



# Presentation to CMU

## Financing Your Startup

Presented by Brian Goncher and Joe Krolczyk

November 2, 2012



# Agenda

## PART I

Venture Capital Trends

## PART II

Presenting Your Plan

## PART III

Creating Financial Projections

# PART I

Emerging Growth Companies

Venture Capital Trends

# Our commitment to companies like yours

## Deloitte Emerging Growth Companies

Our emerging growth company practice is a part of our national Deloitte Growth Enterprise Services practice.

Private companies form the backbone of our economy. At Deloitte, more than 50% of our U.S. clients operate in this sector.

Our Deloitte Emerging Growth Company practice, and its professionals who will be serving you, fully understand and are focused on addressing the unique needs and challenges of companies like yours. Some of those challenges are:

- Financing your business
- Executing your strategy
- Anticipating market forces
- Organic growth, acquisitions, other transactions
- Risk management
- Reputation in capital markets
- Sustainability

## Our Deloitte Emerging Growth Company approach

### Distinctive client service experience

Our Deloitte Emerging Growth Company Services professionals deliver a distinctive, personalized client service experience.

### Tailored approach

Our team works collaboratively to customize and scale our integrated service delivery to each client's specific needs, size, ownership structure, and opportunities.

### Trusted service

Deloitte works to become a trusted independent service provider by genuinely listening to each client's individual issues, understanding their business inside-out, and addressing issues with objectivity and candor.

### Breadth and depth

Deloitte is dedicated to helping clients benefit from the full breadth of our global network, deep technical skills, and industry knowledge.

At Deloitte, we serve all our clients with the same passion, quality, and audit and tax sophistication, while tailoring our approach to the unique circumstances of each company.

Our Perspectives program is a multifaceted series of live events, signature reports, research publications, webcasts, podcasts, and other vehicles that deliver tailored and relevant insights to privately held companies in an integrated fashion.

Deloitte Growth Enterprise Services held its third Private Perspectives live event on May 9, 2012, featuring guest speaker Jeff Immelt, chairman and CEO of GE, and a panel discussion with senior Deloitte leaders. Previous events featured former Federal Reserve Chairman Alan Greenspan and former President Bill Clinton.

These events are simulcast to dozens of locations in the United States where Deloitte professionals and private company executives meet to listen to the program and then discuss the issues among themselves. These are excellent forums for networking, and we welcome the participation of GridSpeak executives.

Click on the link below, or paste it into your browser, and you will access our Deloitte Growth Enterprise Services website, where you can read our proprietary surveys on issues relevant to private companies, client newsletters, and more:

[http://www.deloitte.com/view/en\\_US/us/Services/deloitte-growth-enterprise-services/index.htm](http://www.deloitte.com/view/en_US/us/Services/deloitte-growth-enterprise-services/index.htm)

# Global leadership and strength

The Deloitte member firm organization, Deloitte Touche Tohmatsu Limited, is the largest professional services network in the world. Approximately 182,000 professionals in more than 150 countries demonstrate their commitment to a single vision: to be the standard of excellence.

Deloitte is the global leader in professional services, and we understand the risks, rewards, and complexities of business today. Our multidisciplinary approach – drawing from the experience of our audit, tax, consulting, and financial advisory professionals – gives our teams a broader perspective on emerging issues and leading practices, and we bring that knowledge to you. Through years of experience, our professionals have gained the ability to anticipate and respond to our clients’ needs in today’s economy.

No matter what business challenge you’re facing, our team has likely faced the same challenge or something similar. In addition, we provide access to our global network of resources who know and understand your industry, issues, and opportunities.

Together, in a culture of collaboration, we offer the capability through our local service team to deliver insights that others might miss.

## Deloitte by the Numbers



Worldwide
<ul style="list-style-type: none"> <li>• Approximately 182,000 professionals located in more than 150 countries</li> <li>• 55 member firms</li> <li>• More than \$28 billion in revenue</li> <li>• Deloitte’s global organization serves nearly 90% of the technology, media, and telecommunications companies in the Fortune Global 1000</li> </ul>

National
<ul style="list-style-type: none"> <li>• More than 51,000 professionals</li> <li>• 100 offices in nearly 90 cities</li> <li>• More than \$10 billion in revenue</li> <li>• Our U.S. network of more than 4,500 professionals provides audit or non-audit services to more than 1,400 clients in the technology, media, and telecommunications industries</li> </ul>

West Region
<ul style="list-style-type: none"> <li>• More than 5,000 professionals in 11 locations</li> <li>• Fastest-growing venture capital practice</li> <li>• Fastest-growing emerging growth practice</li> <li>• Washington national tax office west</li> <li>• National office west — accounting consultations</li> </ul>

# Initial public offering experience

Over the last ten years, Deloitte & Touche LLP and Deloitte Tax LLP have assisted with more than 265 IPOs in the U.S. Our team consists of professionals with extensive experience with the IPO process. Our commitment to responsive service and meeting client expectations will assist in your successful transition to a public company.

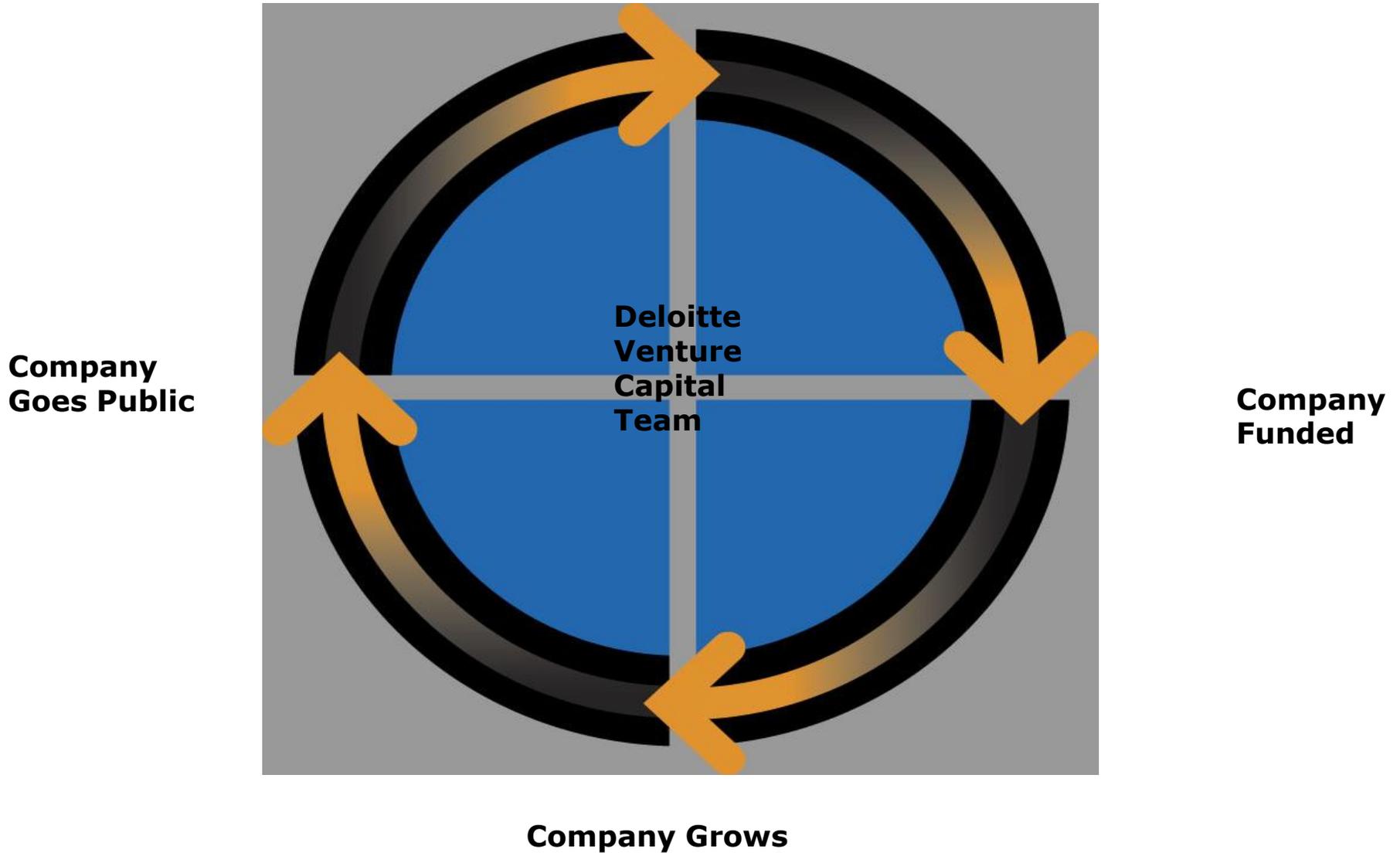
Several recent IPOs where Deloitte was the auditor include:

<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Enphase Energy</b> 8,969,697 Shares Common Stock Price \$6.00 Per Share</p> <p>March 2012</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>M/A – COM Technology Solutions Holdings</b> 6,000,000 Shares Common Stock Price \$19.00 Per Share</p> <p>March 2012</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Demandware</b> 5,500,000 Shares Common Stock Price \$16.00 Per Share</p> <p>March 2012</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Yelp!</b> 7,150,000 Shares Common Stock Price \$15.00 Per Share</p> <p>March 2012</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Synacor</b> 6,818,170 Shares Common stock Price \$5.00 per share</p> <p>February 2012</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Renewable Energy Group</b> 7,200,000 Shares Common stock Price \$10.00 per share</p> <p>January 2012</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Invensense</b> 10,000,000 Shares Common Stock Price \$7.50 Per Share</p> <p>November 2011</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Solazyme</b> 10,975,000 Shares Common Stock Price \$18.00 Per Share</p> <p>May 2011</p>												
<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>LinkedIn</b> 7,840,000 Shares Common Stock Price \$45.00 Per Share</p> <p>May 2011</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Responsys</b> 6,619,654 Shares Common Stock Price \$12.00 Per Share</p> <p>April 2011</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Apollo Management</b> 29,757,559 Shares Common Stock Price \$19.00 Per Share</p> <p>March 2011</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>BG Medicine</b> 5,000,000 Shares Common Stock Price \$7.00 Per Share</p> <p>February 2011</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>GEVO</b> 7,150,000 Shares Common stock Price \$15.00 per share</p> <p>February 2011</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>GAIN Capital</b> 407,692 Shares Common Stock Price \$9.00 Per Share</p> <p>December 2010</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Anthera Pharmaceuticals</b> 6,000,000 Shares Common Stock Price \$7.00 Per Share</p> <p>March 2010</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Fortinet</b> 12,500,000 Shares Common Stock Price \$12.50 Per Share</p> <p>November 2009</p>												
<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>A123 Systems</b> 28,180,501 Shares Common Stock Price \$13.50 Per Share</p> <p>September 2009</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>LogMeIn</b> 7,666,667 Shares Common Stock Price \$16.00 Per Share</p> <p>July 2009</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Medidata Solutions</b> 6,300,000 Shares Common Stock Price \$14.00 Per Share</p> <p>June 2009</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>OpenTable</b> 3,000,000 Shares Common Stock Price \$20.00 Per Share</p> <p>May 2009</p>	<p><b>Deloitte.</b></p> <p>Initial Public Offering <b>Rosetta Stone</b> 6,250,000 Shares Common Stock Price \$18.00 Per Share</p> <p>April 2009</p>	<p><b>Technology, media, and telecom (TMT) IPOs from Q1 2007–Q1'12</b> <b>Deloitte leads in TMT IPOs</b></p> <table border="1"> <thead> <tr> <th>Firm</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Deloitte</td> <td>29%</td> </tr> <tr> <td>EY</td> <td>25%</td> </tr> <tr> <td>PwC</td> <td>24%</td> </tr> <tr> <td>KPMG</td> <td>10%</td> </tr> <tr> <td>Other</td> <td>12%</td> </tr> </tbody> </table> <p>Source: NASDAQ.com</p>			Firm	Percentage	Deloitte	29%	EY	25%	PwC	24%	KPMG	10%	Other	12%
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From January 2007 through March 2012, Deloitte assisted with more than 50 IPOs in the technology, media, and telecom industry, and 25 software company IPOs – both first among the Big Four.

# Venture Capital Virtuous Cycle

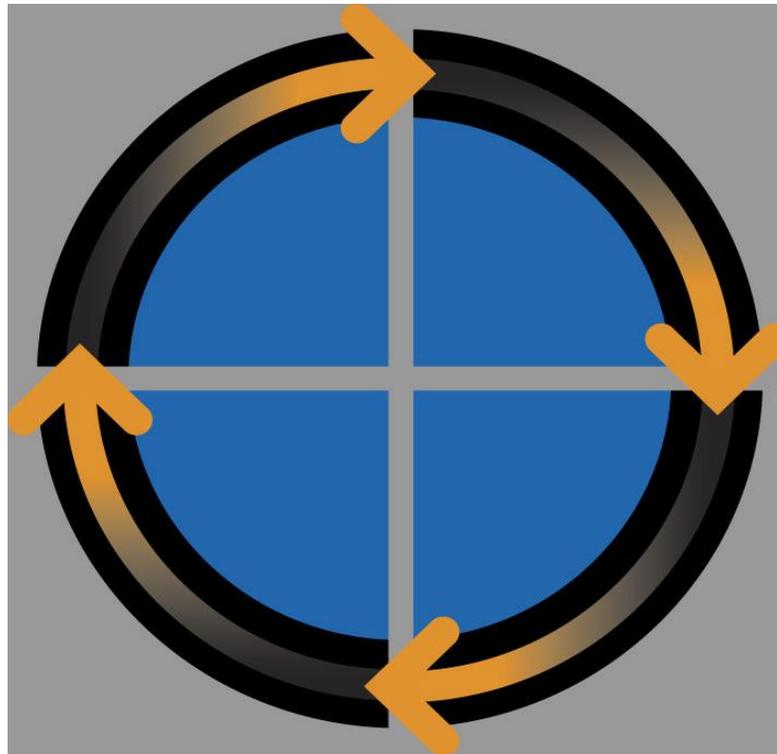
## Venture Capital Relationships



# Success Story: LinkedIn

**LinkedIn Investors Include Sequoia, Greylock and Bessemer**

**Public  
Offering in  
2011**



**LinkedIn  
founded in  
2003, raised  
about \$125 M in  
5 rounds**

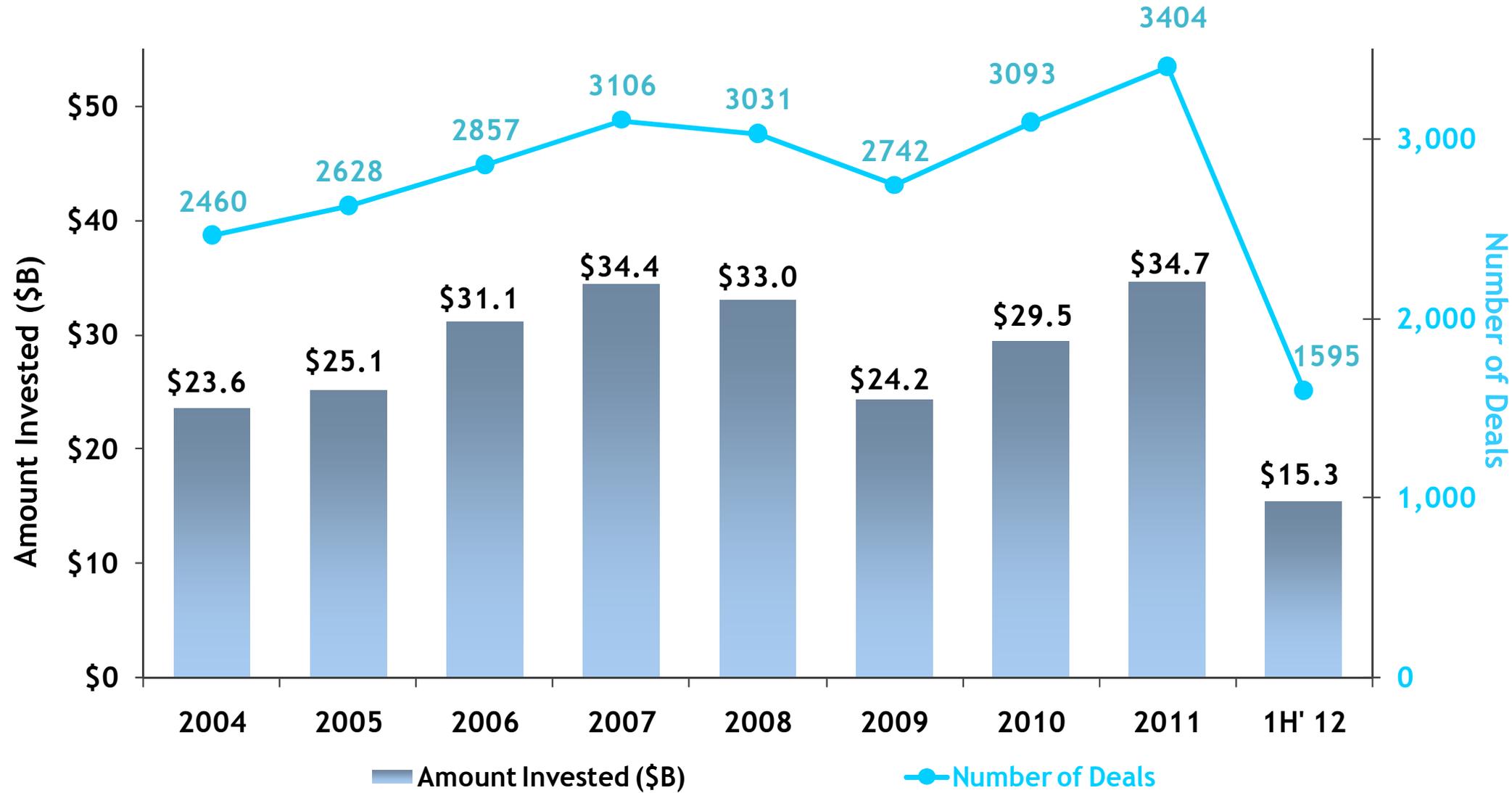
**LinkedIn has annual sales of \$200M  
and grew 100% in the past year  
with 90 million users**

# U.S. Investment: Overall

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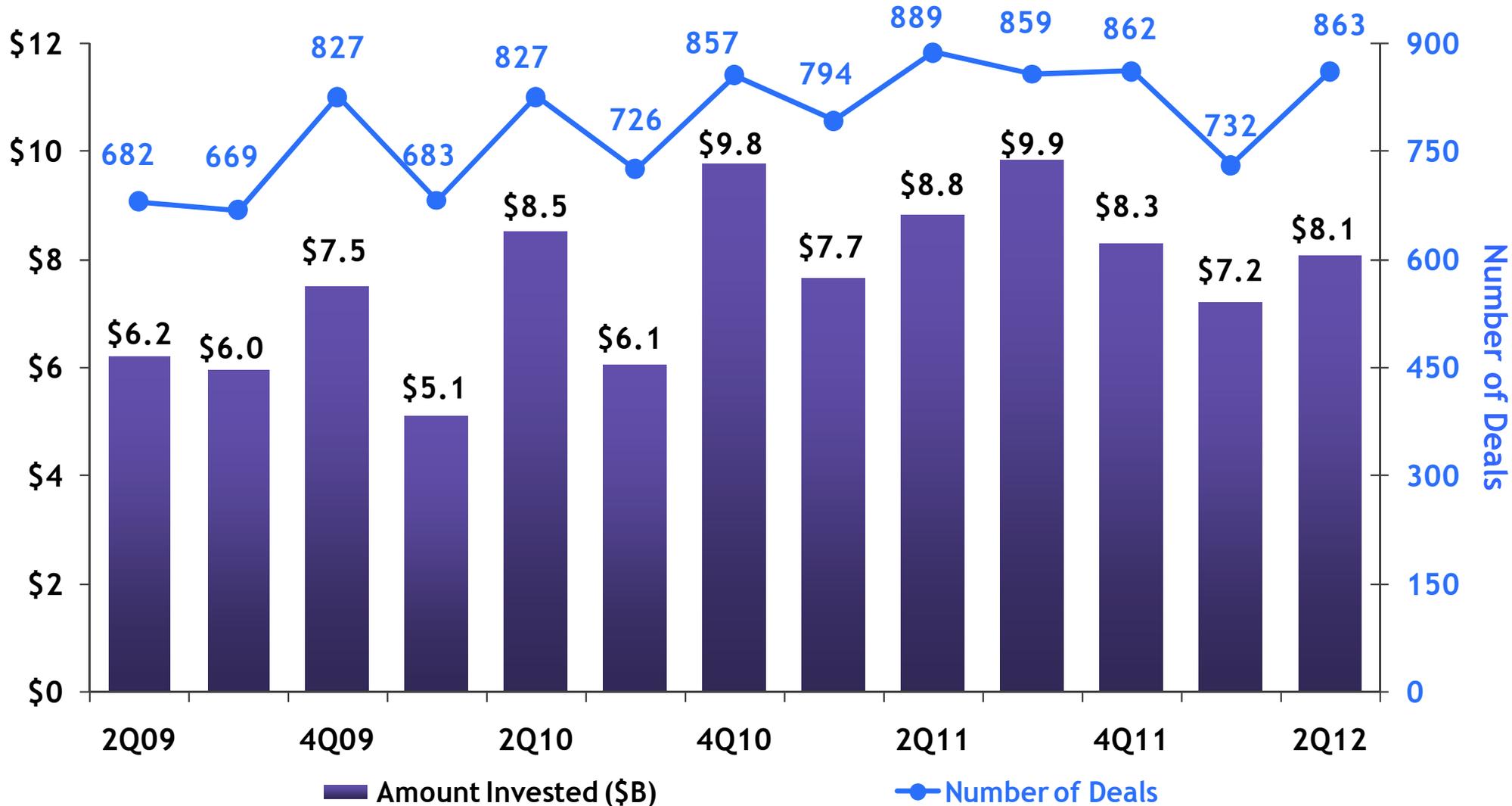
# Investment Off Pace in 2012

*Deal Flow and Equity into Venture-Backed Companies*



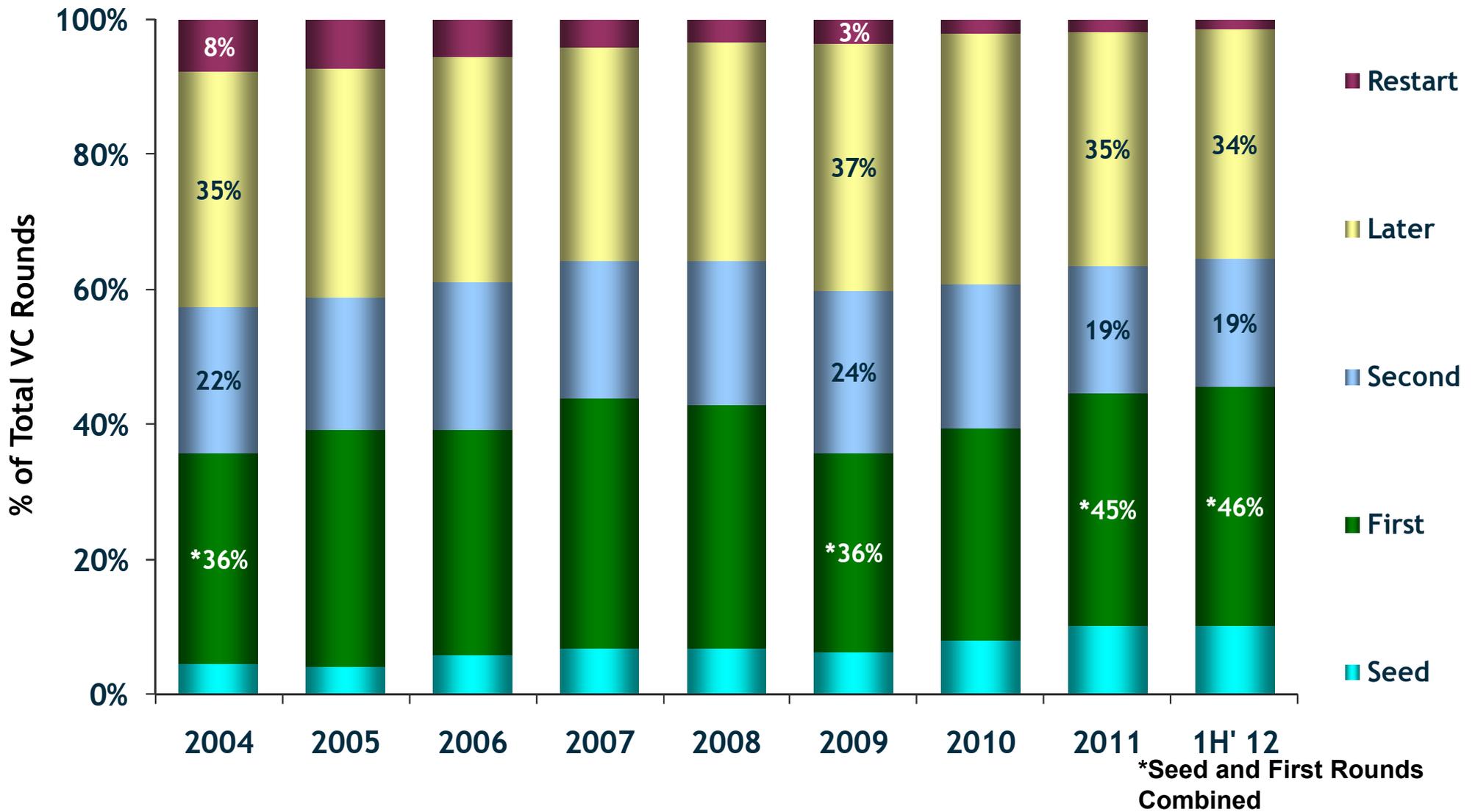
# Momentum Picks Up in 2Q' 12

*Deal Flow and Equity into Venture-Backed Companies*



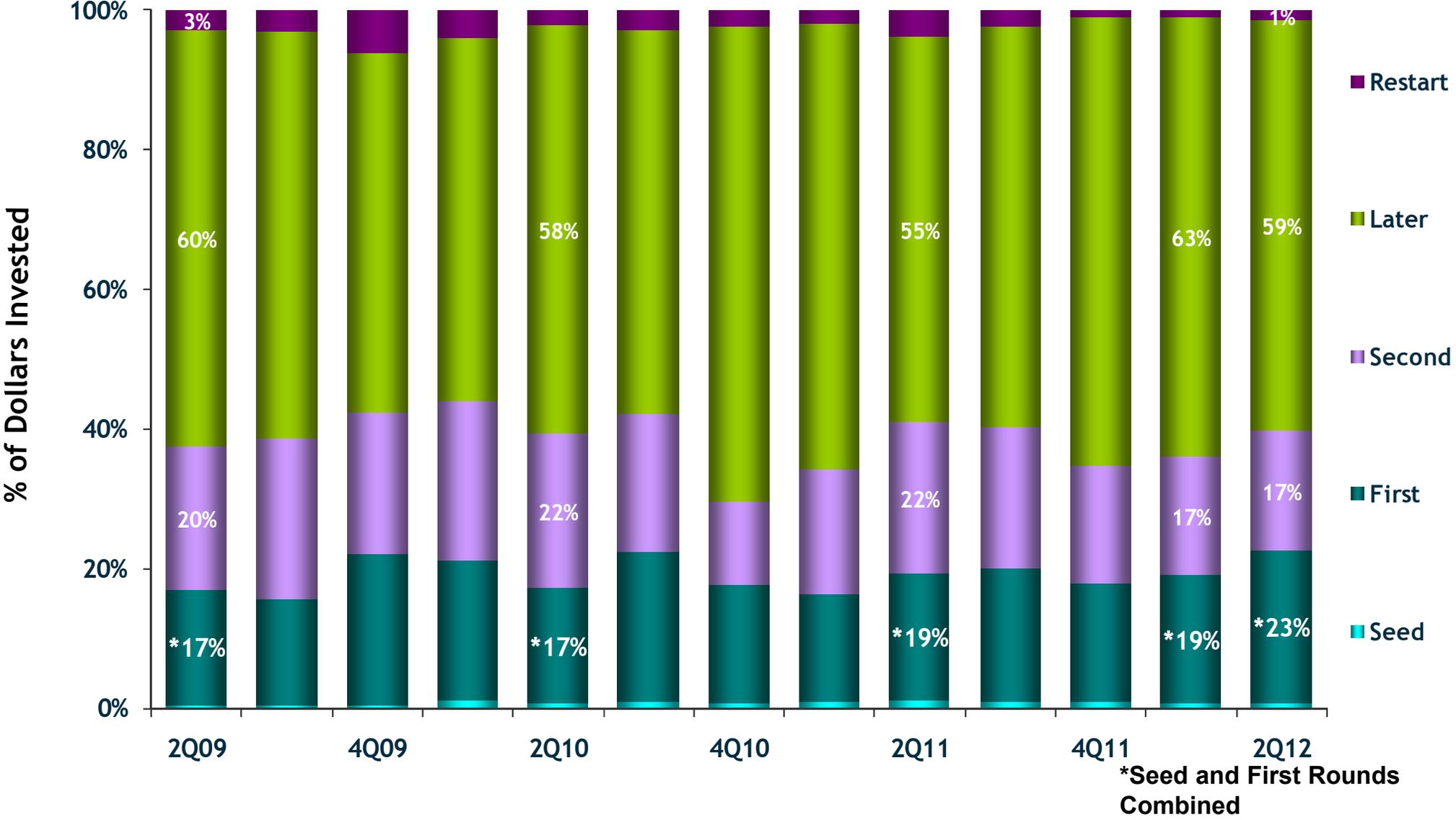
# Early Stage Deal Flow Steady in 2012

*Deal Flow Allocation by Round Class (Annual)*



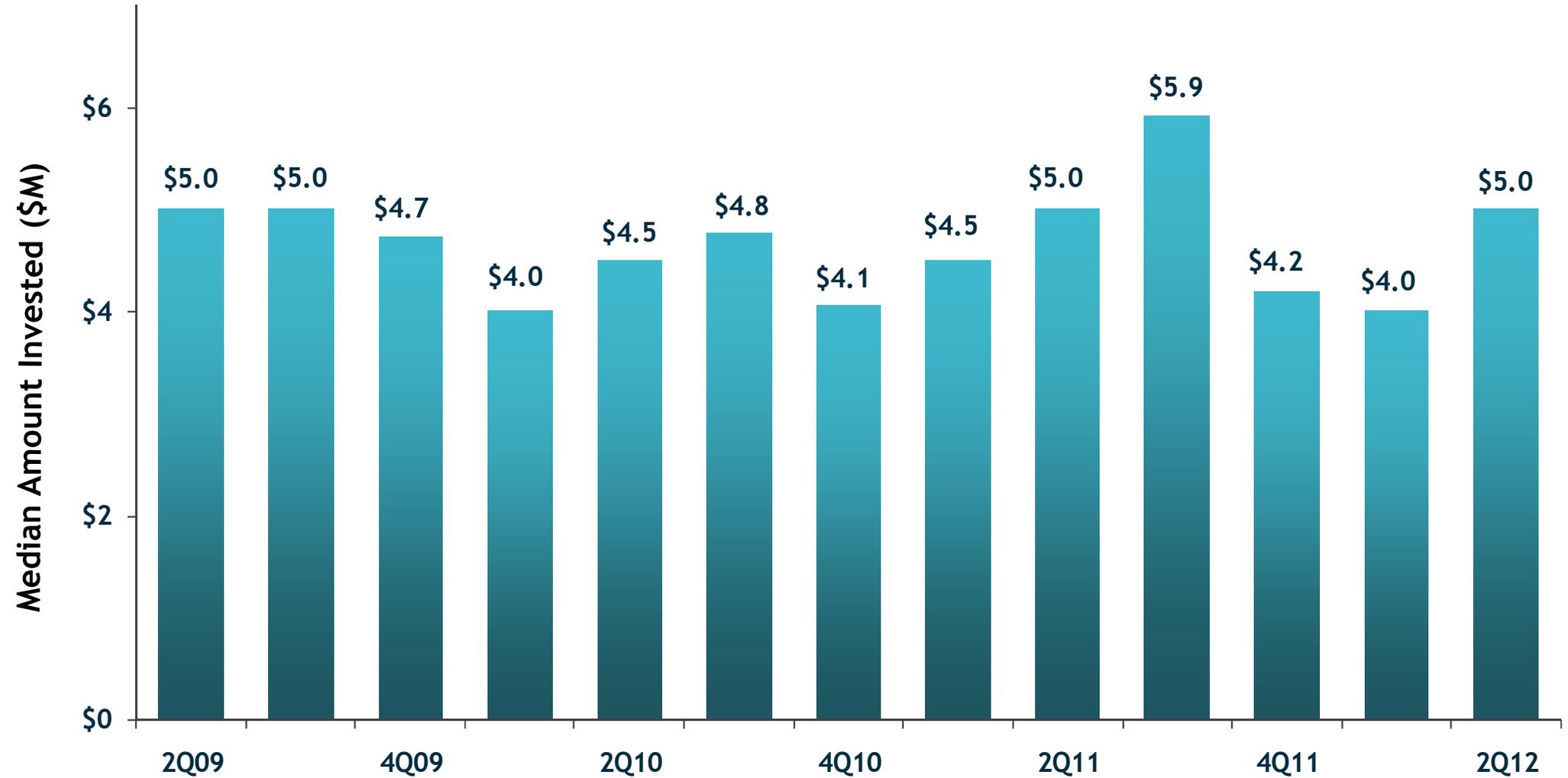
# Early Stage Investment Rises in 2Q' 12

*Investment Allocation by Round Class*



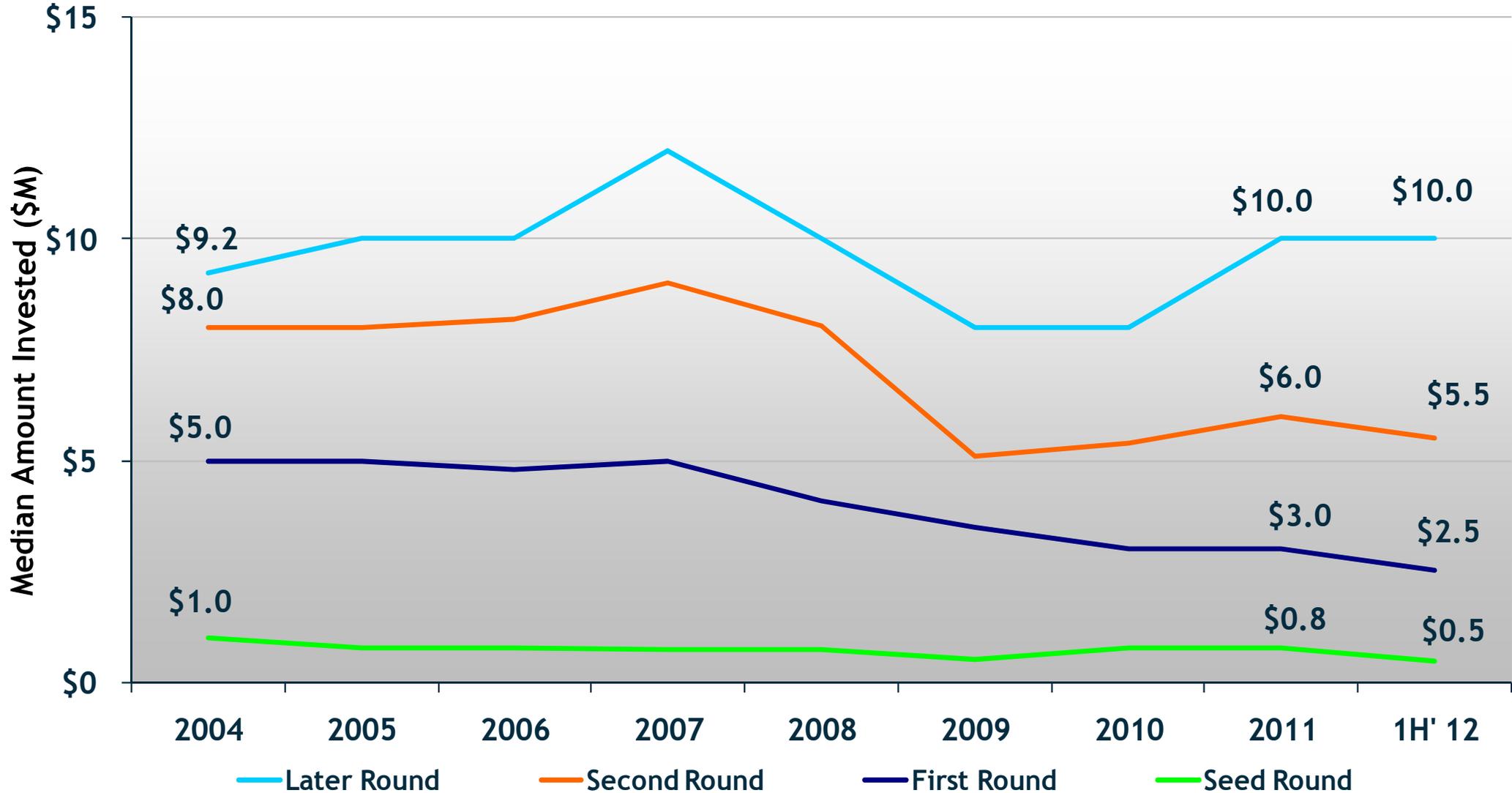
# Median Deal Size Increases in 2Q' 12

*Median Amount Invested Per Financing Round*



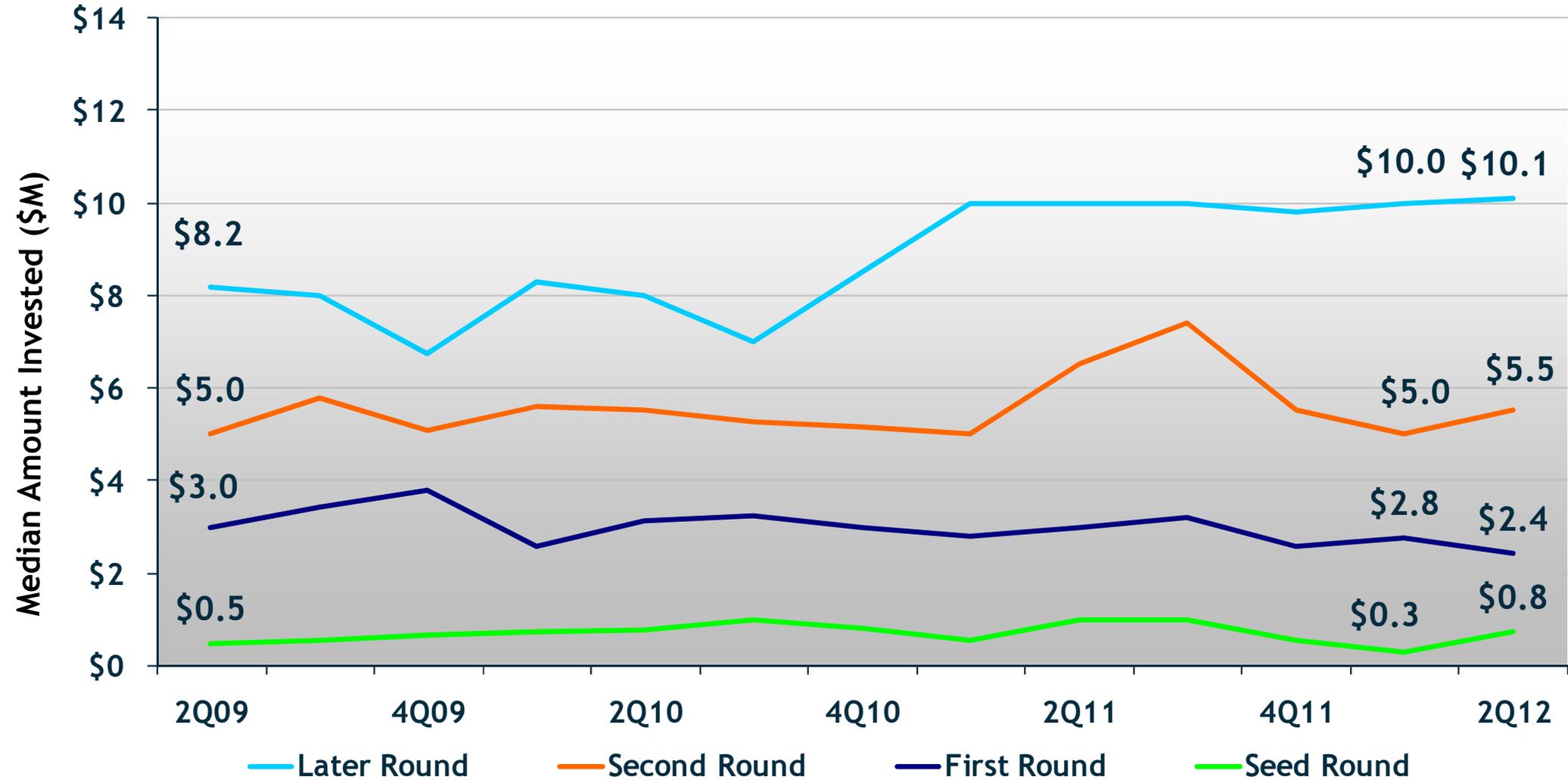
# Early Stage Median Invested Lower in 2012

*Median Amount Invested by Round Class (Annual), VC Only*



# Seed Round Median Invested Higher in 2Q' 12

*Median Amount Invested by Round Class, VC Only*

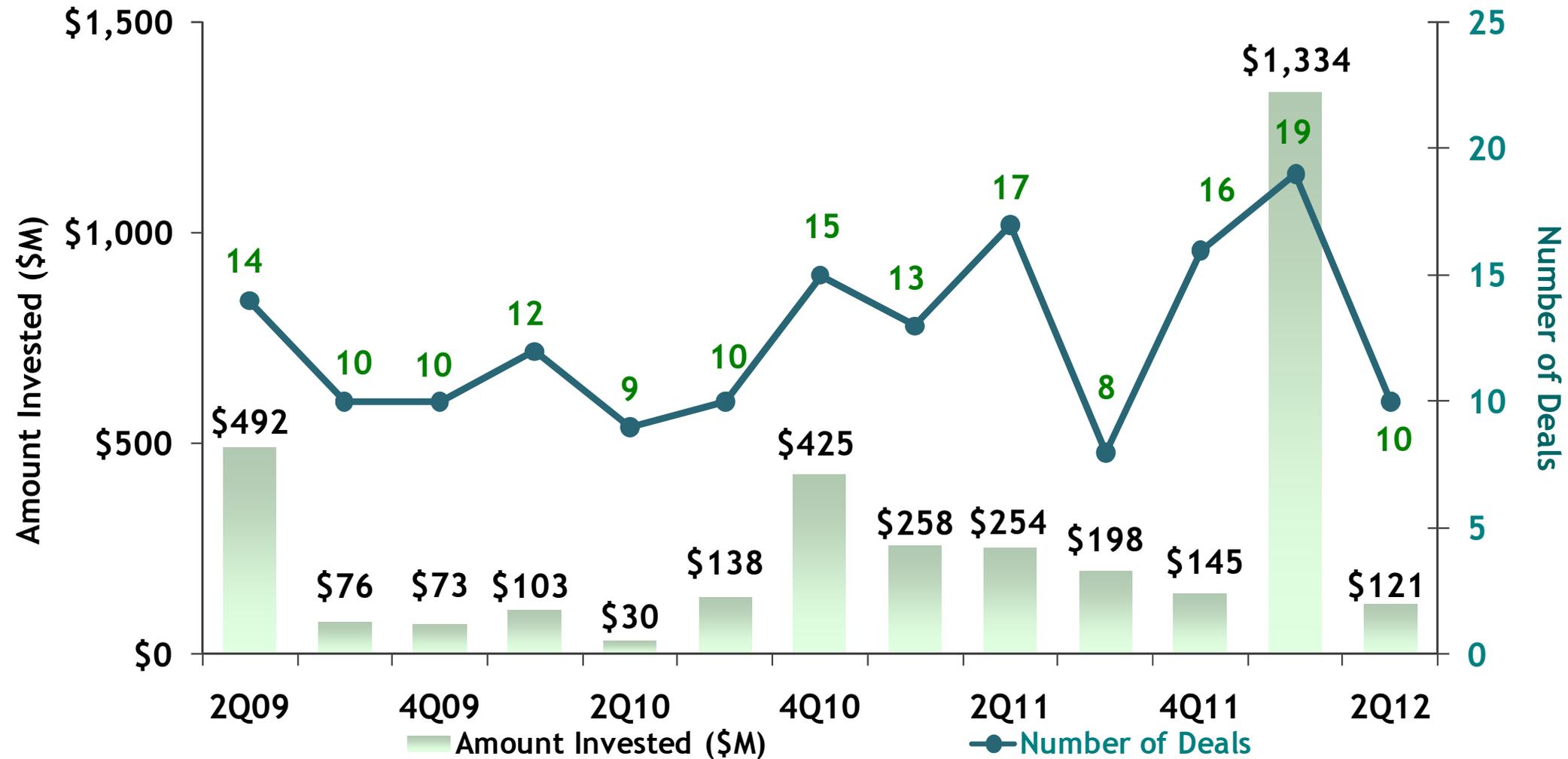


# U.S. Investment: Sources

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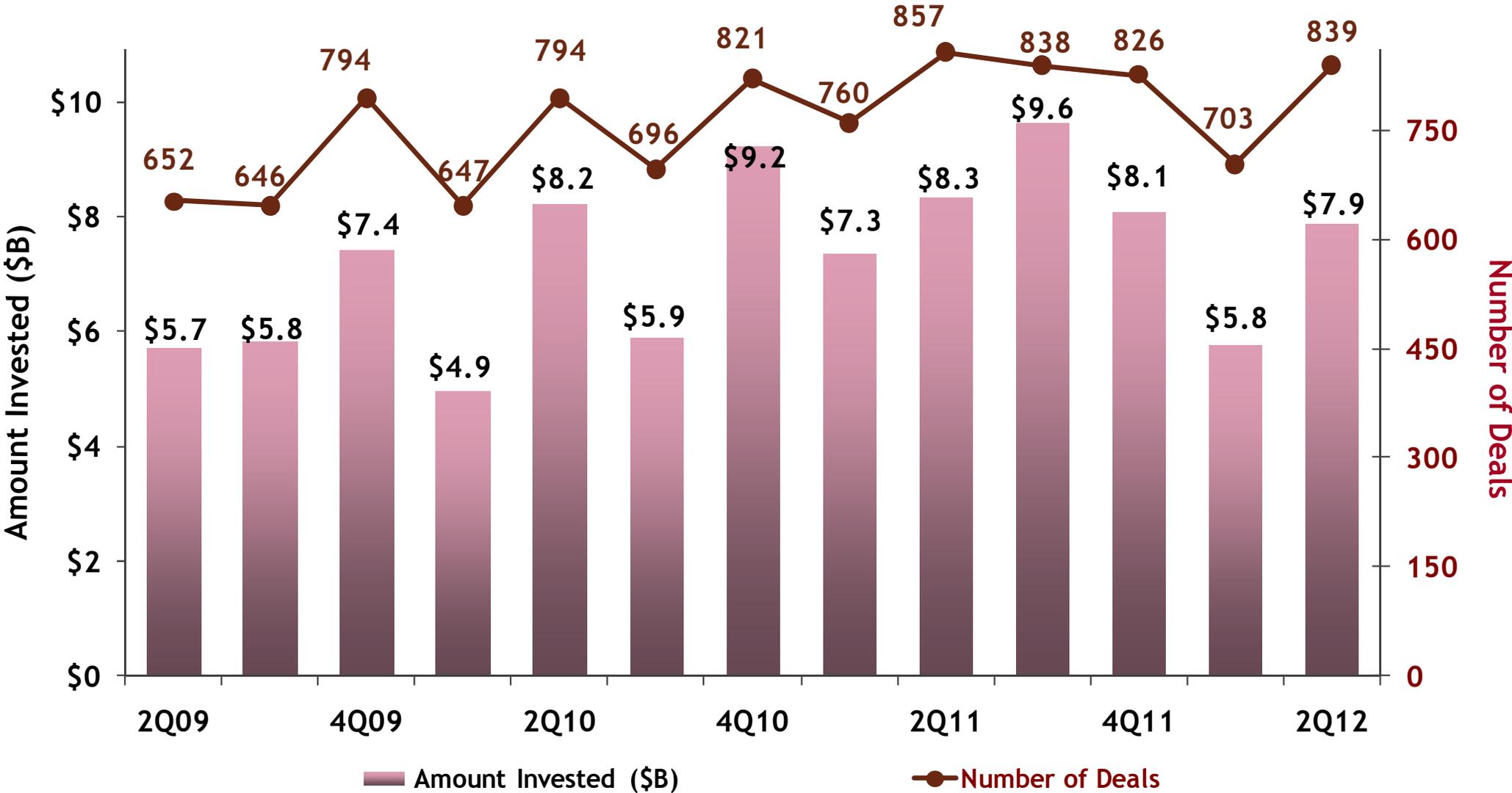
# Corporate Equity Invested Falls in 2Q' 12

## Corporate Equity into Venture-Backed Companies



# VC Investment Bounces Back in 2Q'12

*Equity Investment into Venture-Backed Companies, VC Rounds Only*



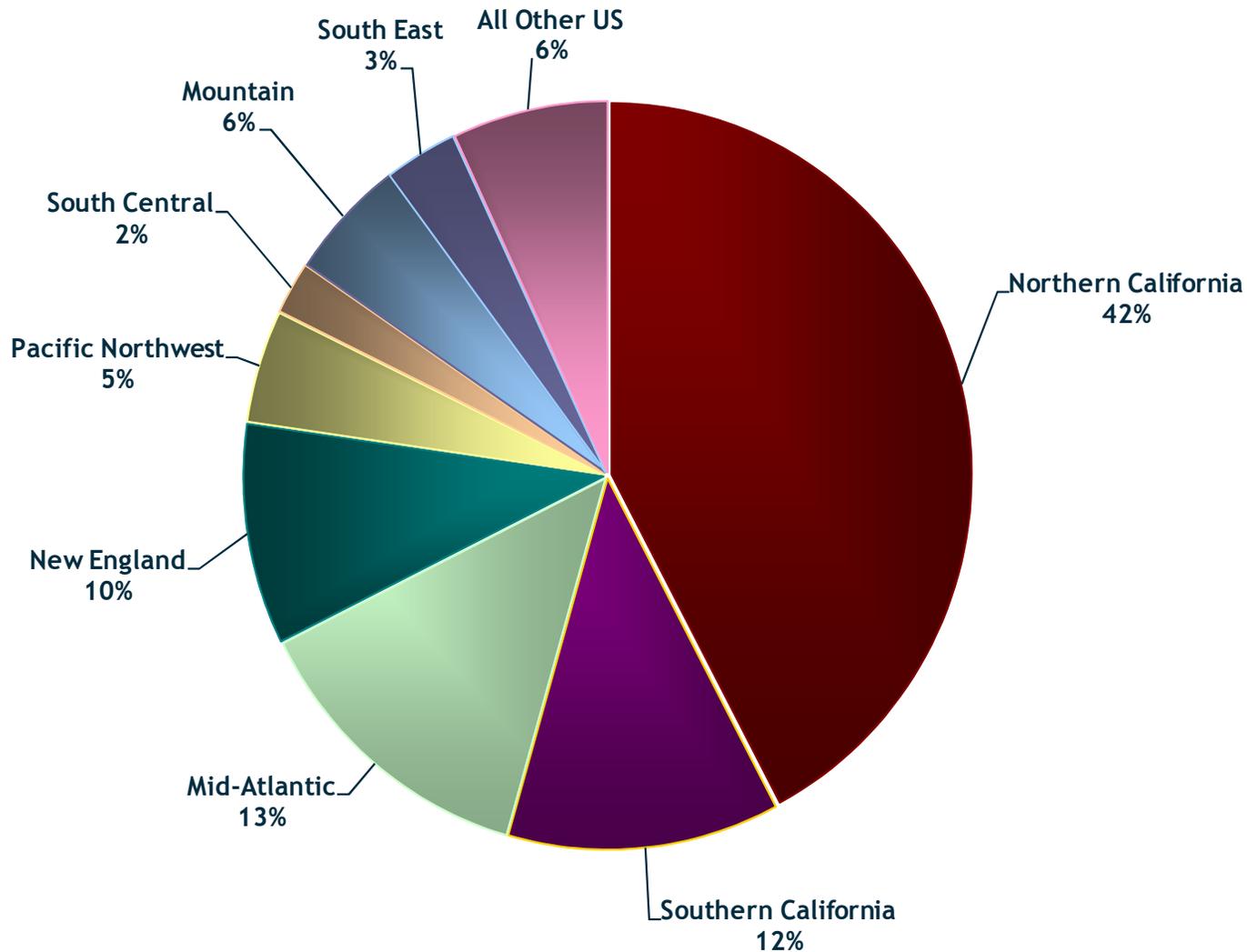
# Most Active U.S. Investors in 2Q' 12

*By Number of Equity Investments in U.S. Venture-Backed Companies*

500 Startups LP	36
First Round Capital LLC	25
New Enterprise Associates	25
Kleiner Perkins Caufield & Byers	21
Google Ventures	20
Khosla Ventures	19
SV Angel	16
Accel Partners	14
Andreessen Horowitz	14
Battery Ventures	14
Greylock Partners	14
InterWest Partners	14

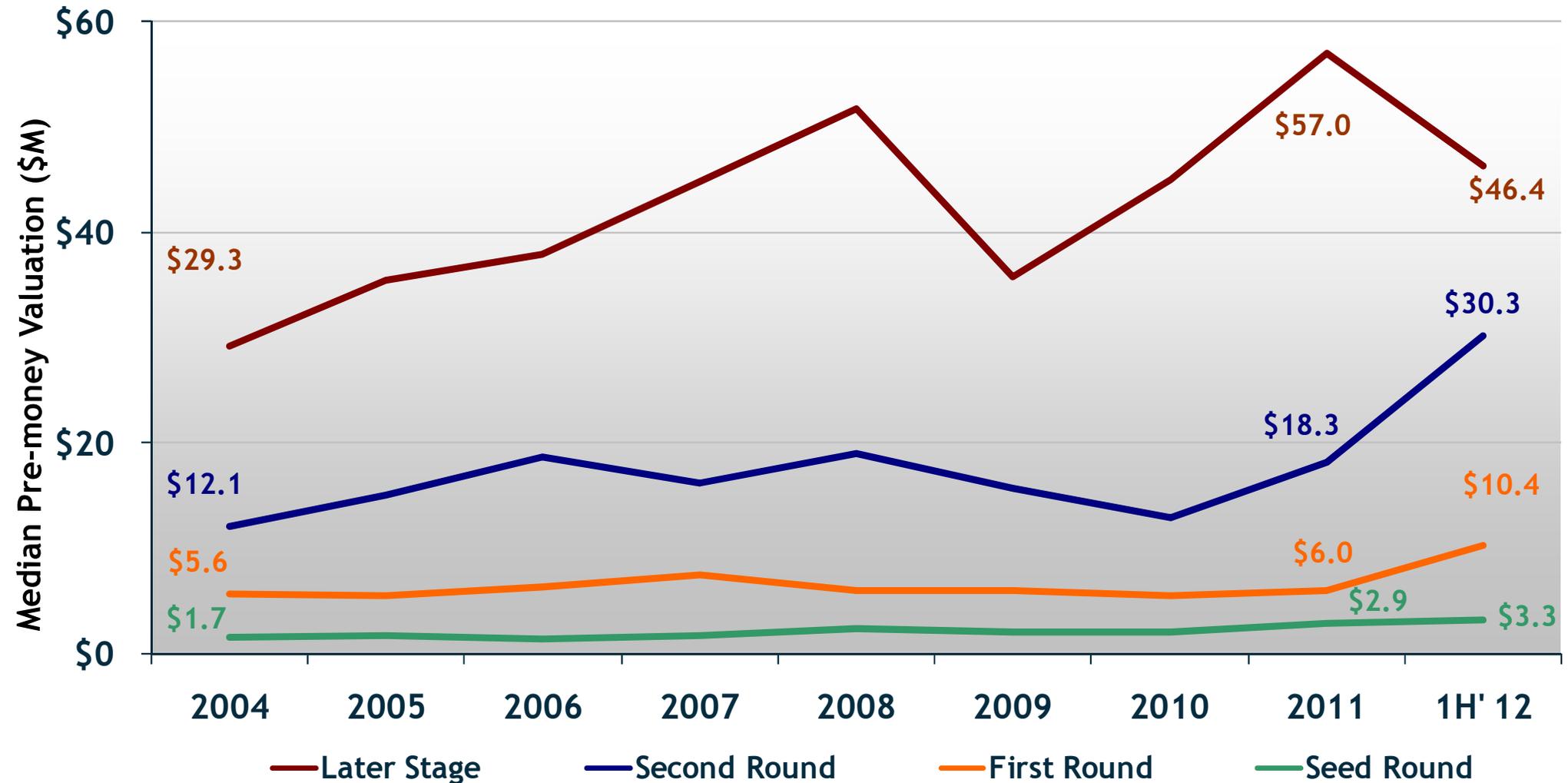
# Half of U.S. Investment Goes to California

*Regional Investment Dollars in the United States 2Q' 12*



# Early Stage Valuations Higher in 2012

*Median Pre-money Valuations by Round Class (Annual)*

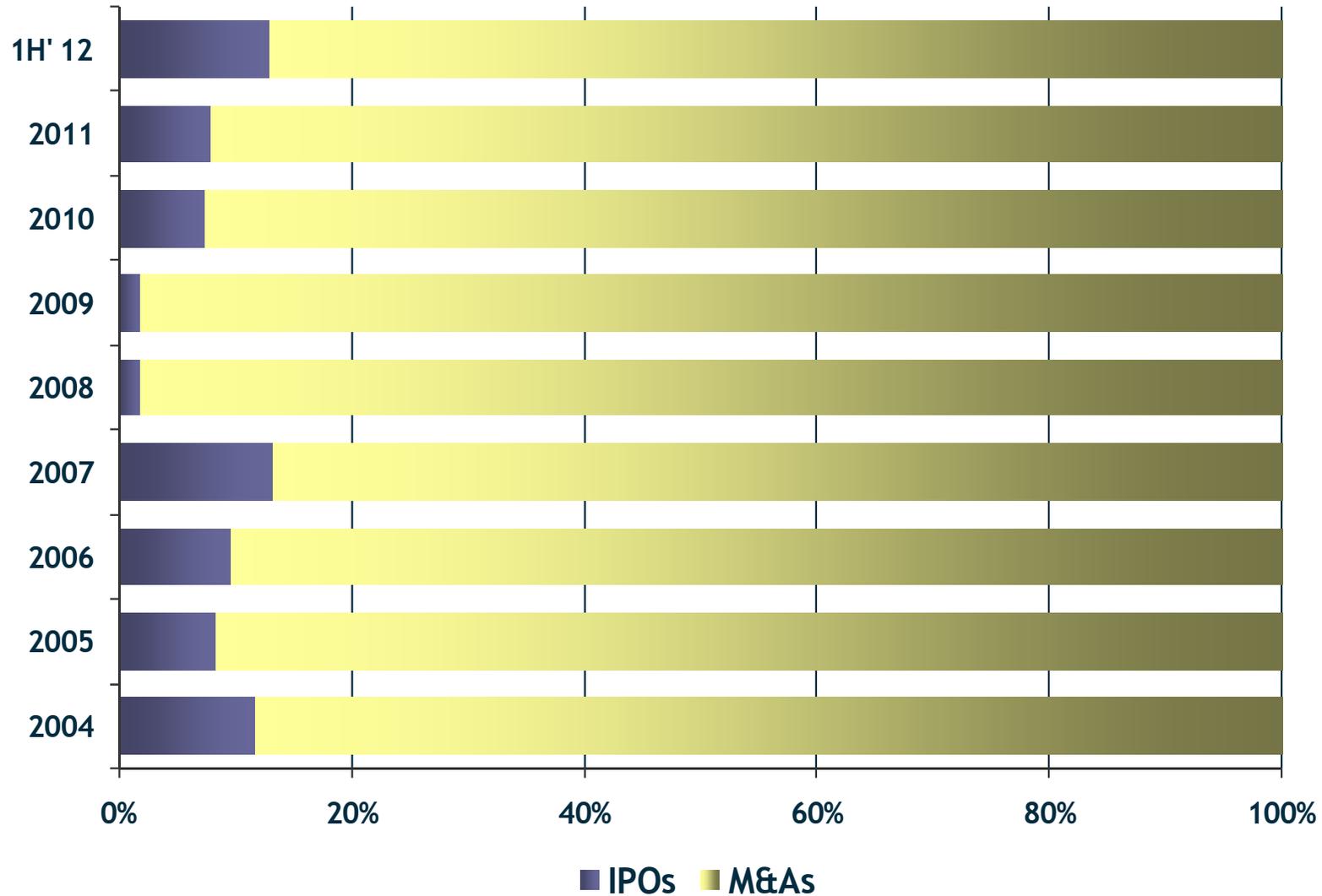


# U.S. Liquidity

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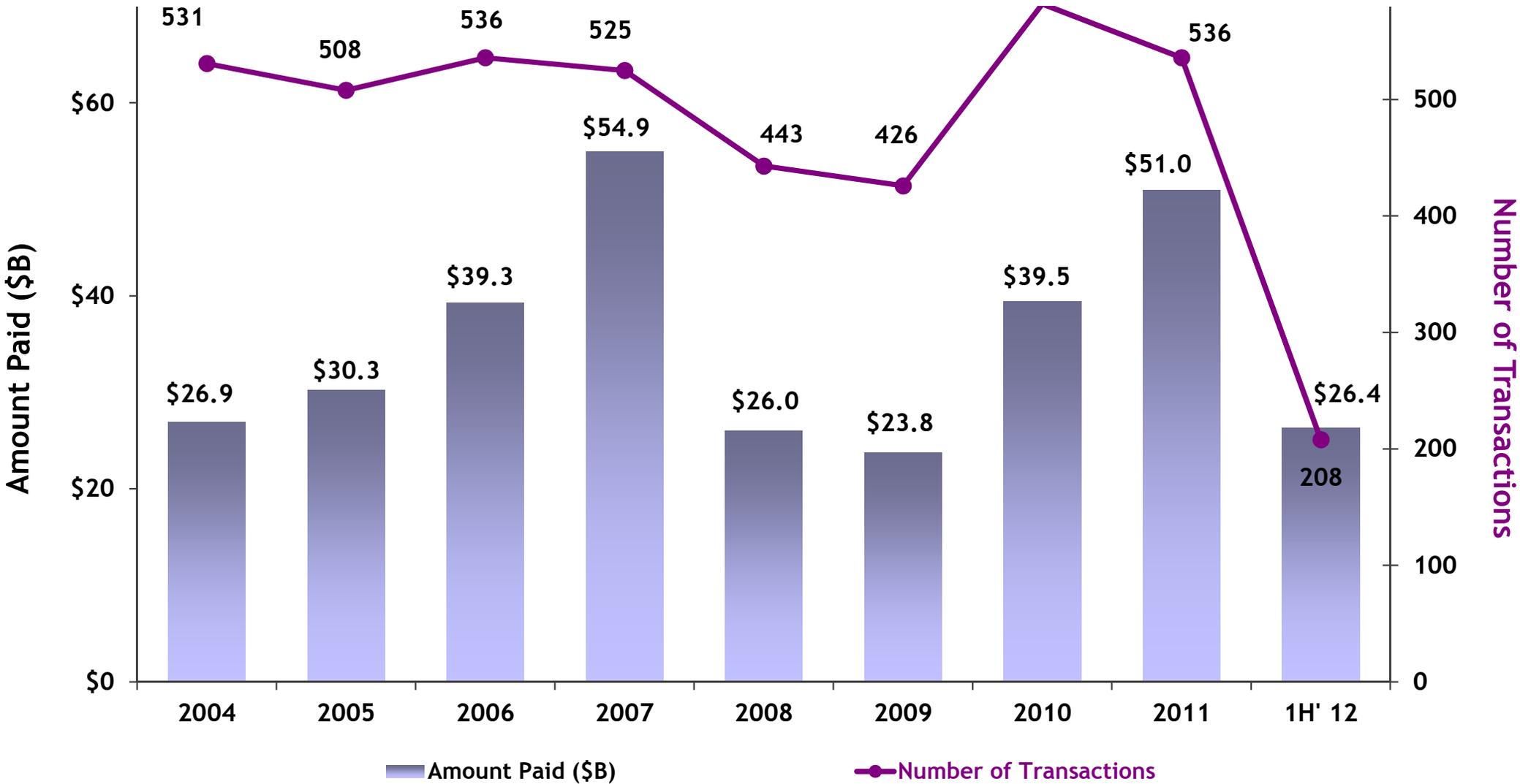
# Exit Opportunities Via IPO Increase in 2012

*Percentage Breakdown of Venture Backed Liquidity Events: IPO vs. M&A*



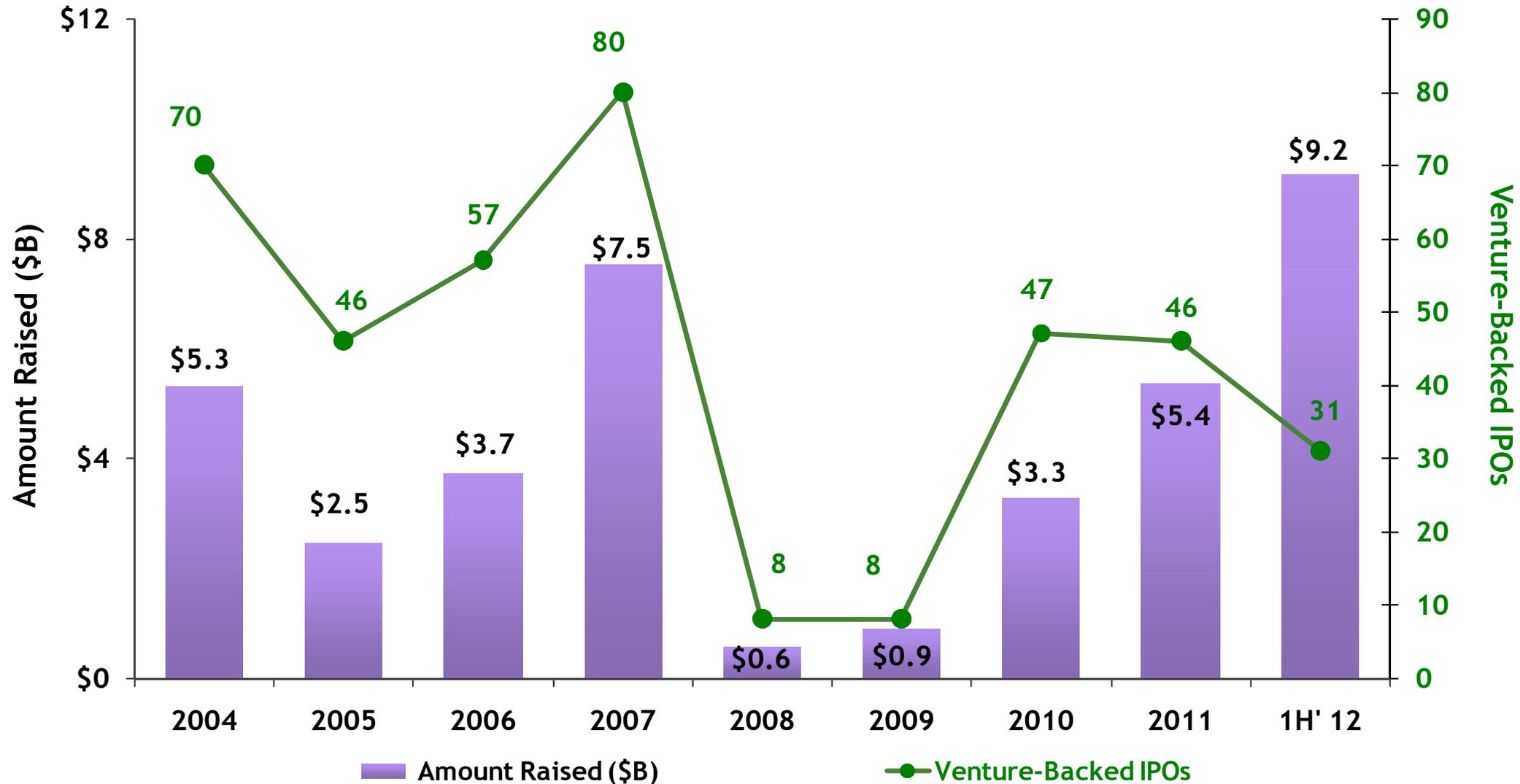
# M&A Activity Sluggish in 2012

*Transactions and Amount Paid (\$B) in M&As*



# Fewer IPOs Raise More Capital in 2012

*Deals and Amount Raised (\$B) Through IPOs*



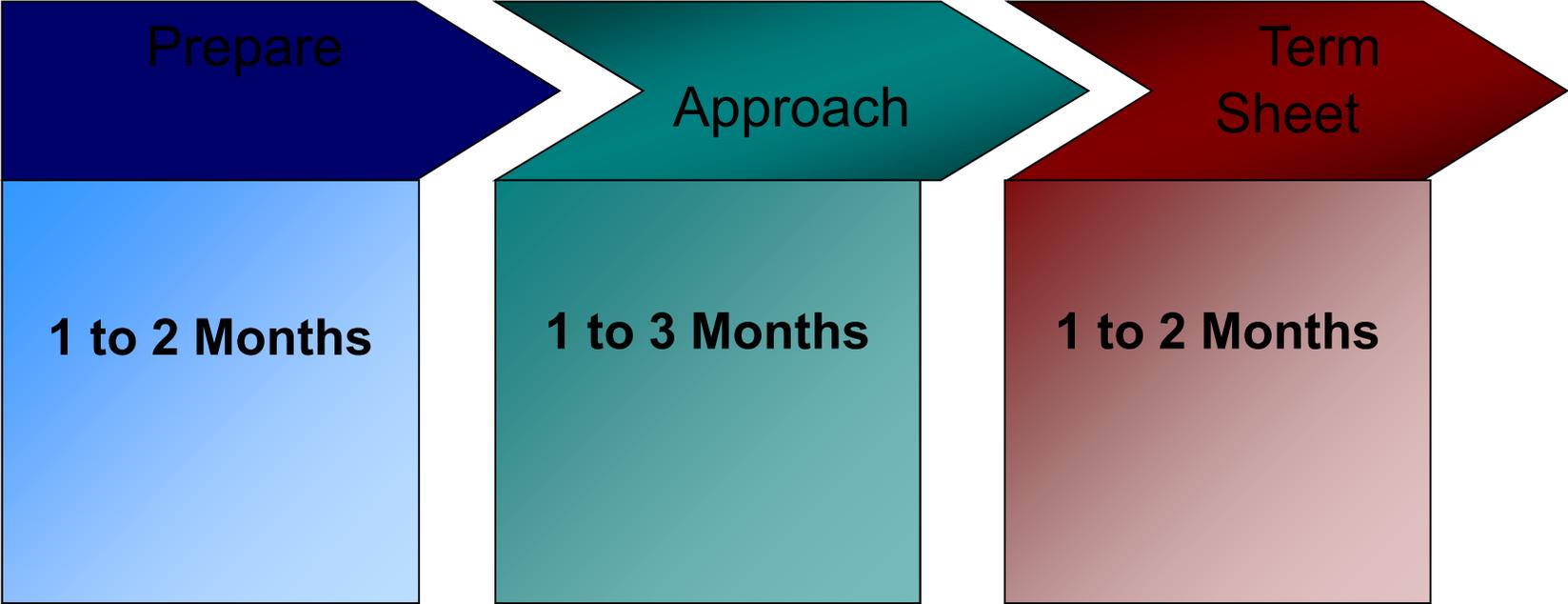
# **PART II**

The Fundraising Process

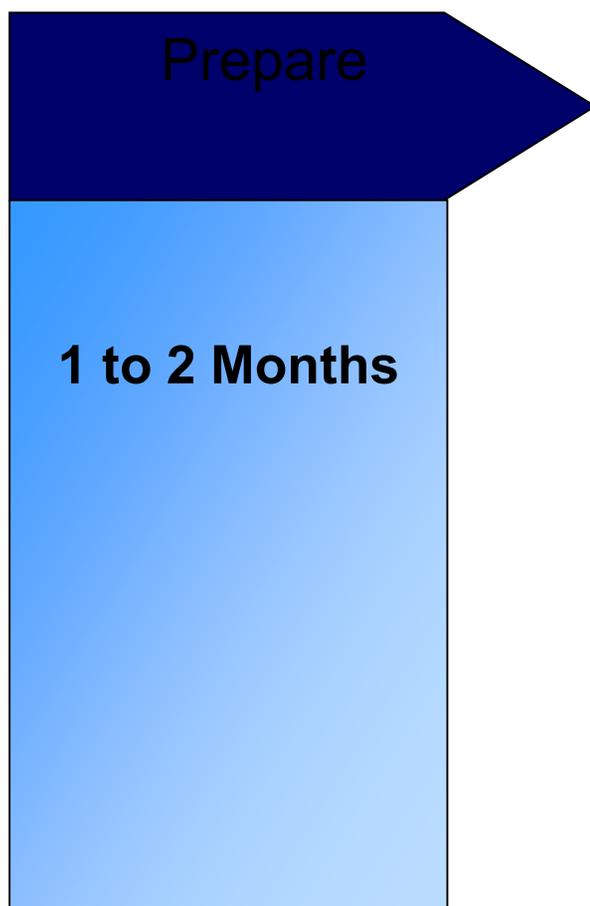
Tools for Financing your Company

Presenting your Plan

# Sales Process



# Sales Process (Prepare)



## **Key Elements include:**

- Create Runway (or Perceived Runway)
- Get Current Investor Commitment
- Scrub The #s
- Align The Organization
- Define Your Objective
- Define Roles & Responsibilities
- Prepare Sales Tool Kit
- Identify Targets
- Create Scarcity Value

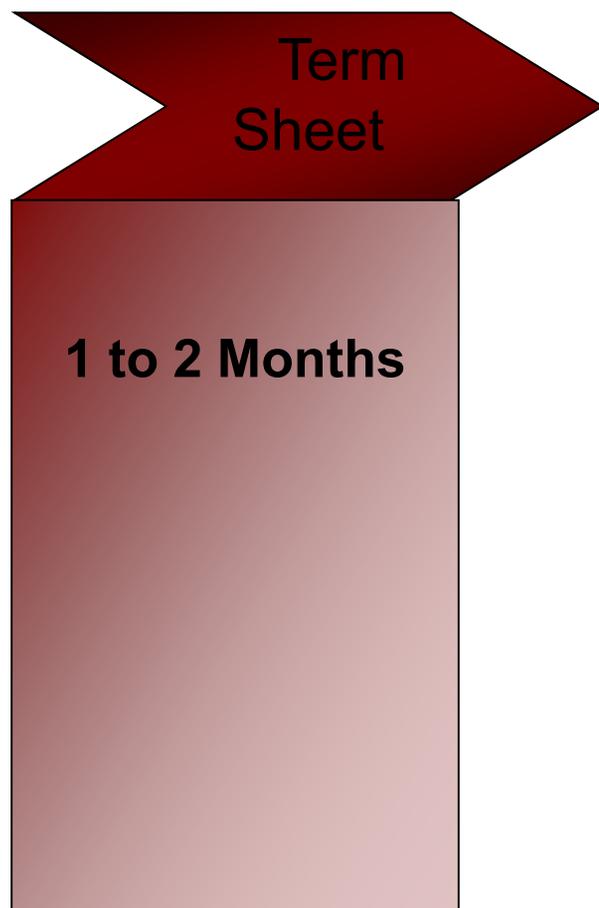
# Sales Process (Approach)



## Key Elements include:

- Get Referrals
- First Meeting
- Subsequent Meetings
- All-Partners Meeting
- Consultant Meetings
- Customer Meetings
- Due Diligence
- Site Visit
- Term Sheet (or Pass)

# Sales Process (Term Sheet)



## Key Elements include:

- Negotiate
- Draw Legal Documents
- Signature
- Pre-Close Review
- Close
- Confirm \$ Deposited
- Due Diligence IS Still Happening!

# Financing your Company

- ❖ Be realistic on timing and pricing
- ❖ Become a great writer and spreadsheet jock
- ❖ Plan your approach using all resources
- ❖ Practice, practice, practice
- ❖ The first term sheet is often the best

# Financing Tool Kit

- ❖ Elevator Pitch
- ❖ Story/Demo
- ❖ Presentation
- ❖ Executive Summary/Plan
- ❖ Due Diligence

# Elevator Pitch

## Definition

- 2-3 sentences that defines the market, customer, problem/solution and uniqueness of the business
- Place on slide one (display as brief bullets with a graphic)

## Framework

- What market are you in?
- What urgent problem are you solving?
- What is the size of the opportunity?
- Why will you win (differentiation, barriers to entry, unfair advantage)?
- Where is the validation (customers, investors, etc.)?

# Elevator Pitch

\$35 billion is what US commercial medium-duty truck fleets spend each year on fuel. Wrightspeed has invented an extended range electric truck powertrain that uses 1) plug-in grid power, 2) regenerative braking and 3) a multi-fuel turbine generator for range extension. The result is high a mpg equivalent, full power and low emissions which can radically transform an entire fleet of trucks.

Light and medium duty delivery trucks represents a \$16 billion addressable market with companies such as UPS and FedEx. The management team has experience from top tech companies such as Tesla, Cisco and Apple. Wrightspeed represents a patented technology which competitors cannot match.

# Executive Summary

## Primary Uses

- Initial introduction to investors (may accompany introductory email)
- Prepares investors for meeting

## Best Practices

- Text derived from your presentation
- Drill down in key areas, but be concise
- Highlight external validation
- Less than 5 pages
- Use as tool to sell the team

## Supporting Materials

- Business plan, sales pipeline, IP roadmap, competitive landscape, etc.
- Make available only as appropriate (avoid material overload)

# Executive Summary Outline

## Definition

- 1-3 page text document which includes all the elements of a business plan

## Outline

- Business Definition/Company Purpose
- Business/Technology Problem
- Company/Product Solution
- Market Trends/Size /Growth
- Competitive Assessment/Point-of-Difference
- Product/Technology/IP
- Sales/Distribution
- Team/BOD
- Financials

# Business Plan Outline

Definition: 6-10 page document before appendices  
Outline

- Executive Summary (1-3 pages)
- Business Overview and Strategy (1 page)
- Technology and Product (1-2 pages)
- Market and Competition (1 page)
- Management and Board (1-2 pages)
- Financial Summary (1 page)

# Due Diligence

- ❖ Full management resumes
- ❖ Annual Financial Projections
- ❖ Product Information
- ❖ Market Studies

# **PART III**

Financial Modeling

Summary

# Financial Modeling

- ❖ It is a forecasting, not a budgeting, tool
- ❖ Work on the financial model together with the presentation and executive summary
- ❖ Do not provide more detail than the plan
- ❖ Use sensitivity analysis, but present the “expected case”
- ❖ Refer to assumptions throughout the plan
- ❖ Check for mistakes and “reasonableness”
- ❖ Get help

# Financial Projections

- ❖ Create a revenue model
- ❖ Plan New Hires
- ❖ Estimate any Significant One-Time Costs
- ❖ Use only annual income statement and balance sheet
- ❖ Prepare monthly or quarterly cash flow forecast until breakeven
- ❖ Don't sweat the details

# Revenue Model

- ❖ Build a specific revenue model that mirrors your industry
- ❖ Compare with industry standards, highlight any differences
- ❖ Prepare the model from the “bottoms up”
- ❖ Do not over estimate first year revenue
- ❖ Do make a 5 year forecast
- ❖ Know the way revenue is recorded for your industry

# Headcount

- ❖ 80% of all early year expenses are headcount related
- ❖ Make sure you are reasonable with salaries
- ❖ Match additions of people with company milestones
- ❖ Don't forget taxes, benefits and recruiting expenses
- ❖ Build a sales commission model, if necessary
- ❖ Index salaries to inflation and add bonuses

# Other Expenses

- ❖ Don't sweat the other expenses
- ❖ Make sure rent increases as needed
- ❖ Watch consulting and professional services
- ❖ Begin taxes at the appropriate time

# Balance Sheet

- ❖ Do create a balance sheet
- ❖ Use industry standards for AR and AP assumptions (typically 60 days and 30 days)
- ❖ Include financing assumptions on your balance sheet
- ❖ Make sure it balances (the balancing item is cash)

# Cash Flow Statements

- ❖ A Flow of Funds statement is typical and easiest
- ❖ Use the Receipts and Disbursements statement if you are brave
- ❖ Cash flow statements are derived from the income statement and balance sheet
- ❖ Do not make changes on the cash flow statement
- ❖ Show monthly or quarterly cash flows until breakeven in the appendix or as backup slide

# Charts and Tables

- ❖ In the presentation or business plan, use charts and tables to highlight the following:
  - Revenue (esp. as compared to competitors)
  - Sales and distribution model
- ❖ Five year annual summary
- ❖ Other charts and graphs can show key events to next funding round, cash flow breakeven or the cash flow cycle

# Summary

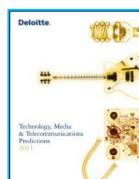
- ❖ Create a great demo and presentation
- ❖ Use the executive summary to market your company
- ❖ Make the financial projections work with the assumptions in your pitch
- ❖ Practice your pitch with an experienced audience
- ❖ Keep revising your plan and projections as you grow
- ❖ Good luck

# Appendix A: Tools and knowledge resources - continued



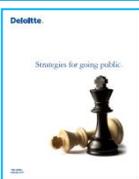
**Dbriefs webcasts:** Timely, interactive web based presentations covering a wide range of topics of interest to financial professionals. Accounting-related Dbriefs, conducted at least twice a quarter, cover each EITF meeting and recent accounting developments. Special editions of Dbriefs are produced when significant accounting events occur (e.g., when the FASB issues a major exposure draft or final standard). Attendees of accounting-series Dbriefs are eligible for continuing professional education credits.

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**TMT Predictions 2012:** This annual publication presents Deloitte's view of the major trends likely to have a significant medium- to long-term impact on companies across TMT. The goal of Predictions is to catalyze discussions around important topics that may require organizations to respond. We provide a view on what we think will happen, what will occur as a consequence, and what the implications are for various types of companies.

Over the last decade, the TMT sector - and its impact on how we work, live, and are entertained - has changed markedly. One key trend over the last ten years has been convergence: the technology, media, and telecom sectors are more interconnected and interdependent than ever before.



**Strategies for Going Public Third Edition:** This publication provides information to assist companies through the initial public offering (IPO) process by providing practical, working knowledge of the stages for going public in the U.S. Broad in scope, it addresses both pre- and post-IPO considerations, so companies can remain well informed and prepared at every stage. Along with key information on the requirements and regulations of a successful offering, the publication also includes helpful tools, such as a timetable for going public, a sample due diligence checklist, and a discussion of the different securities exchange listing requirements.



**Perspectives – for mid-market and privately held companies:** Published by the Deloitte Growth Enterprise Services (DGES) group, this bi-monthly newsletter is distributed to nearly 60,000 DGES clients, recent Private Company Dbriefs attendees, and participants in our semiannual Private Perspectives interactive events. Each newsletter features articles of interest to mid-market and private company executives provided by Deloitte specialists from audit and enterprise risk, consulting, tax, and financial advisory services – Deloitte’s multidisciplinary resources.



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