

# Starting a venture in 2003

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# Agenda

- Funding environment
  - What's it like out there...?
- Untapped resources
  - Equity and non-equity deals
- Getting taken seriously
  - Four questions you need to answer
- Pitch your idea
  - Instant feedback

# Today's funding environment

- According to Venture One's analysis, 2002 investment was slightly higher than 1998...
  - 1998: 2,504 deals worth \$17.7 billion
  - 2002: 2,056 deals worth \$19.4 billion
  - Southern California received 10% of these \$\$'s
    - Bay Area firms got 33%, New York Metro 7%, and Boston Area 4%

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# Today's funding environment

- Leading industries:
  - Life Sciences
  - Software

Both nationally and in Orange County!

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# Today's funding environment

- Later stage investments are dominating current VC deals
  - Venture One found no seed stage deals in OC in 2002
  - 12 first round deals
  - 36 second and later stage deals
  - During the Internet “bubble” the opposite was true

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# Today's funding environment

- Exit strategies:
  - No venture backed Orange County companies went IPO in either 2001 or 2002.
  - Acquisition and sale are now the predominant exit strategy.
  - What does this mean?
    - Companies will take longer to mature enough to be sold
    - Valuations will be more “rational,” the land rush is over

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# Deloitte & Touche VC Confidence Survey

- Results

- VC & Entrepreneur shakeout – the worst is over
- IT spending to be flat, near term
- M&A activity will be the dominant exit strategy
- Exit valuations will remain the same or drop slightly
- 51% believe VC investments will be up in 2003

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# Deloitte & Touche VC Confidence Survey

- VC investment expectations for 2003
  - Industry focus: Biotech, Med Devices, Internet Security, Wireless
    - Anything that can be spun as Homeland Defense
  - Large block of VC's time will be spent on existing portfolio companies
  - “A” rounds will increase

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# What have we learned?

- If you ignore the bubble of 1999 – 2001, we're on a slow, stable growth curve.
- Outside investment is available, but hard to come by.
- You need to be more prepared than ever when you go out for investment capital

# The New Entrepreneurial Reality

- Bill Reichert, president and managing director of Garage Technology Ventures
- Fundamental differences between late 90's and today

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# The New Entrepreneurial Reality

Transparency has lead to greater competition

Good news for you  
Bad news for VCs

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# The New Entrepreneurial Reality

Broad scale infrastructure plays are behind us,  
new success stories will come from specific  
solutions to specific problems

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# The New Entrepreneurial Reality

The unbelievable investment returns of the bubble won't come back any time soon...

3x to 5x will be expected

10x will be a home run

25x and up – no way

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# The New Entrepreneurial Reality

## Valuations

With lower exit valuations, investors (especially later round investors) will demand a lower valuations

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# The New Entrepreneurial Reality

Talent

Management talent is more important than ever.

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# Available resources

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# Infrastructure

- There is a developing entrepreneurial infrastructure in Southern California...
  - Places to connect: TCVN, OCVG, LAVA, UCSD and UCR Connect, BioCom, LINC, IEEE and more.
  - Places to get help: SCORE, IEEP, SBDCs, and lots of good service providers

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# Alternative Sources of Capital

- In addition to the VC market, there are other sources of funds available to early stage ventures
- Angel groups – TechCoast Angels, SV Band of Angels, Monday Morning Club
- Serial entrepreneurs between deals

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# Alternative Sources of Capital

- SBIR program
  - 10 federal agencies
  - 3% of their R&D budgets are set aside for high-risk research by small businesses
  - Goal is to have products that are commercialized
  - [www.sbirworld.com](http://www.sbirworld.com)

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# Alternative Sources of Capital

- SBIR program
  - Phase 1: \$100K for 6 months of exploration
  - Phase 2: Up to \$750K to finish R&D and develop commercialization plan.
  - Phase 3: No federal funds, Company is to find private investment to commercialize the product.

# Alternative Sources of Capital

- STTR program
  - 5 federal agencies
  - Must partner with a non-profit research institution (usually a university)
  - Competitive grant process
  - [www.SBIRworld.com](http://www.SBIRworld.com) handles this as well

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# Alternative Sources of Capital

- STTR Program
  - Phase 1: \$100K for 6 months of exploration
  - Phase 2: Up to \$500K to finish R&D and develop commercialization plan.
  - Phase 3: No federal funds, Company is to find private investment to commercialize the product.

# Alternative Sources of Capital

- Other grant funding sources:
  - State of California may still be doing some matching funds for SBIR and STTR grantees via CalTIP.
  - CCAT
  - Diamond Venture Partners

# Getting taken seriously

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# Pitching investors

#1 reason why new high tech ventures fail is?

What does this mean to your endeavor?

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# Business model matrix

- Six questions to answer for yourself before you continue...
  1. What problem do you solve?
  2. For whom?
  3. Why is your solution better?
  4. How do you supply the solution?
  5. Who pays?
  6. What's your sales channel

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# The magic 12 slide investor presentation

- Overview
- The Problem
- The Solution
- Opportunity/Market
- Technology
- Unique Competitive Advantage
- Competitive Landscape
- Go to Market Strategy
- Financial Roadmap
- The team
- Milestones
- Summary (what do you want)

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## 4 questions you must answer in the first 5 minutes

1. Who are you and why should I care?
2. What do you do and why should I care?
3. How do you get it to market?
4. How do you get paid?

Source: Angel Strategies

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## Your turn

- I'll take questions for the next 5 – 10 minutes
- During that time, if you wish, answer the four questions I just asked.
- Present your ideas and answers, and get instant, safe, feedback.

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## Q&A

1. Who are you and why should I care?
2. What do you do and why should I care?
3. How do you get it to market?
4. How do you get paid?

Results Network, Inc.

[www.ResultsNetwork.net](http://www.ResultsNetwork.net)

949-653-0401

Working with hi-tech entrepreneurs to help them launch successful businesses.

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