



# Getting it Funded

Ian Ritchie, Coppertop

# Background

- **Founded OWL 1984 (Edinburgh/Seattle)**
  - world's first hypertext company
  - 3 rounds VC investment, approx \$1m total
  - sold to Panasonic in 1989 for \$14m (*left 1992*)
- **Activity since 1992**
  - Early stage (Angel) investor in 20 start-up hi-tech companies
    - supported VC fund raising in 14 of them
    - Orbital, Voxar, Digital Bridges (I-Play), Active Navigation, Epic, Sonaptic.
  - Board member: NVT, SBIT, SIE, Connect.  
Advisory Board: Pentech VC.
  - Director, Scottish Enterprise, 1999-2005

# HOW TO FORM YOUR VERY OWN SILICON VALLEY STARTUP

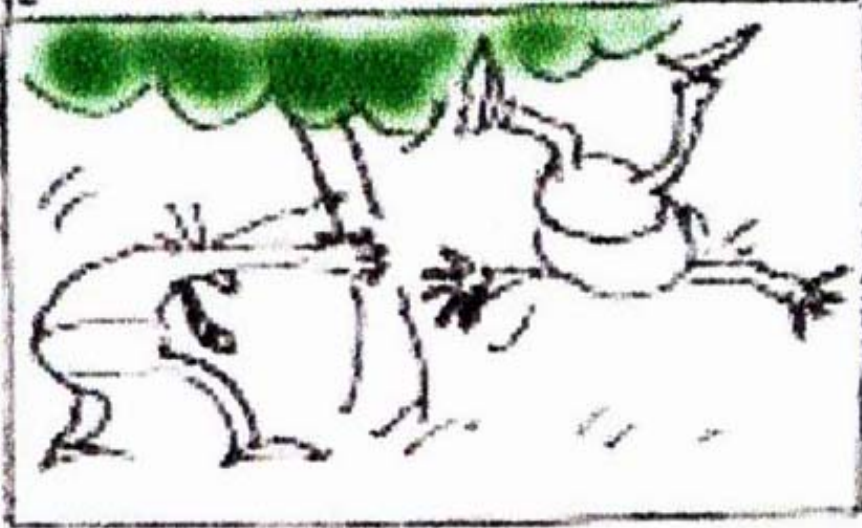
by Laura Lemay



STEP 1. GO TO MENLO PARK  
FIND A TREE.



STEP 2. SHAKE THE TREE.  
A VENTURE CAPITALIST  
WILL FALL OUT.



STEP 3. BEFORE THE VENTURE CAPITALIST  
REGAINS HIS WITS, RECITE  
THE FOLLOWING INCANTATION:

'INTERNET! ELECTRONIC COMMERCE!  
DISTRIBUTED ENTERPRISE-ENABLED  
APPLICATIONS!  
JAVA!'



STEP 4. THE  
VENTURE  
CAPITALIST  
WILL GIVE YOU  
FOUR MILLION  
DOLLARS.

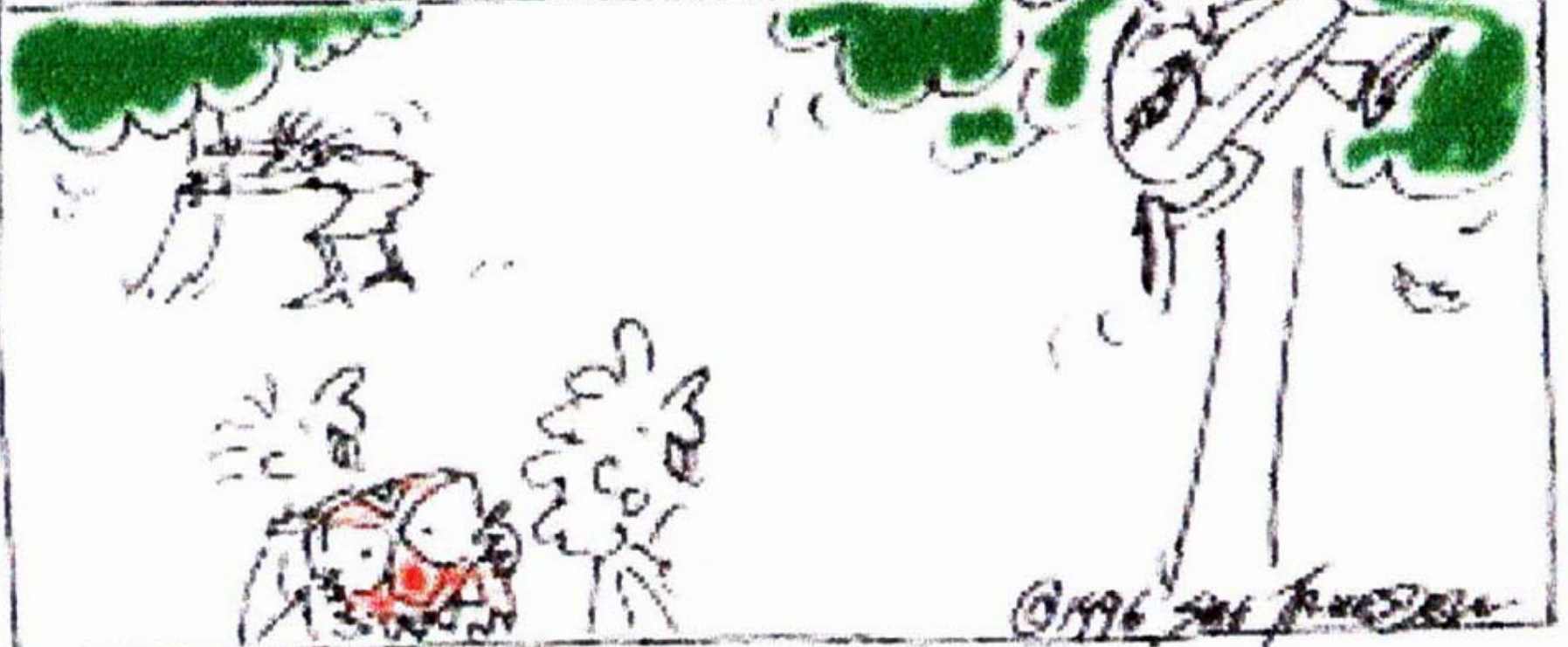


STEP 5. IN EIGHTEEN MONTHS,  
GO PUBLIC.



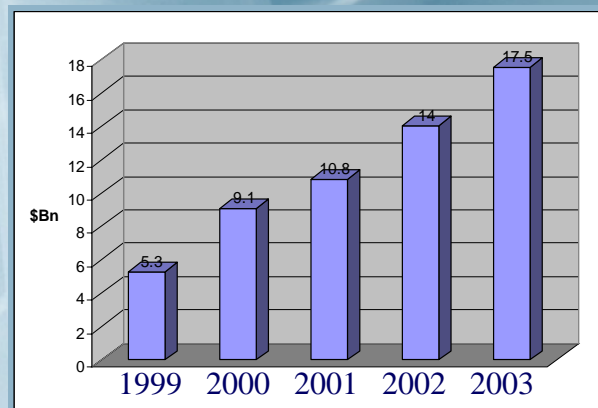
STEP 6. AFTER YOU RECEIVE  
YOUR CHECK, GO BACK TO  
MENLO PARK. FIND A TREE.

STEP 7. CLIMB IT. WAIT.



# Venture Capital in USA

- VC-backed businesses almost 10% of US economy
  - 9.4% of jobs, 9.6% of sales
  - 10.1 million jobs, \$1.8 trillion sales
- VC-backed businesses growing faster
  - 600,000 jobs added from 2000-2003
- E-commerce/Internet still growing strongly



# Why VC is interested in high tech?

- Opportunity for innovation in new emerging (turbulent) markets
  - turbulent markets are confused
- Innovation is difficult to manage
  - particularly for a bureaucracy
  - easier in a small start-up team
- Globalisation - easy to trade worldwide
- Potential to create enormous value
  - but need to understand the 'Chasm'  
(Geoffrey Moore, *Crossing the Chasm*, 1991)

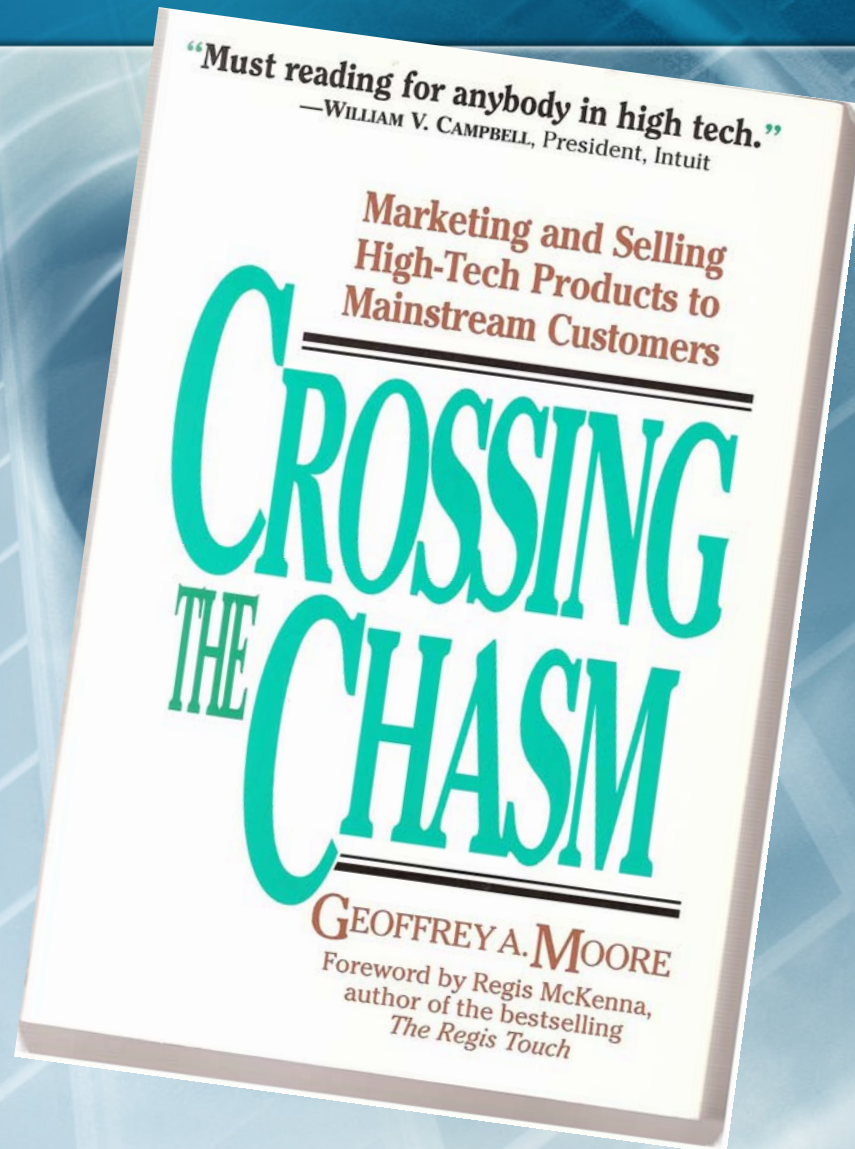


# 'Trickle-up' technology

- Large companies have
  - customer base and marketing channels
  - sales force
  - cash & a need to innovate product range
  - *so they ...*

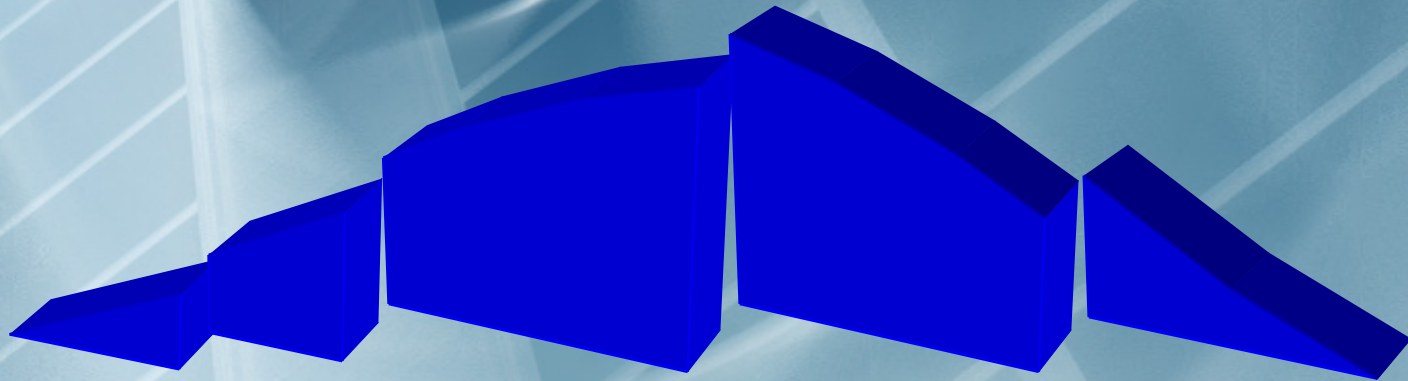
**...increasingly acquire technology by licensing, distribution, and acquisition**

# Crossing the Chasm



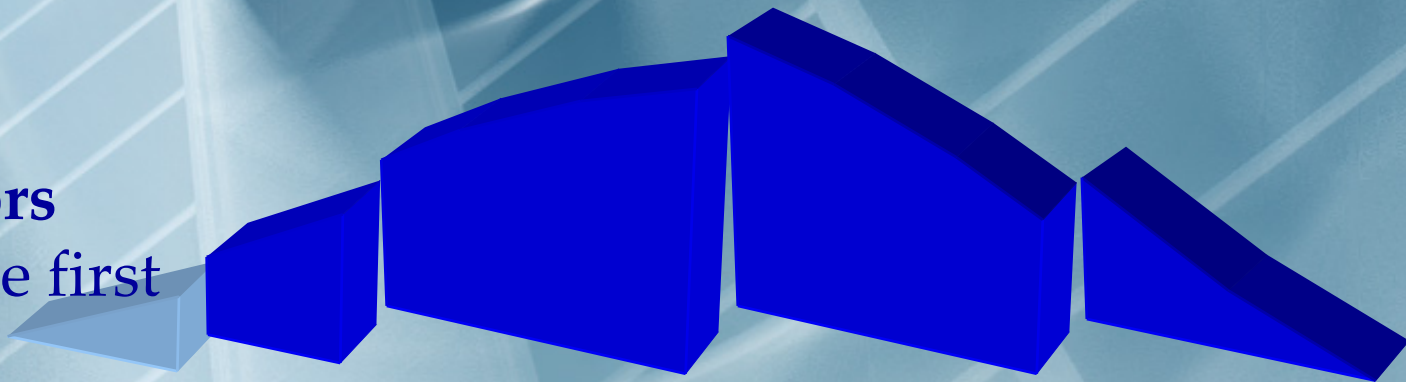
# Crossing the Chasm

High-tech Adoption Life Cycle



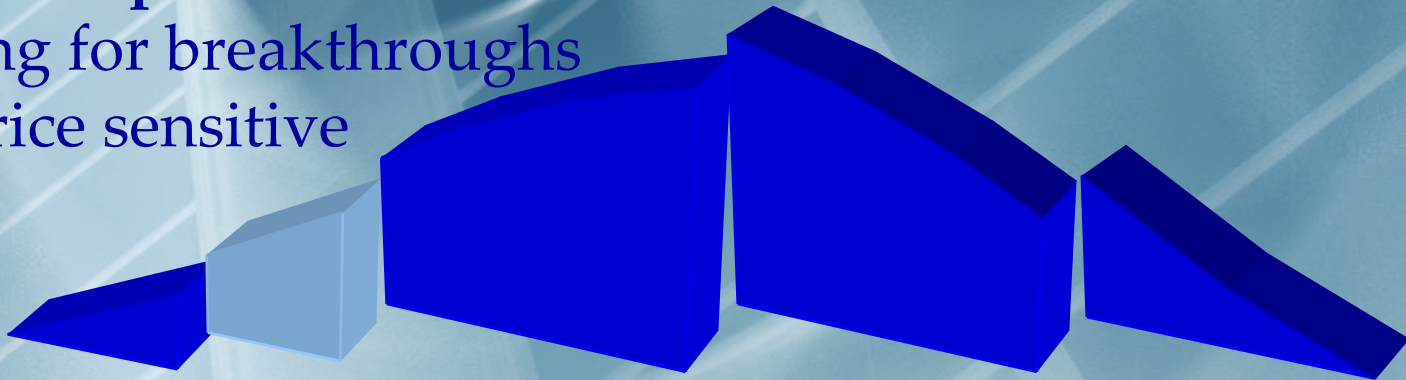
# Crossing the Chasm

**Innovators**  
need to be first



# Crossing the Chasm

**Early Adopters**  
looking for breakthroughs  
not price sensitive



# Crossing the Chasm

## Early Majority

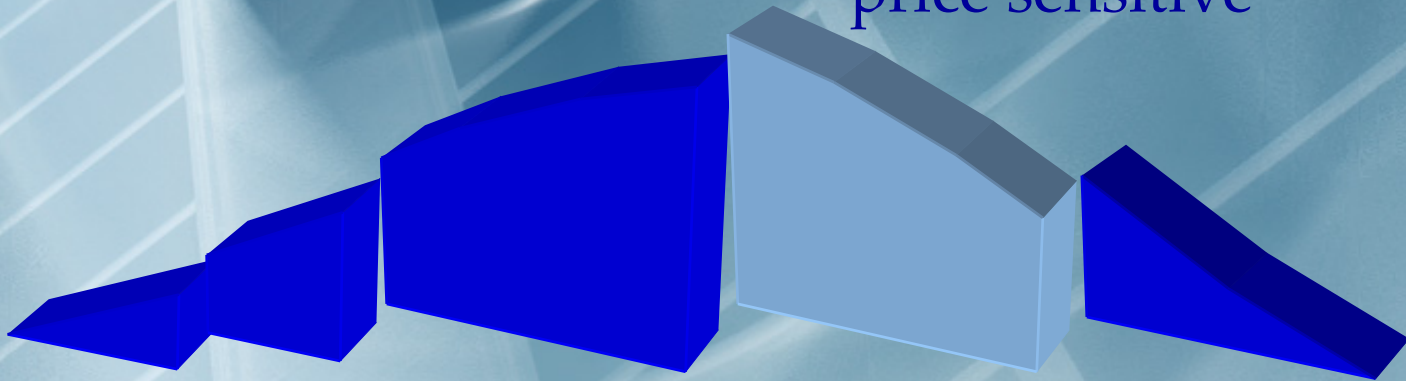
the 'pragmatists'

- want to 'keep up'
- risk-averse
- long-term thinkers



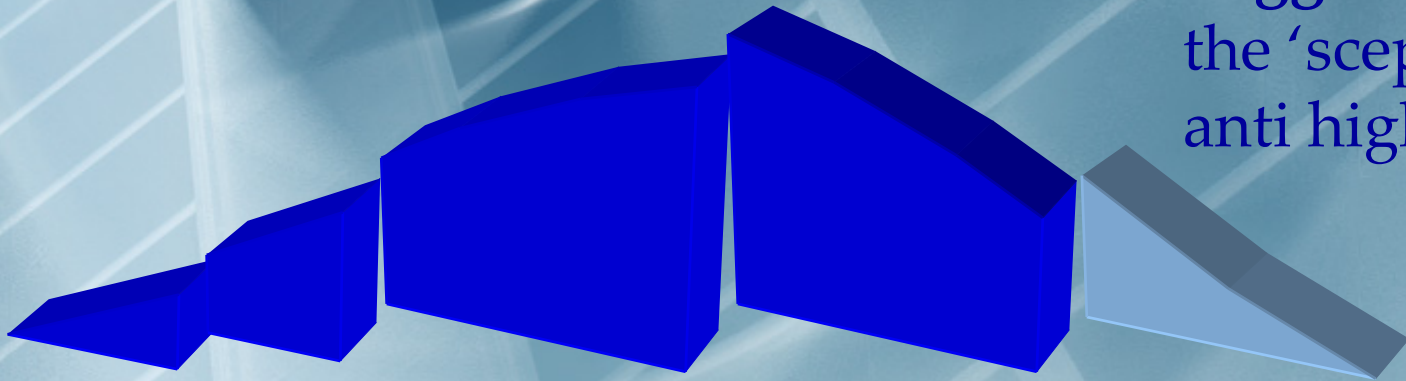
# Crossing the Chasm

Late Majority  
the 'conservatives'  
- NOT risk taking  
- nervous of high-tech  
- price sensitive



# Crossing the Chasm

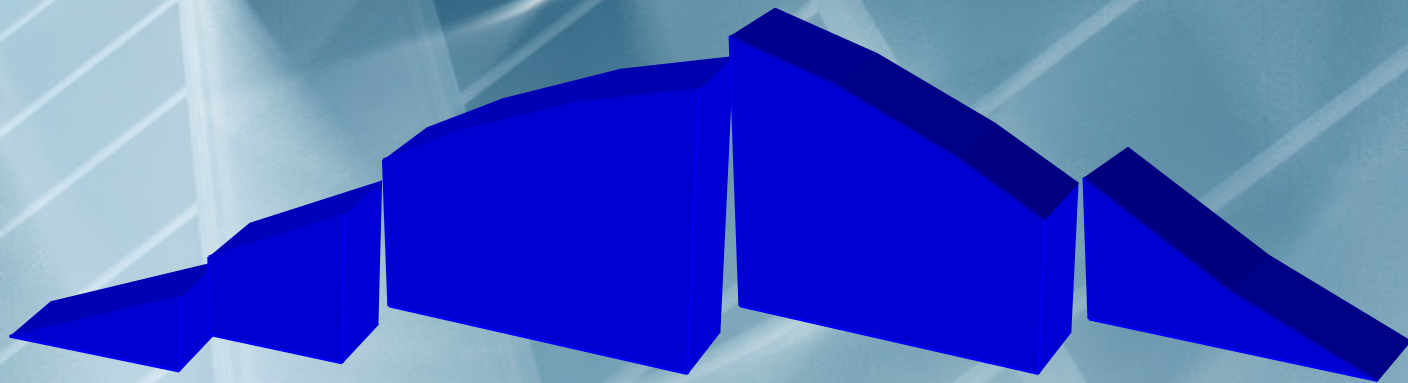
Laggards  
the 'sceptics'  
anti high-tech



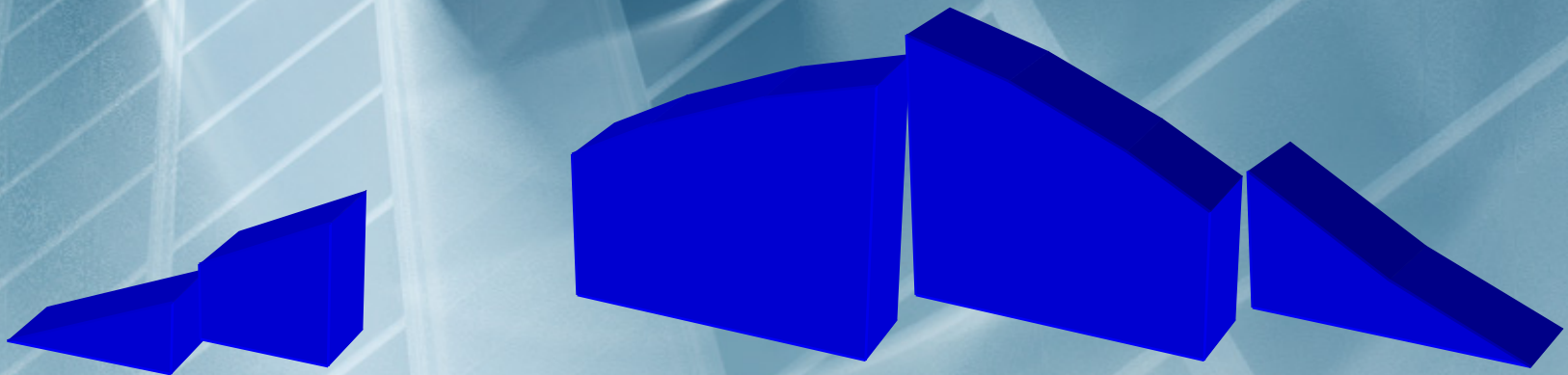


# Crossing the Chasm

High-tech Adoption Life Cycle

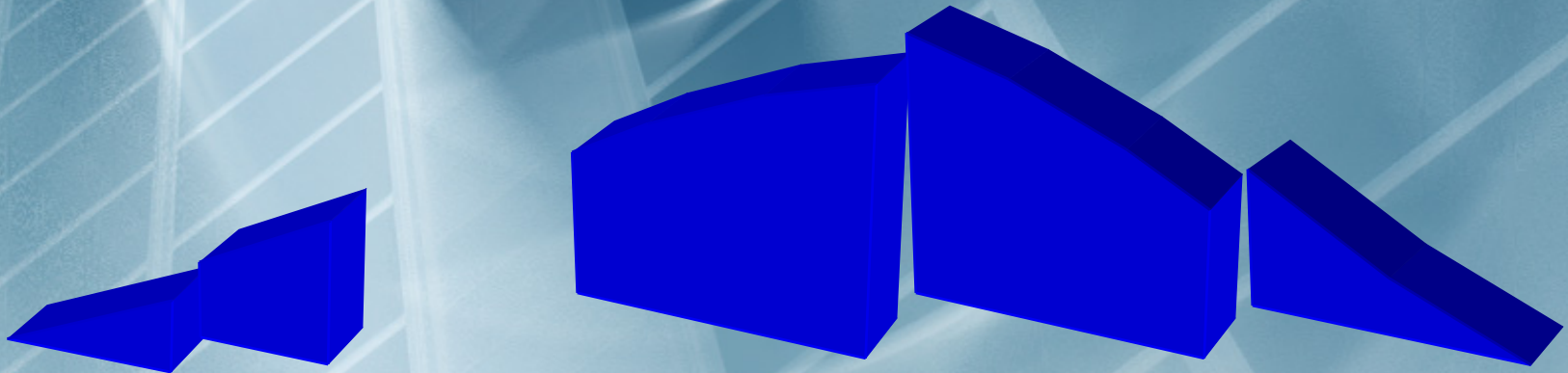


# Crossing the Chasm



# Crossing the Chasm

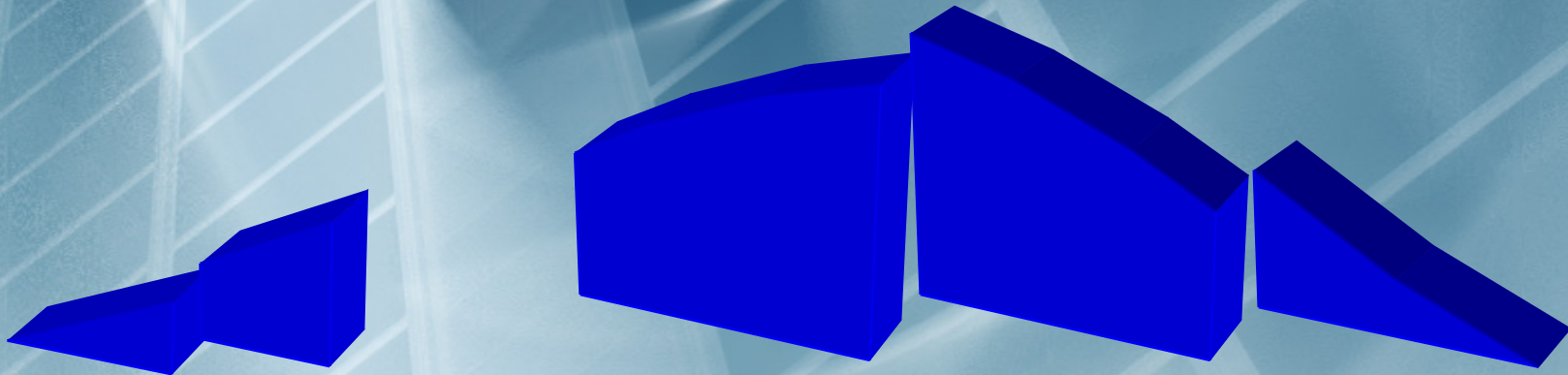
The 'Visionaries' vs the 'Pragmatists'



# Crossing the Chasm

## The 'Visionaries' vs the 'Pragmatists'

Technology enthusiasts  
'Leading-edge' value system  
Access to technology creators  
Low competitive evaluation  
Not price sensitive

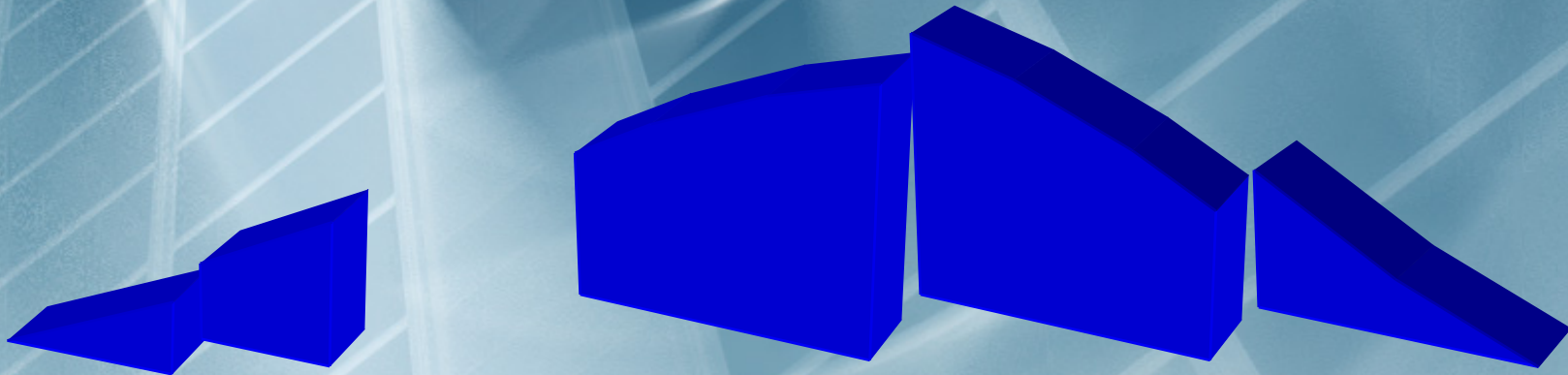


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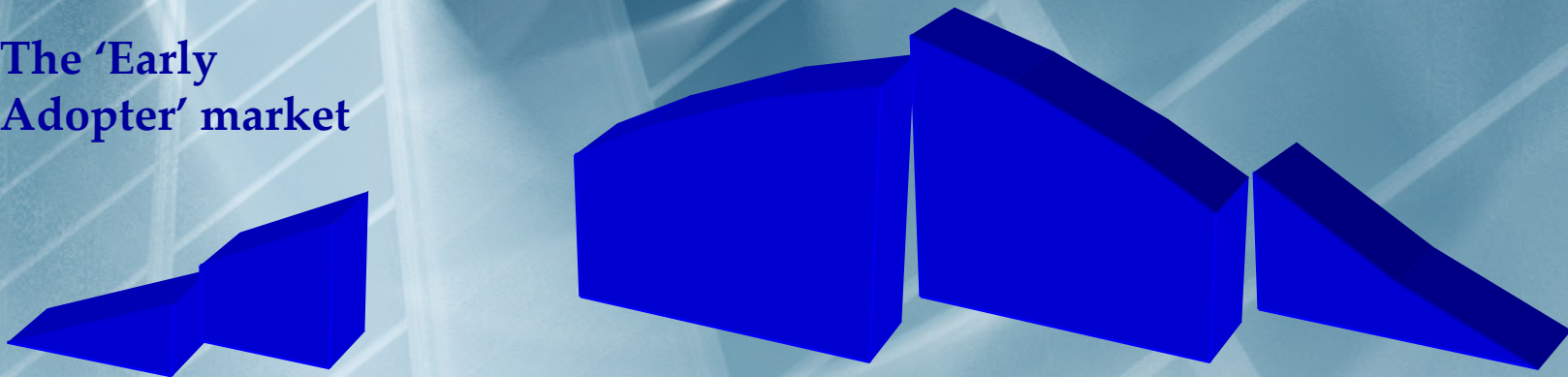
Commercially driven  
Must pay its way  
Need reference accounts  
Product supply and support  
Need competition to validate market  
Price and service sensitive



# Crossing the Chasm

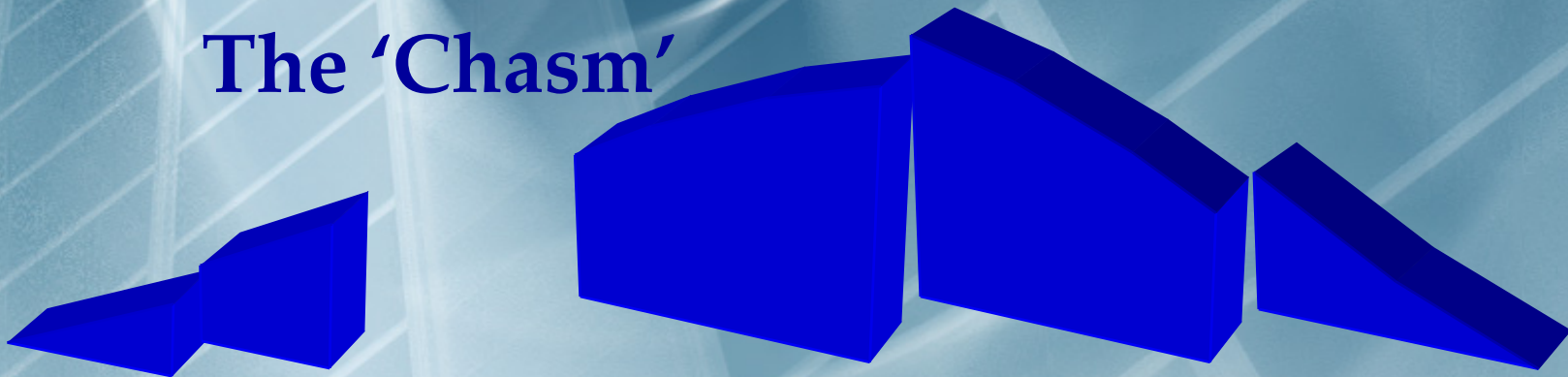
The 'Real' market

The 'Early  
Adopter' market



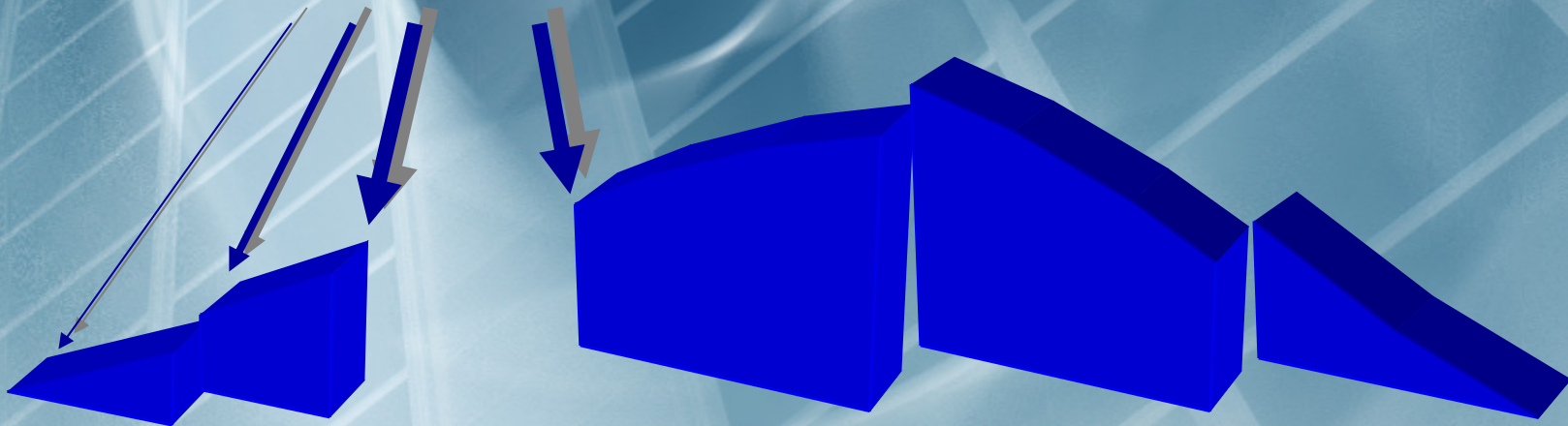
# Crossing the Chasm

The 'Chasm'



# Crossing the Chasm

requirement for funds





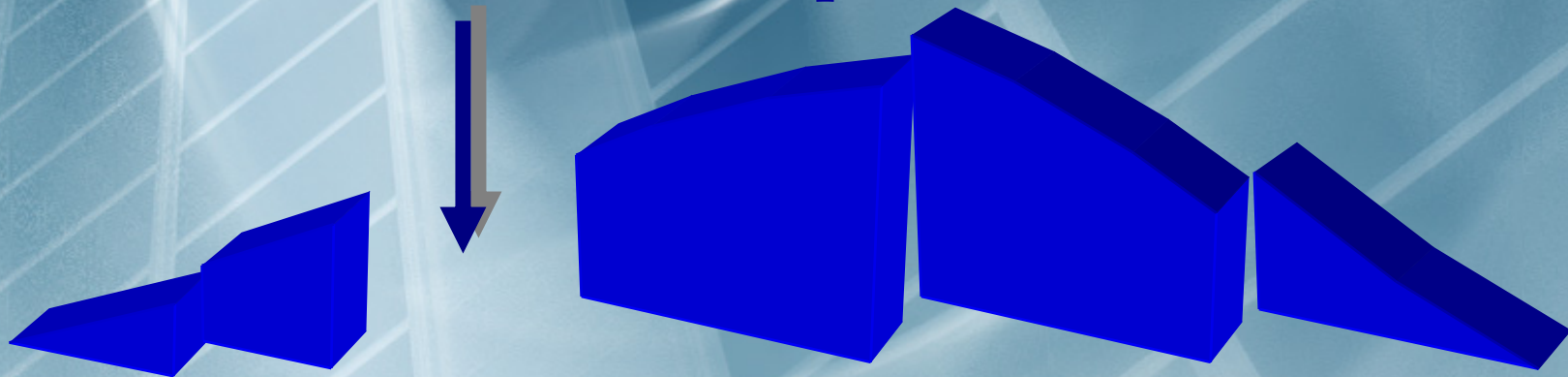
# Crossing the Chasm

Longer sales cycles

Market development investment required

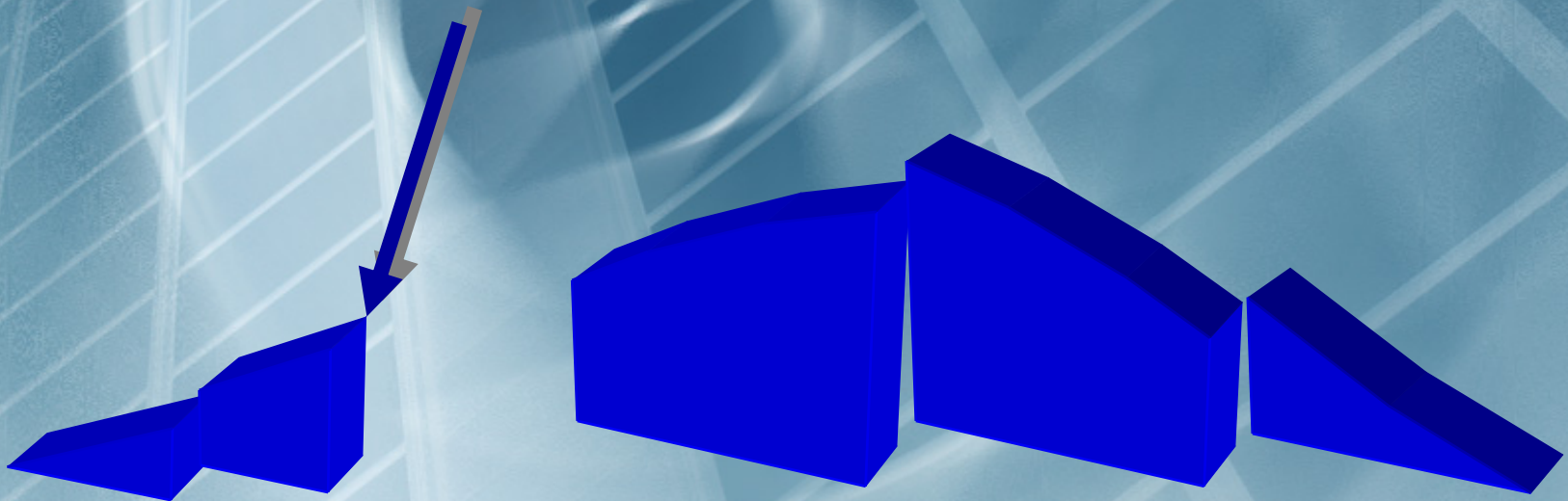
Funding required

Access to sales channels required



# Crossing the Chasm

Fund Raising, IPO or Trade Sale



# Development (risk) capital

- Angels, Grants & Loans, Venture Capital
- R&D phase required (little or no income)
- Market development phase
  - hiring, travel, PR, trade shows, 'presence'
- Productisation phase (paid partly by customers - *if you're lucky!*)
- Then the EXIT
  - Trade sale or IPO
  - at 5x return or better

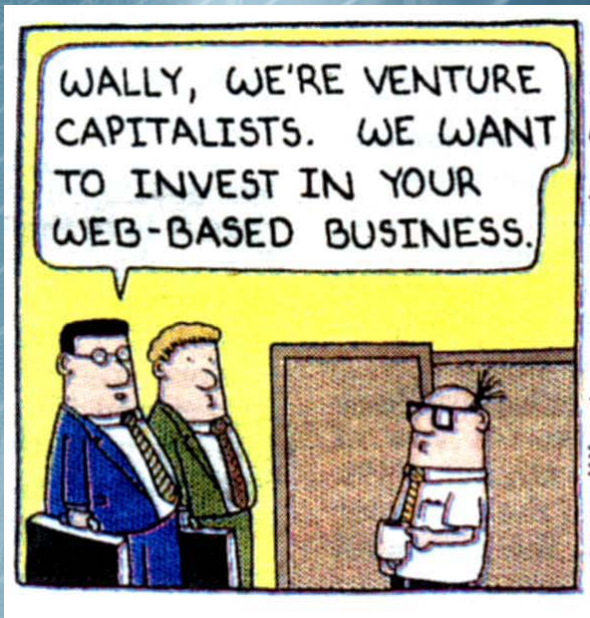
# Angel investor

- Typical funds £10k - £100k
- May attract other angels - total £100k - £200k
- Provide key, relevant, high tech or market knowledge and experience
- Help build the team, create the business model
- Help raise the venture capital funding
- Non-executive director, help company with strategic decisions and growth

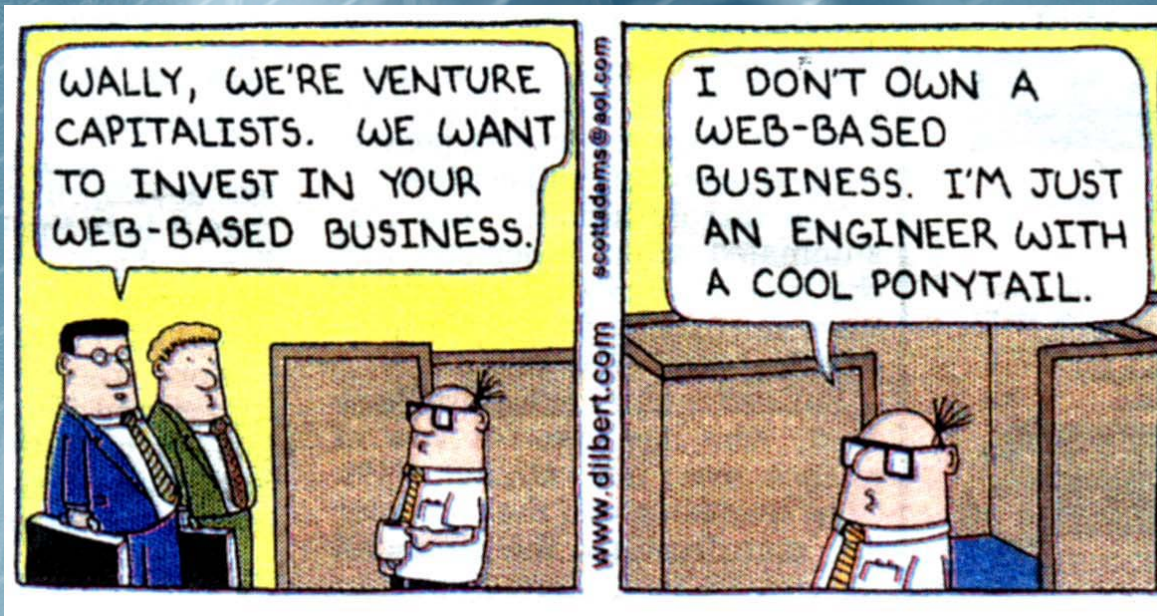
# Angel and VC

- **Angel**
  - fast, early, hands-on, simple deal
  - relatively small amounts, can't follow
- **Venture Capital**
  - slow, consortia-driven (at speed of slowest)
  - due diligence, dependencies, warranties
  - complex deals (prefs, loan stocks etc)
  - large amounts & ability to follow

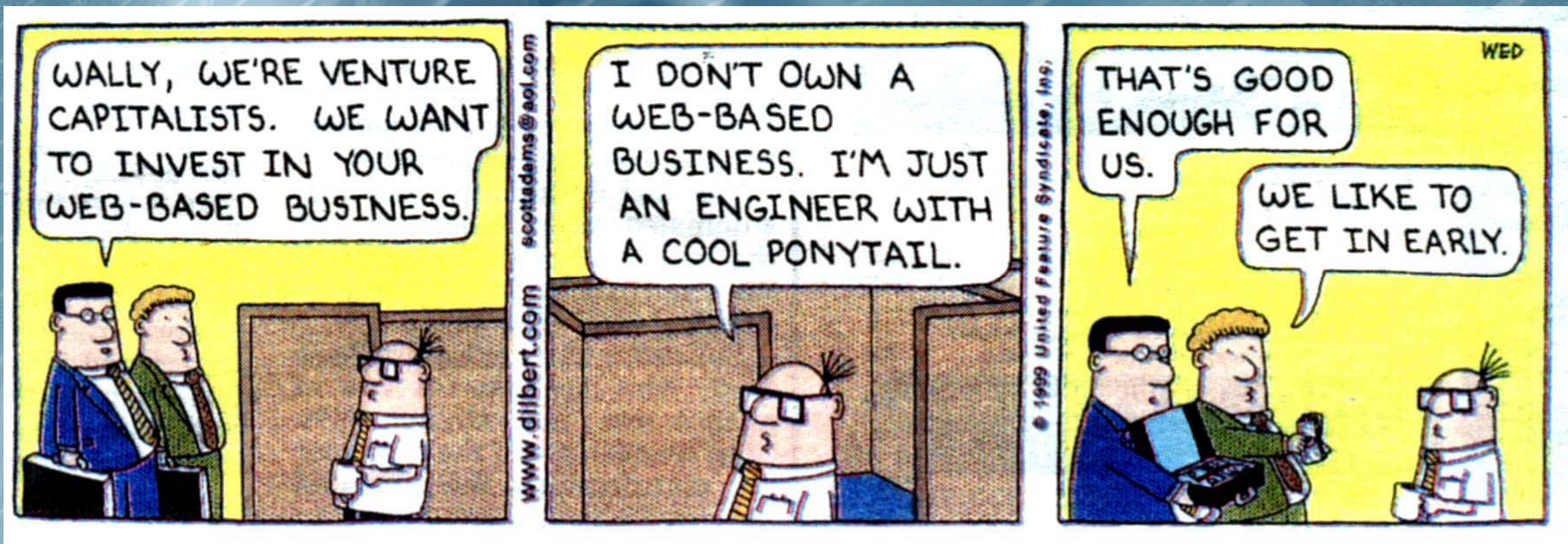
# Venture Capitalists - 2000



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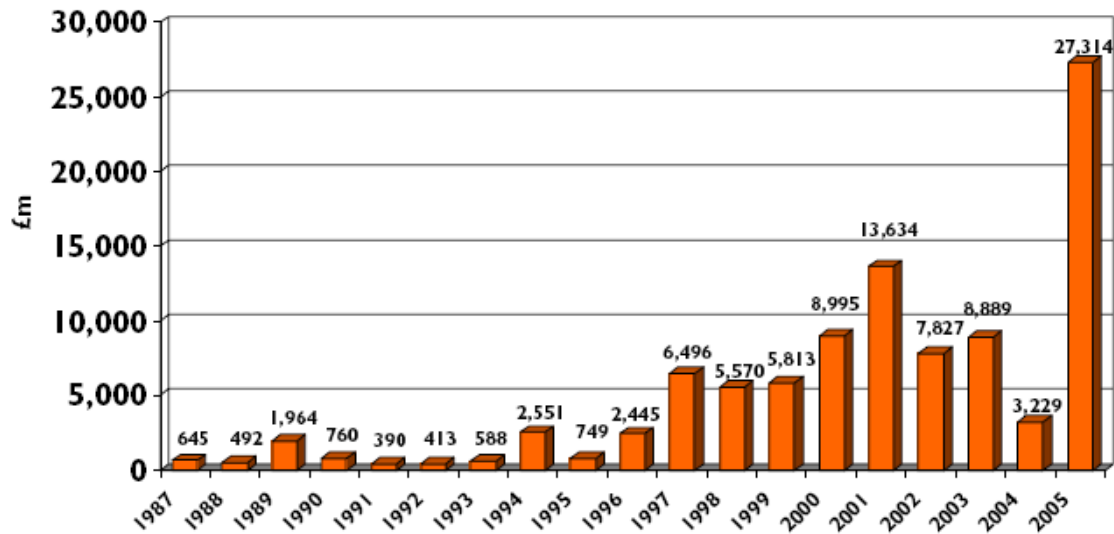
# Venture Capitalists - 2000





# Bust... then boom again

## Funds Raised by BVCA Member Firms



BVCA

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# The arithmetic of Venture Capital

- Most 'venture capital' is highly risk averse
  - New technology and new markets
    - *a combination of two very high risks*
  - In return for the risk
    - you need to show a very good return
    - *(this means an outrageously good return)*
- and a need for an EXIT!*

# The arithmetic of Venture Capital

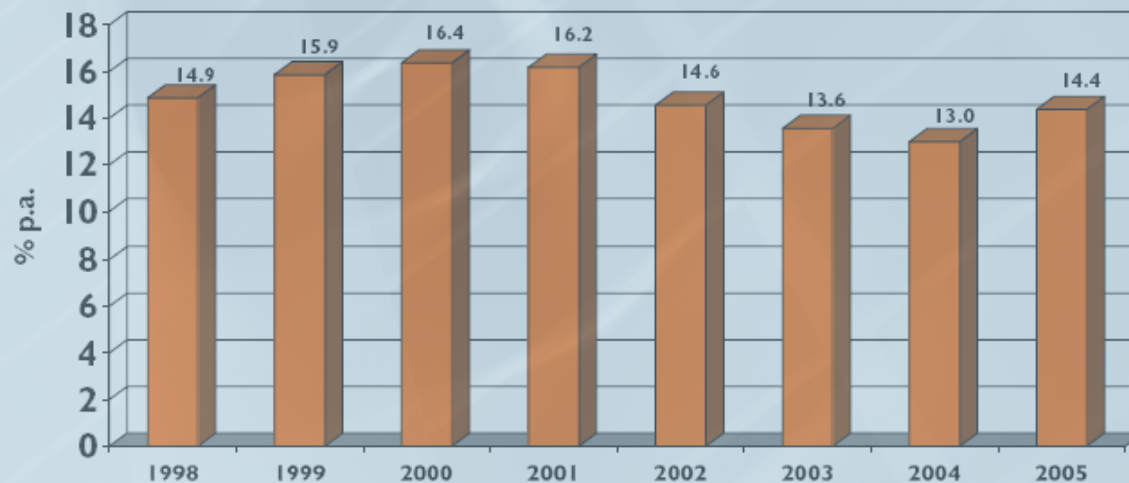
- VCs require very high ROI due to risk
- For every 10 VC investments
  - 3 will fail - losing all your investment
  - 5 will do 'ok', break-even or making a modest return
  - 1 will do 'well', making a good return
  - 1 will do very well - *making out like bandits*
- *Target to return over 50% pa*

# UK Investment Activity by Stage 2005 (2004)

- • **Early stage –**
  - £382m (£284m) in 491 cos. (454)
  - average start-up investment £0.8m (£0.7m)
- • **Expansion –**
  - £1,951m (£954m) in 573 cos. (580)
  - Secondary purchase £787m (£158m) in 58 cos. (47)
- • **MBO/MBI**
  - £4,480m (£4,098m) in 308 cos. (267)

# Returns seem generally ok...

## Total Private Equity Return – Since Inception (to December 1998-2005)



BVCA

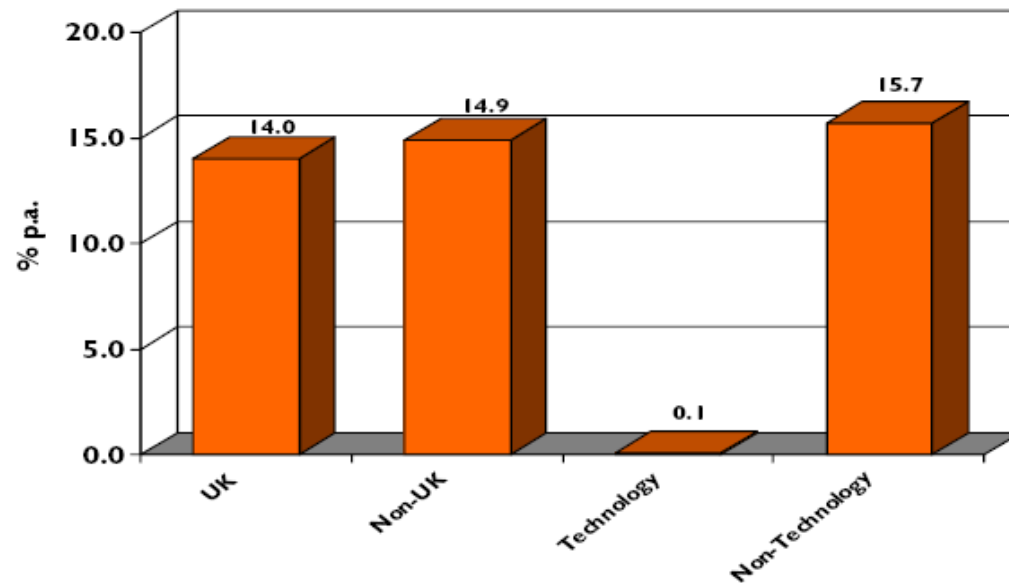
CapitalDynamics



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# ...but Technology is not

Since Inception Performance by Subcategory  
to December 2005



BVCA

CapitalDynamics

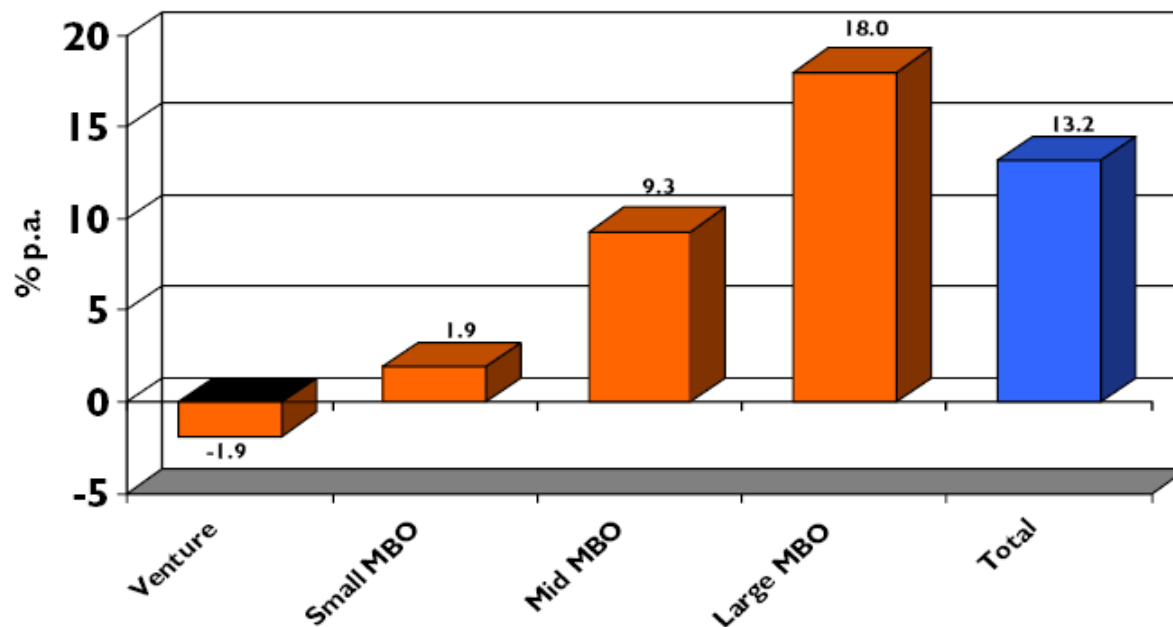


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# ... and Early Stage stinks!

## Since Inception Performance of 1996-2001 Funds to December 2005



BVCA

CapitalDynamics



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# **Info glut seems to be an attractive market**

**The value for companies is finding ways to share information but businesses don't have the tools to manage the information overload.**

**Mountains of data “are making it so people can't act on it without being overwhelmed”**

*Bill Gates, May 17<sup>th</sup> 2006*



# Lots & lots of start-up info management companies

## Alfresco

Location Berkshire, U.K.  
URL [www.alfresco.com](http://www.alfresco.com)  
Founded 2005

## Blinkx

Location London, UK  
URL <http://www.blinkx.com/>  
Founded 2004

## Cartesis

Location Paris, France  
URL [www.cartesis.com](http://www.cartesis.com)  
Founded 1990. VC raised 2004

## Clear2Pay

Location Brussels, Belgium  
URL [www.clear2pay.com](http://www.clear2pay.com)  
Founded 2001

## Exalead

Location Paris, France  
URL [www.exalead.com](http://www.exalead.com)  
Founded 2000

## Globoforce

Location Dublin, Ireland  
URL [www.globoforce.com](http://www.globoforce.com)  
Founded 1999

## Gteko

Location Ra'anana, Israel  
URL [www.gteko.com](http://www.gteko.com)  
Founded 1992

## OpenBC

Location Hamburg, Germany  
URL [www.openbc.com](http://www.openbc.com)  
Founded 2003

## Reportive

Location Paris, France  
URL [www.reportive.com](http://www.reportive.com)  
Founded 1992

## Scytl Secure Electronic Voting

Location Barcelona, Spain  
URL [www.scytl.com](http://www.scytl.com)  
Founded 2001

## SeeWhy Software

Location Berkshire, U.K.  
URL [www.seewhy.com](http://www.seewhy.com)  
Founded 2003

## Tridion

Location Amsterdam, The Netherlands  
URL [www.tridion.com](http://www.tridion.com)  
Founded 1998

*etc...*

# Lots and lots of information management

- Popular topic in Informatics research
  - Driven by Web 2.0 & semantic web developments
  - E-Science investment & development
  - Government 'innovation support' encouraging spin-outs & start-ups
- Major corporations already on the case
  - IBM, Microsoft, Google, Altavista, Ask.com, Convera, Autonomy etc...

# So prospects for funding are relatively poor

- It's a very crowded space
    - Lots of academic research with excellent technology to offer
    - Lots of start-up companies already operating in the 'information discovery' area
    - Lots of big corporations already supplying solutions in this sector
- and*
- Early-stage technology has historically been a relatively poor investment

**If you still want to go for it...**

**get the Business plan right**

# What is a Business Plan for?

- A selling document
- Describe the potential
- State how the company operates
- Build confidence in the team
- Give indicative financials showing that plans are realistic
- *But nobody really expects the Plan to match the actual performance of the company*

# Business Plan warning signs

- We are really very very very clever folks
- We are doing some great technology
  - (here's a bunch of detail that will make your head spin)
- We need MORE money to more great technology
  - and there's lots more to be done
  - It's such good stuff that somebody is bound to buy some of it and we will make profits

Oh, and here's some figures our accountant did for us

- (3yrs P&L,BS,CF, breaks even in month 20)

# Business Plan Should-be's

- There's a great new growth market
- We've got just the thing for it
- Its the kind of thing that a small niche player can sell well
- The growth potential is such that we can go public/be acquired
- We've got/can get lots of technical/managerial/marketing experience

# Presentation is important

- High quality, professional, information presentation
- Emphasises readability
  - all the fine detail in the Appendices
- Charts, Tables, Images, Diagrams
- Uses independent verification
  - reviews, reports, market predictions
- Reinforced with high-quality presentation
  - Leave-behind materials (slides, video, demo...)



# Secrets of Success

- **‘Write it yourself - the investor will want to invest in your dream**
- **Keep it simple - if you can’t sell it easily to the investor, maybe you can’t sell it to the customer**
- **Do all the financial projections yourself**
  - **(if you need to, get help to formulate and present them professionally)**

**Put together a great team**

# John Doerr - KPCB

- Think hardest about the team
  - “are these the people I want to be in trouble with for the next 5, 10, 15 years”
- Experience, drive, committment, passion - get the balance right
- Absolute integrity & honesty
- Better Plans are shorter ones
  - the SUN Plan was 3 pages - Intel was 1 page!

# What to put in the Plan

- Executive Summary - short & snappy
- Market Opportunity
- Investment Proposal
- Marketing Strategy
- Financial Forecasts
- Description of the team
- Appendices: CVs, Historic Accounts, Product & Technical details, Market Research info

# Where to start?

- Buy a copy of 'BizPlanBuilder' for your personal computer
- Hire an accountant or 'enterprise consultant' to write it
- Write it yourself as best you can
- Download a Business Plan template from the Internet
  - Ask a friend/Ask Audience/50:50

# What's to be done

- **Make the most of funding opportunities**
  - **Find a good Angel**
  - **Look wider for VC funds**
    - **London & European-based high-tech funds**
    - **Major US fund managers with UK offices (but need to have US presence)**
    - **Corporate Venturing**
  - **Build a company ideal for acquisition**
  - **Spot a corporate innovation need and supply it**

# Summary

- **High-tech is different**
  - *There are great opportunities*
- **Take account of the 'Chasm'**
- **The arithmetic of Venture Capital**
  - *need for an huge return – and an exit*
- **Business Plan, Team, Presentation**
  - *selling the dream*

*“Can you afford to get into trouble with these folks for the next 5 years”*

# We all have to start somewhere



*Bill Hewlett's  
Garage*