



Avoiding Financing Pitfalls for Start-ups & Small Business

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About Your Presenter . . .

- Enterprise & Technology Commercialization Attorney for 20+ Yrs**
- Held VP, Director, & General Counsel Positions in Small Businesses**
- Focused on Counseling Small Businesses Throughout His Career**
- Holds a Juris Doctorate and 2 Engineering Degrees**
- Raised Millions for Small Businesses, Now Investing for ACS**
- Serves as Business Head to ACS TechCatalyst's Business Unit**

About This Presentation . . .

- 1. More for Startups Than On-Going Concerns**
- 2. Commercializing a Technology Based Product**
- 3. Traditional Equity Markets Exist**
- 4. Corporate Enterprise & “Pre-Downturn” Investment Guidelines**
- 5. Plan to Use ‘Other People’s Money’ (OPM)**

Financing . . . Is Like A Runway!



You Need Plenty of It - LIFT!

No Holes or Gaps in It

Can't Veer Too Much

You Only Have So Much of It

Starting or Operating A Business Is Challenging . . .



In 2007, there were 637,100 new businesses, 560,300 business closures and 28,322 bankruptcies.

Source: U.S. SBA Office of Advocacy, Sept. 2008

2/3rds of new employer firms survive at least 2 years, 44 percent survive at least 4 years, and 31 percent survive at least 7 years.

Source: U.S. SBA Office of Advocacy, Sept. 2008

About 1.15 million businesses closed their doors in the first three (3) quarters of 2008.

Source: Bureau of Labor Statistics

Important Financial Concepts . . .

FINANCIAL STATEMENTS:

1. *Balance Sheet:*

A report that lists assets, liabilities, and equity of a company at a certain point in time

2. *Income Statement:*

A report that lists the revenue a company earned over a specific time period (usually for a year or some portion of a year). Also shows the costs and expenses associated with earning that revenue

3. *Cash Flow Statement:*

A report that lists the company's inflow and outflow of cash

DILUTION: A reduction in each shareholder's fractional interest in a company

EQUITY: Assets less liabilities, i.e., total owner's equity (Evidenced by Stock)

VALUATION: The company's value as measured by its price per share of stock multiplied by the number of shares issued

The Financing Stages . . .

	REVENUE	PRODUCT STAGE	RISK/RETURN	VALUATION	INVESTMENT
Seed:	None	Proof of Concept	Very High	< \$2.5MM	250K - \$1MM
Early-Stage:	None – Little	Prototype / Sales	High	< \$50MM	\$1 - \$10MM
Later-Stage:	Little - Modest	Sales	Moderate	> \$50MM	> \$10MM
Expansion:	Substantial	Sales	Moderate	>100MM	> \$50MM

The Business Plan . . .

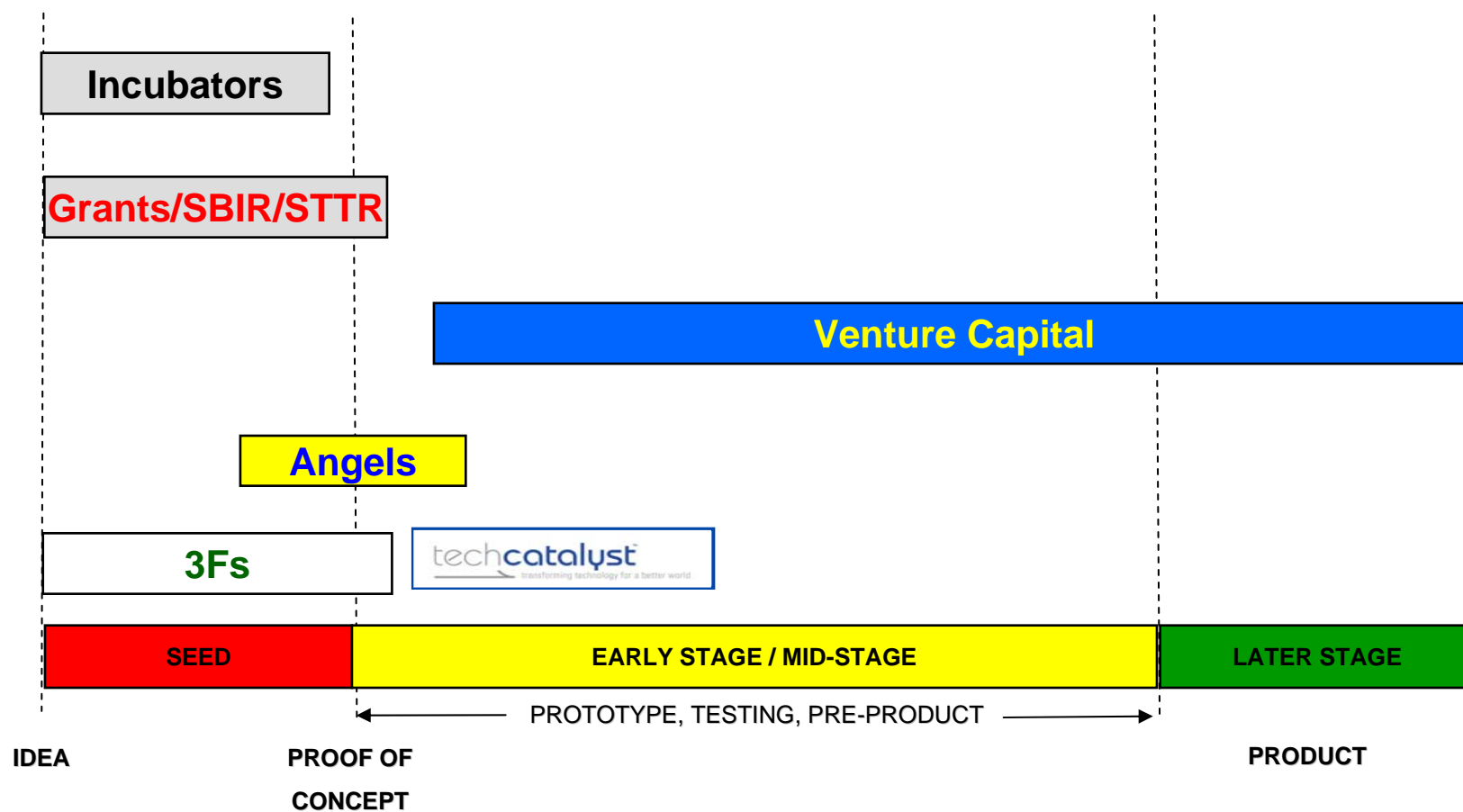
- **Importance Can't Be Overstated - "blueprint" for success**
- **Changes with Financial, Market, Management, and Product Changes**
- **"Sales" Piece, But Should Be "Real" – Refrain From "Lofty" Projections**
- **Well Conceived & Legible Helps (One Chance At Great First Impression!)**
- **Executive Summary – Core Value Proposition, Gets Read (Be Concise)**
- **Communicates Your Entrepreneurial Savvy (Experienced Investor Can Tell)**

Elements of a Business Plan . . .

1. **Executive Summary** (TIP: Make Value Proposition Clear)
2. **Company Description**
3. **Product or Service Offerings** (TIP: Competitive Advantage)
4. **Market Analysis** (TIP: Competitive Landscape)
5. **Marketing and Sales Strategy**
6. **Financial Strategy** (TIP: Consider Best, Expected, and Least Case Scenarios)
7. **Organization & Management**

See: <http://www.sba.gov> for guidance

The Financing Landscape . . .



‘Optimal’ Financing Strategy . . .

From ‘40,000 ft’:

- **Requires Some ‘Crystal Balling’ to Anticipate the Future**
- **Conceptualizing and Implementing is an Art, Not a Science**
- **All Funding Sources Should be Considered – Some Have ‘No’ Cost**
- **Hard Work, Creativity, Perseverance Through “No”, and Luck**
- **Have a Plan B, C, D, etc. – Prepare for the unknown, unplanned, unfair**

'Optimal' Financing Strategy (Cont'd) . . .



Key Attributes to the Best Plans:

1. ***Reasonable Objectives*** - Raise Amounts, Markets, Expenses
2. ***Incremental Raises*** - 'Significant' Value-Added Milestones (e.g., Prototype)
3. ***Founder, Family, & Friends ("3Fs")*** – Show 'Skin'
4. ***Dilution at Earlier Stages*** (Tip: Investor Friendly) – Big Stake / Risk
5. ***Minimize Management's Efforts*** – Need to Develop Product Too!

'Optimal' Financing Strategy (Cont'd) . . .



“Raise as much money as you can when you can because you never know what's going to happen”

Somebody Said This to Me Once

OR

Why Not Just Stay Small!
(Consider Small Amounts of OPM)

The Pitfalls . . .

- 1. Inadequate Financing Strategy**
- 2. Raising Too Little**
- 3. Raising Too Much**
- 4. Spending Too Much**
- 5. Bad Investor Management**
- 6. Paying Too Much for Funds**

1. Inadequate Financing Strategy . . .

- ✓ **Fails to Appreciate The Competitive Nature of Capital**
- ✓ **Fails to Properly Value Product Development Milestones**
- ✓ **Fails to Utilize ‘Purposeful’ Capital – SBIR, ACS TechCatalyst**
- ✓ **Fails to Plan for Contingencies – Best, Expected, Least Cases; Downturns!**
- ✓ **Fails to Address Valuation Concerns – Investors Have Choices**

2. Raising Too Little . . .

- Raise Enough for Years of Living Off Your Bank Balance**
- Plan Your 'Burn' & Stay Close to It**
- 'Burn Rate' – A Major Concern for Potential Investors (Cash Flow Statements)**
- Angels Generally Invest Locally – A Limited Supply**
- Use Modest Valuation – Investors Measure Risk vs. Return**

3. Raising Too Much . . .

- ❖ **Recognize That Your ‘Stock’ is a Bargaining Tool**
- ❖ **Too Much Stock Out At Low Valuations = Disaster (for Next Round!)**
- ❖ **Temptation to “Get Bigger” - Burn More**
- ❖ **Flexibility Lost - Investors Have Expectations About Proceeds Use**
- ❖ **Takes Too Long – Management’s Commitment to Raise – Years, Not Months**

4. Spending Too Much . . .

- ◆ **Paying Attention to Your Burn Rate is CRITICAL (3 of 4 Fail)**
- ◆ **Bigger \neq Better – Consider Outsourcing, Time Purchases, Negotiate With Suppliers**
- ◆ **Temptation to “Get Bigger” - Burn More When You Hire A Lot of People**
- ◆ **Temptation to Lose Focus – Chase Other Markets, Bigger & ‘Sexier’**
- ◆ **You’ll Know It – Valuation Targets Are Unachieved**

5. Bad Investor Management . . .

- **Leaving Investors In The ‘Dark’ – Asking for Legal Trouble**
- **Important Source of “Follow-On” – Would You Like A Cappuccino?**
- **Manage Your Investors – Effort Proportional to Money You’ve Taken**
- **Keep Them Informed, But You Run the Business**

6. Paying Too Much . . .

Ask Yourself These Questions:

Some Answers:

Do I Have to Sell Stock?

No - Can Use Convertible Debt Too

What Is My Stock Worth?

Depends – Valuation is Sticky Point

How Much Do I Need To Sell?

Depends – Plan for Years of Burn

Are Their Hidden Costs?

Could Be – Management Implant!

How Do I Find Potential Investors?

Easy – Web, Attys, Bankers, Accts

6. Paying Too Much (Cont'd) . . .



	ANGELS	VCs	techcatalyst
INVESTMENT SIZE	\$50K - \$1 MM	\$2 - \$10 MM	\$250K
USE OF PROCEEDS	ANYTHING	LIMITED	Chemistry
FUNDS SOURCE	ACCREDITED INVESTORS	INSTITUTIONAL	ACS
RETURN	10-25X	>50X	<5X
VALUATION OF STOCK	NEGOTIABLE	CRAM DOWN	NONE (DEBT)
DILUTION	OK	OPPOSED	EXIT
MENTORSHIP	LIMITED	MGMT & DIRECTORATE	TECHNICAL
BOARD SEAT	A SEAT	SEATS	NONE
DUE DILIGENCE	MODEST	EXTENSIVE	MODEST

Good Luck And . . .



THANK YOU

Thank you for joining us.
We hope to see you at future events.



August 27, 2009:

ACS Small & Medium Business Webinar Series presents
***“What You Need To Know About Changes in VC
Landscape and Capital Raising Process”*** A half-hour
presentation followed by Q&A with speaker Josh Wolfe,
Co-Founder and Managing Partner, Lux Capital. To
register:

<https://www2.gotomeeting.com/register/715740658>