

eFinance



University of Phoenix

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Presenter: Joseph Bowes, President



Angus Management

The eFinance Context

- Corporate finance – strategic view
- Financial management – operational view
- eFinance
- Our focus: Corporate Finance
 - Where do you go to get the \$?
 - What do have to do to get funded?

*Greed and Fear: “R” is for “RISK”
(and it is very real)*

- Investment universe is very large.
 - Q. What motivates investors?
- Own stock portfolio's & RRSP's → selection criteria?
- Example: M Networks (handout)

Some eFinance Do's (Reduce Risk)

- Show PROVEN MANAGEMENT with \$ in the deal
- Show "people" buy-in
- Market & customer focus
- Revenue and business models
- Specify the real risks
- Detail the "Use of Proceeds"
- Governance & control
- Exit
- VALUATION
- Plan to "earn the right"
- Expect an involved "process"
- Research prospective investors
- "Paint the pony"
- Be prepared for investor due diligence
- Be aware of investors' personal as well as business needs
- Understand securities law issues
- Demonstrate passion & integrity

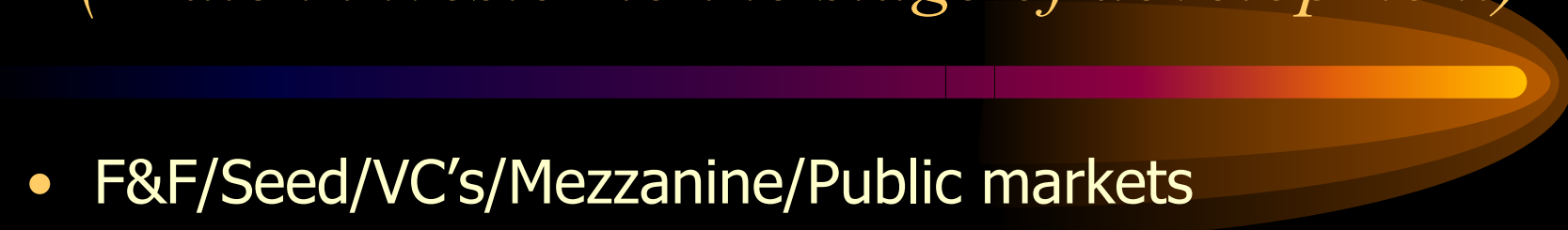
Some eFinance Don'ts

(Increase Risk)

- Rely on a "tech focus"
 - (E-Myth, Michael Gerber)
- Plan to be a "missionary"
- Be simplistic
 - e.g. 1% market share
 - e.g. no "known" competitors
- Assume investors care about your \$ timeline
- Use of Proceeds includes "repayment" of S/H loans
- Husband & wife "teams" → divorce??
- Confuse a "lifestyle" business as being investment-grade
- Skimp on preparation

Concerns: Stage of Funding

(Match investor to the stage of development)



- F&F/Seed/VC's/Mezzanine/Public markets
- R&D/pre-revenue/revenue
- Size of \$ sought
- Investor returns
- Due diligence scrutiny
- Government matching funds: SRED/TC/BC
VCC's/IRAP
- Debt: secured/unsecured

Concerns: Capital Market Issues

- Current capital market conditions
- The “trend is your friend” → “sector” flows
- US/Canada/BC VC Market statistics (handout)

2004 VC Market Statistics

- US/Canada/BC

- After Fx, USA VC deals were ~ 3x \$ of Cdn avg.
 - Q. Are Cdn deals more efficient, or under-funded?
- BC VC deals got ~ 1/3 \$ more than Cdn avg. (w/o Aspreva at \$80M, BC was ~ Cdn avg.)
- BC startup/seed deals were ~ 2x \$ Cdn avg. (w/o Aspreva, BC was ~15% less than Cdn avg.)
- US \$ and % of VC funds for emerging and expansion stage deals is significantly more than in Canada (~ same for BC).
- Note: Small number of BC VC fundings – 19+22+21 = 62 (startup/seed, emerging and expansion \$ respectively). 41 were follow-on fundings. So, only 21 fundings were new.
- Note: Cdn returns significantly lag US (Seed -0.7%!)

Source: Adapted from PwC presentation given by Peter van Bodegom, April 11, 2005

Investor Returns

- Order of Magnitude Expectations

- Angels (Start-up Stage)
 - 10 investments of \$100K each = \$1M
 - 1 big payout in 7 years at 40x = \$4M
 - Portfolio ROI (cagr) ~22% p.a.
- VC's (Growth Stage)
 - 10 investments of \$3M each = \$30M
 - 2 big payouts in 5 years at 10x = \$60M
 - Portfolio ROI (cagr) ~15% p.a.

Pro Forma Cap Table

(Pre-2000)

	Startup	Seed Round	VC Round	Exit/Gain
<u>Pre-2000</u>				
Founders	\$100k (100%)	\$100k (75%)	\$100k (60%)	\$60M 600x
Angels		\$500k (25%)	\$500k (20%)	\$20M 40x
VC's			\$2M (20%)	\$20M 10x
Market Cap	n/a	\$2M	\$10M	\$100M

Pro Forma Cap Table

(Post-2000)

	Startup	Seed Round	VC Round	Exit/Gain
<u>Post-2000</u>				
Founders	\$100k (100%)	\$100k (75%)	\$100k (37%)	\$11.25M 112x
Angels (6%)		\$250k (25%)	\$250k (12%)	\$3.75M 15x
VC's (-17%)			\$3M (50%)	\$15.00M 5x
Market Cap	n/a	\$1M	\$6M	\$30M

The “Exit” (Investor “Liquidity” Event)



- IPO
- Merger or acquisition

Summary: M Networks Revisited

1. PROVEN MANAGEMENT (\$ in) ?
2. Markets – big & growing ?
3. Marketing plan targets “addressable” market segments ?
4. Customer focus (ideally with clear value proposition) ?
5. Good margins ?
6. Competitive advantage (IP, marketing, ops, finance) ?
7. Market pull vs. technology push ?
8. Board and Advisors ?
9. Realistic revenue model and operations plan ?
10. Realistic financial plan (to exit) ?
11. Culture of management & financial control ?

Some Personal Examples

1. Market & Country Risk

Deal – US \$60 million funding for a pre-revenue tropical hardwood timber venture in Papua New Guinea.

- Funding failed.
- Seed investors suffered a complete loss of their US \$3 million investment.
- Seed investor lesson: Be prepared to lose it all.

Some Personal Examples (Con't)

2. IP Risk

Deal – US \$16 million funding for a pre-revenue venture with an innovative hydrogen gas technology targeting the long-haul diesel truck transport market worldwide.

- Funding failed.
- The seed investors suffered a complete loss of their Cdn \$2 million investment.
- Seed investor lesson: Proof sources - independent technical assessments are key.

Some Personal Examples (Con't)

3. Market Risk Revisited

Deal – Cdn \$2.5 million for an established Alberta-based data storage business for market expansion (revenues and earnings, 10 year history).

- Funding succeeded for this later stage deal.
- Business failed and it had to be reinvented.
- The investors have a ways to go to get whole. But, two years later, their investment is still alive!
- Investor lesson: If markets change, what is the “backup” plan?

More Resources

See <http://angusmanagement.com/> for further information and select URL links on:

- Funding, Legal, Technology Organizations
- University Tech Transfer
- Government and Other Resources

Thank you!

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