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Financing a Start-Up

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University of California, Berkeley
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Agenda

PART I

Venture Capital Trends

PART II

Creating Financial Projections

PART I

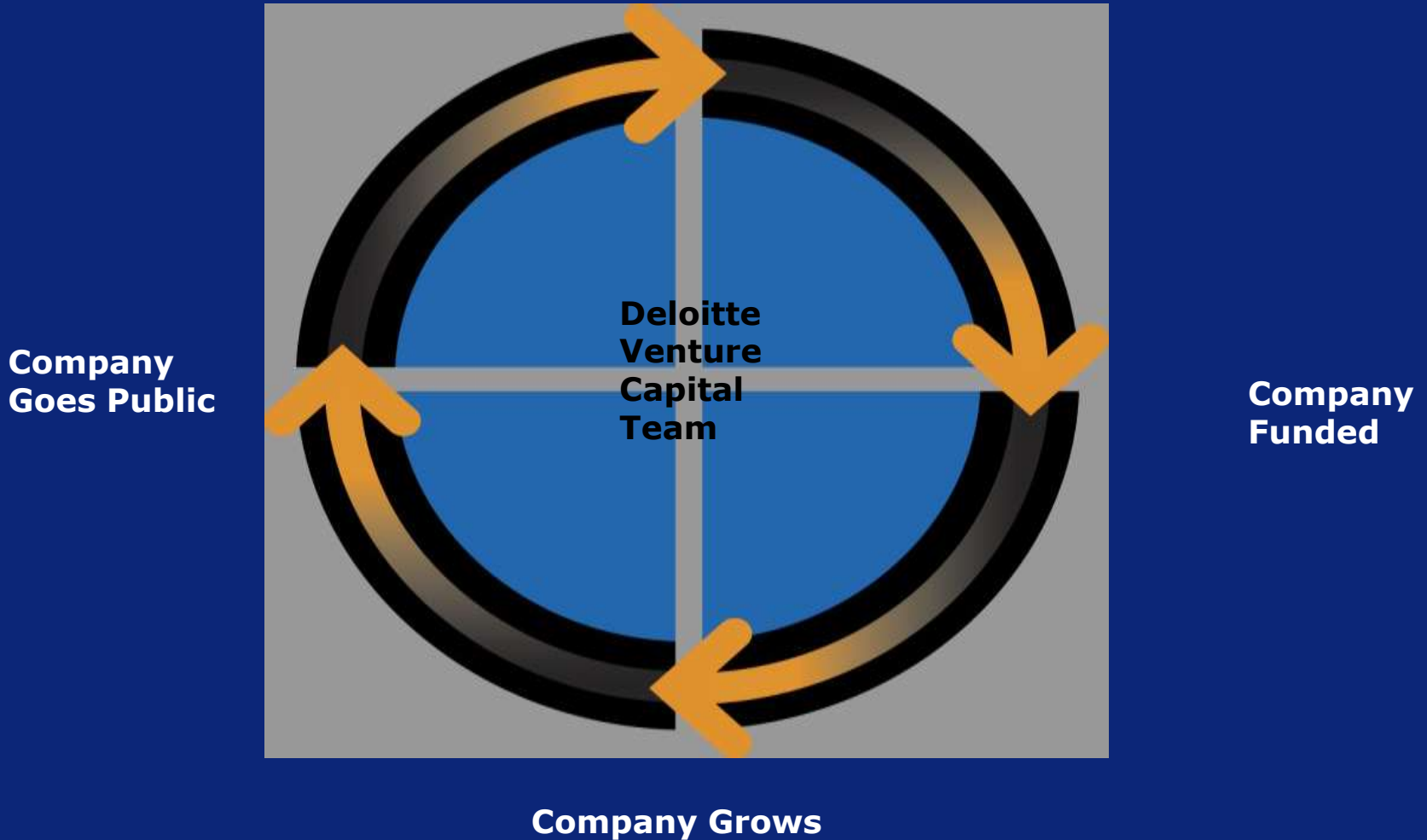
- Deloitte's Venture Capital Group
- Venture Capital in 2011
- Valuation Trends
- IPO's and Acquisitions

Deloitte's Accelerator Program



Venture Capital Virtuous Cycle

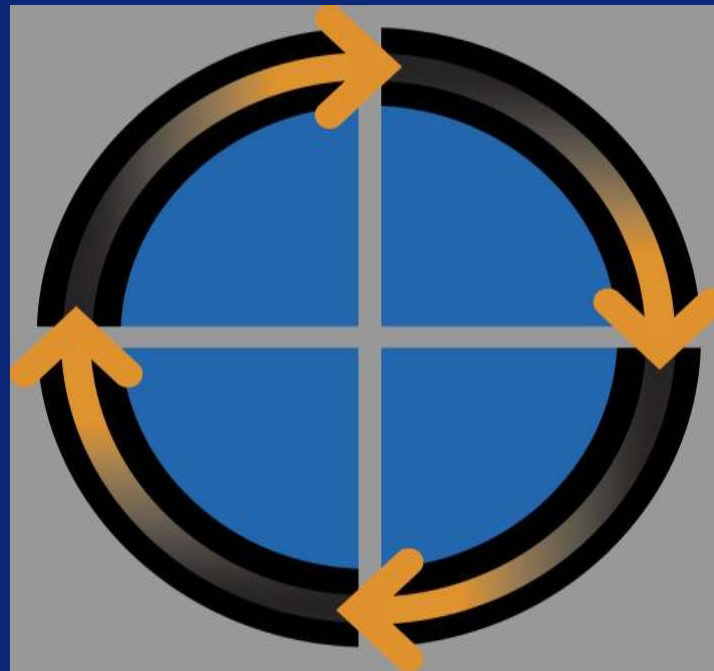
Venture Capital Relationships



Success Story: LinkedIn

LinkedIn Investors Include Sequoia, Greylock and Bessemer

**Public
Offering in
2011**



**LinkedIn
founded in
2003, raised
about \$125 M
in 5 rounds**

**LinkedIn has annual sales of
\$200M and grew 100% in the
past year with 90 million users**

Deloitte Accelerator™ Services

ACCELERATOR PACKAGE



* All available through Deloitte Accelerator online

Venture Capital Trends in 2010

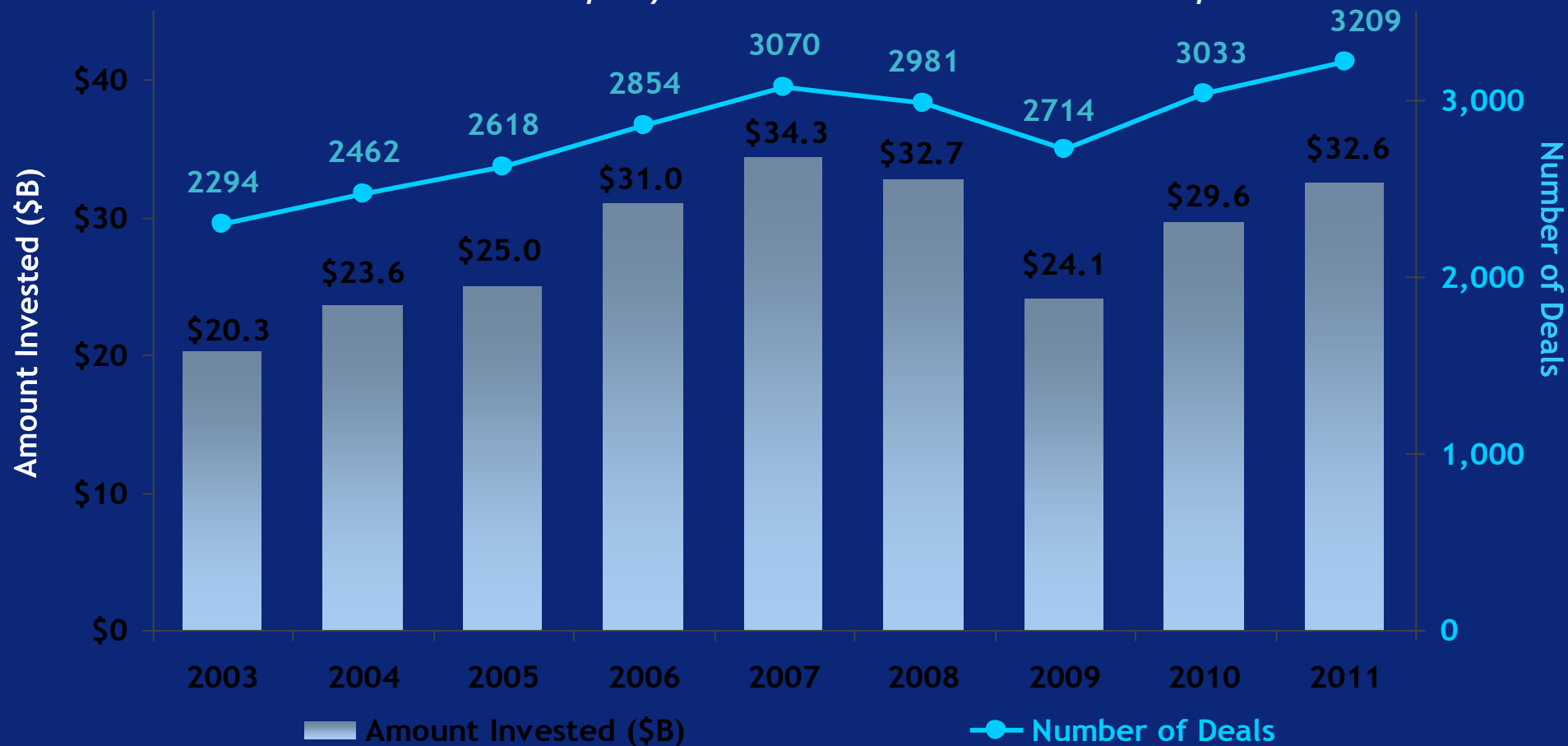
- Fundraising
- Investment Trends
- Valuation
- Term Sheets
- Exits

Investing Trends

- Steady investment from VCs in Silicon Valley-200 deals/qtr
- New activity among seed and angel investors
- Corporate involvement is high
- Valuations increasing
- Exits are multiplying

Investments Continue Upward Trend in 2011

Deal Flow and Equity into Venture-Backed Companies

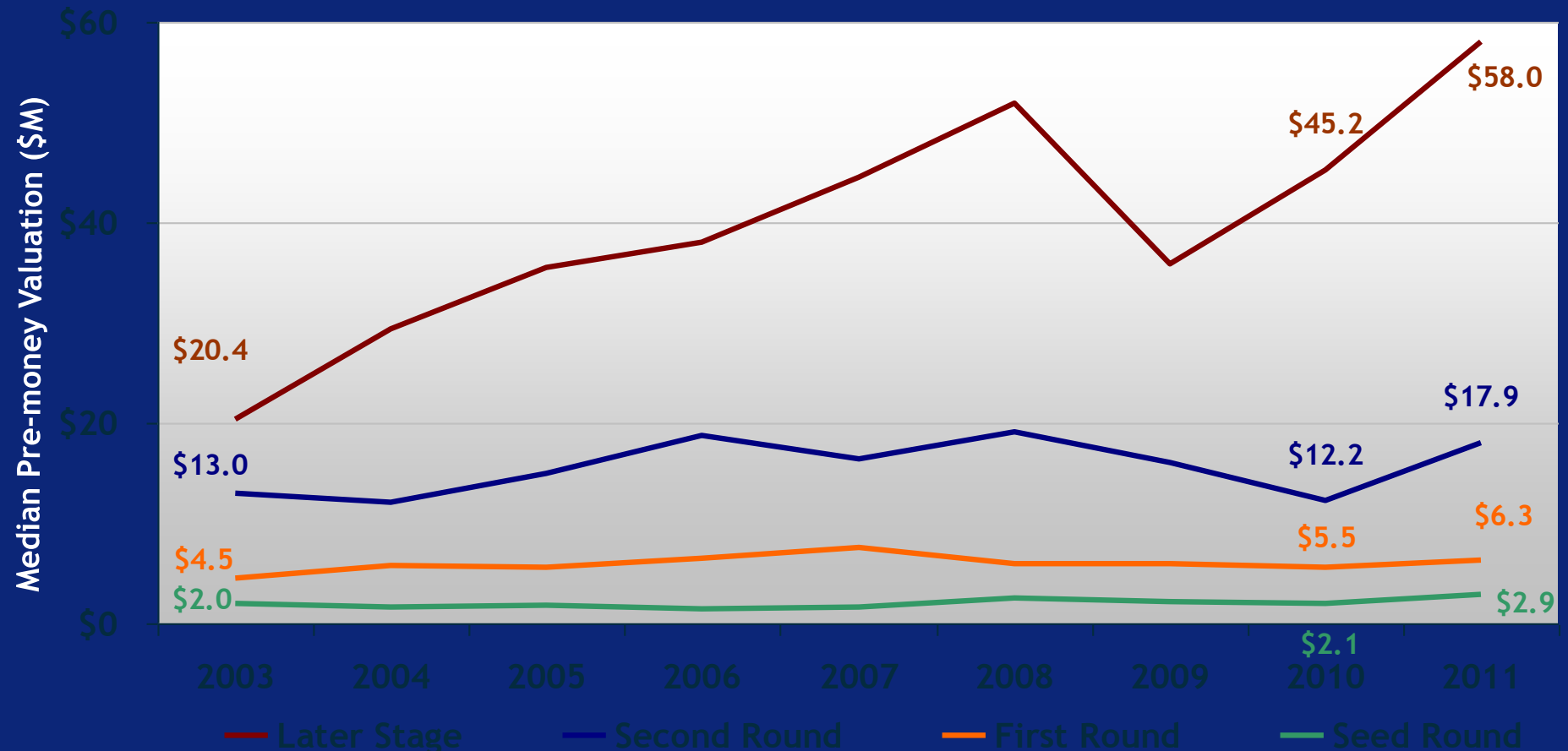


Valuation Trends

- Higher Median Valuations
- More Competition for Deals
- Greater ability to fund without a syndicate
- Exits slowly improving

Valuations Continue Growth in 2011

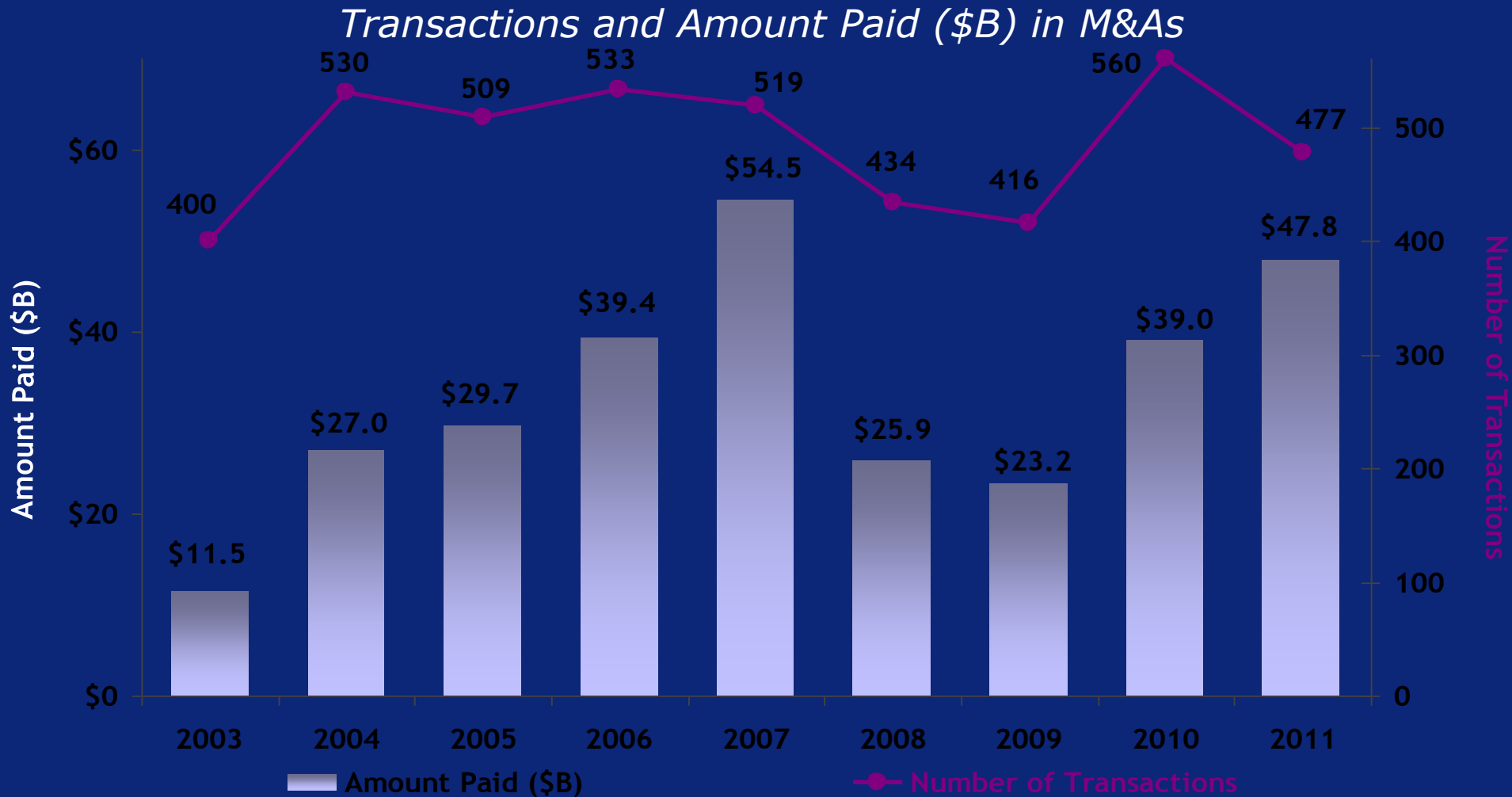
Median Pre-money Valuations by Round Class (Annual)



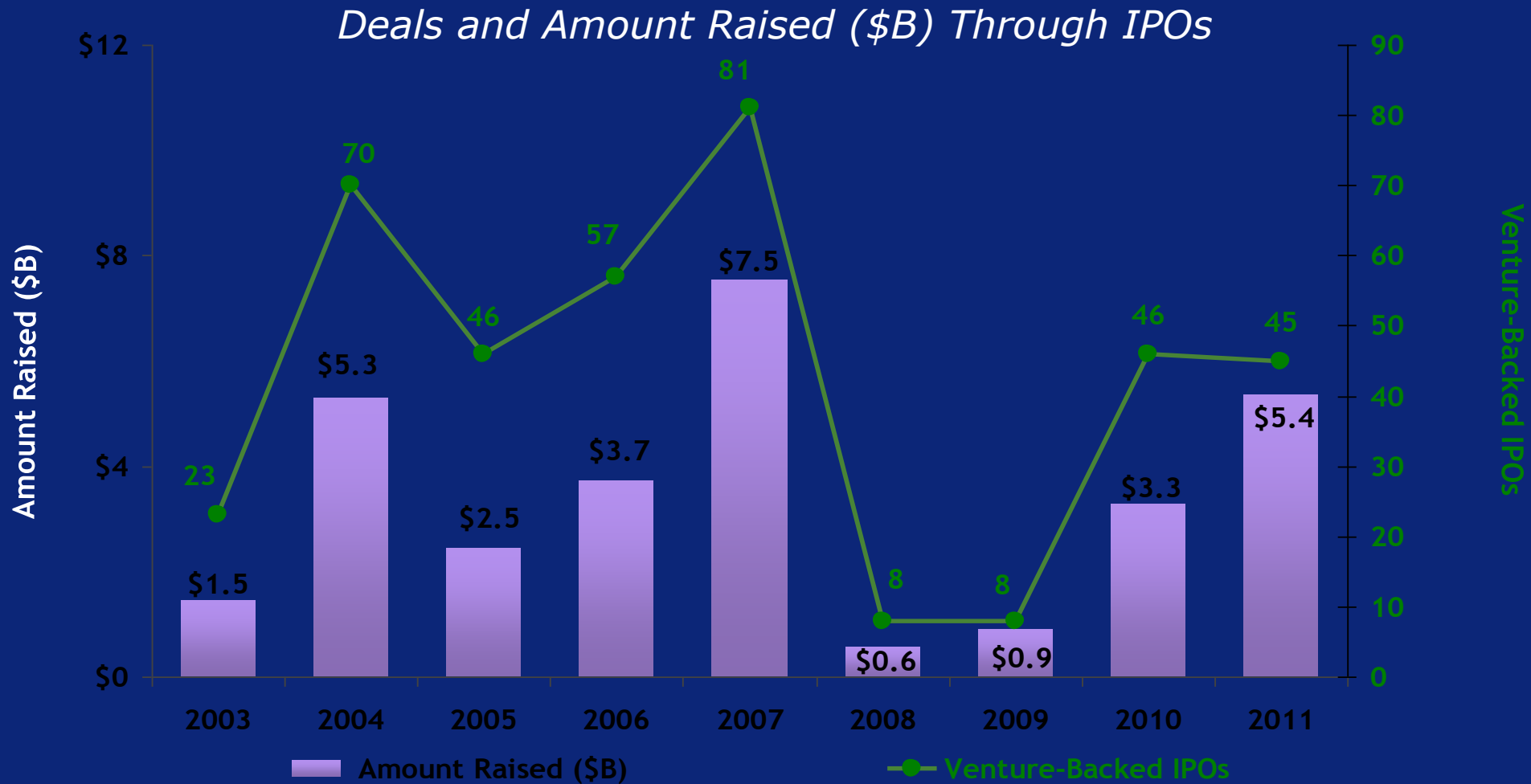
Exit Trends

- M&A has greatly improved
- IPO's are still difficult, but increasing

Fewer M&As Net More Capital in 2011



2011 IPOs Raise More than 2010



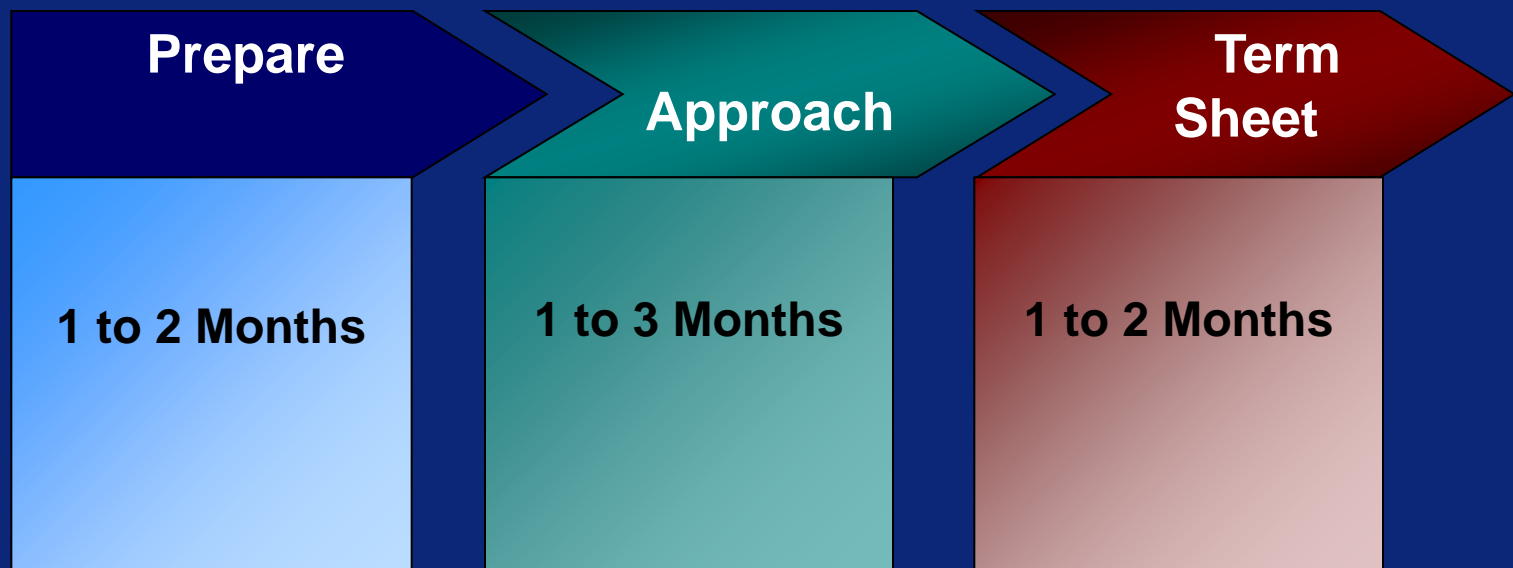
PART II

- The Fundraising Process
- Tools for Financing your Company
- Financial Modeling
- Summary

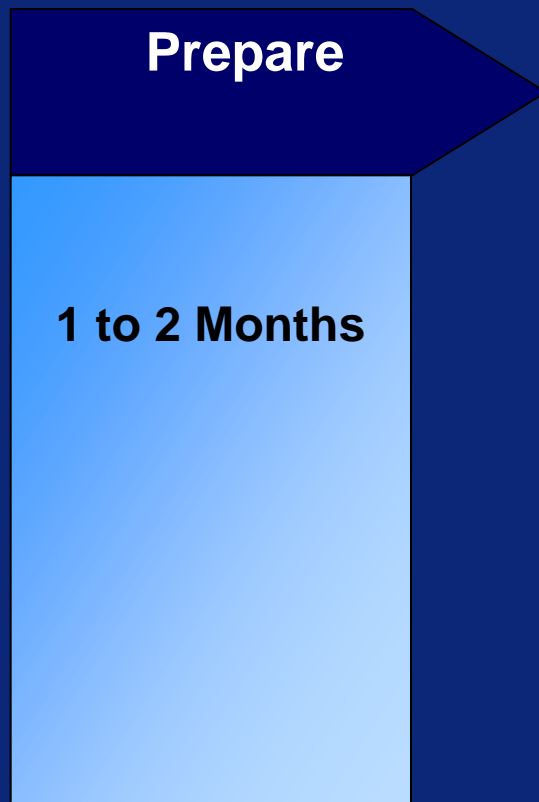
Preparing to Fundraise

- Sales Mindset
- Sales Process
- Sales Tool Kit

Sales Process



Sales Process (Prepare)



Key Elements include:

- Create Runway (or Perceived Runway)
- Get Current Investor Commitment
- Scrub The #s
- Align The Organization
- Define Your Objective
- Define Roles & Responsibilities
- Prepare Sales Tool Kit
- Identify Targets
- Create Scarcity Value

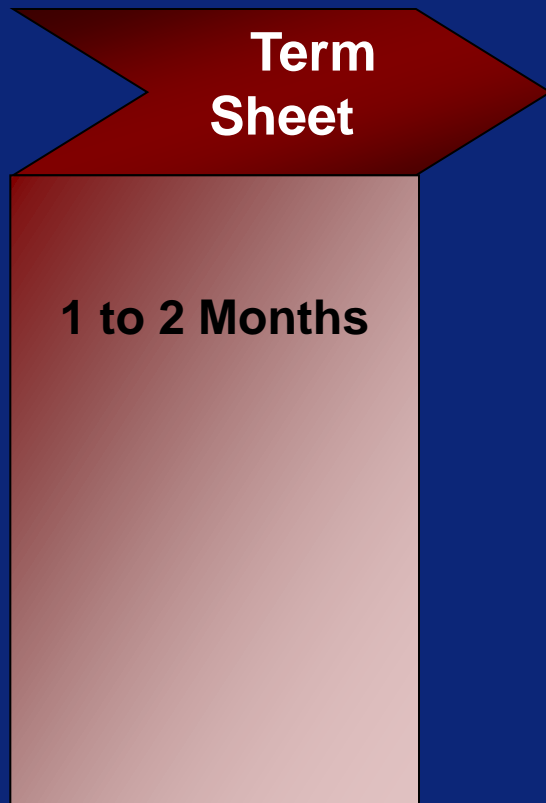
Sales Process (Approach)



Key Elements include:

- Get Referrals
- First Meeting
- Subsequent Meetings
- All-Partners Meeting
- Consultant Meetings
- Customer Meetings
- Due Diligence
- Site Visit
- Term Sheet (or Pass)

Sales Process (Term Sheet)



Key Elements include:

- Negotiate
- Draw Legal Documents
- Signature
- Pre-Close Review
- Close
- Confirm \$ Deposited
- Due Diligence IS Still Happening!

Financing your Company

- Be realistic on timing and pricing
- Become a great writer and spreadsheet jock
- Plan your approach using all resources
- Practice, practice, practice
- The first term sheet is often the best

Financing Tool Kit

- Elevator Pitch
- Story/Demo
- Presentation
- Executive Summary
- Business Plan
- Due Diligence Package

Elevator Pitch

- Definition
 - 2-3 sentences that defines the market, customer, problem/solution and uniqueness of the business
 - Place on slide one (display as brief bullets with a graphic)
- Framework
 - What market are you in?
 - What urgent problem are you solving?
 - What is the size of the opportunity?
 - Why will you win (differentiation, barriers to entry, unfair advantage)?
 - Where is the validation (customers, investors, etc.)?

Elevator Pitch

- Example

Diamond develops *proprietary thin film diamond products* and equipment that *dramatically improve heat dissipation on microprocessors*, solving one of the highest priority pain points in the industry.

We address growing markets that will *exceed \$1.5B by 2012* and will become the dominant supplier with the best team *having the most comprehensive patent position in the industry*. *Intel is our largest current investor*, and we are actively engaged with other target customers and partners who provide very strong references.

Building the Executive Summary

- Primary Uses

- Initial introduction to investors (may accompany introductory email)
- Prepares investors for meeting

- Best Practices

- Text derived from your presentation
- Drill down in key areas, but be concise
- Highlight external validation
- Less than 5 pages
- Use as tool to sell the team

- Supporting Materials

- Business plan, sales pipeline, IP roadmap, competitive landscape, etc.
- Make available only as appropriate (avoid material overload)

Executive Summary Outline

- Definition
 - 3-5 pp text document which includes all the elements of a business plan
- Outline
 - Business Definition/Company Purpose
 - Business/Technology Problem
 - Company/Product Solution
 - Market Trends/Size /Growth
 - Competitive Assessment/Point-of-Difference
 - Product/Technology/IP
 - Sales/Distribution
 - Team/BOD
 - Financials

Business Plan Outline

- Definition
 - 10-20 pp text document with before appendices
- Outline
 - Executive Summary (3-5 pages)
 - Business Overview and Strategy (1-2 pages)
 - Technology and Product (3-5 pages)
 - Market and Competition (3-5 pages)
 - Sales and Marketing (3-5 pages)
 - Management and Board (3-5 pages)
 - Financial Summary (2-3 pages)

Appendices

- Full management resumes
- Annual Financial Projections
- Product Information
- Market Studies

Financial Modeling

- It is a forecasting, not a budgeting, tool
- Work on the financial model together with the presentation and executive summary
- Do not provide more detail than the plan
- Use sensitivity analysis, but present the “expected case”
- Refer to assumptions throughout the plan
- Check for mistakes and “reasonableness”
- Get help

Creating Financial Projections

- Create a revenue model
- Plan New Hires
- Estimate any Significant One-Time Costs
- Use only annual income statement and balance sheet
- Prepare monthly or quarterly cash flow forecast until breakeven
- Don't sweat the details

Revenue Model

- Build a specific revenue model that mirrors your industry
- Compare with industry standards, highlight any differences
- Prepare the model from the “bottoms up”
- Do not over estimate first year revenue
- Do make a 5 year forecast
- Know the way revenue is recorded for your industry

Headcount

- 80% of all early year expenses are headcount related
- Make sure you are reasonable with salaries
- Match additions of people with company milestones
- Don't forget taxes, benefits and recruiting expenses
- Build a sales commission model, if necessary
- Index salaries to inflation and add bonuses

Other Expenses

- Don't sweat the other expenses
- Make sure rent increases as needed
- Watch consulting and professional services
- Begin taxes at the appropriate time

Balance Sheet

- Do create a balance sheet
- Use industry standards for AR and AP assumptions (typically 60 days and 30 days)
- Include financing assumptions on your balance sheet
- Make sure it balances (the balancing item is cash)

Cash Flow Statements

- A Flow of Funds statement is typical and easiest
- Use the Receipts and Disbursements statement if you are brave
- Cash flow statements are derived from the income statement and balance sheet
- Do not make changes on the cash flow statement
- Show monthly or quarterly cash flows until breakeven in the appendix or as backup slide

Charts and Tables

- In the presentation or business plan, use charts and tables to highlight
 - Revenue (esp. as compared to competitors)
 - Sales and distribution model (to explain those 90% gross margins)
 - Five year annual summary
- Other charts and graphs can show key events to next funding round, cash flow breakeven or the cash flow cycle

Summary

- Create a great demo and presentation
- Use the executive summary to market your company
- Make the financial projections work with the assumptions in your pitch
- Practice your pitch with an experienced audience
- Keep revising your plan and projections as you grow
- Good luck

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