research institute

3) SBIR/STTR: NSF, NIH, DoD, DOE, DOT, DoEd, USDA, Coulter, Drexel; University of California; Cal State; L. A. BioMed Research Institute

4) General Electric, Roche, Toshiba; Honeywell (Europe, Asia, Americas)

5) $39.5 MM in Capital & Grants Q2 2016 – Q2 2018

6) Tech Innovation & Commercialization (BRINK) Univ of San Diego
What is Your Odyssey?
Essential Rules

1. Ask Questions
2. Participate
3. Discuss
Setting The Stage
Investors Lost Also
Shifts in Early Stage Seed Funding

Not to $$ Scale

“Dot.com Bubble Burst”

“Great Recession”

SBIR/STTR (Small Business Development Act/Technology Transfer Act)

Re-branded as: SBIR・STTR America’s Seed Fund

Shifts in Early Stage Seed Funding

https://techcrunch.com/2016/05/13/interesting-trends-in-angel-investing/
https://www.fundivo.com/stats/angel-investment-statistics/
Influencing Buyer Behavior
People Buy Emotionally, Rationalize Later

C³: Capable, Credible, Concerned

It’s very personal

OPEN-MINDED

Rationalize
Justify
Confirm

Source: The Innovation Group (www.tigi.net)
1) Decisions often occur in this precise, psychological order
   - About us
   - About our company
   - About our product or service
   - About our ask/price
   - About the time to invest/buy

2) Two Key Issues: (a) Our Integrity, (b) Our Judgment [aka: Us]
   - How well does our product knowledge match our understanding of their needs?
   - WE . . . Will Be Assessed

3) Most importantly: About Themselves
How (Investor) Decisions Are Made

People Buy Emotionally, Rationalize Later

1) Decisions often occur in this precise, psychological order
   - About us
   - About our company
   - About our venture/innovation
   - About our ask/price
   - About the time to invest/buy

2) Two Key Issues: (a) Our Background, (b) Our Capabilities [aka: Us]
   - How well does our background match our understanding of their decision criteria?
   - WE . . . Will Be Assessed

3) Most importantly: Their Interests
How (Investor) Decisions Are Made

People Buy Emotionally, Rationalize Later

1) Decisions often occur in this precise, psychological order
   - About us
   - About our company
   - About our Evidence (Proof)
   - About our Traction
   - About the time to invest/buy

2) Three Key Issues: (a) Our Integrity, (b) How We Think, (c) Communicate/Listen
   - How well does our background match our understanding of their decision criteria?
   - WE . . . Will Be Assessed

3) Most importantly: Their Interests
We’re turning the industry upside down
So, How Should We Position Ourselves?
Why Do Start-Ups Fail?
Why Do Start-Ups Fail?

Based on an Analysis of 101 Startup Post-Mortems

- No Market Need: 42%
- Ran Out of Cash: 29%
- Not the Right Team: 23%
- Get Outcompeted: 19%
- Pricing/Cost Issues: 18%
- Poor Product: 17%
- Need/Lack Business Model: 17%
- Poor Marketing: 14%
- Ignore Customers: 14%
- Product Mis-Timed: 13%
Why Start-Ups Fail (Forbes Post-Mortem Survey, September 2014)

Fortune.com/2014/09/25/why-startups-fail-according-to-their-founders/
More startups fail from a lack of customers than from a failure of product development.
Investor Questions

1) What is our Business Model?
2) How did our Model come about?
3) What Traction have we gained?
This is True for SBIR Funding as Well: Criteria for Investment
Focus: Key Criteria

1. Significance
2. Innovation
3. Approach
4. Investigators
5. Environment
6. Overall Impact

NIH Reviewer “Marching Orders”

- Title
- Abstract
- Problem
- Solution
- Specific Aims
- Research Strategy
- Facilities
- Biographies
- Intellectual Merit
- Impact on Society

1. Advance Knowledge and Understanding
2. Benefit Society

3. Creative, Original, Innovative, Transformative
4. Well-reasoned; well organized; sound rationale; mechanism to assess success
5. Your Qualifications
DOE External Peer Review: CRITERIA

- At least 3 technical reviewers
- 1 reviewer for the Phase II Commercialization Plan
- Review Criteria (equally weighted)
  1) Strength of the Scientific/Technical Approach
  2) Ability to Carry Out the Project Cost Effectively
  3) Impact

Panel Composition/Affiliation:
1) National Laboratory (49%)
2) University (32%)
3) Government (10%)
4) Private Sector (9%)
DoD Evaluation Factors

1) Military & Program Relevance
2) Research Objectives
3) Scientific Excellence
4) Impact/Outcomes
5) PI & Key Personnel Qualifications
6) Facilities
7) Budget
8) Commercialization Strategy

Source Selection Authority & selected team; specified factors noted in Program Solicitation; includes performance history.

SBIR/STTR Desk Reference: “Evaluation & Selection”-
(http://www.acq.osd.mil/osbp/sbir/sb/resources/deskreference/02_eval.shtml)
Beyond Technology: Market Buy-In

Study Approach
Ability/Credentials
Impact

Significance
Innovation
Approach
Investigators
Environment
Impact

Relevance
Objectives
Scientific Excellence
Impact
Qualifications
Facilities
Budget
Commercialization

Intellectual Merit
Impact/Benefit
Advance Knowledge
Creative, Original,
Transformative
Well-Reasoned
Qualifications
Resources
REJECTED?

Common Problems

1) “They Don’t Get It”
2) Problem Is Not Significant (Enough)
3) Not Innovative
4) We’re Not Qualified
5) Flawed Study Approach
Common Problems

1) Our Proposal Is NOT CLEARLY WRITTEN
   ▪ Use peer review to improve solution and pitch

2) Our Proposal is NOT INNOVATIVE
   ▪ NOT CLEARLY DIFFERENTIATED: Position Technology Solution Relative to Current Standard & Alternative Solutions/Offering Being Developed
   ▪ NOVEL COMBINATION Of Existing Approaches: Emphasize Novelty AND Clinical Need

3) Team is NOT QUALIFIED
   ▪ Add collaborators and consultants
   ▪ Create a Multi-PI Group (To Address Experience Issues)
More Common Problems

4) We’re Not Working on a SIGNIFICANT PROBLEM
  ▪ Sell on Problem Importance: Repercussions/Ramifications
  ▪ Be More Specific and Quantitative
  ▪ Get Letters of Support in re Problem and Buyers/End Users

5) Reviewers Are Critical of OUR APPROACH
  ▪ Respond to Their Criticisms
  ▪ Revise the Approach
  ▪ Have Others Review and Critique Approach
“Deal Killers” for Some

- Research Question
  - [Literature, Pertinent Work to Date, ...]
- Purpose or Hypothesis
  - [Predictions, Variable Relationships, Cause & Effect, Possible Explanation(s) ...]
- Specific Aims
  - [What is Measured, How, Controls, How Data Interpreted]
- Study Approach
Why 65% of SBIRs are Partnerships

**Study Design**
e.g. Single/Double Blind  
Study Population  
Sample Size/Power Anal.  
Outcomes/Endpoints

**Study Procedure**
e.g. Sampling Plan, Criteria  
Recruitment Procedure  
Screening  
Randomization (if applicable)  
Study Intervention  
Assessments & Activities

**Analysis Plan**
Statistical Methods  
Background
Bottom Line . . .

... For Financial and Strategic Investors (Steps 2 & 3):
1) Proof of Concept, Feasibility (SBIR/STTR Phase I)
2) Proof of Efficacy (SBIR/STTR Phase II) & Market
3) Evidenced-Based Commercial Traction (Phase III)
   [Business Model ● How Generated ● Traction]
Phase II–III Commercialization
Congressional Emphasis: Commercialization

Reauthorization Act of 2011

1) More Emphasis on Commercialization

2) Requirements
   ▪ SBC Applicant Registers at SBIR.gov (Commercialization Database)
   ▪ Phase II Awardee Commercialization History
   ▪ Phase II – Commercialization Process
   ▪ Phase III – Acquisition Preference

3) Added Agency Flexibility
   ▪ VC/HF/PEF – Ownership Stakes
   ▪ Commercialization Assistance programs
   ▪ Option for Non-Agency Commercialization Support
“Can Our Dog Hunt?”

1) Our Past Record
2) Phase II Support Commitments
3) Phase III Funding Commitments
4) Phase I Performance

In- Large Part: How We Are Considered for SBIR Phase II
# Commercialization Plans

<table>
<thead>
<tr>
<th>Agency</th>
<th>Phase I</th>
<th>Phase II</th>
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<tbody>
<tr>
<td>NIH/HHS</td>
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<td>12 Pages</td>
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<tr>
<td>DOE</td>
<td>3 - 5 Pages</td>
<td>15 Pages</td>
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<tr>
<td>NSF</td>
<td>6 – 8 Pages</td>
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<td>USDA (SBIR-Only)</td>
<td>1 Page +/-</td>
<td>10 Pages</td>
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Commercialization Support

I. NIH: Phase I “Technology Niche Analysis” (TNA)

II. NIH, NSF: Commercialization Assistance Program (Phase II)

III. The I-Corps Program - Innovation & Technology Commercialization Methodology (“Lean Launch Pad”)
   ▪ The Business Model Canvas
   ▪ The Customer Discovery & Validation Process
   ▪ Supplemental, Special (e.g. Matching Funds)

IV. DOE, DOT: Commercialization Assistance Program
NIH Phase I Awardees: [Foresight Science & Technology]

- Technology Niche Analysis® (TNA)
- Commercialization Plan
- Go/No-Go® Assessment Report
- JumpStart™
- Market Overview
- Royalty Rate Analysis
CAP for Phase II Awardees (NIH)
(https://sbir.nih.gov/cap#cap-home)

Managed through a contract with Larta (www.larta.org) of Los Angeles, CA - individual mentoring and consulting sessions, training workshops, access to domain experts

1) Commercialization Training Track (CTT)
2) Accelerated Commercialization Training Track (ACT)
3) Regulatory Training Track (RTT)
Phase I Awardees

- Kickoff Webinar
- Commercialization Readiness Assessment (CRA)
- Market Research
- Specialty Webinars
- Business Mentoring: Phase II Commercialization Plan
- Road Tours (e.g. UCSD, UC Irvine, UCLA last year) + National

www.dawnbreaker.com
http://science.energy.gov/sbir/commercialization-assistance/
Phase II Match Funding (NSF “Phase IIB”)  

- **Aim:** Extend R & D Efforts Beyond Current P-II Grant  
- **Further Accelerate Commercialization**  
- **50% of 3rd Party Investment Funds Up To $500,000**  
- **Must Start Process At least 30 Days Prior to Phase II Award Expiration; Investment Minimum of $100K**  
- *(See: https://www.nsf.gov/eng/iip/sbir/Supplement)*
Comm./Strat. Partnerships

- **NSF: “Technology Enhancement for Commercial Partnerships”**
- Funding for additional research that goes beyond the Phase II project’s objectives to meet technical specifications or additional proof-of-concept requirements. (Submit w/in 18 months of PII award)
- Additional research to enhance the commercial potential and lead to partnerships with industrial partners & secure venture/angel investors.
- **Max Funding**: 20% of the Phase II award, up to $150,000
- Pre-submission Executive Summary + Letter from Commercial Partner

(Reference: www.nsf.gov/eng/iip/sbir/Supplement/instructions.jsp)
Commercialization Assistance

- Funding to secure the services of a third-party service provider to assist in commercialization

- Max Funding: $10,000 per Phase II award (one per active Phase II grant)

- Deadline: Within 12 months of the effective start date of Phase II award (recommended)

Often, our Commercialization Plan (for Phase II funding) is not well written.
I-Corps Nodes
I-Corps Sites

UCSD, SDSU, Northridge
UC Irvine, UC Riverside
USC, UCLA, Caltech
(USD BRINK?)
National Cohorts

SEARCH  EXECUTION

CUSTOMER DISCOVERY → CUSTOMER VALIDATION → CUSTOMER CREATION → COMPANY BUILDING

↑ PIVOT ↓
Seven (7) Week Curriculum
(Agency Grant-Funded: $40K - $70K)

▪ Precursor Competitive Programs
  — e. g. “IN-LA” “Zap” & “Boom” (USC, UCLA, Caltech)
  — e. g. SDSU (Cal State system) CSUPERB BIO 2018 I-Corps
  — (May require SBIR Phase-I Award to get in)

▪ 3 - 5 + Week Site-Based Programs (UCI, UCR, UCSD et al.)
How do Early Stage Angels relate?
Investor Questions (Again)

1) What is your Business Model?

2) How did your Model come about?

3) What Traction have you gained?
What About My Business Plan?
What We Used to Believe

Start With a Business Plan and Financial Model
EVERYONE has a plan until they get PUNCHED IN THE MOUTH.
No battle plan survives first contact with the enemy.
- Helmuth von Moltke¹

No Business Plan survives first contact w/ customers.
- Steve Blank²

We haven’t read a business plan in over twenty years.
- Brad Feld/Jason Mendelson³

(1) 19th-century head of the Prussian army; (2) Stanford & U C Berkeley (I-Corps); (3) Foundry Group, Boulder, CO
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<td>Intangible assets</td>
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<td>Common Stock and Additional Paid in Capital</td>
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<td>Total Shareholders’ Equity</td>
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<td>736.77</td>
<td>729.01</td>
<td>725.76</td>
<td>511.74</td>
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<tr>
<td>Total liabilities and shareholders’ Equity</td>
<td>2884.50</td>
<td>3000.95</td>
<td>3484.61</td>
<td>3577.23</td>
<td>3612.00</td>
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Plans are worthless, but planning is everything.*

- Dwight D. Eisenhower

* National Defense Executive Reserve Conference, Washington DC, November 14, 1957
“Execution is a systematic way of exposing reality and acting on it.”
“Just get out there and build it; when you have something to play with... something tangible, that’s when the real learning happens.”

Jack Dorsey
Co-Founder, Twitter and Square
Copenhagen Money 20/20 Conference
(Monday, June 26, 2017)
Instead of *(Before)* creating business plans...

Today we discover *business models.*
Investors, Grant Reviewers
Our Customers, Stakeholders
Need Us To

DISCOVER & VALIDATE
Through Discovery We Engage so that we can develop an understanding of (their) needs, desires, behaviors, characteristics, beliefs, influences, motivations, (dimensions) . . .

“Ian Baker.

“Excellent strategy, General... Though I fear the enemy might be full size...”
Qualitative Research

Talking to Humans, Giff Constable (2014: 1st edition, V1.72),
“Success starts with understanding your customers.”
“Seek First to Understand, then Seek to be Understood”
Seek First To Understand, Then Seek To Be Understood*

How We “Listen”:
1. Ignore
2. Pretend
3. Be Selective
4. Be “Active”
   ▪ Mimic (Rephrase or Reflect)
5. Be Empathic

* Stephen Covey, The Seven Habits of Highly Effective People
Seek First To Understand, Then Seek To Be Understood*

How We “Listen”:
1. Ignore
2. Pretend
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   ▪ Mimic (Rephrase or Reflect)
5. Be Empathic

* Stephen Covey, The Seven Habits of Highly Effective People
You've got to start with the customer experience and work back toward the technology - not the other way around.

(Steve Jobs)
Remember: Balance Your Vision w/ Reality

C³:
- Capable
- Credible
- Concerned

Do you really understand your customer(s)?

OPEN-MINDED

Rationalize
Justify
Confirm

NO BUY-IN

RE-CONFIRM

Source: The Innovation Group (www.tigi.net)
Business Model Generation
(Customer Discovery & Validation)

What is a business model?

9 Components...

1. Value Propositions
2. Customer Segments
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Key Resources
7. Key Partners
8. Key Activities
9. Cost Structure

How a company creates value for itself while delivering products or services for customers.
THE LOGIC OF HOW WE WILL MAKE MONEY
Customers – Offer – Infrastructure – Financial
AKA HOW “THEY” WILL PROFIT
Before Trying to Sell . . .
. . . Customer Development

SEARCH

CUSTOMER DISCOVERY → CUSTOMER VALIDATION

↑ PIVOT ↓

CUSTOMER CREATION → COMPANY BUILDING

EXECUTION
2. Customer Segments
Pardon Our Disruption!

PRODUCT/MARKET FIT

1. VALUE PROPOSITIONS
2. CUSTOMER SEGMENTS
3. CHANNELS
4. CUSTOMER RELATIONSHIPS
5. REVENUE STREAMS
6. KEY RESOURCES
7. KEY PARTNERS
8. KEY ACTIVITIES
9. COST STRUCTURE
1. Customer Archetype...

WHO are they?
WHY would they buy?

2. Customer Segments

- Geographical
- Social
- Demographic

Your customers do not exist to buy. You exist for them.
Customer Segments and Customer Types

A Customer Segment is a subset of the marketplace that makes decisions in a defined way for a reason.

A Customer Type defines their role in the marketplace.
Customer Types

- End User
- Influencer*
- Recommender
- Economic Buyer/Payer
- Decision Maker
- Saboteur

* Remember William Dawes?
1. VALUE PROPOSITIONS

"It's not about your idea or product!"

It's about solving a NEED or PROBLEM!

"Hear you..."

It's about satisfying a customer need.

YAY! I'm delighted!

...and who are your customers?
START WITH A BLANK CANVAS
Launching the Canvas

We begin with Hypotheses
Also known as Educated Guesses
We urgently need Facts
1. Here’s what I think (Hypothesis)
2. So, here’s what I did (Experiment)
3. What I found out (Discover)
4. So, here’s what I will do next (Test)
Hypotheses

My target customers will be . . .
The problem my customer wants to solve is . . .
My customer’s need can be solved with . . .
My customer can’t solve this today because . . .
The measurable outcome my customer wants to achieve is . . .
My primary customer acquisition tactic will be . . .

Assumptions

My earliest adopter will be . . .
I will make money (revenue) by. . .
My primary competition will be. . .
I will beat my competitors primarily because. . .
My biggest risk to financial viability is . . .
My biggest technical risk is . . .
The assumptions, if proven wrong, will cause business failure are . . .
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<td>Guess</td>
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<td>Guess</td>
<td>(1) State Your Hypotheses</td>
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</table>
2. Test Your Hypotheses

Identify Customer Problems and Needs

Test hypotheses about CS and VPs...

... Iterate and Pivot

NO SELLING! EXPLORE & DISCOVER ONLY
<table>
<thead>
<tr>
<th>1. Value Propositions</th>
<th>2. Customer Segments</th>
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<tr>
<td>5. Revenue Streams</td>
<td>6. Key Resources</td>
</tr>
<tr>
<td>7. Key Partners</td>
<td>8. Key Activities</td>
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</tbody>
</table>

(3) Gather Data

- What are you dealing with?
- How are you solving it now?
- Where do you buy?
- What is a solution to your problem worth to you?
Talk to Strangers
Get Their Stories, not Speculation
Ask Open-Ended Questions
The Art of Asking Questions . . .

1. Closed v. Open-Ended
2. Controlling the Focus of conversations
3. Fact-Finding questions
4. Feeling-Finding questions
5. The Empathic Question
6. Avoid the Directive Question

. . . & Finding the Hot Buttons
The Approach

Watch for responses, reactions, body language

Discover the dominant buying motive (What emotions are you appealing to?)

They won’t tell you what it is

REMEMBER:
GET THEM TO DO THE TALKING!
Our Investors Want Us . . . To Understand Buyer Behavior

1) People don’t care about our product or solution as much as we do (It really is about them).
2) They perceive innovation as risky and difficult.
3) They fear making mistakes.
4) It takes time: selling is building & maintaining a relationship.
5) Don’t tell our buyer something that can be asked.

*This includes Investors and Corporate Partner Executives: Be “Coachable”
I have a cool new tissue product for you!

My product is a disruptive innovation!

I don't care!

Get lost!

(I don't know you, but) I know what you need!

ACK!! What do you want?

FINALLY!! I am glad you asked...

No you don’t, I don’t trust you & I don’t care!
Cute Baby?

*Beware of Cognitive Bias*
Confirmation Bias
Where might our first customers come from?
Investors are interested in this

After 10, 25, 50, . . . 100 interviews, What’s our story (lessons learned; insights gained)?
Corporations, Partnerships, Alliances as Investors
Alliances for Start-Up Ventures

- Investment; Need for Cash
- Access or Partner with Technological Advances
- Find a Viable Solution for a Tough Problem
- Fend off a Competitor
- Gain Market Share . . .
- . . . and Motivate Other (More Risk-Averse) Investors
Who To Target

Feasible Partner
1) Relevant Product Lines
2) Established Presence in the Market.

Viable Partners
- Good Financial Health
- Established in the Market with a Relevant Product Line
- Can Provide Capabilities - Relevant for Commercialization
- Possess Good Absorptive Capacity
Match-Making Search Questions

1) Name of Target and Relevant Unit
2) Current Customer Base
3) Target’s Reason for Interest
4) Prior Acquisition(s) of Technology from the Outside
5) Criteria Likely to be Used to Evaluate Your Technology
6) Likely Information Desired
7) Likely Preferred Legal Structure for Deal
8) At What Stage in Maturity does the Target Prefer to Obtain Technology
9) Will Target Participate in Concurrent Engineering or Test & Evaluation?
10) Who is the Ultimate Decision-Maker(s)
Analyze for Strategic Fit

1) Return on Investment (Their Market Share ➔ Our Market Access)
2) Your Mission Statement Goals
3) Management Capabilities; Their Intentions;
4) Corporate Culture; History of Partnerships
5) Business History, Financial Background
6) Partnership Strategic Direction

See: Larraine Segil, *Intelligent Business Alliances*
Examine Closely Before Entering Into An Agreement

- Financial Situation
- Operations
- Market Presence
- Quality of Product or Service
- Views on Customers and Service
- Marketing
- Desire

Check List

1) Financial Situation
2) Annual Revenue
3) Annual Growth
4) Organization Structure
5) Management Experience & Background
6) Market Presence
7) Prospect Markets
8) Growth Opportunities
9) Quality Standards
10) Customer Feedback
11) How Are Complaints Handled
12) Marketing
13) Cash & Personnel
14) Desire, Enthusiasm
How To Approach a Prospect

The Deal That You Are Proposing Should be Equally As Beneficial To Them As It Is For You

* Handle Similarly to an I-Corps Value Proposition
Checklist to Formally Discuss with a Potential Partner

1) The Business Opportunity at Hand
2) Respective Financial Resources and Responsibilities
3) Steps Required to Launch Alliance &/or Develop The Product
4) Who Will Supply Which Personnel
5) Duration of Commitment or Relationship
6) Intellectual Property Ownership; Exit Strategy
Licensing – “Wheelbarrow Expressions of Value”

- Lump-Sum License
- Royalty License
- Upfront Payment(s)
- Annual Payments
- Milestone Payments
- Option Payments
- Royalty Adjustments
- IP Rights
- Commitment to Purchase
- Equity

Addendum

I – “Crossing the Chasm”
II – Investor Pitch Academy
III – Overviews
   - The Term Sheet: (a) Economic, (b) Control
   - The Capitalization Table
   -Convertible Debt
IV – Telling Our Story
Addendum I

“Crossing The Chasm”
Innovators

Early Adopters

Early Majority

Late Majority

Laggards

Innovation Adoption Life Cycle

Geoffrey A. Moore,
Crossing The Chasm,
Innovators

Early Adopters

Early Majority

Late Majority

Laggards

Innovation Adoption Life Cycle
Innovators

Early Adopters

Early Majority

Late Majority

Laggards

Innovation Adoption Life Cycle
1. Innovators
2. Early Adopters: Visionaries
3. Early Market: Early Majority
4. Later Market: Later Majority
5. Laggards

Distinguishable Sets of Prospective Customers

- For a given set of products/services; they present common, intrinsic needs & wants;
- each hears, responds differently to targeted messaging.
- They reference others in THEIR GROUP (not prior one) when buying-in

Tech Enthusiast
(Innovator)

Notable Characteristics

1. “Into” new tech products
2. Technology is a “central interest”
3. Seek them out - pre-market; don’t need to be fancy (early MVP)
4. Winning them over is key; they’ll help debug
5. Their endorsement reassures other decision makers that the product does in fact work

“Give me the truth: no tricks – techie-to-techie interaction – Give me the new stuff, first ... ... and I want it cheap”

Early Adopters (Visionaries)

Notable Characteristics

1. **Recent entrants** in executive ranks; motivated; have a dream
2. **Seeking Fundamental Breakthroughs**; New World; “Order of Magnitude ROI
3. **Want to be First**; Champion, Risk-Taker; Change Agent & Be Recognized
4. **Have a Budget**; Not Afraid To Use It
5. Will authorize – and control - Pilot Projects, Phases, Milestones; Measures/Metrics *(Based on Their Needs; Not Yours)*
6. **In a Hurry**: Windows of Opportunities, Deadline Pressures

They can make noise . . .

. . . music to us

Early Market (Early Majority)

Notable Characteristics

1. Pragmatist, Prudent, Cautious
2. Not Assertive; Not Pioneering
3. Not the Stars of Show
4. Not Futuristic; Present Day
5. Value Experiences of Their Peers
6. Prefer Percentage Improvements

Bowling Pin Analogy: One pin knocks over others • Prefer “Market Pull” to “Sales Push” • Want evidence of installations • Don’t Sell Them Disruption

Later Market

Notable Characteristics

1. Conservative; Not interesting to Entrepreneurs
2. More Traditional than Pragmatists; not willing to work at the mastering the product
3. Prefer mature products; bugs removed; risks eliminated
4. Convenience, not performance
5. Costco buyers: pricing does not pay for tech support

Laggards

The Chasm

Establish a “Bounded” Market Segment

1. Make your initial challenge simple
2. Focus on a very specific, confined niche market
3. Deliver an over-abundance of support
4. Develop your solid list of references, collateral, and internal procedures
5. Concentrate communication

Don’t Try to Expand Too Quickly

War Analogy: Establish A Beachhead

1. Objective: Get those References
2. Single very specific niche segment: drive word-of-mouth effect
3. Own that niche, when captured, as your next-niche entry point
4. Avoid the multi-opportunity “Sirens”
5. Pragmatists go for and fortify the market leaders. That’s why they delay their decisions

Be Market-Driven; not Sales-Driven

Addendum II: Investor Pitch Academy
What Should We Tell Investors?

I. “Elevator Drill” – Set The Stage and Establish Expectations; Five (5) “Take-aways”

II. What is the problem?

III. What is Your Solution?

IV. Business Model: Define Your Market; Customer Segment(s) – “Pains”, Needs; Desired Gains

V. Value Proposition
VI. Competition – Your Distinguishing Characteristics

VII. Market Development ("Get – Keep – Grow") Plan
   ▪ Sales/Distribution; Revenue Stream/Tactics

VIII. Your Team

IX. Pro Forma Financial Statement

X. Corporate Development Timeline
Finally

XI. Capital Funds Required – Use of Funds
XII. Exit Strategy
XIII. The Deal
XIV. Final Summary Slide (See Slide I)
XV. Back-Up Slides
How Many Slides?

1) How much time do you have? 3 – 6 – 12 – 18
2) Keep it Moving
3) Simple is Good
4) No Sentences; Few Words
5) White Space = Good
What is (Company)? **Too Much**

- A recurrent service revenue company, predicated on telemedicine and novel neuroimaging devices
- That transforms existing acute/preventative stroke and TBI diagnosis/treatment paradigms by:
  - Delivering neurological diagnosis upon *initial patient contact*. **ANYWHERE**
  - Changing the process and logistics of care
  - Reducing service time
  - Providing seamless continuum of care from home to hospital
  - Fostering earlier and appropriate and warranted therapy and reduced costs
  - Improved morbidity and mortality
  - Significant Investment return for investors with recurrent revenue based on established CPT codes
The Issue: Diagnosing Traumatic Brain Injury & Stroke

- Strokes: $74B cost per year in U.S. $130B by 2030
- Traumatic Brain Injury (TBI): $60B cost per year in U.S.

Keys to reducing costs:

- Diagnosis and prevention pre-stroke
- Rapid diagnosis and treatment post-stroke and post-TBI
- Reduction in severity of acute stroke and TBI

Company’s system is the unique solution
(Still) Too Crowded

Stroke: Time Lost = Brain Lost

- Stroke: 880,000/Year; US
- $70B/Year
- $130B (2030)
- $140,000/episode
- $300-800,000 if severe
- Traumatic Brain Injuries (TBI): 1.7 M/Year
- > $100B/Year

- 300,000/Year
  - 60-80% die/severe disability
- Only 10% (27,000) definitive early treatment
Better

Time Lost is Brain Lost

2 Million Neurons per Minute

Large Vessel Obstruction

880,000
$70 B
$140 - $800K
10%

Brain Lost
The Elevator Introduction

Who

What

Why

How

15  30  60
The Problem

What is it?
Who has it?
How badly do they want it fixed?
What have they tried so far?
Repercussions - Ramifications

Make Us Care
Your Solution

1) What is it? Simple, not in Detail
2) What it does? NOT how it does.
3) What will happen if it is implemented?
4) How much will it save?
5) What will it allow your customer to do that couldn’t be done before?
For Whom?

2. Customer Segments

Your customers do not exist to buy, you exist for them.

Customer Archetype...

Who are they?

Why would they buy?

- Geographic
- Social
- Demographic

- 24 years old
- Male
- City dweller
- NOT social media user
- Single
- Inc...
Your Market

1. Value Propositions
2. Customer Segments
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Key Resources
7. Key Partners
8. Key Activities
9. Cost Structure

Product - Market Fit

How Significant?
How Large?
Scalable?
How are you Positioned?
Beachhead?
Value Proposition

1. Value Propositions

"It's not about your idea or product!"
## Competition – Your Advantage

<table>
<thead>
<tr>
<th></th>
<th>YOU!</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
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<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Market Development: Get, Keep & Grow

PROCEED CAREFULLY
“This is not the time to broadly launch your product to a wide audience or get a ton of press (You’ll be under enormous pressure to do so.”*

*N Steve Blank/Bob Dorf (2012)*
Sales Channels

- Own
  - Sales Force
  - Web Sales
  - Own Stores
- Partner
  - Partner Stores
  - Wholesaler

Steps:
- Awareness
- Evaluation
- Purchase
- Delivery
- After Sales
# Revenue Stream

<table>
<thead>
<tr>
<th>Asset Sale</th>
<th>Fixed Menu Pricing</th>
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<tr>
<td>Usage Fee</td>
<td>List Price</td>
</tr>
<tr>
<td>Subscription</td>
<td>Product Feature Dependent</td>
</tr>
<tr>
<td>Fees</td>
<td>Customer Segment Dependent</td>
</tr>
<tr>
<td>Rent, Lease</td>
<td>Volume Dependent</td>
</tr>
<tr>
<td>License</td>
<td>Dynamic Pricing</td>
</tr>
<tr>
<td>Brokerage</td>
<td>Negotiation</td>
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<tr>
<td>Advertising</td>
<td>Yield Management</td>
</tr>
<tr>
<td></td>
<td>Real Time Market</td>
</tr>
<tr>
<td></td>
<td>Auctions</td>
</tr>
</tbody>
</table>
Your Team

IMPRESS US - Experience & Credentials

Yiying Lu
CEO

Arash Ferdowsi
CTO

Joe Gebbia
CPO

Dave Altarescu
Director of Marketing

Tobias Van Schneider
Art Director

Paige Brewster
Account Manager

Advisors & Investors

Paul Graham
Advisor

Brian Chesky
Creative Advisor

Jason Jones
Investor

Tim Ferriss
Investor
# Financial Proforma

<table>
<thead>
<tr>
<th>($000's)</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
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<tbody>
<tr>
<td>Revenue</td>
<td>$43</td>
<td>$3,032</td>
<td>$11,900</td>
<td>$57,245</td>
<td>$112,881</td>
<td>$192,721</td>
</tr>
<tr>
<td>Units Sold</td>
<td>251</td>
<td>2,458</td>
<td>5,208</td>
<td>16,217</td>
<td>22,939</td>
<td>32,425</td>
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<tr>
<td>Gross Profit</td>
<td>(208)</td>
<td>574</td>
<td>6,692</td>
<td>41,028</td>
<td>89,942</td>
<td>160,296</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>19%</td>
<td>19%</td>
<td>56%</td>
<td>72%</td>
<td>80%</td>
<td>83%</td>
</tr>
<tr>
<td>Sales/Market/Admin</td>
<td>707</td>
<td>2,305</td>
<td>7,609</td>
<td>19,948</td>
<td>34,756</td>
<td>46,877</td>
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<tr>
<td>R &amp; D</td>
<td>-</td>
<td>1,200</td>
<td>1,350</td>
<td>2,050</td>
<td>3,050</td>
<td>5,050</td>
</tr>
<tr>
<td>EBITDA</td>
<td>($915)</td>
<td>($2,930)</td>
<td>($2,267)</td>
<td>$26,030</td>
<td>$52,135</td>
<td>$108,368</td>
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<tr>
<td>Capital Funds</td>
<td>$1,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Cumm. Net Cash</td>
<td>$84</td>
<td>$155</td>
<td>$887</td>
<td>$19,917</td>
<td>$79,053</td>
<td>$187,421</td>
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<tr>
<td>Customer Events</td>
<td>125</td>
<td>5,500</td>
<td>20,500</td>
<td>98,250</td>
<td>192,750</td>
<td>327,750</td>
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<tr>
<td>Net $/Event</td>
<td>$285</td>
<td>$536</td>
<td>$566</td>
<td>$572</td>
<td>$575</td>
<td>$577</td>
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<tr>
<td>Venues/Sites</td>
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<td>50</td>
<td>150</td>
<td>500</td>
<td>700</td>
<td>1,000</td>
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<td>Cost/Venue</td>
<td>$37</td>
<td>$34</td>
<td>$28</td>
<td>$27</td>
<td>$27</td>
<td>$27</td>
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## Financial Proforma - Simplified

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<tr>
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</tr>
<tr>
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<td>125</td>
<td>5</td>
<td>50</td>
<td>150</td>
<td>500</td>
<td>1,000</td>
</tr>
</tbody>
</table>
Corporate Development Timeline

- **2016**
  - Strategic Planning
  - Fund Raising (I) US$ 1 M

- **2017**
  - Phase I Development
  - Pilot Test
  - Fund Raising (II) US$ 1.5 M

- **2018**
  - Phase II Development
  - Mass Production (I)

- **2019**
  - Mass Production (II)

- **2020**
  - IPO
Funds Required – Use of Funds

$1 MM

Use of Finds I: Add Detail

Use of Finds II: Add Detail

Use of Finds III: Add Detail

Must align with your Business Model, Growth & Timeline slides. Note concurrent sources, e.g. Grants, Loans
Your Exit Strategy

1) Strategic Acquisition
2) Competitor Acquisition
3) Initial Public Offering (IPO)
4) Management Buy-Out
5) Investor Buy-Out

Who? Why?
Recent Deal History;
Structure/Value/Multiple
The Deal

Almost Always Disagreements; be Open-Minded

1) Typically: (1) Straight Equity; (2) Convertible Note

2) Don’t add $ valuation to the slide . . .
   . . . prepare to discuss a range

1) % Percentage of start-up
The Close

Reminder of Key Points

Prompts to ask questions during Q&A

Source: Rockies Venture Club
Back Pocket/Appendix Slides:

- Included in your deck for AFTER the pitch, during Q&A
- Something not conveyed during pitch
  - OR to support something in more detail
- Examples:
  - Extended Info on Competition
  - Expanded Pro Forma
  - Further Explanation/Display of Product or Technology
  - “Comps”, Intellectual Property
Addendum III:
The Term Sheet Capitalization Table
Two Key Things That Matter in Term Sheets:

Economics & Control
How Much Are You Raising?

1) Determines who you will speak to
2) Complex Financial Models: We know that they are wrong
3) Focus more on the length of time for funding to get to meaningful milestones
   ▪ How long to ship your first product?
   ▪ Time to get to a certain # of users or specific $ amount
   ▪ Monthly spend: burn rate/number of key personnel
   ▪ Think balance sheet; working capital; cushion for reality
Don’t Ask For Too Much Either

1) For example, if you need $500,000 but are looking for $1.0 MM . . .
   ▪ Q: How much money do you have committed to the round?
   ▪ A1: I have $250,000 raised (of $1.0 MM sought), or
   ▪ A2: I’m at $400,000 on a $500,000 raise and we have room for one or two more investors
2) Don’t go for a range e.g. $5 MM to $7 MM
3) Know what you need the funds for
Fundraising Materials

1) “Fast Facts” (Not the same as the Elevator Pitch)
2) Executive Summary
3) Presentation (Pitch Deck) – See Addendum I
4) Later Stage: Business Plan
5) Later Stage: Private Placement Memorandum (PPM)

While style does count, don’t overdesign; substance matters the most
(Focus on Content)
Clear, Concise, Interesting & Easy to Process

If you have to talk us through everything or respond to a lot of clarification questions, you have lost the battle before you’ve started.
<table>
<thead>
<tr>
<th>Company, Logo, Product Name</th>
<th>Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem Statement</td>
<td>Advisors</td>
</tr>
<tr>
<td>Graphic</td>
<td>Legal Counsel</td>
</tr>
<tr>
<td>Opportunity/Solution</td>
<td>Accountant</td>
</tr>
<tr>
<td>(Distinguishing Value)</td>
<td></td>
</tr>
<tr>
<td>Market/Target Audience</td>
<td>Raise ($), Stage</td>
</tr>
<tr>
<td>Founders/Team</td>
<td>Contact Info</td>
</tr>
<tr>
<td>Financial ProForma Synopsis</td>
<td></td>
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</tbody>
</table>
Executive Summary

1) One – Three Pages
2) Idea, Product, Team, Business
3) For Example:

- Business Concept
- Market Opportunity/Problem Solved
- Product Offering/Technology (Graphic)
- (Clinical/Regulatory Pathway)
- Intellectual Property Status
- Business Model/Strategy
- Competitive Advantage(s)
- ProForma
- Competition/Market Circumstances

- Founders/Team
- Leading Advisors
- (Legal Counsel)
- (Accounting)
- Timeline &
- Key Milestones
- Financial Offering
- Use of Funds
Your Presentation (Pitch)

1) See Addendum I
2) Customized to Meeting or Event
3) Ten to 20 Slides
   ▪ PLAN TO GO SLOWLY – 1 Minute +/-Slide*
   ▪ Same Info as Executive Summary
   ▪ Focus on Substance (but visually appealing)
   ▪ Again: Clear, Concise, Interesting, Easy to Process
Also

1) Business Plan – Still Useful*
2) Private Placement Memorandum
3) Detailed Financial Model
   ▪ Expense Side is instructive in re how you think
   ▪ Assumptions underlying revenue forecast
   ▪ Monthly Burn rate/cash consumption
   ▪ Focus on lagging cash spend increase behind planned revenue growth

* Think about the Lean Startup Business Model/Canvas and Discovery/Validation Method
Due Diligence Material*

1) Capitalization Table
2) Contracts
3) Material Agreements
4) Employment Agreements
5) Board Meeting Minutes

*See “Resources at www.venturedeals.com
A Few More Notes

“If you want money, ask for advice.”

“Do your homework. . . If someone insists that we sign an NDA before we review a plan, we know that they did absolutely zero research on our firm or us. At best the submission doesn’t rise to the top; at worst it is ignored.”
A Few Thoughts on the Term Sheet

1) Entrepreneur’s Perspective: “Think of it as a Blueprint for your Future Relationship with Your Investor.”¹

2) Key Concepts: Economics and Control
   - Economics – Return from a Liquidity Event
   - Control – Mechanics allowing affirmative exercise over the business or veto decisions
   - Important things to pay attention to: “They rule the day.”

Feld, Mendelson, Venture Deals (2016); Ramsinghani, The Business of Venture Capital (2014)
Economic Terms

1) Price
2) Liquidation Preference
3) Pay-to-Play
4) Vesting
5) Employee Pool
6) Anti-dilution
Price

Usually, this - Price: $___ per share (original purchase price) – fully diluted pre-money valuation of $_____ million and fully diluted post-money valuation of _____ million. . . . assumes the conversion of all outstanding preferred stock . . .

Or this - Amount of Financing: An aggregate of $_____ million, representing a ____% ownership position on a fully diluted basis

Be certain you know what “pre-money” and “post-money” mean as well as “fully diluted” (referring to employee or options pool).
The Matter of Options

1) Size of the pool is taken into account in the valuation of the company
   ▪ VC may want option pool as large as possible. Come armed with a detailed option budget regarding planned hires, next financing date, approximate option grant to land each hire

2) Warrants – right purchase a certain number of shares at a pre-determine price.

3) Bridge loan – existing investor provides funds at a convertible debt (converts to equity) with a discount on the equity rice
How do VCs Value Companies

1) Stage of the company
2) Competition with other funding sources
3) Experience of the Entrepreneur
4) Size & Trendiness of the Market
5) VC’s natural entry point
6) The numbers
7) Prevailing economic climate
**Liquidation Preference**

1) Impacts how the proceeds are shared

2) Actual Preference: A certain multiple (generally 1X) of the original investment per share is returned to the investor (holder of Series A Preferred) before the common stock receives consideration

3) Participation
   - Full – Receipt of liquidation preference, then share the rest
   - Capped – Receipt, then share up to a certain multiple
   - No – Receipt, but no sharing thereafter
Examples: Four Scenarios*

1) Preferred Series A, 1X Liquidation Preference, No Participation
2) Preferred Series A, 2X Liquidation Preference, No Participation
3) Preferred Series A, 1X Liquidation Preference, Full Participation (No Cap)
4) Preferred Series A, 1X Liquidation Preference, Participation up to 3X Cap

* See Brad Feld and Jason Mendelson, *Venture Deals* (2016), pp. 45 – 53, for a full treatise on this topic with numerous scenarios and mathematics
Example I

▪ One round of financing at $5.0 MM Series A at a $10 MM pre-money valuation
▪ So, post-money valuation = $15 MM; investors own 33.3%
▪ WHAT IF: Company has a $15 MM offer?

1) 1X Liquidation Preference (LP), No Participation: 1X LP = $5.0 MM, but so does converting to common at 33.3% & taking the proceeds that way.
Example II (Same Offer)

- One round of financing at $5.0 MM Series A at a $10 MM pre-money valuation
- So, post-money valuation = $15 MM; investors own 33.3%
- WHAT IF: Company has a $15 MM offer?

2) 2X Liquidation Preference (LP), No Participation: 2X LP = $10.0 MM while converting to common at 33.3% results in $5.0 MM. So, take the LP.
Example III (Same Offer)

- One round of financing at $5.0 MM Series A at a $10 MM pre-money valuation
- So, post-money valuation = $15 MM; investors own 33.3%
- WHAT IF: Company has a $15 MM offer?

3) 1X Liquidation Preference, Full Participation (No Cap):
   1X LP = $5.0 MM, while participating at 33.3% for the remaining $10.0 MM (= $3.3 MM). Total = $8.3 MM
Example IV (Same Offer)

- One round of financing at $5.0 MM Series A at a $10 MM pre-money valuation
- So, post-money valuation = $15 MM; investors own 33.3%
- WHAT IF: Company has a $15 MM offer?

4) 1X Liquidation Preference, Participation up to 3X Cap: 1X LP = $5.0 MM, while participating at 33.3% for the remaining $10.0 MM (= $3.3 MM). Total = $8.3 MM, same as Example III.
Pay-to-Play

1) Usually relevant in down round financing
   ▪ Company is struggling & needs another financing
   ▪ In the event of a Qualified Financing, shares of Preferred A held by an investor who does not participate in this round is converted to Common Stock

2) Generally considered good for the company and its investors
   ▪ Ensures that all investors agree in advance to the rules of the engagement concerning future financings
Vesting

1) Typically stock & options vest over four years
2) Usually 25% at end of Year 1 (the “cliff”); remaining 75% over 36 months
3) If you leave before the end of four years, the vesting formula applies & you get only a percentage of your stock
4) Founders may get their 25% at close of financing
The Employee Pool

1) Aka the “Option Pool”
2) Reserved for future issuance
3) Clarifies the capital structure & defines allocation %
4) Is redundant with the attached capitalization table, but manages possible confusion
5) VCs may want to inflate the pool
Anti-Dilution

1) Used to protect investors in the event a company issues equity at a lower valuation than in previous rounds.
   ▪ Ratchet-based, or
   ▪ Weighted average
Control Terms

1) Board of Directors
2) Protective Provisions
3) Drag-Along Rights
4) Conversion
Think carefully about proper balance

<table>
<thead>
<tr>
<th>Early Stage (3 Members)</th>
<th>Early Stage (5 Members)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founder/CEO</td>
<td>Founder</td>
</tr>
<tr>
<td>VC/Angel</td>
<td>CEO</td>
</tr>
<tr>
<td>Outside Member (or Other Founder)</td>
<td>VC/Angel</td>
</tr>
<tr>
<td></td>
<td>2\textsuperscript{nd} VC/Angel</td>
</tr>
<tr>
<td></td>
<td>Outside Member</td>
</tr>
</tbody>
</table>

- More mature board count is 7 – 9
- Outside member compensation: options (0.25% -0.50%, vested 2 – 4 years)
- Outside members invited to invest
- Instead of founder or investor control, protective provisions preferred
Protective Provisions

Effectively veto rights on certain actions (generally standardized)

1) Change terms of stock ownership
2) Authorize creation of more stock
3) Issue stock senior or equal to VC’s
4) Buy back common stock
5) Sell the company
6) Change certificate of incorporation or bylaws
7) Change board size
8) Pay or declare a dividend
9) Borrow money
10) Declare bankruptcy
11) License away IP; effectively selling company
Some Thoughts

▪ **Materiality Qualifiers** (e.g. changing terms of rights, privileges, preferences of preferred stock; authorized number of shares; certificate of incorporation or bylaws)
  
  — Go for specificity rather than reasonableness (words such as “material” or “materially”); avoid the debate on what “material” means

▪ What about provisions for future rounds?
  
  — Series B gets its own protective provisions
  
  — Go along with original investors as a single class*

* As long your Cap Table is rational, things should be fine; keep your investors aligned
Drag-Along Agreement

Generally two types:

1) Preferred shareholders “drag-along” the common (often regarding the sale of the company)
   ▪ Small investors may want to go along with majority of common shareholders instead

2) Departed founder cannot play “hold-out” on voting matters
Conversion

Preferred shareholders have the right – at any time – to convert to shares of common stock.

Automatic Conversion (specified applicable conversion price) – in the event of an IPO*

* Regardless of thresholds, you should not allow investors to negotiate different automatic conversion terms
## Capitalization Table

### 1) How does a typical capitalization table work?

### 2) Summarize who owns what part of your company before and after financing

### 3) What will I own if someone or an entity invests X% in my company at a Y valuation?

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**Template Available**

(mkleckner@cox.net)
A Simple Example

<table>
<thead>
<tr>
<th>Class</th>
<th>Shares</th>
<th>Preferred Price</th>
<th>Valuation</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founders</td>
<td>2,000,000</td>
<td>-</td>
<td>-</td>
<td>A</td>
</tr>
<tr>
<td>Employee Pool</td>
<td>B</td>
<td>-</td>
<td>-</td>
<td>20%</td>
</tr>
<tr>
<td>Investors</td>
<td>C</td>
<td>D</td>
<td>$5.0 MM</td>
<td>33.33%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>E</td>
<td>D</td>
<td>$15.0 MM</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

1) 2 million shares held by founders before investment
2) $10 million pre-money valuation; $5 million invested
3) Post-money valuation = ? ($15,000,000)
4) IF new employee option pool = 20% (post money basis; unallocated after investment
5) A = ? What is the Total Shares amount (E)? (2,000,000/A = 4,285,408)
6) B = E * 0.20 = 857,081
7) C = E * 33.3% = 1,428,326
8) D = $5,000,000/1,428,326 = $3.50 per share
Addendum IV: Telling Our Story
Your Story: The Hero’s Journey
Behind Every Innovation is a Great Story

The Start-Up Curve!
(Starring Us)
Your Story Matters

How important are those customer interviews?

Used by: Aristotle, Homer, Chaucer, Tolkien, CS Lewis, “Star Wars”, Disney, Budweiser …

Osiris
Prometheus
Buddha
Moses
Jesus
Luke Skywalker
Woody
Budweiser Puppy

Exposition

Climax

Tension Rises

Tension Falls

Denouement
Why do our Stories Matter?

Brain Science: Insula

- Cortisol (Stress)
- Oxytocin (Connection/Empathy)
- Dopamine (Hope/Optimism)
“Get Out of the Building!”
Get Proof/Evidence. Discover and Validate!

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