Financing a Start-Up

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University of California, Berkeley
February 15, 2012
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

Company Grows

Company Goes Public

Company Funded

Deloitte Venture Capital Team
Success Story: LinkedIn

LinkedIn Investors Include Sequoia, Greylock and Bessemer

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

Public Offering in 2011
Deloitte Accelerator™ Services

A C C E L E R A T O R P A C K A G E

Business Advisory Events & Services

B E N E F I T S
CEO/CFO Development – fundraising, financial management, corporate governance, leadership, team building, sales process, networking and resources

Audit*

B E N E F I T S
Improved controls and reporting procedures

Tax*

B E N E F I T S
Compliance and cost-savings strategies

Human Resources*

B E N E F I T S
Compliance, HR Best Practices and Recruiter Network

* 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

- Amount Invested (in $B): $20.3, $23.6, $25.0, $31.0, $34.3, $32.7, $24.1, $29.6, $32.6
- Number of Deals: 2294, 2462, 2618, 2854, 3070, 2981, 2714, 3033, 3209
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)

Later Stage: $20.4, $45.2, $58.0, $13.0, $12.2, $17.9, $4.5, $5.5, $6.3, $2.1, $2.9
Second Round: $13.0, $12.2, $5.5, $6.3
First Round: $4.5, $5.5
Seed Round: $2.0, $2.9

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Exit Trends

• M&A has greatly improved

• IPO's are still difficult, but increasing
Fewer M&As Net More Capital in 2011

Transactions and Amount Paid ($B) in M&As

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount Paid ($B)</th>
<th>Number of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$11.5</td>
<td>400</td>
</tr>
<tr>
<td>2004</td>
<td>$27.0</td>
<td>530</td>
</tr>
<tr>
<td>2005</td>
<td>$29.7</td>
<td>509</td>
</tr>
<tr>
<td>2006</td>
<td>$39.4</td>
<td>533</td>
</tr>
<tr>
<td>2007</td>
<td>$54.5</td>
<td>519</td>
</tr>
<tr>
<td>2008</td>
<td>$25.9</td>
<td>434</td>
</tr>
<tr>
<td>2009</td>
<td>$23.2</td>
<td>416</td>
</tr>
<tr>
<td>2010</td>
<td>$39.0</td>
<td>560</td>
</tr>
<tr>
<td>2011</td>
<td>$47.8</td>
<td>477</td>
</tr>
</tbody>
</table>
2011 IPOs Raise More than 2010

Deals and Amount Raised ($B) Through IPOs

- Amount Raised ($B)
  - 2003: $1.5
  - 2004: $5.3
  - 2005: $2.5
  - 2006: $3.7
  - 2007: $7.5
  - 2008: $0.6
  - 2009: $0.9
  - 2010: $3.3
  - 2011: $5.4

- Venture-Backed IPOs
  - 2003: 23
  - 2004: 70
  - 2005: 46
  - 2006: 57
  - 2007: 81
  - 2008: 8
  - 2009: 8
  - 2010: 46
  - 2011: 45

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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

- **Prepare**: 1 to 2 Months
- **Approach**: 1 to 3 Months
- **Term Sheet**: 1 to 2 Months
Sales Process (Prepare)

1 to 2 Months

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)

1 to 3 Months

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