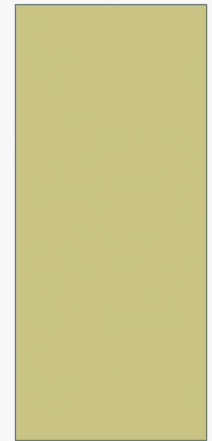




BUSINESS STRATEGY

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BUSINESS TIPS FROM SUN-TZU

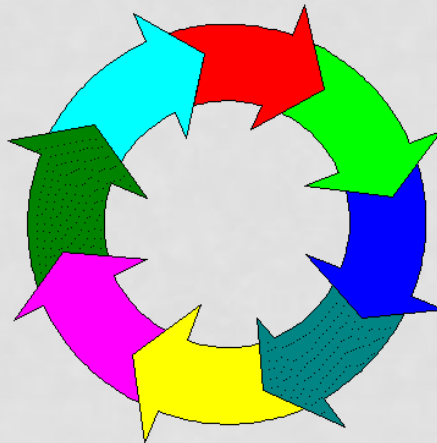
- “In respect of military method, we have, firstly, **Measurement**; secondly, **Estimation of quantity**; thirdly, **Calculation**; fourthly, **Balancing of chances**; fifthly, **Victory**.”

Sun-Tzu



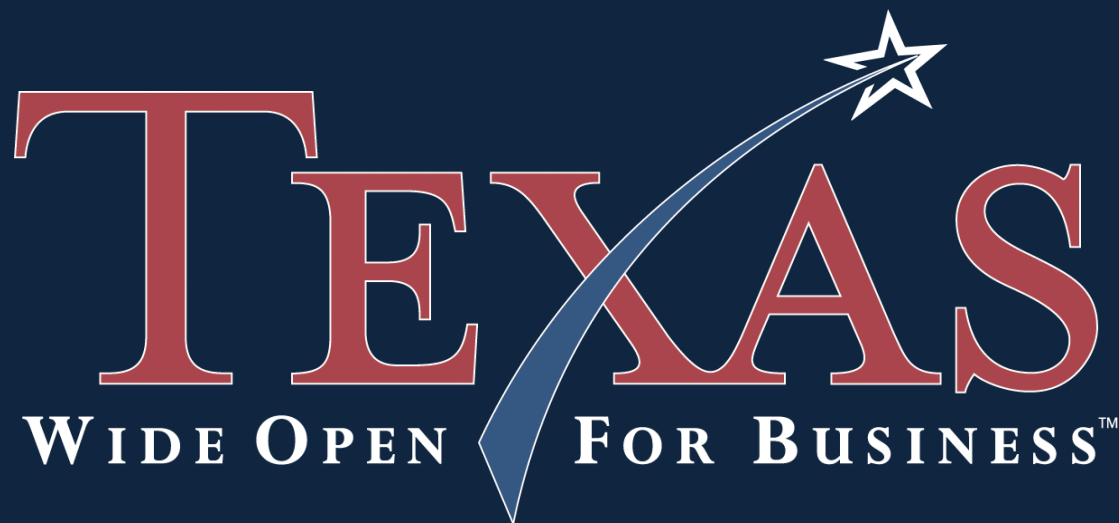
THE BASICS

- Everything is about Process



AGENDA

- **The Business Plan**
- **Licensing**
- **Partner Agreement**
- Angel / Venture Capital
- Sale of Business
- Commercial Sales
- Incubators / Landing Zones
- Research Grant
- Conclusion



Адміністрація Губернатора
Відділ Економічного Розвитку

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Регіональний Директор, Євразія, Середній Схід і Африка

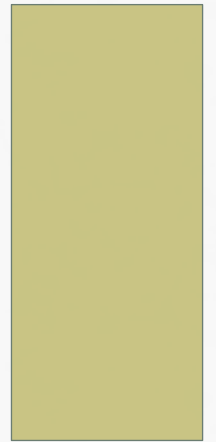
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Адміністрація Губернатора Відділ Економічного Розвитку Міжнародний Бізнес і Вербування

- Адміністрація Губернатора, Відділ Економічного Розвитку
- Міжнародний Бізнес і Вербування
 - Допомагає Техас компаній, що прагнуть вийти на зарубіжні ринки, та залучення іноземних інвестицій в Техас
 - Інформація про стимулів і програм
 - Допомога місце вибір
 - Допомога в природоохоронних дозволів
 - Взаємодія з державними органами
 - Всеосяжна дослідження клімату бізнес в Техас
 - Сайт візит координації і виконання в Техас громад
 - Центральний контакт для компаній, що працюють з декількома громадами Техас

THE BUSINESS PLAN



ELEMENTS OF A BUSINESS PLAN – SEQUOIA CAPITAL

- **Writing a Business Plan**

- We like business plans that present a lot of information in as few words as possible. The following business plan format, within 15-20 slides, is all that's needed.



ELEMENTS OF A BUSINESS PLAN – SEQUOIA CAPITAL

- **Company Purpose**
 - Define the company/business in a single declarative sentence.
- **Problem**
 - Describe the pain of the customer (or the customer's customer).
 - Outline how the customer addresses the issue today.
- **Solution**
 - Demonstrate your company's value proposition to make the customer's life better.
 - Show where your product physically sits.
 - Provide use cases.

ELEMENTS OF A BUSINESS PLAN – SEQUOIA CAPITAL

- **Why Now**
 - Set-up the historical evolution of your category.
 - Define recent trends that make your solution possible.
- **Market Size**
 - Identify/profile the customer you cater to.
 - Calculate the TAM (top down), SAM (bottoms up) and SOM.
- **Competition**
 - List competitors
 - List competitive advantages

ELEMENTS OF A BUSINESS PLAN – SEQUOIA CAPITAL

TAM - Total Available Market – What is the Total Market Size?

SAM - Served/Serviceable Available Market – What Part of the Total Market is your focus?

SOM - Serviceable Obtainable Market – Given all the factors – competition, sales/distribution opportunities, partnerships – how much of this market can I access?

ELEMENTS OF A BUSINESS PLAN – SEQUOIA CAPITAL

- **Product**

- Product line-up (form factor, functionality, features, architecture, intellectual property).
- **Development roadmap.**

- **Business Model**

- Revenue model
- Pricing
- Average account size and/or lifetime value
- Sales & distribution model
- Customer/pipeline list

ELEMENTS OF A BUSINESS PLAN – SEQUOIA CAPITAL

- **Team**

- Founders & Management
- Board of Directors/Board of Advisors

- **Financials**

- P&L
- Balance sheet
- Cash flow
- Cap table
- The deal



ELEMENTS OF A BUSINESS PLAN – ENTREPRENEUR MAGAZINE

- **Business concept.** Describes the business, its product and the market it will serve. It should point out just exactly what will be sold, to whom and **why the business will hold a competitive advantage.**
- **Financial features.** Highlights the important financial points of the business including sales, profits, cash flows and return on investment.
- **Financial requirements.** **Clearly states the capital needed to start the business and to expand.** It should detail how the capital will be used, and the equity, if any, that will be provided for funding. If the loan for initial capital will be based on security instead of equity, you should also specify the source of collateral.

ELEMENTS OF A BUSINESS PLAN – ENTREPRENEUR MAGAZINE

- **Current business position.** Furnishes relevant information about the company, its legal form of operation, when it was formed, the principal owners and key personnel.
- **Major achievements.** Details any developments within the company that are essential to the success of the business. Major achievements include items like patents, prototypes, location of a facility, any crucial contracts that need to be in place for product development, or results from any test marketing that has been conducted.

ELEMENTS OF A BUSINESS PLAN – SBA

- **Business Plan Executive Summary**
 - Your executive summary is a snapshot of your business plan as a whole and touches on your company profile and goals. This section offers tips on what to include and how to keep it brief and succinct.
- **Market Analysis**
 - Read about the specific industry, market and competitive analysis information you should conduct and include in your plan.
- **Company Description**
 - **What do you do? What differentiates your business? Which markets do you serve?** Get tips on how to present this information.
- **Organization & Management**
 - All businesses are structured differently. Find out how best to describe your organization and its management structure, regardless of its size.

ELEMENTS OF A BUSINESS PLAN – SBA

- **Marketing & Sales Management**
 - How do you plan to market your business? What is your sales strategy? Read more about how to present this information in your plan.
- **Service or Product Line**
 - **What do you sell?** How does it benefit your customers? What is the product lifecycle? Do you plan R&D activities? Get tips on how to tell the "story" of your product or service.
- **Funding Request**
 - If you are seeking funding for your business, find out what information you need to include in your plan to ensure success.
- **Financial Projections**
 - If you need funding, **providing financial projections** to back up your request is critical. Find out what information you need to include in your financial projections for your small business.

AND THE ANSWER IS ...

- **Ask them what they want.**
 - VC firms are used to reading many plans and want to see a specific format. They are evaluating ideas, markets, and ROI.
 - Grant organizations are seeking understandings of your research and if they can advance your research. They are evaluating your intellectual prowess.
 - Banks will evaluate cash flow.
 - Create detailed plan and shorten for different groups



ELEMENTS OF A BUSINESS PLAN – LINKS

<http://www.entrepreneur.com/article/38308>

<http://www.sequoiacap.com/ideas>

<http://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business/writing-business-plan/essential-elements-good-business>

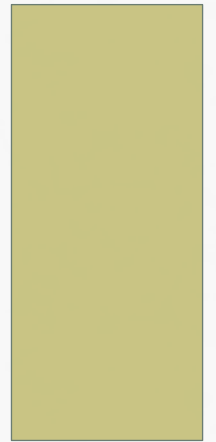
<http://www.ces.purdue.edu/extmedia/ec/ec-735.pdf>

<http://leeds-faculty.colorado.edu/moyes/bplan/Plan/WritingaSuccessfulBusinessPlan2004v4.pdf>

FROM HERE ...

- What is the best way to advance your technology?
 - License Agreement
 - Partner Agreement
 - Angel / Venture Capital
 - Sale of Technology
 - Commercial Sales
 - Incubators and Landing Zones
 - Research Grant

LICENSING

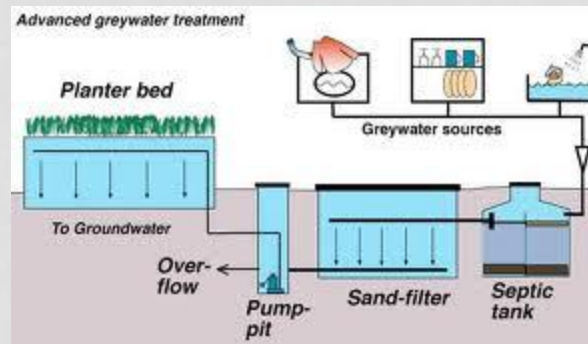


WHY LICENSE?

- You can't advance the technology to the next level with the resources available to you
 - Biotechnology or material science technologies require extensive testing to advance to the marketplace
 - Resources to conduct controlled, approved testing are expensive and may not be available to you
 - Organizations which have staffing available to gain regulatory approval can do so at a lower cost

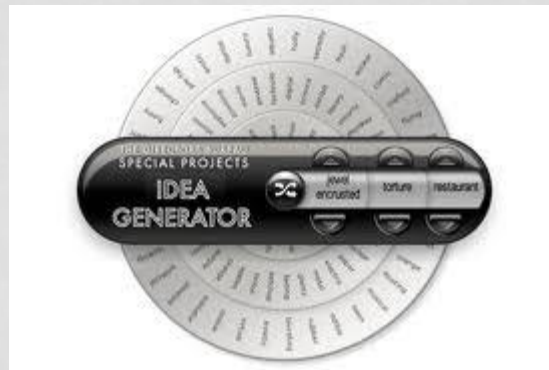
WHY LICENSE?

- You need access to a larger market and do not have the staffing to reach the market
 - Sales organizations with relationships with key customers can get your product to the marketplace
 - If your technology is part of a larger system, you can expand your reach and opportunities



WHY LICENSE?

- Allows you to monetize your efforts and move on to your next idea
 - After the idea has been created, tested, and protected, you need to understand where you are most effective
- **Your next idea may be even more interesting**



LICENSING

- In a licensing agreement, you give rights to another organization to use your technology
- You must have patent / copyright filings on the technology
- Limitations on the usage, modification, or effective date of the agreements are important

LICENSING

- Agreements must also be based upon usage of the technology
- If unused or milestones are not achieved, the agreement is terminated



LICENSING

- In understanding milestones to the next step, you can structure an agreement which shares the risk on both parties
 - As a new technology advances through the testing and approval process, payments would be made
 - As a product advances in the marketplace, different royalty rates would take effect as sales increase

LICENSING

- As revenue is generated by your partners, revenue can be shared with you



LICENSING TERMS – A SIMPLE GUIDE

- You have to sign the agreement
- They have to sign the agreement
- The terms need to be viewed as fair by both sides

LICENSING TERMS – LICENSOR OBLIGATIONS

- **Define the Material**
- Define the patents or other protections
 - Ownership of IP
 - License of IP
 - Sublicense Options
- **Delivery of product or materials**
- Cooperate with any testing processes
- Date Restrictions

LICENSE TERMS - LICENSEE OBLIGATIONS

- Complete agreed upon steps in a mutually acceptable time frame
 - Regulatory approval
 - Sales / Royalty Payments
 - Minimum Payments
 - Performance Levels
 - Sublicense Requirements
- Steps if terms are not met
 - Payment of minimums
 - Allow agreement to end

LICENSING TERMS – AGREEMENT LENGTH & TERMINATION

- Length of agreement
- **Renewal requirements**
 - Automatic
 - Exercised
- Termination Process
- Ownership / Transfer of IP
- Bankruptcy of Parties

LICENSING TERMS – DISPUTE RESOLUTION

- Nexus – Whose law applies?
- Courts – What Court System?
- Avoiding Court – Good Planning
 - Arbitration
 - Mediation
 - Negotiation
- Limitations of Amount in Dispute
- Legal Fees

LICENSING TERMS – DEVELOPMENT FEES AND COSTS

- Costs of approvals, patents and other fees
- Key issue when you are licensing v. selling the IP



LICENSING INCOME

- Rule of thumb for the value of a licensing agreement is the 25% rule
- This model is used for the beginning of negotiations and will give you an idea of the potential value of a licensing agreement

LICENSING INCOME

- Costs of bringing a product to the marketplace must also be factored into the numbers
- All rates are based upon the simplest number – gross sales before expenses

LICENSING INCOME

Calculating the 25% Rule

The royalty rate is based upon gross sales

A. Sales	\$ 100,000
B. Cost of Goods Sold (COGS)	\$ 65,000
C. Marketing Costs Associate with this product and No Overhead	\$ 15,000
D. Net Income (A) – (B+C)	\$ 20,000
E. 25% of Net Income (D)	\$ 5,000
Royalty Rate = (E) divided by (A)	5%

PARTNER AGREEMENT



PARTNER AGREEMENT

- Research and business partners to advance your shared goals
- Plan details of your agreement to **work together**
- Plan details of your agreement to **end your collaboration**

PARTNER AGREEMENT

- Partnership can take many forms:
 - Sharing of information
 - Individual control of technologies, share control of joint technology
 - Jointly held company



PARTNER AGREEMENT

- Key step is to understand where your product extends and their product starts
- Who owns the collaborative material?
- What is the decision making process?

PARTNER AGREEMENT

- Falling in love is easy
- Falling out of love is not
 - Relationship, business, and legal issues associated with ending a partnership



REASONS TO PARTNER

- **Access to market**
 - funding for US, EU and other location based upon local organizations and citizenship
- **Access to technology advancements**
 - Shared information and efforts could result in earlier market entry
- **Access to resources**
 - Sales force
 - Customer base
 - Product Structure

PARTNER AGREEMENTS – TERMS

- Share of business
- Investment in business
- Contribution to business



PARTNER AGREEMENTS – OBLIGATIONS

- **Decision process**
 - Managing Partner
 - Voting
- **Obligations**
 - Financial
 - Time
 - Product or IP
 - Steps if obligations are not met
- **Non Compete Agreements**

PARTNER AGREEMENTS – FINANCIALS

- **Payment process**
 - Payroll
 - Dividends
 - Re-Investment
- **Buyout value** of partner share if partner leaves
 - Voluntary
 - Involuntary
 - Death

PARTNER AGREEMENTS – OWNERSHIP

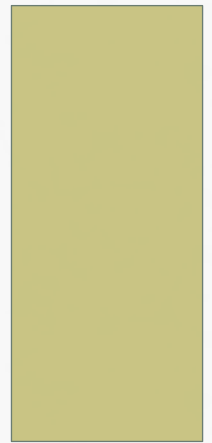
- Who owns initial IP?
- Who owns collaborative IP?
- Who owns IP upon separation?



PARTNER AGREEMENTS – THE CHALLENGE

- Maintain trust relationships as partners
- Maintain trust relationships after partnerships
- Develop decision making and dispute resolution process

ANGEL / VENTURE CAPITAL



ANGEL / VENTURE CAPITAL

- Investments are about money and control
- In order to get Angel or VC funding, you will need to be prepared to give up control of your company
- Your company should be in revenue or close to it for these groups to take risks

ANGEL / VENTURE CAPITAL

- Of 20 VC investments
 - 2-3 do very well
 - 10 make money
 - the rest fail



ANGEL / VENTURE CAPITAL

- These groups seek:
 - 4x their investment in 2-4 years
 - Exit strategy for their money (sale of company or next level of funding)
 - Control of company and direction

ANGEL / VENTURE CAPITAL

- You are seeking
 - Funding
 - A stake in a larger company
 - An investor / board of directors who can advance the company with their industry knowledge and contacts

ANGEL / VENTURE CAPITAL

- Investors give money to the Intellectual Property based upon their trust of the management team



ANGEL / VENTURE CAPITAL

- Questions you should ask:
 - Do they have experience with your innovation?
 - What is their track record of bringing these types of products to market?
 - Who would be working with you on the project?

ANGEL / VENTURE CAPITAL

- A few concepts to consider:
 - Diluted stock
 - Controlling interest
 - Convertible debt
 - IP ownership
 - Stock ownership



ANGEL / VENTURE CAPITAL

- **What is your company worth in four years?**
 - Complete a four year income statement
 - Complete the Net Present Value of the income
 - Complete your funding requirements
 - Compare the two numbers

ANGEL / VENTURE CAPITAL

- The previous slide looks simple, but it is not
- Income statements are complex and, for startups, filled with assumptions on getting to the marketplace
- Goal is to demonstrate greater than 4X return with assumptions which are considered logical by the investors

ANGEL / VENTURE CAPITAL

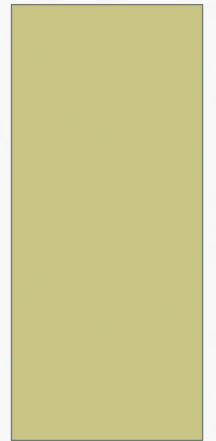
- This can work for you, because owning 100% of a small company can be less than owning 10% of a large company



ANGEL / VENTURE CAPITAL

- Get a lawyer and an accountant

SALE OF TECHNOLOGY



SALE OF TECHNOLOGY

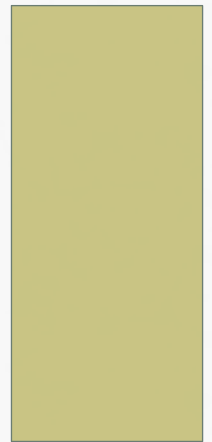
- What is your product worth?
- What level of control are you willing to give up?
- What is the effect of the sale on your work with subsequent technologies?



SALE OF TECHNOLOGY

- Larger corporations will focus on control and may seek to purchase outright
- Key for you is how to manage your next projects within the terms of the agreement

COMMERCIAL SALES



COMMERCIAL SALES

- Market ready products
- Seeking sales and distribution
- After completion of market assessment, you will know the types of partners you are seeking

COMMERCIAL SALES

- Use of web services, such as Alibaba, eBay and others are effective in providing a trusted sales channel
- These services do not replace your requirement to market your product

COMMERCIAL SALES

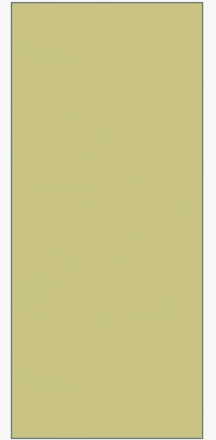
- Distribution partners will give you a localized presence in different countries
- Many buyers will only buy from a US address
- Manage shipping and legal issues
- Use of partners or drop ship organizations

COMMERCIAL SALES

- Trade shows are critical to meeting partners
- Plan for one year in advance – the Christmas toys are settled in New York in February at the Toy Show
- **Seek co-marketing or co-branding opportunities**



INCUBATORS AND LANDING ZONES



INCUBATORS

- Opportunity to locate in a new country with a market favorable to development
- IP transfer requirements
- Finding incubator partners who specialize in your ideas and technologies

INCUBATORS

- Key step is to find a local partner / facilitator
- University Partners
- Economic Development Partners
- The State of Texas



LANDING ZONES

- Office address
- Support services
- Creation of legal entity for global presence

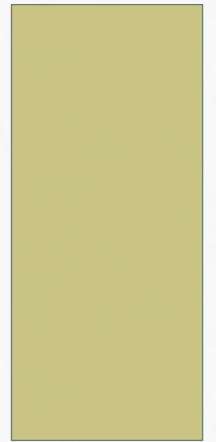
LANDING ZONES

- Support services to full business efforts
- Access to local executives and sales / support staff

LOCATION

- Choice of U.S. landing zones would be based upon best resources available for your innovation
 - Automotive – Detroit
 - Pharmaceutical – Research Triangle, Boston, Philadelphia
 - IT – Silicon Valley, Austin
 - Medical Devices – Silicon Valley, Research Triangle, Boston, and Cleveland

RESEARCH GRANT



RESEARCH GRANT

- Key option when technology is not ready for the marketplace or next phase of commercialization
- Academic life is all research grants

RESEARCH GRANT

- Seek research partners in other countries who can apply for EU or US grants
- www.enGrant.com database as a source for US grants
- Plan ahead for research grant funding

RESEARCH GRANT

- Seek opportunities with organization which provide testing or collaboration facilities
- Labs may have access to funding sources or partners who may need research partners



IN CONCLUSION

NEXT STEPS

- Review your options
- Perform your own financial calculations
- Determine what is important to you
- Understand where your next idea is coming from to bring forward

THANK YOU

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QUESTIONS?

