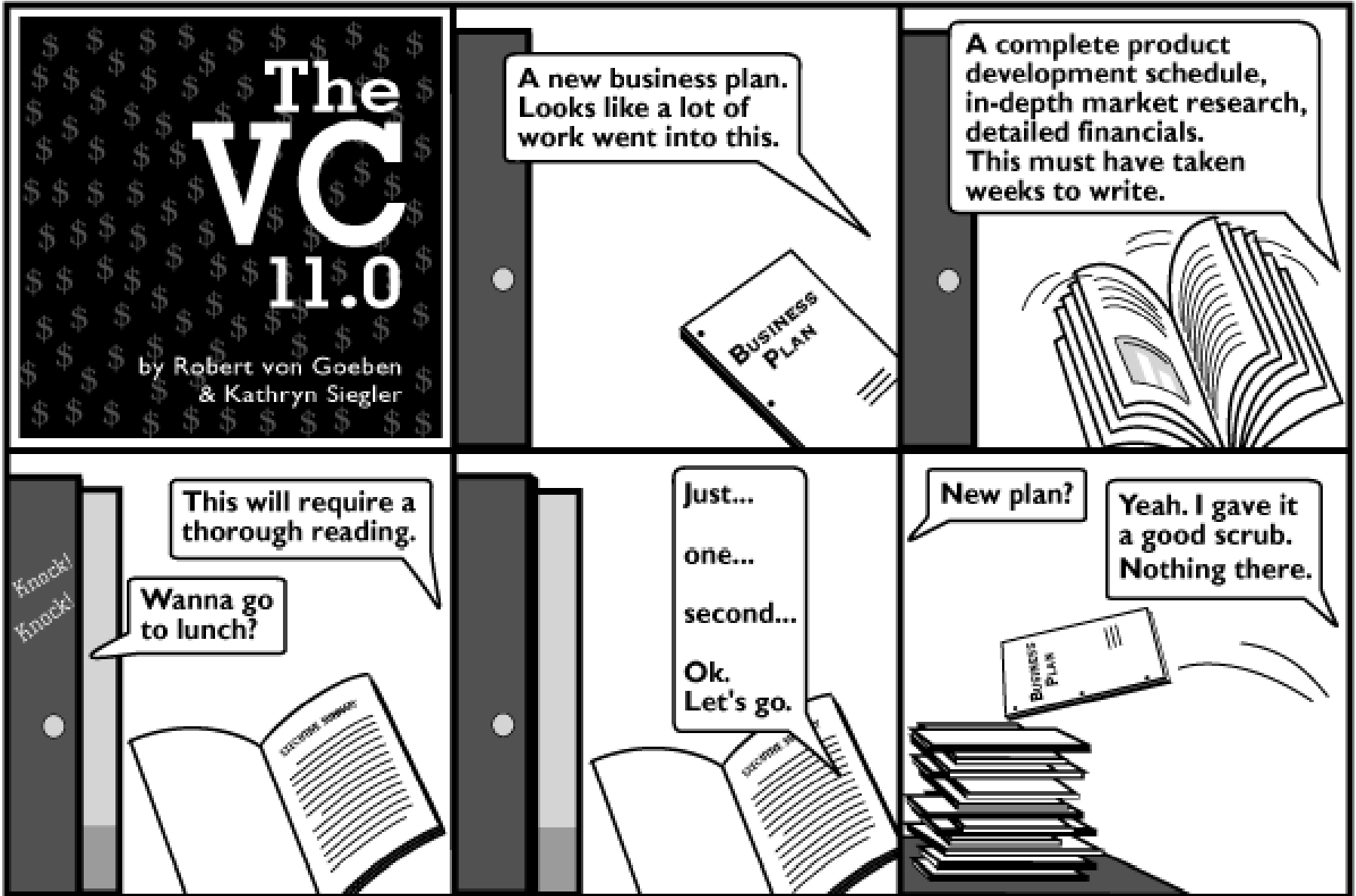


# Verge FUND

*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
  - 13 New Mexico investments; \$10M+ 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

*Make TVC Happy*

## *Why Prepare a Business Plan?*

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

## *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:

- |                              |                                       |
|------------------------------|---------------------------------------|
| 1. Executive Summary review  | 1. Meeting                            |
| 2. Meeting                   | 2. Executive Summary review           |
| 3. Full Business Plan review | 3. 2 <sup>nd</sup> 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”
- Eclipse Aviation
  - Revolutionize air travel by producing the first high volume production jet

## *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?

## *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).

## *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?
- 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 should not 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!!
  
- 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 )

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

# Contact Information

**Tom Stephenson**

*Verge Fund*

317 Commercial St. NE  
Albuquerque, NM 87102

V: (505) 247-1038

F: (505) 244-8040

[tstephenson@vergefund.com](mailto:tstephenson@vergefund.com)

[www.vergefund.com](http://www.vergefund.com)