Writing and Presenting a Business Plan

Advanced Starter Seminars
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Marc Goldchstein
Business Plans: Some perspectives...
Writing and Presenting a Business Plan

• So:
  • you know who’s your customer, what’s his pain
  • you know what your customer does today, why you’re better
  • you know -roughly- what the plan is
  • you have an idea about what it will cost to implement the plan
  • you have assembled (part of) the team you need

• then:
  • it’s time to find the money to make it happen

• therefore:
  • you will start writing something that looks like a Business Plan
  • and you will pitch to potential investors
What Khosla Ventures looks for in seed stage investments

- **About Khosla Ventures**
  - Vinod Khosla is businessman and VC. He is co-founder of Sun Microsystems. Forbes named him amongst the 400 richest people in the United States.
  - Khosla Ventures is a venture capital firm focused on early stage companies in the Internet, computing, mobile, silicon and clean technology sectors. The firm is based in Menlo Park, Cal., and manages approximately $1.3 billion of investor capital.

- **What Khosla Ventures expects**
  - Overall: a crazy idea that may have a significantly non-zero chance of working.
  - the key technology risks of your approach need to be identified.
  - The economic and market benefits if it is successful need to be identified.
  - Planning for risk elimination at the lowest possible cost is the key variable we look for.
  - Your seed plan should validate your hunches about the market and help you decide what market segment you want to enter.

- **problem overview**
  - What is the problem you are trying to solve?
What Khosla Ventures looks for in seed stage investments

- your unfair advantage
  - Do you have a scientific breakthrough or IP, a business-model innovation, or a unique partnership?
    - Address the innovation in significant detail - think science and engineering, not marketing.
  - Why is now the right time?
  - What has been proven and how far is this from a commercial scale?
  - What risks remain to be proven?
  - What are the three major things that could go wrong?
  - How long will it take to experimentally validate the technology viability? milestones / financials
  - What are the technical milestones that this financing will achieve?
  - What are your future milestones, and how much capital will you need to achieve these milestones?

- Funding needs
  - What is your total and operating cash burn (the amount you're spending) per month

- market / competition
  - Do you have a good understanding of the competitive landscape?
  - Are you comparing your company against the technology competition in areas that matter to the end customer?
  - Are you comparing your future product to your competitor's current product or to their future product?
  - Is your innovation addressing a need in a large enough market ($1B plus)?
  - How significant a step forward is represented by the technology or innovation? What impact will it have on the competition?
  - Why can't your plan be replicated tomorrow by a competitor? Why have other players in the field missed out on the technology?
What Khosla Ventures looks for in seed stage investments

• your team
  • The focus is mostly on you, your goals, and your technical team. Address why you are uniquely qualified to solve this problem. People key to your innovation matter to us.
  • Who are you, and why are you qualified to lead this opportunity? What skill sets do you bring to this problem? What skills you need to add?
  • Do you envision yourself as the long-term CEO or in another role?
  • What is the role of every member of your current team? Are they all working toward mitigating your primary risks, or are they really working on non-critical "development" that can be addressed later? Are they the best possible people for meeting your current milestones?
  • Are the founders thought leaders or associated with the thought leaders in the field? What critical people who could address your key risks are missing, and where can you find them?
Khosla Ventures - what doesn't matter

• "We project $XXXM in revenue over 5 years."
  • Your five-year marketing financials and revenue projections are a shot in the dark.
  • All forecasts are wrong (including ours)
  • focus on the burn rate and your path toward achieving the milestones, instead of false precision at this stage.

• "We expect to grow from 50M to 150M users in XXX."
  • We're more interested in how you acquire your initial customers, and how you keep them.
  • Plans often fail to explain how the founders will bootstrap themselves in the start-up mode. How will you get that large customer base in the first few months or quarters?
  • Details matter more than gross, unsupported assumptions. If you have indicators of solutions to this bootstrap risk, that is important for us.

• "I have the next Facebook / Google / Twitter."
  • If your business plan is built on copying what existing companies are already doing, you are unlikely to succeed.
  • Instead, explain to us why you are the first XYZ. A better Facebook or social network will receive substantial skepticism; but again, we have occasionally climbed past this skepticism.
  • We will keep an open mind, but another "me too," slightly-better-features plan is seldom our cup of tea.

• "I have a complete business plan; I just need funds to make it happen."
  • Unfortunately, experience has led us to disagree. If you are looking solely for funds as opposed to help building a business, we are probably not your best option.
  • It is important to us to understand what help you need and how open you are to this help.
Guy Kawasaki

- Former chief evangelist of Apple, advisor to the Motorola business unit of Google.
- Currently trustee of the Wikimedia Foundation, and executive fellow at the Haas School of Business at U.C. Berkeley.
- The Only 10 Slides You Need in Your Pitch
  - ‘I evangelize the 10/20/30 Rule of PowerPoint. A pitch should have 10 slides, last no more than 20 minutes, and contain no font smaller than 30 points.’
  - ‘This rule is applicable for any presentation to reach agreement: for example, raising capital, making a sale, forming a partnership, etc.’

See [http://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch](http://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch)
the 10 slides of Guy Kawasaki

• Title
  • company name, your name and title

• Problem/opportunity
  • describe the pain you’re alleviating or the pleasure you’re providing

• Value proposition
  • explain the value of the pain you alleviate or the value of the pleasure you provide

• Underlying magic
  • Describe the technology, secret sauce or magic behind your product. The less text and the more diagrams and flow charts the better.
  • If you have a prototype or demo this is the time to transition to it.
  • As Glenn Shire of Google said: a picture is worth 1,000 Words, a prototype is worth 10,000 slides

• Business model
  • explain who has your money temporarily in his pocket and how you’re going to get it into yours

• Go-to-market plan
  • explain how you’re going to reach your customer without breaking the bank

• Competitive analysis
  • provide a complete overview of the competitive landscape. Too much is better than too little

• Management team
  • Describe the key players of your management team, board of directors and board of advisors as well as investors. It’s OK if you have less than a perfect team, if your team was perfect you wouldn’t need to be pitching

• Financial projection and key metrics
  • Provide a three year forecast providing not only dollar values but also key metrics such as number of customers and conversion rate. Do a bottom-up forecast, not top-down

• current status, accomplishments to date, timeline and use of funds
  • explain the current status of your project, what the near future looks like and how you’ll use the money you’re trying to raise
What Sequoia Capital expects...

- the company that funded a/o:
  - Apple, Google, Oracle, Atari, Cisco, Instagram, LinkedIn, Nvidia, Paypal, Youtube
  - and recently: Collibra
  - **Sequoia-backed companies now represent more than 20% of the total value on NASDAQ**

- We like business plans that present a lot of information in as few words as possible. The following business plan format, within **15–20 slides**, is all that’s needed.

- Company purpose
  - Define the company/business in a single declarative sentence.
  -
Define the company/business in a single declarative sentence

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We are on a mission

We accelerate trusted business outcomes by connecting the right data, insights, and algorithms for all Data Citizens. True Data Intelligence allows organizations to unlock the value of their data and turn it into a strategic, competitive asset.

Learn about Data Intelligence
What Sequoia Capital expects...

• Problem
  • Describe the pain of the customer (or the customer’s customer).
  • Outline how the customer addresses the issue today.

• Solution
  • Demonstrate your company’s value proposition to make the customer’s life better.
  • Show where your product physically sits.
  • Provide use cases.

• Why now
  • Set-up the historical evolution of your category.
  • Define recent trends that make your solution possible.
• Market size
  • Identify/profile the customer you cater to.
  • Calculate market size: TAM (Total Available Market), SAM (Serviceable Available Market), SOM (Serviceable Obtainable Market) (see later)

• Competition
  • List competitors
  • List competitive advantages

• Product
  • Product line-up (form factor, functionality, features, architecture, intellectual property).
  • Development roadmap.

• Business model
  • Revenue model; Pricing
  • Average account size and/or lifetime value
  • Sales & distribution model; Customer/pipeline list

• Team
  • Founders & Management
  • Board of Directors/Board of Advisors

• Financials
  • P&L, Balance sheet, Cash flow
  • Cap table; the deal
What to provide to QBic

- Executive Summary (1 or 2-pager) or short presentation:
  - (Core) Team
    - education, relevant experience, responsibilities
  - Product offering
    - Description | features
    - Product status
    - What problem does it solve?
    - Value proposition: how well does it solve this problem

- Competitive analysis
  - Major competitors
  - Differentiators: how does the venture’s solution compare to competition? How and why is it better?
  - Sustainable competitive advantage: how will this competitive advantage be maintained in the future
    - (IP protection, development lead, partnerships, ...)

- Market
  - Target market
  - Size of the addressable market (TAM)

- Sales & marketing plan: Go-To-Market
  - Funding needs; amount, timing and use of proceeds
    - Detailed financial statements can be provided in a follow up meeting
  - Be concise and to the point: teaser!
  - No NDAs
Business Plans according to Geoffrey Aerts

- A business plan should always be goal oriented
  - helps you to understand an opportunity & decide whether to proceed
  - helps persuade investors or other stakeholders to invest
  - helps you as an entrepreneur in understanding the key risks associated with the business & how to manage them
  - helps to develop a roadmap for the future of your company
- A business plan, by definition, will be wrong to some extent
  - No one can predict the future
  - Keep your plan lean & mean & be prepared to adapt
- A plan is just a plan
  - The important part is the planning, not the plan itself
  - Success will depend on the execution of the plan and the context within which the plan is executed
Characteristics of a good business plan:

Memorable
- The business is a document the reader will remember you by

Clear & concise
- Well-structured, self-explanatory, bullet point style
- Non-technical terms
- Max 20-25 slides

Goal-oriented
- Focused on key questions & assumptions
- Defines a call to actions

Objective
- Accurate, positive & critical
- Transparent on the data sources

Hands-on
- Practical rather than theoretical & context specific
Sections of the Business Plan

The executive summary
- Description of the overall business mission
- The pains & solutions presented
- The team & experience
- The customer profile & market figures
- The unique advantage & competitive edge
- Revenue potential & key financials
- Achieved milestones
- Call to action

The opportunity description
- Description of the customer pain(s)
- Description of the offered solution(s)
- Market
  - Customer profile
  - Market summary
- Industry
  - Competition
  - Competitive edge

The company description
- Feasibility analysis
- The revenue model
- The operating model
- The sales/marketing approach
- The team
- The Board of directors
- Key objective
- Milestones
- The financial plan/business case

The conclusion
- Key challenges & risks
- The expansion potential
- A call to action
Business plans according to Peter Camps

**Why write a business plan?**
- Because you have to...
  - Needed for financing
  - Strategic partnering
  - To explain business to customers/suppliers
  - To attract key people
- Because you need to understand your business
  - The Business Plan is a result of a planning process
- Provide concrete motivation (other than your own belief) of why your objectives and plans seem to be realistic
  - Market research for projected sales numbers, feasibility study for technological challenges...
- Don’t over-promise
  - Differentiate between what you will do under this plan, and what you might do (to indicate the upside potential) but don’t mix these up
  - so you end up with a two-pronged business plan

**Key attributes of a business plan**
- A business plan describes your current thinking on your company’s objectives and on how to get there.
  - It is a collective, structured “braindump” of the management team’s ideas on how to move forward, and why.
- Describe a integrated vision that is consistent between the different levels of planning
  - Mission, strategy, business model, and concrete, tactical plans
- Spell plans out explicitly and unambiguously
  - or if your thoughts are ambiguous, spell that out then
- Include both qualitative and quantitative objectives
Who writes the plan?

- according to Peter Camps
- In any case the CEO needs to own the Plan
- But get help
  - At a minimum, get help and participation from all the key players in your company
    - to complement your skill set, and to get the much needed interaction and brainstorming
  - Seek external feedback from different perspectives
    - potential customers, industry experts, or friends – even if they are not really in your industry; those who can help you find the weaknesses in your plan, and add new ideas
  - Seek external help for areas outside your collective skills
    - for many entrepreneurs with a technical background this means the marketing research area
- Have independent readers review the Plan for feedback:
  - Accountant
  - Lawyer
  - Retired industry pro
  - Customer
  - Consultant
  - Professor
a few must-follow rules for writing a business plan

• Keep it short, because
  • 1) you want your business plan to be read (no one reads a 100-page business plan)
  • 2) your business plan should be something you continue to use and refine over time
    • excessively long business plans will be relegated to a desk drawer

• Know your audience
  • Your plan should be written in a language that your audience will understand.
    • keep explanations of your product simple and direct
    • use terms that everyone can understand
    • use appendixes to provide more specific details.

• Don’t be intimidated
  • The vast majority of business owners and entrepreneurs aren’t business experts; they don’t have degrees in business and are learning as they go
  • Writing a business plan may seem like a difficult hurdle, but it doesn’t have to be.
  • If you know your business and are passionate about it, writing a business plan and then leveraging your plan for growth will be easy.
The 16th Annual

The Nuts and Bolts of Business Plans

MIT Course 15.975

Joe Hadzima
(MIT S.B., M.S. in Management; Harvard Law)
Senior Lecturer, MIT Sloan School
Managing Director, Main Street Partners LLC

Joost Bonsen
MIT Sloan Graduate Student
Former Lead Organizer, MIT $50K Competition

Yonald Chery
MIT Course 6, PhD Candidate
$50K Finalist, Founder Virtual Ink

Mark Roberge

Image by MIT OCW.

Background Image by MIT OCW.
"conceptual continuity"

- The Business Plan - A SUPPORTED VISION

  - Mission/Vision Statement: 1 paragraph
  - Elevator Speech: 30 seconds
  - Executive Summary: 2-5 pages
  - PowerPoint Presentation: 10-15 minutes
  - Full Business Plan: 20-30 pages
  - Detailed Support/Foundation

- Financial Projections
- Technology
- Intellectual Property
- Market Analysis
- Competitive Analysis
- Sales and Distribution
- Team
5.4.3 The elevator pitch...

• very short description of key message

• why should anyone buy this?
  for [target customer]
  who [statement of need or opportunity]
  the [product/service name] is
  a [product/service category]
  that [statement of benefit].

• why should they buy it from you then?
  unlike [primary competitive alternative]
  our product [statement of primary differentiation].

source: Stanford University Technology Ventures Program, entrepreneurial marketing, Byers & Kosnik 2008
My comments and advice

• First: forget the business plan; what is the plan?
  • Consider all you’ve learned during the (advanced) start seminars
    • Core assets, complementary assets/partners; value proposition; business model; place in the value chain, adaptive strategies...
  • Define and elaborate on your strategy

• Start with a Powerpoint presentation
  • Much easier to adapt, to find the story line

• Be concise, to the point
  • Limit the length

• Address key concerns head-on
  • Denial is not an option

• Be consistent across the document

• Work out the financial part, assess it from the perspective of the investor
  • see previous

• The plan will change (slightly) after nearly every meeting
  • Based on comments, questions
  • Adapt to the next person you present to
How VCs read a plan

• First reading: like a resume
  • Often: only the executive summary and investment proposal
  • Make the cut, so that you get an opportunity to tell your story

• Second reading: justify the investment

• Third reading: commit to the plan

• Making the first cut:
  • An idea too good to ignore
  • A financial promise too good to turn down
  • A team good enough to believe in
  • An action plan that’s
    • Credible
    • Focused
    • Details that give assurance of insight, commitment and follow through
  • Format and style that show
    • Passion
    • Sanity
Why plans fail the first cut

- Insufficient market
- Non-credible technology
  - Too wild
  - Too blue-sky (unproven)
  - Not protectible
  - Too mundane
- Investment too large for the promise
- Failure to understand the market
- Action plan not credible
  - Too optimistic
  - Naïve about the hurdles
  - Runs off in all directions
  - Not ambitious enough
  - Regulatory barriers insufficiently addressed
  - Gaps filled by handwaving
  - No promises at all
- Team not credible
  - Not enough experience
- Investment not profitable
- Cosmetic reasons for failing the first cut
  - I can’t understand it.
  - Filled with market or technology-specific jargon
  - Naïve projections
  - Sloppy: misspellings, poor grammar, poor quality printing
  - Too damn long
  - Ignores the basics
  - “Forget marketing, my technology is the best”
  - Naïve (or terrible) writing
- (source The Nuts and Bolts of Business Plans, Joe Hadzima)
Some reasons for refusals

- "Who’s that kid?"
  - CEO too young, immature

- "independent physiotherapists don’t spend money on investment goods"

- "I’ve had a bad experience in photonics”

- The VC may have personal (i.e. irrational) reasons for preferring or avoiding certain projects
Enfocus Software
Business Funding Plan
1 Business Plan Summary

Introduction

Enfocus Software is the leading third-party developer of tools and technology that support the editing, checking and automatic correction of industry-standard document formats. Adobe Systems’ creates the standards — PostScript and PDF; Enfocus Software creates the tools that allow publishers to work efficiently and accurately with these standards. We have spent five years developing the technological foundation and expertise necessary to be the leading innovator in PostScript and PDF software applications. With the added capital resources outlined here, Enfocus Software will ensure its success and prominence in this document revolution.

Company

Enfocus Software has developed the first software program that can guarantee output in a PostScript/PDF workflow. It is now the leading international developer of software tools for checking, editing and autocorrection for mainstream PDF/PostScript publishing. Our software is used by publishers and their service providers during graphic arts production.

Contact

Peter Camps, Chief Executive Officer, Ghent, Belgium.

Thad McIlroy, Strategic Business Consultant, San Francisco.
Type of Business

Software Developer.

Nature of Business

Enfocus Software NV develops software and markets PostScript and PDF workflow and utility software from its office in Ghent, Belgium, primarily through a series of exclusive country distributors. U.S. marketing is handled by a wholly-owned subsidiary, Enfocus Software Inc., located in Denver, Colorado. U.S. sales are handled directly, and also through dealers and distributors.

Management

Peter Camps, Chief Executive Officer, has a strong technical and management background. He previously worked as Vice President of Operations for Barco Graphics, a leading prepress systems vendor. In 1991, Peter headed a successful turnaround effort in the newly-acquired North American Barco Graphics subsidiary.

Peter Söderlund, Business Development Manager, previously worked for Aldus, Adobe and Luminous in various commercial positions related to prepress software.

General Manager for North America, has an extensive background in both computer software sales and marketing.

Thad McIlroy, Strategic Business Consultant, is an electronic publishing consultant and author, and serves as program director for Seybold Seminars in San Francisco and Boston.

Products

The company currently markets three software products, Enfocus Tailor, Enfocus PitStop and Enfocus CheckUp, and is about to release its most ambitious product, Enfocus DoubleCheck.
Market Objective

The market objective is to establish Enfocus Software as the leading international supplier of tools that enable guaranteed PostScript and PDF publishing workflows.

The secondary and longer-term objective is to make the company a suitable acquisition target for a larger developer or systems supplier, or to launch an IPO.

Strategy

The strategy to reach our objectives involves increasing our staff resources in product development and in sales and marketing, while at the same time launching an aggressive new marketing, advertising and direct mail campaign.

Specifically, we plan:

- To increase software development resources in order to bring new products and upgrades to market more rapidly.
- To establish a robust customer support program to ensure that our customers are successful with our products.
- To significantly improve our marketing programs, including expanded trade show, advertising, Web and direct mail programs.
- To increase our sales resources, particularly for the OEM and Enterprise markets.
- To establish our Web site as our primary North American distribution point, with additional distribution through mail order and a dealer network.
Competition

The company currently faces little direct competition, but we cannot reasonably expect that situation to remain. The funds sought under this plan are intended in part to consolidate our market-leading position.

Funds Sought

One million five hundred thousand dollars (US) in common shares, equal to 23% of the total shares issued by the company.

Investment Case

The development of Adobe’s Portable Document Format (PDF) is enabling a new era of automated workflows that were not possible when PostScript was the primary imaging format. Enfocus, already the leading provider of PostScript and PDF editing, checking and auto-correction tools, is set to launch Enfocus DoubleCheck, a breakthrough product offering guaranteed output results within either a PostScript or PDF workflow. PDF is starting to be accepted by both the professional publishing industry and by corporate (enterprise) publishers. Enfocus sales will grow rapidly in the next three years, while at the same time its technology is of strategic interest to a range of graphic arts software and system suppliers. The use of PDF on the Internet and World Wide Web is also increasing, and potentially represents a large additional market for Enfocus software.

Collateral

None.
Use of Proceeds

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<th>Additional One Year Expenditures</th>
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<tr>
<td>Programming staff</td>
<td>$335,000</td>
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<td>Marketing &amp; sales staff</td>
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<td>Support staff</td>
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<td>Trade show participation</td>
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<td>Advertising</td>
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<td>Public relations</td>
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<td>Direct mail</td>
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<td>Documentation development</td>
<td>$50,000</td>
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<td>Other (office, legal, travel)</td>
<td>$110,000</td>
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<td>Total</td>
<td>$1,645,000</td>
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Financial History

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<tr>
<td>Revenues</td>
<td>$40,290</td>
<td>$88,113</td>
<td>$346,754</td>
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<td>Net income (loss)</td>
<td>($34,192)</td>
<td>($100,883)</td>
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<td>Assets</td>
<td>$30,211</td>
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<td>Liabilities</td>
<td>$13,059</td>
<td>$131,924</td>
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<td>Net worth</td>
<td>$17,152</td>
<td>($61,065)</td>
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Financial Projections

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<tr>
<td>Revenues</td>
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<td>$2,853,559</td>
<td>$6,814,483</td>
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<td>Cost of goods sold</td>
<td>$140,258</td>
<td>$376,481</td>
<td>$996,253</td>
<td>$1,781,400</td>
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<td>Operating expenses</td>
<td>$1,137,132</td>
<td>$2,835,000</td>
<td>$4,923,500</td>
<td>$8,608,850</td>
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<td>Depreciation</td>
<td>$15,089</td>
<td>$25,000</td>
<td>$45,000</td>
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<td>Income before taxes</td>
<td>($377,188)</td>
<td>($382,922)</td>
<td>$849,729</td>
<td>$2,815,374</td>
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Exit Plan

The company has begun to receive offers for investment or acquisition from large software and system vendors. When sales reach roughly $20 million per year we will be in a position for an IPO. We are willing to consider offering an option to convert equity to debt if the company is not sold within a predetermined period.
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Agfa (OEM customer)

Agfa-Gevaert (division of Bayer Corporation) ranks among the world’s leading photographic imaging companies. Agfa manufactures and markets a wide and innovative range of photographic and electronic imaging systems, particularly for photography, the prepress sector and medical imaging processes. The Electronic Prepress Systems business unit deals with imagesetters, plate imagers, scanners and software.

Agfa has agreed to bundle a full version of Enfocus PitStop and Enfocus CheckUp with Apogee Pilot, the Apogee PDF production system’s front-end component.

Agfa Apogee is the first PDF-based production system. Apogee uses Adobe’s standard PDF format as the native format of the system. This one format can be used for both production and imaging, and eliminates the need to convert to intermediate file formats. In Apogee, PDF becomes the “digital master”.

Michael Jahn, PDF Evangelist at Agfa, says “We could not imagine using PDF in prepress without these tools; so we decided to bundle them.”

Based in Mortsel, Belgium and Wilmington, MA
Phone: (978) 658 5600 x 5504
Web: www.agfa.com
R.R. Donnelley

With 1997 sales of nearly $5 billion, R.R. Donnelley & Sons Company is the largest commercial printer in North America. The company is a leading provider of printing and related services to the merchandising, magazine, book, directory and financial markets.

A substantial number of R.R. Donnelley sites already use Enfocus products in their workflows on a daily basis. To date, the company has purchased approximately 30 copies of Enfocus Tailor, 50 copies of Enfocus PitStop, and 20 copies of Enfocus CheckUp.

Bob Schaffel, corporate Manager of Emerging Technologies for R.R. Donnelley says: “Without the Enfocus products we wouldn’t have been able to continue to move forward to optimize the workflows that are so important to the graphics arts industry.”

Corporate headquarters based in Chicago, IL
Phone (NY office): (201) 222 1124
Web: www.rrdonnelley.com
2.8 Competition

2.8.1 Adobe Systems

Adobe Systems is not currently an Enfocus competitor, but is a major company that could rapidly become a serious competitor. As the controlling developer both of PostScript and the PDF format, Adobe is in a singular position to define the software for the industry. Starting with the recently-released Illustrator 8.0, Adobe is adding to its software the ability to read and write PDF directly, without using either the print driver or Distiller. This could impact sales of PitStop. We also know that Adobe has in development technology that could compete with Checkup.

Our strategy regarding Adobe is to work with the company as a partner, while working at the same time to contain and manage the potential risk. We maintain three initiatives in this regard:

- Retain an acknowledged technological advantage in the market, so that larger companies will evaluate our products before investing in the same technology.
- Forge partnerships with Adobe and other relevant market players, including co-marketing and co-development relationships.
- Make our technology available for licensing and OEM sales to interested parties.

We are actively pursuing a program of close cooperation with Adobe. We have had several meetings with Adobe at the Vice President and Marketing Manager level. We had a full-day technical meeting with four members of the Acrobat engineering team, and we attended a two-day strategic preview conference on the new application Adobe is developing, code-named K2.
Some comments on Enfocus plan

• Validation
  • EFI, Agfa, RR Donelly, Boy Scouts
  • OEM customers

• focus on what is important
  • Relationship with Adobe
  • exit scenario’s

• ch ch changes...
  • Six months later:
    • Postscript was dropped
    • Doublecheck was stopped
    • PitStop (¼ page in plan) became the exclusive focus
    • Marketing was completely reworked
    • Org chart had changed
    • US office was moved to San Matteo
  • --> plans are nothing, planning is everything
"free business plan template"
Sales forecasting
• Estimating sales is the hardest part for a startup, as you have no reference whatsoever

• -> some approaches:

• Top-down
  • TAM, SAM, SOM
  • -> Possible market share; growth of market share over the years

• Bottom-up
  • Known accounts
  • What my salesforce can handle

• Comparables
  • Use comparable companies as reference point for sales evolution

• Break-even calculation
  • What do I need to sell to make it a viable/profitable business
• Total Available Market (TAM) is the total market demand for a product or service

• Serviceable Available Market (SAM) is the segment of the TAM targeted by your products and services which is within your geographical reach

• Serviceable Obtainable Market (SOM) is the portion of SAM that you can capture

Example: starting a fast food chain

• TAM: the worldwide fast food restaurant market
  • -> if you were present in every country and had no competition you would generate TAM as revenues

But you are starting your restaurant chain in only two cities

  • -> demand for fast food in these cities can be estimated based on: population, food habits, fast food revenues from restaurants in cities with similar demographics
  • That is your SAM: the demand for your type of products within your reach. if you were the only fast food in town you could generate SAM revenues

But you are probably not the only fast food in town

  • So you can to capture only a fraction of your SAM. Most likely you will people living or working close to your restaurants and a fraction of the people located further away that are willing to give your chain a try for the sake of fast food diversity. This is your SOM.
TAM SAM SOM, when do they matter and why?

- https://www.thebusinessplanshop.com/blog/en/entry/tam_sam_som

You need to deliver a target return to your own investors; therefore:
- de-risking the investment early = finding out with a minimum capital if the start-up has a market - TAM and SOM
- investing in opportunities which offer substantial upside potential = huge market size - TAM

SOM is your short term target and therefore the one that matters the most
- if you cannot succeed in the local market chances are that you will never capture a large part of the global market.

To be realistic your SOM needs to factor in:
- your product: people will want to buy your goods
- your marketing plan and the identified distribution channels
- your SAM and the strength of your competition. Your SOM needs to be a reasonable fraction of your SAM.

Once you have demonstrated your ability to penetrate a local market, the investor can start looking at how you can expand and increase the company's penetration within the TAM.
Top-down sales forecast

• Total Addressable Market
  • Can be specific market for your offering or wider end-user market to whom you supply
  • Examples:
    • ‘there are 150,000 movie theaters in the world’
    • E-ink: ‘ballpark figures’ market for consumer electronic display, eNewspapers..

• In case of wider end-user market: your contribution as % of total market
  • E-ink: share of screen in value of devices

• Serviceable Addressable Market
  • Regional coverage
  • Segments
    • Large theaters, part of chain...

• Serviceable Obtainable Market
  • Attainable in +/- 5 years
  • Depends a/o on your competitive position, geographical reach, marketing
  • Growth over 5 years

• Revenue
  • Deduct commissions

• Markets
  • can be ‘big enough’
    • TVs, games, consumer electronics
  • Or can be a show stopper
    • Content control of oysters...
  • Only focus on what is relevant
Bottom-up

- **Capacity**
  - 2 salespeople, 3 calls per day * 200 days @ success rate of 10% = 120 sales
  - Inflow of contacts via marketing actions

- **Current contacts**

- **Timing**
  - Order booking vs. Invoicing vs. Cash in
    - -> Sales cycle + conversion rate
  - Invoicing depends on ability to deliver: services, product
  - Essential for cash forecasting, setting expectations

- **Channel sales**
  - Per partner: forecast based on history, commitment
  - To be discussed with partner

- **Named accounts**
  - Name
  - Product
  - Size of opportunity
  - Stage of opportunity
    - 10% -90%, 1-9
  - Gives total potential sales in period
  - Sales manager decides what final forecast is
sales forecasting

- **Break-even**
  - How much do I need to sell to cover my costs
  - Based on cost forecast

- **Comparables**
  - Use comparable companies as reference point for sales evolution
  - If you can find out...
  - Size & capital can give an indication

- **Based on sales of products you will compete with**
  - Replacing a module -> current sales of module

- **It can be detective work!**
  - Know your market: read your magazines & blogs, visit your trade fairs & events...

- **Subdivide**
  - Countries, regions
  - Products
  - Target markets
  - Products / service & maintenance
  - Upselling

- **Use all approaches and double-check**
  - Permanent reality checks
  - Be smart!

- **Best/worst/most probable scenario’s**
  - You must have it
Valuation
- upon acquisition of a company:
  - The assets and liabilities of the acquiree—as recorded in their balance sheet—have to be revised to their fair value at acquisition date.
  - Fair value at acquisition date is considered to be the new historical cost from the point of view of the parent.
  - Goodwill will be the difference between the revalued net assets and the investment by the parent.
December 2013: Facebook buys WhatsApp for $22bn

WhatsApp in 2013:
- 400 million active users
- $10.2 million in revenue
- = Less than 3 cent revenue per user
- net loss of $138 million

--> Facebook paid
  - $22 billion for a company generating $10.2 million in revenue and losing $138 million per year
  - = $55 per user
  - = $18.1 billion in goodwill
  - A company is worth what one single fool is willing to pay for it

Why?
and today...

WhatsApp Reaches 2 Billion Active Users
WhatsApp's monthly active users worldwide

Source: Company announcements

Facebook acquires WhatsApp for $19 billion

Feb '14
465m

Feb '20
2,000m
Valuation
Valuating your company

- investors may be willing to invest money in your company.
- but what percentage of the shares will they want in exchange?
- this depends on their assessment of the (current and future) value of your company.

-> this part of the session is about valuating - i.e. putting a value- on a very early stage company.
Valuation

- Valuation is the process of estimating the market value of a financial asset or liability
  - assets: marketable securities such as stocks, options, business enterprises or patents, trademarks...
  - liabilities: bonds

- Business valuation: to determine the fair market value of an owner’s interest in a business

- Reasons for business valuation
  - Internal
    - Capital allocation
    - Investment decisions
    - M&A
    - During license negotiations
  - External
    - Investors need to find out whether or not they should participate in a company
    - Entrepreneurs need to know what share they are willing to sell in exchange for the additional money
Determining the price of an investment

- Price is always determined by the laws of supply and demand...
  - A company always asks for as much financial means as possible
  - VC (generally) wants to invest an amount as small as possible

- Pitfalls for the VC:
  - Paying a (too) high price for an investment
    - Not reaching (preset) value adding milestones
    - Risk of not reaching the multiples
  - Value inflation

- Countering the pitfalls:
  - Experience and know-how
  - At initial investment, the VC needs to have a clear idea of the companies’ future valuation path (experience)
“There is no gold standard when it comes to valuation: it is and will remain a subjective task.

Consequently, a company can have as many values as there are people doing the valuation.” (Frei & Leleux, 2004)
Post- and pre-money

- Post-money value: value of the company after external financing alternatives are added to the balance sheet.
- Pre-money value: value of the company before external financing alternatives are added to the balance sheet.
- Example: if VC wishes to invest €100m for 20% of the shares, the company is worth:
  - post-money: €500m
  - therefore: pre-money: €400m
- The calculation effectively happens in this order
(studied) Valuation methods

- discounted cash flow valuation (DCF)
- Sum-of-the-parts valuation
- Augmented NPV method
- Relative valuation/comparables
- Added Value method
• The value of a company is calculated as
  • the sum of the forecasted free cash flows of a company out to a valuation horizon
  • discounted back to the present at a discount rate
  • + the forecasted value of a company at the horizon or the terminal value, discounted back at the same discount rate.
DCF analysis

$NPV = C_0 + \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + ... + \frac{C_t}{(1+r)^t} + \frac{C_{TV}}{r(1+r)^u}$

- net present value method: based on future cash-flows

- $C_t = $ net cash flow in period $t$
- $R = $ discount rate (defined by CAPM/WACC)
- $U = $ period in which the remaining future cash flows are valued as terminal value (TV)
DCF analysis

- Calculating the value of the cash flow:
  - NPV: uses discount factor on future cash flows

- Discount factor used is adjusted according to the financial risk of investing in the company
  - VCs:
    - During the startup stage, 50 to 70 %
      - this is extremely high (and arbitrary)!
    - Round A to D: from 60 to 30 %.
  - pharma:
    - Large pharma: 10%
    - Public biotech companies: 20%
    - Private biotech companies: 30%
In order to use DCF method, some estimations have to be made:
- lifetime of the company/asset
- cash flows during lifetime of the company/asset
- discount rate to apply to the cash flows to get the present value

These estimations prove to be difficult, if not impossible in the case of young innovative companies
- The time horizon of the discount is also important in case of high-growth ventures
Sum-of-the-parts valuation

- Valuing companies that have diverse lines of business.
- The worth of each business line is measured separately, using an appropriate valuation parameter, and then the individual values are added together.

Applied to
- Multi-industry companies
  - Various divisions in the same sector
- Example biotech company:
  - calculate DCF separately for each drug-in-development
Augmented NPV method

- Early stage R&D projects
  - Company has often several programs in parallel in order to reduce the risk
  - Need of decision points: focus on the most promising paths, out-licensing or termination of programs with low priority

- Develop a project target profile
  - Define deliverables
  - Basis for product development plan and sales forecast.
  - Identify competitors
  - Assess the market risk

*source: Bode-Greuel & Greuel, 2004*
Augmented NPV method

- augmented NPV reflects uncertainty and decision options of biotech R&D
  - NPV: static, managerial actions have virtually no impact on value
  - In the presence of risk, managerial options have value because they minimise the impact of negative outcomes and allow to maximise the value of the project in the presence of new information

  *source: Bode-Greuel & Greuel, 2004*
Augmented NPV method

- Decision trees:
  - Represent development risk and decision options
  - Illustrate investment
  - Should focus on activities essential for completion of development and for the achievements of a competitive product profile
  - Typically: decision points at completion of essential preclinical and clinical trials
  - At decision points there are two possible options:
    - Go
    - Stop
  - Create different scenarios

  *source: Bode-Greuel & Greuel, 2004*
Augmented NPV method

assume we start from compounds that have a great chance of being allowed to be tested in humans.
(cfr. 5000 → 5 → 1)
Relative valuation/comparables

• Compare the value of an asset to the value assessed by the market for similar/comparable assets
  • Comparable firms = firms with similar fundamentals

• Distinction:
  • Comparable public company assessment
  • Comparable private company assessment

• Identify comparable companies that already attracted money

• Try to define their pre-money value
  • Know the VC logic and the multiplicators they use
  • Know the current stage of development of the company you use as a benchmark
  • Count backwards

• This gives you an indication of the value of the company, but adjustments can and must be made on intangible factors
Relative valuation/comparables ctd.

- Difficulty: find truly comparable projects/firms

- Once a comparable firm is chosen, several valuation ratios can be measured
  - P/E ratio: compare the company’s current share price and earnings per share
  - PEG ratio: ratio of market price to expected growth in earnings per share
  - PEGY: p/e to growth plus yield
  - price-to-sales ratio
  - price-to-book value
  - EBITDA
  - enterprise value-to-ebitda
  - ...

Rudy Dekeyser (VIB): “classical methods are useless in a (modern) biotech environment.”

valuation is based on the added value the company was able to produce during its cash-burning period.

problem: this added value is largely intangible
added-value method: rationale

value creation

- knowhow
- cash

M€

A B C IPO

10 20 30 40 50 60

value creation

time
how to determine the added value?

product development: in which state is the product?

  e.g.: possible blockbuster in Phase I Clinical trials implies a €150 - €350m milestone.

added value

deals with big firms:

  1. cash flow
  2. validation of technology

Note: a blockbuster is a medicine with an annual revenue of more than $1 billion, once it has reached maturity
Conclusions

• (based a/o on Ablynx case)

• at the start up: peer comparison was the most “tangible” method

• Augmented NPV and Sum-of-the-parts methods become more popular when the company is more mature (e.g. at IPO)

• -> The valuation method evolves together with the company!

• Often it is worthwhile to use different methods and to compare outcomes

• Discussion about valuation can be mitigated in part through clauses in shareholder agreements
  • Share classes
  • Exit preference
  • Anti-dilution protection
  • Incentive schemes
  • Milestones,…
  • See session by Michael Truyen
Section I: Valuation Guidelines including Explanatory Comments

1. The Concept of Fair Value

2. Principles of Valuation

3. Valuation Methods
   3.1 General
   3.2 Apply Judgement in Selecting Valuation Techniques
   3.3 Selecting the Appropriate Valuation Technique
   3.4 Multiples
   3.5 Industry Valuation Benchmarks
   3.6 (i) Quoted Investments
   3.6 (ii/iii) Blockage Factors and Discounts
   3.6 (iv) Observable Prices
   3.7 Discounted Cash Flows or Earnings (of Investee Company)
   3.8 Discounted Cash Flows (from an Investment)
   3.9 Net Assets
   3.10 Calibrating to the Price of a Recent Investment

4. Valuing Fund Interests
   4.1 General
   4.2 Adjustments to Net Asset Value
   4.3 Secondary Transactions
   4.4 Other Valuation Approaches for Fund Interests

Section II: Additional Application Guidance

5. Specific Considerations
   5.1 Unit of Account
   5.2 Insider Funding Rounds
   5.3 Distressed Market
   5.4 Bridge Financing
   5.5 Debt Investments
   5.6 Rolled up Loan Interest
   5.7 Indicative Offers
   5.8 Impacts from Structuring
   5.9 Contractual Rights
   5.10 Non-Control Investments
   5.11 Mathematical Models / Scenario Analysis
   5.12 Sum of the Parts
   5.13 Transaction Costs
   5.14 Real Estate Investments
   5.15 Infrastructure Investments
These tools use the Venture Capital Method to value an early stage company considering long-term high-risk funding.

The goals of these tools are the following:
- Introduce users to the Venture Capital Method
- Illustrate the importance of terminal value in VC method valuation
- Calculate original equity holder requirements based on multiple rounds of venture capital investment

Online spreadsheets for startup valuations.
- Basic Venture Capital Method
  - [www.vcmethocd.com/basic](http://www.vcmethocd.com/basic)
- Venture Capital Method with Sensitivity Analysis
- Venture Capital Method with Dilution
  - [www.vcmethocd.com/with-dilution](http://www.vcmethocd.com/with-dilution)
- Venture Capital Method with Multiple Rounds
  - [www.vcmethocd.com/with-multiple-rounds](http://www.vcmethocd.com/with-multiple-rounds)
- Venture Capital Method Investment Scenarios
  - [www.vcmethocd.com/investment-scenarios](http://www.vcmethocd.com/investment-scenarios)
- Other Valuation Methods
  - Berkus Method | Scorecard Method
end