

Venture Financing

The guide for innovative start-up firms

Includes:

- 1. New-generation Ten3 e-book +**
- 2. Ten3 Mini-course (40 PowerPoint slides + 40 Executive Summaries)**

This is a demo version of the Ten3 Mini-course (12 slides only)



Venture Financing

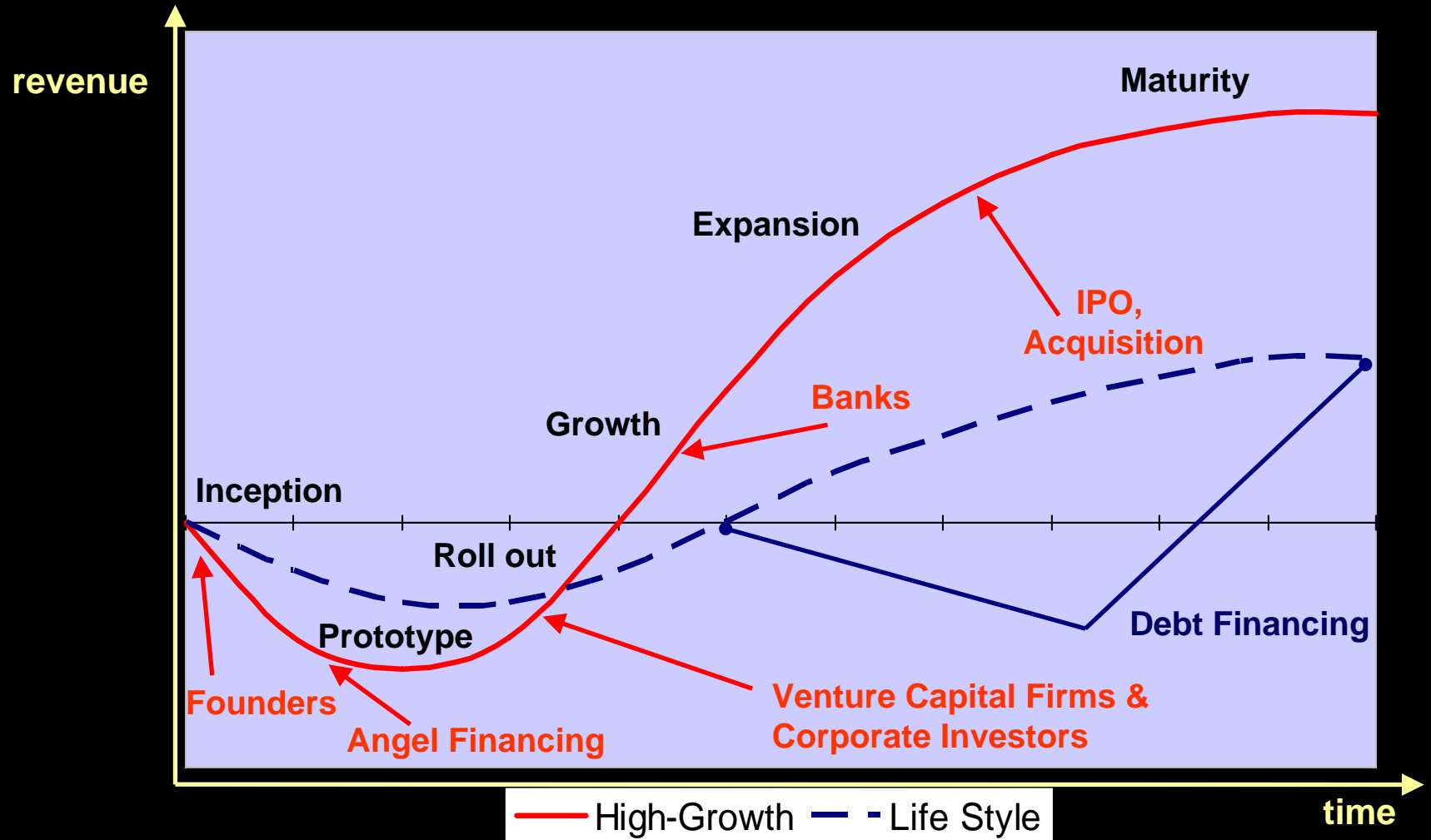
The Guide for Innovative Start-Up Firms

- 1. Understanding Venture Financing Chain**
- 2. Venture Capital Basics**
- 3. Understanding Venture Capital Investors**
- 4. Introducing Venture Opportunity to Investors**
- 5. Opportunity Evaluation by Investors**
- 6. Negotiating and Structuring the Deal**



Venture Financing

Sources of Funds for High-Growth and Life-style Firms





Venture Financing Chain

A Financial Chronology of Amazon.com

Price/Share

\$52.11 (exercise price on loan warrants)

\$1,327.5 (in April 1999, adjusted for two stock splits)

\$18

\$2.3417

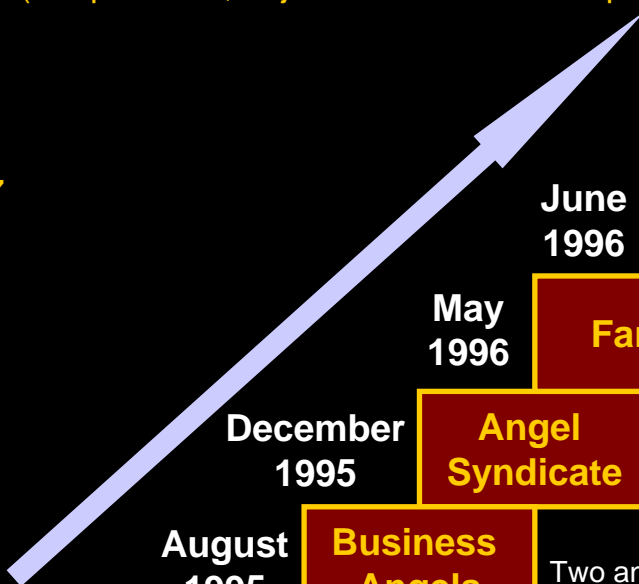
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December 1997

Loan & Bond Issue

\$326 million bond issue is used to retire \$75 million in loan debt and to finance operations

May 1997

IPO

Three million shares are offered on the equity market, raising \$49.1 million

June 1996

Venture Capitalists

Two venture capital funds invest \$8 million

May 1996

Family

Founder's siblings invest \$20,000

December 1995

Angel Syndicate

Twenty angels invest \$46,850 each on average, for a total of \$937,000

August 1995

Business Angels

Two angels invest a total of \$54,408

February 1995

Family

Founder's father and mother invest a combined \$245,500

July 1994

Founder

Jeff Bezos starts Amazon.com; he invests \$10,000 and borrows \$44,000



Venture Financing

Selecting Type of Finance

Debt or Equity?

You need both. Do not substitute one for the other and use each component in the right way.

should be used for working capital and to build the infrastructure	should be used in early rounds for R&D and product development and in later rounds, for ramp-ups in sales and marketing and acceleration purposes



Venture Financing

Venture Capital Funding Stages

Initial Funding Stages

Pre-seed A small amount of capital is provided to entrepreneur to **prove a concept** for a potentially profitable business opportunity.

Seed Financing is provided to newly formed companies for use in completing product development and in **initial marketing**.

First Financing is provided to companies that require funds to **initiate commercial-scale manufacturing and sales**.

Growth & Expansion Funding Stages

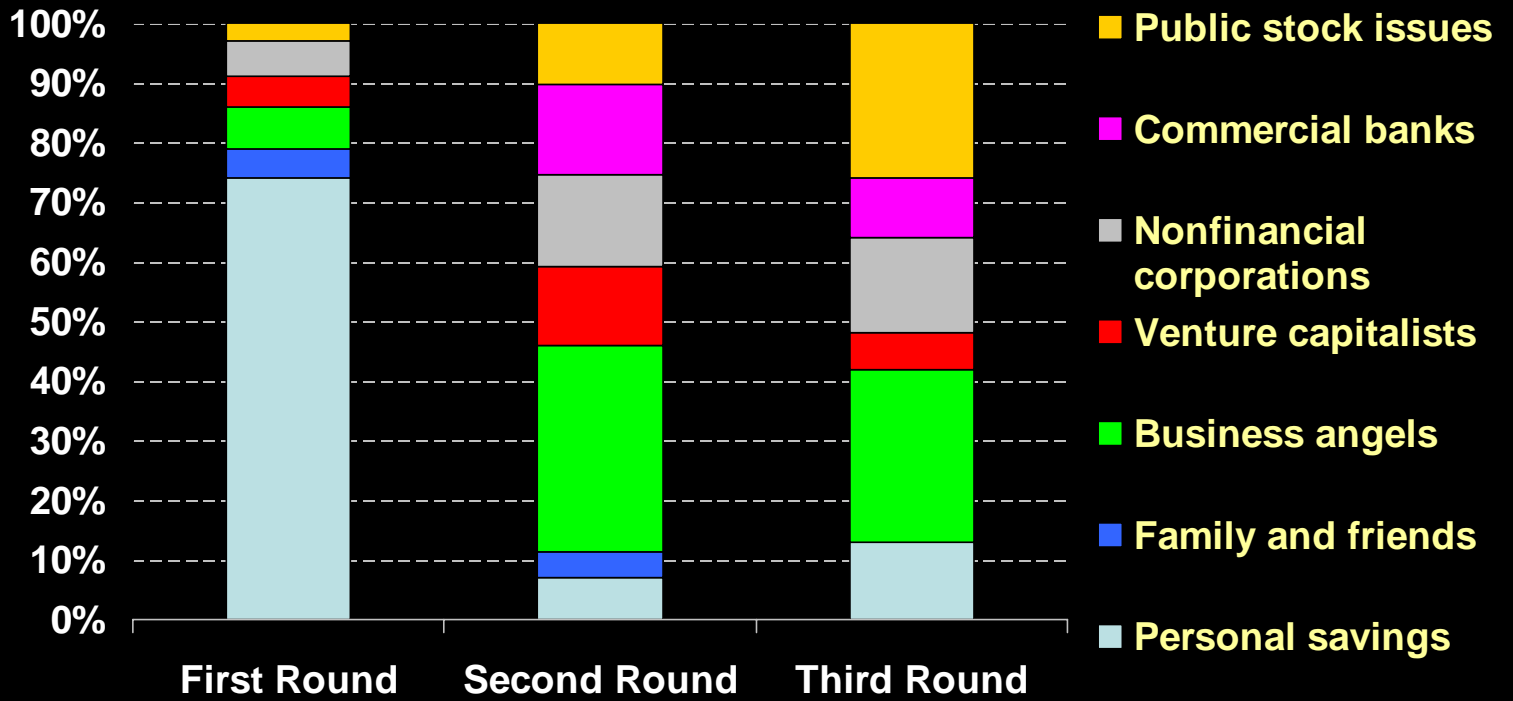
Second Working capital is provided for the expansion of a company to **support growing accounts receivable and inventories**.

Third Funds are provided for the **major expansion** of a company which has increasing sales volume.

Later Financing is provided for a company expected to **"go public"** within six months to a year.



Main Sources of Funds for Entrepreneurial Firms





Venture Financing

Main Differences Between Business Angels & Venture Capital Firms

MAIN DIFFERENCES

Personal

Money invested

Firms funded

Due diligence done

Location of investment

Contract used

Monitoring after investment

Involvement in management

Exiting the firm

Rate of return

BUSINESS ANGELS

Entrepreneurs

Own money

Small, early-stage

Minimal

Of concern

Simple

Active, hands-on

Important

Of lesser concern

Of lesser concern

VC FIRMS

Money managers

Fund provider's money

Medium to large, later-stage

Extensive

Of lesser concern

Comprehensive

Strategic

Of lesser concern

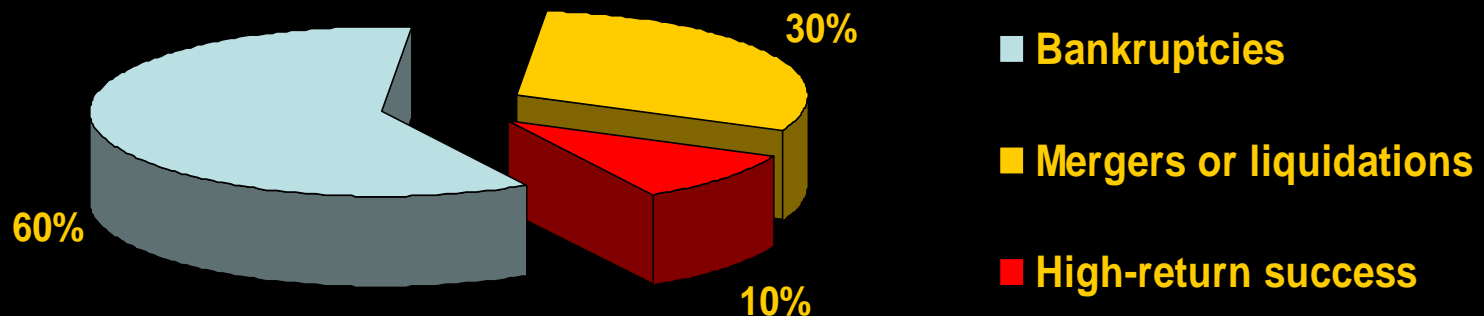
Highly important

Highly important

VC-funded High-tech Start-ups

Probability of Success (US statistics)

- ◆ Venture capitalist finances only 6 out of every 1000 business plans received each year
- ◆ 10% of the funded start-ups go public
- ◆ Bankruptcies occur for 60% of the VC-funded high-tech companies
- ◆ Mergers or liquidations occur in 30% of start-up companies
- ◆ 6 in 1,000,000 of ideas for high-tech business become a successful company that goes public
- ◆ 10% of start-ups that succeed compensate for the other 90% of poorer performing companies



Venture Financing

Key Documentation To Be Prepared By the Entrepreneur

To attract and hold investor interest, the business must provide top quality documentation:

1	Executive Summary	3 - 5 pages
2	Business Plan	50 pages maximum
3	Venture Presentation	All the key issues are to be presented within 10 minutes
4	Due Diligence Materials	Market Studies, Research Papers, Patents, etc.
5	Business Valuations	Company and investor pre and post investment values
6	Deal Structure	Share distribution and terms



Business Plan Review by VC Investors

What Every Investor Wants To Know

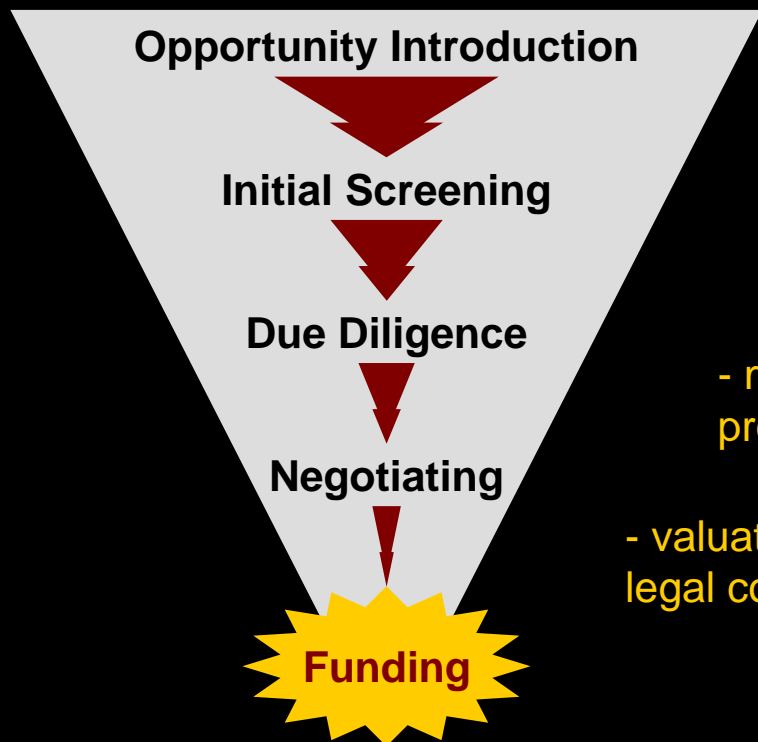
To evaluate your own project, put yourself in the place of the investor who wants to know the answers to these seven questions:

1. How Much Can I Make?
2. How Much Can I Lose?
3. Who Says This Thing Will Work?
4. Who Else Is In The Deal?
5. How Big is the Market?
6. How Will the Company Reach Its Clients?
7. How Do I Get My Money Out and When?



Investment Opportunity Evaluation by Investors Process & Success Rates

- 6 in 1000 business plans get funded on an average
- 5% of business plans are read beyond the executive summary
- 10% of proposals pass initial screening
- 10% of pre-screened proposals pass due diligence & receive funding



Selection Parameters

- presentation, executive summary, milestone chart, cash flow forecast
- management team, business plan
- management, personnel, marketing, production, financials, references
- valuation, ownership, control, management, legal contract



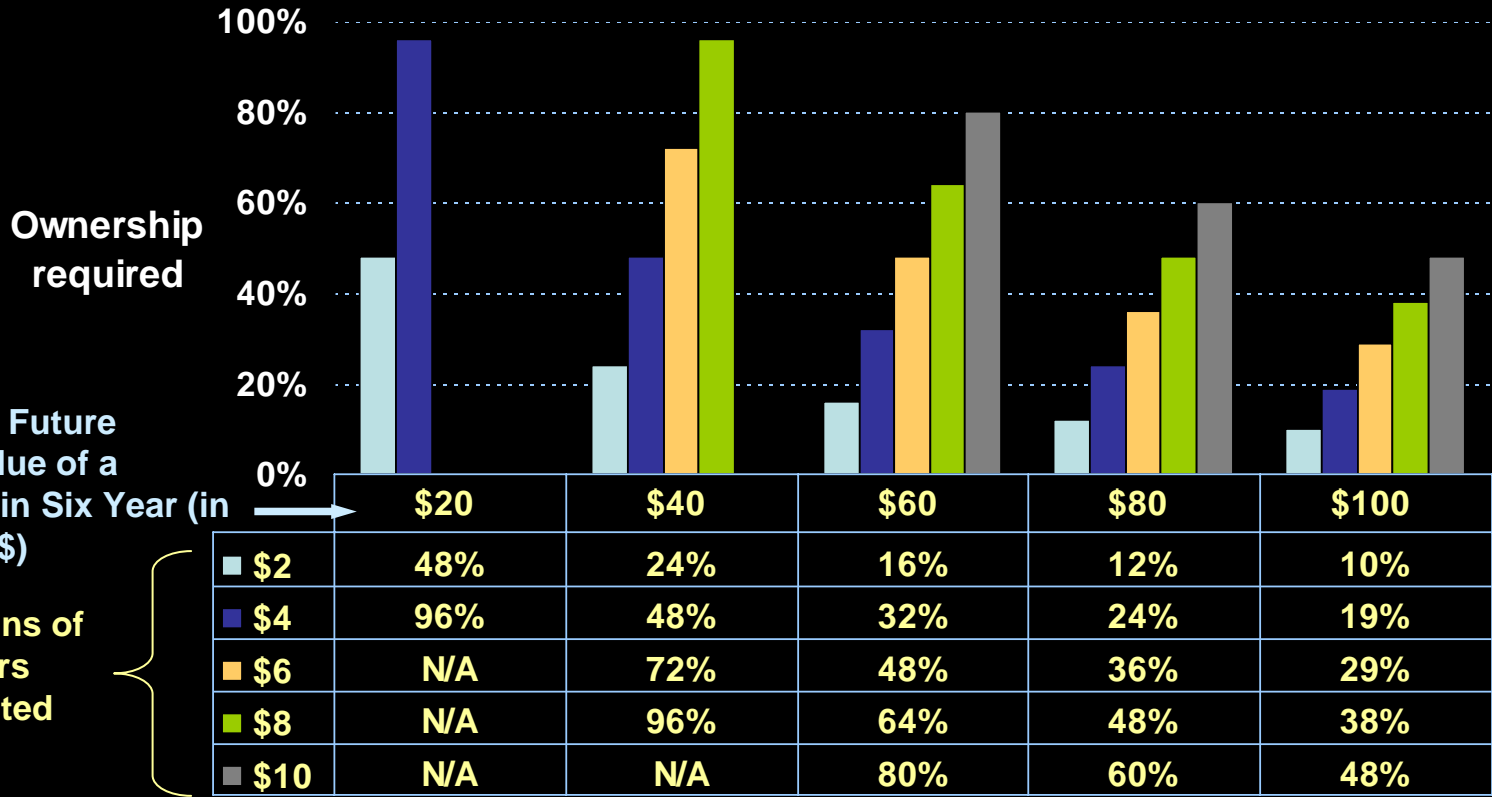
Ten Most Important Investment Criteria of Business Angels & Venture Capitalists

Criteria	Ranking by Angels	Ranking by VCs
Trustworthiness of the entrepreneur(s)	2	1
Enthusiasm of the entrepreneur(s)	1	3
Expertise of the entrepreneur(s)	4	2
Sales potential of the product	3	5
Growth potential of the market	6	6
Perceived financial rewards	8	4
Investor liked entrepreneur (s) upon meeting	5	9
Quality of product	7	10
Track record of the entrepreneur	9	8
Expected rate of return	10	7



Venture Capital Investing

Ownership Required to Support a 30% Return



N/A = investment would not be made if the present valuation of the company's estimated future market value is less than the investment requested.

Venture Financing

Learn & Teach
 – FAST!



1. New-generation Ten3 e-book +
2. Ten3 Mini-course:
 - ✓ 40 PowerPoint slides +
 - ✓ 40 Half-page Executive Summaries

[Click here](#) to see the complete list of slides

Ten3 Coach

The Corporate Strategy Logic

Strategy Pyramid (old) vs. Strategy Stretch (new)

STRATEGY PYRAMID Top-down	STRATEGY STRETCH Top-down + Bottom-up
	
<p>Old Strategy-based Business Development Model</p> <ul style="list-style-type: none"> •Effective in known & stable environment •Builds on existing competencies 	<p>New Opportunity-driven Business Development Model</p> <ul style="list-style-type: none"> •Effective in new & unstable environment •Builds on new competencies

Instead of Introduction
 For the vast majority of companies, having well-defined visions and mission statements changes nothing. The exercise of crafting them is a complete waste of time and talent if visions and mission statements are used for nothing but being published in the annual report and displayed in a reception area. To be able to energize employees to work towards corporate goals, visions and missions should be more than a sign on the wall. Executives and managers should live them, be seen living them, and constantly communicate them to their employees.

Vision
 Vision is a short, succinct, and inspiring statement of what the organization intends to become and to achieve at some point in the future, often stated in competitive terms. Vision refers to the category of intentions that are broad, all-intrusive and forward-thinking. It is the image that a business must have of its goals before it sets out to reach them. It describes aspirations for the future, without specifying the means that will be used to achieve those desired ends.

Mission Statement
 A mission statement is an organization's vision translated into written form. It makes concrete the leader's view of the direction and purpose of the organization. For many corporate leaders it is a vital element in any attempt to motivate employees and to give them a sense of priorities.

Setting Goals
 The major outcome of strategic road-mapping and strategic planning, after gathering all necessary information, is the setting of goals for the organization based on its vision and mission statement. A goal is a long-range aim for a specific period. It must be specific and realistic. Long-range goals set through strategic planning are translated into activities that will ensure reaching the goal through operational planning.

Strategic Intent
 A strategic intent is a company's vision of what it wants to achieve in the long term. It must convey a significant stretch for your company, a sense of direction, discovery, and opportunity that can be communicated as worthwhile to all employees. It should not focus so much on today's problems but rather on tomorrow's opportunities.

Sample slide
 with a half-page Executive Summary

Buy now! Three options – click below:

1. [Ten3 e-book](#) (US\$34)
2. [Ten3 Mini-course](#) (US\$19)
3. [Ten3 e-book + Ten3 Mini-course](#) (US\$49)