

# Funding Your Startup

Presented to the  
New Venture Design Class  
APSC 486/ COMM 486

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[www.University-Millionaires.com](http://www.University-Millionaires.com)

# My Goals Today

- I'd like to try and change your life.
- And possibly help make you a lot of money.
- I believe more students, staff and faculty at universities should start companies.
- I did and it worked out well for me.
- Let me start with a case study.

# Introducing Helge Seetzen



# Helge's Story -1

- Helge is the most recent university student I have helped become a millionaire.
- I invested three times in Helge's company.
- Mine was the first fund to invest.
- I invested the first time when there was only Helge and one other person on the company payroll.
- The only other fund that ever invested was Mike Volker's WUTIF fund.

# Helge's story - 2

- Helge came to Canada in 1998 when he was 19.
- He completed high school in Germany, and spent an obligatory year in the military.
- When he arrived, his first priority was to learn to speak English.
- Helge had an idea for a student project (a common theme among University Millionaires).
- That project got him introduced to Professor Lorne Whitehead in the Physics department at UBC.

# Helge's Story - 3

- Lorne offered Helge a job in his lab as a junior research assistant.
- Helge's job included labeling storage boxes, maintaining the computer network and helping to build prototypes.
- At this point, Helge was still a first year undergrad.
- Helge got excited about Dr. Whitehead's experiment to increase the brightness and dynamic range of liquid crystal displays (LCD's).

# Starting the company

- Helge and Lorne got each other more excited.
- In 2001, they started a company called Sunnybrook.
- Lorne and Helge introduced Don Graham to their idea.
- Don is a classic angel investor and very capable mentor.
- Don and Lorne's "Friends and Family" provided the first couple hundred thousand of capital.

# The Angel Rounds

- Sunnybrook presented at the local Angel Investor forums and several angels invested.
- My fund invested along with the angels.
- I also invested in the next two rounds,
- And helped design the financing strategy for those rounds.
- Sunnybrook also completed an unusual brokered private round with Raymond James.



# The Almost VC Rounds and Exit

- The company was renamed Brightside in 2004.
- Brightside tried for two years to raise money from traditional VCs, but never did.
- In part due to the ‘Preferred Share Issue’
- This was even written up in the Globe and Mail.
- Dolby Labs acquired Brightside in February 2007
- For \$28 million in cash

# Helge is now a multi-millionaire

- Today, Helge is still in charge of research - doing the same thing - working on high dynamic range displays.
- But now he is a multi-millionaire.
- Now he can even complete his Ph.D.
- He is still only 29 years old.
- Professor Whitehead made a lot of money.
- UBC made millions too.

# More on Helge and Brightside

- This is a classic case study.
- There is much more you can learn from Helge and Brightside.
- A more detailed description is online at:
- [www.University-Millionaires.com](http://www.University-Millionaires.com)

# This is a 'standard model'

- This happens all the time.
- Many of the elements in Helge's story are the same as in other University Millionaire experiences.
- The funding processes were also textbook.
- My goal is to tell you what they were.
- To help you become a University Millionaire.
- These are my recommendations:

# Recommendation #1 - Projects

- University provides wonderful of opportunities beyond the classroom.
- Yeah, I know you think you are too busy already.
- Get involved in:
  - Student projects
  - Student politics
  - Something outside your core department
  - Any activity to broaden your perspective

# UBC Electrical Vehicle Project

- Back in the 70's the UBC Engineers always built cars.
- Started as a way to avoid a summer job.
- Our project won 2<sup>nd</sup> prize in a worldwide competition by Intel.
- = Entrepreneurial training.
- Three UBC University Millionaires in this photo



# Recommendation #2 – Do It Now

- Try hard not get a ‘real’ job first!
- Do it early in life.
- Being a student is excellent training:
  - used to working long hours
  - for no money
  - not yet risk adverse (because you don't have much money)
  - willing to roll the dice double or nothing every day

# Recommendation #3 – Be honest

- The real question is whether it's right for you.
- Should you even try?
- Shouldn't everyone try?
- No, it can easily ruin your life.
- How much is genetic and what can be learned?
- Be honest with yourself.



# Characteristics of Entrepreneurs

- Lots written by VCs and academic researchers
- You may not like some of it.
- Sample characteristics:
  - hot stove test
  - first born
  - entrepreneurial family
  - incredibly persistent
  - intuitive
  - OCD
  - weird relationship with father
  - high serotonin levels

# Entrepreneurial Teams

- An individual can't be perfect.
- But a team can come close.
- There are exceptions (like Jim Pattison and Ted Rogers).

# Recommendation #4 – The Team

- Investors only back teams.
- Because they have learned the expensive way.
- And because they know teams can be much closer to perfect.
- Its also a test.
- To see if the idea is contagious,
- and the leader can lead.

# Recommendation #5 - Mentors

- We started our first company, we were SO naïve.
- I now literally laugh at our original structure and financing agreements.
- Nevertheless, we grew to be #2 in the world.
- Single biggest reason: Our Mentors.
- **Peters' Law: All successful entrepreneurs have Mentors.**

# Mentors

- The most important controllable factor in your success.
- Ideal team includes some grey hair and some serious entrepreneurial scar tissue.
- Good ones not easy to find or to get sucked in.

# Mentors – The difference between success and failure

- A good Mentor's most important contribution is:
- To prevent the entrepreneurs from blowing up the company.
- Seriously.
- In my first company, our angel investors / mentors / directors literally prevented that a dozen times.
- In my own investments, have done the same several dozen times.

# How can they do that?

- It's experience.
- For example, many companies fail because they run out of money.
- That almost never happens to experienced entrepreneurs.
- Even a founder with an IQ of 160 can't learn enough, fast enough, to have the experience.
- Every successful company I have seen has mentors / good directors.

# Recommendation #6 - Network

- To succeed you need:
  1. A Team
  2. Mentors
  3. Directors
  4. Investors (friends and family then Angels)
  5. Financial Partners
- All usually sourced by networking.



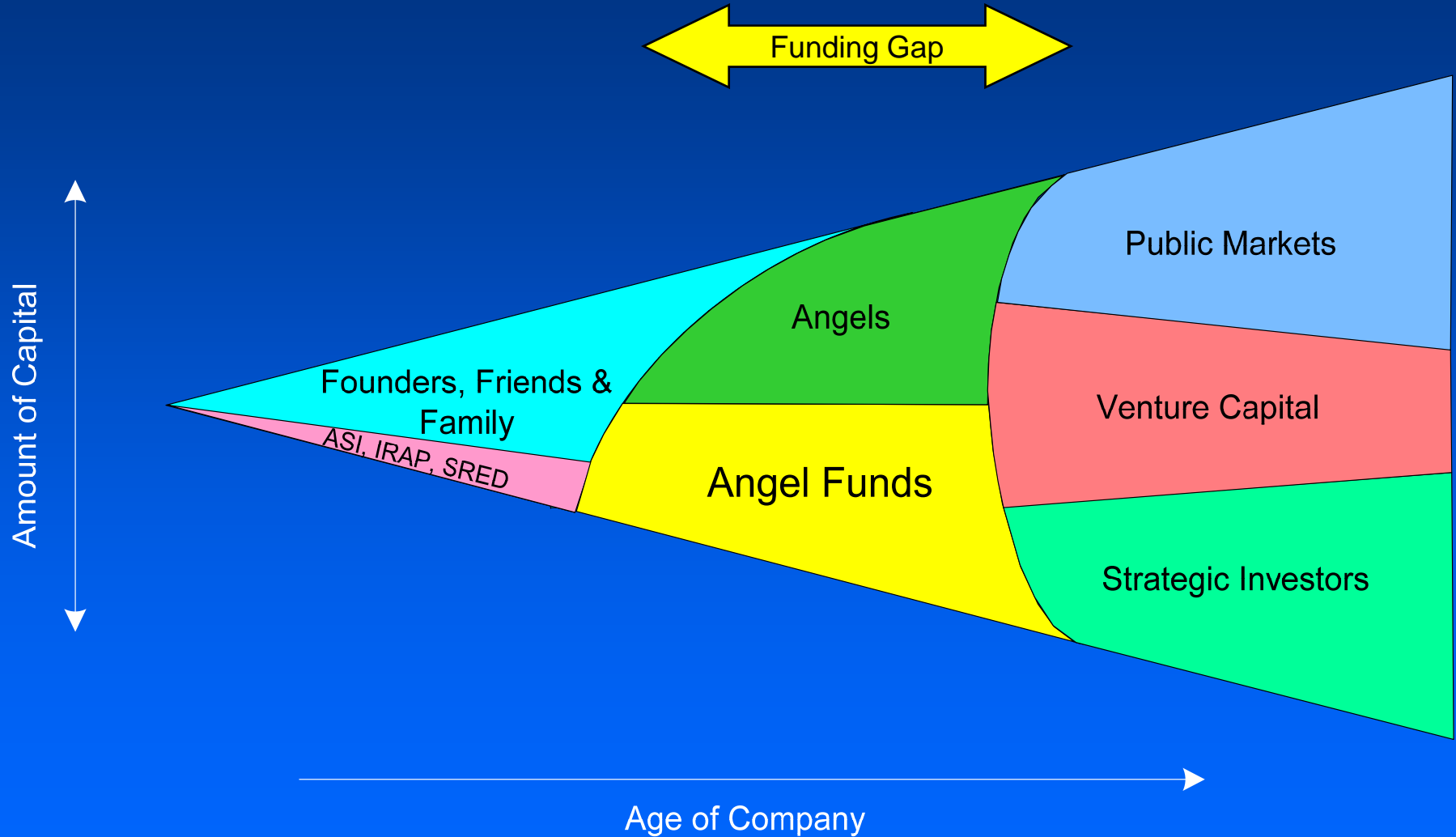
# Summary of Recommendations

1. Get involved with student projects.
2. Do it now.
3. Be honest with yourself.
4. Build a team – investors only back teams.
5. Mentors – the most important controllable factor.
6. Network to find angel investors or financial partners.

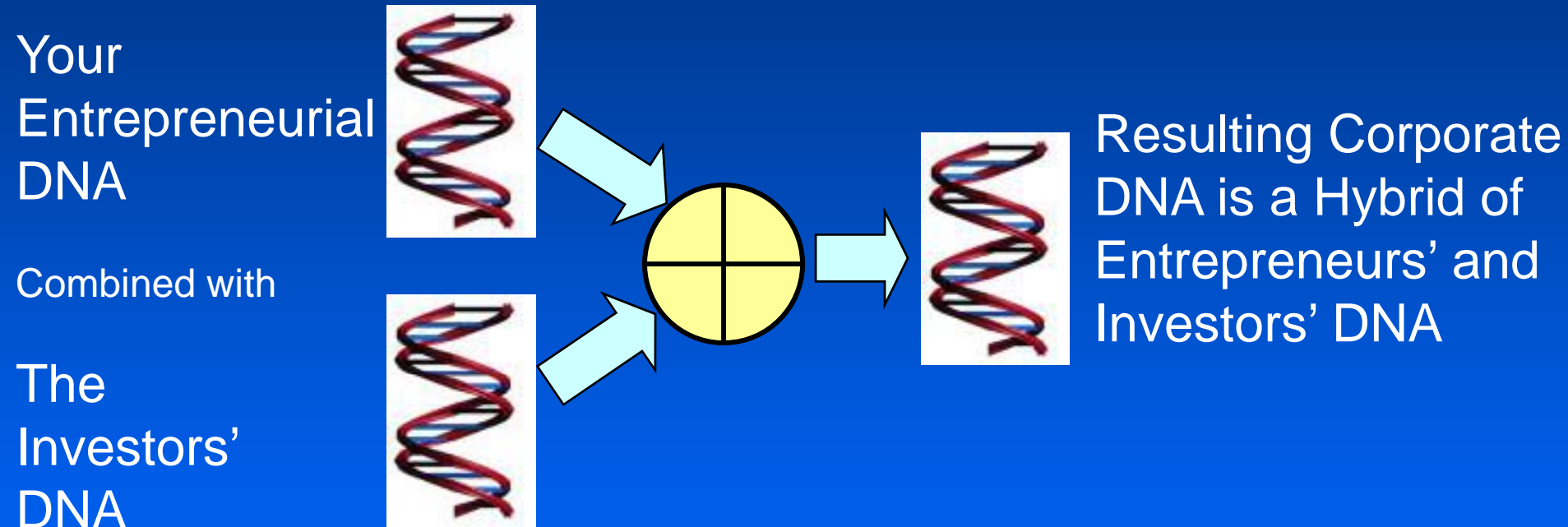
# The Classic Funding Model

- About 90% of tech startups follow the same funding process:
- “Friends and Family” for a few hundred thousand
- Angels for a half million to a few million
- Then either:
  - An exit, which is increasingly common
  - A venture capital round, becoming less frequent
  - Or a junior public financing, growing in popularity

# Sources of Capital



# Adding Financial DNA



Check the compatibility first

# The “Friends and Family” Round

- There is a very precise legal meaning to “Friends and Family.”
- Securities regulations provide an exemption to allow startup companies to raise money from F&F.
- And they enforce it (surprisingly aggressively lately)
- It is the easiest and fastest round of all.
- But it is also the most treacherous.

# Quiz: Why are they investing?

- What is the most significant reason they invest?
- Hint: This answer applies not just to the Friends and Family round but to all rounds.
- Expectation of a financial return?
- Because they like the business plan?
- The real answer –
- Because they like you.

# The Good News

- The first rounds of financing are usually the easiest to do.
- The rounds are small.
- Investors almost always know the entrepreneurs.
- The business is usually 'still on paper.'
- So the financials look really great.
- And everyone expects to make 100x on their investment.

# The Problem Is

- Most of the people who invest in Friends and Family rounds.
- Really shouldn't.
- Professional investors agree that the earliest rounds are actually the most difficult.
- Friends and Family investors almost never have the knowledge and skills to objectively evaluate:
  - Valuations
  - Structures
  - Market opportunities
  - Technology



# Uh, Oh!

- These are our friends and family!
- And we really need their money.
- But don't want to have awkward looks across the dinner table.
- So what should we do?

# The Solution:

- Fairness
- Alignment
- Governance
- All built into the structure of the company,
- through the first investment agreement.

# After the Friends and Family

- Depending on the family you were born into, the F&F round is typically a several tens of thousands to a few hundred thousand.
- Next are the angel investors and angel funds.
- They are the most sophisticated of all investors and the most helpful (because most are very successful entrepreneurs.)
- Securities regulation exemption for "Accredited investors" also with increased enforcement.

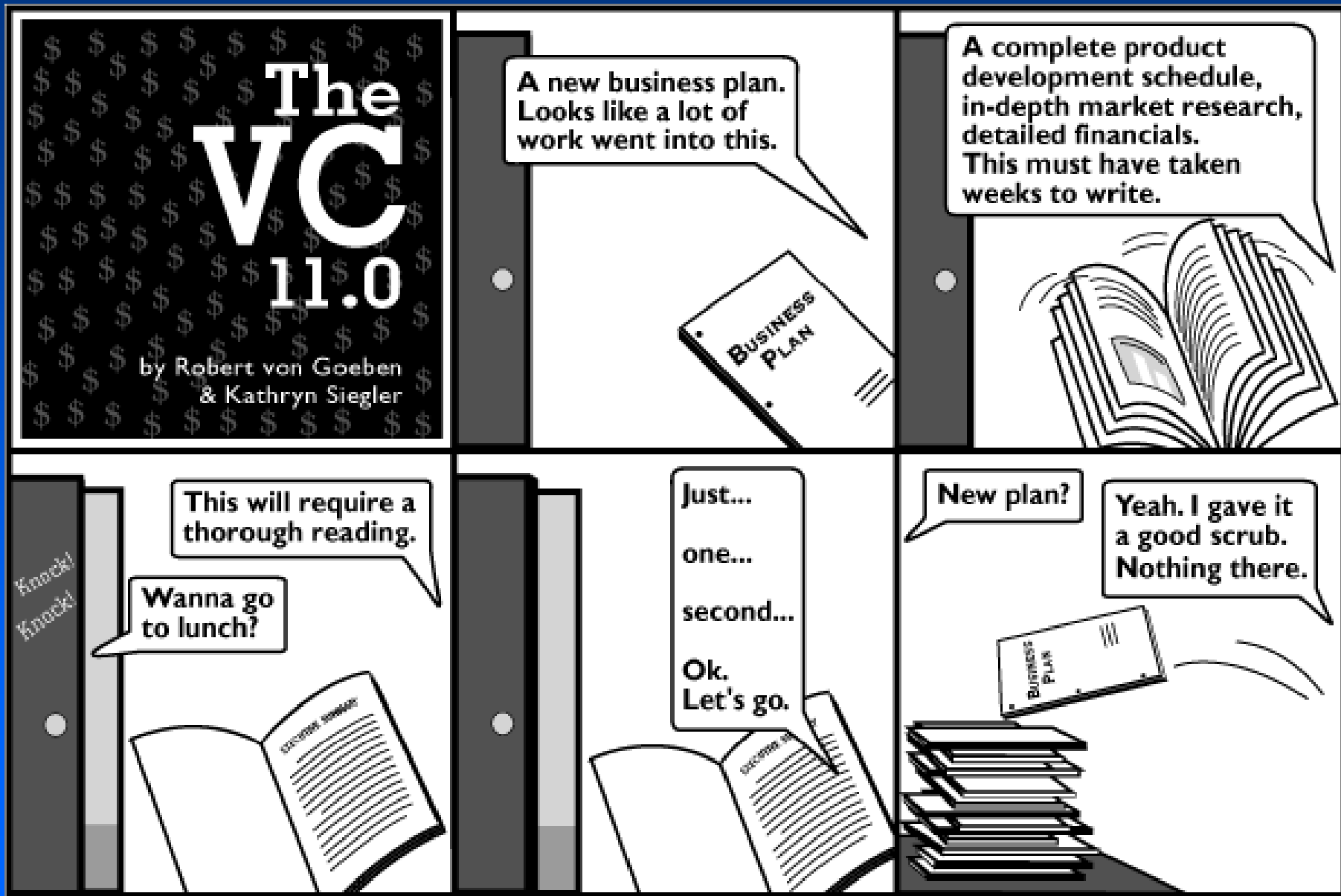
# Getting a Fund Manager's Attention

- What it looks like from my perspective.
- Dozens of business plans per week.
- You need an introduction.
- Ideally from someone who has written a cheque.
- And has credibility with me.
- I wish it was easier.

# The Business Plan

- Very simply – an intelligence test.
- The format must be perfect.
- If you have a web browser, there is no excuse.
- The financials are the hardest part.
- Except possibly for the bios.
- If you've only done a couple of dozen, get coaching!

# What happens to your plan



# Just Don't Feel Like It

## The VC

Life at the conference table

by Robert von Goeben  
& Kathryn Siegler

<http://www.thevc.com>

### THE BRUSH-OFF

We like your company a lot, but we'll have to pass.

"Can you tell me why?"

We did extensive due diligence so let me give you some feedback. First off, the market is too small.

"But Forester projects this space to be \$3 trillion by 2002!"

Uh ... OK, the technology isn't defensible.

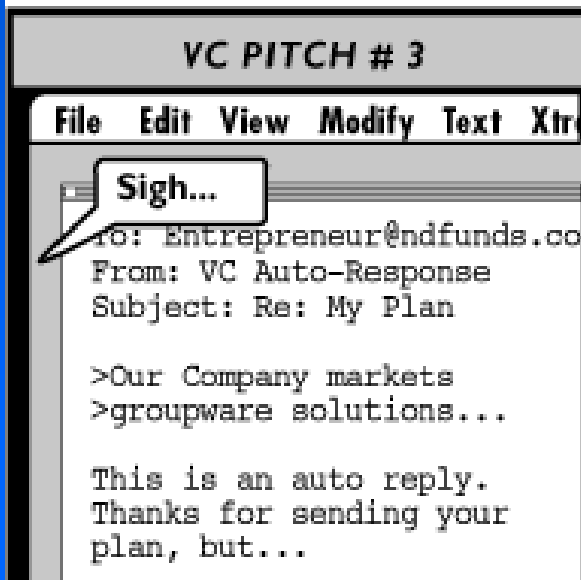
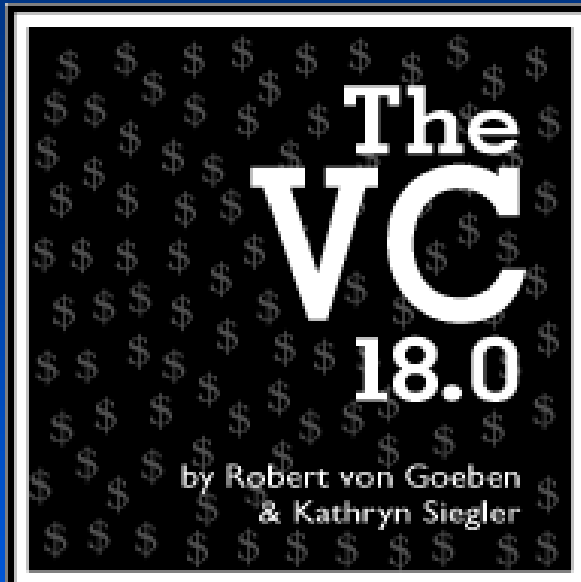
"What do you mean? We hold twelve patents in the area!"

Your CTO is inexperienced in the space.

"The Guy's authored three books on the subject. What more do you want?!"

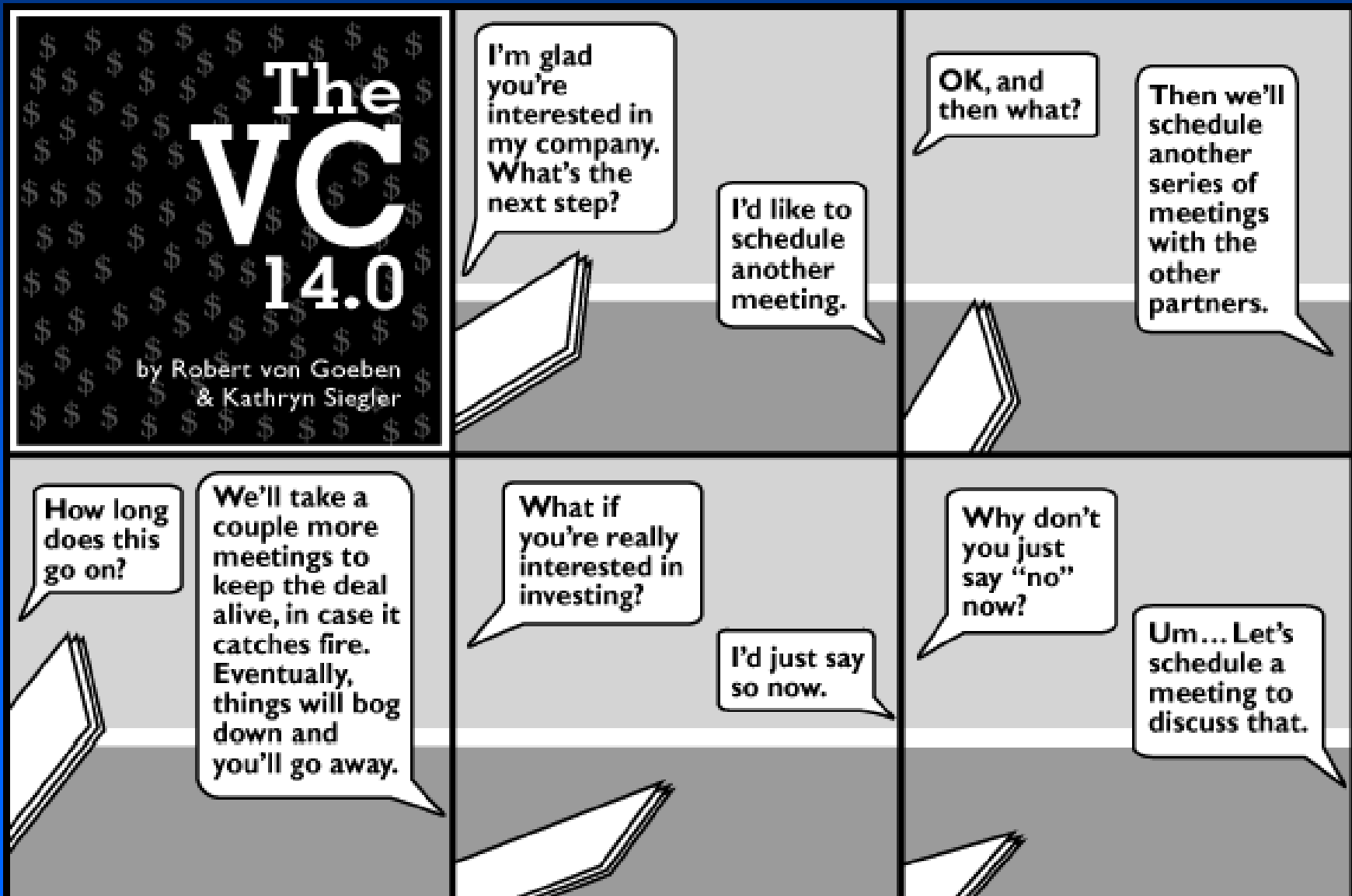
Well, ... um ... Look, we just don't feel like it, OK?

# Packaging can make the difference

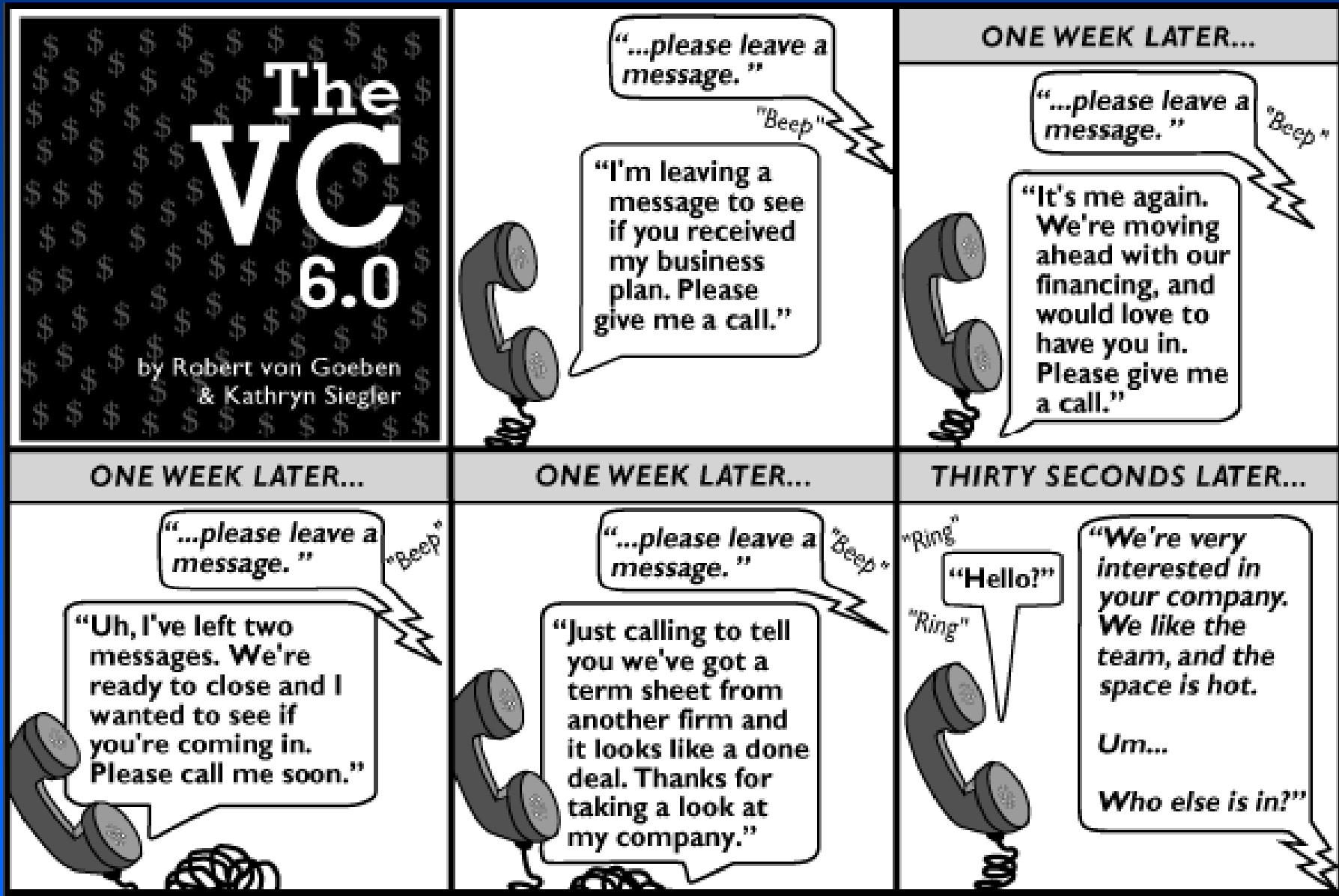




# Never Saying "No"



# Creating Urgency



# My Experiment and Offer to Help

- I already have a number of investments.
- And directorships.
- I should only invest in one or two new companies per year.
- But I'd like to try and help more entrepreneurs.
- I believe the hardest thing is getting started.
- The next hardest is networking.

# My Experimental Resource

- [www.University-Millionaires.com](http://www.University-Millionaires.com)
- A new site, still under construction, where you can:
- Learn about starting your spin-off.
- Read case studies.
- Connect to online resources.
- Possibly get introduced to mentors or investors.
- Get some quick feedback on your idea.
- **BEST EFFORTS - NO PROMISES!**

The screenshot shows a Windows Internet Explorer browser window. The title bar reads "University Millionaires - My Idea - Windows Internet Explorer". The address bar contains the URL "http://www.university-millionaires.com/My\_Idea.html". The page content includes a navigation menu on the left, a main heading "University Millionaires", a sub-heading "Dedicated To Creating University Millionaires", and a section titled "Help With Your Spin-Out Idea". This section contains text asking for a business idea description and a large text input field.

University Millionaires - My Idea - Windows Internet Explorer

http://www.university-millionaires.com/My\_Idea.html

University Millionaires - My Idea

## University Millionaires

Dedicated To Creating University Millionaires

- Home
- What is a spin-out?
- Help With Your Idea
- Case Studies
  - 1. Helge Seetzen
- University Millionaire Presentations
- Subscribe to the UM Newsletter
- Contact Basil

### Help With Your Spin-Out Idea

I would like to help you with your university spin out.

Please give this form a moment to load. If you experience any technical difficulties, please call Linda at 604-818-4930.

### Description of your business idea

Please write a few hundred words about the concept for your business.

**Please describe your business idea in 500 words or less:**

Done

Internet 100%

**GOOD**

**LUCK!**

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