COGNEGY
growth and profitability

# SHOW ME THE MONEY!

## Two Sides of the Same Coin

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## The Entrepreneur's View

You have developed an idea for a product or service, written your executive summary, business plan, prepared your financial model and investor presentation - and also found it very easy to raise $500,000 in capital from friends and family.

Your are now convinced that within three to five years after the company is launched, you will be one of the richest people in the world. The only thing holding you back is the $1,500,000 institutional round from a venture capital or private equity firm that you need to carry out the successful launch of the company.

You have determined that this is the minimum amount of money that you need to achieve a successful launch and believe than since it's such a relatively small number, it should be very easy to find. You also believe that you will not have to give up much equity for this investment, as the future returns are going to be 50x for the investor.

Since is was very easy to raise the friends and family round of funding, when you only had an idea and not the working prototype that now exists, you believe it will be a "slam dunk" to find this round.

Good Luck….!.

It's now 8, 10 or 12 months later ….and you still have not raised any of the institutional money, although you continued to find it easy to raise another $250,000 from friends and family to

## The Institutional Investor's View

Here comes another business plan from an entrepreneur who has such a great idea that for a $1.5 million investment will generate a 50x return for you and become one of the wealthiest people on the planet – just like the other 1,000+ business plans you received in the last year.

Don't they know:

- Of these 100+ business plans, only about 50% have their full executive summary read
- Of the 50 remaining business plans, only about 50% have the full plan read.
- Of the remaining 25, around 50% are sent to an analyst.
- Of the remaining 12, about 50% are invited in for a face to face meeting.
- Of the remaining 6, about 50% are taken to the investment committee.
- Of these 6 – only 2-3 might receive funding

This means that of the 100+ business plans received by the institutional investor, just 2% to 3% will actually receive funding.

Why is this number so low? The answer is that the institutional investor is looking for a reason to say "No" before spending any money on the potential investment.

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| keep the company running.<br><br>Therefore - It MUST be that the institutional investors just DON'T GET IT! | It MUST be that these entrepreneurs just DON"T GET IT! |

**The LESSON - Know Your Audience**

Most entrepreneurs or CEO's believe that since they have built the best "mouse trap", the institutional investors will beat a path to their door and become involved in a bidding process to invest in their company. In fact, the opposite is true.

The entrepreneur and CEO's must work diligently to "sell" the idea of investing in their company to the institutional investor (the "Buyer") who is looking for reasons to say **'No'.**

Here are the 3 most common mistakes that entrepreneurs make when seeking capital:

- **Failure to provide a supportable business model that generates positive cash flow.** The key word here is "supportable", which means things like market and or industry data from third party independent resources. Just because you believe something is true, does not make it so. The truth will come out when the investor performs his due diligence.

- **Underestimating the size of the investment**. Most entrepreneurs believe that the lower the investment, the more likely they are to receive it. This comes from well meaning friend, family and early stage investors who have not done the due diligence that therefore do not totally understand need of the company or the marketplace. If interested in the investment, institutional investors will provide funding to ensure that the company is successful and do not like to be forced to put in additional funds because something negative that should have been known happens.

- **Approaching investors with their expectations in mind.** Entrepreneurs like to impress people by telling how much they know about the product and the market which results in two major flaws.
    - They send out a detailed executive summary (six or seven pages) that tells the reader everything about the company (and plenty of reasons to say 'No' to the investment). The executive summary should be one to one and one half pages. Think of it as a flyer to garner initial interest.

    - They prepare and present a one hour PowerPoint presentation (60+ slides) that details everything about the company (and gives many reasons to say no). In a face to face (or conference call) meeting, the investor will allow one hour for the presentation which must include time for a Q&A session. Therefore the presentation should be given in 35 to 40 minutes allowing 20 minutes for Q&A. This presentation must cover items such as the market, company niche, etc.

    - Hide weak points in the company or business model. Instead of trying to hide these points, address them head on and give alternatives that have the result of mitigating, minimizing or turning the issue into a positive.

In today's market, investors are much more conservative – there is very little if any "stupid money" out there that will invest in anything that "sounds good". That does not mean there is no money available, but it is invested in solid, well thought out deals.

If you are not familiar with raising large sums of money in this market, bring in an expert to help you – ***it will be well worth your investment***.