



## New Venture Planning

### Plan Your Exit at the Outset

David Shore  
[DShore@StirlingMercantile.com](mailto:DShore@StirlingMercantile.com)  
604 484-0070



STIRLING MERCANTILE  
CORPORATION

Please turn off cell phones and pagers.

## About Stirling Mercantile

### Sectors

- Mid market financings
- Early-stage VC financings
- Mergers and acquisitions
- Valuations and fairness opinions
- Public market advisory services



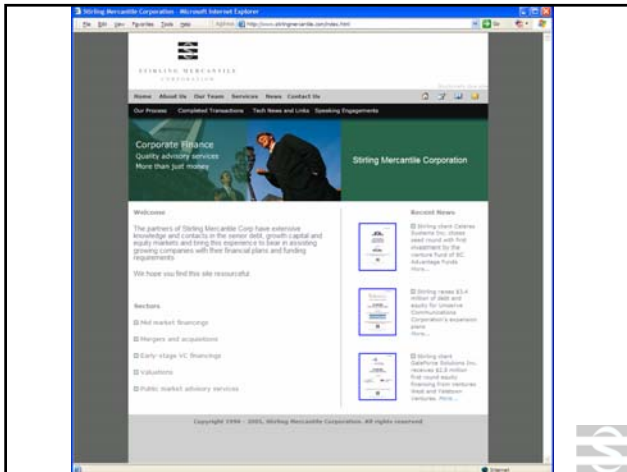
## About Stirling Mercantile



## My Bio

- Entrepreneur – 3 meaningful startups
- Corporate Finance – negotiated over 100 transactions, CIBC Investment Banking
- Boards
  - Chair of a pre-revenue start-up
  - Founding director of MetroBridge, recent IPO
  - Director of fastest-growing local VC, BCAF

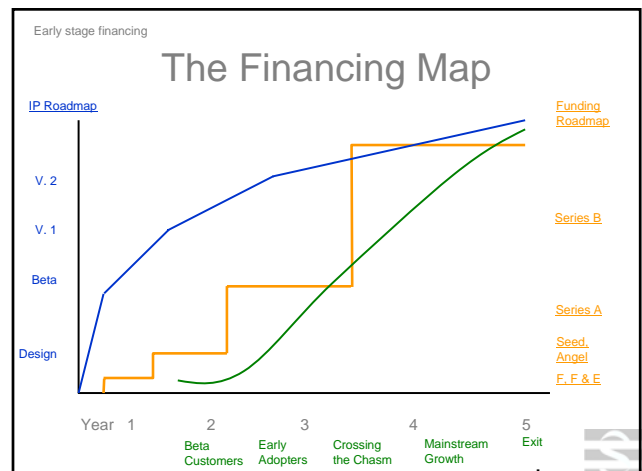




## Goals

### Why build a business?

- Lifestyle
  - freedom (choose your own 16 hours a day)
  - salary (less than market)
- Build quickly for an exit
  - Probably involves investors, loss of control
  - Could allow for retirement (on second or third try)



## Exit Transactions

Founders' liquidity, fast growth plan

- IPO
- Sale
  - Strategic
  - Financial



## Valuations

- Multiple of
  - Profit, EPS
  - Revenue
- Discounted Cash Flow
- All are better when company is growing
  - (Importance of timing)



## Relative Valuations

### Big Co

- Experienced management, board
- Large revenues
- Diversified customer base
- Scaled Infrastructure
- Worth 3 x Revenues

### Small Co

- Great founder, some holes
- Small growing revenues
- Concentrated customer base
- Scalable infrastructure
- Worth 1.5 x Revenues



## Deal Drivers

- Accretive acquisitions
  - You must add to buyer's valuation
  - For example:
    - Buyer: \$100m Revenues x 3 = \$300m market cap
    - Buys \$10m Revenues x 1.5 = \$15m cost, cash and stock
    - Adds \$10m x 3 to valuation or \$30m



## Deal Drivers

- Strategic
  - Add value to other products or assets
  - Adds customers
  - Keep away from competitors
  - Product or geographic expansion



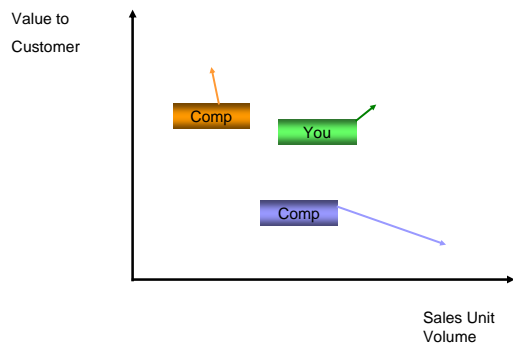
## Marketing the Exit

- Plan the exit from the outset
- Get to know your potential buyers early
- Get to know your service providers early



Packaging

## Position



## Think Like A Buyer

- Strategic
  - Market share, keep away from competitor
- Financial
  - Earnings, valuation multiples, accretive value to a stock price
- Entrepreneur
  - Lifestyle



## Think Like A Buyer

Spend money to...  
... make money, or  
... save money



## Structuring

Understand leverage available to buyers

- A profitable company can be purchased with a portion of subordinated debt, like 3 X EBITDA
- Senior debt can be 2 X EBITDA
- The balance in equity

Combined ratios, post transaction. Specialists may go higher



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## Due Dilly Binder/Folder

- All material contracts
- Details of financials
  - Inventory and valuable assets
  - HR tables and analysis
  - Comments on liabilities or notes to the Financials
- Don't leave out any salient details!!



Packaging

## Due Diligence Folder/Binder

A great example of a due dilly map, made available in the root of the folder or binder

Updated: 25-Dec-06 Last Update: 13-Dec-06 Added or Updated Since Last Update: On FTP Site - Black Text To be provided - Red Text				
<b>Corporate</b>	<b>Financial</b>	<b>HR</b>	<b>Agreements</b>	<b>Product</b>
C/O Corp. Documents Articles of Incorporation Bylaws Board Meeting Minutes Board Resolutions Shareholder Resolutions Filings Industry Canada Provincial US Corp. Documents Articles of Incorporation Bylaws Board Meeting Minutes & Resolutions Various Business Plan Capitalization Table Insurance Policy SREED Claims	Financial Projections Financial Statements Statements-2006/07 Consolidation-2006/07 Trial Balance-2006/07 AP Directory of Suppliers Debt Debt Summary Interest Calculations Preliminary Notes Convertible Loan Agreement Convertible Notes Funding Presentation	Employment Contracts Key employee resumes Stock Option Plan, agreements Advisor Contractor Employee Various HR Items Benefits Plan Org Chart Salary Summary	Consulting Contracts Sterling Mercantile Corporation Partner Validation Agreement Office Lease NDA & Proprietary Rights Agreements	Development Process Release Release Roadmap Release plan Specifications Whitepaper MRP's PEP's Feature Spec Customer Network Failures Intellectual Property IPR Identification 3rd Party IPR Validation IPR Protection Strategy
		<b>Market</b>		
		Competition Competitive matrix Market research		



## Financial Models

- Estimates your future value
- Focus on price and unit sales
- Be able to back it all up – this is your credibility



## Bottom Up vs. Top Down

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Market = 100,000,000</li> <li>• We will get 5%</li> <li>• At a price of \$2,000</li> <li>• We will sell \$10,000,000</li> </ul> | <ul style="list-style-type: none"> <li>• Sales cycle = 60 days</li> <li>• Sales training = 60 days</li> <li>• We will hire 20 effective sales people...</li> <li>• ...who will sell 21 per month</li> <li>• At a price of \$2,000</li> <li>• We will sell \$10,000,000</li> </ul> |
|--|---|

Incredible!

Credible!



## Reading

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Books           <ul style="list-style-type: none"> <li>– <a href="#">Good to Great</a></li> <li>– <a href="#">Art of the Start</a></li> <li>– <a href="#">The E Myth</a></li> <li>– <a href="#">7 Habits of Highly Successful People</a></li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Blogs, RSS, Newsletters           <ul style="list-style-type: none"> <li>– <a href="#">CFO Executive</a></li> <li>– <a href="#">VC Experts</a></li> <li>– <a href="#">The Deal</a></li> <li>– <a href="#">Kedrosky</a></li> <li>– <a href="#">Wall Street Prep</a></li> </ul> </li> </ul> |
|--|--|

Much more at [Stirling Resources](#)



## Thank you

A copy of this presentation is available at:

[www.stirlingmercantile.com/speakers.htm](http://www.stirlingmercantile.com/speakers.htm)



## Appendix



Packaging, Financials

## Financial Models

*"Plans are useless, but planning is indispensable"*  
- Dwight D. Eisenhower

- Not intended to be carved in stone
- Represents your plan, expected to change



Packaging, Financials

## Purpose

- Explain how the company scales
- Must clarify price and sales growth
- Estimate how much capital will be required
- Shows you can plan to be fiscally responsible



Packaging, Financials

## Price

- Support your price based on competition
- Get client validation, in writing if possible
- Consider how your price may change going forward



## Expenses

- Spend a lot of time on being accurate about your cost of sales and profit margin
- Spend very little time getting the fixed expenses right, unless your business is different
- Showing losses in the first 2 years is ok, assuming you have the cash to do so



## Cash Flows

- Must detail working capital requirements
- Must show how much money the company will need and when
- Can be simply added to the bottom of the income projection



## Scope

- Run out 60 months
- First two years for cash flow
- Last three for size of opportunity
- Show prior actuals if you have them



## Bottom Up vs. Top Down

- |                             |   |
|-----------------------------|---|
| • Market = 100,000,000      | • Sales cycle = 60 days                     |
| • We will get 5%            | • Sales training = 60 days                  |
| • At a price of \$2,000     | • We will hire 20 effective sales people... |
| • We will sell \$10,000,000 | • ...who will sell 21 per month             |
|                             | • At a price of \$2,000                     |
|                             | • We will sell \$10,000,000                 |

Incredible!

Credible!





## Assumptions

- Separate tab
- Include most trigger cells on the same page for investor adjustment
- First Things First
  - Highlight key assumptions



### Assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>New Sales</b>	78	342	1,044	2,232	3,492
<b>Cumulative Sales</b>	78	420	1,464	3,696	7,188
<b>Prices (\$CAD000s)</b>					
Software Sales	10.0	10.0	9.5	9.0	8.5
Hardware and install	5.0	5.0	5.0	5.0	5.0
Monthly Maintenance	0.10	0.10	0.10	0.10	0.10
<b>Direct Operating Expenses</b>					
Direct sales commissions	10%	10%	10%	10%	10%
Partner selling costs and commissions	30%	30%	30%	30%	30%
Hardware and install costs	40%	40%	40%	38%	36%
<b>Selling, General and Administrative</b>					
General & administration		12%	10%	8%	8%
Research & development		25%	25%	20%	15%
Selling, marketing and partnerships		30%	25%	20%	20%



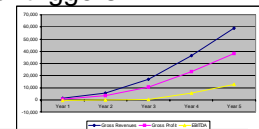
### Projected Income Statement Analysis (\$000s)

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>New Sales</b>	78	342	1,044	2,232	3,492
<b>Cumulative Sales</b>	78	342	1,044	2,232	3,492
<b>Revenues</b>					
Software Sales	780 65%	3,420 63%	10,440 62%	22,320 61%	34,920 59%
Hardware and install	390 32%	1,710 32%	5,220 31%	11,160 31%	17,460 30%
Monthly Maintenance	36 3%	271 5%	1,097 7%	3,036 8%	6,619 11%
<b>Gross Revenues</b>	<b>1,206 100%</b>	<b>5,401 100%</b>	<b>16,757 100%</b>	<b>36,516 100%</b>	<b>58,999 100%</b>
<b>Direct Operating Expenses</b>					
Direct sales commissions	78 6%	342 6%	1,044 6%	2,232 6%	3,492 6%
Partner selling costs and commissions	234 19%	1,026 19%	3,132 19%	6,696 18%	10,476 18%
<b>Total</b>	<b>468 39%</b>	<b>2,052 38%</b>	<b>6,264 37%</b>	<b>13,392 37%</b>	<b>20,962 36%</b>
<b>Gross Profit</b>	<b>738 61%</b>	<b>3,349 62%</b>	<b>10,493 63%</b>	<b>23,124 63%</b>	<b>38,047 64%</b>
<b>Selling, General and Administrative</b>					
General & administration	226 19%	648 12%	1,676 10%	2,921 8%	4,720 8%
Research & development	525 44%	1,350 25%	4,189 25%	7,303 20%	8,850 15%
Selling, marketing and partnerships	275 23%	1,470 27%	4,189 25%	7,303 20%	11,800 20%
Costs (expense recoveries)	0 0%	0 0%	0 0%	0 0%	0 0%
<b>Total</b>	<b>1,026 85%</b>	<b>3,468 64%</b>	<b>10,054 60%</b>	<b>17,528 48%</b>	<b>25,370 43%</b>
<b>Growth</b>					
EBITDA	<b>-288 -24%</b>	<b>-119 -2%</b>	<b>439 3%</b>	<b>5,596 16%</b>	<b>12,678 21%</b>



## Formatting Suggestions

- Use a **different** colour for triggers
- Add simple graphs
- Provide ratios



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## Sales Growth

- Add a realistic monthly figure for growth in the first 18 to 24 months
- Multiply that by your prices(s) to generate revenue
- Scale it up in the last 3 years



## Total Revenue

- At critical mass, revenues should be significant
- Don't reverse engineer with unrealistic assumptions for sales growth
- Find a way to get to \$30 to \$50 million in 5 to 7 years, with defensible assumptions, ie:
  - Expand your markets
  - Add value for a higher price



## Format for the Presentation

- One slide for assumptions
  - Identify the key variables, likely price and take-up
- One slide for results
  - Include ratios
- One slide for deal structure or closing cap table

