

CAYENNECONSULTING

Preparing to Raise Capital in Today's Market

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Akira Hirai – Cayenne Consulting

85	Palo Alto	Stanford Linear Accelerator Center	Engineering Intern
86	N.H.	U.S. Army Corps of Engineers	Programmer
87	Boston	Let's Go Travel Guides	Sales Manager
88	Boston	AdVenture Graphics (Advertising)	General Manager
85-89	Boston	Harvard University	BA, Engineering
89-91	NYC	First Manhattan Consulting Group	Consultant
91-92	NYC	Systematix Development Group	Founder/Programmer
92-94	NYC	Coopers & Lybrand	Managing Consultant
95-99	NYC	Salomon Brothers	VP, Trading/Risk
99	Cupertino	AntiqueID.com	Founder/COO
99-00	SFO	MyRaptor.com	Founder/CEO
00-04	Arizona	Cayenne Consulting, LLC	Founder/Consultant

Agenda

- **Today's Funding Environment**
- **Planning Principles**
- **Business Plans**
- **Financials**
- **Presentations**
- **Wrap Up**

Show Me the Money

- **If you are a Startup...**
 - ◆ **Savings, Credit Cards, Day Job, Second Mortgage**
 - ◆ **Friends, Family, & Fools**
 - ◆ **Angel Investors**
- **If you are an Early Operating Company...**
 - ◆ **Grants (SBIR, NIH, NASA & Others)**
 - ◆ **Bank / SBA Loans (got assets?)**
 - ◆ **Customers / Strategic Partners**
- **If you are a High Growth Company...**
 - ◆ **Venture Capital**

Rise and Fall in 2003

- **Births**
 - ◆ **572,900 Startups with Employees**
- **New Fundings (many started prior to 2003)**
 - ◆ **82,993 (\$16.4 B) SBA loans (FY 2004)**
 - ◆ **42,000 (\$18.1 B) Professional Angel deals**
 - ◆ **2,715 (\$18.7 B) VC deals**
- **Exits (probably all started before 2003)**
 - ◆ **290 Acquisitions**
 - ◆ **29 IPOs**
- **Deaths**
 - ◆ **554,800 Closures**
 - ◆ **35,037 Bankruptcies**

Angels Take Wing

	2002	2003	2004 (h)
Total (\$B) *	15.7	18.1	12.4
# of Ventures	36,000	42,000	27,500
Active Angels	200,000	220,000	135,000
Avg \$ per Venture	436,111	430,952	450,909
Avg \$ per Investor	78,500	82,273	91,852
Yield Rate	7.1%	10.3%	14.1%

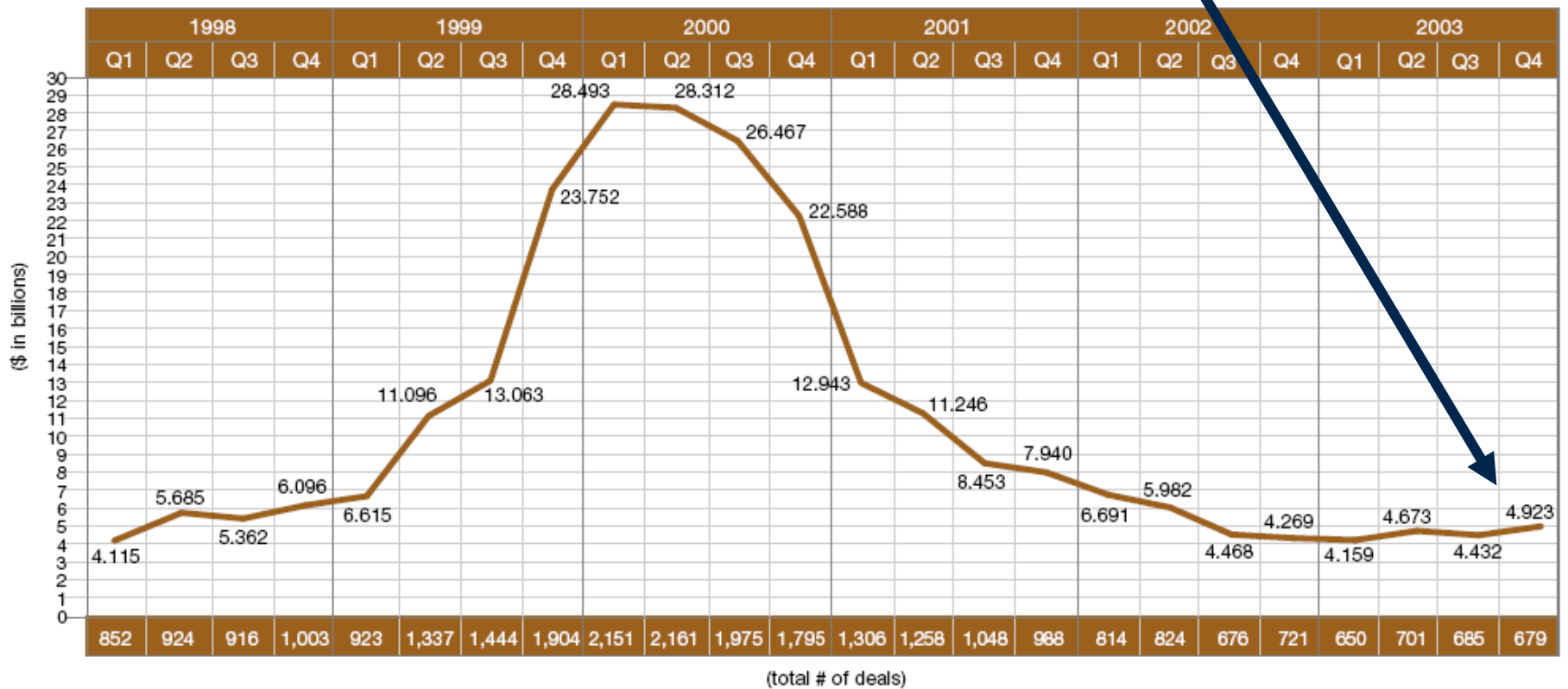
*** Down from \$30 billion in 2001**

Today's VC

- **Post-bubble damage control is done**
- **\$68 Billion on the sidelines**
- **Looking for reasons to say “Thanks, But...”**
- **Safety in numbers**
- **Looking for the “perfect” opportunity**

Forget the Bubble

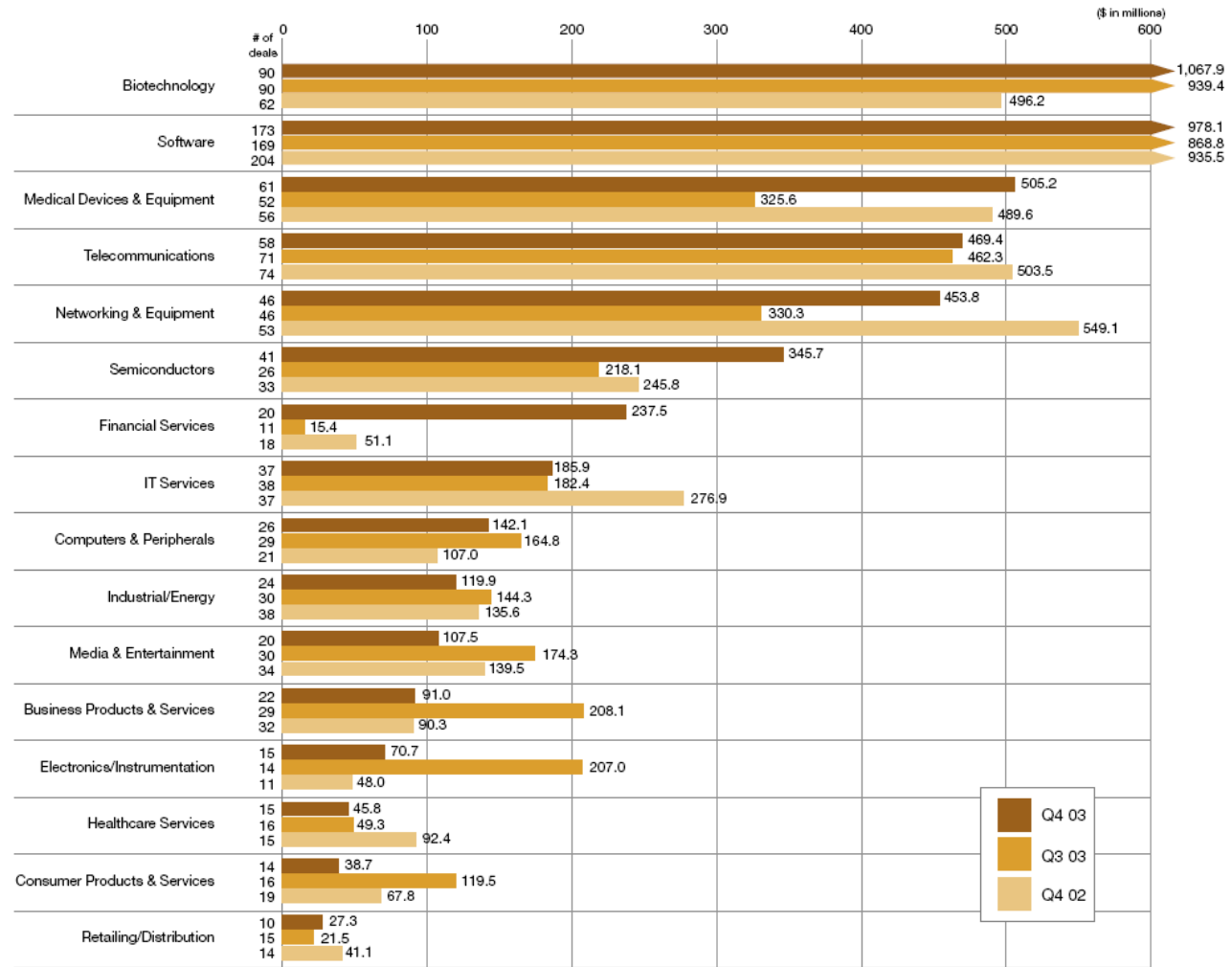
Back to Pre-Bubble Levels



Source: Q4 2003 MoneyTree Survey

What's Hot? What's Not?

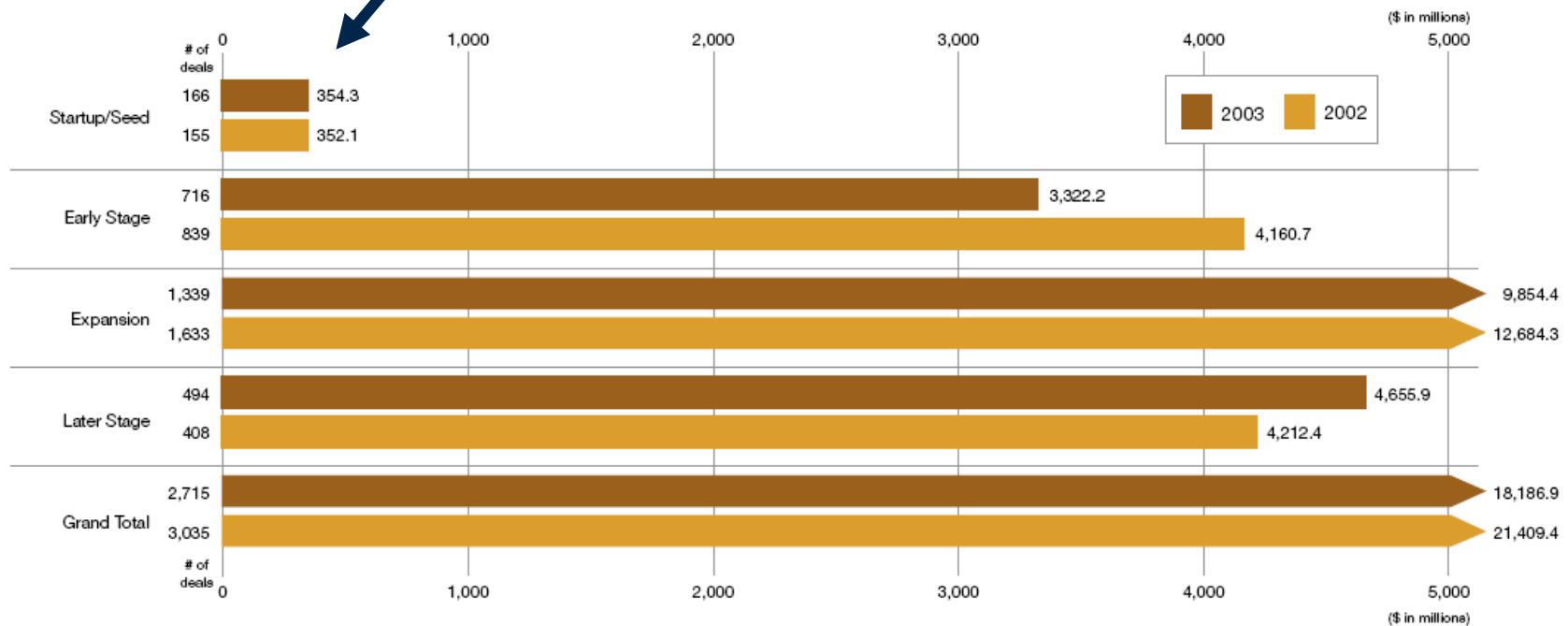
**Biotech,
Software,
Medical Devices,
Telecom are all
on the rise**



Source: Q4 2003 MoneyTree Survey

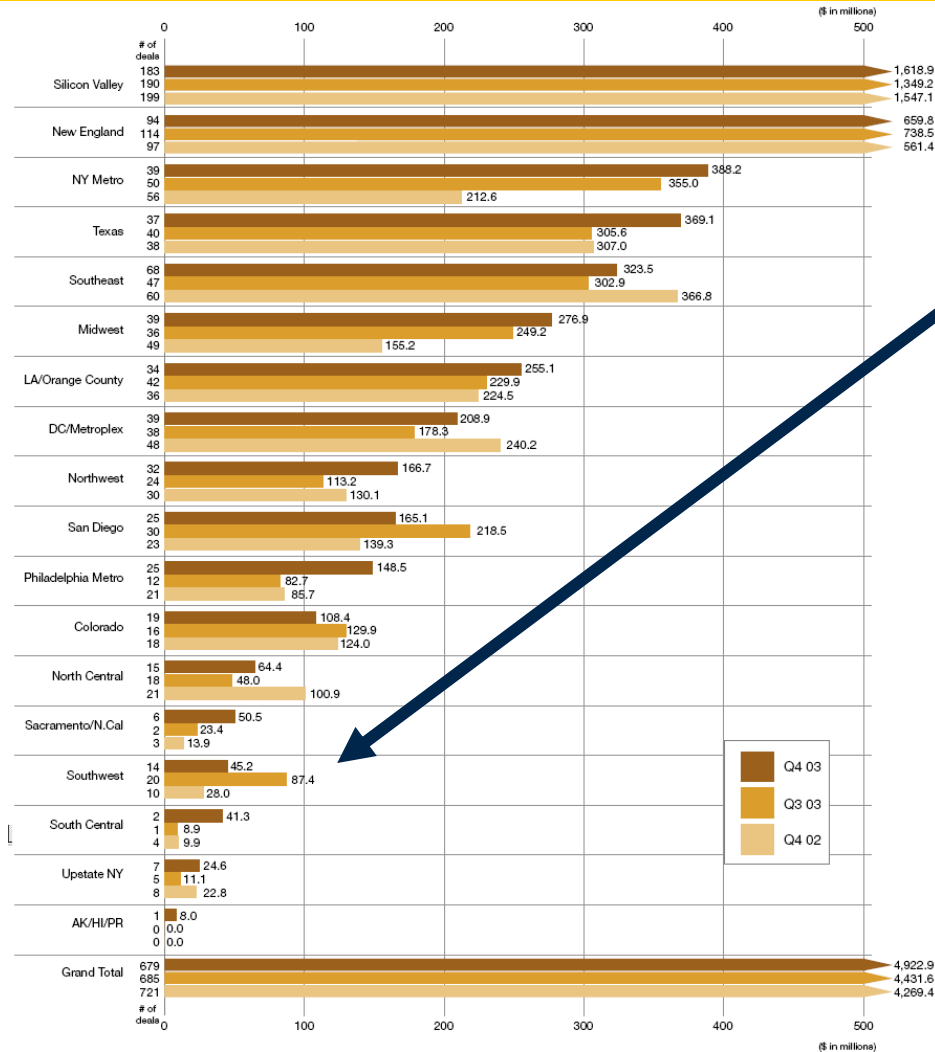
V Seed? Not!

Look Elsewhere
for Seed Money!



Source: Q4 2003 MoneyTree Survey

Infertile Ground



South West:

Q4-03: \$45.2 mm in 14 deals

Q3-03: \$87.4 mm in 20 deals

Q4-02: \$28.0 mm in 10 deals

Source: Q4 2003 MoneyTree Survey

EXIT Signs

	Total IPOs	VC Backed IPOs	Total VC Backed Offering (\$mm)
Q1 2002	14	4	376
Q2 2002	34	15	1,836
Q3 2002	7	1	30
Q4 2002	26	4	231
Q1 2003	3	1	77
Q2 2003	5	2	164
Q3 2003	20	9	733
Q4 2003	48	17	1,049
Q1 2004	38	13	2,721
Q2 2004	55	24	2,080
Q3 2004	62	29	3,230

Source: Hoover's/NVCA

Sold!

	VC Backed Acquisitions	Acquisitions with Disclosed Values	Total Purchase Price (\$mm)
1997	164	115	7,431
1998	209	132	9,088
1999	239	161	37,496
2000	314	202	68,353
2001	350	165	17,661
2002	314	150	7,831
2003	290	123	7,726
Q1 2003	68	21	1,453
Q2 2003	74	27	1,842
Q3 2003	77	40	2,103
Q4 2003	71	34	2,303
Q1 2004	78	44	3,900
Q2 2004	86	48	4,515
Q3 2004	83	43	3,924

Raising Arizona

- **Fiscal 2004 SBA Loans**
 - ◆ \$797 million in 2,091 loans
 - ◆ Average loan: \$381,157
 - ◆ 7th year of gains
- **Venture Funding, Q1-Q3 2004**
 - ◆ \$93 million in 12 deals
 - ◆ Investors in Q2/Q3 2004 were based in AZ, CA, CT, MA, and Singapore
 - ◆ Arizona investors funded companies located in CA, CO, AZ, and NM

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Why Plan?

Success/Risk Factor	
	We have identified a true market need
	The market is as big as we now think it is
	We can actually develop a great solution
	We can figure out how to sell it for more than it costs to make
	We have assembled the right team to do this, and everybody stays healthy
	We manage to stay ahead of competitors
	We don't get sued
	We meet regulatory requirements
	We don't run out of money
	Nothing else goes wrong

So You Think You're Great?

Chance	Success/Risk Factor
90%	We have identified a true market need
90%	The market is as big as we now think it is
90%	We can actually develop a great solution
90%	We can figure out how to sell it for more than it costs to make
90%	We have assembled the right team to do this, and everybody stays healthy
90%	We manage to stay ahead of competitors
90%	We don't get sued
90%	We meet regulatory requirements
90%	We don't run out of money
90%	Nothing else goes wrong

Many Points of Failure

Chance	Success/Risk Factor
90%	We have identified a true market need
90%	The market is as big as we now think it is
90%	We can actually develop a great solution
90%	We can figure out how to sell it for more than it costs to make
90%	We have assembled the right team to do this, and everybody stays healthy
90%	We manage to stay ahead of competitors
90%	We don't get sued
90%	We meet regulatory requirements
90%	We don't run out of money
90%	Nothing else goes wrong
35%	Net Chance of Success

The 10 Big Questions

- 1. What's the problem?**
- 2. What is your solution, and what makes it special?**
- 3. How big / severe is the problem?**
- 4. How will you make money?**
- 5. Who will buy it, and how will you sell it to them?**

Continued... 19

The 10 Big Questions

- 6. Why are YOU the best team to do this?**
- 7. What are the alternative solutions, and what makes yours the best?**
- 8. What have you done, and what will you do?**
- 9. What are the economics?**
- 10. How much do you need, and what will you do with my money?**

Wear the Investors' Shoes

- **Don't fall in love with your baby**
- **What's hot? What's not?**
- **Know the metrics & benchmarks**

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Details



◆ **Operating Plan**

◆ **Bank Loan Plan**

◆ **Equity Funding Plan**

◆ **Idea/Feasibility Plan**

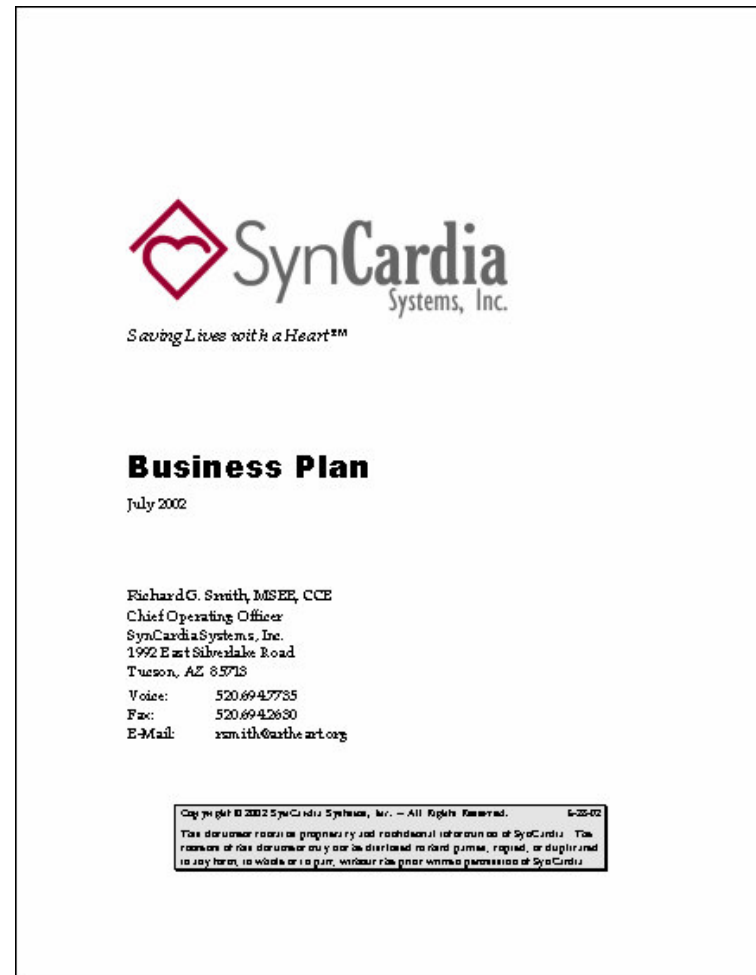
Typical Outline

- **Executive Summary**
- **Background (rarely necessary)**
- **Products/Services**
- **Markets**
- **Marketing & Distribution**
- **Implementation Plan**
- **Company Info**
- **Financial Analysis**
- **Appendix**

There is no “Right” structure!

The First Impression

- Contact info
- Enticing tagline
- Read Me!



Executive Summary

- **Answer the 10 Big Questions**
- **First paragraph – even the first sentence – can determine success or failure**
- **1-3 pages**

Background

- **Rarely necessary**
- **Grandmother test**
- **2-3 pages**
- **Could be part of the Appendix**

Products/Services

- **Key Sections:**
 - ◆ **What do you make/do?**
 - ◆ **How does it solve an important problem?**
 - ◆ **Why is it the best?**
 - ◆ **How close is it to going to market?**
 - ◆ **Intellectual property**
- **Keys:**
 - ◆ **Avoid jargon**
 - ◆ **Use images to reduce text**
 - ◆ **3-5 pages**

Markets

- **Key Sections:**
 - ◆ **Market opportunity**
 - ◆ **Market size**
 - ◆ **Market trends**
 - ◆ **Competition & competitive advantages**
- **Keys:**
 - ◆ **Research, Research, Research**
 - ◆ **Primary research >> secondary research**
 - ◆ **2-4 pages**

Marketing & Distribution

- **Key Sections**

- ◆ **Marketing plan**

- **Customers**

- **Positioning**

- **PR plan**

- **Pricing & promotions**

- ◆ **Sales/distribution/channel plan**

- ◆ **Sales projections**

- **3-4 pages**

Implementation Plan

- **R&D plan**
- **Partnership plan**
- **Operations plan**
 - ◆ **Facilities**
 - ◆ **Manufacturing**
 - ◆ **Customer service**
 - ◆ **Etc.**
- **Milestones – Past and Future**
- **Risks & mitigation**
- **3-5 pages**

Company Information

- **Legal structure, contact info, etc.**
- **Company history (if applicable)**
- **Service Providers**
- **Management team bios (detailed)**
- **Directors & Advisors**
- **Organizational Chart**
- **Key Open Positions**

Financial Info

- **Include:**
 - ◆ **Major Assumptions**
 - Revenue
 - Expense
 - Cash
 - ◆ **Summary financials (P&L, cash flows)**
 - ◆ **Amount Required & Use of Funds**
 - ◆ **Exit Strategy**
- **Exclude:**
 - ◆ **Valuations**

Appendix (Optional)

- **Complete Resumes**
- **FAQs – Updated regularly!**
- **Other possible info:**
 - ◆ **Customer lists**
 - ◆ **Marketing collateral**
 - ◆ **Press releases/coverage**
 - ◆ **Product details**
 - ◆ **Etc.**
- **Don't overdo it**

Tips

- **Short, sweet, focused**
- **Logical and defensible**
- **Proofed by many people**
- **Pass the grandmother test**

Traps

- **Hype**
- **Jargon**
- **You are NOT unique**
- **You ALWAYS have competition**
- **Patents are NOT perfect**
- **Things WILL go wrong**
- **You may NOT be the right CEO**

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Play Let's Pretend for 3-5 Years

- **Assumptions**
- **Income Statement**
 - ◆ **Revenue Model**
 - ◆ **Expense Model**
- **Cash Flow Statement**
- **Balance Sheet**
- **Sensitivity / Scenario Analyses**
- **Key Metrics**

VC Sweet Spots

- **\$50-100 million revenues by Year 5**
- **\$5-20 million investment over several rounds**
- **Significant revenues NOW
(or 12-18 months at the latest)**

Tips

- **Be credible: neither conservative nor aggressive**
- **Demonstrate you will spend wisely**
- **Early expenses will be scrutinized**
- **Know your burn**
- **Performance Measures & Benchmarks**
 - ◆ **Ratios vs. Competitors**
 - ◆ **Performance per Employee**

Traps

- **Unsubstantiated assumptions**
- **Too much detail**
- **Numbers fall apart**
 - ◆ **Assets = Liabilities + Equity**
 - ◆ **Revenues vs. Cash In**
 - ◆ **Expenses vs. Cash Out**
 - ◆ **Cash flow table ties to balance sheet**
 - ◆ **Quarterly/Annual consolidations**
- **Stale numbers**

Modeling: A Tough Life

- **Got finance and accounting?**
- **Focus on validating assumptions**
- **Use software, an accountant, or a consultant to develop the model**

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15 Seconds

That's All You Get

Guidelines

- **10-15 slides with large fonts**
- **Less is more**
- **Pictures >> words**
- **Don't get too cute (animations, etc.)**

Pitching

- **This is a test... you get one shot**
- **Know your audience**
- **Get a video camera and practice**
- **Everybody “On Message”**
- **Read the audience... not the presentation**
- **Passion YES – Arrogance NO**
- **Anticipate nonlinear discussions**

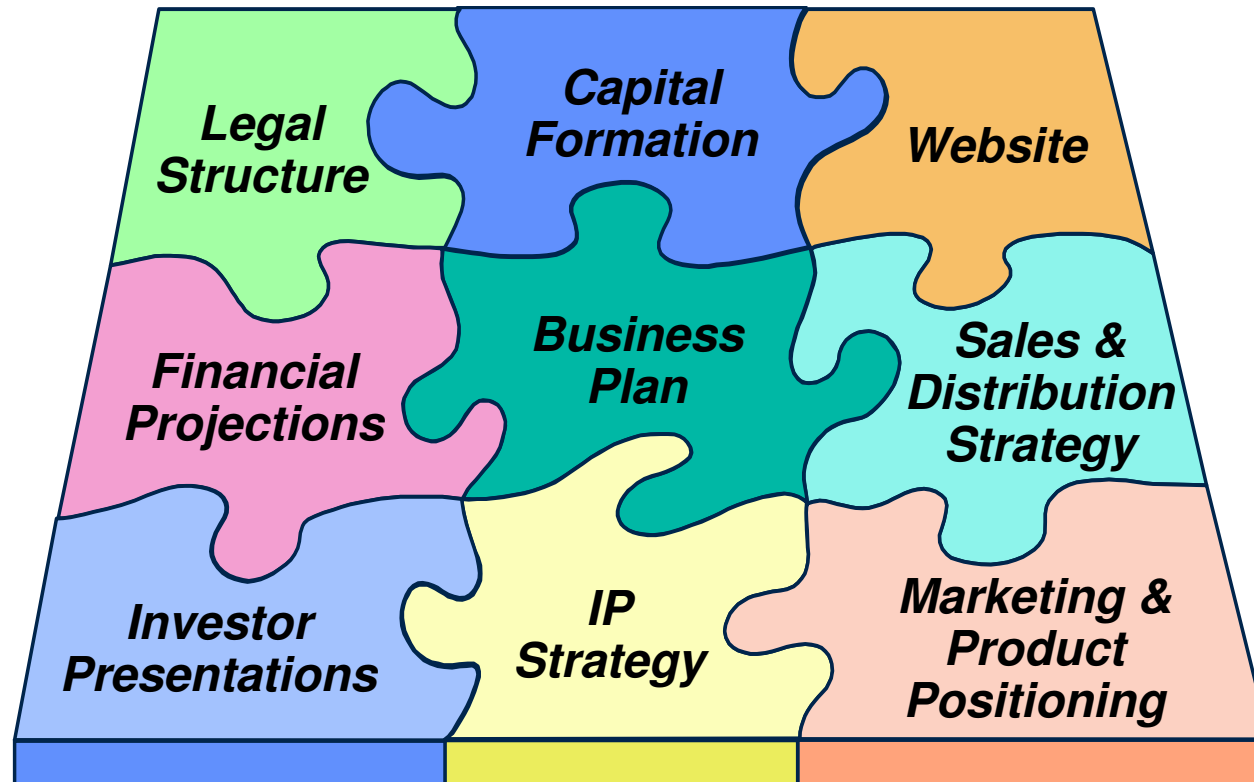
We'll get back to you

- **It's nothing personal**
- **Ask for feedback if they pass**
- **Feedback is not gospel**

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No Loose Ends



Presentation... Half the Battle!

- **Little things matter**
- **Grammar & spelling are critical**
- **Package it up**
 - ◆ **24 lb laser paper, 95+ brightness**
 - ◆ **Spiral bound with laminated color covers**
- **Don't overdo it**

Roll up your sleeves...

- **Prepare to spend 200-500 hours on your plan, financials, and presentation**
- **4-10 weeks of doing nothing but getting ready!**
- **6-12 months from Biz Plan to money in the bank (with luck)**
- **No guarantee of success – Have a Plan B**

Now What?

- **Do it from scratch**
- **Do it with software**
- **Do it with a mentor**
- **Do some of each**
- **Keep your day job**

Useful Resources

www.caycon.com/resources.php

The screenshot shows a Microsoft Internet Explorer browser window displaying the website <http://www.caycon.com/resources.php>. The page features a blue header with the Cayenne Consulting logo and the word "resources" in a large, white, sans-serif font. Below the header is a yellow navigation bar with links for [home](#), [services](#), [clients](#), [about us](#), [resources](#), and [contact us](#). The main content area is divided into several sections:

- The Entrepreneur's Library**: A section with a search box and a "Search" button. Below the search box are radio buttons for "Search WWW" (selected) and "Search this site". Links include [Suggest a resource!](#), [Send us feedback!](#), [Tell a friend!](#), and a paragraph: "Learn more about our [business plan consulting services](#). Inclusion in this directory does not constitute an endorsement. The materials linked to
- Getting Started**: [General Resources](#), [Legal Structure](#), [Directors & Advisors](#)
- Planning & Research**: [Business Plans](#), [Competitive Analysis](#), [Market Research Tools](#), [Market Research Firms](#), [General Research](#)
- Funding Your Business**: [Getting Ready](#), [Funding Mechanics & Deal Structure](#), [Venture Capital](#), [Business Loans](#), [Angels](#), [Grants](#), [Public Markets](#)
- News & Views**: [General Business](#), [Tech Business](#), [Other](#)
- Industry Specific**: [General Science](#), [Biotech](#), [Genomics](#), [Proteomics](#), [Medical Sciences](#), [Nanotech](#), [Telecom](#), [Software & Internet](#), [Computing & Networking Hardware](#)
- Web Development**: [Web Design](#), [Programming](#), [Search Optimization](#)
- General Resources**

Final Thoughts

- **Assume your stuff will be made public**
- **ALWAYS be honest (always)**
- **Take ownership**
- **Be ready to evolve**

Now...

**GO BUILD
SOMETHING
GREAT!**

Q?... A???

CAYENNECONSULTING

heat up your business

- **Akira Hirai**
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