Writing and Presenting a Business Plan

Advanced Starter Seminars
21/11/2019

Marc Goldchstein

Next week's session: how to pitch

- Annelies De Boeck from Content Creators will hold a session on pitching, in preparation of your pitches on December 5
- -> Who wishes to pitch their project on December?
- if so:
  - in a mail :
    - please describe you project in a few sentences
    - (if possible) please describe on which subject you wish to be coached
  - please prepare your own pitch by next week

Writing and Presenting a Business Plan

- So:
  - you know what are your core assets
  - you know who’s your customer, what’s his pain
  - you know what he does today, why you’re better
  - you know -roughly- what the plan is
  - you have an idea about what it will cost
  - you know -roughly- with what team you want to make it happen
- then:
  - it’s time to find the money to make it happen
- therefore:
  - you will start writing something that looks like a Business Plan
  - and you will pitch to potential investors

Business Plans:
Some perspectives…

What Sequoia Capital expects…

- the company that funded a/o:
  - Apple, Google, Oracle, Atari, Cisco, Instagram, LinkedIn, Nvidia, Paypal, Youtube
  - **Sequoia-backed companies now represent more than 20% of the total value on NASDAQ**
- We like business plans that present a lot of information in as few words as possible. The following business plan format, within **15–20 slides**, is all that's needed.
- Company purpose
  - Define the company/business in a single declarative sentence.

Define the company/business in a single declarative sentence

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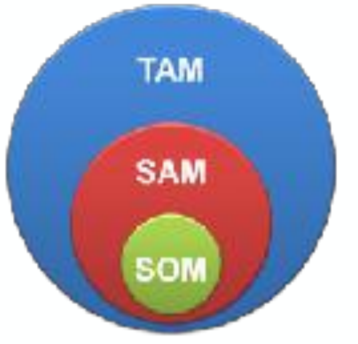
- Company purpose
  - Define the company/business in a single declarative sentence.
- Problem
  - Describe the pain of the customer (or the customer's customer).
  - Outline how the customer addresses the issue today.
- Solution
  - Demonstrate your company's value proposition to make the customer's life better.
  - Show where your product physically sits.
  - Provide use cases.
- Why now
  - Set-up the historical evolution of your category.
  - Define recent trends that make your solution possible.

Sequoia Capital

- Market size
  - Identify/profile the customer you cater to.
  - Calculate the market size: TAM (Total Available Market), SAM (Serviceable Available Market), and SOM (Serviceable Obtainable Market).

TAM SAM SOM

- **Total Available Market (TAM)** is the total market demand for a product or service.
- **Serviceable Available Market (SAM)** is the segment of the TAM targeted by your products and services which is within your geographical reach.
- **Serviceable Obtainable Market (SOM)** is the portion of SAM that you can capture.



- Example: starting a fast food chain.
- **TAM**: the worldwide fast food restaurant market.
  - -> if you were present in every country and had no competition you would generate TAM as revenues.
- But you are starting your restaurant chain in only two cities
  - -> demand for fast food in these cities can be estimated based on: population, food habits, fast food revenues from restaurants in cities with similar demographics.
  - That is your **SAM**: the demand for your type of products within your reach. if you were the only fast food in town you could generate SAM revenues.
- But you are probably not the only fast food in town
  - So you can to capture only a fraction of your SAM. Most likely you will attract fast food aficionados living or working close to your restaurants and a fraction of the people located further away that are willing to give your chain a try for the sake of fast food diversity. This is your **SOM**.

TAM SAM SOM, when do they matter and why?

- https://www.thebusinessplanshop.com/blog/en/entry/tam_sam_som

- You need to deliver a target return to your own investors; therefore:
  - de-risking the investment early = finding out with a minimum capital if the start-up has a market -> SOM and SAM
  - investing in opportunities which offer substantial upside potential = huge market size -> TAM
- SOM is your short term target and therefore the one that matters the most
  - if you cannot succeed in the local market chances are that you will never capture a large part of the global market.
- To be realistic your SOM needs to factor in:
  - your product: people will want to buy your goods
  - your marketing plan and the identified distribution channels
  - your SAM and the strength of your competition. Your SOM needs to be a reasonable fraction of your SAM.
- Once you have demonstrated your ability to penetrate a local market, the investor can start looking at how you can expand and increase the company's penetration within the TAM.

Sequoia Capital

- Market size
  - Identify/profile the customer you cater to.
  - Calculate the market size: TAM (Total Available Market), SAM (Serviceable Available Market), and SOM (Serviceable Obtainable Market).
- Competition
  - List competitors
  - List competitive advantages
- Product
  - Product line-up (form factor, functionality, features, architecture, intellectual property).
  - Development roadmap.
- Business model
  - Revenue model; Pricing
  - Average account size and/or lifetime value
  - Sales & distribution model; Customer/pipeline list
- Team
  - Founders & Management
  - Board of Directors/Board of Advisors
- Financials
  - P&L, Balance sheet, Cash flow
  - Cap table; the deal

What Khosla Ventures looks for in seed stage investments

- About Khosla Ventures
  - Vinod Khosla is businessman and VC. He is co-founder of Sun Microsystems. Forbes named him amongst the 400 richest people in the United States.
  - Khosla Ventures is a venture capital firm focused on early stage companies in the Internet, computing, mobile, silicon and clean technology sectors.The firm is based in Menlo Park, California, and manages approximately $1.3 billion of investor capital.
- What Koshla Ventures expects
  - Overall: a crazy idea that may have a significantly non-zero chance of working.
  - the key technology risks of your approach need to be identified.
  - The economic and market benefits if it is successful need to be identified
  - Planning for risk elimination at the lowest possible cost is the key variable we look for.
  - Your seed plan should validate your hunches about the market and help you decide what market segment you want to enter.
- problem overview
  - What is the problem you are trying to solve?

What Khosla Ventures looks for in seed stage investments

- your unfair advantage
  - Do you have a scientific breakthrough or IP, a business-model innovation, or a unique partnership?
  - Address the innovation in significant detail -think science and engineering, not marketing.
  - Why is now the right time?
  - What has been proven and how far is this from a commercial scale?
  - What risks remain to be proven?
  - What are the three major things that could go wrong?
  - How long will it take to experimentally validate the technology viability? milestones / financials
  - What are the technical milestones that this financing will achieve?
  - What are your future milestones, and how much capital will you need to achieve these milestones?
  - What is your total and operating cash burn (the amount you're spending) per month

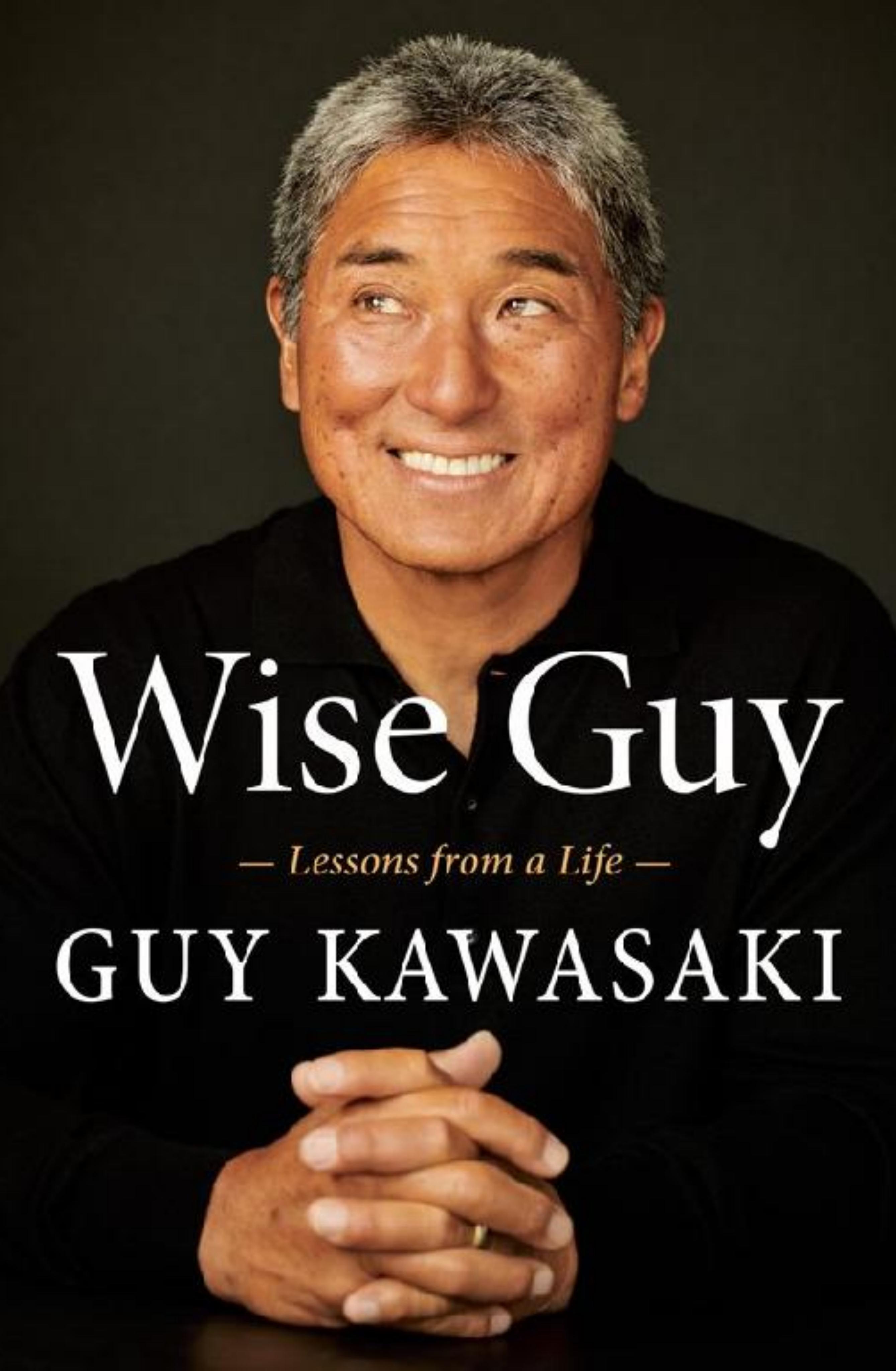
- market / competition
  - Do you have a good understanding of the competitive landscape?
  - Are you comparing your company against the technology competition in areas that matter to the end customer?
  - Are you comparing your future product to your competitor's current product or to their future product?
  - Is your innovation addressing a need in a large enough market ($1B plus)?
  - How significant a step forward is represented by the technology or innovation? What impact will it have on the competition?
  - Why can't your plan be replicated tomorrow by a competitor? Why have other players in the field missed out on the technology?

What Khosla Ventures looks for in seed stage investments

- your team
  - The focus is mostly on you, your goals, and your technical team. Address why you are uniquely qualified to solve this problem. People key to your innovation matter to us.
  - Who are you, and why are you qualified to lead this opportunity? What skill sets do you bring to this problem? What technical skills will your team need to add?
  - Do you envision yourself as the long-term CEO or in another role?
  - What is the role of every member of your current team? Are they all working toward mitigating your primary risks, or are they really working on non-critical "development" that can be addressed later? Are they the best possible people for meeting your current milestones?
  - Are the founders thought leaders or associated with the thought leaders in the field? What critical people who could address your key risks are missing, and where can you find them?

Khosla Ventures- what doesn't matter

- "We project $XXXM in revenue over 5 years."
  - Your five-year marketing financials and revenue projections are a shot in the dark.
  - <u>All forecasts are wrong (including ours)</u>
  - focus on the burn rate and your path toward achieving the milestones, instead of false precision at this stage.
- "We expect to grow from 50M to 150M users in XXX."
  - We're more interested in how you acquire your initial customers, and how you keep them.
  - Plans often fail to explain how the founders will bootstrap themselves in the start-up mode. How will you get that large customer base in the first few months or quarters?
  - Details matter more than gross, unsupported assumptions. If you have indicators of solutions to this bootstrap risk, that is important for us.
- "I have the next Facebook / Google / Twitter."
  - If your business plan is built on copying what existing companies are already doing, you are unlikely to succeed.
  - Instead, explain to us why you are the first XYZ. A better Facebook or social network will receive substantial skepticism; but again, we have occasionally climbed past this skepticism.
  - We will keep an open mind, but another "me too," slightly-better-features plan is seldom our cup of tea.
- "I have a complete business plan; I just need funds to make it happen."
  - Unfortunately, experience has led us to disagree. If you are looking solely for funds as opposed to help building a business, we are probably not your best option.
  - It is important to us to understand what help you need and how open you are to this help.



Guy Kawasaki

- Formerly, he was chief evangelist of Apple and advisor to the Motorola business unit of Google.
- Currently Chief evangelist of Canva, trustee of the Wikimedia Foundation, and executive fellow at the Haas School of Business at U.C. Berkeley.
- The Only 10 Slides You Need in Your Pitch
- 'I am evangelizing the 10/20/30 Rule of PowerPoint. A pitch should have ten slides, last no more than twenty minutes, and contain no font smaller than thirty points.'
- 'This rule is applicable for any presentation to reach agreement: for example, raising capital, making a sale, forming a partnership, etc.'
- See more at: http://guykawasaki.com/the-only-10-slides-you-need-in-your-pitch

the 10 slides of Guy Kawasaki

- Title
  - company name, your name and title
- Problem/opportunity
  - describe the pain you're alleviating or the pleasure you're providing
- Value proposition
  - explain the value of the pain you alleviate or the value of the pleasure you provide
- Underlying magic
  - Describe the technology, secret sauce or magic behind your product. The less text and the more diagrams and flow charts the better.
  - If you have a prototype or demo this is the time to transition to it.
  - As Glenn Shire of Google said: a picture is worth 1.000 Words, a prototype is worth 10.000 slides
- Business model
  - explain who has your money temporarily in his pocket and how you're going to get it into yours
- Go-to-market plan
  - explain how you're going to reach your customer without breaking the bank
- Competitive analysis
  - provide a complete overview of the competitive landschap. Too much is better than too little
- Management team
  - Describe the key players of your management team, board of directors and board of advisors as well as investors. It's OK if you have less than a perfect team, if your team was perfect you wouldn't need to be pitching
- Financial projection and key metrics
  - Provide a three year forecast providing not only dollar values but also key metrics such as number of customers and conversion rate. Do a bottom-up forecast, not top-down
- current status, accomplishments to date, timeline and use of funds
  - explain the current status of your project, what the near future looks like and how you'll use the money you're trying to raise

Business plans according to Peter Camps

- **Why write a business plan?**
- Because you have to...
  - Needed for financing
  - Strategic partnering
  - To explain business to customers/suppliers
  - To attract key people
- Because you need to understand your business
  - The Business Plan is a result of a planning process
- Provide concrete motivation (other than your own belief) of why your objectives and plans seem to be realistic
  - Market research for projected sales numbers, feasibility study for technological challenges...
- Don’t over-promise
  - Differentiate between what you will do under this plan, and what you might do (to indicate the upside potential) but don’t mix these up
  - so you end up with a two-pronged business plan

- **Key attributes of a business plan**
- A business plan describes your current thinking on your company’s objectives and on how to get there.
  - It is a collective, structured “braindump” of the management team’s ideas on how to move forward, and why.
- Describe a integrated vision that is consistent between the different levels of planning
  - Mission, strategy, business model, and concrete, tactical plans
- Spell plans out explicitly and unambiguously
  - or if your thoughts are ambiguous, spell that out then
- Include both qualitative and quantitative objectives

Who writes the plan?

- according to Peter Camps

- In any case the CEO needs to own the Plan
- But get help
  - At a minimum, get help and participation from all the key players in your company
    - to complement your skill set, and to get the much needed interaction and brainstorming
  - Seek external feedback from different perspectives
    - potential customers, industry experts, or friends – even if they are not really in your industry; those who can help you find the weaknesses in your plan, and add new ideas
  - Seek external help for areas outside your collective skills
    - for many entrepreneurs with a technical background this means the marketing research area
- Have one or more independent readers review the Plan for feedback:
  - Accountant
  - Lawyer
  - Retired industry pro
  - Customer
  - Consultant
  - Professor

a few must-follow rules for writing a business plan

- Keep it short
  - The reasoning for that is twofold:
  - 1) you want your business plan to be read (no one is going to read a 100-page business plan)
  - 2) your business plan should be accessible, something you continue to use and refine over time. An excessively long business plan is a huge hassle to deal with, and guarantees that your plan will be relegated to a desk drawer.
- Know your audience
  - Your plan should be written in a language that your audience will understand.
  - Accommodate your investors, and keep explanations of your product simple and direct, using terms that everyone can understand. You can always use the appendix of your plan to provide more specific details.
- Don’t be intimidated
  - The vast majority of business owners and entrepreneurs aren’t business experts. Just like you, they’re learning as they go and don’t have degrees in business. Writing a business plan may seem like a difficult hurdle, but it doesn’t have to be. If you know your business and are passionate about it, writing a business plan and then leveraging your plan for growth will be easy.
- source: http://articles.bplans.com/how-to-write-a-business-plan/#ixzz3I0e8jLol

The 16th Annual

The Nuts and Bolts of Business Plans

MIT Course 15.975

January 2005

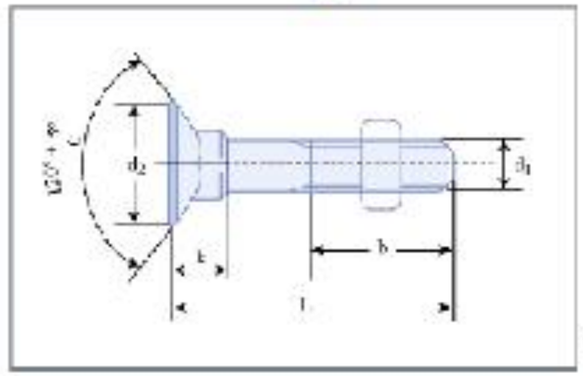


Image by MIT OCW.

Joe Hadzima

(MIT S.B., M.S. in Management; Harvard Law)

Senior Lecturer, MIT Sloan School

Managing Director, Main Street Partners LLC

Joost Bonsen

MIT Sloan Graduate Student

Former Lead Organizer, MIT $50K Competition

Yonald Chery

MIT Course 6, PhD Candidate

$50K Finalist, Founder Virtual Ink

Mark Roberge

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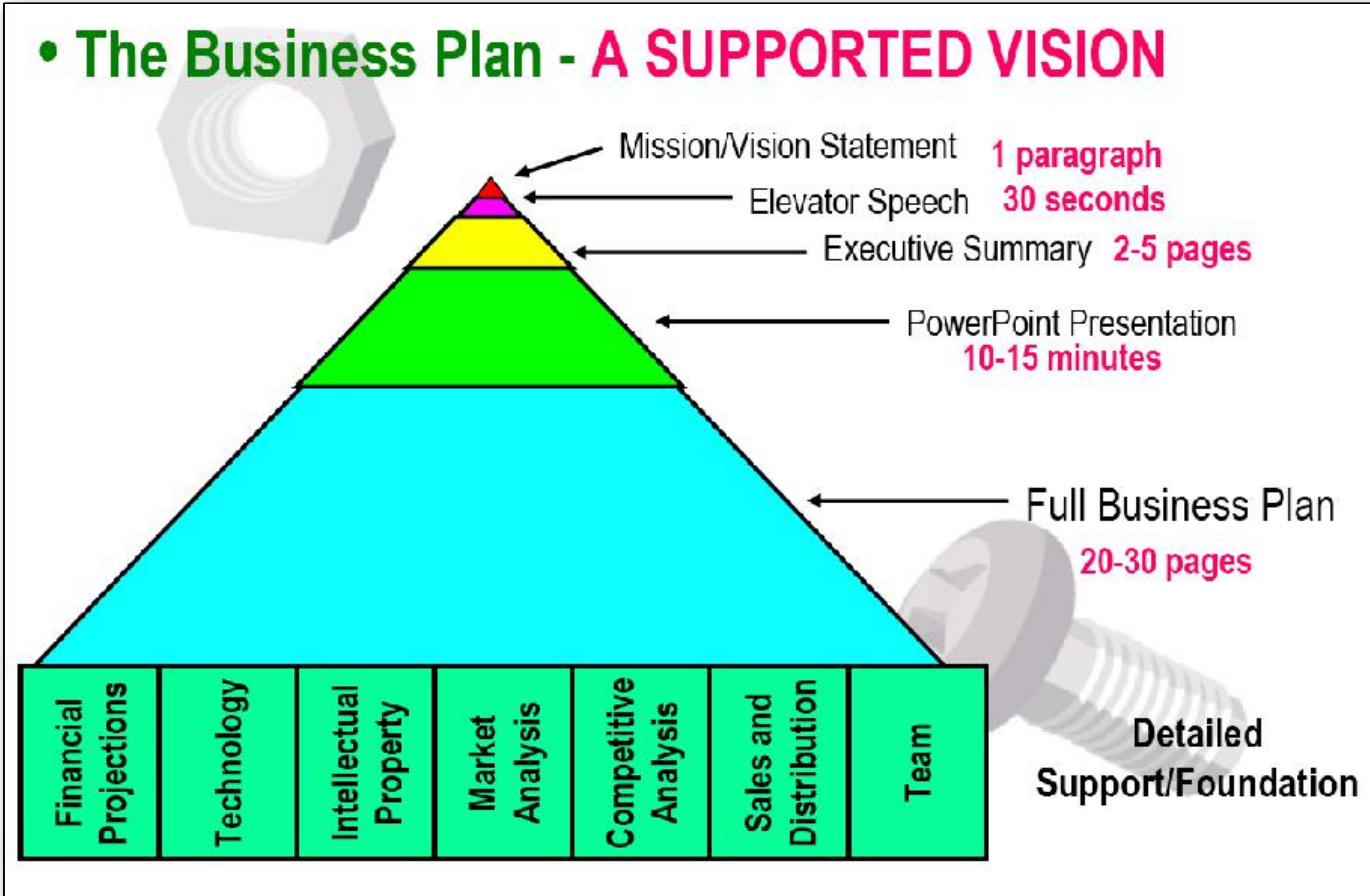
"conceptual continuity"



5.4.3 The elevator pitch...

- very short description of key message

- why should anyone buy this?

  for [target customer]
  who [statement of need or opportunity]
  the [product/service name] is
  a [product/service category]
  that [statement of benefit].

- why should they buy it from you then?

  unlike [primary competitive alternative]
  our product [statement of primary differentiation].

source: Stanford University Technology Ventures Program, entrepreneurial marketing, Byers & Kosnik 2008

Executive summary

- An Executive Summary is
  - NOT an introduction
  - NOT a preface
  - NOT a random collection of highlights
- An Executive Summary <u>is</u> the Business Plan in miniature
- Size
  - Two pages (preferable) to five pages (max)
- The Executive Summary must be
  - Logical
  - Clear
  - Interesting/Exciting
- The Executive Summary is like a resumé
  - If it gets the reader's attention, the rest gets read
  - The Elevator Speech is to the Exec Summary as the Exec Summary is to the Full Plan

My comments and advice

- First: forget the business plan; what is the plan?
  - Consider all you've learned during the (advanced) start seminars
    - Core assets, complementary assets/ partners; value proposition; business model; place in the value chain, adaptive strategies…
  - Define and elaborate on your strategy
- Start with a Powerpoint/ Keynote presentation
  - Much easier to adapt, to find the story line
- Be concise, to the point
  - Limit the length
- Address key concerns head-on
  - Denial is not an option
- Be consistent across the document
- Work out the financial part, assess it from the perspective of the investor
  - see previous
- The plan will change (slightly) after nearly every meeting
  - Based on comments, questions
  - Adapt to the next person you present to

How VCs read a plan

- First reading: like a resume
  - Often: only the executive summary and investment proposal
  - Make the cut, so that you get an opportunity to tell your story
- Second reading: justify the investment
- Third reading: commit to the plan

- Making the first cut:
  - An idea too good to ignore
  - A financial promise too good to turn down
  - A team good enough to believe in
  - An action plan that's
    - Credible
    - Focused
    - Details that give assurance of insight, commitment and follow through
  - Format and style that show
    - Passion
    - Sanity
    -

Why plans fail the first cut

- Insufficient market
- Non-credible technology
  - Too wild
  - Too blue-sky (unproven)
  - Not protectible
  - Too mundane
- Investment too large for the promise
- Failure to understand the market
- Action plan not credible
  - Too optimistic
  - Naïve about the hurdles
  - Runs off in all directions
  - Not ambitious enough
  - Regulatory barriers insufficiently addressed
  - Gaps filled by handwaving
  - No promises at all
- Team not credible
  - not enough experience
- Investment not profitable
- Cosmetic reasons for failing the first cut
  - I can't understand it.
  - Filled with market or technology-specific jargon
  - Naïve projections
  - Sloppy: misspellings, poor grammar, poor quality printing
  - Too damn long
  - Ignores the basics
  - "Forget marketing, my technology is the best"
  - Naïve (or terrible) writing
- (source The Nuts and Bolts of Business Plans, Joe Hadzima)

Some reasons for refusals

- "wie is dat gastje?"
  - CEO-to-be too young, immature
- "independent physiotherapists don’t spend money on investment goods"
- "I’ve had a bad experience in photonics"

enfocus

October 15, 1998

Enfocus Software

Business Funding Plan

Executive summary

Enfocus Software **CONFIDENTIAL**

1 Business Plan Summary

Introduction

Enfocus Software is the leading third-party developer of tools and technology that support the editing, checking and automatic correction of industry-standard document formats. Adobe Systems' creates the standards — PostScript and PDF; Enfocus Software creates the tools that allow publishers to work efficiently and accurately with these standards. We have spent five years developing the technological foundation and expertise necessary to be the leading innovator in PostScript and PDF software applications. With the added capital resources outlined here, Enfocus Software will ensure its success and prominence in this document revolution.

Company

Enfocus Software has developed the first software program that can *guarantee* output in a PostScript/PDF workflow. It is now the leading international developer of software tools for checking, editing and autocorrection for mainstream PDF/PostScript publishing. Our software is used by publishers and their service providers during graphic arts production.

Contact

Peter Camps, Chief Executive Officer, Ghent, Belgium.

Thad McIlroy, Strategic Business Consultant, San Francisco.

Type of Business

Software Developer.

Nature of Business

Enfocus Software NV develops software and markets PostScript and PDF workflow and utility software from its office in Ghent, Belgium, primarily through a series of exclusive country distributors. U.S. marketing is handled by a wholly-owned subsidiary, Enfocus Software Inc., located in Denver, Colorado. U.S. sales are handled directly, and also through dealers and distributors.

Management

Peter Camps, Chief Executive Officer, has a strong technical and management background. He previously worked as Vice President of Operations for Barco Graphics, a leading prepress systems vendor. In 1991, Peter headed a successful turnaround effort in the newly-acquired North American Barco Graphics subsidiary.

Peter Söderlund, Business Development Manager, previously worked for Aldus, Adobe and Luminous in various commercial positions related to prepress software.

General Manager for North America, has an extensive background in both computer software sales and marketing.

Thad McIlroy, Strategic Business Consultant, is an electronic publishing consultant and author, and serves as program director for Seybold Seminars in San Francisco and Boston.

Products

The company currently markets three software products, Enfocus Tailor, Enfocus PitStop and Enfocus CheckUp, and is about to release its most ambitious product, Enfocus DoubleCheck.

Market Objective

The market objective is to establish Enfocus Software as the leading international supplier of tools that enable guaranteed PostScript and PDF publishing workflows.

The secondary and longer-term objective is to make the company a suitable acquisition target for a larger developer or systems supplier, or to launch an IPO.

Strategy

The strategy to reach our objectives involves increasing our staff resources in product development and in sales and marketing, while at the same time launching an aggressive new marketing, advertising and direct mail campaign.

Specifically, we plan:

- To increase software development resources in order to bring new products and upgrades to market more rapidly.
- To establish a robust customer support program to ensure that our customers are successful with our products.
- To significantly improve our marketing programs, including expanded trade show, advertising, Web and direct mail programs.
- To increase our sales resources, particularly for the OEM and Enterprise markets.
- To establish our Web site as our primary North American distribution point, with additional distribution through mail order and a dealer network.

Competition

The company currently faces little direct competition, but we cannot reasonably expect that situation to remain. The funds sought under this plan are intended in part to consolidate our market-leading position.

Funds Sought

One million five hundred thousand dollars (US) in common shares, equal to 23% of the total shares issued by the company.

Investment Case

The development of Adobe's Portable Document Format (PDF) is enabling a new era of automated workflows that were not possible when PostScript was the primary imaging format. Enfocus, already the leading provider of PostScript and PDF editing, checking and auto-correction tools, is set to launch Enfocus DoubleCheck, a breakthrough product offering guaranteed output results within either a PostScript or PDF workflow. PDF is starting to be accepted by both the professional publishing industry and by corporate (enterprise) publishers. Enfocus sales will grow rapidly in the next three years, while at the same time its technology is of strategic interest to a range of graphic arts software and system suppliers. The use of PDF on the Internet and World Wide Web is also increasing, and potentially represents a large additional market for Enfocus software.

Collateral

None.

Use of Proceeds

Additional One Year Expenditures	
Programming staff	$335,000
Marketing & sales staff	$410,000
Support staff	$100,000
Trade show participation	$175,000
Advertising	$145,000
Public relations	$100,000
Direct mail	$220,000
Documentation development	$50,000
Other (office, legal, travel)	$110,000
Total	$1,645,000

Financial History

	1995	1996	1997
Revenues	$40,290	$88,113	$346,754
Net income (loss)	($34,192)	($100,883)	$25,553
Assets	$30,211	$70,859	$165,625
Liabilities	$13,059	$131,924	$161,137
Net worth	$17,152	($61,065)	$4,488

Financial Projections

	1998	1999	2000	2001
Revenues	$915,291	$2,853,559	$6,814,483	$13,270,624
Cost of goods sold	$140,258	$376,481	$996,253	$1,781,400
Operating expenses	$1,137,132	$2,835,000	$4,923,500	$8,608,850
Depreciation	$15,089	$25,000	$45,000	$65,000
Income before taxes	($377,188)	($382,922)	$849,729	$2,815,374

Exit Plan

The company has begun to receive offers for investment or acquisition from large software and system vendors. When sales reach roughly $20 million per year we will be in a position for an IPO. We are willing to consider offering an option to convert equity to debt if the company is not sold within a predetermined period.

References…

Agfa (OEM customer)

Agfa-Gevaert (division of Bayer Corporation) ranks among the world's leading photographic imaging companies. Agfa manufactures and markets a wide and innovative range of photographic and electronic imaging systems, particularly for photography, the prepress sector and medical imaging processes. The Electronic Prepress Systems business unit deals with imagesetters, plate imagers, scanners and software.

Agfa has agreed to bundle a full version of Enfocus PitStop and Enfocus CheckUp with Apogee Pilot, the Apogee PDF production system's front-end component.

Agfa Apogee is the first PDF-based production system. Apogee uses Adobe's standard PDF format as the native format of the system. This one format can be used for both production and imaging, and eliminates the need to convert to intermediate file formats. In Apogee, PDF becomes the "digital master".

Michael Jahn, PDF Evangelist at Agfa, says "We could not imagine using PDF in prepress without these tools; so we decided to bundle them."

Based in Mortsel, Belgium and Wilmington, MA
Phone: (978) 658 5600 x 5504
Web: www.agfa.com

References (ctd)…

R.R. Donnelley

With 1997 sales of nearly $5 billion, R.R. Donnelley & Sons Company is the largest commercial printer in North America. The company is a leading provider of printing and related services to the merchandising, magazine, book, directory and financial markets.

A substantial number of R.R. Donnelley sites already use Enfocus products in their workflows on a daily basis. To date, the company has purchased approximately 30 copies of Enfocus Tailor, 50 copies of Enfocus PitStop, and 20 copies of Enfocus CheckUp.

Bob Schaffel, corporate Manager of Emerging Technologies for R.R. Donnelley says: "Without the Enfocus products we wouldn't have been able to continue to move forward to optimize the workflows that are so important to the graphics arts industry."

Corporate headquarters based in Chicago, IL
Phone (NY office): (201) 222 1124
Web: www.rrdonnelley.com

2.8 Competition

2.8.1 Adobe Systems

Adobe Systems is not currently an Enfocus competitor, but is a major company that could rapidly become a serious competitor. As the controlling developer both of PostScript and the PDF format, Adobe is in a singular position to define the software for the industry. Starting with the recently-released Illustrator 8.0, Adobe is adding to its software the ability to read and write PDF directly, without using either the print driver or Distiller. This could impact sales of PitStop. We also know that Adobe has in development technology that could compete with Checkup.

Our strategy regarding Adobe is to work with the company as a partner, while working at the same time to contain and manage the potential risk. We maintain three initiatives in this regard:

- Retain an acknowledged technological advantage in the market, so that larger companies will evaluate our products before investing in the same technology.
- Forge partnerships with Adobe and other relevant market players, including co-marketing and co-development relationships.
- Make our technology available for licensing and OEM sales to interested parties.

We are actively pursuing a program of close cooperation with Adobe. We have had several meetings with Adobe at the Vice President and Marketing Manager level. We had a full-day technical meeting with four members of the Acrobat engineering team, and we attended a two-day strategic preview conference on the new application Adobe is developing, code-named K2.

Some comments on Enfocus plan

- Validation
  - EFI, Agfa, RR Donelly, Boy Scouts
  - OEM customers
- focus on what is important
  - Relationship with Adobe
  - exit scenario’s
- ch ch changes...
  - Six months later:
    - Postscript was dropped
    - Doublecheck was stopped
    - PitStop (¼ page in plan) became the exclusive focus
    - Marketing was completely reworked
    - Org chart had changed
    - US office was moved to San Matteo

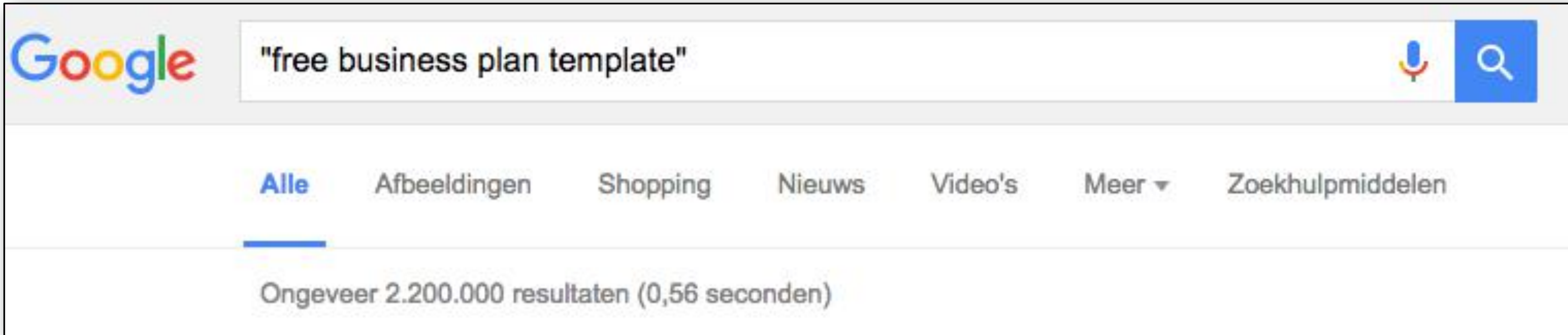
Stephens & George (UK)

- Printing 200 different titles of various frequencies
- *Each month we process about 25,000 PDF files* in the course of our work. We were quite enthusiastic, therefore, about the introduction of Enfocus Certified PDF technology. We incorporated it into our workflow beginning in January 2001. Since then, we have seen significant improvements in production efficiency.
- The adoption of a Certified PDF-based workflow has dramatically improved our file exchange efficiency - *Before implementation* of Certified PDF, *> 33% of files received had to be returned* to clients and corrected. With a Certified PDF workflow now in place, our current incoming file *error rate has been reduced to virtually zero*. As a result, we are now able to handle approximately *200 files per minute – a volume that previously took up to 30 minutes*.

enfocus

using Big Names

templates


Google
"free business plan template"
Alle
Afbeeldingen
Shopping
Nieuws
Video's
Meer
Zoekhulpmiddelen
Ongeveer 2.200.000 resultaten (0,56 seconden)

Sales forecasting

- Estimating sales is the hardest part for a startup, as you have no reference whatsoever
- -> some approaches:
- Top-down
  - TAM, SAM, SOM
  - - > Possible market share; growth of market share over the years
- Bottom-up
  - Known accounts
  - What my salesforce can handle
- Comparables
  - Use comparable companies as reference point for sales evolution
- Break-even calculation
  - What do I need to sell to make it a viable/profitable business

Top-down sales forecast

- Total Addressable Market
  - Can be specific market for your offering or wider end-user market to whom you supply
  - Examples:
    - ‘there are 150.000 movie theaters in the world’
    - E-ink: ‘ballpark figures’ market for consumer electronic display, eNewspapers..
- In case of wider end-user market: your contribution as % of total market
  - E-ink: share of screen in value of devices
- Serviceable Addressable Market
  - Regional coverage
  - Segments
    - Large theaters, part of chain...
- Serviceable Obtainable Market
  - Attainable in +/- 5 years
  - Depends a/o on your competitive position, geographical reach, marketing
  - Growth over 5 years
- Revenue
  - Deduct commissions
- Markets
  - can be ‘big enough’
    - TVs, games, consumer electronics
  - Or can be a show stopper
    - Content control of oysters...
  - Only focus on what is relevant

Bottom-up

- Capacity
  - 2 salespeople, 3 calls per day * 200 days @ success rate of 10% = 120 sales
  - Inflow of contacts via marketing actions
- Current contacts
- Timing
  - Order booking vs. Invoicing vs. Cash in
  - Invoicing depends on ability to deliver: services, product
  - Essential for cash forecasting, setting expectations
- Channel sales
  - Per partner: forecast based on history, commitment
  - To be discussed with partner
- Named accounts
  - Name
  - Product
  - Size of opportunity
  - Stage of opportunity
    - 10% -90%, 1-9
  - Gives total potential sales in period
  - Sales manager decides what final forecast is

sales forecasting

- Break-even
  - What do I need to sell to make it a viable/profitable business
  - Based on cost forecast
- Comparables
  - Use comparable companies as reference point for sales evolution
  - If you can find out...
  - Size & capital can give an indication
- Based on sales of products you will compete with
  - Replacing a module -> current sales of module
- It can be detective work!
  - Know your market: read your magazines & blogs, visit your trade fairs & events…
- Subdivide
  - Countries, regions
  - Products
  - Target markets
  - Products / service & maintenance
  - Upselling
- Use all approaches and double-check
  - Permanent reality checks
  - Be smart!
- Best/worst/most probable scenario’s
  - You must have it

Valuation

Valuating your company

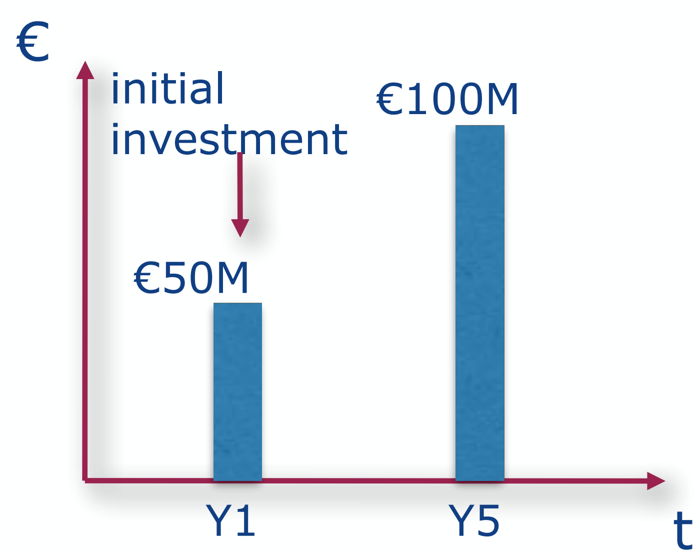
- investors may be willing to invest money in you company
- but what percentage of the shares will they want in exchange?
- this depends on their assessment of the (current and future) value of your company
- -> this part of the session is about valuating - i.e. putting a value- on a very early stage company

Valuation

- Valuation is the process of estimating the market value of a financial asset or liability
  - assets: marketable securities such as stocks, options, business enterprises or patents, trademarks…
  - liabilities: bonds
- Business valuation: to determine the fair market value of an owner's interest in a business
- Reasons for business valuation
  - External
    - Investors need to find out wether or not they should participate in a company
    - Entrepreneurs need to know what share they are willing to sell in exchange for the additional money
  - Internal
    - Capital allocation
    - Investment decisions
    - M&A
    - During license negotiations

example

- to put it simple: if you were a VC, in which company would you invest?
- both companies have an expected value of 100 million € after 5 years.



Determining the price of an investment

- Price is always determined by the laws of supply and demand…
  - A company always asks for as much financial means as possible
  - VC (generally) wants to invest an amount as small as possible
- Pitfalls for the VC:
  - Paying a (too) high price for an investment
    - Not reaching (preset) value adding milestones
    - Risk of not reaching the multiples
  - Value inflation
- Countering the pitfalls:
  - Experience and know-how
  - At initial investment, the VC needs to have a clear idea of the companies' future valuation path (experience)

Valuation: disclaimer

"There is no gold standard when it comes to valuation: it is and will remain a subjective task.

Consequently, a company can have as many values as there are people doing the valuation." (Frei & Leleux, 2004)

Post- and pre-money

- Pre-money value: value of the company before external financing alternatives are added to the balance sheet.
- Post-money value: value of the company after external financing alternatives are added to the balance sheet.
- Example: if VC wishes to invest €100m for 20% of the shares, the company is worth:
  - post-money: €500m
  - therefore: pre-money: €400m
- The calculation effectively happens in this order

(studied) Valuation methods

- discounted cash flow valuation (DCF)
- Sum-of-the-parts valuation
- Augmented NPV method
- Relative valuation/comparables

DCF analysis

- The value of a company is calculated as
  - the sum of the forecasted free cash flows of a company out to a valuation horizon
  - discounted back to the present at a discount rate
  - + the forecasted value of a company at the horizon or the terminal value, discounted back at the same discount rate.

DCF analysis

$$NPV = C_0 + \frac{C_1}{1+r} + \frac{C_2}{(1+r)^2} + \ldots + \frac{C_t}{(1+r)^t} + \frac{C_{TV}}{r(1+r)^u}$$

- net present value method: based on future cash-flows

  - C_t = net cash flow in period t
  - R = discount rate (defined by CAPM/WACC)
  - U = period in which the remaining future cash flows are valued as terminal value (TV)

DCF analysis

- Calculating the value of the cash flow:
  - NPV: uses interest rate based on expected marginal cost of capital to future cash flows
  - IRR: finds the average return on investment and computes the discount rate that equates present value of future cash flows to the cost of the investment
- Discount factor used is adjusted according to the financial risk of investing in the company
  - VCs:.
    - During the startup stage, 50 to 70 %
    - Round A to D: from 60 to 30 %.
  - pharma:
    - Large pharma: 10%
    - Public biotech companies: 20%
    - Private biotech companies: 30%

DCF analysis

- In order to use DCF method, some estimations have to be made:
  - life of the company/asset
  - cash flows during life of the company/asset
  - discount rate to apply to the cash flows to get the present value
- These estimations prove to be difficult, if not impossible in the case of young innovative companies

Ablynx Valuation??

Ablynx	"Aangepast model, nieuw koersdoel"			
	Advies:	KOPEN	Huidige koers:	10 EUR
	Naam analist:	Jan De Kerpel, PhD	Koersdoel:	18 EUR
	ISIN code:	BE0003877942	Opwaarts potentieel:	80.0%

	2014	2015E	2016E	2017E
Winst per aandeel (EUR)	**-0.10**	**-0.12**	**-0.05**	**-1.55**
% groei j/j	-	-	-	-
Koerswinst ratio	-	-	-	-
Bruto dividend (EUR)	**0.00**	**0.00**	**0.00**	**0.00**
% groei j/j	-	-	-	-
Dividendrendement (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Ablynx is een biofarmaceutisch bedrijf actief in het onderzoek naar en de ontwikkeling van Nanobodies, een nieuwe klasse van therapeutische proteïnen die afgeleid zijn van fragmenten van enkel-domein antilichamen, voor de behandeling van een reeks ernstige en/of levensbedreigende menselijke ziekten. De firma ontwikkelt een portefeuille van op Nanobodies gebaseerde therapeutische programma's voor diverse belangrijke ziektegebieden, met inbegrip van ontstekingen, trombose, kanker en neurologische aandoeningen.

- bolero.be, 26/01/2015

Sum-of-the-parts valuation

- Valuing companies that have diverse lines of business.
- The worth of each business line is measured separately, using an appropriate valuation parameter, and then, the individual values are added together
- Applied to
  - Multi-industry companies
  - Various divisions in the same sector (Ablynx)

Augmented NPV method

- Early stage R&D projects
  - Company has often several programs in parallel in order to reduce the risk
  - Need of decision points: focus on the most promising paths, out-licensing or termination of programs with low priority
- Develop a project target profile
  - Define deliverables
  - Basis for product development plan and sales forecast.
  - Identify competitors
  - Assess the market risk

- source: Bode-Greuel & Greuel, 2004

Augmented NPV method

- augmented NPV reflects uncertainty and decision options of biotech R&D
  - NPV: static, managerial actions have virtually no impact on value
  - In the presence of risk, managerial options have value because they minimise the impact of negative outcomes and allow to maximise the value of the project in the presence of new information

- source: Bode-Greuel & Greuel, 2004

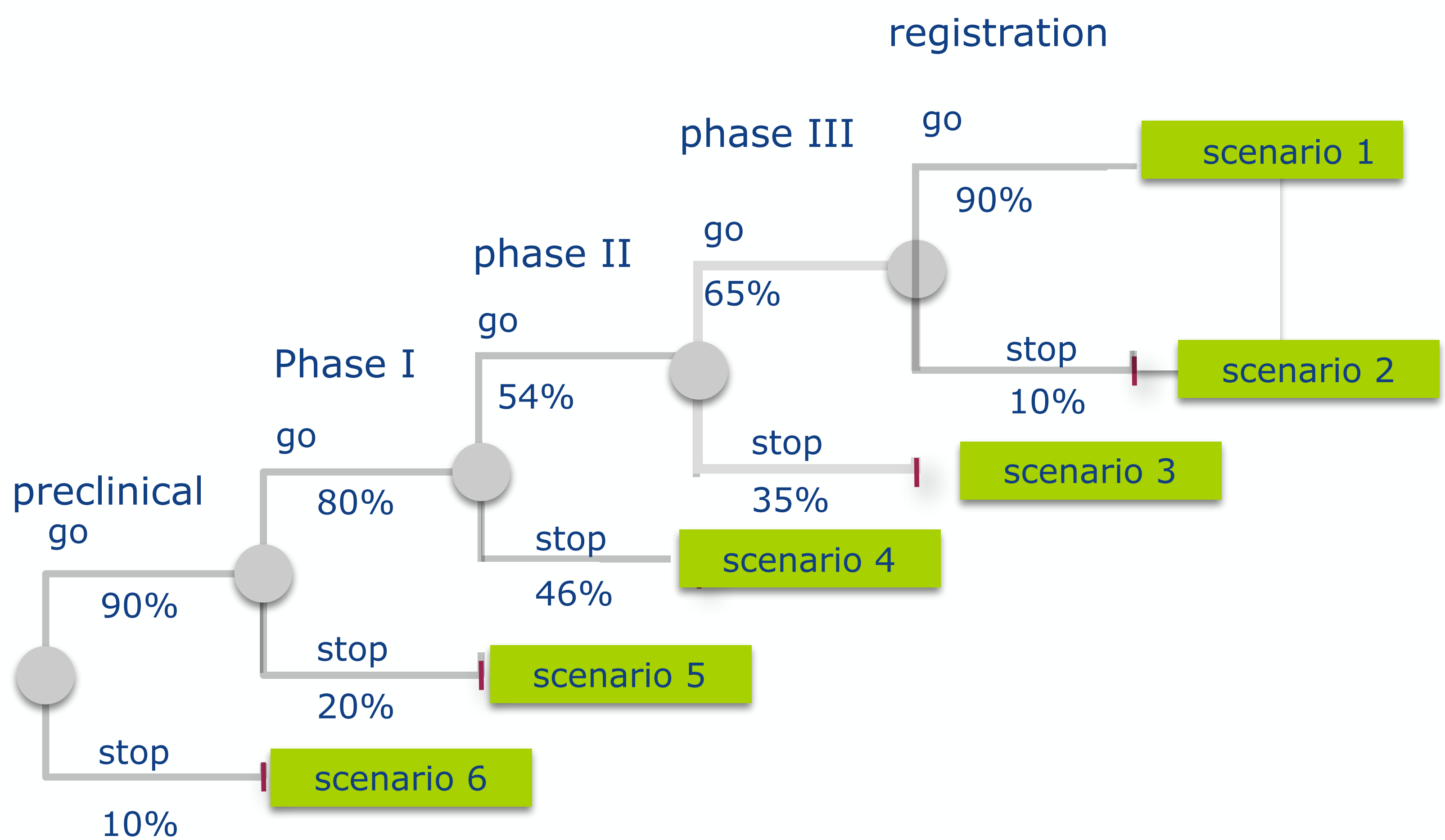
Augmented NPV method

- Decision trees:
  - Represent development risk and decision options
  - Illustrate investment
  - Should focus on activities essential for completion of development and for the achievements of a competitive product profile
  - Typically: decision points at completion of essential preclinical and clinical trials
  - At decision points there are two possible options:
    - Go
    - Stop
  - Create different scenarios

- source: Bode-Greuel & Greuel, 2004

Augmented NPV method

assume we start from compounds that
have a great chance of being allowed to be
tested in humans.
(cfr. 5000 → 5 → 1)



Relative valuation/comparables

- Compare the value of an asset to the value assessed by the market for similar/comparable assets
  - Comparable firms = firms with similar fundamentals
- Distinction:
  - Comparable public company assessment
  - Comparable private company assessment
- Identify comparable companies that already attracted money
- Try to define their pre-money value
  - Know the VC logic and the multiplicators they use
  - Know the current stage of development of the company you use as a benchmark
  - Count backwards
- This gives you an indication of the value of the company, but adjustments can and must be made on intangible factors

Relative valuation/comparables ctd.

- Difficulty: find truly comparable projects/firms
- Once a comparable firm is chosen, several valuation ratios can be measured
  - P/E ratio: compare the company's current share price and earnings per share
  - PEG ratio: ratio of market price to expected growth in earnings per share
  - PEGY: p/e to growth plus yield
  - price-to-sales ratio
  - price-to-book value
  - EBITDA
  - enterprise value-to-ebitda
  - ...

Conclusions by Thomas Crispeels

- (based a/o on Ablynx case)

- at the start up: peer comparison was the most “tangible” method
- Augmented NPV methods become more popular when the company is more mature (e.g. at IPO)
- -> The valuation method evolves together with the company!!

end