

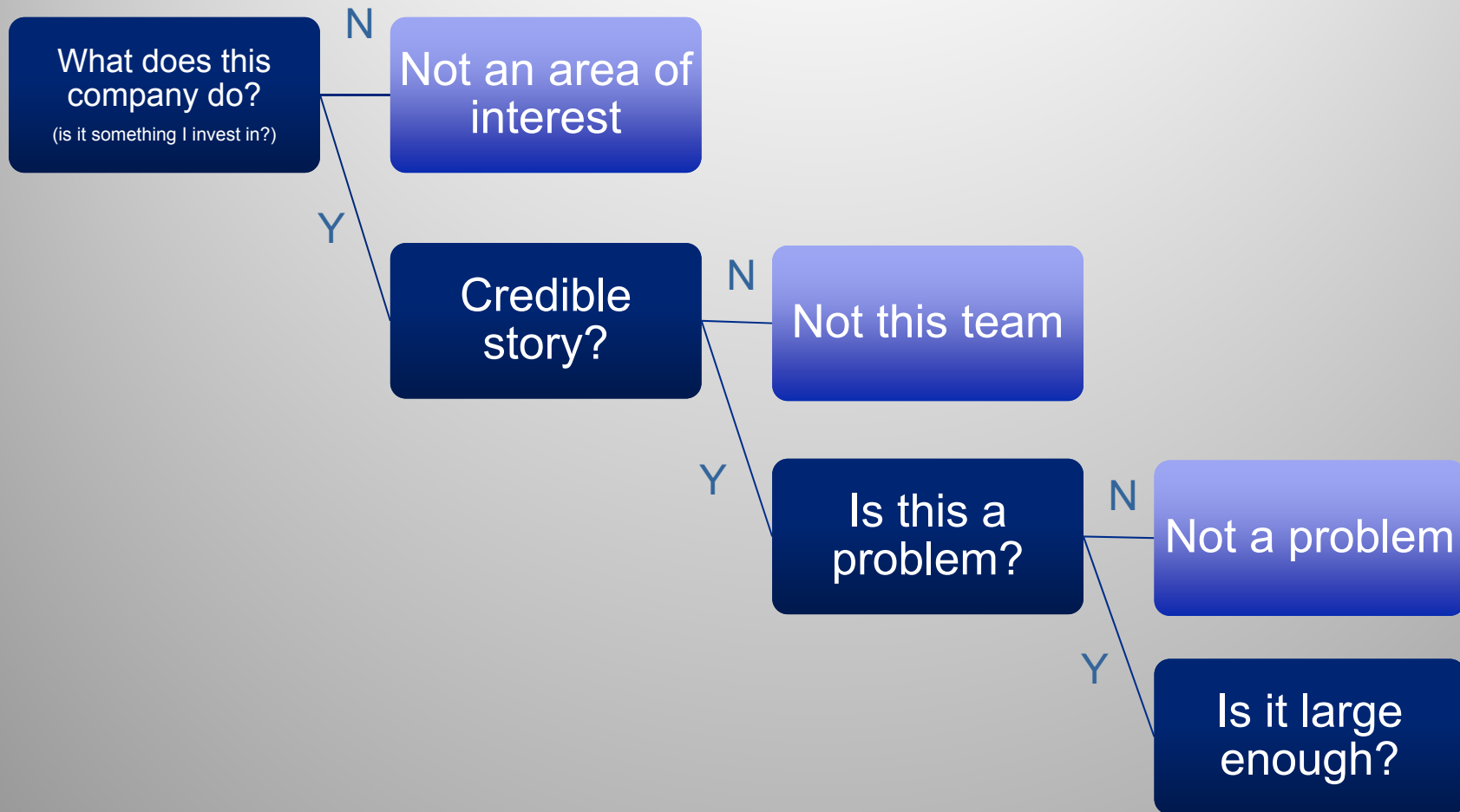
ElevenQuestions

Clear, Crisp Approach to
Pitching the VC

User Guide

- A funding pitch should be like a mathematical proof
 - There are specific questions along the decision path for an investor
 - Each slide addresses one and only one question
 - Take notice of exactly where the investor does not buy-in to any slide (trial close on every slide)
- You *will not* convince the investor of something new or challenging in a one-hour meeting. Take note of any objections and address it later
- Even if the investor “gets” it, he/she has partners to convince of these points. Clarity counts.
- If the investor is still nodding North/South at end of pitch, then he/she should want to invest

The logic flow (first few questions)...



- Each question elicits a yes/no response, or buy-in/objection

The Questions

1. Who are we? (company description)
2. Why should you listen? (credibility)
3. What problem are we solving? (market)
4. How big is the problem? (market sizing)
5. How do we solve it? (solution)
6. What do we have to deliver? (product)
7. How do reach our customer? (distribution)
8. Is there money left at the end of the day?
(unit economics)
9. What could go wrong? (competition, etc.)
10. What will it look like when we run out of your money?
(financial plan, milestones)
11. What's your level of interest?

Who are we?

Description: crisp, clear tagline description of the business

Definition: quickly and clearly introduce the company business focus

WidgetsOnDemand

WidgetsOnDemand is a next-generation manufacturing services business based on a proprietary SaaS software solution with zero administration and immediate implementation



Objections

- VCs invest in particular business segments and stages – make sure that you are in front of the right audience

Why should you listen?

Purpose: To gain credibility for the rest of the presentation. Gain instant attention.

Definition: Even if a VC likes your story, he still has to find a compelling reason to back *you* rather than the next entrepreneur with a similar (or same) idea. Grab attention. Use logos. VCs like shiny objects.

Highlights of WidgetsOnDemand

- Team—7 PhD's, MIT, GATech, Stanford
- BOD – Jeff Immelt, GE; Steve Jobs, Apple
- Cash flow positive and profitable; \$500K invested capital
- Initial contracts with: DELL Computer, Disney, Hasbro
- Pipeline of 42 opportunities representing \$14M ACV
- Addressing \$12B market opportunity
- 9 patents filed; 4 allowed to date



Objection Handling

- Why should I think that *you* can accomplish these goals
- What proof points can you provide to indicate that you will be successful
- Who have you brought with you on this endeavor

Example

What problem are we solving?

Description: define the target market and specifically the *problem* you are addressing

Definition: Be sure to define your target market specifically and define the specific problem that you are solving.

The Opportunity

- Manufacturing businesses today spend excessive amounts of capital on real input materials when they could be delivering all manufactured items online as a service.
- Real goods are highly over-rated and add low-margin revenues to an otherwise service-oriented economy

Objection Handling

- Goal is to gain agreement that this is a viable target market
- Goal is to gain agreement that this is a perceived problem
- Goal is to gain agreement that this problem is perceived by an aggregated set population of users

How big is the problem?

Description: define the target market size

Definition: Give some detailed, triangulated estimates for market size. This must be in terms of market *available to you*, not your customers' market. Best to provide two or three means (tops-down, bottoms-up, analysts estimates).

Economics of Manufactured Inputs

- US manufacturers spend an estimated \$450B on input materials. The largest segments are:
 - Automobile \$175B
 - Industrial equipment \$100B
 - Medical equipment \$85B
- Rest of World addressable market is estimated at \$900B, or 2X the US TAM
- WW SAM is estimated at \$20B, or only 1.4% penetration

Source: XYZResearch, 2005

Objection Handling

- Goal is to gain agreement that this is a viable target market
- Goal is to gain agreement that this is a perceived problem
- Goal is to gain agreement that this problem is perceived by an aggregated set population of users
- Be credible and check your facts.

How do we solve it?

Description: abstract description of how you attack this market (not a product definition)

Definition: Describes in appropriate amount of depth the way by which the targeted problem is solved. This is *not* a product description, which will be provided on the next set of slides

Delivering Manufacturing as a Service

- We deliver the industry's first SaaS widget manufacturing process that can be ramped up and down to meet volume demand
- As an OnDemand manufacturing-on-demand platform, we provide only the exact production required
- At no time are real input materials used or real output materials provided, thereby eliminating high COGS and a nasty carbon footprint

Objection Handling

- Is this problem soluble? What would one have to do to own this market?
- VC's need to be educated as to the specificity of the innovation, and how (abstractly) this market can be tackled

What do we deliver?

Description: Concrete description of product(s). Take 1-3 slides as necessary but be complete.

Definition: Describes in appropriate depth the products that will be delivered to the customer. Describe what is hard, what is patented, what you have to build and in what order.

Product Suite

- PharmaceuticalsOnDemand
We manufacturer patented molecules that meet nascent markets as an online service without any raw materials
- Follow-on products:
 - SteelOnDemand
 - ConcreteOnDemand
- Product topology: see attached product doc
- Demo

Objection Handling

- Need to describe what you have to build in order to meet the market need
- Describe what is hard to build, what is rocket science, what needs to be invented and what is good, hard engineering
- What do future versions of the product look like?

How do we reach our customers?

Description: The buzzword today is “distribution.” How you get it and how much it costs.

Definition: Describes your selling model in appropriate detail. Having a great product only gets you in the game. Can you access this market? Where do customers go to have this problem solved? How will you get leverage in the selling process?

Sales Model & Viral Distribution

- OnDemand Pharma products can only be prescribed online, taken online and are manufactured online
- Prescribing physicians are required to notify their patients via email or social network (Facebook supported in V1.0).
 - Patients acknowledge taking medication online
 - Family members are notified to aid compliance

Objection Handling

- Even if you have the right product, you need to be able to find your customer.
- Do you have the alignment between:
 - Product
 - Pricing
 - Sales model?
- Is there an economically feasible means to sell to this customer base?

Is there money left at end-of-day?

Description: VCs are in love with a concept called “business model.” Figure out what yours is.

Definition: Describe to the VC what are the unit economics of your business. If the term “unit” does not seem applicable, figure out what is a comparable way to describe the base economics of the business and separately how you scale this business.

Manufacturing Economics (or “OnDemand on Demand”)

- Unit Economics
- Customer Acquisition
- Economies of Scale
 - Customer acquisition costs trend to \$1.15 in YR5
 - Avg. widgets per user per year increases to 5.2

Avg widgets per user per year	3.70
Avg widget selling price	\$0.89
Total Revenue	\$3.29
Customer Acquisition	\$2.38
BOM	\$0.00
Hosting	\$0.03
COGS	\$2.41
Gross Margin	\$0.88

Objection Handling

- How do I make money on each “unit.”
- Be creative as necessary on what defines “unit” economics so that it fits your business/product. There are no businesses, however, that do not have “unit economics.” So yours does too.
- Describe how the business scales and where economies of scale play in the model.

What could go wrong?

Description: The VC needs to know what his partners will ask about. Give him a heads-up.

Definition: Describe for the VC the nature of competition, substitution, etc. which will determine the competitive nature of the market. Describe what you worry about and how you mitigate risk.

Competitive Landscape

- Direct competition
 - ✓ Contract manufacturers
 - ✓ Off-shoring manufacturers
- In-house development, or Do-Nothing, Inc.
- The pricing umbrella

We will be able continue to price below market because we in fact do not use actual goods in the manufacturing process

Objection Handling

- Competition is not to be feared. If there is no competition, then there is no market. Anyone worth backing has competition.
- Describe and discuss what market forces will work against you, and how you will combat them.

What will it look like in 12, 18 months?

Description: The VC needs to know what the business looks like when you run out of *his* cash.

Definition: Describe the growth in business in terms of big “buckets” of things. Useful things are a plus, like: headcount, engineering headcount, customers, revenue, monthly operating expense, and other key metrics unique to your business. The picture should be one that VCs want to buy into.

Operational Summary

WidgetsOnDemand

Pro Forma P&Ls
(dollars in thousands)

	Forecast 2008	Plan 2009	Plan 2010	Plan 2011	Plan 2012
Bookings	4,693	9,012	17,112	28,221	42,219
Revenues					
Licenses	2,389	5,435	11,245	19,874	27,689
Services	1,592	2,144	3,125	4,567	8,462
Maintenance	478	879	1,254	1,768	3,598
Total Revenues	4,459	8,458	15,624	26,209	39,749
Cost of revenues	1,397	1,438	1,465	1,496	5,797
Gross profit	3,061	7,020	14,159	24,713	33,952
Operating expenses					
Sales & Marketing	1,831	2,563	4,357	6,536	8,497
Research & Development	1,184	1,658	2,818	4,227	5,495
General & Administrative	445	623	1,059	1,588	2,065
Total Operating expenses	3,460	4,843	8,234	12,351	16,056
Total Expenses	4,857	6,282	9,698	13,847	21,853
Operating income (loss)	(398)	2,176	5,926	12,362	17,896
Headcount	112.0	120.0	128.0	136.0	102.0
Revenue per headcount (annualized)	\$ 159	\$ 282	\$ 488	\$ 771	\$ 390

- Assumes annual customer wins of 22, 45, 98, 176, 300
- Assumes annual product release schedule

Objection Handling

- What does this business look like after the VC has invested.
- Provide a credible set of assumptions.
- Do *not* use the word “conservative” as it probably does not apply and if it does, the VC will tell you

What are the next steps?

Description: If you leave without a trial close, you have lost. Period.

Definition: Make sure you understand the VCs major concerns, level of interest, buying process. If you can't actively sell the VC, why should she believe you can sell customers, partners, or key hires.

Thank You

Objection Handling

- Get to "yes."
- Or get to "no" faster.
- You don't want to waste your time or theirs