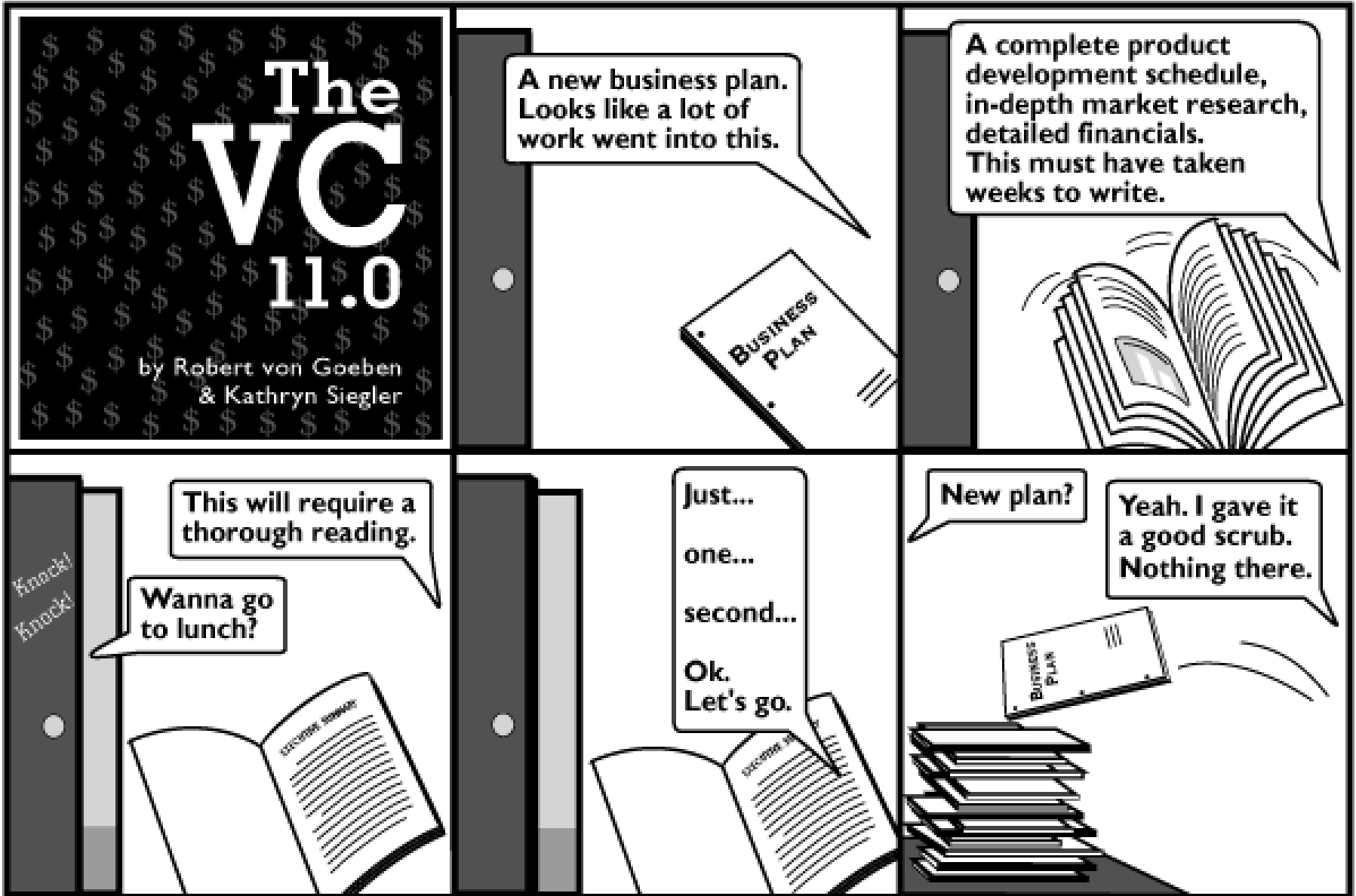




Purpose and makeup of a Business Plan

Presented by:

Tom Stephenson
General Partner



Verge

- *An Experienced **Local** Investment Team*
 - 6 partners, all in New Mexico
 - 20 New Mexico investments; \$9M+ placed
- *Investing Exclusively in New Mexico*
 - Seed stage approach dictates staying close to home
- *Focused on Seed & Pre-Seed Technology Deals*
 - Emphasis is on “Deal Creation”

Presentation Outline

- **Purpose of the Business Plan**
 - For Fundraising
 - For Operations
- **The Story and the Pitch**
- **Some Pitfalls of the Business Plan**

Purpose of the Business Plan

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Make TVC Happy

Why Prepare a Business Plan?

- Internal Planning
 - Setting revenue goals
 - Adjusting business model
 - Setting staffing priorities
- Raise \$\$

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Raising Money...

- Requires more than just a business plan
- Is a multi-step process
- Is a SALES job!

Steps in the Fund Raising Process

- First Contact
- Initial Review
- Extensive Due Diligence
- Terms Negotiation
- Final Documents and financing

First Contact

- Cold Calls = Bad (almost never funded)
- Therefore, get a referral!
 - Lawyers, accountants are good resources.
 - Other entrepreneurs are the best
 - The better the relationship, the better your chance
- Networking or social events are OK, but not much better than cold calls.
- Pick your shots:
 - *Not every VC can do every deal*
 - *Not every VC loves every deal*
 - Do not shotgun your efforts, but do not be discouraged by rejection

The Initial Review Period

Events can occur in two different orders:

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- | | |
|------------------------------|---------------------------------------|
| 1. Executive Summary review | 1. Meeting |
| 2. Meeting | 2. Executive Summary review |
| 3. Full Business Plan review | 3. 2 nd Meeting (optional) |
| | 4. Full Business Plan review |

Extensive Due Diligence

- Review of the financial model
- Independent analysis of:
 - The market
 - The competition
 - The technology
- Background checks on the Founders
- Tweaking and adjustments to the Business Model (early stage deals only)

Terms Negotiation

- Development of the Term Sheet
 - Valuation
 - Vesting
 - Board membership
 - Special rights to the stock
- Negotiation back and forth

Final Documents and FUNDING!

- Enter the lawyers
- Lots of paper
- Some, but not too much, follow-on negotiation
- Corporate clean-up
- Legal due diligence
- Investors send the \$\$\$\$

(*The Funding Process, Start to Finish*)

- Generally anywhere from 3-12 months
- Will take most of the time of 1-2 people on the management team
- Early rounds tend to take the longest
- Getting to due diligence or “no” quickly is key

Get into the VC's Head

- Two questions you have to answer before you get the money:
 1. What are you going to do?
 2. How are you going to do it?
- If I am not interested in #1, you are wasting your time with #2
- Therefore, developing a story is key

The Story and The Pitch

The Story

- What are you going to do?
- Why do I care?
- The story is not something formal, but should be summarized in your “elevator pitch.”
- It must be compelling.
 - **“Make my Greed overcome my Fear”**

Story examples

- **Southwest Airlines**
 - “30 Years, One Mission: Low Fares”
 - “We don’t compete with other airlines, we compete with ground transportation”
- **Dell Computers**
 - Sell direct (you cannot get more direct than the web)
 - Sell cheap
- **BMW**
 - Cede engineering to Mercedes, cede comfort to Lexus, but nobody beats them on performance
 - “The Ultimate Driving Machine”
- **WalMart**
 - “We sell for Less”

Forming the Story

- What's really different about what you do? (value proposition)
- Whose problem does it solve? (market/customers)
- Why are you starting this company? (besides to make a lot of money)
- Do not use buzzwords. Does your 12 year old get it? (in the absence of a 12 year old, try your spouse)

What is a Pitch?

- Three flavors:
 - The elevator pitch (2 or 3 sentences, max.)
 - The 10 minute pitch
 - The 30 minute pitch
- Work on the first two, and the last one will take care of itself (there is always more to say).

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The Elevator Pitch

- You walk into an elevator at the top of 30 story building, and a top-tier VC is in the elevator. You have until the elevator hits the ground to convince her to take your business plan. What do you do? What do you do?
- Must be <30 seconds

The 10 minute Pitch

- You have a 30 minute meeting with a VC. He has not read your plan, nor even heard of you, but you know his mother, and she told him to take the meeting. What do you do?
- The pitch should be 10 minutes without questions. If he does not ask questions, you are dead anyway.

Elements of the Pitch

- Value Proposition
 - Do you increase customers revenues or decrease their costs
- Business Model
 - VCs love analogies. Your business shouldn't be like anyone else's, but your business model should.
 - Have examples of successful implementations of this model in similar industries
- Management Team
 - Remember that it is about the people
- Overall Market
 - Be sure to have this segmented properly
- Financial Projections
 - Show cash flow break-even and profitability timelines, as well as Revenues and NI
 - And...

Do Not Forget to Ask for the Money!!

List your overall financing requirements

Tips for a Good Pitch I

- **Make it short**
 - 20 slides, max.
- **Make it clear**
 - Do not make your slides too busy
 - Use graphics and colors carefully
 - Use large fonts
- **Make it simple**
 - Even smart people only get so much the first time around

Tips for a Good Pitch II

- **Act right**
 - Be professional
 - Be P.C.
 - Be careful what you say
 - Smile!
- **Dress right**
 - Do not forget that you are asking for a lot of money
- **Know your Audience**
 - Individual background
 - Industry or deal preferences
 - Do homework first, not at the meeting (if possible)
 - Who is the decision maker in the group?
- **Honor their time**

Tips for a Good Pitch III

- Speak clearly
- DO NOT READ YOUR SLIDES!
- Make eye contact with everyone in the room (except your partners)
- Pay attention when others are talking
- Match your presentation to your style
 - But be sure to have a take away

And the Most Important Tip...

- Practice
- Practice!
- Practice!!

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- Americans list as their #1 fear:

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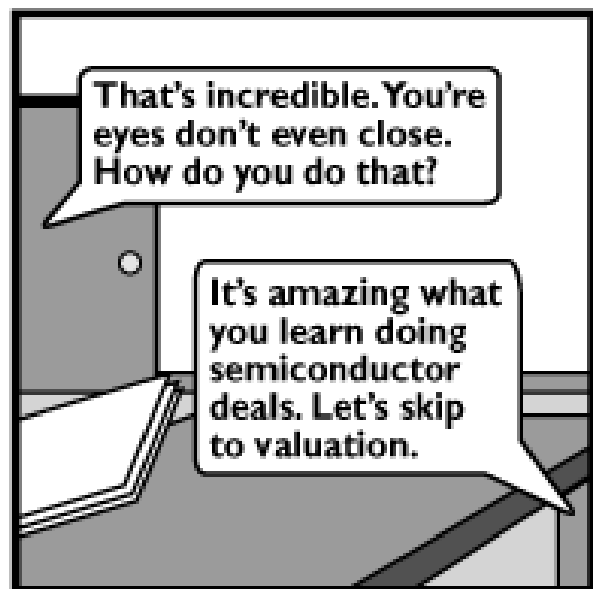
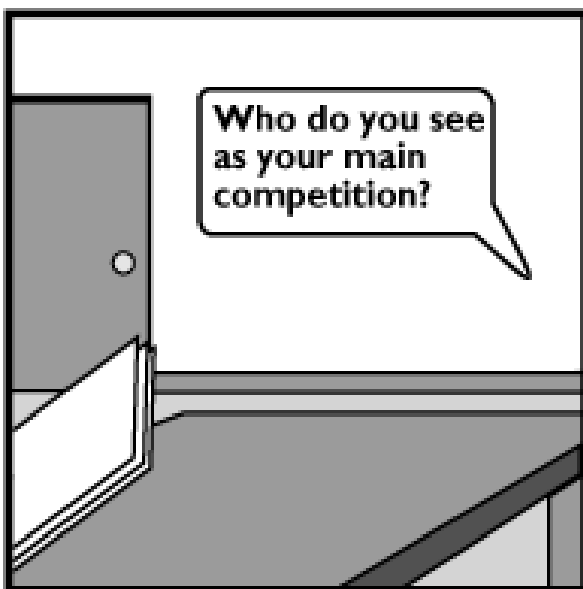
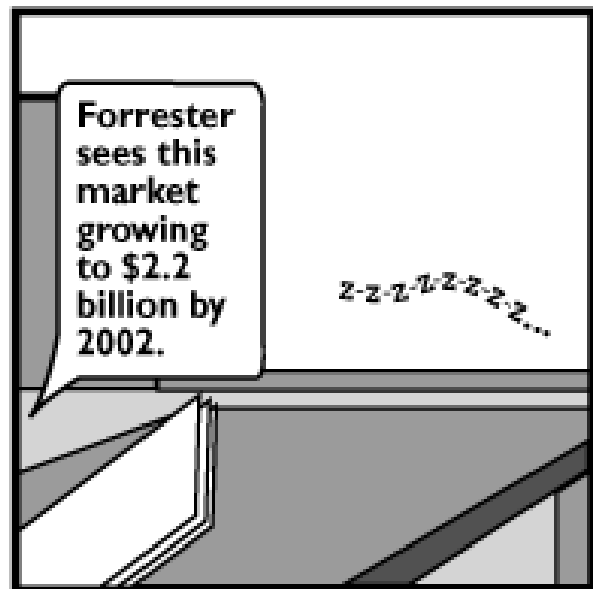
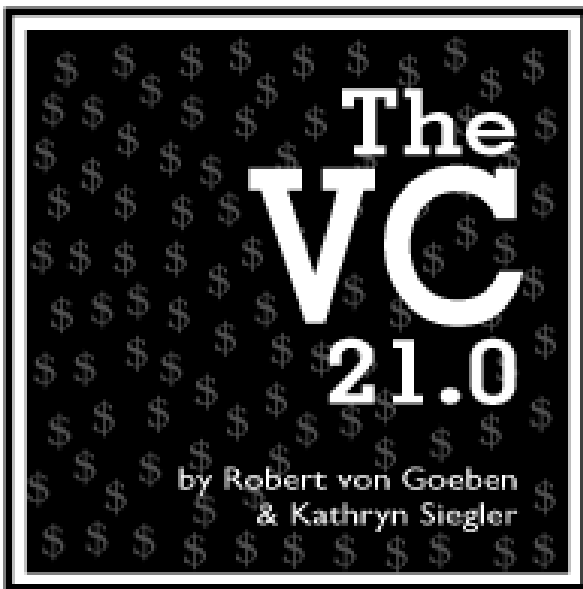
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 - Public speaking

And the Most Important Tip...

- Practice
- Practice!
- Practice!!

- Americans list as their #1 fear:
 - Public speaking
 - And it is ahead of dying!



Some Pitfalls of the Business Plan

{ What I REALLY Look for in the Plan }

Executive Summary	Is it clear and concise (<u>2-3 pages</u>)? Can it stand on its own?
Management Team	Are experiences relevant to the positions?
Product Description	Should be <i>non-technical</i> and to the point. Have the in-depth, technical discussions in appendix, not the plan
Market Overview	How has the market been segmented? How proven is the business <i>model</i> ?
Funding Needs	Are any of the funds going to retire <i>existing</i> debt or pay back salaries?
Financial Projections	This is the sanity “check.” Operating income, founders’ salaries, time to break-even.

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