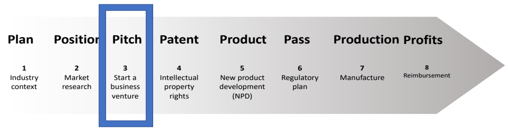

Chapter 3: Practical Tips on Business Plans and Fund Raising

1. Do I need a multi-page formal business plan for my startup ?

- Most entrepreneurs today do not write long multi-page business plans. However, the process of preparing a business plan is very useful.

- Based on investors' limited time and preferences, short pitch decks and executive summaries are presented to confirm initial interest.

- The business plan focuses on the benefits of the product or invention (not on the" how," but on the "what" it does) thus not needing to disclose confidential information in the first meetings and discussions.

- A useful exercise as a first step to writing your business plan is to condense your entire pitch into a single sentence that states your value proposition to the customer in a target market, size of market and your unique technical or business model to provide this value. This brevity forces focus on the message/vision and creates a good elevator pitch starting point. This sentence is only to whet the appetite of the listener to learn more. Don't try to communicate the 'how 'or too many details in this single sentence. Use short comparisons to commonly known successful ventures (e.g. "we will be the amazon for medical devices") to catch the interest of the listener to want to learn more.

- A go-to-market strategy is critical to add credibility to the business plan pitch and should include any possible validation from prospective customers.

- Once an investor confirms interest to look deeper at the opportunity, technical presentations or further detailed slide decks for next stage discussions are presented.

- Different versions of the presentation are likely to be needed, and modifications to suit varied investor audiences are common.

- Competition must be addressed credibly – for example, it is helpful to present alternatives and competitors and highlight the reasons why customers will switch to the new product/service from current gold standard medical practice and adopt a new product from a startup company.

- A key issue for startup companies is management experience (or lack thereof) in the eyes of investors, and the business pitch should present a team and not just an individual founder. Having an experienced board of directors or advisors can help mitigate the perception of inexperience.

Some of the above text is excerpted from the book :
Commercializing Successful Biomedical Technologies,(2nd Edition, Cambridge University Press)

- Usually, business plans do not propose a valuation for the company unless you already have part of the round committed from a lead investor

- A data room is usually provided for investors to review information in the due diligence process. Financial projections, use of funds required to achieve the next milestones and financial statements are included to work with venture capital investors.

- Financial statements (budgets) for the first 18 to 24 months should be presented in monthly or quarterly layout. If further future financials are required, they can be presented as quarterly or annual statements. Some investors want to see projections out to initial revenues on a monthly basis. Preferences vary and companies should be prepared.

- A PPM (private placement memorandum) is sometimes generated by a company that is raising money from multiple small investors to facilitate their understanding of the company's plan. The PPM should be reviewed by a securities lawyer and is in effect a mini business plan with some risks and warnings written up front.

2. What should be placed in a data room for investors?

- Google Drive and Box are two of the most common platforms that founders use to create data rooms. Some other virtual data room providers are Firmex, ShareFile, CapLinked, Ansarada and Deal Room.

- Request a check list for due diligence steps from the investors and agree on completion timeline.

- Try to avoid any surprises for the investors by disclosing any minor or major known issues (historic or ongoing) before start of due diligence process.

  Typical data room contents:
  - Company Organization/ Formation Documents
  - Financing Information/ Deal Documents
  - Pitch Decks, Whitepapers
  - Financial statements
  - People-Related Documents
  - Market Information
  - Patents (usually published patents and summary of unpublished applications)
  - Section for scientific data, organized by heading of study

3. How do I know how much money I should raise ?

- Rule of thumb is at least enough to cover operating budget for 18-24 months AND reach the next significant milestone.

- If you are getting more investment than planned, take the money! Optimistic and enthusiastic teams in early stage planning frequently find they need more time or more resources to reach the next milestone.

- Plan that you can reach the milestone with enough in the bank for at least 3 more months to allow time for next fundraising round.

- The financial budget has to be built from the ground up to prepare the most credible 'use of funds' summary.

4. How do I set the valuation for my company ?

A major step of completing a financing is getting agreement on company pre-money valuation, which is a highly subjective measure by any count. Common methods to support valuation positions include :

- Market comparables – sourced from news reports, industry contacts, databases like Crunchbase or Pitchbook (subscription reqd) –check S-1 filings of companies offering IPO – they usually will have details on their recent previous private investments.

- Lead product valuation taken from industry news on licensing or financing transactions. (puts little value on the potential of a platform technology)

- Current value of risk-adjusted, discounted cash flow calculation from projections of future revenues. (Only the lead product(s) in development are considered here, again largely ignoring the potential value of a platform technology unless there is an existing licensing or partnering deal with financial payments)

- Another perspective on valuation is to identify market trends by talking with experienced corporate attorneys who see a lot of transactions and can provide generalized industry benchmarks specific to your geography, status and industry sub-sector

- **Practically, the best method** to support the entrepreneur's targeted valuation is to bring in competing offers (term sheets) from multiple investors or corporate partners.

- A professional valuation company can be brought in to support the valuations argument from both sides and provide a mediated compromise as a third party

- ***Note 1***: valuation is an important consideration for most entrepreneurs as it impacts dilution f their equity holdings and hence the financial outcomes at future time of sale or financial exit. However, there are other factors in the financing terms that can impact this final take home return for the founders – participating multiples, terms of preferred shares, anti-dilution clauses (not common) – hence keep valuation in balance with the other items and get a good counsel to review terms with the founders.

- ***Note 2***: A common mistake is to set too high a valuation for the first priced round of fund raising in a startup – a higher valuation puts more pressure in future rounds to sustain and build up sufficient value perceived to justify risk and growing valuations. Also, it may make your company less appealing compared to other opportunities that are priced more 'fairly' in the view of the investors. No one wants to see a 'down-round' take place and financing negotiations become more emotionally charged.

- ***In summary*** - take market trends, overall economic climate, industry sector context, stage of product development etc in mind when deciding on valuation (in addition to above points).