

# VCs

## What Can I Do To Make Them Invest In My Early-Stage Company?

(What's the really important stuff)

**Bela L. Musits**

**High Peaks Venture Partners**

**Troy, NY**

**[bela@hpvp.com](mailto:bela@hpvp.com)**

- What's Important
  - Product Design?
  - Market Opportunity?
  - Financial Projections?
  - Management Team?

- Successful business change the playing field by doing one of the following:
  - Meet a current customer need 10X better.
  - Convince the customer they have a new need.
  - Make products accessible to a new set of customers.
  
- And they have a strategy

Xerox 9700 [1977]



Xerox vs. Canon

What was key assumption





- Key assumption?





- What is the key Differentiator?
- My dad



- Mature market.
- What is customer's risk?

- Canon
  - 10X and new set of customers
- Bottled water
  - Convince customer they have a new need.  
It's not about price
- Dell
  - New set of customers
- KIA
  - 10X and solve customers risk

- Killer Assumption
- Assumption vs. Fact Ratio
- Disruptive?
- How Can Your Customer Help? (but be careful)

Every Plan Has At Least  
One  
Killer Assumption

# It's All About Risk

Seed-Stage	7 out of 10
Early-Stage	5 out of 10
Growth-Stage	3 out of 10
Late-Stage	1 out of 10

# The Story & The Plan

Or how to explain your business to your  
grandmother  
&  
raise money

# The Story

- The story is what gets peoples interest.
- It is like a novel, not a documentary.

# Elements of The Story

- The Product
  - Not the technology. (An invention does not make a company)  
(Without money, there is no company)
  - Not your idea.
- But
  - What are you going to put into a box at the end of the day that UPS is going to pick-up and deliver to your customer?
  - What problem are you solving for your customer?
  - Why is the customer going to buy it?

# Elements of The Story

- The Market
  - Not that there are 400 billion potential customers.
  - Not that you have no competition.
  - Not that you are the lowest selling price.
- But
  - What does your customer look like?
  - Who are the first 5 people you are going to call on?
  - Market dynamics
  - What is the competition going to do?

# Elements of The Story

- The Team
  - Not that you are smarter than everyone else.
  - Not your life history.
- But
  - What is the teams relevant experience?
  - Who is going to be king?
  - What draft picks do you need?

# Elements of The Story

- The Financials
  - Not that you are going to be a \$2 billion company in 5 years.
  - Not that you have better gross margins than everyone else.
  - Not that your SG&A costs are lowest in the industry.
- But
  - How fast can you really grow?
  - What are your real COGS?
  - Make it believable!

# Peak Pitch 2010



- “Elevator Pitch” on a ski lift.
- Hunter Mtn.
- Friday, March 12
- [www.peakpitch.com](http://www.peakpitch.com)



# Thank You

Bela L. Musits  
Managing Director  
High Peaks Venture Partners  
Troy, NY  
[bela@hpvp.com](mailto:bela@hpvp.com)

# A Financial Example

- You and your partner own the company
  - 50% you, 50% your partner
- You raise \$100K from friends and family
  - Company is valued at \$500K pre money
  - \$100K buys 16.6% of the company.  $100/600 = 16\%$
  - You now own 41.7%, partner owns 41.7%, uncle George owns 4.2%, grandpa Ralph owns 8.3% and your mom & dad own 4.2%
  - Company is valued at \$600K post money

# A Financial Example, cont.

- You & your partner work your but off, spend all of the money and start looking for more.
  - You are looking to raise \$500K at a \$3MM pre money valuation
  - You find a VC that says “yes” to the deal

# Ownership



<b>Raise</b>		<b>\$100K</b>	<b>\$500K</b>
<b>Pre \$ Value</b>	<b>Day One</b>	<b>\$500K</b>	<b>\$3MM</b>
You	50.0%	41.7%	35.7%
Partner	50.0%	41.7%	35.7%
Uncle George		4.2%	3.6%
Grandpa Ralph		8.3%	7.1%
Mon & Dad		4.2%	3.6%
VC1			14.3%
	100.0%	100.0%	100.0%

# A Financial Example, cont.

- You & your team work your butts off, spend all of the money and start looking for more.
  - You are looking to raise \$3MM at a \$8MM pre money valuation
  - You find a VC that says “yes” to the deal

# Ownership



<b>Raise</b>		<b>\$100K</b>	<b>\$500K</b>	<b>\$3MM</b>
<b>Pre \$ Value</b>	<b>Day One</b>	<b>\$500K</b>	<b>\$3MM</b>	<b>\$8MM</b>
You	50.0%	41.7%	35.7%	26.0%
Partner	50.0%	41.7%	35.7%	26.0%
Uncle George		4.2%	3.6%	2.6%
Grandpa Ralph		8.3%	7.1%	5.2%
Mon & Dad		4.2%	3.6%	2.6%
VC1			14.3%	10.4%
VC2				6.7%

# A Financial Example, cont.

- You & your team work your butts off, spend all of the money and start looking for more.
  - You are looking to raise \$7MM at a \$13MM pre money valuation
  - You find a VC that says “yes” to the deal



# Ownership

<b>Raise</b>		<b>\$100K</b>	<b>\$500K</b>	<b>\$3MM</b>	<b>\$7MM</b>
<b>Pre \$ Value</b>	<b>Day One</b>	<b>\$500K</b>	<b>\$3MM</b>	<b>\$8MM</b>	<b>\$13MM</b>
You	50.0%	41.7%	35.7%	26.0%	16.9%
Partner	50.0%	41.7%	35.7%	26.0%	16.9%
Uncle George		4.2%	3.6%	2.6%	1.7%
Grandpa Ralph		8.3%	7.1%	5.2%	3.4%
Mon & Dad		4.2%	3.6%	2.6%	1.7%
VC1			14.3%	10.4%	6.8%
VC2				27.3%	17.7%
VC2					35.0%

# A Financial Example, cont.

- Things are going great.
- Microsoft wants to buy your company.
  - They offer \$45MM for your company
  - Your board says YES!



# You Retire to the Beach

Raise		\$100K	\$500K	\$3MM	\$7MM	
Pre \$ Value	Day One	\$500K	\$3MM	\$8MM	\$13MM	\$45MM
You	50.0%	41.7%	35.7%	26.0%	16.9%	\$7,597,403
Partner	50.0%	41.7%	35.7%	26.0%	16.9%	\$7,597,403
Uncle George		4.2%	3.6%	2.6%	1.7%	\$759,740
Grandpa Ralph		8.3%	7.1%	5.2%	3.4%	\$1,519,481
Mon & Dad		4.2%	3.6%	2.6%	1.7%	\$759,740
VC1			14.3%	10.4%	6.8%	\$3,038,961
VC2				27.3%	17.7%	\$7,977,273

**You win!!!**

**\$7,597,403**

**Investors win!!!**

**\$29,805,194**