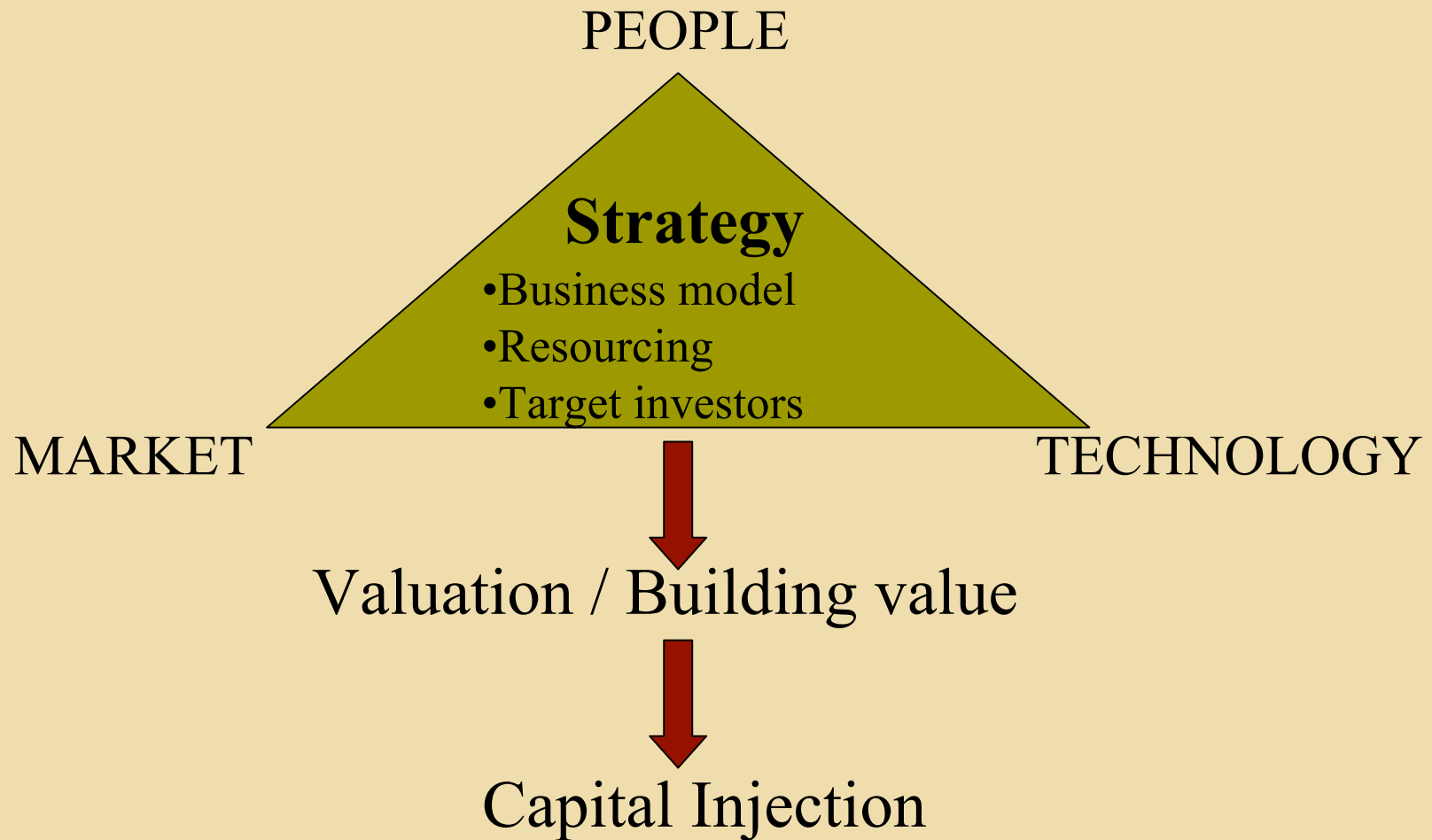


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Patrick Silvey

Paul Hodgson

Positioning for a Capital Injection



1. The Investor

Who to approach?

Founders sweat equity
<100K

Seed Capital:
angel/VC/incubator
<500K

Start-up Capital: angel/VC
<8M

Development or Expansion
>8M

Pre Initial Public Offering
>8M

Founders, Family, Friends,
Fools

Other: employees, suppliers,
customers

Government Grants

Business Angels

Venture Capital Fund

Corporate Venture Capitalist

Initial Public Offering

Typical Investment Criteria

- Sustainable competitive advantage
- Quality management team
- Large and growing market
- Other investors
- Customers and partners
- Realistic and alternative exit strategies

Investor Needs

- Stage of development
- Cashing out – exit strategies
- Sound financial projections & scenarios
- Payback/ROI
- Risk Mitigation

What to Look for in an Investor

- Passive vs Active
- Industry knowledge
- Track record as investor
- Trustworthy/ referrals
- Contacts and network
- Long term relationship
- Capacity for follow-on funding

Inherent Conflicts

Entrepreneur wants

All capital up front

As much money as possible

“my price, your terms”

Independence and flexibility

Control

Progress, growth and income

Investor wants

Funds given just in time

Just enough money given in stages

“my price AND my terms”

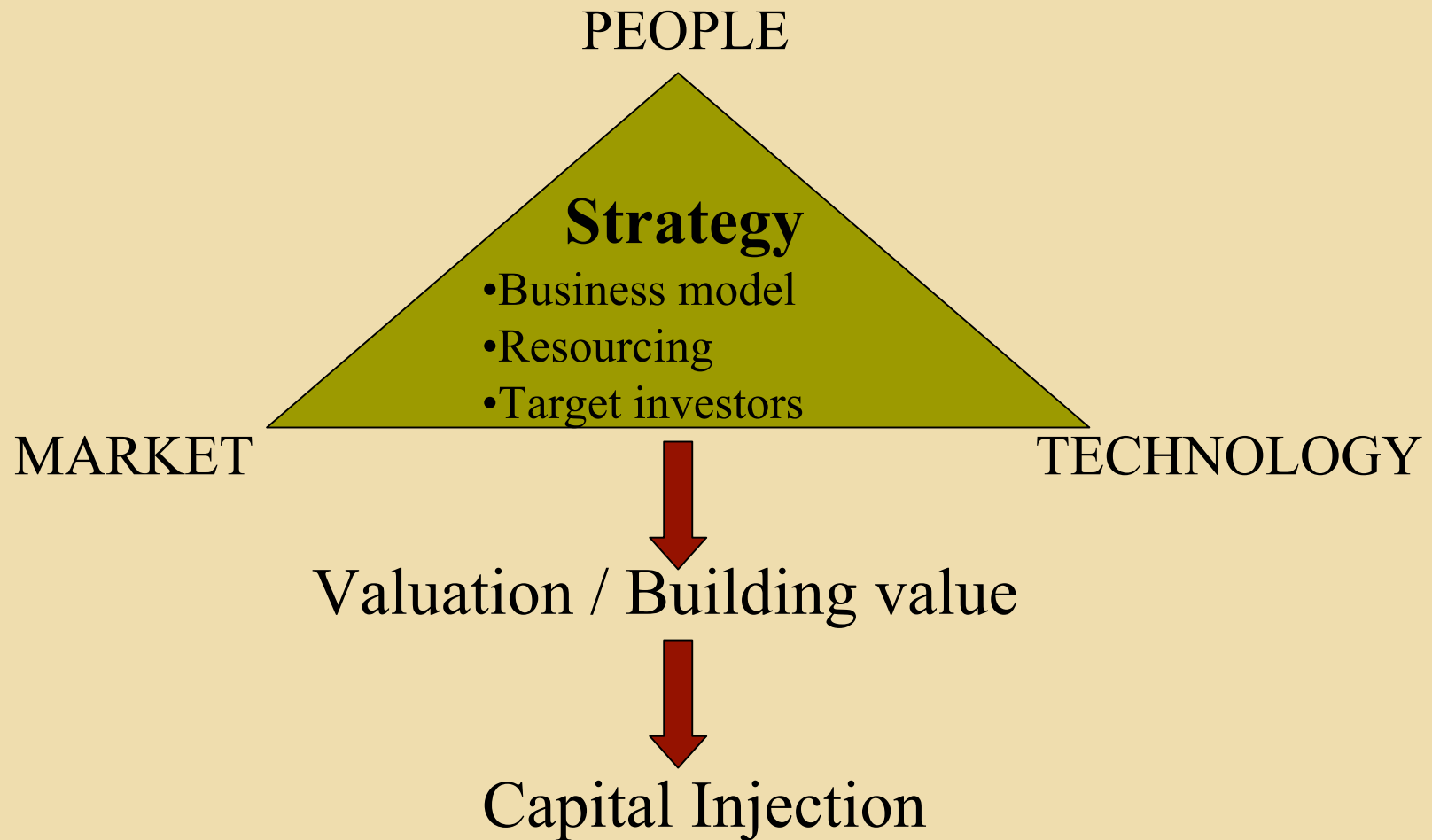
Preserve the options

Board to control

Exit with extraordinary returns

2. Positioning Your Business

Positioning for a Capital Injection



Add value before raising capital

- Documentation and Presentation
- Government grants
- Intellectual Property Protection
- R&D Partners
- In principle agreements
 - Licences
 - Customers

Raising capital involves:

- Building a perception
- Telling a simple story
- Justifying underlying assumptions
- Confidence and commitment
- Opportunity cost
- Giving up some pie, loss of control
- Building a business plan
- Negotiating the deal

People

- Management capability, credibility and experience
- Complementary management team
- Incentive scheme in place
- The CEO vs the Technical Director
- Alignment of objectives

Market

- Size and growth rate of the global market – the opportunity
- Major players and competitors
- Strategic competitive advantage
- Distribution channel
- Promotional strategy
- Is there a long felt need?
- Target market
- Market analysis e.g. Porters 5 forces

Technology

- Unique nature of the technology
- How many trials have been done?
- Proof of concept
- Have results been published?
- Strong protectable IP
- Who owns the IP?
- Technology risk

The “Ask and Offer”

- Financial Projections
- Business and IP valuation
 - Critical negotiating tools
 - Justifies assumptions
 - Forces in depth research
 - Forces decision making
 - Makes you strong and confident

3. The Investor Presentation

Executive summary

- Contact and Confidentiality
- The Product
- Business Model
- Target market and strategy
- Barriers to entry, SCA
- Management team
- Financials

A Communications Exercise

Stage 1

Executive Summary

- Grab and maintain interest

Stage 2

Presentation

- Show your entrepreneurial faces

Stage 3

Question and Answer

- Demonstrate deep understanding and commitment

Tactical Considerations

- Logical flow of ideas
- Strategic omissions
- Brevity
- Targeted to audience
- Persistence
- Critical review by outside party
- Visual aids

A Communications Exercise contd.

12-15 slides, Q&A 30 minutes

- What is the pain? How do you solve it?
- Competition
- How to build a \$100 M company
- Metrics for success
- Management team

You are the “3pm meeting”

Two team members present

Top Tips

Reasons for Failure

- Poor documentation and communication
- No sweat or hurt money = no commitment
- Weak market analysis – no customers, no financial projections
- Unreasonable, unmeasurable goals
- Lack of strategic or contingency planning
Technology or regulatory changes, IP protection, Resourcing
- Ignoring or hiding the negatives
- Overemphasis on the product or technology

New Rules in Capital Raising

- Profit focussed business model
- Focussed market segment
- Must hit milestones
- Achieve B/E with much less money
- More than beta customers
- Operational and financial controls
- Prepare for exit

Tips to minimise surprises

Raise money when you don't need it

- The smell of desperation is strong

Learn about the capital raising process

- Ignorance may prove costly

Know your bargaining position

- Be confident of your value

Look for more than money from the investor

- Maximise benefits to the business

Assume the deal will never close

- Don't bet your house on it

Always have a back-up source of capital

- Watch for a monopoly premium

PricewaterhouseCoopers Services

Strategy and business planning

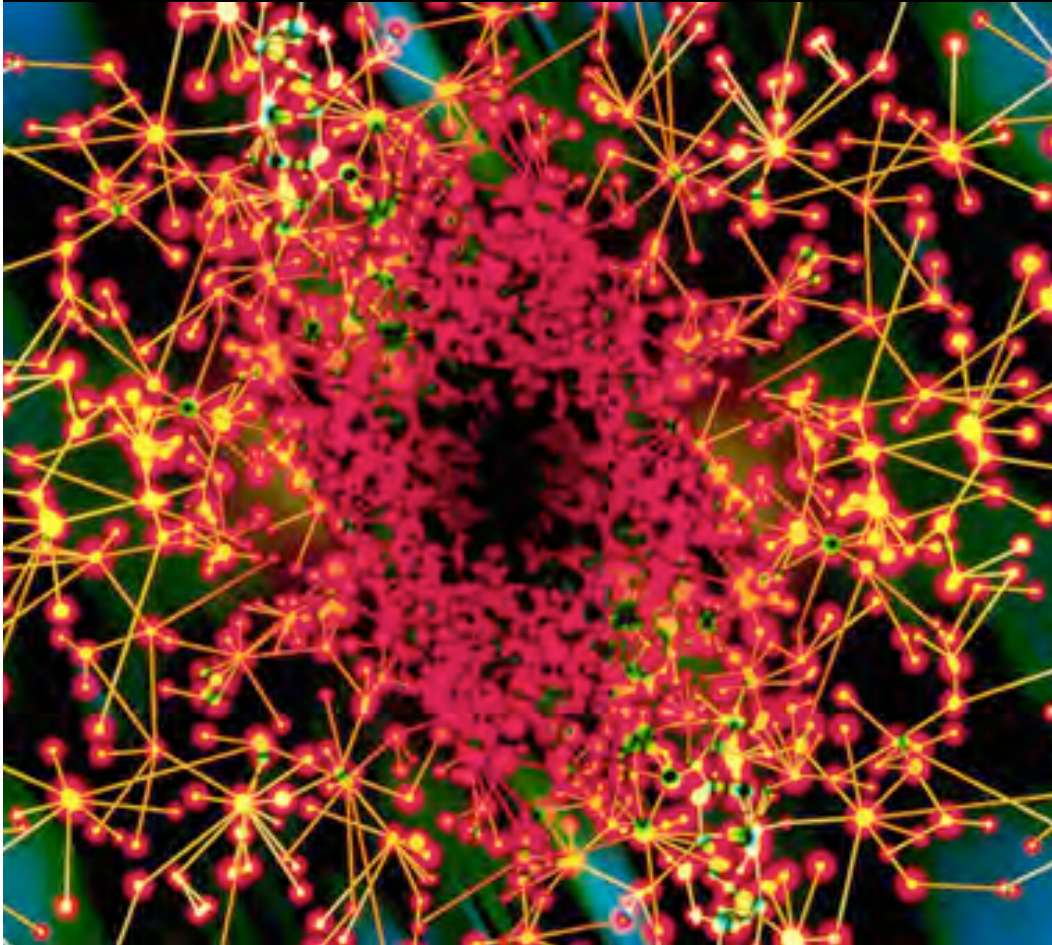
Review and preparation of investor briefs

Financial modelling

Valuation of company and IP

Capital raising and investment negotiations

- Securing business assistance grants
- Private equity investment
- Corporate investors
- Venture capital



commercialisation

Innovation

CAPITAL
RAISING

**Grants &
Incentives**

growth

PRICEWATERHOUSECOOPERS 