YOUR IDEA IS SH*T

CHANGE MY MIND

How to radically improve your chances of an investment for your idea or start-up

Daniel Fah & Tony McAuslan

Your Idea is S*hit

www.yourideaisshit.com

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He has held senior positions and engagements with large international companies, private equity firms, and successful start-ups in a variety of industries throughout Australia, the USA, the United Kingdom. and China.

Tony McAuslan

Tony is an internationally recognized Digital Content and Communications specialist with an extensive Marketing career at senior management level. As well as founding a number of successful start-ups of his own, he has held a variety of C-Suite positions with Fortune 500 companies, start-ups and listed public company boards.

These days his focus is on mentoring young entrepreneurs and acting as a 'Founder's Advocate' for business owners trying to navigate their way through the shark-infested waters of capital raise and investment.

History

Together we have worked on and off for over 20 years through many a hard-fought battle to get their own start-ups off the ground and invested, as well as helping countless other entrepreneurs and inventors re-invent, restructure, rebrand and re-imagine their ideas to help get them 'investment ready'.

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*"In these increasingly troubled times,
Investors want to entrust their money
to people who really know their shit."*

Preface

Your Idea is Sh*t - Change My Mind

Why the title?

To any inventor or entrepreneur, ideas are like one of their children. They've nurtured them from conception, taken great pride in every developmental step as they've grown to maturity and refuse to hear a word of criticism about them. Every inventor or developer that comes to us is convinced that their 'baby' is worth millions.

But to effectively take an idea that may have been conceived while laying on your mom's sofa or during a round of drinks with a few buddies at a BBQ, to a household brand or globally scalable business takes a lot of luck, blood, sweat, dedication, and money. With very few exceptions it particularly requires lots and lots of money.

That means that unless you are independently wealthy, you are going to have to turn to Investors - large and small - to provide the capital you will need to achieve your dreams. The industry 'code word' for this is 'O.P.M.' - Other People's Money. You're gonna need O.P.M. - which means you're going to have to convince other people that your idea is compelling and investment worthy.

Unfortunately, Investors don't see your idea as 'someone's baby' - and if they do, it's the annoying kind of baby that is crying up the back of the plane. Consequently, they have no problem with brutally stifling that baby and leaving its parents in tears.

So, at the opening stages of any negotiation for capital, its most likely your 'million-dollar idea' is worth shit to your average investor. Don't be offended, it's their job to be sceptical and it is your job to change their mind.

Over the last 20 years, from the poolside of some of Hollywood's finest hotels, to crazy 'launch' parties complete with real tigers in Las Vegas, Georgian mansions in London and soaring glass towers overlooking the harbours of Hong Kong and Sydney, we've pitched, negotiated, wrangled and managed million-dollar investment deals, sales and acquisitions with some of the world's toughest and most ordinary investors.

Some nice, some openly hostile. Some as honest as the day is long and others where you need to count your fingers after shaking hands with them. But if there's one thing they all have in common it's a high degree of scepticism when it comes to 'once in a lifetime investment opportunities' - especially if it is with their money (which they treat like THEIR children).

Many are often battle scarred from the high degree of failure that most start-ups engender and are therefore consciously looking for reasons **NOT** to invest in your idea. However, the good news is that most are open to you 'changing their mind'. But it won't be easy.

Therefore, the trick is to provide them with an iron clad case that gives them reasonable certainty that your market is as ripe as you say it is, your product is as unique as you say it is and your team are as capable as you say it is. Put your case well and there is a good chance the jury will come down in your favour. Fail to convince them beyond reasonable doubt - and your idea is likely to face the death sentence.

Rule Number 1

Don't try to bullshit a bullshitter

When this scepticism first becomes evident, a lot of entrepreneurs (both novices and even the more experienced) tend to fall into the trap of firing from the hip as they attempt to throw everything but the kitchen sink at the investor, in a vain attempt to get them over the line with a combination of unsubstantiated promises and shaky financial projections. It rarely works. As with all things in life, honesty is the best policy.

If they're professional investors, you can bet that they've heard and seen enough fancy pitches, failed test excuses, fantasy sales projections, fudged expense reports, dodgy data, and clever closing lines to make a snake oil salesman blush.

Conversely, many of these investors are themselves, not adverse to making wild promises of unlimited capital, friends with big pockets, their relationship with industry heavyweights, and the many other ways that they intend to 'bring value', so you're most likely in the presence of masters when it comes to dealing in bullshit.

So, this is where this book comes in. Based on our combined 40+ years of experience, we have created a logical, easy to follow, step by step guide that will lead you through the capital raise process from initial pitch to signing a *Term Sheet* that you can take to the bank. We can't guarantee that an Investor will like your idea - but we guarantee that you will have covered every 'Hot Button' on your average Investor's shopping list and left nothing to chance.

Our only wish is that someone had given us a book like this 20 years ago, when we set out to raise our first million dollars. It would have saved a lot of grey hairs and sleepless nights.

Enjoy the Ride

Daniel & Tony

Introduction

If My Idea is So Great – Why Do I Need to 'Sell' it to Anyone?

There is an old adage in business that says, 'Nothing happens til someone makes a sale' and sooner or later, every budding inventor or entrepreneur will find themselves with their nose pushed up against this hard fact of life.

It doesn't matter if you consider yourself first and foremost to be a scientist, or an engineer, a visionary or one of those coding geniuses that think 'salesmen' and the notion of 'selling something' are below them - if you have a dream to get your idea or own start-up off the ground, you're going to need funding. And unless you're independently wealthy, you're going to need to 'sell' your idea, product, or service, or even 'vision' to the people who have the cash.

Let's call this group of people 'The Investors'

Your potential Investors could come from a variety of sources, from big Venture Capital Funds (VCs), Equity Groups, Banks, Family Offices (every wealthy family has a Family Office to manage their investments) Accountants, High Net Worth Individuals, Angel Investors, Crowd Funders, Family and even just Friends.

Warning: Before we go any further, this might be a good time to warn you that if you don't suffer fools gladly, don't like speaking in public or don't handle criticism well, then maybe going through the experience of raising capital for an idea is not for you. If that's the case, put this book down and go and get a job. Preferably a well-paying one where it's someone else's job to ensure you and all the other employees get paid every month.

If you're still with us, congratulations, you're about to enter the lion's den that is capital raising.

First of all, Television shows like Shark Tank or Dragon's Den have a lot to answer for, mainly for giving many budding entrepreneurs the impression that all you need to do is rock up to some venue where one or more wealthy investors are sitting around waiting to welcome you warmly wherein you dazzle them with a quick pitch and a deft display of how your idea works (or tastes) and then answer a few short questions before you have them reaching for their chequebooks and elbowing each other out of the way to buy a piece of your action.

Well as veterans of twenty years of doing hundreds of pitches, we're here to tell you that most of the time *it Ain't Like That!*

So, let's look at how it is much more likely to go down.

Picture yourself in a foreign city. Maybe in your own country, it maybe somewhere else, like London or New York or Tokyo.

Your funds are running low and consequently you've taken a cheap flight and put yourself up in a budget hotel. It's hot and muggy or cold and raining and hopefully the budget stretches to a cab, otherwise you've had to schlep over there via public transport, which means you arrive looking dishevelled and smelling like the rest of the populace you've just been squashed in with.

You enter the office of the address you've been given and it may be a modern high rise, some funky warehouse or maybe just the office of some Accountant that's seen better days.

Rule Number 2 of Capital Raise - never judge a book (in this case your potential Investor) by its cover. We've been in some Swanky offices where it turns out the tenants haven't got a spare dime to invest and we've been in some paint-peeling, fly-buzzing hell holes where the occupants have more money than god.

Whatever the situation, be prepared to wait......and wait. Learning to cool your heels in an investor's waiting room is an art you'll need to master.

When you're finally ushered in to meet the investor and his team, be prepared for the financial world's version of 'good cop / bad cop' (more on this later) but wherever the conversation starts, it won't be long before someone pulls out the holiest of documents in the investment lexicon - your Information Memorandum, or I.M. as it is most commonly referred to.

Now while your ultimate success is going to hinge on your ability to pitch or 'sell' your idea, the I.M. is the bedrock upon which your pitch is built.

It's important to bear in mind here that most successful investors are by their very nature cautious (read 'sceptical') so you're going to have to overcome a lot of objections - both obvious AND subliminal - to get them onside, which is why (in honour of that scepticism) we've titled this booklet *'Your Idea is Sh*t - change my mind'.*

So, sit down, strap in and let us show you how to carefully construct a great elevator pitch, write a KILLER of an I.M., and then how to sum it all up in a compelling Pitch Deck that will win investors over and hopefully change your life forever.

Your Idea is Sh*t - Change My Mind

Understanding the Investor's Chain of Interest

As a rule of thumb, the 'chain of interest' that will hopefully lead to an offer of investment usually looks like this -

Elevator Pitch

Leads to....

Calls for an **Information Memorandum**

(Think of your I.M. as 'Tinder' for start-ups)

Which Leads to....

Invitation to Present your Pitch Deck

Leads to....

Due Diligence

Leads to....

Term Sheet (Offer to invest)

Leads to....

Money and real chance to make it Happen

This book guides you through the stages from your Elevator Pitch (get that right and they will ask for your IM), send them the Killer IM and you will soon be booked in for chance of a lifetime, to present the ultimate Pitch!

Odds of Getting a VC Deal

Just before we get too excited here - we can't stress enough the importance of putting in the groundwork if you're serious about raising an investment, especially if you're targeting Venture Capital firms. And be prepared to sweat. Getting their attention isn't easy, and if they do find you on the radar, chances are you're only going to get one shot.

According to a recent survey by ***Smart Company,*** around 30% of VC leads come from former colleagues or previous employees.

Around 20% of deals come from referrals by other investors, and around 8% come from referrals made by existing portfolio companies.

Only around 10% come from cold email pitches, but the good news is that around 30% of deals are initiated through them seeking out and approaching entrepreneurs themselves. So, if you can get a bit of a buzz happening around your business (social media, press, trade shows, etc.) there is a chance that the mountain will eventually come to Mohamad. Or to paraphrase that great movie, *Field of Dreams* – 'If you build it, they **might** come'.

Even for Founders who do gain access to a VC, the survey showed that the odds of getting a deal are still low, with data showing that for every one (1) deal a VC firm closes, the odds are that they've considered a pool of around 100 applications.

So that's your odds right there - one in a hundred.

Of that pool of 100, the research shows that only around 28 of those considered with make it to a meeting (pitch). Of those, only 10 will be chosen to move on to a full partner meeting for consideration, 4.8 will proceed to Due Diligence, 1.7 of those will move on to the negotiation of a Term Sheet, and only one (1) will ultimately be offered a deal and receive funding.

And as if that's not enough to keep you chewing on your fingernails while you're awaiting the outcome of your negotiations, the research also indicated that it takes an industry average of around 83 days to close a deal, with VC firms estimating that they spend around 118 hours doing Due Diligence, which usually involves them speaking to around 10 references.

The other interesting bit of feedback coming out of this research (which we will talk about elsewhere) is the fact that when the question was put to them as to 'what is more important to back - the horse or the jockey? (Meaning do you back the idea or the Founders) the overriding response was typical of this one by a very well-known VC veteran - 'We live and die by our Founders.' Which is a sentiment we have seen time and again expressed by experienced investors all over the world.

The logic for this is very simple.

1.) Even the best ideas need strong product champions to drive them to success.

2.) The VC's thinking is this - 'If we have a strong Founder and the business still fails, we can always put him or her to work in another investee company, because we know what we will be getting.

3.) Given the choice between 'Great idea, but weak Founder' OR 'Pretty good idea but great founder', they will 9 out of 10 times go for the latter.

So, What's The Takeaway?

- Go in with your eyes open that getting funding from a VC is a 1 in a 100 shot.
- Be prepared to have every element of your business proposal scrutinised at multiple levels.
- Cold calling VCs is possible but being referred to them by a friend whom they trust (known as a 'warm intro') will improve your odds.
- Ensure that any data or financials you provide are accurate - show them you know your shit.
- Remember that ultimately you are selling YOURSELF (and your team) first, and your idea second.
- Your entire fund-raising campaign (just like politics) needs to be one big long charm offensive from day 1.
- Be prepared to wait for up to 3 months to close a deal. Maybe stock up on pot noodles.
- Have some good references in mind if you do get to Due Diligence - Accountant, Customers, Suppliers, Industry Leaders, Research Partners, etc.

NOTE:

We have knocked back pitches for what seemed on the surface to be great ideas, based on the fact that we could just tell that the Founder would be horrendous to deal with. So be on your best behaviour.

Final Thoughts

As you can see from these numbers, you will need patience and persistence to overcome the odds in order to secure a deal. If you need to raise cash fast, you may want to consider throwing all of your resources at winning ***Powerball*** instead, at least you'll have an answer by next Thursday.

But if all that hard work and planning pays off and you DO get a deal, it will be the equivalent of winning life's lottery. So Good Luck!

Part 1.

The Elevator Pitch

YOU'VE GOT 30 SECONDS TO IMPRESS ME

"Is your Idea Hot Shit – or Just Full of it?"

The Elevator Pitch

There are basically two kinds of pitches.

The quick rapid-fire pitch that sums up you and your idea in a paragraph or two. Often referred to as the 'Elevator Pitch' - because in theory that's how much time you've got to deliver it - eg. from the time it takes a potential investor or partner to take the elevator from the ground floor up to their office (and hopefully, you've managed to come along for the ride).

And then there's the full on 'all guns blazing' expanded pitch (often called a 'Pitch Deck') where you've most likely been invited to present and have the opportunity to impart as much information as possible within a given time slot.

In most cases, a carefully crafted I.M. (Information Memorandum) is the key to being asked to pitch a more informative overview (Pitch Deck) where you'll have time to go in to detail and have the added benefits of visual aids, video clips, charts, and even the product itself. Plus, you get the added benefit of being face to face with the Investor – even if it's just via Zoom.

Needless to say your elevator pitch needs to grab them by the throat from the minute you open your mouth and hopefully leave them wanting more....which means it needs to be concise and rehearsed (although it can't appear rehearsed) and approached with the precision of a military strike, whereas your expanded Pitch Deck still needs to be concise, but you have the luxury of having a bit more time and perhaps some visual aids.

Metaphorically, you elevator pitch should leave them wanting more - whereas your expanded pitch deck should leave no question unanswered.....

While the common name is 'the elevator pitch' the opportunity to present your pitch may come at any time - in a shared taxi, a lucky seating plan at a function, a fellow passenger on a flight, and yes, even in the men's room.

So, you need to have your pitch memorised and be able to deliver it smoothly and confidently at a moment's notice.

Secrets of a Great Elevator Pitch

Unless some VC has invited you along for the ride up to his or her office - there's a good chance your elevator pitch is going to be delivered under ambush conditions.

Which means their focus is most likely to be entirely elsewhere and the last thing you want to do is waste valuable seconds having to repeat yourself because they didn't realise you were actually speaking to them.

Turns out that certain people (like film producers and Venture Capitalists) who like to think of themselves as 'big visionaries' also have short attentions spans, so they need to be able to understand your goal or dream and most importantly – WIFM (what's in it for me) in just a few sentences. The 'Me' being them…

A big time Hollywood producer is unlikely to want to sit through your film synopsis about an ancient reptile that is brought back to life then escapes into the forest where it wreaks havoc on the local wildlife before going on to destroy a whole city during an apocalyptic event......

But, if you were to just say 'Think Godzilla Meets Bambi in San Francisco During an Earthquake' they'd have all the info they'd need to consider calling for the full script.

If the I.M. Is like 'Tinder for Start-ups', then the Elevator Pitch has to be like one of those great Hollywood 'Coming to a Cinema Near You' promos that instantly has you checking for the screening times at your local theatre.

In other words, don't uhm and arrh or get caught up in awkward introductions or inane comments about the weather - this is where you need to really nail it.

Every second counts, so if your elevator pitch is going to grab them, then the opening line needs to be right on point.

There are three opening gambits that we've seen used to great effect over the years:

1) Intrigue Them
2) Humour Them
3) Frighten the Shit out of Them

Intrigue Them

Whatever you say in your elevator pitch - the first objective is to instantly get their attention.

Here is an example of an intriguing opening line -

'Would you be interested if I could show you how to cut 60% of heart attacks in America with a simple $15 dollar device?'

However, This, is NOT an intriguing opening line!

‘Hi, I’m Gary Guttledge and I’m the Founder of HeartHealth Inc and ever since I was a little kid I’ve been interested in medical devices, and I want to talk to you today about a major breakthrough we’ve developed in Yadda Yadda Yadda......’

Do You See the Difference?

People’s retention abilities are not good at the best of times. In the first opening we are only asking your mark to remember two (2) things - ‘We can cut 60% of heart attacks’ + ‘With a $15.00 device’.

In the second scenario you are asking them to retain -

- Your Name
- Your Position
- The Name of your company
- Your dream since you were a little kid
- The fact that you have some vague sort of major breakthrough to do with a medical device. And you haven’t even got to your idea or value proposition yet - **DING!** - They’ve reached their floor and your time is up....

Believe us when we tell you - if your idea or value proposition has intrigued them - they will make it their mission to find out your name, position, company, AND your childhood ambitions....

Humour Them

Comedy is subjective, so unless you know your audience (and are good at delivering one liners) it’s probably best to stay away from opening with a joke. However, self-deprivation can often work well in breaking the ice and putting your mark at ease.

Some self-deprecating opening lines:

- 'You wouldn't think with a body like this I could sell a million dollars' worth of health supplements.' (Works especially well if you DON'T have a body like Thor).
- 'Look at me. Six years studying Accounting and now I've got the fastest selling baby formula in Australia. My mother doesn't know whether to be proud or horrified.'
- 'I'm sure you would rather have been sat next to Heidi Klum - but when was the last time Heidi Klum turned a $6000 dollar investment into $6 million?'
- 'My parents would be so angry if they knew I had quit Med School to join a start-up, so I tell them I'm in Prison.'

You get the idea....

Frighten the Shit Out of Them

There's and old saying in the publishing business -

'Bad news sells papers'....And it turns out it's also a great way of getting people's attention - especially if you've got a solution for them.

Examples of Frightening People

- 'There are about a hundred people in this room and by the time they are 65, roughly half of them will have been diagnosed with dementia...'
- 'Before they integrated our system, one of our big clients was regularly issuing duplicate payments with cheques of over a

million dollars at a time - imagine trying to get that back off a supplier....'

- 'They estimate that many sporting codes will soon have lawsuits that run into the billions of dollars based on the poor helmet designs of today....'
- 'Did you know that there are new laws coming into play that could see you in court for the unhinged tweeting of one of your employees?'

Any fact that conjures up an image of financial or reputational loss or that could have a direct impact on the health of your mark, is bound to make them sit up and pay attention. But it has to be factual, and it has to be relevant to your business and theirs.

There are plenty of start-ups right around the world today that are cashing in on the current Covid 19 pandemic.

Leave Them Wanting More

Once you've got their attention, (and bearing in mind the time constraints) give them a bit more information that supports your original claim and gives them some confidence that you are serious about delivering the solution.

So, after delivering the killer line about half the people in the room being diagnosed with dementia by the time they reached 65 - you might want to go on with -

'I've been working with a team of international scientists, and we've developed a treatment for dementia that utilises stem cells - is that an area you'd be interested in?'

And you could add -

'What about if I told you that treating patients with dementia was a $17 Billion dollar a year industry?'

So just to recap, the whole idea of an elevator pitch is to pique their interest. But like any 'sales communication' it should have an objective. And in this case your objective should be one of two outcomes -

1.) They ask you to send them your I.M. or Pitch Deck.

Or

2.) They ask you to come to their offices or connect with them in order to give them a more detailed pitch.

Tip: If you achieve either of these outcomes - stop talking. Now. We mean it.

There's an old salesman's edict - once you've got the sale (or your desired outcome) you need to shut up.

Give them your card. Take their details. Thank them for their time, and then beat it.

We can't tell you the number of times a deal has been killed off by some garrulous salesperson who just can't shut up.

Picture this:

You're sat next a well-known VC at a dinner function. Over the course of the evening, you've managed to get them to warm to you. They've even been gracious enough to let you pull them aside while you drop your best elevator pitch on them. They seem intrigued and ask you to forward a copy of your I.M. to their assistant.

You're home and hosed. But instead of shutting up and changing the subject, you just keep rabbiting on. This is especially dangerous at any event where alcohol is served. You've mistaken 'piqued and polite interest' for 'needs to know every intimate detail of your business'…

You Are About to Enter the Danger Zone

This is the danger zone, because instead of delivering a carefully crafted message, you are now in the uncharted territory of delivering information out of context.

We've seen plenty of interested Investors go cold because the Founder didn't know when to shut up.

Imagine hearing about an intriguing start-up idea and you're about to invite the Founder to send you more info when you hear something like this:

- 'Oh, that reminds me, I'll have to ring my business partner and check that she's registered the patent…'
- 'So far the testing has been done by my cousin, but once we get some money well be able to afford some independent testing.'
- 'All I need is $250,000 and Ill be able to get rid of my useless partner.'
- 'I know it's not legal now, but we are counting on the government changing the laws sometime soon.'
- 'I can't get over all of these VCs who think they know more about my business than I do.'
- 'We figure that five million dollars is fair for five percent of the company'

All Of These Are Red Flags To An Investor. (Or to give them their scientific name – Deal Killers).

Recap:

- Get to the point quickly
- Intrigue them, humour them, or frighten the shit out of them
- The only goal is to leave them wanting more
- Shut up and get out

Part 2.
Constructing A Killer Information Memorandum (IM)

"If for no reason other than professional courtesy, it's best not to try to bullshit a bullshitter..."

What is an Information Memorandum (I.M.) ?

The original definition of an information Memorandum or I.M. is 'A short note designating something to be remembered' or in Law, 'An informal document containing the terms of a transaction.'

The key takeout in this is the word 'remembered'.....if your I.M. hasn't been designed to be remembered, don't even bother to produce one. We know large Venture Capital firms who receive upwards of 100 I.M.s per week.

That means long before you ever get the opportunity to 'pitch' your business idea in person, your I.M. (from the front cover to the Summary) needs to grab them by the throat and have them clambering for more. Essentially, you need to think of your I.M. as your submission to 'Tinder for Start-ups' - if you're lucky you're going to get one chance before they decide if they're gonna swipe Left or Right.

'Think of your I.M. as Tinder for Start-ups'

In the world of investment banking, an I.M. (Also referred to as a Confidential Information Memorandum or C.I.M.) is usually understood to be a lengthier marketing document produced by companies wishing to sell their business (ie. are in a sell-side process) that provides potential buyers with a detailed first impression of your company that would be used to introduce the business before the buyers have engaged with representatives of the company in person.

An I.M. is generally understood to be a document provided to potential sophisticated investors who may be interested in buying a percentage (or All) of your company in what's termed a Private Placement - which means it's generally not scrutinised under the law.

This should not be confused with a document that's known as a 'Prospectus', which is a more formal and detailed document required by law if you are seeking investment from the public at large (including Mum and Dad investors).

Depending on what country you're in, other names for an Information Memorandum include:

- Offer Document
- Deal Book
- Pitch Doc
- Pitch Book
- Memorandum of Sale
- Company Book

So while your garden variety I.M. is not generally 'scrutinised' under the law, BEWARE! An I.M. is still a legal document where a bad choice of words can result in serious litigation or even lead you to court.

Every word needs to be weighed for portent and meaning and how it could be misconstrued. Investors will be making million-dollar decisions based on the 'information' you are providing. And while it's important to outline the upside of the business (sometimes described as the 'blue sky') these projections need to be based on at least some hard facts grounded in reality - not just your enthusiasm for your idea, or on a random sampling of your friends and relatives.

There is an old maxim amongst Venture Capitalists that goes 'Just because you have 10 Chinese friends that Love your product - does NOT mean you have a potential market in China of 1.2 Billion people'.

We'll cover this a bit later when we talk about one of the key Metrics of any I.M. - Global Scalability.

'A poorly drafted Information Memorandum can be compared to tap dancing on a randomly seeded mine field. where you never know where the next explosion is likely to go off'

The Information Memorandum (IM) is the key marketing document, and therefore your I.M needs to include comprehensive and correct information about the business.

Every business is different, so the I.M. is particular to your business.

It must be long enough to supply relevant information, but short enough that they don't get lost in the detail. With this in mind, we like to tell people that the ideal length of a I.M. should be about twenty five pages, so that a reader who gets on a flight in Melbourne should have finished reading it in the time it takes them to fly to Sydney (approx.. 1 hour).

If your I.M. requires the time it takes to fly from Sydney to Tokyo, then that's not an Information 'Memorandum' that you've written, it sounds more like *'War and Peace'*.

So, let's take a look at how we break down your I.M. into meaningful and concise sections.

BEFORE YOU START WRITING – LET'S CONSIDER THE QUESTIONS EVERY INVESTOR WANTS ANSWERED:

1. **What is the Global need?**
2. **Technology breakthrough or Eureka moment you have discovered?**
3. **Your Unique Selling Proposition / Sustainable Competitive Advantage?**
4. **Business Model – How do you collect the money from your clients?**
5. **Communications Strategy - How will your potential market come to learn about this great new product/service?**
6. **Details of Funds being sought: How you will be funding the resources you require to deliver on your idea?**
7. **The Success Metrics - Outline the targets and milestones that will be used to validate your idea, and how this makes it a compelling investment.**
8. **Who Are the Team Who Are Gonna Make This Happen?**
9. **Some Thoughts on How Investors Assess Risk**
10. **Specifically – How is this a multibillion-dollar opportunity?**

1. What is the Global need?

Serious investors want to know exactly how your business idea can be a success on the world stage, and how it will generate the greatest value.

Do you solve a global issue? Beat world hunger by making crops grow without water? Tackle pollution in the third world with you food scraps recycling idea or cool the planet with your carbon capture box? Create unlimited clean energy, test for corona virus in 1 minute with your magic marker, fix obesity with a new way to make bread with no carbs? (Notice all of these have global application).

Whereas if your 'Big Idea' involves selling recycled designer handbags, then there's a good chance that billions of consumers won't be clamouring for it.

As we said, your idea is your 'baby', and we don't want to insult your baby – but let's face facts, some babies are just bone ugly.

When Entrepreneurs wonder why they cannot get investment capital, the reason is often that the opportunity is just too small or insignificant for anyone to take on the financial risk.

Investors often refer to it as the risk/reward ratio:

Risk $1M to make a potential $5M – Nope

Risk $10M to make a potential $100M = I'm in!

If an investor sees an opportunity that can be deployed across the world, they will want to know more.

You can start small and local, but to really get their attention, aim for the whole world.

2. Technology breakthrough or Eureka moment you have discovered?

What have you invented or discovered or method you have created that changes the way things are currently done?

Technology Breakthroughs / Industry Disruption

A key metric used for deciding the 'risk profile' of any new start-up will be any type of technological breakthrough associated with the product or service.

Truly new technology will have its own intellectual property (I.P.) rights (a patent) that underline the uniqueness of the idea, but 'services' may be a little more complicated. Getting a patent on a new way of delivering a service could prove challenging and will most likely be costly (if indeed it is successful).

However, as with some of the world's most successful services that involve industry 'disruption' (Uber and Airbnb are two that spring to mind) - there may well be associated technology (in the form of Apps or algorithms) that can be registered in order to protect your position.

And while applying for patents is an expensive proposition, we can assure you that any start-up whose technology (I.P.) is NOT supported by registered I.P. is unlikely to attract serious investors.

Keep it Simple

Given that you do have some I.P. around your idea, it's important that you spell out in simple terms exactly WHAT the feature is and WHAT the benefits are to the end-user.

Try to avoid using industry specific abbreviations or jargon and write in plain language. A few simple diagrams or animations may be helpful also.

Avoid Industry Jargon

You do not need to include in-depth overviews or engineers' diagrams - these will most likely be called for later in the Due Diligence stage.

Seeing is Believing!

Of course, nothing beats a working prototype that people can eyeball, handle and (hopefully) appreciate the benefits of firsthand. A new 'voice activated drone' or 'the world's best chocolate chip cookies' are hard to imagine if they are only looking at an artist's impression or cardboard mock-up.

It's also very important to spell out what stage of the development cycle you are in. If this is a one-off prototype tell them. Similarly, you need to be upfront if the funds you are seeking are to be applied to more testing, developing better components, or tooling up for mass production.

User Endorsements Are Gold

Existing (or potential) customer endorsements often carry a lot of weight, so feel free to include a few if you can get them. And even better, if you can wrangle a 'Memorandum of Understanding' (M.O.U.) out of an organisation that could be a potential partner or significant customer, this will go a long way towards reassuring your investors that you've really got something tangible and worthy of their interest.

Finally, any type of bench marking or testing from unrelated third parties or authorised testing organisations will come in handy should anyone question the veracity of your invention.

What new product have you invented or discovered or some method you have created that changes the way things are currently done? This is often referred to as 'Disruption'.

Disruption Creates Opportunity

Uber disrupted the global taxi business without buying a single vehicle of their own. YouTube disrupted the content business, and now TikTok is disrupting YouTube.

Investors love the idea of 'disrupting' legacy businesses – such as Legal, Banking. Insurance, Finance, Health Care, Real Estate, Travel, etc.

3. Your Unique Selling Proposition / Sustainable Competitive Advantage?

There is no point inventing something anyone else can easily replicate. Without protection, someone who is bigger and richer will copy your idea, beat you to market and kill you dream.

You can achieve this by legal means such as patents, and trademarks. Investors will want to see some form of protection. But be aware, applying for patents is a costly and time-consuming exercise, especially if you want global coverage.

Perhaps your best protection is your knowhow, a process or method only you know, but most canny investors will want to see documentation. Besides the fact that a formula that 'only you know' won't be worth much to an investor if you get run over by a bus.

Whatever you do, when to question of a ***Unique Selling Proposition*** comes up, don't say 'first mover' advantage. Do you honestly think *Coke* or *Pepsi* (with all their massive resources and global distribution networks) are gonna care if you're the first guy to come up with ginseng orange flavoured soda if they see a market for it?

If there are big bucks being generated, they will squash you like an elephant on a flea. However, if they saw there was a way to get to market faster (or capitalise on your brand equity) they might just be willing to buy or license the formula from you…

4. Your Business Model. How are you going to make money, what is the 'Go To' market strategy that you have?

The method by which you turn your idea into cash is usually referred to as your 'Business Model'.

You'd be surprised how many times we've heard this question posed to a Founder where the answer that comes back is either -

a. 'Oh, I haven't really thought about it yet ...'

OR

b. 'Gee, isn't it obvious?'

Needless to say, both of these are the WRONG ANSWER!

No matter how much investors assure you that they are only investing to 'improve the lives of others', 'give back to society' or the ever popular 'I just want to make the world a better place'...at the end of the day, investors are looking to invest in companies that will make large profits, and greatly improve their return on investment (ROI) which will in turn increase the value of their stake holdings exponentially.

The ultimate value of their investment is commonly referred to in terms of 'multiples', as in 'I got a multiple of 10x [times] on that investment'.

The Question of How We Make Money is Paramount

So, we can assure you that within the first 5 minutes of being introduced to a potentially great business idea, any investor worth his or her salt will be doing the mental calculations in their head, working out just how much money this baby could make if the stars align correctly.

So be prepared for a grilling...

Information you'll need to provide so that they understand your business model includes -

i. Type of Model

(is it a subscription, Software As a Service [SAS], Clip the Ticket, Low Volume/ High Margin, High Volume/Low Margin, or maybe a hybrid of several of these?) Or maybe something new altogether, such as NFTs?

NFTs stand for 'Non Fungible Tokens' and are digital assets that represent a wide range of unique tangible and non-tangible items such as collectable sports cards, art, virtual real estate and even virtual sneakers, and are an emerging force in the cryptocurrency world.

NOTE: A business model that includes exchanging products or services for cryptocurrency is no longer considered 'wild and whacky' by a lot of canny investors.

ii. Cost Per Unit, Projected Sell Price, and Anticipated Margins

These are all pretty self-evident and shouldn't require much explanation from us.

Needless to say, your Investors will want to know how you arrived at you 'sell price' (be it wholesale or retail), how much it actually costs to build or produce your product (taking into account all ancillary costs such as rents, salaries, cost of materials, etc. in order to be able to show them what your gross and net margins will be.

(Note: This is where a well-qualified CFO is worth their weight in gold).

iii. Marketing, Packaging & Distribution Costs

How is it going to get to the customer? Air, sea, road freight? Or maybe digital delivery if its software?

Cool packaging can help build the story of your brand, but some Investors might baulk if your $15.00 product requires a $25.00 vacuum sealed pack.

Tip: Go for environmentally friendly packaging wherever possible as it will help seal the deal on your capital raise (as well as being great for the planet!)

iv. Legalities, Warranties, Public Liabilities etc.

Investors hate surprises, so if there is some legality issue with one of the international regions you are planning to sell to, or some obscure industry code that mandates that you have to provide certain extra warranties or insurance policies – Tell them upfront.

v. Competitor Pricing Strategies

When discussing pricing strategies, its always a good idea to have some competitor metrics on hand.

Are you going to match them dollar for dollar? Or maybe undercut them by 20%? Or maybe you are going to go down the ‘premium’ route and charge 20% more? Whatever the strategy, best to articulate the strategy up front, because these sorts of issues are bound to come up if you (hopefully) reach the Due Diligence stage.

Tip: If you don’t have any real competitors, or you are proving a totally new product, or way of doing things, a good alternative is to explain how much time or money your clients will save by using your idea.

If you have developed a reporting system that only costs $99.00 and can do in an hour what would normally take a law firm 3 days and $600.00 to compile – that’s a Helluva saving!

As warned, prepare to be intensively grilled on your model and the supporting numbers. This is a great opportunity for a Founder (or maybe the CFO, if you’ve got one) to show the investors that you really know your shit.

And it goes without saying that if your numbers don’t stack up, the deal is probably dead in the water from this point.

5. Communications Strategy - How will your potential market come to learn about this great new product/ service?

Having a great product or idea does not ensure success if no one knows about it. Conversely, having one million plus followers on Facebook or Instagram is no guarantee of success either.

Platforms like TikTok are rapidly overtaking YouTube when it comes to generating content that goes viral. The good thing is that anyone kitted out with a reasonably recent mobile phone can access Apps that will give you the ability to create very good quality videos, podcasts, stories etc.

If you're thinking to yourself 'But I'm a Tech Head, what do I know about Marketing?' Relax.

Most Investors won't expect you to deliver an award-winning campaign, they have guys like us to do that, but what they will be expecting is some sort of 'Communications Plan' that shows that you have a good grasp of your target market(s), and know how to reach them.

When you create a Budget that outlines how you plan to use their investment funds, you'll need a couple of line items devoted to *Marketing & Communications*, so it's best to have an amount of money in mind, as well as a plan that justifies that spend.

Unless it's a broad range consumer product, your customer market is probably limited to a finite number of sectors, which means you need to think about how you will be targeting them directly.

Various Communication activities could include:

- Social Media
- Blogs on your own website
- Direct Mail
- Public Relations / Press Stories
- Conferences
- Trade Fairs
- Digital & Televised Commercials
- YouTube / Tik Tok Videos
- Referrals
- Cold Calling
- Influencers
- Guerrilla Marketing
- Outdoor Signs
- Merchandise Giveaways
- Sponsorship of Music, the Arts or Sport

Another good way to generate sales leads is through associate marketing. A good example of this might be if your product was some new type of disruptive pet insurance (we're not kidding, it's a big market) you might consider trying to partner with an organisation who already has a massive data base of pet owners, such as a pet food company, or animal charity, where you could use their communications channels to tell their users about your product, in exchange for a discount they can pass on to their users, or a sales commission to them. Or both.

Be strategic and show your investors that you take 'Communication' seriously, and you've thought about various ways of reaching your target market.

6. Details of Funds being sought: How you will be funding the resources you require to deliver on your idea?

As mentioned above, your Budget will need to outline your 'Use of Funds', so you'll need to consider which activities of the business will benefit from having a good chunk of cash thrown at it - and then you'll need to demonstrate to the Investors why this makes strategic sense.

These items can be extensive, but typical genuine reasons for raising cash can include Marketing, Staff Hire, Research & Development, Gearing Up Manufacturing, New Larger Facilities and International Expansion.

Whatever you do, don't do what we recently saw a Founder do, which was to include a line item in his Budget that read - 'Banking ______$100,000'

When we queried him about this, he said 'Oh, that's just to put in my personal bank account, in case the business crashes...'

Needless to say, the relationship ended there and then.

Given that our main objective here is to secure an investment of cash, any potential investor is going to want to be able to quickly understand your present financial position in terms of a few key metrics -

1.) How much money are you looking for?

2.) What are you planning to do with the money?

3.) How much runway (time) is this money going to buy you. This is often referred to as your 'Burn Rate', meaning how much money is it costing you each month to run the company? And if you are going to apply a large chunk of the new funds to some major initiatives (marketing, tooling, manufacturing, hiring more staff, new premises, etc.) and how will that affect your burn rate?

4.) When are you likely to need more money?

5.) At what point will the business become 'revenue neutral'? eg. At what stage do you anticipate the rate of income will match the rate of outgoings / expenses? E.g. **Revenue Neutral.**

7. How much equity are you willing to give away in return for that money?

NOTE: This last point often comes as a shock to first time Founders because in our experience, many Founders are under the impression that investors merely want to 'loan' them the money.

WRONG.

The majority of investor groups, from Angels to VCs are looking to invest in return for an equity stake in your idea.

The upside of this arrangement is that you usually don't need to worry about repaying the principal, or any annual interest.

The downside is you now have partner who has a (usually) significant chunk of your company, with whom you'll need to seek agreement on issues like business direction, strategic partners, senior staff recruitment, and the ongoing use of funds.

By taking on an 'equity partner' you are being asked to divest (give up) a certain percentage* of your company, so you need to perform your own due diligence when it comes to choosing an investor.

So, choose wisely. This is what's known in the trade as looking for a 'Strategic Investor', in other words, if you are going to enter into a relationship with an Investor, make sure you choose one who adds value in terms of access to more cash, management skills, industry contacts, or a high profile with the media.

One other thing to bear in mind - every time you need to go out and seek ADDITIONAL investment funds (either from existing investors or new ones) you will be expected to give up (dilute) more of your shareholding.

*Refer to separate chapter 'The Vexed Issue of Valuation'

At some stage in the I.M. process you will need to prepare some carefully considered Financial Projections that covers all of this information, so it will pay you to work with a good Accountant or hire a Chief Financial Officer (CFO)** to assist you on growing the company.

If you're not 'financially literate' it's probably also a good idea to take a short course on learning how to read a Balance Sheet, so that you are confident discussing matters of money with potential investors.

** Daniel has written a separate chapter at the end of this book on 'Hiring the Right CFO'.

8. The Success Metrics - Outline the targets and milestones that will be used to validate your idea, and how this makes it a compelling investment.

The chances are good that of you are seeking a sizeable investment, of say $2.5M (or much more), the Investors will often want to have the option to put the money in through a series of tranches (separate deposits).

These ‘tranches’ are usually predicated on the business meeting certain metrics or milestones. So an example might be that you have said you are seeking funds to get your turnover up by 25% over the next 12 months, or maybe sign up 100,000 new users, or even just get a prototype built by a certain date.

Being the cautious type, many investors may offer to partially fund you, and then tip in the balance of the funds as you reach certain milestones towards your objectives.

This is good for them, as it helps to control their cash flow, as well as ‘de-risks’ the investment, on the premise that if you’re way off hitting those targets (or it turns out that you are insane) then they haven’t done all their dough.

This may work for you, but just make sure the initial tranche will give you enough runway to move forward without having to go back to living on pot noodles.

You also need to make sure that the Term Sheet is clear as to when you will be getting the next instalment, and that funds won’t be unreasonably withheld,

eg. ‘You said 100,000 new users, and you only got 99,000 - so no cash for you!’

(This is where it pays to have the services of a good lawyer. HINT: Put a line item in for 'Legal Fees' in your Budget.)

In conclusion, DO NOT set unrealistic targets just to secure the deal. Overestimating sales performance or revenues will just be making a rod for your own back and believe us when we say the Investors will use it to beat you with it.

9. Who Are the Team Who Are Gonna Make This All Happen?

As mentioned previously in the research undertaken by *Smart Company,* Investors place a high premium on the quality of the Founder(s) and their teams.

Before you start writing you might want to give a thought to the old maxim that "*A chain is only as strong as its weakest link*'. Meaning that your proposal will probably be assessed by an Investor on the basis of who they feel is the weakest member of your team, and what pivotal role do they play in the day-to-day operations of the company?

Where a business has been conceived by two or more Founders, it is common for those Founders to allocate nominal job titles on various people for the purposes of expediency. eg. You can be the CTO, Karen can be the Marketing Director and I'll be the CEO, etc.

Unfortunately, these titles are often bestowed at an early stage of the company <u>BEFORE</u> the various people's lack of experience become apparent.

You can guarantee that any Investor willing trust you with a million or so dollars of their money is going to want to be assured that their cash is in good hands.

Just because your friend Greg helped conceive the idea (and knows a bit about programming) does NOT mean he's qualified to act as CTO for a $10M company.

Conversely, we have had to have many hard discussions with 'brilliant' Founders who don't have the management skills to run a sandwich shop, let alone a global start-up. Everyone needs to understand and acknowledge their limitations. That's not to say that many people cant eventually grow into a job, but if the pressure is on and there are financial milestones to be hit, maybe now is not the time for Karen to be doing a course on SEO Marketing.

Who is the Weakest Link?

Therefore, we suggest you take this time, **before** you start writing – to assess the quality of your team and ensure that any job titles are defendable, including your own.

There is nothing wrong with stating that at some time in the future, you would expect the Investors to install a professional CEO with international experience. Or that once you move into production mode, Greg will hand over his position to a professionally qualified CTO and move into an 'Advisory' role.

Ideally, Investors would like to think they're buying in to the 'Dream Team' from Day 1.

Tip: If you acknowledge potential staffing issues up front, your Investors will respect you for your honesty.

10. A word on 'Risk Assessment'

Most Investors tend to use a sort of 'step chart' to analyse the risk assessment of an investment.

At the beginning of the chart, your basic idea will be considered 'High Risk', but every time you achieve another milestone in your plan, the chart moves forward, and the investment is 'de-risked'.

If you put yourself in their shoes, you should be able to come up with a meaningful set of milestones that are achievable (given the funds available) as well as meaningful, in terms of de-risking the investment,

So, if over the next 12 months you can take that idea you had in your mum's garage, build a prototype and move into some proper premises, hired a good Chief Technology Officer, and taken your user base from 1,000 to 25,000 - you could reasonably argue that you've de-risked the business, which will also make it attractive to other investors when it's time to go out to the market again for more cash.

Finally, and probably most importantly:

11. Why is this a multimillion billion-dollar opportunity?

Investors want to know that you're shooting for the stars, and they want to book a seat on the Rocketship.

If you can produce a 10 X return or have a vision that could likely be a global opportunity, then the investment risk i is much reduced.

Ideal ways to help establish long term value:

When pitching an idea with big numbers, Founders often like to say, "Don't just take my word for it."

To which Investors usually reply, "We don't."

But here are three metrics that can help support your claim that your idea has long term value, by including …

1.) Industry Reports, or trade press articles that forecast high levels of growth for your industry sector.

2.) Stock prices and Annual Reports from bigger companies that are in your sector, but whom you are trying to disrupt can be good sources. Listed companies have to publish their annual results, and these can be fertile ground for highlighting products or sectors that are experiencing high demand.

    If a company's share price was $2.74 last year but has risen to $5.40 this year, that's a good indicator to an investor that you are swimming in the right pond.

3.) Recent Trade Sales of similar companies. If an investor can see that a similar company recently sold for $250M to someone like *Google* or A*pple,* then suddenly that $5M you're asking for in exchange for 25% of your company doesn't look like such a bad deal after all.

If you have done this well, they will read on, if not, they will never invest.

Okay, now that we've considered those 'thought starters', let's get writing...

Writing Your Killer I.M.

Here are all the Section Headings you'll need..

1. Cover
2. Legal Stuff
3. Deal at a Glance
4. The Executive Summary
5. Business Overview
6. Market Snapshot
7. Value Proposition
8. Business Model
9. Intellectual Property
10. The Dream Team
11. Competitors
12. Development Cycle
13. Financial Summary
14. Deal Structure
15. Milestones / Targets
16. The Exit Strategy
17. Summary
18. Contact Details
19. Supporting Documents

A ***word*** *about* ***Font*** *Size...*

Most of your investors will be an average age of around 55.

They have all the money.

They also have failing eyesight and often need to wear reading glasses.

So PLEASE, PLEASE, don’t make the font so small that they need a magnifying glass to read it, because they won’t.

1. Cover

First Impressions - The Cover

Just Three Simple Rules:

1.) Make it Stand Out

2.) Make it Relevant

3.) Make it Tell Your Story in one or two Images

1 - First Impressions - The Cover

"Ok, sounds interesting, send me your IM"

Well done, you got through the first staging gate and a potential financial backer wants to see a tightly written document that will give him/her a better in-depth understanding of your product or service, your capabilities, and the overall market opportunity in terms of market size and revenue potential.

You are about 10 % of the way to getting funding.

One of two things has happened.

They have brushed you off to get rid of you or they are genuinely interested in learning more about your business opportunity.

Either way, the quality of you I.M. will determine what happens next.

Everybody has heard the saying that first impressions count – and this is exactly true with the perception that you provide your potential investor when they first click open to view your I.M.

What's the first thing that they see when they click on the PDF in excited anticipation in order to look at your investment opportunity?

The Cover Page of course.

Too often we see boring cover page that look like they've spent 30 seconds creating it in Power Point (although there is nothing wrong with Power Point).,

An uninspiring first impression will set the tone for the rest of the document; Don't start on the back foot from the very beginning.

Improving Your Chances – Key Elements to Include:

Images

The old axiom that 'A picture is worth a thousand words' still stands true today.

If you have a product, show someone using it.

Include statements or a 'by line' (if you've got one) to create Interest.

Don't just include your business name. Air Bed & Breakfast sounds far more interesting when you include the 'explainer; by-line - ***"Book rooms with Locals rather than hotels"***

AirBed&Breakfast

Book rooms with locals, rather than hotels.

Uber's by line is *'Next Generation Car Service'*.

If you don't have a by-line, it's worth considering coming up with one. A clever by-line can serve to better clarify exactly what it is you do, and well promoted by-lines can become iconic.

Who could ever forget Nike's classic ***'Just Do It'***….

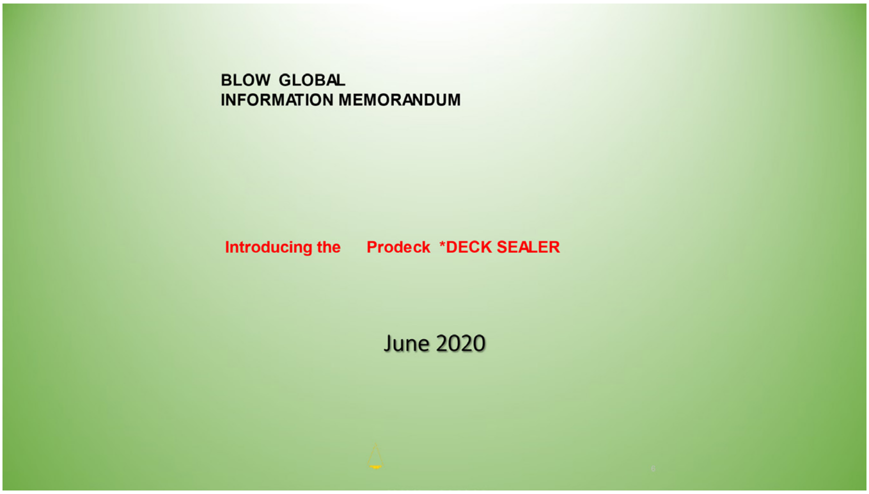
Final Comments

It is well worth the investment to have someone provide a professional cover for your I.M. – especially if you want the first impression to instil a sense of professionalism and confidence and inspire your potential investor to eagerly read on.

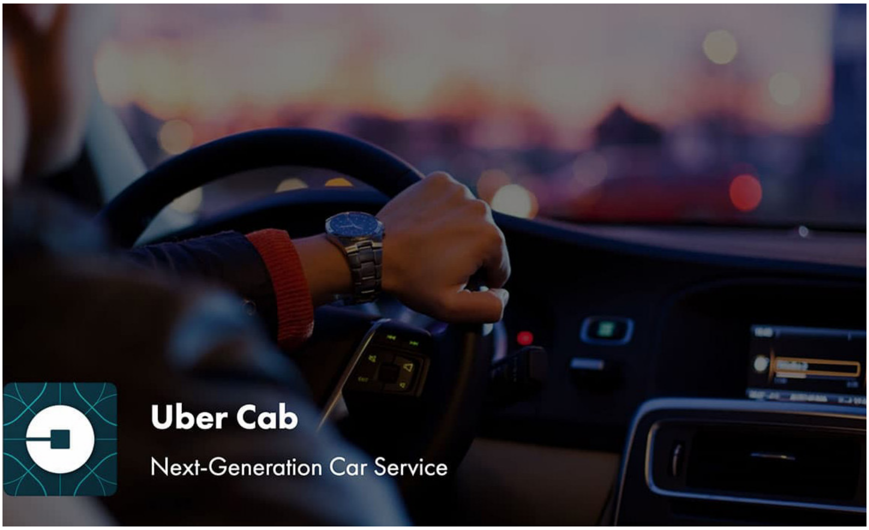
If they were just planning to brush you off, the I.M. might just change their minds and make them take a second look. If they were genuinely interested, your I.M. will reinforce their initial impression and you will then get to pitch in more detail.

You've got one shot with time poor and lazy investors, give them a reason to read on.

Here's an example of a (this was a real cover!) boring I.M. cover...



This one's a bit more interesting....



The Image of a prototype plants the seed the business is well advanced in its development. Investors will read on, so they don't miss out on this "rare opportunity"!

"The cover expresses the initial ethos of the opportunity; it must make an impression on opening. Don't make it ordinary. Use images to create curiosity and a short narrative to create a sense of anticipation.

2. Legal Stuff

Reality Check: You are seeking to raise a significant amount of money from someone who is a professional Investor. There is going to be paperwork and legal document to sign. Get used to it.

This money raising caper is a serious business, and if you want to be taken seriously - you should include a legal notice titled '***Important Information & Disclaimer***. Mind you, we have seen many without one.

Every investor will have seen thousands of these so they will be very familiar with the contents and will generally flick to the next page.

You, however, should take the time to read and understand its meaning and importance in covering your arse and your business idea.

If in doubt, always seek legal advice!

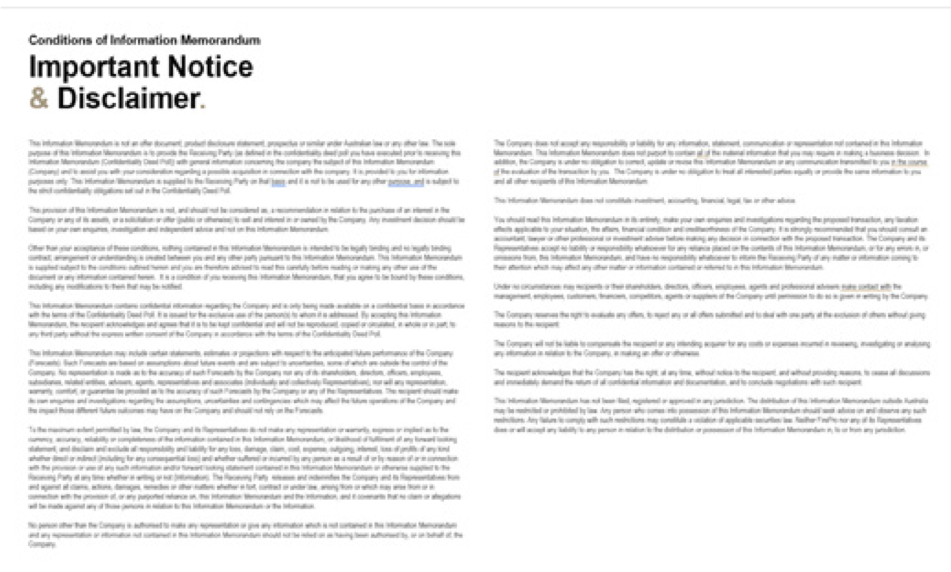
A Note on Confidentiality Agreements.

As a general rule, most Venture Capitalists or Private Equity firms won't sign confidentiality agreements. Their rationale being that they see so many proposals in any given year that there is a good chance they may see several pitching very similar ideas, and if they choose to go with one over another, they don't want to be accused of stealing the concept.

In this situation you will need to decide if you're willing to throw open your kimono and show them everything, or hold back a bit of your 'secret sauce' until they show more interest.

The time for a full reveal will come later when you get into due diligence. At that stage you must have them sign a Confidentiality Agreement.

If they won't, then walk away, they are not serious. But for the time being, don't let a Non-Disclosure Agreement hold up a potential deal


Conditions of Information Memorandum

Important Notice & Disclaimer.

Do not lie or misrepresent in an IM.

There is no point, you will be found out easy enough in due diligence.

Where possible, have supporting references and substantiation documents in the appendix or as separate attachments. Confirmation of facts and data from independent sources will add credibility to your Pitch.

3. Deal at a Glance

The 'Deal-at-a-Glance' is a single page summary of the entire investment proposal 'at a glance'. In other words, a busy Investor can take a quick look and see the following outlined in a few columns –

This May be Single Most Important Section of The Killer IM

If we assume your well-designed cover has served its purpose and caught you potential Investor's eye, the next bit of bait you will need to cast before him (or her) is a summary page we like to call 'Deal-at-a-Glance'.

Working on the proposition that most Investors are busy, busy people, with the attention span of a goldfish, you need to come up with an eye-catching method of summing up your idea, your business model, your market sector, your location, how much money you are seeking, and what you plan to do with those funds, all on one, simple to understand page, that will impart sufficient information to make your prospect believe that reading the rest of your I.M. will be worth their time.

And 'Time', in this context is the key word, because while most Investors have plenty of money, the one commodity that is in scarce supply for them is time.

In other words, they want to know what the 'whole deal' is without the ignominy of having to delve into your entire document, only to find out at page twenty-two that this type of deal definitely is not, as the like to say, 'In their wheelhouse'.

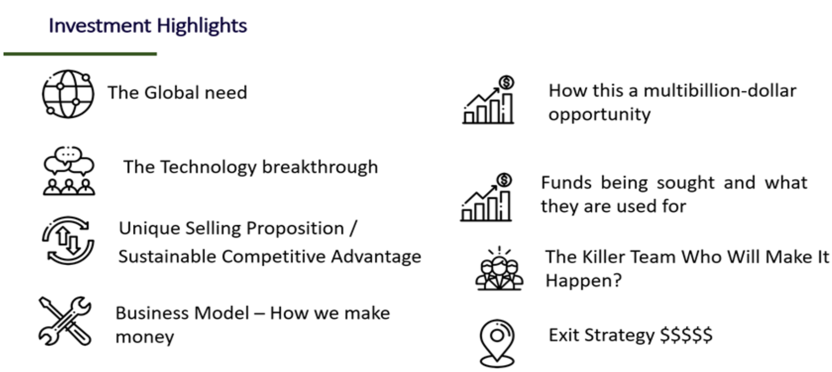
Therefore, in our bid to make everything about the investment process as easy as we can for them (cause that's the kind of thoughtful folks we are) we are going to sum up the entire deal for them in one, easy to read chart.

Think of it in the context of your earlier 'Elevator Pitch', except you wont be there to give it. Fortunately, it is clear, concise, and (mercifully) short. But if you've done some prior research on your potential investors (ie, which market sectors they like, what type of business model appeals to them, what sort of investment value are they comfortable with, etc.) your Deal-at-a-Glance page should read like an Investor's Dream Dashboard.

Deal-at-a-Glance is basically a investor 'Hot Buttons' For maximum effect, we suggest you place the 'Deal-at-a-Glance' right at the front of your I.M. document.

Hot Buttons

1. The Global need
2. Technology breakthrough
3. Unique Selling Proposition / Sustainable Competitive Advantage?
4. Business Model – How we make money
5. Communications Strategy - How we market to the world
6. Funds being sought and what they are used for
7. The Success Metrics - Targets and milestones to validate your idea,
8. Who Are the Team Who Are Gonna Make This Happen?
9. Some Thoughts on How Investors Assess Risk
10. Specifically – How is this a multibillion-dollar opportunity?
11. The Exit Strategy - How much your investor will make!



Okay – Let's Review

Great, they are hooked and now all you need to do is reel them in. To do this you need to prove that you know what you are talking about.

This is the Chance to Show Them You Really Know Your Shit…

An IM is not usually a short document, but neither is it overly long or detailed. It is not a Pitch Deck which is much shorter and usually given as a face-to-face presentation.

The I.M. is your business plan

As they read on, they should want to see that there is more evidence and validation that an investment in your business is a viable proposition.

The next few pages will provide enough detail to prove that you have considered all of the relevant requirements to build a proper business. If you can't articulate who your target market is, what it is that you sell that is unique, or what price you are going to sell at, then investors will quite rightly think that you don't know what you're doing and will have doubts about investment. You have to back up your crazy idea with the evidence that you know what you are doing.

Let's move on to the Executive Summary

4. The Executive Summary

The Executive Summary can be best compared to the Cover Letter you would send with your Resume when applying for a job. A well written Cover Letter will get your Resume read. A poorly written one will see your Resume go straight into the bin.

Ideally you will have included a 'Deal at a Glance' summary page on the front of your I.M. But if not, the first introduction your prospective Investor is likely to have to the potential of your business idea is your ***Executive Summary.***

A good way to think of an Executive Summary is to think about the last time you bought a book after having read the blurb on the back cover.

Publishers know they've got about 15 seconds to grab your attention and therefore a lot of time is devoted to distilling everything in the book that is likely to attract their target market into one or two paragraphs.

There are essentially five (5) elements that go into writing a best-selling book blurb and they are just as relevant when it comes to writing an Executive Summary.

- **A powerful opening statement**
- **Introduce your main characters**

- **Introduce the pressing issues your characters have to face**
- **Outline the obstacles in their way and the tools/skills they will bring to bear to succeed**
- **Explain what is at stake**

A rookie move by so many Founders (because THEY are so excited about their idea) is the urge they have to try to jam way too much information into an Executive Summary. What was meant to be a quick highlight of the potential of the business suddenly turns into a long-winded dissertation on EVERYTHING they can cram in to make the business sound more appealing.

So here are the **2 Rules** to writing a killer Executive Summary:

one.

Your entire Exec Summary has to fit on to one or two A4 pages

two.

'Less Telling - More Selling'

Old advertising guys had another way of putting it - *'Sell the sizzle, not the steak'* In other words, highlight the benefits rather than the detail - if they're intrigued, they will dive into the rest of the I.M. to get the details.

Let's break down the book blurb example to understand how we can apply it to our Executive Summary.

i.) A powerful opening statement.

Investors are looking for ideas that will shake the world, and therefor they are attracted to ideas that address major problems or massive shifts in the way we as humans live, work, and innovate.

This is the opening line in the blurb for Game of Thrones:

‘***The future of the Seven Kingdoms hangs in the balance...’*** which pretty much guarantees that most people (who have already been attracted by the front cover) will want to read on to the next line to learn a bit more.

So - Which of these opening lines do you think are more likely to intrigue and garner the reader’s interest?

Sample 1.

*‘**MedEx** is an 18 month old MedTech start-up wishing to expand into the rapidly growing ophthalmic pathology sector. The Founder John Smith is an experienced optometrist.”*

Sample 2.

*‘Statistics show that 1 in 3 people over the age of 60 are likely to contract some form of retinal cancer. **MedEx** was formed when Founder John Smith realised that thousands of eyes could be saved by the application of a simple, safe and economic test.*

If I’m an investor reading the first sample, my first thought might be ‘Hmm Ophthalmic Pathology doesn’t exactly sound too exciting.’

But if I’m an investor reading the second opening line, my thoughts are more likely to run to ‘Shit, 1 on 3 over 60? That’s a lot of people. Hang on, I’m 60 next year! I better find out more.’ On top of this, you’ve already hinted that the market is large, and you appear to have a solution that’s simple and cheap. BINGO!

There is nothing like an impending disaster to make people crave more information. Newspapers have long known the axiom that ‘bad news sells papers’ which is why under the current COVID 19 pandemic we see front pages with headlines with subjects like '*Death Toll To Hit 100,000'* rather than '*25 Million People Don't Have Virus*'.....

(Remember our advice about frightening the shit out of them)

ii.) Introduce your main characters

The 'main' character here being your company, which is in turn supported by a cast of leading actors (Founders & Key Staff).

AND

The other 'main' character is your product or solution. You need to be able to introduce the Solution and why it is unique in one or two sentences. Don't try to cover every aspect - just pick the main competitive advantage and highlight it. If they're intrigued, they will seek out more info in the I.M. itself.

So here you would give a bit more detail about the company and its Founders and Key personnel - but not too much.

MedEx *is a Palo Alto-based start-up formed in 2018, by Founders John Smith - An optometrist with 20 years' experience and Ted Adams - A biochemist with a PhD in Bio Ethics. They are supported by a team of highly qualified medical technicians and retinal experts.*

That's ALL you need to tell them at this stage. They don't need to know that you've got a awesome team because you all sail together on weekends, or that the CFO once worked at *GlaxoSmithKline* - they will find some of this out as they delve into the I.M.

And now the competitive advantage.....

MedEx *has developed a unique proprietary testing kit that enables any qualified health professional (from nurses to surgeons) to conduct quick painless testing either at a clinic or in the field, for a fraction of the current* *cost and where results can be returned to the patient within 24 hours rather than the current regime of 7+ days.*

That's it. In that one sentence you've told them:

- What the product is
- The fact that it's proprietary (patentable)
- Anyone from nurses to surgeons can use it
- It's quick & it's painless
- It can be done in a clinic or in a jungle
- It's a fraction of the cost of existing products
- Test results are available in 24hrs instead of the current 7+ days.

What's not to love?

What you DON'T need to tell them....

Try to keep the overview of the product short and crisp as per the list above. Unless it's an incredibly powerful USP (Unique Selling Proposition) they don't need to know that it comes in a range of attractive colours, the packaging is sourced from locally made organic products, processed in a beautiful old stone barn in Connecticut, only handled by Shaolin Monks or that it contains the finest sterilised water from springs high in the Andes - save that stuff for when they take a deep dive into the Marketing Plan.

iii.) Introduce the pressing issues your characters have to face.

The pressing issues are essentially a snapshot of the market -

- The population is ageing
- Use of digital screens are becoming ubiquitous
- Digital screen use is leading to more incidence of eye-related problems.

- Governments and Health Insurers around the world are concerned
- Problem growing at 15% per annum
- Urgent tests are expensive, painful and can up to a week to get results.

Okay, what have we got so far?

i. A big opening statement - 'There is a major problem in the world!'

ii. The main character in this story - Your Company - and a cast of leading characters sound like they've got the smarts to tackle a problem of this magnitude.

AND

iii. It sounds like you've GOT a product that shits on everyone else's - Safer, faster, cheaper, easier - ALL Investor 'Hot Buttons'.

iv. The stage seems to be set for someone like you (you hero, you) to step in and take advantage of current market conditions

4.) Outline the obstacles that are in their way and the tools/skills they will bring to bear to succeed.

Here is where you can outline the major obstacles standing in the way of reducing this concerning health trend.

- Public (especially the young) are indifferent.
- Current testing is expensive and takes weeks
- Symptoms often don't show up until such time as intervention is limited in its scope

A Bit More Detail How Your Product is:

- Painless / easy to apply / Fast

- Inexpensive / High Margin
- Proprietary / Patentable

5.) Explain what is at stake.

Your chance to outline the size and scope of the market, current dollar value, potential for growth etc.

In 2017 world population demographics indicate that 1 in 8 people was 60 years of age or older. By 2050 that number is expected to come down to 1 in 5.

If you take the U.S. population of around 350M people, that means that roughly 44M are 60 years old or over - not a bad sized target market.

The average sale value of your test was $20 - that would give you a potential marker size in the US alone of $880M and then extrapolate across even just the First World and you've got a sizeable potential market.

On top of that you would be pointing out that the REAL potential market would really include people in the 40+ age bracket, which takes the US. numbers to nearly half of the entire population 275M - so you're talking big numbers.

Finish your Executive Summary with some inducive numbers. Even if you could only realistically process 1M tests per annum on a net return of $10 per test, that's still a $10m a year business. On a 10 x multiple that would value the business at around $100M. Have I got your interest now?

So, now your challenge is to sit down and write an Executive Summary that highlights the key points of your business proposal...

And It's got to fit on to one A4 sized page in no smaller than 12 Point font.

REMEMBER - '*Less Telling - More Selling*'

An Executive summary is exactly that, a concise summary of all the key components there are contained in the rest of the I.M.

A clear and concise Executive Summary will then encourage the reader to move on to the more detailed areas, where we will provide the proof supported by actual evidence.

These are steps which allow the reader to become more and more excited about the business so that they read to the end of the document because they will want to know how they can get involved.

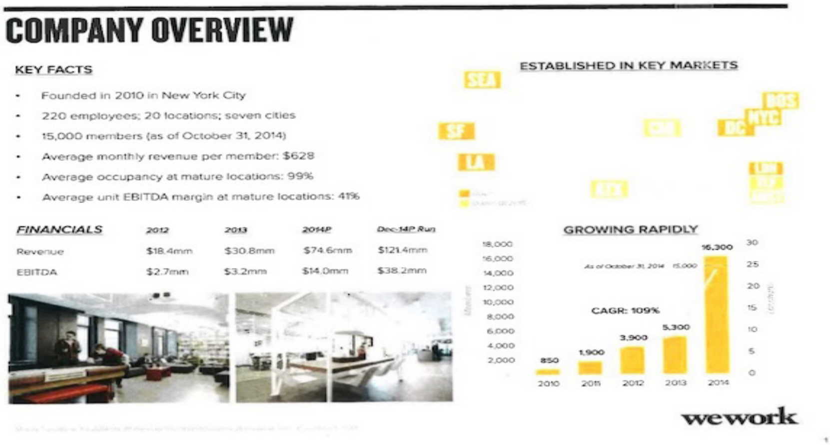
What is thefacebook.com?

thefacebook.com is an expanding online directory that connects students, alumni, faculty and staff through social networks at colleges and universities. This online directory allows for user connections on the basis of friendship, courses and social networks (including intra and inter-school networks), and has a built-in messaging system.

5. Business Overview

This is the One-page document where we explain in a bit more detail what it is that your business does, why it is so innovative, and why the market will pay for it.

- When Business was founded or established
- Brief overview or description of what you do
- Business segments and their capabilities
- Revenue, EBITDA and net income
- Employee details
- Customers, clients, and users
- Headquarters and office locations
- Interesting or compelling news about the company



Express Things as 'Problem and the Solution'

Key Business Products and Service Offerings of the Company,

Whatever your product or service, Investors always like it if it can be expressed in a Problem / Solution format.

There are two main reasons for this, the first being that a.) If your product or service is not something they would normally use, it may be hard for them to get their heads around exactly <u>WHY</u> your idea is so revolutionary.

In other words, a phone battery that never runs flat, is something that every consumer on the planet would be able to relate to, whereas some sort of coating made from nano particles and designed for transplanted hearts might be something whose benefits are not immediately obvious to the average layman.

However, if you expressed it as –

<u>Problem</u>

40% of transplanted organs are rejected by the human body because your immune system identifies them as invasive organisms.

Solution

SkinTech's revolutionary coating, made from a proprietary ceramic nano particle, helps fool the human immune system and encourages renewed blood cell growth around the new organ, thus reducing overall rejection rates by 23%.

This explanation would give them an immediate understanding as to why you were so excited.

AND

b.) The second reason they like products explained in terms of Problem / Solution is that there is a phenomenon in the start-up world known as 'Creating a solution for a problem that doesn't exist'.

This happens more than you might think and has left a trail of unhappy tears for many investors over the years.

So, if your 'Big Idea' is *CurryinaHurry.com*, and your pitch is –

Problem

People all over America have come to love traditional style Indian curries, but shopping for all the ingredients is complicated and time consuming.

Solution

At CurryinaHurry.com consumers can jump online and a variety of traditional Indian meal kits, and you can be whipping up a curry at home within 24 hours of ordering.

That's great, but some investor is likely to ask,

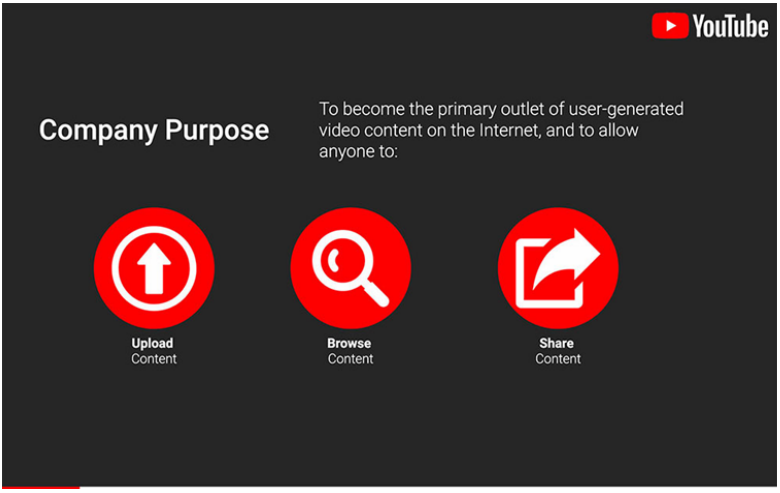
1.) Is there really a massive market for curry kits in America?

2.) Are people going to wait 24 hours before they can start cooking a meal? Your craving for a specific meal is usually an immediate one.

AND'

3.) If I want a curry in a hurry, I only have to open my *Uber Eats App* and I can be eating one 30 minutes later.

So, I'm thinking I might be passing on this investment, thanks all



6. Market Snapshot

And when we say 'Snapshot' we mean as in 'thumbnail sketch' not PhD-length dissertation. That means a high-level overview of Market size and current market trends. Top players in various business segments

The trend of various product lines. Growth trends and what the driving influences or factors are behind them. All of this should be outlined clearly with lots of headlines so that your Investor isn't forced to mine their way through a mountain of industry reports or government figures.

Your 'Market Snapshot' is essentially your opportunity to introduce your Investor to the industry sector you're proposing to attack - and in doing so, convince them that the market is ripe for the disruption you are planning to bring about. AND that the potential market size warrants the investment you are seeking, often referred to as Return on Investment (ROI).

The most common word you will hear in association with this section is '**Scalability'.** When Investors talk about '**scaling up the business'** they are trying to get an understanding of four (4) factors:

1.) What is the potential global size of the market.

2.) *What percentage of that market could your product or service realistically hope to capture - once it was properly 'scaled up' to optimal capacity.*

3.) *How much financial and human capital will be required to attack that market successfully*

4.) *Exactly where YOU are in the development cycle - that being the spot between the early concept & prototype stages, right through to when they can realistically expect to get a finished working product into the hands of the targeted customer.*

This is where you have to be both **BOLD** and **ACCURATE.**

BOLD because no investor wants to throw cash at a market that hasn't got the potential to create a billion or at the very least a $100M+ business. (NOTE: The exception here being investments that are either of a vanity [self-interest] or social enterprise nature).

But **ACCURATE** because this section (in addition to your Financials) is likely to be the most scrutinised as well as have the most potential for legal repercussions if you get it wrong.

The first thing you need to understand is that with any market, there are 'facts' and then there are 'estimations' (which are essentially best guesses based on the facts at hand). It is very important that you make it very clear which if these camps the data you are providing has been drawn from.

Examples of Facts You Can Reasonably Rely Upon

- Census Figures
- Market Research undertaken by qualified Bodies
- University Studies

- Government Reports
- Industry Reports
- Annual Reports From Listed Companies

Examples of Estimations / Projections That Need To Be Highlighted or Made Clear (and taken with a grain of salt)

- Your Own Research
- Small Sample Sizes
- Google / Twitter / Facebook/ Instagram / etc.
- Sponsored Industry Reports (ie. The Health Benefits if drinking Coke - sponsored by Coke).
- Newspaper or magazine articles that are 'opinion' pieces.
- 'A Guy I Know'

Market Snapshot Example

Suppose we were pitching a new type of teeth whitening technology to an Investor. Here's how we would break it down -

1. General Overview

*T*his would include a brief introduction to the market, a bit of history, explain why the market is hot or ripe for disruption. Who the major players are in the industry and how the target market (consumer) plugs in to the sector and where the financial transactions take place? Why has an opportunity emerged now?

2. Global Market

This would need to include information taken from a combination of the 'Facts you can reasonably rely upon' from the list above.

The aim is to paint a positive picture of the market based on:

- Global Sales of all similar products in the category
- Ideally, sales should be represented in both dollars AND in unit or transaction figures.
- A breakdown of major markets - Europe / UK/ USA/ Japan/ China/ Indonesia, etc.
- What percentage of global sales represents the profit margin (if known). If there are NO facts on potential profit margin, you could make a reasonable 'estimate' based on the known facts - but make sure you are clear that this is an <u>ESTIMATE</u> only and Investors should 'make their own enquires', especially if this is an important element of the overall investment decision making process from their perspective.

Local Market

We would recommend you do a separate break out focused on the local market potential (the one you're standing in). This is relevant for a number of reasons-

a. It is logical to use the local market as your test market

b. You may be looking for local sales to provide the required cash flow to fund the initial business before you are in a position to scale internationally.

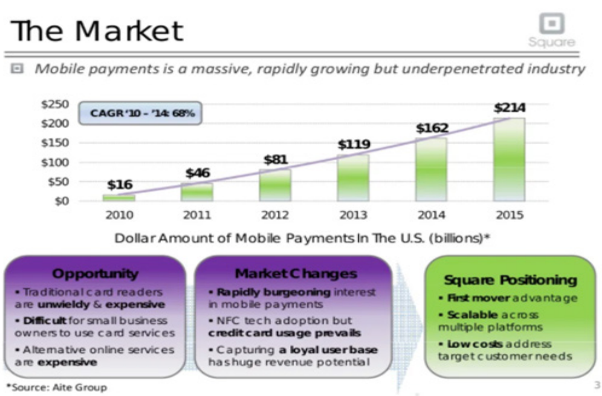
c. Alternatively - while the global market might be huge, the local market (for whatever reason) may not warrant any effort, and this will enable the Investor to understand that they may be looking at an international play.

Five (5) Year Outlook.

Okay, now here's where things start to get tricky. While there may be reliable sources (industry reports etc.) that are projecting the expected market growth for the next 5 - 10 years, you may have to make some projections yourself - and it needs to be spelled out clearly that these are ONLY estimates (made in good faith). **Why?** Well let's just say that you've estimated a year-on-year growth of your particular market sector of 12.5%.

- If your Investor comes in based on a projection of 12.5% per annum growth over the next 5 years - but in reality, it only grows 7% per annum - they are going to be getting that I.M. out of the bottom draw and asking their lawyers to see if they've been intentionally conned.
- If your estimates have been based on a government report or an industry research paper, there's not much they can do, BUT if those projections turn out to be based on something told to you 'by a guy i know' or were arrived at on the back of a drinks coaster on a wet afternoon at the pub - there is a good chance they might seek some sort of legal remedy.

So, rely on facts / highlight estimations



Keys to Success

This is your opportunity to lay out the reasonable % of the overall market you could hope to capture over a reasonable period of time and with a reasonable adoption of your product by the market players.

- It would not be unreasonable to aim for a 10% market share over a certain period of time. But these sort of assumptions are useless unless you have taken into account the cost and sheer logistics needed to deliver that market share.
- As we've said before - No sophisticated Investor is going to buy the line that 'There are 1.2 Billion people in China who wear slippers - therefore if we sold our new slippers to just 10% of that market we would be selling 120 million pairs a year.
- That kind of crazy talk doesn't take into account Local Market Preference, Brand Loyalty, Distribution, Logistics, Marketing & Advertising costs etc. let alone the cost it would take to manufacture those kind of numbers.
- Unless you've got extensive market research, existing sales that show that kind of growth, contracts in place with manufacturers, retailers and shipping agents - and a big war chest to back you up - save that kind of crazy talk for some other sucker.
- However, it is reasonable to make some conservative projections based on current market trends and then outline what 'Success' would look like...
- **So you might outline what 'Success' looks like going forward and this could include:** *a.) Projected sales in units over a forward time line b.) X number of retailers or resellers signed up c.) X percentage in gross profit margin d.) Joint production deals with local manufacturers etc.*

- *Potential Impediments*

By the same token (and in the interests of transparency) it's a good idea to outline what roadblocks are out there that could see the best laid plans come undone. Depending on your particular market. An outline of risk factors might include:

- Recession
- Shift in Industry Standards or government regulations
- Climate Shift
- Inflation
- Union Problems
- Wars
- Consumer Sentiment
- Wages
- Cost of Raw Materials
- Finding suitably trained staff etc. You don't need to list all of these, but if any of these are a reality based on market conditions, it's a good time to mention them.

Summary

This is your chance to sum up the opportunity neatly, based on **known** market conditions and **reasonable** market assumptions predicated on your unique circumstances. If nothing else, most Investors will appreciate your honesty in pointing out potential pitfalls and honesty is always a good basis for a new partnership...

7. Value Proposition

The Problem Verses the Solution

Your value proposition tells clients and (by extension) your potential investors, why they should do business with you rather than any of your competitors. Most importantly - it should make the benefits of your products or services absolutely crystal clear from the outset.

When a client arrives at your web page - it better be patently obvious within the first 30 seconds what your Value Proposition is.

This can best be transmitted by:

- A big headline
- A sub-headline
- 3 or 4 bullet points
- An image

When it comes to preparing your I.M. don't make it any harder than that for your reader to find the same information.

Having explained to your potential Investor what the market opportunity is and having hinted that you have developed the ultimate product or service to attack that market - the first thing they'll want to understand is what the ‘value proposition’ is that you bring to the table. This is a key element of your I.M. so you’ll really need to nail it.

You may also hear this referred to by different terms including:

- USP (Unique Selling Proposition or Point)
- Value Add
- Point of Difference
- Killer Application
- Competitive Advantage

Before we go any further, it’s probably a good time to pause to make sure you understand exactly what the difference is between a ‘Feature’ and a ‘Benefit’ so that we are all on the same page.

A ‘Feature’ describes tangible elements that make up the components of a product or service.

So - A Feature of your face is you have a nose.

A ‘Benefit’ describes the outcome or results the user can expect to experience when using the product.

The Benefits of having a nose are the ability to breathe oxygen and to experience a sense of smell.

The best way to distinguish Features from Benefits is to do a good old fashioned F.A.B. (features & benefits) chart. If you want a more comprehensive chart, you can also make the ‘A’ stand for ‘Advantages’ (in terms of the competitive marketplace).

So, let’s say you’ve developed a new hair curling wand that has been ergonomically designed to fit in your hand, has a patent-pending air-cooled motor that will never overheat and is rechargeable -

Standard F.A.B. Chart

Features	**Benefits**
Ergonometric Design.	*Easily Fits in Either Hand*
Air-cooled Motor.	*Will Never Overheat*
	Quiet to Run
	Safe for Children to Use
Rechargeable	*Can Be Used Anywhere*
	Take it Camping
Patent-pending.	*You Can Own the Market (A + For Investors)*

Just to prove the point that even the most pedestrian product has distinct features and benefits - old time Marketing Professors used to love handing a heavy marble ashtray to a new student and ask them to list the features & benefits.

'But it's just an ashtray' they'd cry in frustration. Wherein the Professor would start to dissect it.....

'Features: Circular white marble ashtray with hints of quartz crystal. Oval depression in centre. Half circle grooves evenly spaced around edge. Green felt attached to bottom.

Benefits: Serves a receptacle for ash. Keeps ash off floor. White marble set with quartz makes attractive decorative centrepiece. Heavy marble means it won't move easily if bumped. Evenly spaced grooves hold cigarette in place so it won't roll off. Felt bottom means no scratching to table surface....etc.'

In a nutshell - 'Features' are what attracts you to a product. 'Benefits' are what **sell** you on a product. Therefore, any serious

Marketing campaign should be heavily focused on 'Benefits' - or what the customer can expect to experience when using it.

So back to the 'Value Proposition'.

You need to ensure your Information Memorandum is heavy on benefits over features.

Why? Because features are often of a technical nature, much of which is likely to be over the head of your average Investor. Where as benefits are quite easily understood.

This is not to say that you should leave the technical details out, but simply that the focus of the Value Proposition section should be on the benefits a customer can expect from using it, rather than on which software platform you built it on.

The basic formula to determine the Value Proposition is how much it costs over the benefit one gains from having access to it...the bigger the benefit and the lower the cost, the greater the value.

Benefit

Cost = Value

Also - Founders and inventors often have an annoying knack for using lots of complex jargon and techno-speak, which may have those in the room with an engineering bent drooling but will leave the rest of us clueless as to what all the excitement is about when someone mentions they are coding with GitLab or Stack.

Where as if you explained that something is more secure, runs faster or will easily interface with the software in your Apple Smart Pen, then everyone in the room will get it.

Future Valuation Perspective

Square

- Square's valuation would price at premium to multiples due to early stage

Company Name	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	NTM TEV/Forward Total Revenue	NTM TEV/Forward EBITDA	NTM Forward P/E
Ebay Inc.	3.83x	12.34x	16.88x	3.3x	9.4x	15.9x
Gerber Scientific Inc.	0.49x	10.95x	16.80x	0.5x	7.9x	21.9x
Itron Inc.	0.71x	8.55x	11.10x	0.7x	6.3x	16.5x
Iteris Inc.	1.18x	8.47x	14.51x	1.2x	7.7x	13.0x
Mastercard Incorporated	5.46x	10.23x	10.77x	4.9x	9.0x	15.8x
PAR Technology Corp.	0.29x	10.73x	17.98x	0.3x	7.9x	23.7x
Perceptron Inc.	0.53x	67.04x	NM	0.5x	9.7x	37.3x
VeriFone Systems Inc.	4.49x	30.27x	39.89x	4.0x	19.3x	29.6x
Veritec Inc.	4.03x	NM	NM	-	-	-
Visa Incorporated	6.12x	10.21x	10.80x	5.5x	8.6x	15.3x

Summary Statistics	TEV/Total Revenues LTM - Latest	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	NTM TEV/Forward Total Revenue	NTM TEV/Forward EBITDA	NTM Forward P/E
High	6.12x	67.04x	39.89x	5.5x	19.3x	37.3x
Low	0.29x	8.47x	10.77x	0.3x	6.3x	13.0x
Mean	2.71x	18.75x	17.34x	2.3x	9.5x	21.0x
Median	2.51x	10.73x	15.66x	1.2x	8.6x	16.5x

Now For the Real Test....

Once you've identified the (no doubt) extensive list of features and highlighted the benefits of your product or service, the real test comes down to being able to identify that one (1) 'Benefit' that sets you apart from all others. Or in Hobbit speak - 'The One True Benefit That Rules Over All'. This is your ultimate Value Proposition - or Competitive Advantage.

The key here is to think about how the key Benefit links to the customer problem you are solving. The more focused on solving the problem and the greater the Customer Experience - the higher the 'Value' of your 'Proposition'.

Now Distil it all Down

The second part of the exercise is to distill your Value Proposition down to as few words as possible.

If you're our imaginary 'MedEx' company, you may be tempted to have a by-line (or slogan) that sums up everything great about your testing kits that goes.

MedEx - 'The fastest, cheapest easiest to use testing kit on the market'

But that's a hell of a mouthful and not likely to resonate with customers. From a Marketing perspective, you would be much better to run with -

'MedEx - 'Testing Made Easy'

5 Steps to Identifying Your Key Value Proposition

1. Know your target market intimately - what is their major problem / need/ desire/ goal?
2. Create an ideal buyer persona (who, what, why, how)
3. Conduct a F.A.B. Sheet on both yourself AND your competitors
4. Identify the key benefit of your product over others. How does it go directly to the heart of the problem?
5. Test, test and retest. Different medias or demographics might suit different messages.

A Note on Value Chains

Depending on your product or service, your overall Value Proposition may well be the 'Value' you add at multiple points along a process or 'chain'.

A good example of a value chain is the business model of Airbnb.

- They are the 'go to' site when you want to find accommodation anywhere in the world.

- They offer customers the security of knowing that the accommodation will be 'as described' and the hosts will have been vetted.
- They offer the hosts peace of mind knowing that the guests have been drawn from a reliable source
- They offer all parties security by processing the financial transaction. Host knows they will be paid. Guest knows they can get refund if plans change, or accommodation not as described.

What is Airbnb's public Value Proposition?

'Belong Anywhere'

Uber Features & Benefits Matrix

Just to give you an idea of how Uber sees itself against the competition, here is their F&B matrix:

Uber value proposition comparison				
	Uber	**Taxi**	**Bus/train**	**Rental/share car**
Pick-up & drop-off points	Exact	Exact	Involves walk on both sides	Involves getting to pick-up point
Waiting times	3-5 mins	Depends but generally longer	Walk + waiting time (high range)	Walk + transaction time
Convenience of interaction	Very good	Good	Ok	Rental: ok Share: very good
Convenience of transport	Very good	(Very) good	Low - ok	Very good but requires driving yourself
Cost	Low	10-20% higher	Very low	Rental: very high Share: Low
Assuming cities or major cities (Uber is not in regional/rural areas) and an errand-type ride or commute to work (i.e. 3-8 km distance)				

What's Uber's public Value Proposition?

'The Smartest Way to Get Around'

The Bottom Line

By taking the time to identify your key Value Proposition before you attempt to engage with Investors, you will gain a number of valuable insights.

1.) By creating a persona of your ideal customer - be it a region, a demographic, an industry sector or a certain size business, you will be able to strip your Value Proposition down to its most solid selling point.

2.) Having identified your key Value Proposition, this should become the 'touch stone' against which all major business decisions are based. By changing an ingredient, component, supplier, methodology or personnel practice policy, what impact, if any, will this have on our Value Proposition?

3.) Clearing the clutter away will lead to better marketing and communications outcomes because your message will be more focused.

4,) A Laser focused Value Proposition message will give your Elevator Pitch and Pitch Deck extra clout.

Points to Remember

- Don't make the Value Proposition hard to find
- Don't use complex jargon or techno-speak
- Keep communications short, sharp and concise
- Set out to give your audience that 'Ah ha' moment as soon as they read your statement - as in 'Ah ha, I get it'.

Final Note:

Think about it from your Investor's perspective. After they've finished reading your I.M. you want that Value Proposition playing over and over in their head like a catchy line in a pop song. You want to leave no doubt in their mind as to exactly what it is that you do better than anybody else.

If your goal is to launch a start-up that sells brownies online, don't tell them your Value Proposition is *'Quality Baked Goods'*.....Instead tell them your Value Proposition Is '*The Best Damn Brownies in the World - Delivered Fresh to Your Door'*.

Hot Tip:

If you're having trouble identifying exactly what your ultimate Value Proposition is, ask yourself, your staff and ideally your customers - 'What is the one reason someone would buy our product over any other in the marketplace?'

8. Business Model

This will be one of the burning questions – What's the Business Model - How do you make money?

Explain your business model as simply as possible

Next Up - Explain How do you intend to monetise the use by other people of your secret sauce? eg. How do we make money?

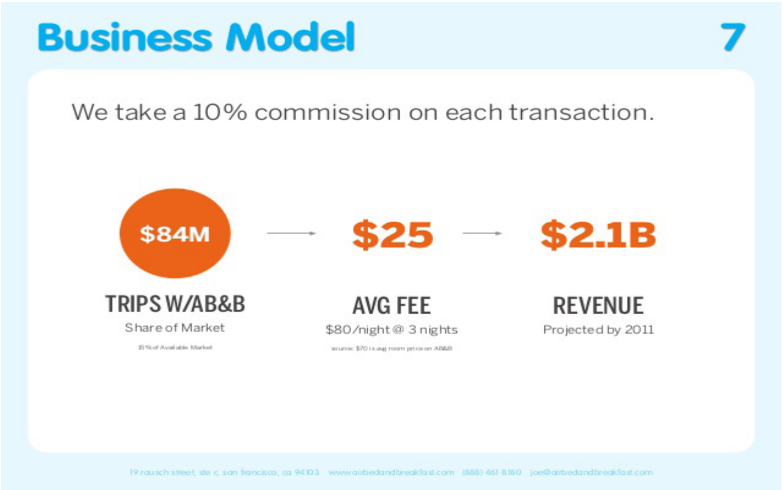
Now be warned: Investors do not take kindly to complex business models. Most Investors like to think of their investment as some sort of sausage factory where it is easy to see what's going in at one end and what's coming out the other. So, if you've got a complex piece of technology or some wakkadoodle algorithm we strongly urge you to put it into simple terms they will understand.

If you were trying to explain Spotify at a high level, you wouldn't start out by trying to explain the algorithms behind it, but rather we'd start by explaining it at the user interface level. Eg.

'*A huge percentage of the global population loves music. It is too expensive and unwieldy to buy every album and song that comes out on the market. But by purchasing a monthly subscription to Spotify, users can access any music they like as well as opt to be introduced to a huge variety* *of new music they are likely to find appealing - based on their listening preferences, we give them all of this (and more) for a low fee of $10 per month. It's essentially a subscription service.'* SIMPLE.

Whatever it is you do, it can usually be broken down into some version of the following so investors understand it -

1. This is the 'Promised Land'
2. This is the road leading to the Promised Land.
3. We have a gate and a toll booth on that road.
4. People wishing to reach the Promised Land are happy to pay us a dollar to open that gate and let them through.
5. The Promised Land is so good people will want to come back again and again.
6. The Promised Land is so good that it appeals to millions if not billions of people around the world.
7. Look how much we'll be making if 1 million people use that road every month. BINGO! At this point your investor should be asking how much and how fast to build more tollbooths



9. Intellectual Property

Intellectual Property / What is your UNIQUE Competitive Advantage?

You may think that you have the greatest product idea in the world but what happens if a major gorilla finds out about it and simply copies it?

Your business will be dead as you have little opportunity to be able to match the deep pockets and legal nous of well-established businesses.

Investors will doubt your ability to succeed if your product or service can be easily duplicated or replicated.

Clearly outline how your product technology or service is protected.

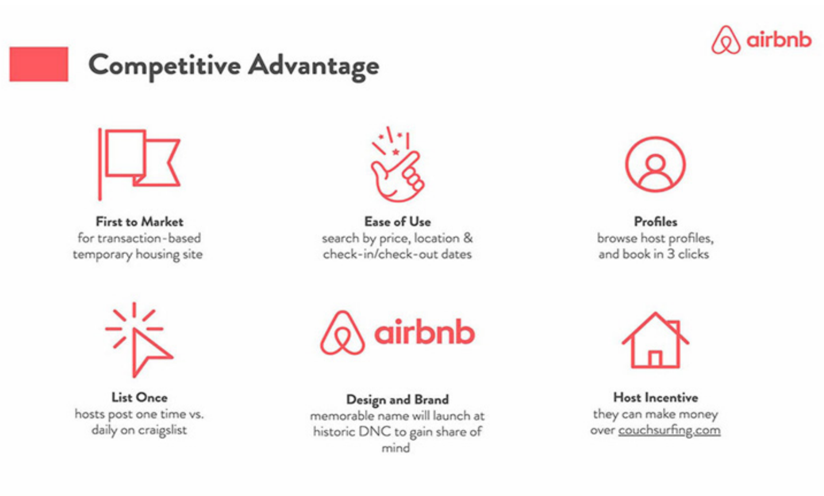
Set out the intellectual property rights, technical know how, including all proprietary technology.

Highlight patents, trademarks add value.

- Operations
- Equipment
- Facilities
- Competitors

Who are your main competitors? Show why you out compete them.

Present and show your sustainable competitive advantage.


Competitive Advantage
airbnb
First to Market
for transaction-based
temporary housing site
Ease of Use
search by price, location &
check-in/check-out dates
Profiles
browse host profiles,
and book in 3 clicks
List Once
hosts post one time vs.
daily on craigslist
airbnb
Design and Brand
memorable name will launch at
historic DNC to gain share of
mind
Host Incentive
they can make money
over couchsurfing.com

10. The Dream Team

Introduce the Dream Team

Every killer business needs a killer team to deliver on the plan and strategy. The difficulty for most entrepreneurs and start-ups is they can't prove that they've ever taken a business from set-up to exit as in most cases it will be the first one they've ever done.

If you're a 24-year-old, just out of university, and you're talking about creating a global technology manufacturing and distribution business, most seasoned investors or experienced businesspeople know that there is a high percentage chance that you are destined to fail.

You have to prove to them that you are willing to bring on board the right people and experience to take this business to the next level.

If you don't have the skills, you can still sell the value proposition on the basis that the investment is to obtain the right expertise and people that the business requires.

Investors will find it way more comfortable to invest if they know there are experienced individuals who can make sure the plan will be executed successfully.

Forget about position titles and employee charts, put your best people up front. I don't want to have to read through ten position bios before I find the coding guy who is actually the engine room of the whole operation. Most management structures these days are pretty flat.

Having said that, there is no harm in including a simple Organisation Chart, as long as it only features the main decision makers – Not something that looks like a proposal for the New World Order.

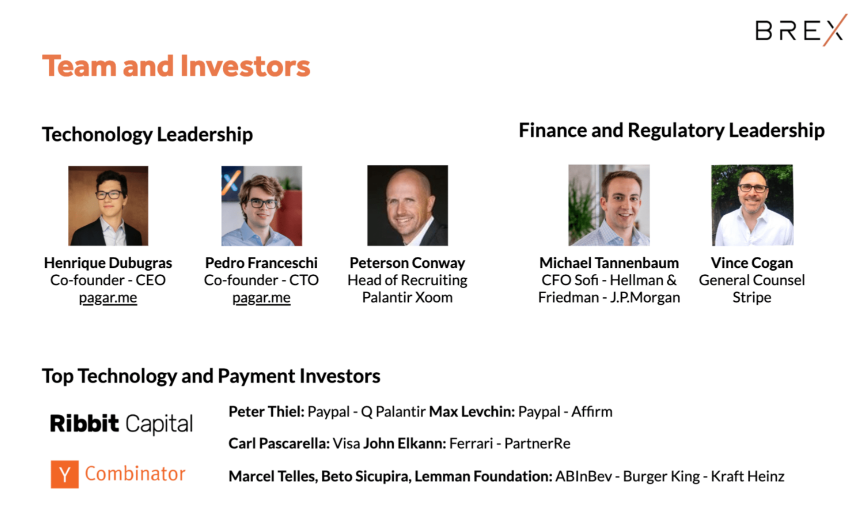
On the same note, keep job titles simple. Your team may be young and hip, but chances are your investors are not. But if they see a title along the lines of '*Money Master & Profit Guru*' or worse, '*Community Liaison & Guiding Light*' (titles we've actually seen used) they're going to start getting a 'flaky vibe'.

Also - very important: We know you are very proud of all your achievements, but keep the Bios short and to the point. List your qualifications, previous relevant employment and any major awards or honours. We DO NOT need to know that you are 'married to a wonderful woman who is your rock, have played netball since you were a child or are a vocal advocate for animal rights' - unless it is directly relevant to the business model. If you've played first grade rugby since you were 9 and your idea is a new kind of rugby ball - that's relevant. If you've loved horses since you were 9 and your new business idea is a solar powered toothbrush - that is NOT relevant. Keep those Bios down to about 2 paragraphs and save the childhood reminiscence, your stance on whaling and your mastery of Sudoku for when you're having a 'get to know you lunch' preferably AFTER they've invested in you.

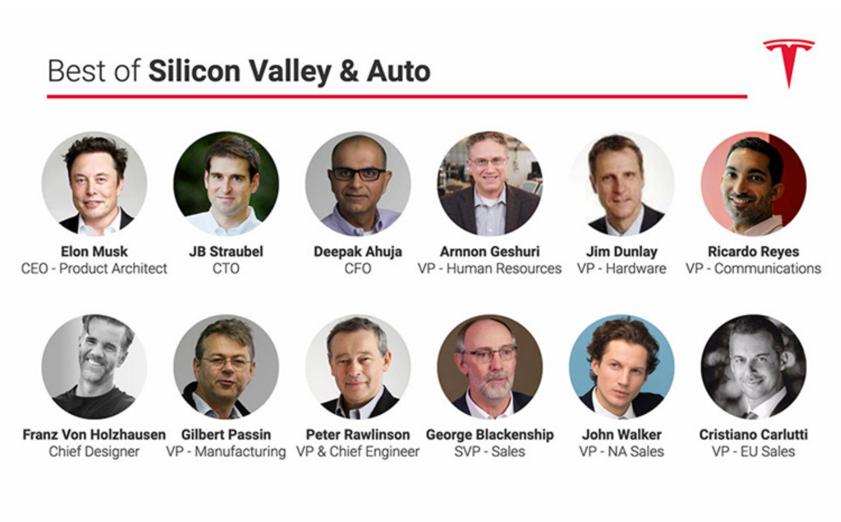
If you're going to list your founders and major shareholders, it's a good idea to reference what % of the company they hold also. This saves a lot of awkward questions when you get to doing due diligence. We once had a deal that was scuppered at the last hurdle when the investors thought they were buying in to the Founders, only to find under Due

Diligence that 80% of the company was owned by one of the Founder's maiden aunts, who they'd never met and couldn't speak English.

Check out this 'Dream Team'



Talk about name dropping, JP Morgan, Stripe, PayPal, Visa, Ferrari, Burger King! Safe to say they might know their stuff. so do these guys



11. Competitors

The Competition – Never Say 'There Aren't Any'!

It's always a good idea to head doubters off at the pass by creating your own matrix that shows how you stack up against your competition.

It's easy for someone (in the middle of your pitch) to just chuck out some contentious statement like 'Oh, XYZ Co already have one of those' but if you can pull up your matrix and show them that yours is different/cheaper/faster/smarter it will leave a lasting impression on your investor.

If you don't have any direct competition, we suggest you invent some*

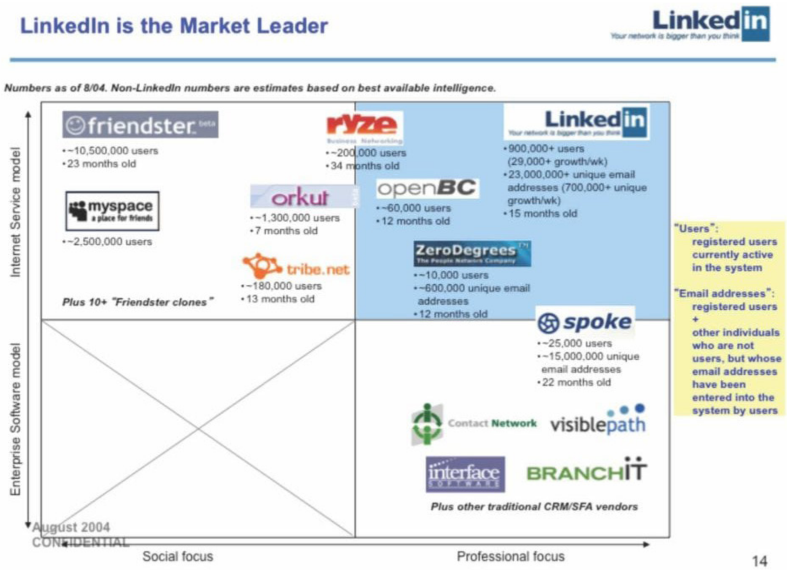
*Note: We are being facetious here. In the interests of honesty, we don't really want you to 'invent' anything. But Investors are always sceptical if you say, 'Zero competition'. Therefore, we suggest you look really hard, or just say 'There is likely to be some out there – but we haven't come across any as yet.'

I can assure you that somewhere in some massive lab or tiny garage, someone is working on a similar idea. There is nothing more embarrassing than saying 'We are the only ones in the world doing this' only to have some investor's minion pull up google and say 'Oh look, here are three other companies who say they do the same thing'. Do some research.

One final note on this - sometimes a lack of competition may indicate that you are falling into one of the greatest traps for entrepreneurs - Creating a solution to a problem that doesn't exist - so be careful.

Never compare yourself to the big players.

It is a rare investor who wants to hear statements like 'We are similar to Facebook, or it's going to be like Twitter.'...These big guys have the advantage of having gobbled up huge pieces of real-estate in their target markets - which make it very difficult for newcomers with small budgets to attack. If I'm an investor I want to hear about what is going to REPLACE Facebook or Twitter - so if that's your aim, tell me WHY your idea is the future. Smart investors know that the way to control the future is to invent it. They want to invest in The Next Big Thing - not a version of the current Big thing.



NOTE: If you do haver a number of competitors, it may be a good idea to create a comparison chart that highlights their weaknesses against your strengths, such as – Price, Performance, Packaging, Warranty, After-sales Support, Accessories, Compatibility, Environmental Impact, etc.

12. Development Cycle

The Development Cycle

Inverse to your potential to 'scale up' (grow) the business, most investors also like the idea of 'de-scaling' the risk factors.

The theory being that the further along the 'Development Cycle' you are - the less risk there is of failing.

An Example of how an Investor might view your idea might look like this:

Insane Risk

You are sleeping on your mum's sofa and you've got an idea for a hydrogen-powered scooter.

Extreme Risk

You and a couple of mates have built a prototype hydrogen scooter in your garage

High Risk

You and a couple of mates have raised $250k from 'friends & family' and you are now running trials of your hydrogen-powered

Medium Risk

A major university engineering department is now assisting you with enhancements to your hydrogen-powered scooter and conducting research on your behalf.

Risky But Attractive

You how have an improved prototype of your hydrogen-powered scooter built and you have lodged a number of patents for various pieces of proprietary technology that are used in the design.

Lower Risk + Greater Probability of Success

You have signed an M.O.U. with a major consumer scooter brand who are in negotiations to trial your scooter with their product team. You have hired an experienced Chief Technology Officer who has been in the scooter industry far ten years.

Where Do I Sigh Up?

You have a distribution deal with a major scooter brand and you are looking for funds to speed up development.

NOTE:

Within each one of these cycles (and given that around 80% of start-ups fail) there is still a fair degree of 'Risk' to an experienced Investor; but the further along the development cycle you can show yourself to be- the more you (theoretically) 'De-Risk' the business.

It is well worth devoting some time to clearly explaining where you are in the Development Cycle, because an experienced Investment group may be seeing upwards of 10 or more 'investment opportunities' every week, many of which may show similar potential for upside, so if it comes down to a close horse race to compete for those investment dollars - the investment that shows the most ***potential*** for the least amount of ***risk*** is more likely to get the nod. And that is the function of the I.M. - to use every opportunity to improve your odds of landing an Investor.

Summary

By providing a clear 'Market Snapshot' that outlines the state and potential size of the market, trends or market conditions that indicate there is room for growth, what success or failure could look like, and finally - where YOU are in the development cycle, you will have (hopefully) moved a step closer to providing your potential Investor with a ***compelling case*** as to why they should explore your I.M. further.

13. Financial Summary

A Financial Summary

Financial Overview – Revenue, EBITDA Margins, Cash Flow, profitability

Every early-stage start-up investor knows that you are unlikely to have a trading history – that's why they're called 'Forecasts'. The only thing likely to be true about a forecast is that it will be wrong.

For most investors, the 'red flags' will be if you present a set of financials that look like you're on a trajectory to Mars and are predicting that within three years' time you'll be outselling Microsoft.

There will be a time to provide them with detailed forecasts which are provided in appendix or as a separate financial model.

This section can spook investors if the numbers look unrealistic.

Keep it sharp and simple.

The more relevant or important section will be how you plan to use the funds of the investor.

The Numbers – Financial Validation

Every investor can ask to look at the financials and forecast. Just as every investor knows that predominantly a forecast is likely to contain a fair bit of bullshit.

That's okay because they expect it (to a certain extent). But what they will want to confirm is that you realise that it is just a forecast, and it is bullshit. Forecasts are based on assumptions, any number of which will be wrong, thereby changing the results of the forecast.

So instead of trying to justify a single forecast,

provide a range of possibilities. A best-case scenario, a medium case, and a 'what if things don't come to plan' case.

A good idea is to have a strategy that demonstrates that you will be able to survive a downturn and can continue to create some form value in the event that there needs to be an exit of some sort.

There is no point trying to justify overinflated forecasts which you then try to use to justify overinflated valuations.

- Report relevant financial information.
- Enough to whet the appetite of Buyers. Time to review all the detail in due diligence.
- Present historical performance, up to 3 years including sales, gross profit, and pre-tax results.
- Present your forecast for the next 3 years with key assumptions and workings.
- Report on any normalisation of financial results and basis of preparation

Unit Metrics

Sell price, cost price, profit Margin

Financial Model

By Year End	2011E	2012E	2012E	2014E	2015E
Payments Processed Per Day ($mm)	1.1	7.7	23.1	41.6	49.5
Growth Rate	1000%	600%	200%	80%	19%
Annual Revenue	**$ 10.59**	**$ 74.11**	**$ 222.34**	**$ 400.21**	**$ 476.25**
EBITDA	**0.53**	**4.45**	**20.01**	**44.02**	**52.39**
EBITDA Margin	5%	6%	9%	11%	11%
EBIT	**0.32**	**2.96**	**13.34**	**28.01**	**33.34**
EBIT Margin	3%	4%	6%	7%	7%

Growth Assumptions	2011E	2012E	2013E	2014E	2015E
Best Case	1000%	800%	400%	100%	50%
Base Case	1000%	600%	200%	80%	19%
Worst Case	1000%	200%	100%	20%	5%

EBIT	2011E	2012E	2013E	2014E	2015E
Best	$ 0.32	$ 3.34	$ 28.59	$ 69.56	$ 104.34
Base	$ 0.32	$ 2.59	$ 13.34	$ 29.22	$ 34.77
Worst	$ 0.32	$ 1.11	$ 3.81	$ 5.56	$ 5.84

NPV & IRR Calculation		2011E	2012E	2013E	2014E	2015E	Sale
$	(20.00)	$ 0.06	$ 0.52	$ 2.67	$ 5.84	$ 6.95	$ 238.12
NPV @15%	**$ 79.95**						
IRR	**55%**	* represents 20% stake					

14. Deal Structure

Deal Structure

An investor will want to know exactly what they are buying into. The simpler the better.

Confirm the amount you are looking to raise, and the amount of equity that you are prepared to part with.

Ridiculous valuations that cause your investor to question your sanity are likely to end up in the 'round filing cabinet' (The rubbish bin).

Too many start-ups are worried about the equation. and the reality is they have no product, no market, no sales, and yet they expect an Investor to make a huge leap of faith based on projections alone. In the words of President Joe Biden - 'C'mon Man!'.

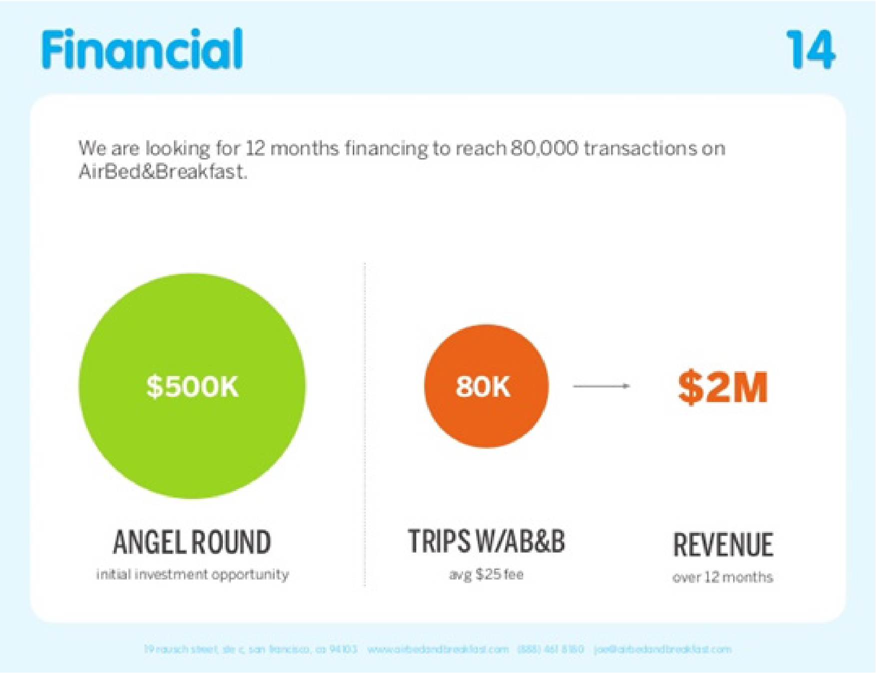
While founders worry about solution, investors also are concerned about dilution

(Refer to our Chapter on The Vexed Issue of Valuation' later in this book).

Investors will value the fact that you've taken the time to consider how they will monetise their investment.

The Transaction

AirB&B made it simple to understand.



15. Milestones / Targets

You lived the history of the business, so write it down, tell your story. What inspired you on this momentous journey? You want to inspire an investor to join you…

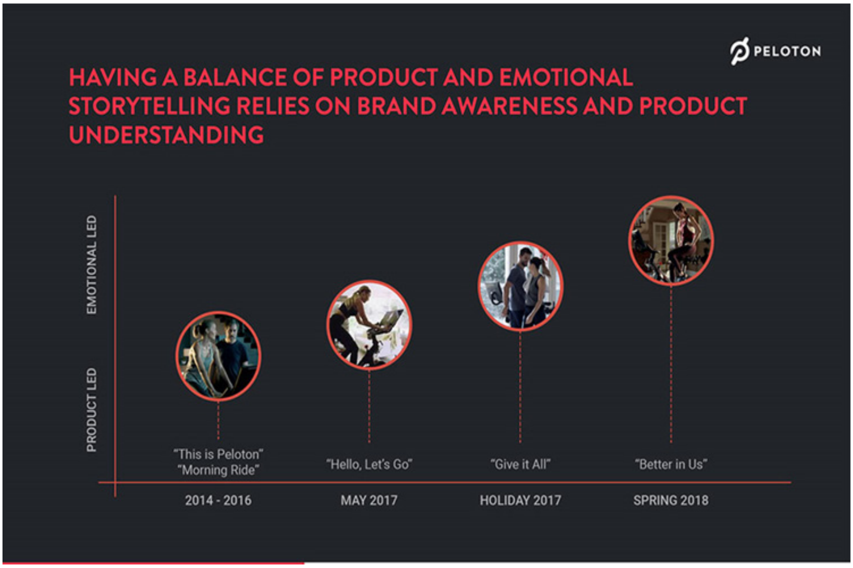
Include any relevant changes in ownership and events. All investors are keen to find out what stage of your journey they are joining the business.

Create a Visual Timeline of Events

Start at the very beginning from left to right and present start of the business in the key milestones in stages that have taken place up to and just prior to when you're taking the investment.

You may have produced your first prototype, so indicate the dates where patents were first registered. If you take seed investment from family and friends, you need to show when this occurred and how much was invested at the time.

Make it easy for the investor to understand where your business and how your business has evolved since inception.


PELOTON
HAVING A BALANCE OF PRODUCT AND EMOTIONAL STORYTELLING RELIES ON BRAND AWARENESS AND PRODUCT UNDERSTANDING
EMOTIONAL LED
PRODUCT LED
"This is Peloton"
"Morning Ride"
"Hello, Let's Go"
"Give it All"
"Better in Us"
2014 - 2016
MAY 2017
HOLIDAY 2017
SPRING 2018

16. The Exit Strategy Or We're Only In It For the Money...

Dispelling the Myths About Investors and Outlining Your Exit Strategy

Back in 1968, at the height of the 'Peace & Love' movement in San Francisco, rock musician Frank Zappa, and his band, *The Mothers of Invention*, shocked the music world by releasing an album called - 'We're Only In It For The Money'.

Up until this point, the image the music industry was projecting of itself, was that of the DRIVER of this new Utopian movement, where everyone lived in this dreamy world of tie dyed shirts, long flowing scarves, bell bottoms and Moroccan sandals.

A world where you shared everything with your fellow man, (sorry, 'brother or sister') including your weed, your mung beans and even your girlfriend. All set to a steady soundtrack of sitars and bongos by day and psychedelic music by night.

Money was supposed to be 'unCOOL'. Money was just another construct created by 'The Man' (government and big business) to control you. In a perfect world, nobody would ever need money.

The trouble was that everyone behind the scenes was in on the act, and everyone was making a motza. You just weren't supposed to talk about it. Those record industry execs that came to your gig with a bandana tied around their forehead and a fringed leather jacket, would sneak off out the back door and jump into their 1968 Cadillac Coupe De'Ville, and then head home to their 5 bedroom home in La Brea. While most of the musicians went home to their shared pad with mattresses on the floor and the smell of incense thick in the air. 'Yeah man, right on! Who needs money?'

While the bands were touring in 'groovy' converted school buses, and living on cheap truck stop 'specials', the managers, publicists, record execs and promoters, would arrive fresh as a daisy, having flown the friendly skies of United, First Class.

But if you, as a hard working musician every questioned this arrangement, you'd get a 'Hey, don't you know it's not COOL to discuss money? Peace, Baby. Peace.'

But Frank and The Mothers had spilled the beans and the music industry was never the same again.

Fast Forward to 2022

So far, we've discussed the fact that if you are going to truly grow this idea of yours, you're going to need money. Most likely Other People's Money (OPM), and that means you're going to have to deal with Investors.

Now, while there are some Investors who don't beat about the bush, and go straight for the money jugular, usually interrupting your pitch mid-slide with - '*Righto, enough about your Vision, how*

am I going to get my investment back?' **Let's call them the 'Type A' Investors.**

There are also just as many Investors who love to dance around the subject. Like 1968 record execs, these folks like to pretend that money is the absolute LAST THING on their minds, and instead like to talk about things like, 'creating eco-systems', 'making the world a better place', and our favourite, 'We just wanna give back to the industry that supported us'...

Let's call these the 'Type B' Investors.

The first thing you need to understand is that with very few exceptions, BOTH of these Investor types will only have one thing foremost in their minds while reading your I.M. or sitting through your pitch -

'What's In It For Me?' Or as we like to call it, **WIFM.**

Yes, we hate to break your little entrepreneurial hearts, but at the end of the day, while they'd love to change the world, or create a new eco-system, most of them are really only in it for the money. More specifically, they're there for the BIG MONEY.

But that's fine. That's 'COOL'.

As long as we now all know what we're here for, we can have a frank and open discussion, and the best way to open this up is to direct them to your 'Exit Strategy'. Versions of which you will need in both your I.M and your Pitch Deck.

So what does an 'Exit Strategy' refer to?

For starters, it may be referred to by a number of different terms, including:

- Exit

- Liquidation Event
- Monetisation
- Cash Out
- ROI

You get the drift. But what these all refer to is the point at which the shareholders (the Investors, Founders, Directors and possibly Employees) who have all put in so much time, blood, sweat, tears and most importantly - good faith, are remunerated handsomely for their efforts.

In other words, it is the ultimate answer to the question - 'Why the Hell Am I Here?'

Now, your Type A Investors (usually VCs and Smart Money types) will likely refer to this outcome in terms of 'Multiples' or 'Leveraging Up', or even 'ROI' (Return on Investment).

While your Type B Investors are more likely to talk in more airy fairy terms such as, 'Building Wealth for Shareholders', 'Making the Dream a Reality', or perhaps 'Empowering Entrepreneurs', and of course, the ole 'Making the World a Better Place for Everyone'.

However they may couch it, the bottom line is that they will all want to know, 'Exactly WHAT IS the bottom line'.

In other words, 'What's in it for me?' e.g. 'WIFM'.

What Are My Exit Choices?

The most common 'Exits' are:

- Trade Sale or Aquisition
- Public Listing

- Partial Share Sale
- Wind Up the Company and Sell the Assets

If you have no intention of ever supporting any of these options, the only option you have left is to just keep growing the business and distributing a steady stream of juicy dividends (based in the number of shares you hold) AND regularly increasing the annual salaries of Founders, Key Staff, and Directors. Believe it or not, Investors often refer to this as the 'Lifestyle' option. As in you never sell the business, but you enjoy a bloody good lifestyle.

The only problem with this strategy is that it is often hard to 'sell' to hard-nosed money types. Chances are they already enjoy the 'Lifestyle' you aspire to, and they don't need another swimming pool, Porsche Carrera or Patek Phillipe $100,000 white gold watch.

What they really want is power, and even more leverage, and that requires BIG MONEY. These guys are looking for the next 'Unicorn' (a start-up that reaches $1 Billion in value) think Space X ($33.3B) or Airbnb ($35B). So don't feel bad if they don't get excited at your idea for a flying skateboard that could be worth 'as much as $20 million a year'. Then again, they might just love it, so don't be discouraged, just be realistic.

However, your task is to professionally present the most likely 'optimum' outcome, and then gauge their interest from there.

Elements of a Clear Exit Strategy

Obviously, you are going to have to provide some supporting data to back up your anticipated Exit Strategy, but first you will need to establish the issue of 'Value'. How do you reach the metrics required for the market to value your company at $100M , or better yet, $1 Billion

Dollars, plus?

Common Valuation Metrics

Once a business has a trading history, the metrics used to set a valuation differ from the metrics used to establish a valuation when you first set out to raise capital in the early stages.

Let's imagine we have an exciting product in the 'Wearable Technology' sector that's been trading and steadily growing over the past three years...

Common Metrics

- Strength and growth trajectory of the market sector.

The Wearable Technology global sector is projected to grow from $116.2B in 2021 to $265.4B by 2026: it is expected to grow at a CAGR of 18% between 2021 and 2036.*

*Compound annual growth rate, or CAGR, is **the mean annual growth rate of an investment over a specified period of time longer than one year**. It represents one of the most accurate ways to calculate and determine returns for individual assets, investment portfolios, and anything that can rise or fall in value over time.

- Global Need

The Wearable Technology Market by Product includes (Wristwear, Headwear, Footwear, Fashion & Jewelry, Bodywear), Type (Smart Textile, Non-Textile), Application (Consumer Electronics, Healthcare, Enterprise & Industrial), and Geography.

Therefore, it would be safe to claim that there is a strong and growing global market for wearable technology.

- Business Model

Let's assume our business model is a combined one that includes outright purchase, monthly support via an App (subscription) and regular upgrades.

So, we can point to upfront sales of value $X, hopefully supported by a healthy increase in sales every quarter over the last 2 or 3 years. Then on top of that you should be able to show a steady rise in App downloads, plus people purchasing upgrades and extras. Effectively 'multiple' revenue streams.

- Potential for Market Domination

Our product currently outsells the nearest competitor at a ratio of 8/3 in pure unit sales.

- Defensible I.P.

Our patent lawyers have just confirmed that our pending patent has just been granted in both North America and China.

- Year on Year sales growth x units / Projections

In terms of pure units, our factory in the Phillipines is churning out 20,000 units per month, only just meeting global demand. But we are just about to open a second factory in Mexico with the funds from a recent capital raise, and this will lift our total capacity to 50,000 units per month, and allow us to attack the U.S. market.

- Year on Year sales growth x Dollar Value

Our current CAGR is around 12%/ Last financial year we announced a net profit of $27m.

- Margins (Holding or slipping)

Due to the rising cost of materials - Our current margin has slipped by around 3% in the past 12 month. However, with a new factory and additional capacity, this will allow us to buy more materials in bulk, and we anticipate our margins improving by approx. 5% over the next 12 months, giving us a projected net margin of 27% per annum.

- Product Road Map to the Future

Our current Product Road map shows us releasing our new 'lite' version of our existing product, which will allow us to attack the 'Under $200 Market', which we anticipate will equate to an additional 2,000 units per month.

We are also planning to release our new upgraded version of the existing product in Q3 of this year, which contains a number of cutting edge enhancements, and for which there is already a Waiting List of some 4,500 customers. The new version will sell for $1250 more than the current one.

- Vision of the Founders/ Key Staff

We are not stopping with the current range. We are currently working on a range of wearables that will have application in the Defence, Health and First Responders sector.

- Customer Satisfaction

A recent survey of existing customers saw us awarded a rating of 8/10 in the *American Customer Satisfaction Index.*

- Competitor Movement

To date, the only competitor that has come close to releasing a similar product is google, but their product was recalled due to software issues.

In terms of comparable valuations, it should be noted that google recently purchased the wearable technology company ***SmartTrakker X***, in an effort to acquire similar human GPS tracking software as developed by us, for $320M.

So, by applying all of these (above) metrics, you should be able to support the size of future valuations you are aspiring to, in order to trigger an 'Exit'.

If your metrics are sound, there is a good chance your Investor will buy n to the premise that you are on track to be doing $500M+ per annum, in 5 years time.

If you're doing $100M p/a and you can maintain the 27% margin, that gives you around $27M per year.

If you valued the business at $270M, that means it would take the buyer 10 years to break even before they started to make a profit.

But wait. We've produced evidence that that not only do we not have any serious competition, but that the market sector is growing year on year at 18%. So over the next 10 years we could expect our sales to grow similarly every year. So by the end of year one, sales should be $118M and then in year two $139.2M and in year three $164.25M. Do you see where we're going? We're heading for that $500M p/a.

Therefore, it is not inconceivable that in 10 years time you could be worth more like $800M. So if you can 'Exit' your business when you're turning over $500M per annum, but convince a buyer that you will soon easily be worth north of $800M, that's going to give your Investor (depending on what percentage they have if the company) a massive multiple on their initial investment, which may have been as little as $5M.

Exit Options Explained

If we go back to our exit options:

- **Trade Sale or Acquisition**

This refers to selling the business to another player who is most likely in the same sector, or wants to access your market because they have synchronistic products or services.

This could involve them buying the entire company outright for cash, or 'acquiring' part or all of it by paying a combination of cash AND shares (in their company).

Objective: If you intend to propose a Trade Sale as your preferred Exit option, the objective here is to present evidence of recent sales of 'like' businesses.

So, if you've got a high tech headphone as a product, you could point to a recent example where a big gorilla like SONY has acquired a little known player in the industry for a substantial sum. (Obviously this calls for some serious research, but it's well worth it).

NOTE: Many smart Founders build their company from Day 1 with a sale to a specific big name already in mind, for the future.

You are guaranteed to impress an investor if you can tell them - 'We saw that Tesla wanted to improve their speech recognition in their driverless cars, so we threw everything we had at building the clearest microphone on the planet, with a view to them buying us out in the next 5 years.'

- **Public Listing**

This is a common exit strategy when the company is in a strong position and sales are on an upward trajectory. With the help of a stock broker, you prepare a 'Prospectus' (essentially a legal I.M.) that explains how the company works and where the opportunities for growth lie, and then you 'list' the company on the appropriate market, (ASX in Australia, New York Stock Exchange, the LSE in London, SGX in Singapore, etc).

Shares in your company are then traded publicly. You should note that it costs around $1M in fees to list a company, and once you go public, there are many onerous governance and reporting protocols that will need to be managed. But a successful, well managed public listing can send your company valuation into the stratosphere.

Note: If you're going down this route, make sure you come prepared with examples of recent listings for similar businesses, as well as examples of long term share price growth for existing similar companies.

- Partial Share Sale

There are large private equity groups that are quite happy to take a substantial stake in your business, while still maintaining a 'hands off' approach to day-to-day management, provided they can see the upside. You would likely need to have a pretty exciting product in a rapidly growing market sector, to attract their attention, but it is possible.

Depending on the deal, you may have to apply the funds towards growing the business, but we have seen deals where the Founders are allowed to 'take some off the table' (take part of the funds for your own use) but it often depends on the existing Shareholder Agreement, and don't forget there will be tax ramifications.

- Wind Up and Sell Assets

There are instances where sales may stagnate, but the business has built a range of assets that are attractive to certain buyers.

These could include:

- Logos and Brand Names
- Recipes or Methodologies
- Real Estate
- Mining Leases
- Patents

- Specialised Tooling
- Experienced Staff with Unique Skills
- Customer Data Bases

There are ample examples where interested parties are prepared to pay top dollar for any of these, under the right market conditions.

You may no longer be motivated to continue to produce some luxury goods item, but another player may be very interested in buying the rights to your brand name, logo, and list of upmarket customers.

Or you might find that the old factory you bought several years ago is now sitting in the middle of a rapidly growing and desirable residential zone.

Presentation

Probably best to put in both a slide in your Pitch Deck, and a few pages in your I.M. that gives a high level overview of your proposed Exit Strategy.

Final Note:

Be prepared to defend your preferred Exit Strategy, but keep an open mind. These money guys/gals may know bugger all about your product, but what they do know is the Money Market.

That means they know 'fifteen ways from Sunday' to milk the last dollar out of s trade sale, or sweeten a public listing that will have both institutional AND Mum & Dad Investors clambering for your stock.

Sometimes it's best to just sit back and learn from the experts. So stay COOL, Baby!

17. Summary

Budding journalists are always taught that one of the first rules of constructing a news story is to use these three steps –

1.) Tell 'em what you're gonna tell them.

2.) Tell them.

3.) Tell 'em what you just told them

So, Step 1. Is the headline that gets their attention.

'3 People Are Missing, Feared Dead After a House Fire in Wilmington'

Step 2. Is the body copy.

This is where they flesh out the details of the story. The 'who'. 'what', 'where' and 'how' of the story. In other words, all of the known facts.

Step 3. Is the summary.

This is where the reader is presented with a summary of the most salient (read 'titillating') points of the story, as well as any additional facts that may have just come to hand. (Police have just advised that the blaze looks suspicious).

If the journalist has done their job properly, the audience will want to continue to read the entire article, as well as keep an eye out for further updates.

As the 'Narrator' of your company's story (from your initial Elevator Pitch to your Information Memorandum, and finally down to your Pitch Deck) you could do well to remember this maxim, as your goal is pretty much the same if you're hoping to attract Investors along for the ride.

- You want to attract them with a big headline that promises an intriguing story, with more detail to come.
- You want to lay out all the facts of the case as to WHY they should be investing in you. **AND**
- You want to neatly sum up ALL of the positives, to ensure that no salient point, or key piece of data has been overlooked, or worse – misunderstood.

By the time you've reached the end of your presentation, people will be fading (no matter how compelling it may be) so this is not the time for long sentences or paragraphs. Just short, sharp, bullet points are all you need.

18. Contact Details

We know it sounds bleeding obvious, but we have seen more than a few Information Memorandums where for some obscure reason, the Founders have neglected to let us know how we can get in touch with them. Something as simple as this is all you need…

19. Supporting Documents

If they're relevant, it never hurts to attach supporting documents to your I.M., and these might include –

- Industry Reports
- Press Articles
- Copies of Government Licenses or Approvals
- Compliance Certificates
- Budgets
- Product Reviews
- Trademark Registrations
- Partnership Proposals
- Etc

Alternatively, you may wish to 'go digital' and have all of this sitting on a server in a dedicated data room. The benefits of a data room is that they can be password protected as well as contain various security levels, which enables you to control who sees what, as well as registering a digital footprint on any document that is reviewed. This then acts as a good arbiter should there ever be a dispute about what information was, (or was not) disclosed to the Investor during the Due Diligence process.

EXAMPLE

Investor: 'I had no idea your CEO had a Porsche on lease that was costing the company $2,500 a month.'

Founder: 'Uhm, according to thee data room records, your accounts guy opened that file up at 2:48 on the 27th of June…'

Tip: If you are planning on attaching substantial documents such as an Industry Report, PLEASE don't make them wade through hundreds of pages looking for the information you feel is relevant. A simple note attached to the front stating that 'Page 117, item 32.b, third paragraph down, gives the most up to date projections' is all you need do.

Part 3
The Pitch Deck

"Time to make shit happen"

SECRETS TO DELIVERING THE KILLER PITCH

Okay, so you've rehearsed and workshopped and rewritten your 'elevator pitch' to the point where you can deliver a succinct picture of what you're trying to achieve in under 3 minutes.

Now it's time to flesh that out with a full blown 'Pitch Deck' that should cover most of the salient points a potential investor would be interested in when evaluating the risk factors and potential upside.

Remember the Chain of Interest?

As a rule of thumb, the 'chain of interest' that will hopefully lead to an offer of investment usually looks like this -

Elevator Pitch

Leads to....

Calls For Information Memorandum

Leads to....

Present Pitch Deck

Leads to....

Due Diligence

Leads to....

Term Sheet (Offer to invest)

So, let's assume you've given your target investor your best elevator pitch. They obviously liked what they heard, and they've come back and called for a copy of your I.M. - which you've promptly delivered, and now they've asked you to come in and give them your full pitch.

This is where the rubber hits the road. Or as one well known VC puts it - 'Let's see if the pitch is writing cheques that the business can't cash....'

In other words - is there any substance to back up your claims about the biggest, coolest, fastest, most advanced, super profitable, globally scalable, next billion-dollar unicorn innovation you are promoting?

A great elevator pitch will get you through the door. A Killer I.M. will reassure them that 'on paper' the product idea looks interesting, and the business model appears to stack up. But now they want to hear it from the Founder's mouth. They are not so much evaluating your idea as they are evaluating YOU. So be prepared for the Trial by Fire.

Trial by Fire

First of all, you need to understand that at the end of the day. the Investor is ultimately investing in YOU.

As a general rule, investors back people, not ideas.

Nearly every VC we've ever worked with has the same approach to risk taking - They'd rather back a good idea with a great Founder than a great idea with a lousy Founder. So, it's really you (and your team) who are on trial here. So here are some rules:

One.

From the minute you arrive in the car park til the minute you get back in the elevator to go back down, you are under scrutiny. There are cameras everywhere these days so don't think someone hasn't noted if you stopped in the car park for a quick cigarette before coming up. Does your Investor hate smokers? Who knows, but why risk it?

Two.

Everything you say can and will be noted and may be used against you in a final decision process.

From the minute you are greeted by the receptionist to how you handle closing questions; people will be both listening to what you say - as well as how you say it.

Think we're kidding? One of London's biggest global investors has a receptionist that's worked with him for 30+ years. Whenever someone leaves after giving a first-time pitch in his magnificent Boardroom, the first thing he does is rush out to grill the receptionist....

'How did they greet you? We're they polite or brusque?'

'What did they ask for to drink? Tea and coffee, or something a bit stiffer?' (He has a fully laden bar cart set out in the foyer expressly for this purpose).

'How did they handle the 30-minute delay?' (A common ploy he likes to try on people to test their patience).

'Did they read their notes or just stare at the wall? What were they talking about? Did anyone comment on the paintings?' (There is some magnificent artwork on the walls and anyone who knows a Damien Hirst from a Lucian Freud can earn serious bonus points)

'What was your overall impression of them?'

You get the drift.

On more than one occasion we've sat through very strong business pitches only to see them knocked on the head because his assistant 'didn't get a good feeling' about the presenters. Or even worse, they'velooked at some of the paintings and said, 'I just don't get modern art. Looks like my kid drew it'.

In other words, this woman had the power to kill off a £10M pound deal because the CEO was a bit tetchy with her when she told him he'd have to wait an extra half an hour to see his Lordship - so be warned.

Three.

You only get one chance to make a first impression.

You don't have to wear a suit if jeans and a T shirt are 'your thing' but just remember your clothes and appearance send a message - so just make sure you're sending the message you WANT to send.

If you're proposing some FinTech related product, your investors may want you to look like serious people who would be right at home talking to bankers. Whereas if you're proposing some Wild & Wacky gaming App it probably doesn't hurt to look a bit wild and wacky yourself. On the other hand, we once saw a guy trying to promote a fitness App who looked like he hadn't done a push up in the last 10 years, so needless to say, that was a 'No Go'.

All we're saying is that first impressions count and if you wear something inappropriate or have some weird habit like constantly uhming and arring or fiddling with your top button, it's likely to distract your audience.

When it's your turn, get up there. Stand straight, try to look relaxed like you do this every day, and try to engage eye contact with people in your audience, and for gods speak loudly and confidently.

Four.

Facts is Facts.

The best way to impress an Investor is to show them you really know your shit.

You may have the best soy-based burger on the planet, or reckon you are going to be the next Google, but if your premise or numbers or understanding of a market sector start to look shaky after a few probing questions - you can forget ever seeing dollar one out of any serious investor.

If you're going to quote market projections, have a copy of the reference article on hand. If you say you've applied for a patent, have an acknowledgment letter from the patent lawyers. People doling out millions of dollars are gonna want hard evidence - not vagaries.

And most importantly - make sure you know and understand what all those numbers mean in any operating budget or revenue projection. If you don't know exactly how your Finance guy reached a projected income of $70M by Year 5, you better bring someone along who does. We've seen plenty of instances of sloppy maths undo million-dollar investment rounds.

Even more importantly - you (or someone senior in your Team) really needs to know their sh*t when it comes to any technology you're using.

1.) Speak slowly and clearly

- Rapid Speech denotes nervousness.
- If you've made an important point, pause to let it sink in. Don't be afraid to repeat the point for emphasis.
- Speak so they can hear you at the back of the room.
- Try to look at different people in your audience and make eye contact and speak directly to them.

2.) Have an attention-grabbing opening statement?

Remember:

- Intrigue Them 'In the next 5 years 1 in 3 of you will have a life altering experience with a drone'
- Humour Them 'They laughed when we said you could have a pizza delivered by drone - but who's laughing now?'
- Frighten the Shit out of Them 'In the next 5 years at least 1 in 10 people will be killed by a law enforcement drone.'

3.) Tell Them what you are going to tell them, tell them....... then tell them what you've just told them.

Today I'm going to show you why XYZ Corp has the most advanced drone technology in the world.

This is why XYZ's technology is so advanced.

So i think you'll all agree than what I've just outlined is an exciting step forward for drone technology and in summary, these are the key points that set us aside from our competitors....

4.) Make sure your pitch has a Simple narrative. Where did you start and how did you get here? People love well told stories.

'When Ted and I started XYZ Corp 2 years ago, all we wanted was a better way of taking aerial shots of real estate, that changed when a customer asked us if we could design an X product. A year later we got our first military contract. Today we employ 90 people with plans to open a second plant in Germany....' (That's a Killer Story right there).

5.) Save Questions for the end. Don't allow them to take you off course. And if you don't know the answer, there is no harm in saying 'Let me come back to you on that' - rather than just bullshitting.

- Be prepared by workshopping possible questions or objections with your colleagues or a mentor prior to your pitch.
- There is nothing better than being thrown a curly question and being able to say- 'I'm so glad you asked that'.
- If you don't know the answer, tell them you will get back to them on that specific point.

6.) Make any visual aids simple, relevant, and easy to see clearly from a distance.

- Images need to be large enough to understand and relevant to the subject matter.
- There is nothing worse than seeing an image when you're two rows back in some hall and it all just looks like fruit salad.
- Don't worry about trying to make your slide backgrounds look pretty.
- 24 beautifully coloured slides never sealed a deal with any hard-hearted investor - but a single slide that clearly demonstrates your unique selling proposition will.

7.) Keep slides short and font sizes big. No more than about 4 - 6 sentences per slide.

- Ok Millennials - listen up. While you may be young and clear-eyed there is a good chance your investor is not.
- DO NOT present slides with so many words it looks like a

page from the Bible. People can only take in so many words or concepts at one time.

- DO NOT use tiny, ant shit-sized fonts that only people 4 metres away can read. Keep sentences short and sharp. Use big fonts. Put important words in **BOLD** for emphasis or even underline them.
- A 64-year-old investor is unlikely to have the eyes of a 24 year old - But much more likely to have a million dollars to put in to your start-up. Design your pitch with your audience in mind.

8.) Speak from the heart in a voice that reveals the real you - DO NOT read from a script.

- Have a rough script in your head by all means - but do not do as one recent founder did at a pitch fest where he put up slides and then read from a script on his iPad in a voice that sounded like he was reading out a list of war casualties.
- If you're really not confident you can always hire a professional voice-over artist, but sooner or later the investors are going to want to hear how you handle yourself. So, if you're not confident - practice.
- Much better to speak from the heart with passion and make a few mistakes than to just drone on and on and put everyone to sleep. If you sound excited, your audience will be too...

9.) Know your shit. If you don't understand the numbers or the technology you are relying on, then make damn sure you have someone there who does.

If you are the CEO. but don't know what software platform you're using or what your guys are coding in, find out! Or at least bring along a tech guy for that portion of your presentation and to answer questions.

Same goes for all your financials. If you don't know off by heart what your projected costs are in Year 3, bring along someone who does.

We have seen many a great idea scuppered at the last minute when the numbers just don't add up. Or worse, when the Founder can't explain them.

When we launched our first gaming company, we had a great line that always worked when someone asked a technical question, which was 'Because the technology is evolving so quickly, we like to leave that to our technical team, and we are more focused on the Customer Experience. I tell my guys i don't care if there are little squirrels on tiny wheels inside there - as long as the customer's experience is unparalleled.' (It's rare that the technology argument trumps the CX argument when evaluating a product or service).

Technology** can be upgraded (or bought off the shelves in most cases) whereas good Customer Experience is more instinctive - which means it has more of a 'black arts' element to it - which is why they need to invest in YOU.

**NOTE: Obviously technology is important if you are supplying a purely technology-based solution.

10.) Keep it short and simple. Ask if there's anything you've mentioned that needs clarification or that they're not comfortable with.

There's no shame in pausing now and again to ask if everyone is following you or onboard. This is a great opportunity to identify that one sceptic in the audience and then where possible, skew some of your presentation to emphasise the positives of the issues they may have raised.

11.) Offer to make copies of your slides available - either as a handout or as a PDF.

It's usually a good sign if someone you have just presented to asks for a copy of your presentation.

Have a couple of hard copies available or offer to send them a PDF.

Just a little note on 'Non-Disclosure' Agreements - Many large VC firms have a policy of NOT signing N.D.A.s on the basis that they get pitched so many ideas there are bound to be similarities and the last thing they want is a lawsuit. So, your welcome to ask, but if someone refuses you can pretty much guarantee your relationship with them won't be going much further beyond this point if you insist on an NDA.

If you've either patented or trademarked your idea you should have a reasonable degree of protection and acting like a reluctant virgin when someone asks for a copy of something you've just shown them publicly is not cool.

The W.B.F. Lesson: Many years ago, we had a discussion with a very famous V.C. who explained what he called his 'W.B.F. Principal' - He said that whenever he was asked to sign an N.D.A. he would tell the Founder 'W.B.F.' Which stood for Why Be F*cked.

What he meant by this was that his business was all about Funding good ideas, from which he made a lot of money, so why would he be f*cked going to all the trouble of hiring staff, leasing premises, building plants, negotiating with suppliers and customers and working 80 hour weeks - when he can just take an equity stake in your business and let you do all the hard work for him. Be prepared to open your kimono and show your potential investors what you've got. Remember the W.B.F. Principal!

12.) Finally - suggest 'Next Steps' and for god's sake - Ask for The Sale!

When we went to America for the first time to look for investment, we met a very canny and famous Hollywood Investment Guy called Sandy Climan (who eventually became an investor) and after one of our meetings Mr. Climan said to us 'Guys, we really like meeting Australians, but most of the time all they ever say is 'that was a great meeting' and then we never hear from them again.' Aussies apparently like having 'great meetings.

When pressed to explain what he meant by this he told us that many Australians (and Brits) would come and pitch him interesting deals and then at the end of the meeting they'd just look happy and keep saying what a great meeting it had been, but then they'd get up and leave without asking for the order! (Meaning - Close the deal).

In other words, they weren't closing the sale. They had said all the right things, and Sandy and his team had said all the right things, but afterwards everybody would just get up and go their own way.

The people doing the pitch assumed that because Sandy had made all the right noises, he and his team would soon be in touch to follow up. And as no one had suggested some 'Next Steps' no one knew what was expected. And if they thought that Mr. Climan was going to chase them, they were sorely disappointed. This is a busy guy. Some people wait months to get a meeting with him. Do you really think he has time to chase you?

So, this is the most important tip we can give you when you pitch - ASK FOR THE ORDER!

'Asking for The Order'?

There are many good books out there about selling and how to make deals happen. And every good salesperson has their own style.

Over the years, we've found that the following (or variations thereof) work best for us.....

At the end of our pitch, we simply ask -

So, What Have We Got to Do to Get Your Business**?

** Variations

- Close this deal?
- Get You onboard?
- Take an equity stake?
- Become a partner?
- Join the team?

This is why it works:

Just imagine you're looking to buy a new car.

You're in the first showroom and you've seen something that you like, but the price is over your budget and there a couple of features missing off your Wish List.

A salesman spots you and walks over.

"She's a beauty, isn't she?"

You: Yes lovely. Just a bit out of my budget.

"Well, this is the top of the range, it's already been heavily discounted.

You: Well, let me think about. I might come back later in the week.

"Okay, I'll be here, but good luck finding a better price."

Now you go to showroom #2 and see the same car / same price.

Saleswoman -

"She's a beauty, isn't she?"

You:: Yes, but its bit over my budget."

Saleswoman: "Well, that's the latest model and it's already been heavily discounted...."

You: Well I'll have a think about it.....

Saleswoman: "Okay, but tell me this - What would I have to do to GET YOUR BUSINESS?"

You:" Well, I would be a serious buyer if you could ....

Deliver it with 12 months registration.

Change the rims to the 'Sports Model'

Put in a sunroof.

Add leather seats.

Give me an extra 12 month's free service.

And find me one in gold, instead of the silver."

SalesWoman:

"Wow, I like a man who knows what he wants.

I couldn't do all of those things, but are you saying you would be a serious buyer if we could come close?"

You: "Yes M'am. For sure."

She goes off to talk to her Supervisor and comes back a few minutes later...

"Okay. I've got a demo model that still has 10 months to run on the rego. I can ask the service guys to swap the wheels. I can't put in a sunroof - but I've got a $500 voucher from one of our suppliers that will cover most of the cost. The car I have in mind doesn't have leather, but it has leather inserts. As they're so reliable, I'm sure we can slip in an extra 12 month's service." "Unfortunately, silver is the only premium colour they are delivering at the moment. There's a 12 month's wait from the factory if you want Gold....If I can deliver all of that, have we got a deal?"

Now, do you see what's happened here?

Unless you're selling discounted gold bars, all buyers have objections (or reasons not to buy). It is up to you as a good salesperson to draw these objections out of them and then see if there are ways you can either dispel them or come to a mutual compromise.

Selling a car is one thing, but 'selling' a start-up is even more complex and nuanced.

An investor might love your idea, but not properly grasp the revenue model. If you just have a 'great meeting' he may walk away without you realising that he is confused.

But if you ask him - 'What have I got to do to get you to buy in?' You've given him a chance to raise his objection and more importantly, given yourself a chance to either address his issues or even reconsider adapting your model to make it more attractive to him.

The bottom line -

If you don't ask + you'll never know

BUILDING THE ULTIMATE PITCH DECK / PRESENTATION

Rather than give you some set of 'Cookie Cutter' slides that can be adapted to any product or service, we'd rather give you a list of what we feel are the Top 12 slides you need to have in any Pitch Deck in order to win over the most truculent Investor**. You can then layout these slides in a format that best suits your image as well as add other slides as you see fit.

**NB. The reason we say, 'truculent Investor' goes back to the title of this book - 'You're Idea is Sh*t, Change My Mind'.

Like it or not, most Investors have a combative approach to looking at new investments. They've seen it all before. They've seen the unrealistic sales 'Hockey Stick' projections, they've seen the Marketing hyperbole, they've heard the excuses, and quite likely - they seen their money go up in flames - more than once.

So, they've come to the table with an open mind, but a sceptical heart. The next 30 minutes is your chance to ***change their mind.***

And just a note of warning *- don't be fooled by the warm welcome, friendly smiles and quality snacks, these guys may look friendly, but they are* *jilted lovers who've all been done over at some stage, and while they want to fall in love again (hopefully with your pitch) they are extremely sceptical.*

AND Extra Note: *If they themselves are not combative, then they are more than likely to have someone like Daniel Fah in the room, whose job it is (like some old Greek Auntie) to make sure they don't fall in love with the wrong suitor. So, you'll need to be at your charming best. And show them you REALLY KNOW YOUR SH*T.*

As we've said before - VCs invest in people, not ideas.

The first thing is to have a 'narrative' to your Pitch that establishes a goal and then clearly shows how you and your team will overcome the odds to reach that goal.

So rather than trying to beat them into submission with lots of words and numbers and charts, your 'Pitch' should take them on a little journey, where the more they see of you, the more they fall in love.

Let's Go.

One.

Identify a major change in the world and how your product or service will benefit from it.

In the earlier section on 'Creating an Elevator Pitch' we talked about an opening line that grabs their attention or literally 'Frightens the Sh*t Out of Them' and this is certainly the ideal time to be thinking about that now.

It is human nature to want to control the environment around us and the future that's coming our way. Most of us don't have many opportunities to do that, but rich people like to think they can control the future - by investing in it (which often makes them even richer).

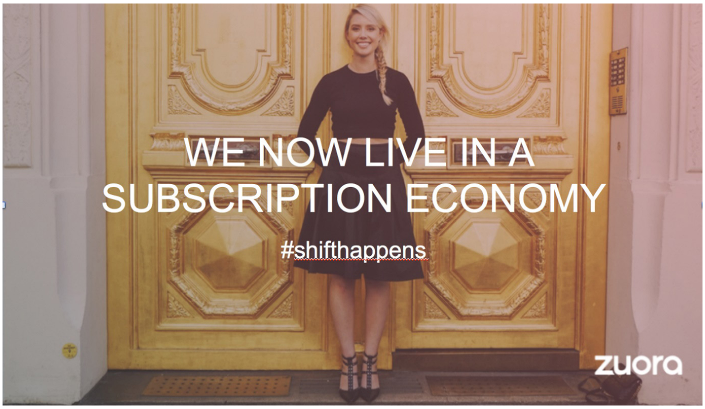
So, to grab an investor's attention, you ideally need to open with a world changing event that will have a major impact on the way we live, interact, or do business and indicate how your product will intersect with it.

Most canny investors understand this equation perfectly - Big Problem = Big Opportunity -

The bigger the problem / the bigger the opportunity

Examples of Major Shifts Include

- The Gig Economy
- Virtual Currency
- A.I. at Forefront of Customer Service
- Robotics in Manufacturing
- COVID 19 Virus
- 9/11 World Trade Centre Attacks
- Boom in Subscription Economy
- Virtual Reality in Gaming
- Move to Plant-Based Meat Substitutes
- Drone Technology
- Climate Change



Moreover, many investors still have stakes in 'old world' economies, so one thing likely to 'Frighten the Sh*t Out of Them' is the news that their current Banking, Real Estate, Publishing, Pharmaceutical or Telcomms investment is about to be seriously disrupted.

Two.

Establish the 'enemy' that is holding up progress.

Remember, we are trying to tell a story here, and every good story has a villain that needs to be overcome while the hero is on the road to redemption.

For our purposes here, the 'Villain' could be anything that is standing in the way of this major world event having a positive outcome.

So, your 'Villain' could be the big banks, existing government regulation, technological change or even just people's ambivalence.

Having established 'The Villain' in the narrative, you need to make them understand why your product or service is such a 'giant-slayer'. Eg. how does it overcome the villain?

Three.

Where are the current players failing?

Okay. In any market sector there are big players, so the first question in your Investor's mind will be - 'Why aren't the big players already on top of this problem, and why is there an opportunity available for an upstart company (You) to come in and steal their lunch?'

One could ask why didn't a global player like Hilton Hotels see an opportunity for an AirBnB? Or why didn't Facebook see TikTok coming. The answer is usually smugness, complacency, lack of innovation, or just failing to detect the shift in market circumstances.

So, you need to identify the big players and explain why they are failing to capitalise on this opportunity, then make it abundantly clear why you are best poised to jump on it.

Four.

What is the 'Magic Sauce' you have that will defeat the enemy of progress?

So, you've identified a major shift in the paradigm, you've identified what success looks like and the villain that's standing in the way, and you've called out the current big players who are unwilling or unable to capitalise on the opportunity.

Now you need to explain in no uncertain terms exactly WHAT the 'secret sauce' is that you bring to the story.

This is essentially your 'Unique Selling Proposition' (USP) that will allow you to dominate the market.

It could be:

- An App
- A Product
- An Algorithm
- A Microchip
- A Recipe
- A Concept
- A Process
- A Service
- A New Media Platform
- Or just a better ‘Mouse Trap’

Or a combination of any of these.

But you need to clearly articulate what your ‘secret sauce’ is and why it will be so important to the events surrounding this major change that is coming.

- -

(Box)

Our narrative so far:

Major Change/Event Coming

+

Villain Standing in the Way

+

Big Players Unwilling or Unable to Pivot

+

The 'Secret Sauce' is Right Here in Front of Us

= ***Opportunity!***

- -

Five.

Explain your business model as simply as possible

Next Up - Explain How do you intend to monetise the use (by your customers) of your secret sauce? eg. How do we make money?

(NOTE: We've kind of repeated what we wrote about previously about Business Models, as we think its important to get the message across).

> *The way you make money from some ideas can be bleedingly obvious – but with others (especially new concepts or services) it can seem complex.*
>
> *If you have a product such as a new skateboard, most investors will get that you can either sell it to wholesalers and retailers or sell it direct online. Pretty simple, right?*
>
> *But with something more obscure, such as an App that allows individual citizens to rent out their own car, boat or caravan, Investors would want to understand every stage of the process, from marketing the concept, to vetting the participants (owners and renters), payment methods, collecting security bonds, insurance, returning assets, inspecting for damage, customer service, cleaning, etc.*
>
> *Therefore, if someone asks you – 'What's the business model?' Don't just say – 'Isn't it obvious?'*
>
> *Smart Investors will want details in order to be able both properly*

assess the market AND understand where the booby traps might be.

Renting someone's million dollar yacht out for the weekend might look like a winner on paper, but the boat's insurers might have a completely different take on the idea of handing over the keys to someone who's never skippered one that big before. Do your research thoroughly. Investors hate booby traps.

Now be warned: Investors do not take kindly to complex business models either. Most Investors like to think of their investment as some sort of sausage factory where it is easy to see what's going in at one end and what's coming out the other. So, if you've got a complex piece of technology or some wakkadoodle algorithm we strongly urge you to put it into simple terms they will understand.

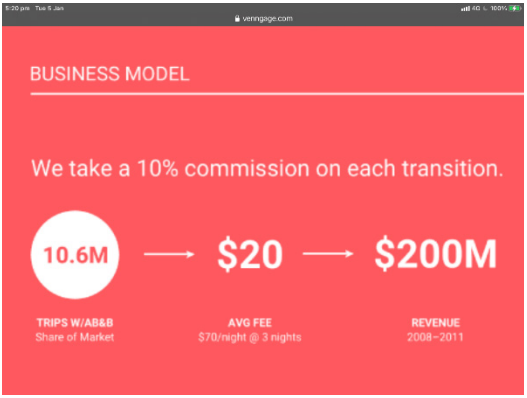
If you were trying to explain Spotify at a high level, you wouldn't start out by trying to explain the algorithms behind it, but rather we'd start by explaining it at the user interface level. Eg.

'*A huge percentage of the global population loves music. It is too expensive and unwieldy to buy every album and song that comes out on the market. But by purchasing a monthly subscription to Spotify, users can access any music they like as well as opt to be introduced to a huge variety of new music they are likely to find appealing - based on their listening preferences, we give them all of this (and more) for a low fee of $10 per month. It's essentially a subscription service.'* SIMPLE.

Whatever it is you do, it can usually be broken down into some version of the following so investors understand it -

1. This is the 'Promised Land'
2. This is the road leading to the Promised Land.
3. We have a gate and a toll booth on that road.

4. People wishing to reach the Promised Land are happy to pay us a dollar to open that gate and let them through.
5. The Promised Land is so good people will want to come back again and again.
6. The Promised Land is so good that it appeals to millions if not billions of people around the world.
7. Look how much we'll be making if 1 million people use that road every month. BINGO! At this point your investor should be asking how much and how fast to build more tollbooths



Airbnb's simplified business model from their original pitch.

Six.

Why you need the funds now and what you intend to do with them.

Having explained your Business Model and why it is so potentially lucrative, the next thing you'll need to explain is how much money you're going to need to build those metaphorical 'toll booths' and what you'll be doing with the funds you raise in this round.

Tip: *So you don't get caught up in the 'Death of 1,000 Cuts' (an ancient Chinese torture method) we suggest you speak in generalities rather than specifics. eg. If there is a budget line that 'specifically' says -*

4 x IPhones @ $1495 = Total $5,980

You are much better off writing this as -

Communication Equipment - Total $6,000

This then avoids you from being drawn into The Death by a Thousand Cuts that some investors excel at, which goes like this:

"Why do you need Apple? Why can't you use a cheaper model? Why do those software engineers need one? Why can't they use their own personal phones? I've seen them cheaper online. What's wrong with refurbished ones?" Etc. etc, (This game can go on for hours, so best to head it off at the pass and generalise).

The important thing here is to present a slide (or slides) that infer a sober use of the funds, where the bulk of the money will be applied (a Pie Chart can be effective here) and how far down the runway will this money get you?

Seven.

Why you and your team are the right people to take the fight up to the enemy.

A simple Organisation Chart that identifies the key staff and their relevant experience.

The operative word being 'relevant'....keep bios short and sharp... no rambling or useless backgrounds not relevant to the task at hand.

Go and watch the movie classic 'The Magnificent Seven' or 'The Seven Samurai'. In either case the villagers are being overrun by

'Villains' but they're meagre budget means they can only afford to hire a small team of mercenaries.

Even though the odds are 10 to 1 against them, each time another mercenary is chosen, the audience are thinking '*Yeah, this dude is definitely worth ten people*' …and that's the impression you want to give your investor.

This is the team you are asking him to back and are the people who are going to go out there, slay the 'Villain' - and bring back the gold. So, make the 'A' Team look like they mean business.

Eight.

Your Battle Plan

This details how you intend to take the fight up to the enemy. So, Marketing Strategies, Logistics, Campaigns, Customer Acquisition, etc.

Keep the message Simple because this will most likely be accounting for a large chunk of the investment funds you are trying to raise. More importantly, show what the net value if that spend is likely to be.

Example

'We expect $X spent here is likely to result in Y additional site visits of which we anticipate converting 7.5% to new subscribers - which will add $Z to the bottom line.'

Again, keep it high level. This is usually not a good time to unveil ad campaigns, or cool slogans or video promos because you are likely to run the risk of encountering a bad dose of 'Spielberg Syndrome' from the guys least likely to be qualified to judge creativity - Finance people.

'Spielberg Syndrome' arises when you make the mistake of showing Finance Execs your ad campaign or social media strategy and they make the (wrong) assumption that as you're showing them - you must want them to provide some sort of feedback.

Because next thing you'll be getting comments like -

- Why are you using a made-up word?
- I don't get the Viking reference. I think pirates would work much better....
- Shouldn't the guy be driving the truck instead of the girl? And what about putting her in a bikini? And why has she got Ugh Boots on?
- Why do we need to shoot the campaign in New Zealand? OR........
- The music is too loud, I reckon something country would sound a bit better.

This can go on forever and if you let it distract you, or (even worse) start trying to incorporate some of those ideas just to win them over, you will end up with something looking like that old saying -

'*A camel is a horse designed by a committee*'.

This is NOT the time to be defending your creative ideas. Stick to the big picture strategies and costs and tell them you'd be happy to come and run them through the whole creative campaign 'for their feedback' - AFTER they've closed the investment round.

Nine.

Some hard facts that support your suppositions.

Customer success stories

Let's hear a few war stories from those on the front line. Nothing helps sell like a great customer endorsement. If you've got tame, happy customers use them by all means.

One or two of these can be supported by some hard. data or metrics to indicate where your sales are coming from, the size of the sector, independent projections for future growth, etc.

Be prepared to have to defend any wild claims and 'Hockey stick' charts showing massive upswings in revenue are best avoided unless you've got some serious data to back it up.

Ten.

Paint a vision of What the future will look like in 3/5 Years' time.

But don't just tell us what your company will look like in 3 or 5 years time. Tell us HOW & WHY the world will interact differently once your product or service catches on.

Smart investors don't need to be told you'll need branch offices in Singapore, Hong Kong, and Tokyo if they can be made to understand that large scale take up of your product will radically change the way people in Asia commute to work, or send each other birthday greetings, whatever problem (enemy) it is you are trying to solve.

Remember what we said about Investors wanting to control their environment or the future? This is your opportunity to paint that future vision with them standing in the middle of it - and making big bucks out of it.

Eleven.

Know Thy Customer

Before you can convince any investor that you've got the right 'Secret Sauce', you're going to have to convince them that you know what you're talking about - and having an intimate understanding of your customer base goes a long way towards that.

Knowing <u>EXACTLY</u> who your customer is makes it so much easier to gauge the size of your potential global market.

Example

If you tell us you've developed a putting iron for left handed golfers who may have bad vision and there are 'probably millions of them in the world', it may sound intriguing, if somewhat vague.

But if you tell us that you've developed a putting iron for left handed golfers who have lost their right eye....'of which the Life Insurance Council of America tells there are over 27 million in the U.S. alone'.....

THAT sounds a lot more like a Founder who knows his or her SH*T.

Remember the Golden Rule - Know Thy Sh*T!

Twelve.

A summary of your USP (Secret Sauce) and suggested 'Next Steps'

We have a maxim in Marketing that Goes - 'Never underestimate the inability of your target audience to comprehend - and that way you'll never be disappointed.'

In other words - Assume people aren't as sharp as you'd expect - that way you'll never be let down.

Therefore, while you may feel that you've clearly articulated all of your product's Unique Selling Propositions as well as its huge potential markets, your audience may not have, so you will need to summarise them again.

- Remember
- To
- Use
- Just
- Big
- Bullet
- Point
- Form

No 'ant sh*t-sized' writing......

And lastly - outline a series of 'Next Steps' so that everyone in the room is clear. ie.

- Conduct Due Diligence
- Speak to Key Customers
- Deliver Prototype in 2 weeks
- Give Investor tour of plant
- Issue Term Sheet
- Conduct Shareholder's Meeting
- Receive First Tranche of Investment Funds
- Issue Share Certificates

- Put Out Media Release
- Etc.

And in closing - don't forget to ask the Number 1 question -

'What do we have to do to get your business** ?'

** Agreement/ Buy In/ Interest/ Assistance/ Support are all acceptable alternatives.

The Big Takeaway

This book is meant to take the task of raising money for your idea or start-up seriously, but to present the information in a light-hearted, informative and easy-to-read format.

In our 40+ combined years of raising investment capital, the one thing we have learned is that there is no 'Magic Bullet' or 'Golden Rule' that will guarantee that investors will welcome your proposal with open arms and an open cheque book.

It really is a lottery, and there are just as many great ideas that never get funded as there are shit ideas that seem to raise millions. Who amongst us has not sat through a dismal film and thought 'How the hell did they ever pitch that idea - And what kind of idiot decided to fund it'? Well, start-ups are no different. We have seen millions sunk into ideas that we knew would never get off the ground, and we have seen amazing examples of innovation that struggle for years to get noticed.

All we can say is that if it was easy - everyone would be doing it.

Therefore, we have tried to cover off all of the issues we feel are relevant to attracting interested investors - from the moment you give them your quick initial elevator pitch, til the minute you sum up the last slide in your comprehensive pitch deck.

The majority of successful deals involve a 'fruit salad' of events coming together in just the right proportions to get everyone in the room excited and on the same page.

The right product, presented by the right team, at the right time, in the right sector, at the right price, to the right investor, means that a lot of intangibles have to align at just the right point in the universe. Just remember, they don't call hugely successful start-ups 'Unicorns' because they are cute. They call them that because they are RARE!

If your product or idea is meant to happen, and you have taken every step recommended in this book, then chances are, it will happen. But you need to be prepared for knock backs and stay positive.

If it's not happening, you need to keep reviewing in order to spot the holes in your story. (Think of the feedback you get when you ask someone that all important question - 'What have we got to do to get your business?').

If there appear to be no holes, perhaps you need to consider that the time is just not right and put it away in a draw for a while.

But if you truly are an 'Entrepreneur', we guarantee that sooner or later you'll wake up in the middle of the night with ANOTHER brilliant idea - because that's what we entrepreneurs do...

Best Wishes

Daniel & Tony

You'll find more helpful ideas and feedback at our soon to be launched website

www.yourideaisshit.com

Part 4
Bonus Chapters

i. Tony's Top 6 Tips for Start-up Success

ii. A Start up CEOs guide to selecting the "right" type of CFO

iii. Branding – What's in a Name?

iv. The Vexed Issue of Valuations

I. Tony's Top 6 Tips for Start-up Success

As a Start-up Mentor and Board Advisor, I am often asked by young Founders for business tips or advice on how to deal with people and come out on top in any business negotiation.

There are many great business books out there and I recommend you read some of the classics, but from my own experience, here are the Top 6 tips that have always seem me in good stead:

One
Be Polite

These days politeness is a somewhat under rated commodity, but liberal applications of it can produce gold.

- Be polite to everyone you meet from the cleaner to the CEO.
- Always acknowledge people who have taken the time to send you information. It is easy to overlook this when you're busy and emails are flying in all direction, but a simple 'Noted, with thanks' is all it takes.
- If someone has hosted you in their boardroom or at a lunch, send them a quick 'Thank You' note within 24 hours. Even via text will suffice.

- Be sure to thank the little people in the room. The assistant that brings you a coffee, the young engineer who just presented a 5 minute technical overview. The interpreter.
- Greet people warmly and when you're finished, tell them how genuinely delighted you were to meet them. If I've met someone with whom there seems to be some common interest offer to meet again in a less formal situation where you can discuss ideas over a coffee.
- Always be punctual and be there at least 10 minutes before the meeting is scheduled to start.

Two
Serve Rather Than Sell

One of the greatest epiphanies I ever had was when I realised I needed to stop trying to 'sell' to people and start trying to 'serve'.

In most business interactions, people quite naturally assume you want something out of them and therefore it can be quite disarming when you start out by asking them what THEY want to get out of this meeting.

Genuinely setting aside your own needs and asking them 'What can I do to help you?' or 'What do you need to get out of this deal if you invest?' Or even saying 'I really want to work with you in some capacity, what would that ideally look like?' Are ways to knock down walls and gain some interesting insights.

Three
Win / Win

I know it sounds trite, but any deal that doesn't represent a Win / Win outcome for both parties is doomed to fail.

That means leaving something on the table for the other party rather than trying to rape and pillage them for every extra dollar or percentage point.

You may leave a meeting feeling smug that you really got the best end of a deal, but sooner or later the other guy will wake up and resentment will creep in.

You'd be surprised at the level of loyalty you can engender with a little generosity.

Example

Just imagine you are trying to employ a new Chief Technical Officer and you have budgeted a salary of $175,000.

Out of nowhere you get an application from an ideal candidate who is only looking for $150,000. Now, you could offer them $150k and think you've bagged a bargain, but imagine the effect if you said, 'Look, we really want you onboard and will be expecting you to put in the hours, but in acknowledgement of those long hours, we're want to offer you $160,000'?

Or even better - 'Okay, we'll start you at $150k, but there's a big job to be done. How about we draw up a list of KPIs and if you tick them all off by the end of year, we'll raise your salary to $170k'?

They've suddenly got a massive incentive, and you're still under budget.

Win / Win

Four
Ask For The Sale

I know we are always banging in about this but this is an important keystone to incorporate into all aspects of your life.

Don't be one of those people who have lots of 'great meetings' where everybody talks about the wonderful possibilities of working with each other, and then everyone leaves the table and nothing ever happens.

I'm sure we've all had at least one of those meetings. I know i have - and then kicked myself for it afterwards.

Psychologists have discovered that in any transaction, it is human nature to look for excuses (or signs) to say both 'Yes' and 'No'. It kind of goes back to early human development where one had to have a highly developed sense of 'Fight or Flight' to survive.

If you came across a new animal, you needed to make a quick assessment - do we eat it, or run from it? This then further manifested itself as humans began to interact with each other.

When one tribe came across another, they needed to assess - Will we benefit from trading with or submitting these people? Or are we better to run like hell while we can? There were usually arguments for both and humans needed to refine their perceptive abilities in order to make the right call. And of course history is full of examples of people whose decisions came down on either the right or wrong side of the situation.

These days, we are called upon to make multiple decisions every day, and we'll often search our mental data banks for signals we've made the right choice....

Ooh, I see the pastrami sandwich is the Special today.

But last time you had the pastrami the pickles kept repeating on you all afternoon.

But it WAS delicious.

But it's $10.95 and your budget is $8.50.

O.K....But look. There's no one in the queue right now. It must be a sign from God. He wants me to have the pastrami !

If you have a serious business meeting with someone and fail to give them the oppmortunity to express their doubts or fears, they are likely to err on the side of caution and walk away.

You cannot close a deal when the other party has reservations or objections. The best way to encourage people to bring up their objections is to (Surprise!) ask them. But surprisingly - most sales people don't.

At the end of any presentation, I make it my Golden Rule to ask the other party - '*So, what have we got to do to get your business?' OR 'Is there anything you don't like about this deal?' OR 'Are there any barriers to us doing a deal right now?'*

However you frame it, you cannot leave that negotiating table until you understand what, if anything is niggling at the other party.

If you have 'great meeting' and it concludes with the other party saying - 'Thanks guys, that was wonderful. We'll have a think about it.' There is nowhere you can go from there except back to your office to cool your heels til you hear from them again, if ever.

However, if, at the conclusion you say 'Now, what have we got to do to get you onboard?' This then gives them the opportunity to say:

'Well, we love the concept, but we think $2.5million for 10% is a bit too high at this stage. We are a bit worried that the supply contract you have

with XYZ Corp is only an M.O.U. and we think your executive team are being overpaid by about 15% for a company if your size....'

This then gives you to opportunity to say ' So if we were to come back to you with something closer to say 15% for $2.5million, a fully executed sales contract with XYZ Corp, and all of the key execs take a 10% pay haircut - maybe in exchange for upping their equity, you'd be willing to draw up a Term Sheet?

If they say 'Yes', even after a bit more horse trading, then this deal is looking good.

If they say 'No' then chances are they were never serious in the first place.

Five
Be a Marriage Broker

Taking your cue from rules Two and Three - 'Serve rather than sell' and 'Win / Win' - there is no better service you can provide in business than to be a 'Marriage Broker'.

Americans are particularly good at this, where it becomes apparent that the stars just aren't aligned for you to do a deal right now.

The common outcome is that they will say - *'Look, I can't help you, but I know a guy who can....'* and with a simple phone call or email, you suddenly find yourself standing in front of an investor or partner or supplier that is a perfect match.

It is all about generosity of the spirit and the concept of paying it forward. No one ever leaves a meeting with a feeling of bad blood if one if the parties says - Look, this isn't quite right for us, but I've got some guys in mind if you wanted some strong partners who could help you scale up in Singapore. I'll arrange an introduction.'

When we launched our gaming company ***NextGen*** we had been searching for investors and had been looking in Las Vegas for potential partners when we decided to drop by the offices of SONY on our way back through L.A., where we had been sent an introduction from a friend of a friend back in Sydney.

It was a Friday night and we did our pitch to the gaming guys at Sony and they said to us 'look we love what you were doing but we don't have a mandate to invest in that kind of thing right now - but we know a guy who does'. They then got on the phone and after a few words handed us over to a guy on the other end. His name was Sandy Climan, a big time Hollywood producer and investor (he had produced Leonardo DiCaprio in the movie *The Aviator*), Sandy was charming said 'look tomorrow is the Sabbath, being a Saturday and I wouldn't normally take a meeting, but because the SONY guys have put in a good word for you let's meet at the Bel-Air hotel for breakfast'. We met Sandy poolside the next morning and gave him our best pitch and one month later he came in for $2.5million dollars - all on the strength of a recommendation.

The moral being that it never hurts to bring two parties together, even if there is nothing obvious in it for you at the time. As events unfold you will often find that 2 + 2 = 5 and that extra 1 is returned to You in some sort of complimentary business deal.

Six
Know When to Shut Up

Okay, this is an important one.

Good salespeople know they need to 'Get the sale and then shut up'.

It's not the first time in here that you'll hear me refer to a potential Investor as being like a reluctant suitor. They WANT to fall in love, but they've been dumped, cheated on and put through the wringer before - so this time they're not taking any chances, and even if they've agreed to stump up $2M for a decent share of your start-up, they are still looking for excuses to run.

So one of the most important parts of selling is knowing when to shut up.

Picture This

You've just given the pitch if your life.

You're quick-firing answers left and right and no matter what they throw at you, you've got a snappy answer.

Your investor and his team are already talking about growth strategies and have started drawing up a Term Sheet. But in your excitement you keep talking about the business.

The great opportunities.

The huge market potential.

How the funds will be used to lease a new office.

How you'll now have the money to hire a new Lead Programmer......

Suddenly, the investor's eyes pop open.

'What did you say about the need to hire a new Lead Programmer? Isn't that the girl that gave us that amazing rundown of your new proprietary interface? '

'Yes, that's Kate. She's a genius. But she's leaving us next month to travel through Japan.'

'So who is going to finish the coding while she's gone?'

‘Oh, we’re not sure yet. We’re scouting the University’s Engineering Departments, but that’s pretty high level stuff she’s doing, So these funds will help to tide us over until we can hire a replacement. We’ll probably only lose a couple of months development time.’

BAM! You just killed your deal stone cold dead.

I’ve seen plenty of great deals crumble to dust because the Founders just didn’t know when to shut up.

Remember your Investor the ‘reluctant suitor’?

Well telling him you’re about to lose a key staff member just as he’s about to sign a Term Sheet is like luring the love of your life into bed and just before you turn out the light, you say - ‘Oh, I don’t get the tests back til next Tuesday, but the doctor said we’ll probably be okay....’

CLICK.

II. A Start up CEOs guide to selecting the "right" type of CFO

If you're a Start-up struggling to raise cash, the concept of hiring a team member purely dedicated to managing your finances probably seems like an expense you can live without. When you're competing for world class technical talent on a shoestring budget, the last thing on your mind is using limited resources to hire someone whose primary job seems to alternate between telling you increase your revenues and producing eye-watering reports that constantly remind you of how much cash you're bleeding every month.

Having worked on both sides of the fence with Start-ups and Venture Capitalists, I can assure you that having an experienced CFO on board from an early stage, can make a huge difference in your company's ability to cut through and succeed.

Moreover during turnarounds, I have seen plenty of instances where many of these company's dire circumstances could have been prevented, had they had the foresight to hire the right type of CFO from the outset – rather than relying on their own limited accounting skills, or even worse, getting their Aunt Betty to do the books.

For starters, if you're raising investment funds, potential investors need to be assured that the budgets you have presented are realistic, and that their money will be utilised effectively. More importantly, in raising money from 3rd parties, you are now taking on legal responsibilities that can have long term consequences (and this is critical if you are also a Director of the company) that could include issues of governance (if you intend to eventually list the company), transparency (if you want to keep your shareholders happy) and tax penalties (so you don't need to flee to Argentina).

Any decent CFO will establish procedures and policies that ensure that all funds are accounted for, all expenses are planned for and met, and that shortfalls in cash can be identified and mitigated, but an experienced CFO will establish reporting systems that will enable both your Board and your Management Team to understand the implications of your margins, the cost of holding your stock, the real cost of your sales, the products and services that are performing well, and the real return on investment you got from spending $100,000 on upgrading your website (although you may not always like the answer).

Most importantly, when it comes to raising finance, an experienced and expert CFO will provide a service to your potential investors that no one else in the company can perform nearly as well – they eliminate doubt.

And believe me, when it comes to pitching your business, there is no greater emotion to overcome than the element of doubt that is deeply ingrained in most seasoned investors and Venture Capitalists.

While they may like your product (and you), there will come a point in the pitch where they start asking questions that test your knowledge of the market, and question exactly how much (of their) money, you are likely to need to grow the business to a point where it's at least 'revenue neutral' (a favourite term of theirs, meaning your earnings are at least matching your outgoings) and that, my friend, is the point where you'll want to throw to your CFO.

A very good set of easy to understand reports, coupled with a well thought out budget, can go a long way towards eliminating any doubt investors may be feeling. Couple this with a calm and forceful CFO, who can present well, and you've got a winning combination.

The problem in finding the right CFO is there is no CFO school, no Bachelor of CFO degree, no professional body specifically for CFOs or minimum experience requirements. In fact, you don't even need to be a qualified accountant to call yourself a professional CFO.

Disturbingly, CFO is a title many accountants give themselves without earning their stripes. Naturally, for many accountants, an aspiration to become a professional CFO is a commendable pursuit, and for many, it is the culmination of all their years of study and practice. But they need to do their time or they won't be ready, and this is dangerous for them from a professional liability standpoint, and more importantly, for you as a business owner. You may think you have a CFO, but what you really you have a finance manager.

So how do you find the right CFO for business?

You need someone who has had broad experience at executive level in a number of different business situations. A CFO is not the same as an accountant, although they should hold accounting qualifications as a bare minimum. Ideally, a good CFO has worked across a range of businesses (both small and large) and across a variety of markets.

Then ask them lots of questions :

- "Please provide specific examples where you have developed and implemented specific business strategies". See how creative they are at solving difficult situations.

- "Please show examples of a prospectus or an I.M. (Information Memorandum) with supporting financials you have used to raise capital or debt?" I recently came across a CFO who didn't know what an I.M. was! Will confirm they know how to raise money.
- "Please walk me through the key components of a dataroom and how you would set one up?". Don't engage in a transaction with your company information without a secure dataroom, if they can't answer this, don't hire them.
- "Have you set up an accounting system from scratch and what did you do?" Many rely on existing systems to produce reports when a fresh approach may be needed. Business models change, systems and reporting need to change with them.
- "Have they ever been issued a Statutory demand, and what action did you take?" Shows they know how to collect money. I had to deal with a demand a CFO had ignored not realising it triggered an insolvency event.
- "How many businesses have you raised capital for, sold or acquired? How much was raised, what were the terms and what lessons did you learn?" Experience equals valuable lessons learned that will help your business structure capital deals.
- "Please show me samples of reports they have produced such as Management Accounts, Board Reports, Strategy papers and forecast models." If you can understand them easily then so will your investors or bankers.

Most importantly, make sure you get someone who has the ability to inspire confidence, and stand their ground on financial issues. Hiring a CFO because they seem compliant and easy to boss around will not be in the best interests of the company.

An experienced and skilled CFO will inspire your staff and management team to follow procedures and create value in the company, they will eliminate doubt when it comes to investors and other stakeholders, and they will help you chart a course for success that will enable you to rapidly grow your company while using the resources you have on hand.

III. What's in a Name?

Tips on Building a Brand & Creating a by-line

In the course of helping our clients get 'investment-ready' we are often called upon to help them create a new brand as part of their strategy to attract the right kind of investors.

Having the right brand name (and associated image) can certainly help you attract initial interest as well as establish your position in the market from an investor's perspective.

But it goes without saying that unless there is a substantial unique value proposition and solid business case supporting your idea - no 'cool' sounding brand name or funky image will save a dud idea. As the saying goes - 'You can put lipstick on a pig, but it's still a pig'.

With that in mind, here are some tips to help you develop a brand around your idea - should you or your advisors think it's necessary.

1.) Ideally, your brand should have the following attributes- - Easily spelled (to aid SEO) and pronounceable. Coming up with weird shit like A€ONX might look cool but nobody is going to be able to pronounce it. And the last thing you want is a brand name that nobody is game to try to pronounce lest they look foolish.

- Ideally refers to your product or industry sector in some way. If I see a company called *TripAdvisor* I've got a pretty good indication of what they do. You could try to be hip and call your travel-related company *Mushroom*, but then you're going to have to devote a lot more resources towards explaining what it is exactly that you do.
- Most importantly - you need to be able to register the name as both a trademark AND as a domain, which is becoming increasingly difficult these days, with an estimated 150,000+ new domain names being registered each month. Dot com (.com) is still the gold standard, but you may have to settle for a domain specific to your region such as .au or .uk...
- You might also have to consider a hybrid spelling if the name you want is already taken. So if mushroom.com is taken, you could try for mush-room.com or even mushrm.com.
- If you do decide you want to go down the 'unique' name route, and you are in a market sector that calls for 'creative coolness' (such as surfboard design or skater clothes) there is nothing wrong with coming up with a name that is a hybrid of two or more disparate words such as '*sickpuppy*' or '*sexwax*' (an actual brand) but be prepared for the odd look and be ready to invest more money and creativity establishing the brand values in your consumer's mind. One need only look at the music industry to see how band names that may start out as a bit of wry humour (or trying to appear 'radical)'.') can eventually end up as part of the every day lexicon. Think of names like Led Zeppelin, Pink Floyd or The Rolling Stones that were 'radical' at the time but would now not be out of place if dropped in a conversation with your granny.

2.) Brand Building Should Start at Conception

We are always amazed at the number of Founders we meet who may have been working on an idea for well over a year or more and yet have not given any thought to the branding or positioning of their product.

You should make it a point to start thinking about branding from day one, because this may ultimately have a material effect on design issues such as:

- Special features

- Eco-friendly
- Colours and finishes
- Quality of materials
- Packaging
- Marketing & Advertising

Also - as you travel along the road to getting your start-up off the ground, there will likely be multiple interactions with influential decision makers in your industry along the way (such as investors, journalists, consumers, CEOs of partner companies, etc.) and you should never miss a chance to 'spread the gospel'.

If they love your concept (even if it's still in 'early stage') they will remember it AND tell others about it. But if you haven't got a name, or worse, keep changing your name, you are likely to lose all of that goodwill once your product eventually comes to market.

3) Summary

- Chose a brand name that you are comfortable with and that you feel will help to establish the product and it's values** in the mind of your consumers.

- Make sure people can pronounce it AND most importantly - are sure you can register it as both a trademark and a domain.
- Start marketing the shit out of it from Day 1.

**FOOTNOTE:

When we talk about 'brand values' we are referring to the overall message you wish to convey to your End-User.

Do you need to be seen as espousing any one (or combination) of these 'values' in order to sit comfortably and be readily embraced by your intended customer base?

- Innovative
- High Tech
- Value for Money
- Fun or Unconventional
- High End Luxury
- Simple & Uncomplicated
- History of Excellence
- Etc.

All these brand values have relevance in the right market sector - and if you can establish your brand as being synonymous with one (or more) of them - then that's worth GOLD.

It is not uncommon to see companies acquiring other businesses purely for the brands they hold and the values that are associated with them.

These high value brands can even extend to very lucrative commercial partnerships, because smart marketers have realised it is often more economical to lay out big bucks to be associated with a well-positioned brand, than the even bigger bucks they would need to layout to build a brand from the ground up, so it pays yo be creative from the start.

Example

If you decided you wanted to go into the ultra high end of the cruising yacht business, it would probably work out cheaper (and much easier) to do a license deal with *Gucci* than to try to develop a brand that had all the luxury and history of fine design that *Gucci* already have.

So, build your brand, guard it jealously, and assign a value to it as an ever-increasing asset from the day you register your business....

Thoughts on Slogans or By-lines

On average we probably get asked to help create and launch about a dozen brands a year...and while it's a fairly straight forward exercise to research a market and come up with a list of creative suggestions, the area that often causes both Founders and their Marketing people the most grief is the subject of slogans or by-lines.

The idea that most people have trouble coming to grips with when developing a new brand is that a slogan or by-line primary function is to act as a 'mnemonic' to help you remember the brand.

'Mnemonic - Definition'

'A system such as a pattern of letters, ideas, or associations which assists in remembering something.'

The best by-lines are usually no more than three or four words and should paint an instant picture in your mind that you will always associate with the brand. Usually the simpler - the better....

Here are some classics:

- *Things go better with Coke*
- *Just Do It*
- *Finger Lickin Good*
- *Intel Inside*

These are all simple word associations that have helped their creators sell billions of dollars in product. By-lines are NOT meant to tell a story or be complicated. If ever anything needed to be guided by the K.I.S.S. principal, it's the creation of a great by-line.

We've lost track of the times a client has repeatedly pushed back on a great simple by-line because "it doesn't say exactly what we do...I want people to know that we are great engineers, and we are well established and that we offer great value for money..."

Well, all we can say is that if you can condense that down into three or four words, good luck!

A great by-line is there to paint a picture NOT tell a story.

Just Do It Does not say 'We make best sports shoes in the world'.

Just as *Finger Lickin Good* Does not say 'We sell the best fried chicken & chips on the planet'.

And *Things Go Better with Coke* doesn't even mention ice cold drinks

So put some time into developing a great by-line or slogan, because if it does its job, it will add great value to your brand equity.

And if you can't come up with one you like - hire a professional. It's worth it in the long run.

IV. The Vexed Issue of Valuations

Valuations - it's all about perceptions and assumptions – with a bit of poker playing thrown in for good measure.

Anthropologists (those who study the origins of mankind - we refuse to say 'person kind') have long known that in even the most primitive of societies there was often a thriving 'economy' based on trading useful, scarce or attractive items between disparate groups.

Rare feathers only found in remote parts of South America have been found to have been used for making ceremonial cloaks by the Aztecs in Mexico, pearls from China have been found amongst the debris left by ancient Britons and even basic food crops like barley are thought to have been brought from the Middle East to what is now Europe through trade.

The problem arises when there is no such thing as a fixed standard or currency, which has proven a vexed issue for those wishing to barter their goods for something for which there is no established value. Therefore, values were based on how badly one party wanted the goods the other has on offer.

So - are two sharp flint rocks really worth all the labour that has gone into shaping a hardened pointy stick? Or are four sharp rocks more on the mark?

Transaction 10,000 BC

'I spent bloody hours chipping away at these rocks' says Mr. Zog, 'Just feel the sharpness of that edge.'

'I dunno,' replies Mr. Gronk, 'How do we know you didn't just pick them up on your way over here? Whereas my pointy stick thing will give your hunting score averages a huge uplift...'

Transaction 2022

Fast forward to 2022 and negotiations between investors and Founders still haven't changed much.

Founder: 'I've spent $100,000 and the last three years of my life developing this unique hydrogen-powered scooter...it's the only one of its kind in the world and people in places like India will be gagging for it...'

Investor: 'I dunno, how do we know some big brand company isn't going to come along with a better cheaper version next week? Why hasn't someone already invented it?'

You get the picture.

Moreover, as by their very definition most 'start ups' won't have much of a trading history, reliance on the usual metrics one would apply to sizing up a business for sale are often irrelevant.

Let's just say you have a unique product idea that you've spent the last few years developing, testing and validating and you've just been granted a couple of patents on it.

The potential market is huge (and ripe for disruption) and you are in no doubt that if the product took off you could be sitting on a business easily worth north of $500M+.

All you need is a cash injection of $5M in order to get a bit of tooling done and ramp up production so you can take on the world. There are interested investors floating around the periphery, all asking the same question - 'How much of the company are you willing to give away for $5M?'

Now, we know through long experience that any novice Founder in this situation is likely to look at the end result and come out with something like this -

'Well, the market is HUGE and we will easily be worth $100M in no time - So I reckon $5M for 10% would be a good deal......for the investor.'

NB: So essentially you are saying that the business, as it stands today, is worth $50M. All we can say is 'Good luck with that'.**

On the other side of the table, the investor may well believe that you could be worth $100M (or much more) but the investor also knows there is a trail of tears that has to be walked before ANY business is worth $100M.

Therefore, he's probably thinking more like $5M (if you're lucky) for 50% of the business. So as you can see, there is a fairly long and treacherous bridge to be crossed by either party if they are to find some happy middle ground.

**We reckon that all things being equal - that is the market is as big as you say it is, and the product is as good as you say it is - the best outcome for both parties would be around $5M for 33%, based on the investor putting the money in over several tranches as certain pre-agreed milestones are met.

First of all, let's establish some rules:

1.) If you're unwilling to compromise on your $ to equity stance, you may as well go home now.

There is an old Middle Eastern saying - '*Nobody takes a 100 shekel carpet to the market and expects to sell it for 100 shekels...'*

In other words, something may very well be worth a certain price under the right conditions - but in any transaction people on both sides are expected to compromise.

2.) Don't tell me it's 'smart money' unless it has a degree from Harvard and an I.Q. over 140. In other words, unless your investor has proven links with a particular industry, and can hook you up with movers & shakers in that same industry, do not expect them to be much help when it comes to growing the business.

Founders will most likely push back on the fact that their idea / product is unique, the market is potentially huge and their patents will offer a degree of protection.

Investors will no doubt double down on the fact that they've heard it all before AND push the concept that in getting in to bed with them at this early stage, you will be taking in some 'smart money' (them) and that they will be able to help you drive the business via the addition of their massive business acumen and contacts.

Having seen hundreds of deals go down, we can assure you that we are sceptics on both accounts.

If we had $100 bucks for every Founder who assured us that their business was going to be bigger than AMAZON we'd have millions stacked away. And same goes for every Investor/ VC who assured us their knowledge and contact book would jet propel our startup to new heights. We can both personally attest to big talking investors who, having paid in their funds, never attend another Board meeting ever again.

Therefore, it really comes down to 'horses for courses'. As a Founder, you need to scout out investors for whom your business ticks a lot of boxes.

Certain investors are really only interested in 'early stage' companies, while others insist on there being a trading record, or at least revenues. Meanwhile, many VCs target certain industries, like FinTech or A.I. or AgriTech, so if your product doesn't have an application in that sector you could be wasting your time pitching to them. Best to scope these things out before too many resources are wasted.

As a Founder, here's what you can do to give yourself the best odds when it comes to establishing a valuation when you haven't got a trading history:

Research Your Investors

As we've said, there is no point dancing around for weeks trying to line up a meeting with an investor only to find that they really aren't interested in early stage companies - if that's what you are. Make sure they know what you do and have expressed an interest in learning more.

Research Your Market Sector

Know your facts. Who is the nearest competitor. What are the price points. Gather any research you can find that offers industry projections for market size and turnover. You saying the Hydro powered scooter market is going to be a $25Billion market won't carry the same clout as an article from *The Wall Street Journal* or a direct quote from Elon Musk.

Show How You Intend to Use The Funds

We actually had a Founder who recently told us that he just wanted an investor to put $250k in the bank, just so he had it there 'in case the business went bad'.

That's like telling someone you want to take them to the dance 'just in case there is no one better looking when you get there'.

You should be able to give a good indication of how you intend to spend the funds. Usually best to express these as percentages rather than actual dollars, to avoid being 'nickelled and dimed to death' when you get into an argument about why you need Apple iPhones when Samsung are much cheaper.

Obviously, the more funds applied to items that will grow the business - like recruiting international sales staff, marketing or components for ramping up production - will be more appealing to an investor, than say paying rent and a massive payroll that includes your useless brother-in-law.

Explain the Net Benefit of Using the Funds

Even better, try to show them a direct correlation between the investment funds spent and the net effect on the bottom line.

Example

- $1.2M to be spent on spare parts which will allow us to build an additional 100,000 units, which will result in additional net revenue of $6M.
- $600k to open a sales office in Tokyo which is now projected to be the 4th largest market in the world.

Do Not List Items Like

- $5k to put new pool table in staff room to boost morale, OR
- $25,000 for Launch Party (we've actually seen this).

Have Realistic Sales Projections

Ambitious Sales Projections (the ole Hockey Stick graph) can be an exciting enticement to a new investor, but unless they are realistic, they will quickly become a rod for your own back. And who wants to be beaten with a rod?

Overselling your sales (and projected income) is somewhat like assuring your new girlfriend that making love four times a night is just 'standard operating procedure' for you. After about three days you're gonna regret it, and after about a month you're never gonna hear the end of it.

Other Metrics

If you don't have an established trading record, other metrics that may help sway an investor can include -

- Patents lodged and granted
- Prototype built or ready for production
- Tooling already designed and paid for
- MOUs (Memorandums of Understanding) with major potential customers or partners. If you have an aeronautical safety product in development and you can get an MOU with someone like QANTAS or Boeing that says they will purchase the finished product - provided it meets certain quality or safety standards, that can be gold to an investor.

- A handy Trade Show that you can take an investor to that will give them an idea of the market size and enthusiasm for your idea.
- And above all else - don't overlook the power of an actual demonstration of your product. Don't show them 25 slides trying to convince them you've come up with a new world-beating type of apple pie if you aren't prepared to give them a taste right there.

Do You Have a Clear Exit Strategy?

In case you never got the email, investors don't invest out of the kindness of their heart, because they think you're sweet & sexy, or because they're 'just trying to make the world a better place' (yeah, right).

Investors invest because over the course of time, an investment in a successful start-up can give their money a massive uplift well beyond anything any bank can give them based on today's interest rates.

When Jeff Bezos founded AMAZON, he gave away 20% of the company for $2million. It actually took 40 initial investors to each put in $50,000 for him to raise the cash. For the next few years they were constantly Complaining about never turning a profit, and Bezos kept assuring them that eventually they would turn a corner are there would be a reasonable return on their capital.

Today each of those initial $50,000 investments (for those who kept their nerve and didn't sell) are now worth billions. This is the stuff that drives investors.

Therefore, before you go out seeking investment capital, you should research the sector and come up with examples of similar deals that can back up your valuation.

- Are there examples of similar businesses that have raised capital? You should be able to find out what the valuation was.
- Are there examples of similar businesses that have recently been acquired (often referred to as a Trade Sale) by bigger fish? This is always a good indicator that a market is hot or that the valuations stand up.
- Finally, are there examples of similar businesses that have recently done a public listing on the stock exchange? Again, these are always a good indicator of what your idea could be worth - if you tick all the boxes AND continue to meet your milestones.

Summary

We'd love to give you a formula that solves the dilemma of resolving the issue of early-stage valuations - but in reality, there ain't one.

It will come down to a number of intangible factors that include the market sector, current growth trajectory for similar products or services, realistic sales projections, barriers to entry for other parties (patents for example) and ultimately how much faith the investor has in your ability to execute on the plan.

In other words - beauty is in the eye of the beholder. Valuing an early-stage start-up really is a mixture of Art & Science....with a bit of Black Magic thrown in for good measure.

The Black Magic

When it comes to valuing a new idea, nothing works it's Magic better than 'The Buzz' you can generate around your concept.

Good Luck!

Thanks for Reading!

Have You Got A Great Idea But Don't Know Where to Start?

Go To: www.yourideaisshit.com and click on our 'Services' page, where you'll find a range of services designed to help you with everything from validating your start-up idea, fine tuning your pitch, improving your presentation style, personal coaching to build confidence, and even long term mentoring & strategic planning.

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