

CEO Workshop: “Building a Company with Venture Capital”

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Actively Investing in Information Technology since 1986

Agenda

Part 1: Prepare your company to raise capital. How to build your company's infrastructure?

- Preparatory funding steps
- Attractive funding magnets
- How to access and communicate with potential institutional investors

Part 2: Congrats! You received funding, what's next? How to position your company for growth?

- Short-term issues
- 180 day plan: execution, governance, managing growth
- Long-term planning

Part 1:

**Prepare your company to raise capital.
How to build your company's infrastructure?**

Preparatory Funding Steps

- Understand how much you really need?
 - Capital efficiency argument (less than \$10m)
 - Realistic growth strategy
- Don't take on too many investors
 - Do upfront homework on investors
 - Investor reputation counts – track record, domain knowledge
 - Does the investor strategy and your business intersect?
 - Budget 2-4 quarters between first contact and closing
- Where you're headed vs. where you've been
 - Market acceptance and financial momentum
- Seek advice from service providers

Preparatory Funding Steps

- Executive summary
 - Clearly define the ‘problem & solution’
 - Succinctly describe the key points
 - 50+ page business plan is a waste of time
 - Be attentive to investor’s requests
- Vertical/Niche Markets
 - Validate as much as you can
 - Concisely articulate growth plan
 - Understand the market(s) for your product(s) and services
 - Scalability
- Justify long company history (if applicable)
 - Why now?

Funding Magnets

- Software/product or services company?
 - If presently a service model, why will you be successful evolving?
 - Hybrid models
 - Understand margin implications of both
- Target market characteristics
 - Size of business
 - Industry
 - Horizontal or vertical solution
 - Buyer
- Revenue model
 - Recurring revenue a plus
 - Length of contracts
 - Subscription-based, licensing technology, maintenance fees, etc.

Funding Magnets

- Owners accept the concept of dilution
 - Institutional ownership and option pool
 - Need to attract and retain talent
- Management ‘self-awareness’
 - Strengths and weaknesses
 - Separating your role as shareholder from role in company
 - Who is moving the company forward?
- Strong CEO & VP of Sales
 - Backbone behind majority of growth, take no prisoners attitude
 - Typical void in VP Marketing & VP Sales roles

Funding Magnets

- If prior funding
 - Consensus from prior investors
 - Clean up *cap* table and structure
- Leverage referrals to meet investors
 - Lawyers
 - Accountants
- Realistic about valuations
 - Usually based on run rate revenue
 - Pipeline is critical - where are you going?
 - Do your research, this is an inefficient market

Best Odds:

- Referral Introduction
 - Leverage service provider's network of contacts
 - VC's have strong relationships with lawyers, accountants, and other service professionals
 - Founder or executive of another firm VC has invested in
 - Friend of the fund
- Not all investors are equal
 - Find a personal connection with investment professionals (network)
 - Network as early as possible to build relationships (free advice)
 - Look inside the firm for multiple contacts, junior investment professionals (associates, analysts)
 - Leverage the web

Once Introduced...

- Remain in marketing mode
 - Don't assume since one partner is interested that all partners are sold
 - Leverage first sponsor to access firm
 - Understand hot buttons and focus

Or if you are unsuccessful the first time round...

- Keep the investors updated
 - Show progress, build on momentum
 - Work on pipeline, utilize feedback
 - Deals do get done after an initial 'no'

Part 2:

Congrats! You received funding, what's next?
How to position your company for growth?

Plan Execution

How to keep investors abreast of activity?

- Strategy is easy, execution is hard
 - Expectation level has been set, are you performing to the plan you presented to investors?
 - Be brutally honest about how well or how badly things are going
 - One set of books (content and business metrics)
 - Unanticipated set-backs are acceptable, surprises are not
 - Common goal – “How do I make this business a success?”

- Build foundation for growth: 180-day plan
 - Prove various aspects of the business model - mitigating risk in the business
 - Determine key decisions to be made
 - Write key hire specs.
 - Auditors/accountants engagement
 - Evaluate and establish reporting & controls

Board of Directors (BOD)

- Shift from informal meetings to a formal board
 - Board composition
 - Highly structured (Comp and Audit Committees)
 - Reporting, accountability and time demands

How should you involve the investors?

- Decision making
 - Seek counsel, have a recommendation
 - VC role in major decisions
 - BOD is now part of process
- Need for outside advice and counsel (CEO Network)
 - Ask questions
 - Review decisions
 - Seek best advice and treat with healthy skepticism

Managing Growth

- Near term focus
 - Monitor burn
 - Create value from limited resources (operating efficiency)
 - Know when to bring in skills from the outside and what kind of skills
- Management requirements
 - Focus on market (watch out for tunnel vision)
 - Financial foresight (capital planning is a survival necessity)
 - Build the team with top management (hire to spec, not convenience)
 - Decide on your role and relationship with other team members

Long-Term Issues

- Evaluate organization
 - Growth companies require several managers
 - Understand founder's role and transition planning
- Evaluate markets and products
 - Continuous
 - Is the product right?
 - Is the market large enough to grow a large company?

Firm Overview

Track Record

- Actively investing since 1986
- Most Mid-Atlantic investments
- 120+ companies financed (5 funds)
- 13 IPOs and 62 company sales
- \$5B market cap
- 8-12 new deals/year, 5-10 follow-ons
- Offices in NJ, PA, & VA

100+ Years Investment & Operations Experience

- *John Martinson*, Founder, Managing Partner, led over 150+ financings
- *Bruce Luehrs*, General Partner, leads PA/DE investment team
- *Gary Golding*, General Partner, leads VA/MD investment team
- *Joe Allegra*, General Partner, leads NJ/NY investment team
- *Ross Martinson*, CFO, General Partner, portfolio company analysis & reporting
- *Chris Sugden*, *Mick Helmicki* and *Doug Petillo* are the Principals/VPs
- Supporting the general partners are 9 *investment professionals* dedicated to Business Development, Due Diligence and Tracking Company performance

Investment Profile

Company Characteristics

- NY to VA corridor
- \$5 to 20M revenue
- Experienced management team
- Domain expertise
- 30%+ growth rate

Business Model

- Proprietary product or unique service
- Niche market leader
- Business solutions
- Recurring Revenue
- Not capital intensive

Market Specialties

- Pharmaceutical IT
- Financial services IT
- Supply chain & logistics
- Enterprise software & services
- Wireless applications

Type of Financing

- Expansion or later stage
- Management buyout, recaps
- Secondary stock purchase
- Corporate spinouts

Edison Participation

- Lead or sole investor
- \$3-5M initially, \$4-8M total
- Flexible terms
- Director and advisor
- Attract lenders & other investors

Value Added Services

- Business Planning
- Edison CEO Network
- Management counsel
- Sales & marketing consulting
- Recruiting, organizational development

Edison Investment Professional

Elaine Verna, Vice President of Business Development, focuses on generating investment opportunities of emerging information technology companies in the Mid-Atlantic region. Elaine joined Edison in 2001 to establish this new position.

Elaine has over 20 years of experience in the software industry and has held positions in sales and marketing, executive management, and R&D. Most recently, Elaine was President of isSound Corporation, a provider of voice-based applications to mobile professionals.

She was a co-founder and VP Sales of Princeton Softech, which provides software used by large enterprises to improve the reliability and performance of mission critical applications.

Previously, Elaine was a Technical and Sales Support Manager for Computer Associates and a programmer analyst with Unisys Corporation. Elaine has a Bachelors degree in Business Administration from Temple University.