

How to Pitch to a VC

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My Background

- MA in Natural Sciences from Cambridge
- DPhil in Electron Beam Technology from Oxford
- Worked in University and Government laboratories
- 1974: joined PA Technology – consulting and projects
- C.Eng, FIEE in 1982
- 1988: founder (one of 25) of The Technology Partnership
- 1998: co-founder of TTP Ventures; Director 1998 - 2005
- Investor and shareholder in 20 unlisted companies

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Do You Really Want Money From a VC?

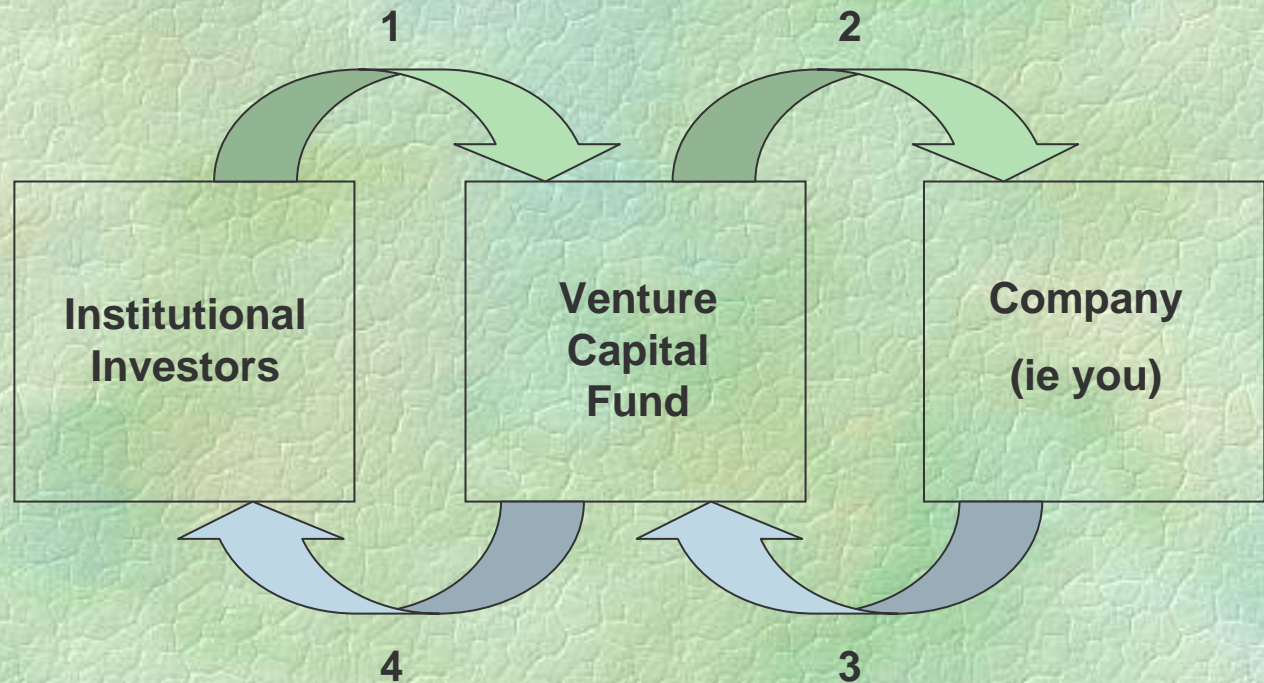
- **Friends and Family** know and trust you. (Good thing?)
- **Business Angels** often bring expertise and contacts, and sometimes want to play an active role in the company. Networks are in Cambridge (geif.co.uk), Oxford (oion.co.uk) and everywhere. See bvca.co.uk for list.
- **Proof of Concept/Seed Funds:** some have a strategic (not purely commercial) remit. See guide in oxtrust.org.uk
- **Bank debt** is really for those that have positive cash flow.

Understanding What VCs want

- Amount of Investment: **£1-10M**; syndication can take this up to **£20-40M**
- Profile of investee company
 - VCs invest in firms with **big competitive advantages** that are targeting **big markets** and have business models that mean that they will be able to **control the value** that they create
 - Such companies are relatively rare and often face large risks
- What does a VC want in return?
 - To account for these risks, VCs need to see the potential for **big returns**
 - They need to see that they could get a **5 - 10 times multiple** on the money they invest. So if your company needs £2M you will need to be able to show them how you will turn this into £10-20M

Why Do VCs Look For Big Returns?

- VC funds look for 5 - 10 x returns. Why so big?
- To answer this we need to look at the VC business model and understand who **their** customers are:



How To Get A 15-20% Return On A Fund

- Because of the power of compounding, to get a return of 15-20% p.a., the VC fund has to return about 3x the money invested in it. If a £10M fund invests £1M in each of 10 companies the expected outcome is:

		<u>Multiple Back</u>	<u>Sub-Total</u>
2	Go Bust	0	0
6	Survive but Don't Fly	2x	12
2	Are Successful	8x	16
	Total Return		28 (= 2.8x)

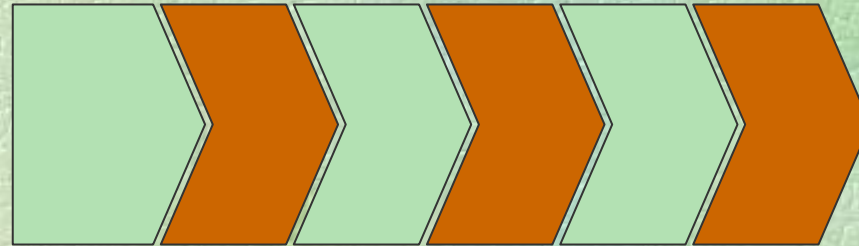
- So to give their investors what they expect, the VCs have to find companies with the potential of giving 5-10x returns

Raising money from a VC - The Process

Prepare
Business
Plan

Sign
Term
Sheet

Finalize
Legal
Agreements



Hook
Potential
Investors

Due
Diligence

Close
the
Deal



6 - 9 months

Choosing a VC to approach

- Search bvca.co.uk and (less user-friendly) evca.com
- Arrange a warm call; aim to have an email accepted
- Have the elevator pitch ready in case
- If 'No thanks', then ask why, and who to approach
- If 'OK' then ask what to send (typically 2 pages)
- **VCs usually say Yes (until they say No)**

In an elevator the VC might ask:

- **Who exactly will be running this company?**
- **What are you going to spend my money on?**
- **Why will this be an excellent investment for me?**

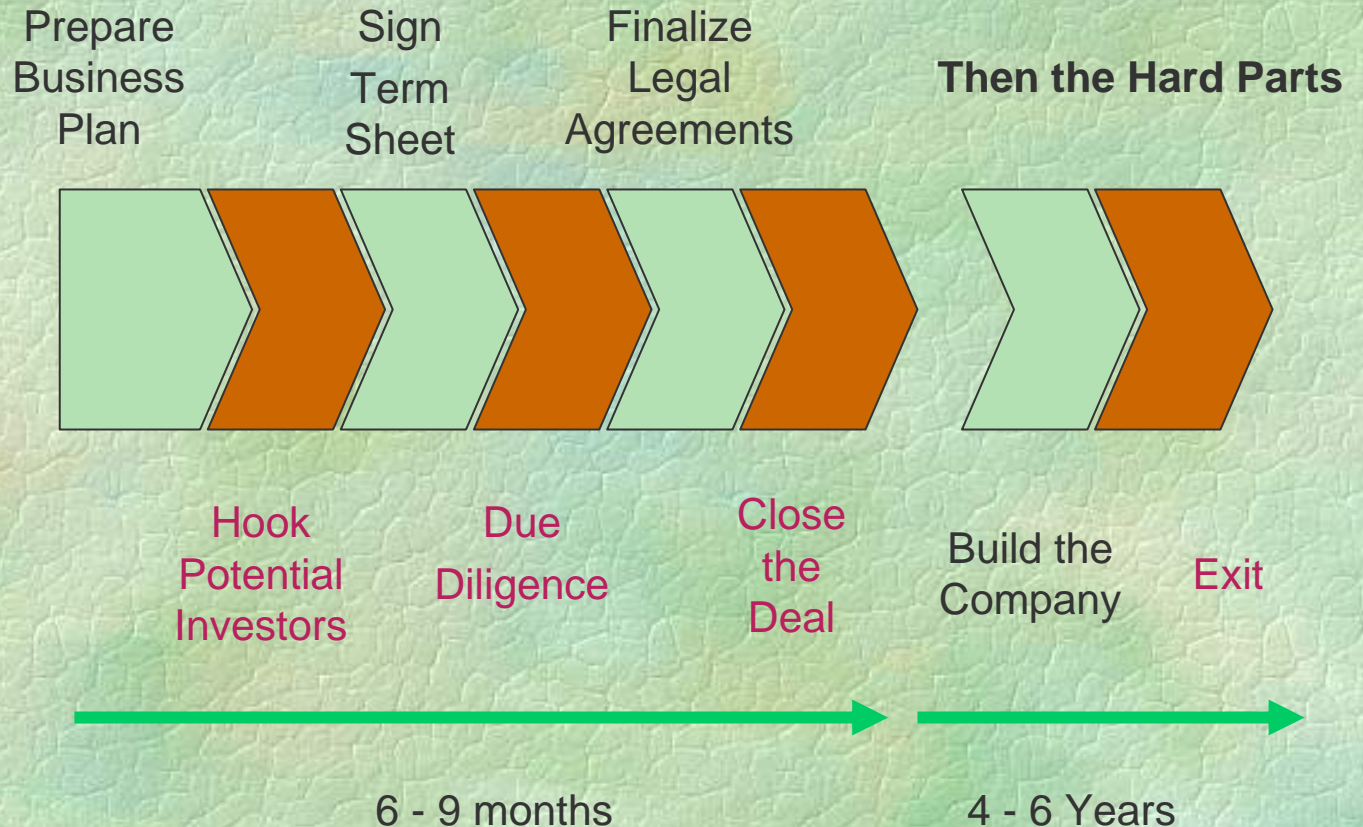
The Business Plan

- A Company's Business Plan is in effect a sales document for the company's shares and should set out
 - The need that is being targeted: "What problem does this solve?"
 - The Company's solution for meeting this need
 - How the Company intends making money out of meeting this need
 - Who is involved in the company and why they will make it a success
 - What the Company has achieved so far, especially with customers
 - How the Company intends spending the investment and what milestones this will enable it to achieve
 - How the company will exit. **Remember this is why the VC is investing**

Ten things not to say or do

- **Assume the VC knows all your jargon**
- **Fail to fit the time available for the pitch**
- **Look excessively formal (or informal)**
- **Refer to a ‘grant’ and a ‘project’**
- **Use ‘sweet spot’, ‘best of breed’, ‘win-win’ etc**
- **Plan to spend the investment on finding the market**
- **Say “There are no competitors”**
- **Look for too little money to achieve the milestones**
- **Fail to convey enthusiasm and passion**
- **Be unsure who is going to run the company**

Raising money from a VC - The Process



Possibly useful links

- www.bvca.co.uk
- www.nwbrown.co.uk
- www.oxtrust.org.uk (currently has an excellent guide to grants, loans, tax breaks and seed funding under /business/resources/finance)
- www.thechilli.com
- **And finally**
If you have a 'soft start' model, your customers could provide all the finance you need. Highly recommended.

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