

From idea to business: how to prepare a good story and sell it to investors

ATTRACT Kick-off Conference

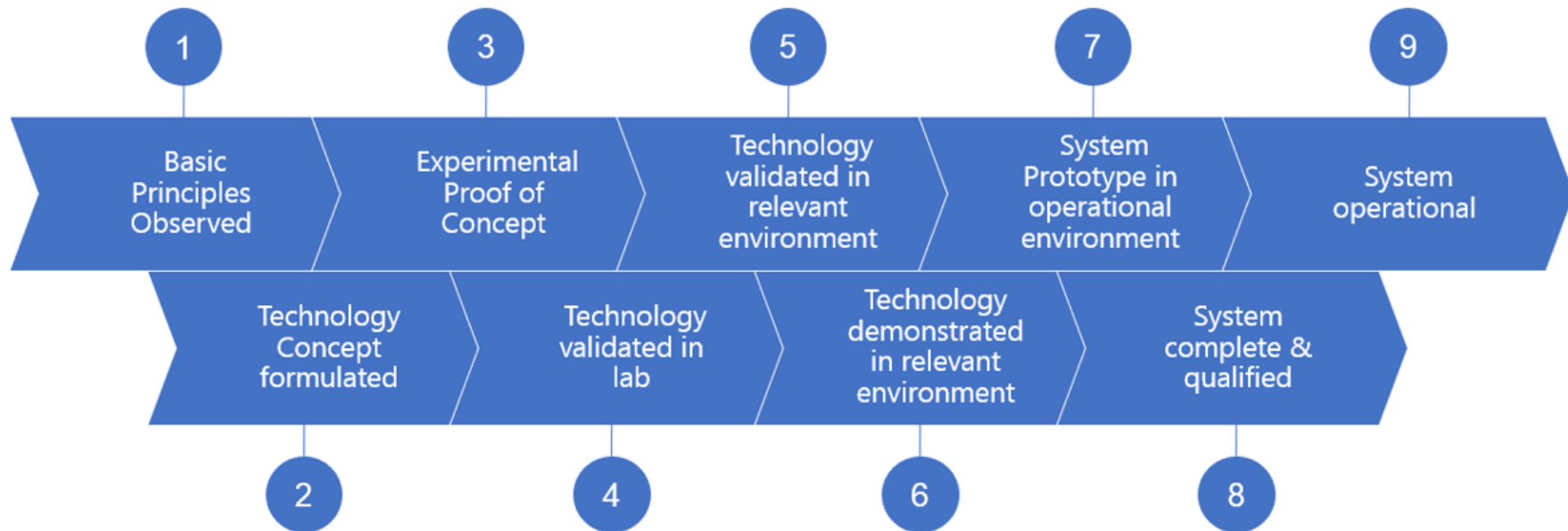
Geneva, Monday 20th May, 2019

Prof. Luisa Alemany – ESADE & Oxford University

luisa.alemany@esade.edu - Twitter: @LuAlemany

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TECHNOLOGY READINESS LEVEL (TRL)



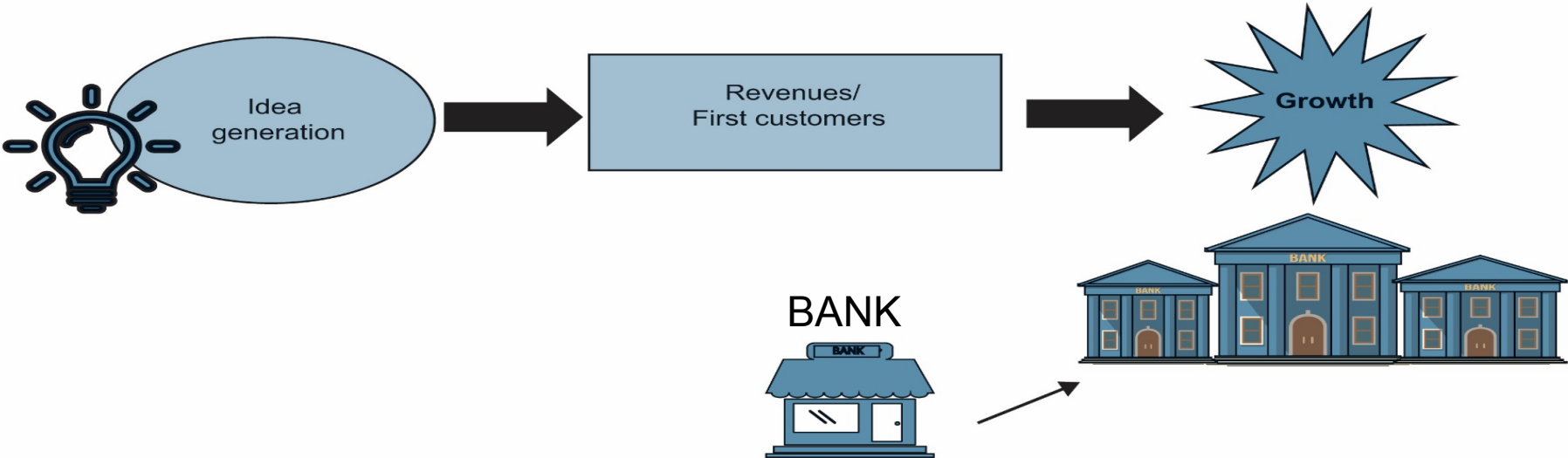
Source: EU – H2020. Adapted from NASA

Twitter: @LuAlemay

CHANGING THE CHIP...

- ✓ From TRL to company stage
- ✓ From technology to market opportunity
- ✓ From innovation/application to
problem and **solution**

COMPANY STAGE



Source: Adapted from "Entrepreneurial Finance: The Art and Science of Growing Ventures", Alemany & Andreoli (2018)

COMPANY STAGE & KEY MILESTONES



Source: Alemany & Andreoli (2018). "Entrepreneurial Finance: The Art and Science of Growing Ventures"

Twitter: @LuAlemany

COMPANY STAGE & KEY MILESTONES



- From idea to first customer (sales)
- Prototyping, testing to validate, reformulate
- From few months to many years

- From sales to break-even(profit)
- Improving the product of service
- Growing the customer base
- Being efficient and scaling up

- Launching new lines or entering new markets
- New initiatives might be losing money but core business is profitable
- Growth is the key driver of the business

- Company's growth slow down
- Not many new initiatives for high growth
- Market and competition have reached maturity
- Risk of new disruptive players

Source: Alemany & Andreoli (2018). "Entrepreneurial Finance: The Art and Science of Growing Ventures"

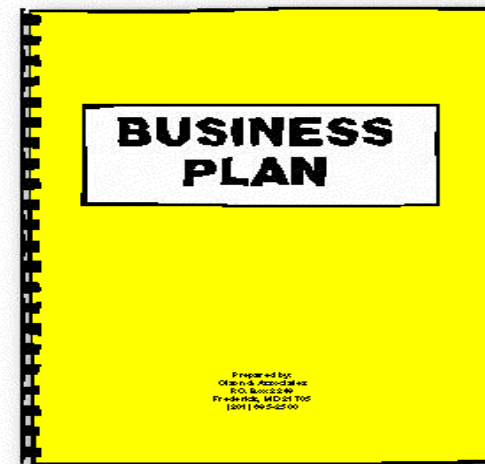
FIRST STAGE: IDENTIFYING THE MARKET

- ✓ Brainstorm on **potential applications**
- ✓ Look for **the biggest problems** of humanity
- ✓ Brainstorm again with friends and people **unrelated to research**: think out of the box!
- ✓ Preliminary ranking on **potential market size**

**DON'T BE SHY:
GO FOR THE BIGGEST MARKET!**

TRADITIONAL FRAMEWORK FOR NEW PROJECTS

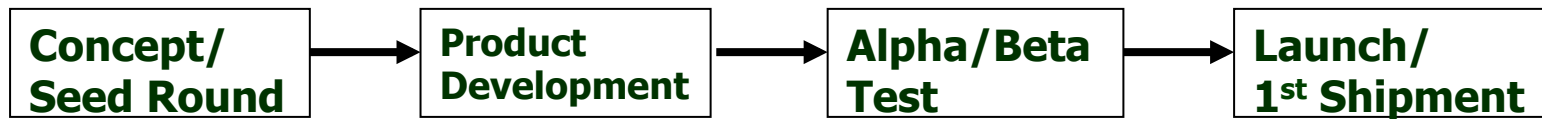
	A	B	C	D	E	G	H	I	J	K	L	M	N	
32	Balance Sheet													
33										Year				
34									1999	2000	2001	2002	2003	
34	Assets													
35									\$4.27	\$6.38	\$7.62	\$8.83	\$7.00	
36									\$20.58	\$24.39	\$28.77	\$34.11	\$32.00	
37									\$26.73	\$30.45	\$36.75	\$43.27	\$38.00	
38									\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
39									\$51.58	\$61.22	\$73.14	\$86.21	\$77.00	
40									Fixed assets					
41									\$331.64	\$423.92	\$503.87	\$613.28	\$650.00	
42									\$98.72	\$105.69	\$112.40	\$122.26	\$115.00	
43									\$232.92	\$318.83	\$391.47	\$491.02	\$535.00	
44									\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
45									\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
46									\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
47									\$284.50	\$380.05	\$464.61	\$577.23	\$612.00	
48	Liabilities													
49									\$31.83	\$63.43	\$83.84	\$94.41	\$80.00	
50									\$30.86	\$43.03	\$64.85	\$79.49	\$0.00	
51									\$62.69	\$106.46	\$148.69	\$173.90	\$80.00	
52									\$40.00	\$46.92	\$53.41	\$73.57	\$214.54	
53									\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
54									\$102.69	\$153.38	\$202.10	\$247.47	\$294.54	
55	Shareholders' equity													
56									\$90.00	\$130.00	\$160.00	\$220.00	\$200.00	
57									\$91.81	\$96.67	\$102.51	\$109.76	\$117.46	
58									\$181.81	\$226.67	\$262.51	\$329.76	\$317.46	
59									\$284.50	\$380.05	\$464.61	\$577.23	\$612.00	



THE BUSINESS PLAN: KEY SECTIONS

- Executive Summary
- Business: History of company (if any)
- Product / Service: **the opportunity**
- Market: **Size, growth**, market share
- Competition: **why are you better?**
- Sales and Marketing: **how do you get customers?**
- Operations
- Financial Plan: **key data and financial needs**
- **The team**
- Contingency plan
- Appendix: additional information

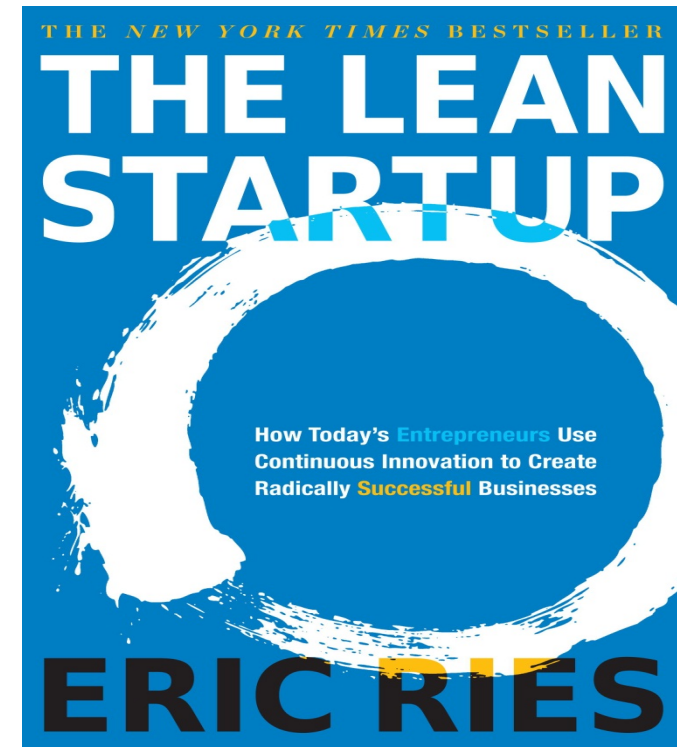
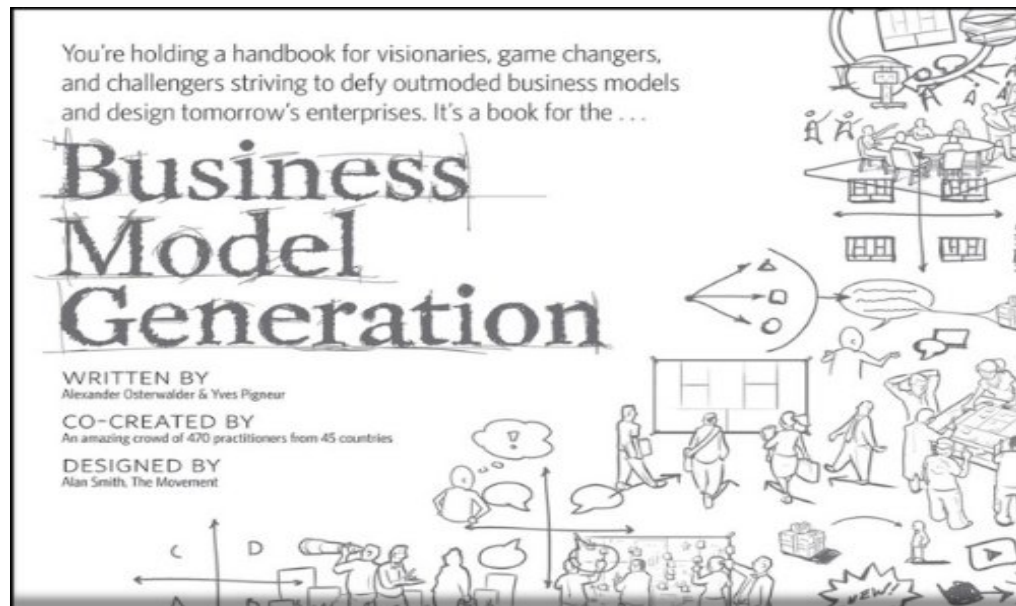
BUSINESS PLAN: THE PROCESS



Some years later (and many millions later)...

... the customer does NOT like the product!

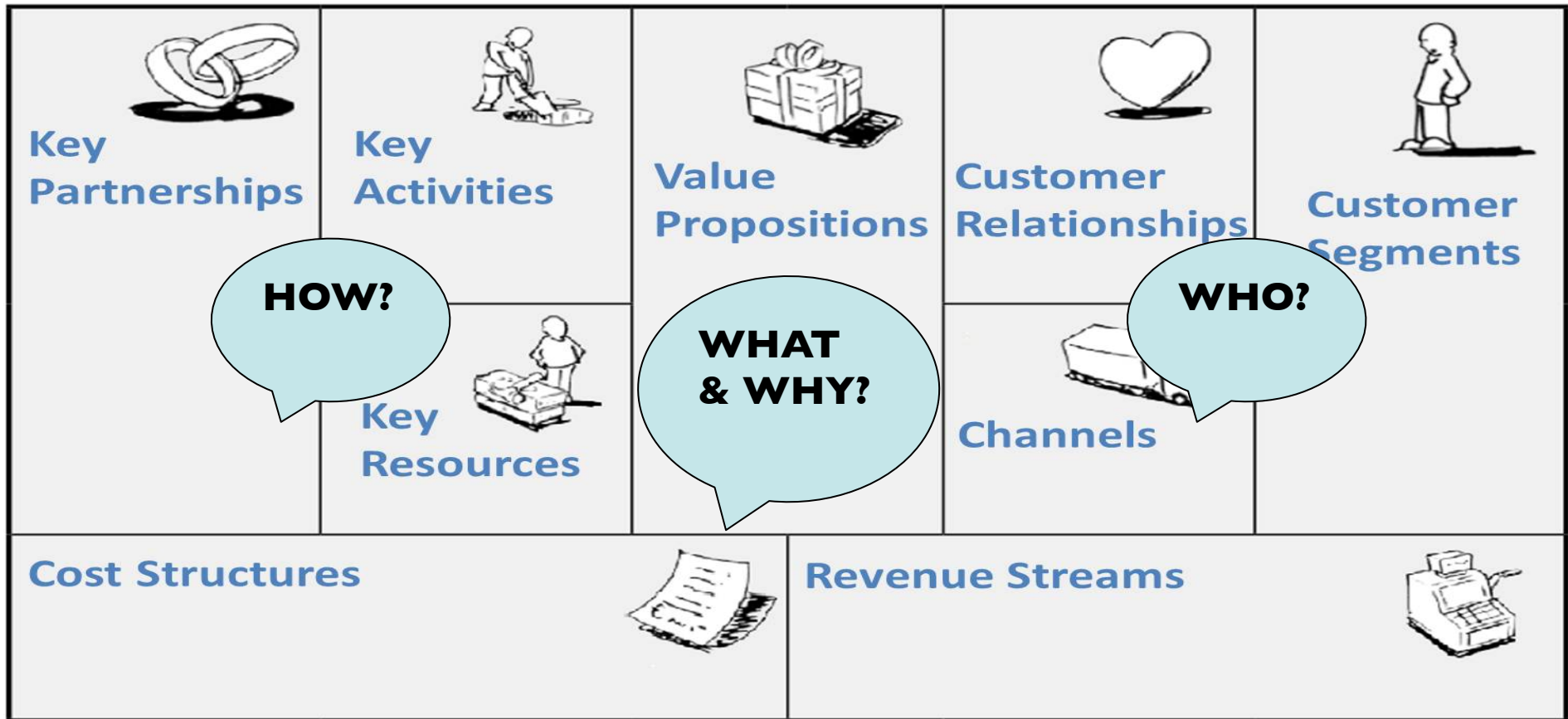
THE CURRENT FRAMEWORK FOR NEW VENTURES



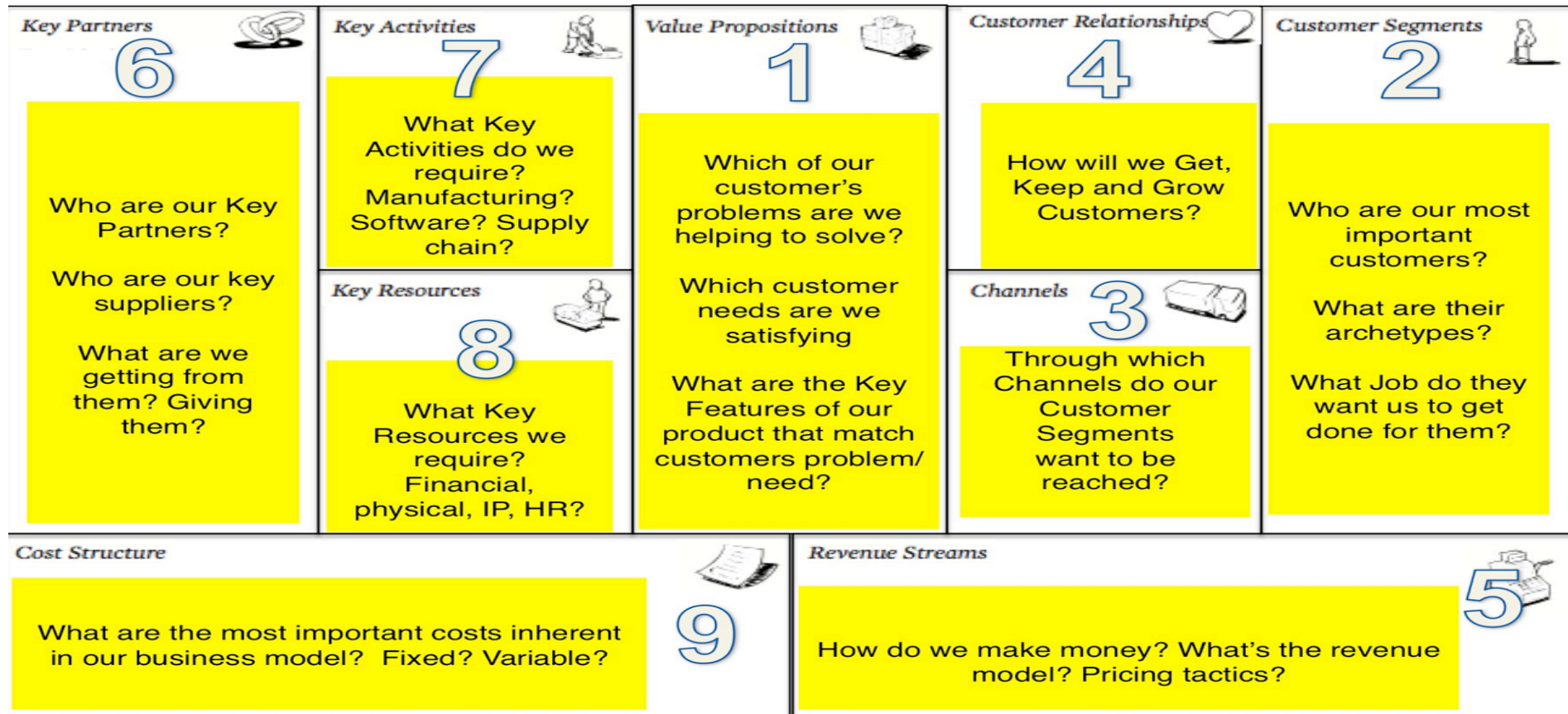
THE BUSINESS MODEL CANVAS (BMC)

BMC ANSWERS THE TOP 3 QUESTIONS:

1. **What** is your product or service?
2. **Who** is the target market and what is your proof of their willingness to pay?
3. **How** will your business earn a profit?



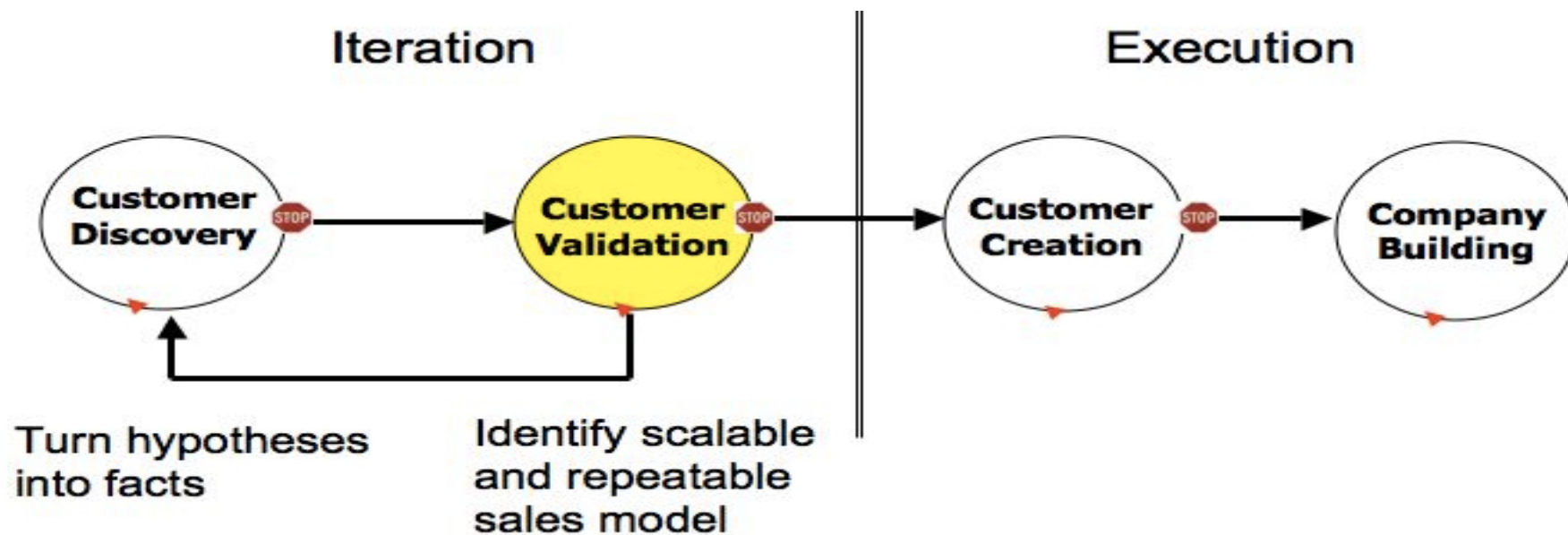
Source: "Business Model Generation"



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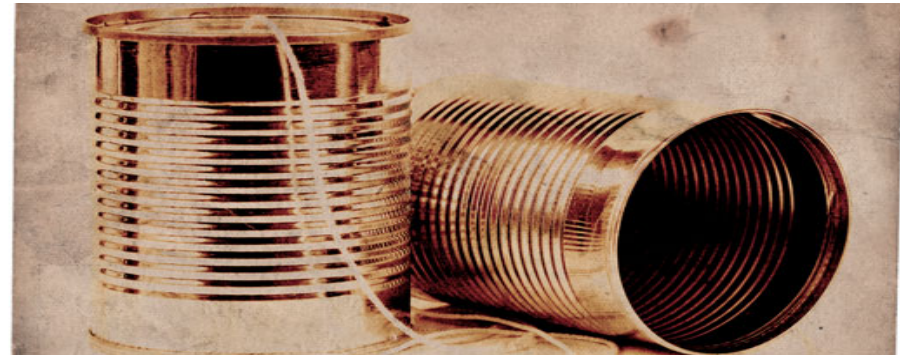
Twitter: @LuAlemany

THE LEAN STARTUP MODEL



MINIMUM VIABLE PRODUCT (MVP)

- ✓ Never empty handed
- ✓ Not the best version
- ✓ Something that the customers can test and give initial feedback:
talk to them early on!

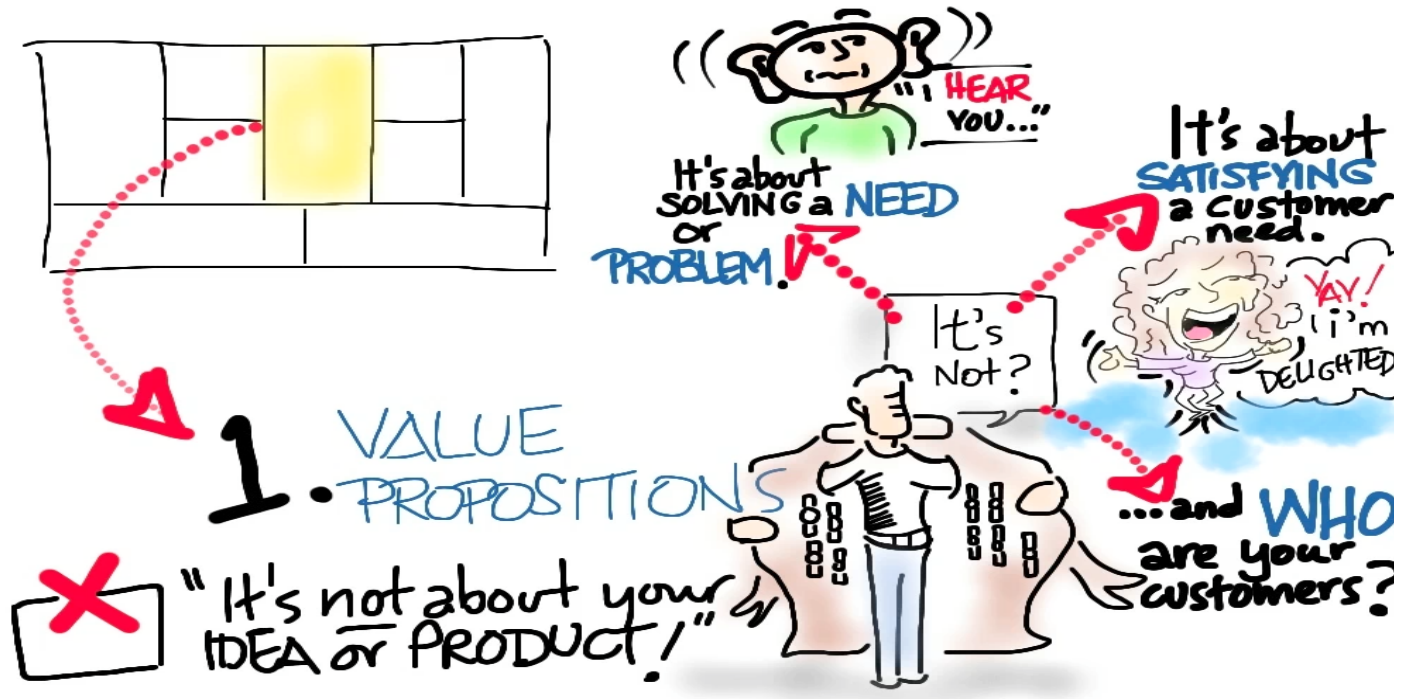


TALKING TO CUSTOMERS...

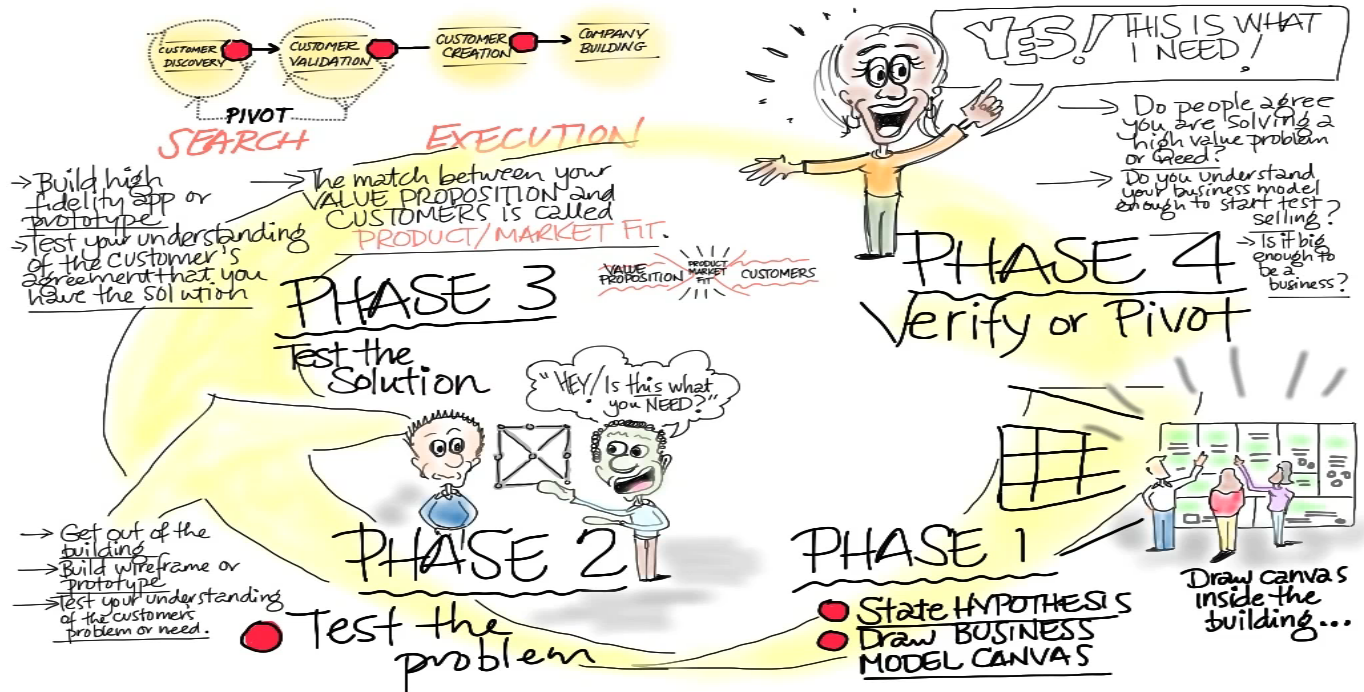
... getting out of the building



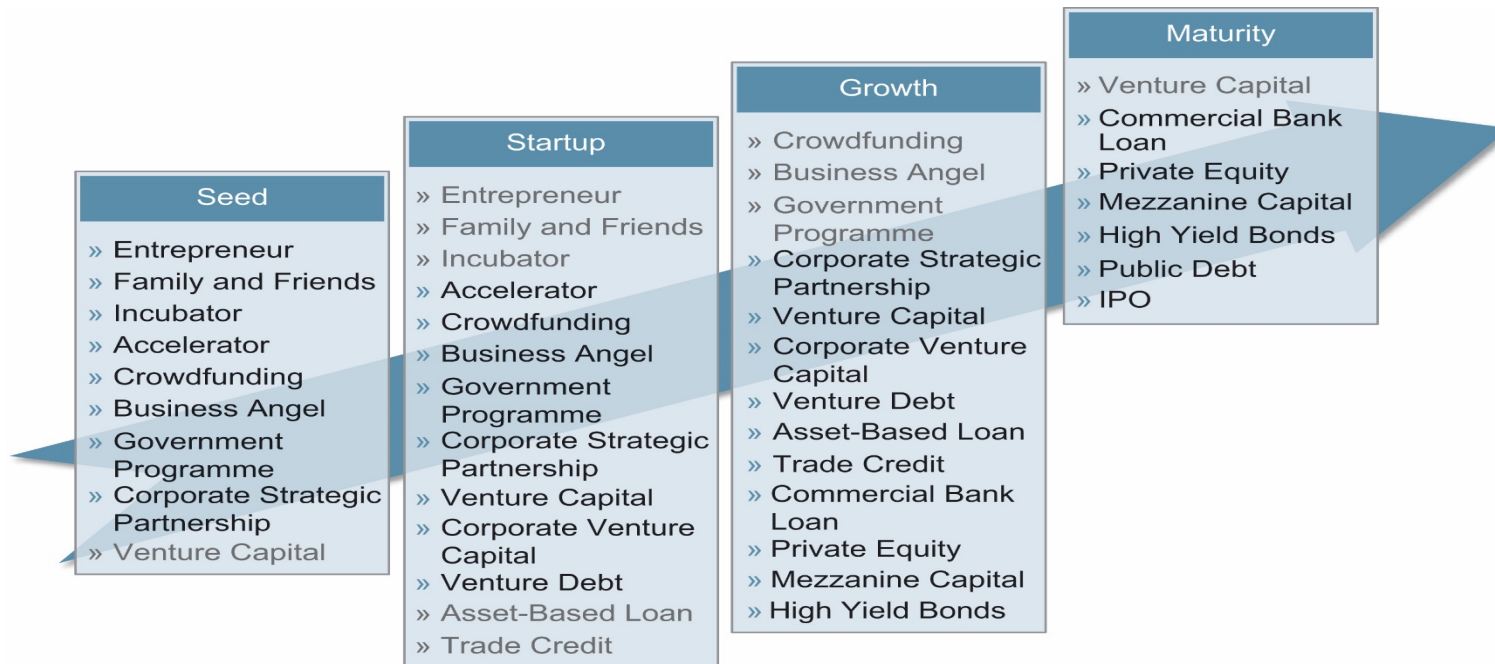
KEY: HAVING A COMPELING VALUE PROPOSITION



THE LEAN STARTUP MODEL IN PRACTICE



STAGE AND SOURCES OF FINANCING



Source: Alemany & Andreoli (2018). "Entrepreneurial Finance: The Art and Science of Growing Ventures"

FRIENDS AND FAMILY

Private individuals; generally unsophisticated investors; often looking mainly to “help” the entrepreneur

Looking For:

pleasure of support
fun and excitement

Pros:

easy to deal with (usually)
might not take much equity
do not fight for valuation

Cons:

if many, can complicate equity
small amounts of money

ANGELS / BUSINESS ANGELS / INFORMAL INVESTORS

private individuals with large amounts of cash; may be very sophisticated investors

Looking For:

large returns
share of founders' equity

Pros:

more money to invest
introductions and advice
understand equity investment

Cons:

not always happy with VC's terms
will demand active participation

VENTURE CAPITAL

investment experts who consolidate and invest other peoples' money

Looking for:

huge returns (40 to 60% IRR)
specific opportunities
exit in 3 to 5 years

Pros:

big money
management advice
contacts

Cons:

fiduciary responsibility
relatively quick exit
strict management controls

BUSINESS ANGELS vs. VENTURE CAPITAL

BUSINESS ANGELS

- Invest own money
- Goal: fun and profit
- Lower expected IRR
- Faster decision making process
- Very early stage
- More implication
- Longer investment period

VENTURE CAPITAL

- Invest other people's money
- Goal: Profit
- Higher expected IRR
- Slower decision making process
- Startup or growth stage
- Less involved but help if needed
- Shorter investment horizon

CORPORATE VENTURE CAPITAL

funds from corporation, in general tech business, that invest as a way of getting access to faster R&D

Looking for:

innovations
new patents and technologies
future growth

Pros:

big money
easy due diligence (knowledge)
contacts and distribution

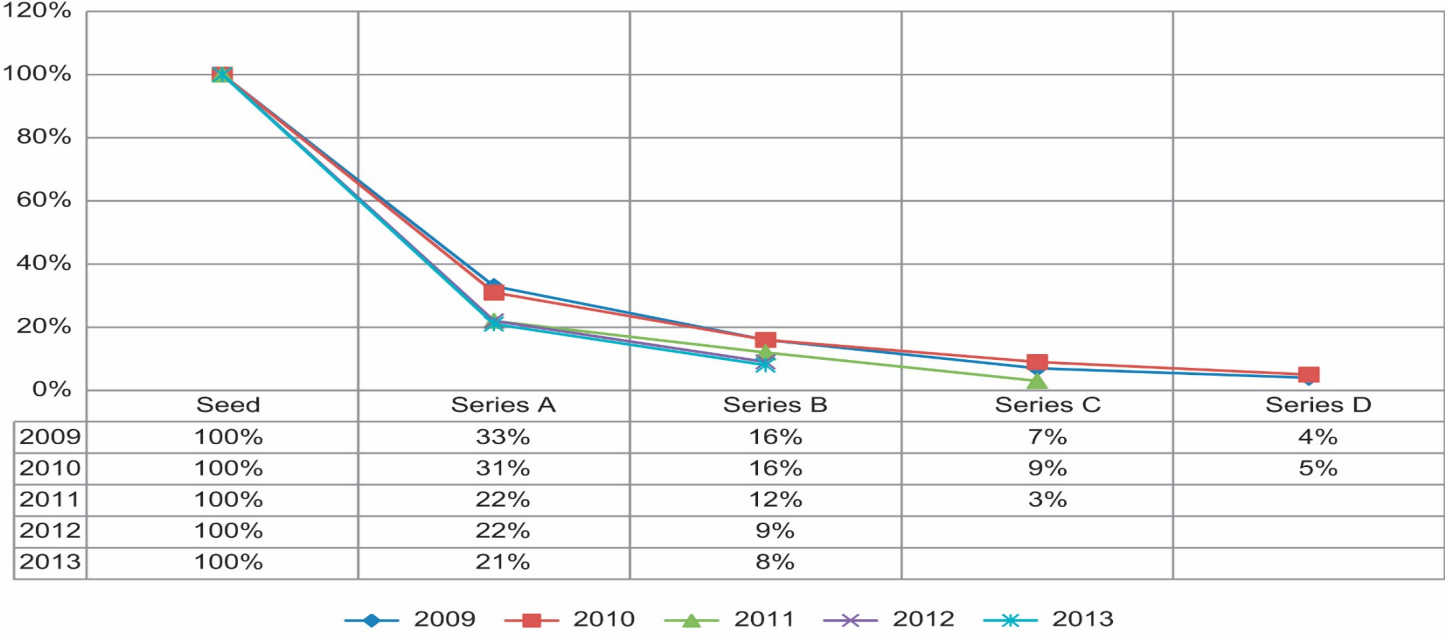
Cons:

limit the options for founders
would absorb venture
short life as entrepreneur

FROM SEED CAPITAL TO VENTURE CAPITAL

How many companies that raised
Seed funding managed to get
additional rounds of financing?
Series A, B, C, D

GRADUATION RATES FOR EU STARTUPS



Source: Atomico and Slush, The State of European Tech (2016 Edition)

INVESTORS' SCREENING CRITERIA

- ✓ Size of the market: BIG!
- ✓ The team: complementary
- ✓ The level of innovation: high
- ✓ The deal: potential to make 10x

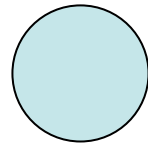
MAKING THE DEAL LOOK GOOD

YEAR 0



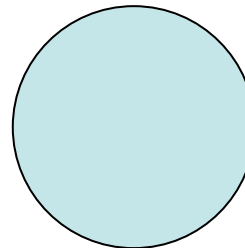
€10 million
20% VCA
Valuation:
€50m

YEAR 2

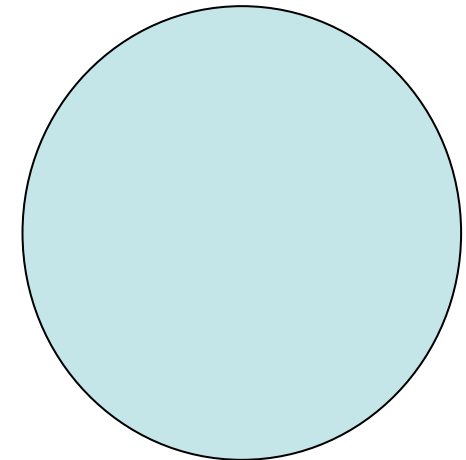


€30 million
30% VC B
Valuation:
€100m

YEAR 4



YEAR 6



HOW MUCH SHOULD BE THE VALUE AT
EXIT TO MAKE 10X HER MONEY? (VCA)

MAKING THE DEAL LOOK GOOD (2)

HOW MUCH SHOULD BE THE VALUE AT EXIT TO MAKE 10X HER MONEY? (VC A)

€10 million
20% **VC A**
Valuation:
€50m

20% **VC A**
IS DILUTED:
14%

10 X €10 million =
€100 million

Therefore at exit
valuation of startup
should be:

€30 million
30% **VC B**
Valuation:
€100m

**€100 m / 0.14 =
€714 million**

NEGOTIATING FOR AN EQUITY INVESTMENT

1. Target the right investor
 - Investment stage
 - Industry focus
2. Line up the right contacts
3. Clear and tight business model: *What problem are you solving?*
4. Answer the question: *Why you?*
5. *Know your capital needs, and timing*

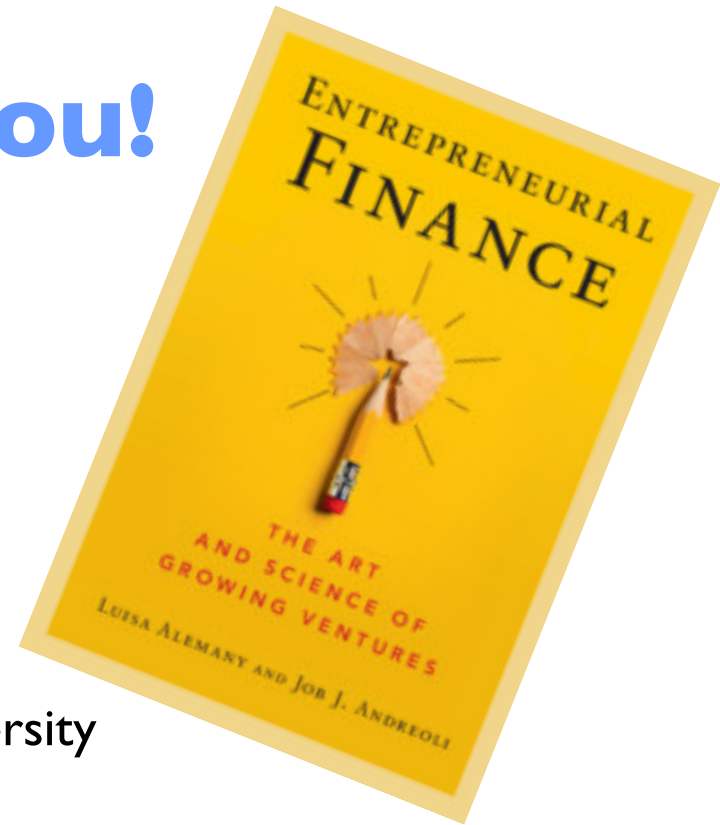
Thank You!

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