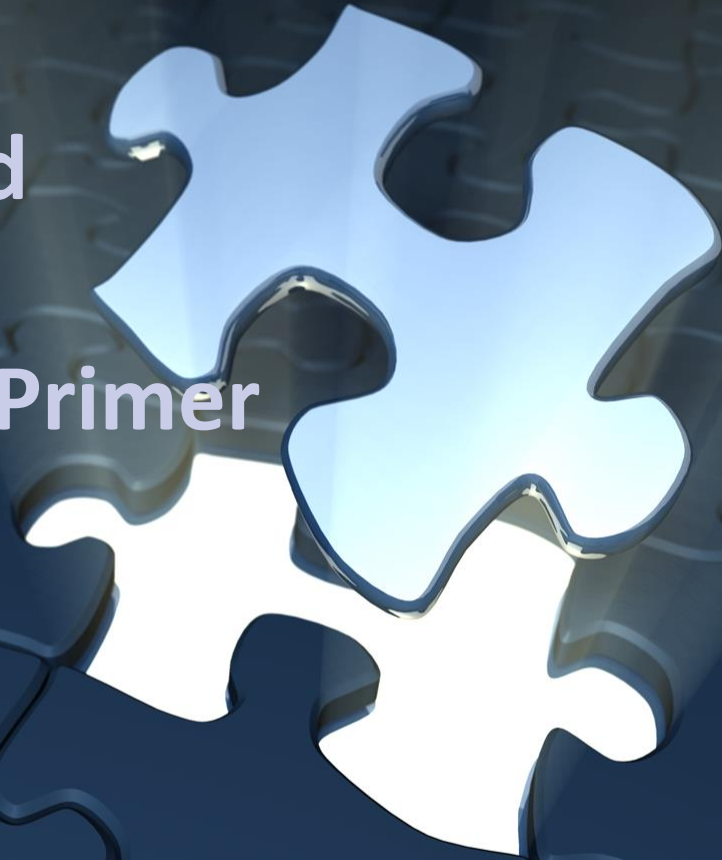


# Entrepreneurship and Early Stage Funding: Capital Expectations Primer



Presented by Roger London

# RL Background

Serial Entrepreneur #6?

\$1B

Dept of Defense and Intelligence Community Tech Scout

NOKIA Venture Capital

Dingman Angels, Baltimore Angels

Homeland Security Incubator Director

Startup America/NYSE, Wal-Mart, GE, Coca-Cola

Building ASCE National Student Innovation Contest

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Are you an Entrepreneur?

# Entrepreneur and Innovator..... the same?

Innovators and Entrepreneurs are good at detecting trends and anomalies

- Innovators - how can that be better
- Entrepreneurs – how can that be better AND make profit

# PICNIC PANTS



Innovation v Commercialization

# Innovation v commercialization

- Define innovation
  - What is difference between successful innovation and unsuccessful?
- Define commercialization
  - What is difference between successful commercialization and unsuccessful?









# Business Planning Basics

# Top 4 reasons startups fail

Not Right Team

Poor Marketing

No Market Need

Ignore Customer Needs

Ignore Customer Needs

No Market Need

Not Right Team

Poor Marketing



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Competition



## Business Plan Mistakes

1. “No competition”
2. Too much tacking back and forth
3. Poor Customer retention plan

# More business plan mistakes

1. Overlooking competitors with inferior offerings
2. Solving a headache, not heart disease
3. Only targeting largest markets
4. Confusing marketing with sales
5. Failure to leverage sales channels
6. Underestimating length of sales cycle
7. Customized solutions
8. Not pinpointing who ideal customer is
9. Confusing management with leadership
10. Grant revenue reliance v customer revenue



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**Commercialization Business Models  
(and Investor Red Flags)**



## What should you build?

1. Repeatable profit model
2. Early traction/partners
3. Don't rely on single large customer

# More what should you plan?



1. High touch client retention plan
2. Early adopter market makers
3. Clearly defined benefits and differentiation in scalable business
4. Build to buzz ratio
5. Cashflowing/subscription models
6. Track data (sales cycle, production time and costs, marketing results)
7. Profitable, repeatable, sustainable, scalable
8. Multiple revenue lines over many clients

**Commercialization Business Models  
(and Capital)**

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# Business MODEL Basics

# What is a business plan?

## The execution of the business model

- Go To Market Strategy
- Marketing Strategy
- Revenue Model
- Operating Model
- Capitalization Strategy



# Different business models

- IP Licensing ?
- Verticals or unlimited field of use ?
- Manufacture or outsource ?
- Channel partners ?
- Resellers ?
- Life style or scaling ?
- Software as a service?
- Surveillance as a service ?



How much do I want to do?  
How much of myself am I willing to invest?




# Presentation Strategies

# Elevator pitch

max 40-50 words

My Company, (company name)  
is developing (a defined offering)  
to help (a target audience)  
(solve a problem)  
(with secret sauce)



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# Elevator pitch

My Company, (company name)  
is developing (a defined offering)  
to help (a target audience)  
(solve a problem)  
(with secret sauce)

UBER

an on demand sedan service  
to help people  
get a safe quality sedan quickly  
by matching local real time taxi  
needs with local sedan  
contractors

IT DOESN'T MATTER WHAT YOU THINK YOU SAID.....



**IT ONLY MATTERS WHAT  
THEY HEARD!**

# What do I share, with whom and when?

Presentation	Investor	Customer
Elevator Pitch	yes	yes
Executive Summary	yes	yes
Business Plan	yes	x
Presentation Deck	yes	yes
White Paper	yes	yes
Use Case (Study)	yes	yes
Non-Disclosure	x	?
Website	yes	yes

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Presentation Strategies

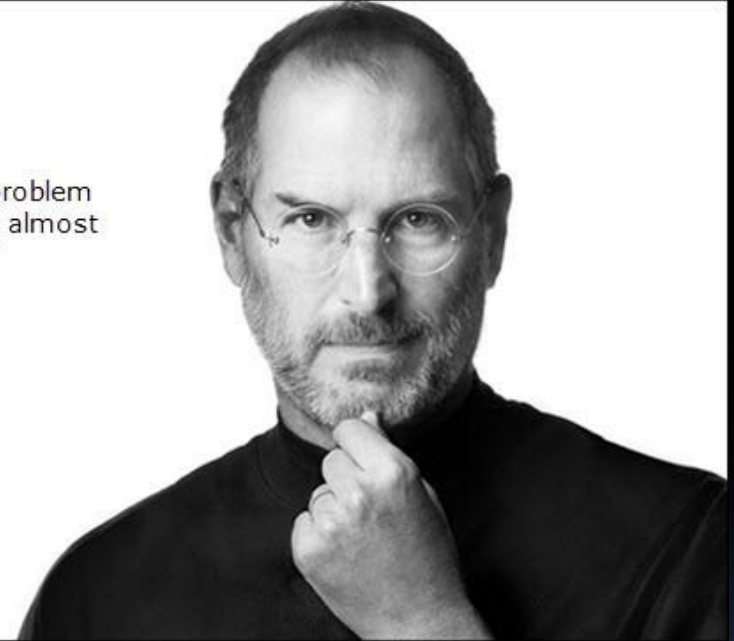
# Define the problem

What **problems are you solving** and why does it cause customers so much pain?

Is a solution a “nice to have” or does the problem keep them up at night?

"If you define the problem correctly, then you almost have the solution."

-- Steve Jobs





# Before and After

Dubai 1990



Dubai 2013



A day in the life of Chris today....and compare that to tomorrow what will Chris be able to do that they couldn't do before\*:

- time or materials saved
- labor saved
- shortened construction/manufacturing methods
- any appropriate metric with a delta
- reduced maintenance
- longer life span
- improved performance

\*Must be measurable (numerical)



# Financial Forecast

“Its tough to make predictions...  
...especially about the future!”

Yogi Berra



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# Financial Forecast

	Year 1	Year 2	Year 3
Installations	0	2	9
Revenue	\$75,000	\$375,000	\$2,850,000
Cost of sales	\$15,000	\$65,000	\$280,000
Gross Revenue	\$60,000	\$310,000	\$1,050,000
Development costs	\$40,000	\$200,000	\$100,000
Operating expenses	\$20,000	\$275,000	\$725,000
Net Profits (before EBITDA)	\$0	-\$165,000	\$225,000

# UNRealistic Financial Forecast

Looking for right investor at the right time for the right amount

stage	Timeframe	Funds needed	Funds source
Finish prototype	3-4 months	\$50-75k	VC's
S&M to acquire pilot	3-6 months	\$25-50k	Grants
Finish development to scale	24 months	\$800k	VC's
S&M to obtain first 3 early adopters and growth capital to realize \$1-3m revenue (engineers, 3 SVP in sales, finance, marketing)	6-9 months	\$1-1.5m	Angel, VC




# Capital

---

# Company stages = capital sources

1. R&D
2. Customer Pilot(s)
3. Pre Revenue
4. Post Revenue
5. Growth or Expansion




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Capital Sources and Expectations Webinar

# Commercialization sources of capital

1. Grants
2. Personal
3. Friends and Family (and Fools)
4. Angel investors and groups
5. Corporate venture capital (CVC)
6. Revenue
- ~~7. Venture capital firms~~
- ~~8. Investment Bankers~~
- ~~9. Private equity~~
- ~~10. Public Markets~~



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What are Capital Sources and Expectations Webinar

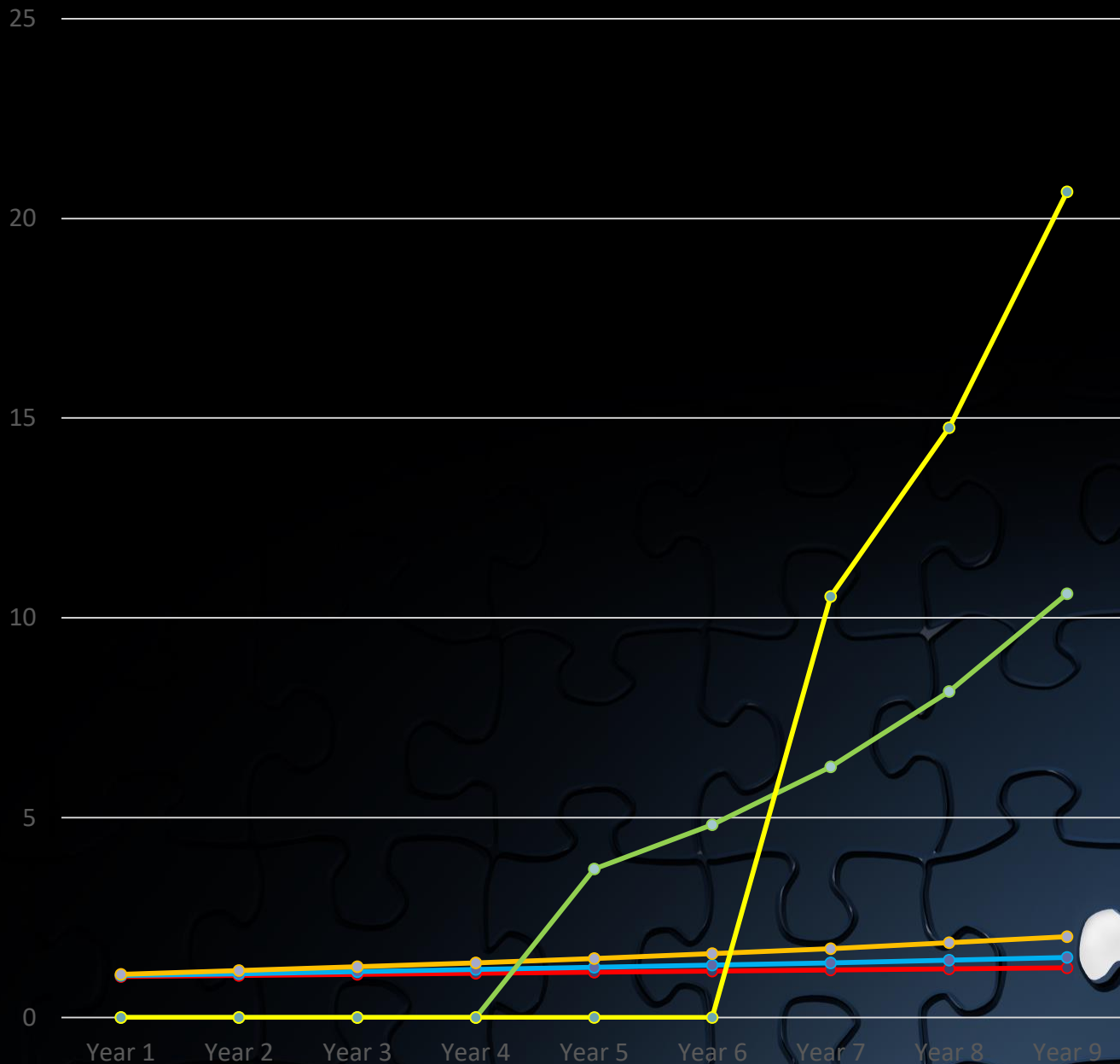


	R&D	Pilot	Pre Revenue	Post Revenue	Expansion	Type
Grants	✓	✓	✓			Loan or Revenue
FFF	✓	✓	✓			Loan, equity or convertible note
Angel		✓	✓	✓		Loan, equity or convertible note
VC				✓	✓	Equity
CVC		✓	✓	✓	✓	Equity
Bank					✓	Loan
I-bank					✓	Equity or loan
PE					✓	Equity

# Stages of money

# Investment returns & liquidity

(\$1 over 9 years)



Annual IRR

Govt 2.5%

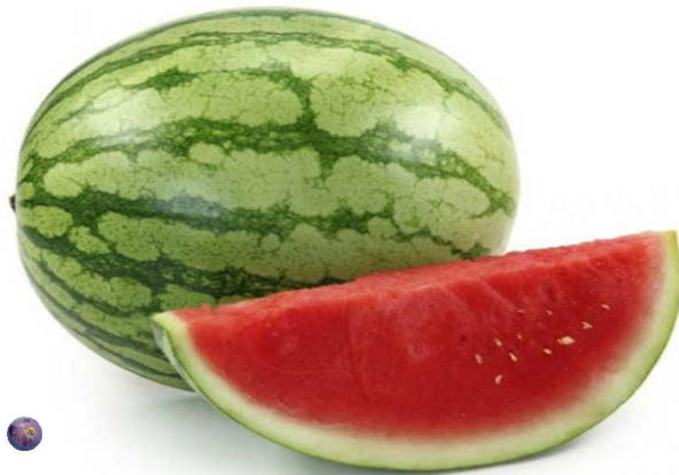
Bonds 4.6%

Stocks 8.1%

VCs 30%

Angels 40%

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## Investor red flags

1. Customer acquisition cost
2. Send unsolicited plans
3. Valuation grape

**C**HALLENGES

**U**NTIL

**B**REAK

**E**VEN



**C**UBE

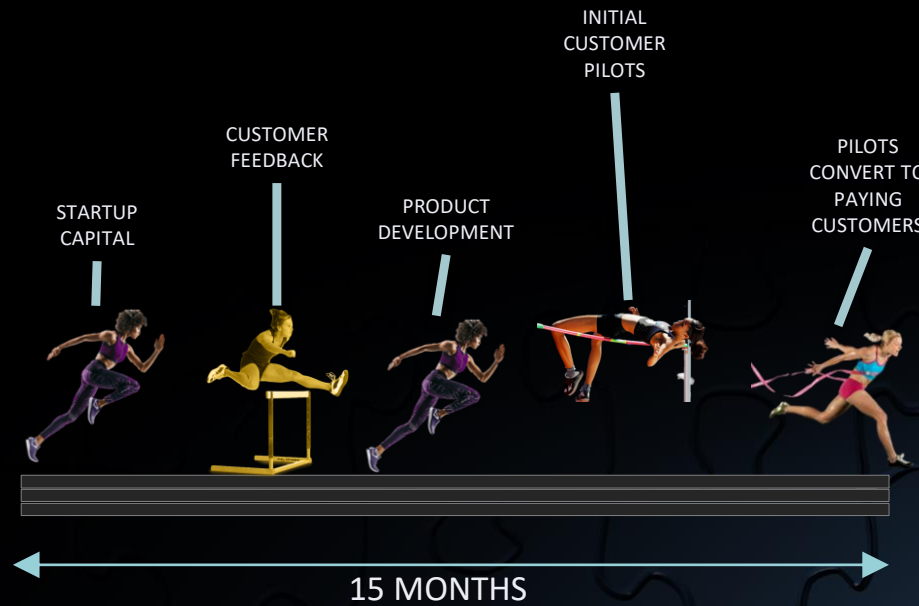
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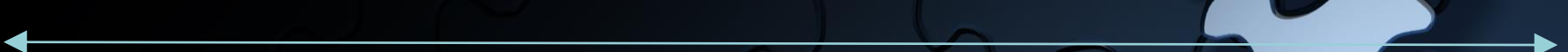
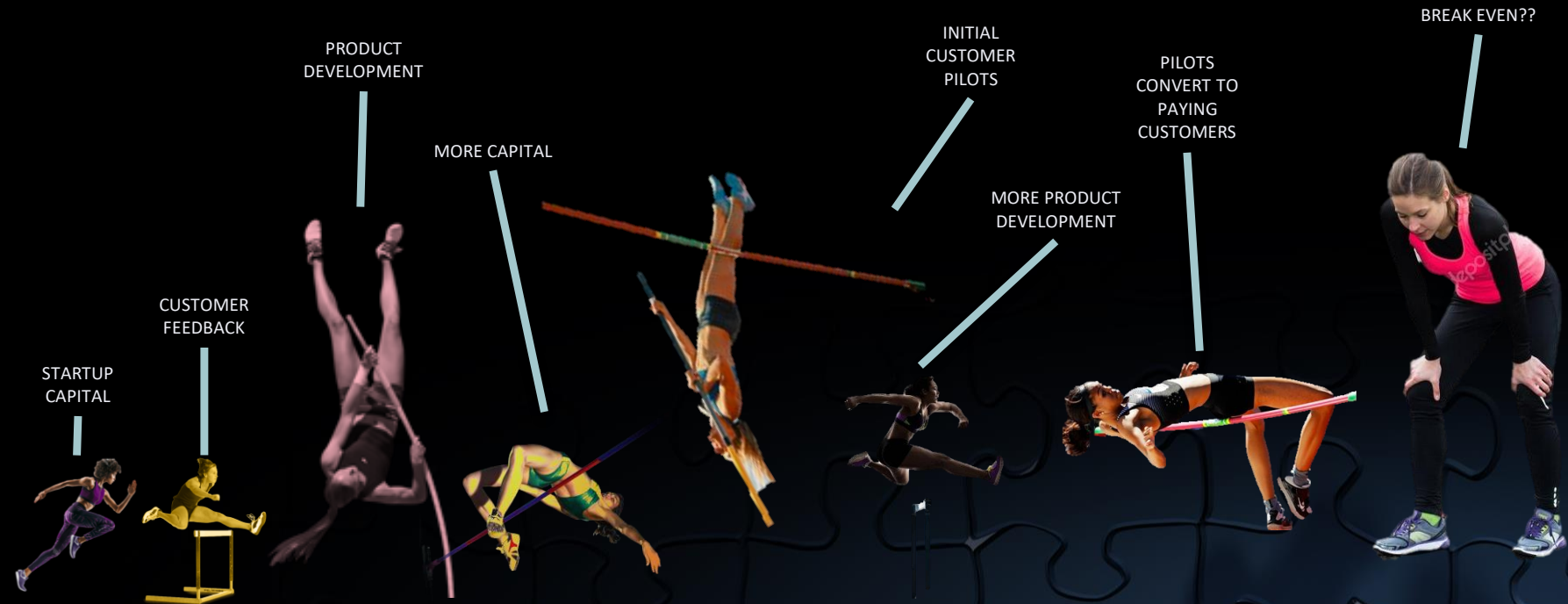


C HALLENGES

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36 MONTHS



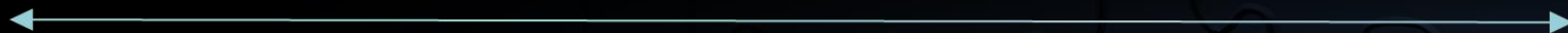
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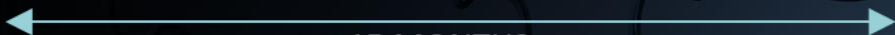
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36 MONTHS



15 MONTHS



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# Investor Red Flags

1. Market share based on % of total market
2. No competition
3. FF&F terms not angel friendly
4. Use of Proceeds pays salaries or debt
5. NDAs
6. Polishing the cannonball
7. Bury the headline
8. Relatives/friends on team
9. Muddy IP
10. Hockey stick growth
11. Lack of attention to cashflow
12. Founder CEO



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**Capital Sources and Expectations**





What should you do for capital?

1. Customer pilots
2. Traunched investment
3. Be coachable

# What else should you do for capital?



1. Show clear IP trail
2. How are you going to make money!
3. Clearly defined benefits and differentiation
4. Evaluate scalability, repeatability and profitability
5. Team examples of success
6. Valuation
7. Clear, concise and compelling- 6<sup>th</sup> grader \*
8. Profitable, repeatable, sustainable, scalable
9. Founder self awareness



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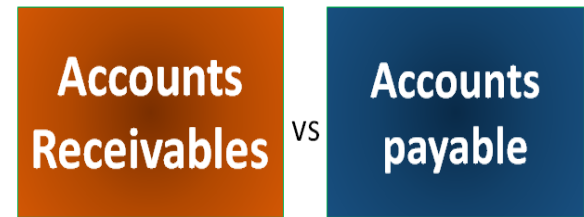
**Capital Sources and Expectations**



# Financial Planning

# Financial planning common mistakes

1. Underestimating sales cycle length
2. Underestimating dev costs
3. Underestimating AR and AP delta



# Financial planning

- Cash burn
- Fully burdened FTE costs
- Office space- no foosball tables
- Waiting too long to raise money
- Ignoring/refusing to pursue long term capital
- Comingling
- Estimate break even point
- Underestimate development costs
- Never apply a small % against a big market
- Financial forecast by month
- “these are conservative”
- Variable what-ifs in model

Financial Planning

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Are you an Entrepreneur?

# Entrepreneur Skills

In addition to innovating, what entrepreneur senses increase chances of successful commercialization?

1. Self Awareness
2. Time management: prioritization and sense of urgency
3. Messaging- FAB, WIFM, so what?
4. Difference between prospect and customer
5. Cash management
6. Knowing when to walk away

Entrepreneurs are not always founders

# Entrepreneur Skills- visionary

What jobs will be created by autonomous vehicles? Lots of engineering/technical jobs especially

1. Infotainment
2. Telecom and data management
3. Smart city
4. Move to suburbs
5. Ride sharing and insurance
6. Tourism

1,000,000,000 hours saved everyday



# Entrepreneur Skills- selling

An entrepreneur has to sell customers, investors, team members and other stakeholders

1. People do business with people they like
2. FOMO
3. Greed



Finally I saw  
something of  
value on  
Facebook...  
who knew?

# Profit is not a dirty word

Misconception: Capitalism and profits are the gain to some by taking from others.

**FALSE**

Profits provides you the freedom to choose

- how you want your business to operate and
- who to serve!

Lack of profit means you have to listen to others because you need their money (OPM).

# Profits empower

- With profits, you can do other things....good things
- With profits you can support a business that helps others, and it can thrive and grow to help more people

# QUESTIONS?



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