know the business

The Revolutionary Business Plan Resource

The essential guide to equity for entrepreneurs

equity fingerprint

know the business®

Foreword

One of the hardest things for entrepreneurs to do is to give up equity in their start-up.
After all, if you've started the business by yourself, why shouldn't you retain most of the ownership.

So I recommend this guide to all entrepreneurs who plan to grow their business. It shows both the pros and the cons of sharing the equity with investors. And it provides a road-map as to when to raise money from friends and family, from angel investors, and from institutional investors.

Robert Sansom

Robert Sansom is a graduate of the University of Cambridge. In 1990 he co-founded FORE Systems with three colleagues from Carnegie Mellon University, Pittsburgh, USA. FORE Systems, a data networking company, grew rapidly and employed 2,000 people before it was acquired by London based Marconi for £2.8bn in 2000. He is founder and chair of the Cambridge Angels, and is an active mentor, board member and investor for several high-technology start-ups.

Equity

noun

1 [C or U] SPECIALIZED the value of a company, which is divided into many equal parts owned by the shareholders, or one of the equal parts into which the value of a company is divided.

source: http://dictionary.cambridge.org

Fingerprint

n. **2**. any unique identifying characteristic.

source: Collins Concise Dictionary

Here is the equity bible entrepreneurs have been waiting for - a business plan resource that enables you to learn how equity works and why. Using simple graphic representations of companies' equity splits, investment and company growth and offering excellent advice regarding raising finance and common pitfalls, **Equity Fingerprint** is the ultimate way to research a much-neglected subject in business planning.

If you don't know your venture capital from your bank loans or your dilution from your spending then this useful business plan resource is for you.

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Introduction

Who We Are

Before you take our advice, it is probably best that you know who we are, so here is some background information about us.

Cambridge

Philip Baddeley

Philip devised the idea of the **Equity Fingerprint**, has managed its development and is the key contact to discuss your fingerprint. Philip worked for a large multi national and then as an investment manager with Venture Capital firm 3i. He then started his own successful Change Management firm Baddeley Associates, which had an emphasis on using and developing new technologies. The company was successfully sold after 5 years and Philip is now a Business Angel and mentor.

Prof. Bill Fitzgerald

Bill is the Professor of Applied Statistics and Signal Processing in the Cambridge University Engineering Department. Bill has advised and developed ideas for future developments of the **Equity Fingerprint** product.

http://www-sigproc.eng.cam.ac.uk/~wjf/

David Excell

David is a PhD student in the Signal Processing Laboratory, Cambridge University Engineering Department. David has developed the concept of **Equity Fingerprint** into a tool to be used by Entrepreneurs.

http://www-sigproc.eng.cam.ac.uk/~dae30/bio.html

Lancaster

'Dr Frank Cave

Frank is Senior Teaching Fellow, the Institute for Entrepreneurship and Enterprise Development, Lancaster University Management School. He is using **Equity Fingerprint** as a research tool as well as in teaching the role of external equity finance in growth of new ventures.

http://www.lums.lancs.ac.uk/profiles/181/

Our friends

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Introduction

Educate

Analyse

Predict

How it Works

An Equity Fingerprint Explained

Company size/value

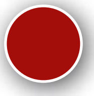


fig. 1

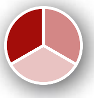


fig. 2

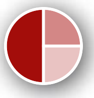


fig. 3

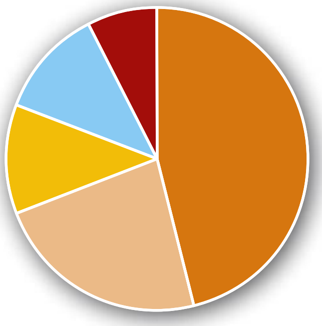


fig. 4

Key
- Founder 1
- Founder 2
- Founder 3
- VC 1
- VC 2
- Angel
- CEO

The Equity Wheel

An Equity Fingerprint is a unique method of graphically communicating the equity evolution of a company. The Equity Fingerprint encapsulates the equity structure and valuation of the company – it is essentially an equity map, individual to your business. The business is represented by a circle – we call it the Equity Wheel. The size of the Equity Wheel grows and decreases in relation to the size of the business. The Equity Wheel is split into sections, each of which represents the percentage of the business owned by each shareholder.

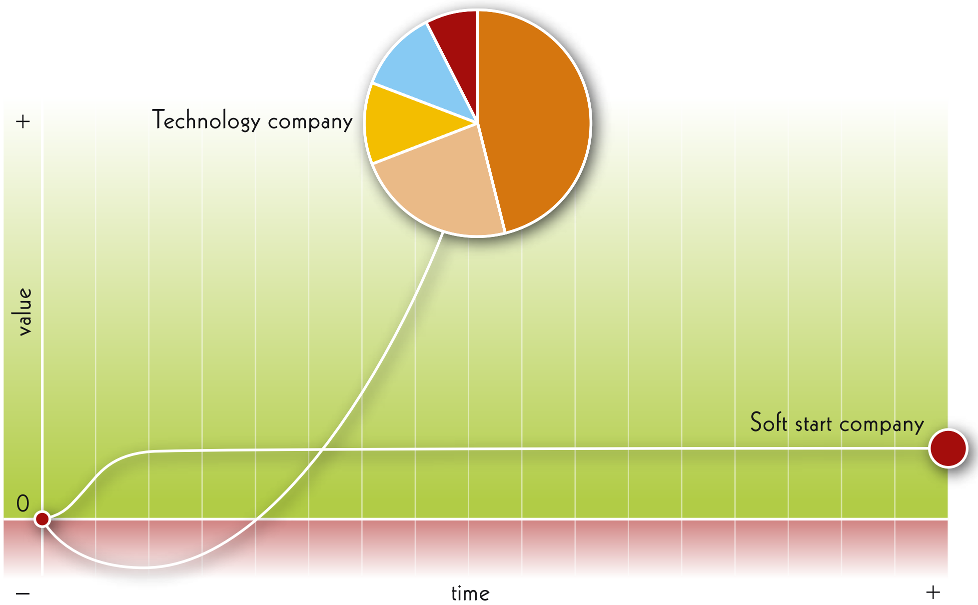
What your company's Equity Wheel will look like in the beginning will depend on how many founders there are and what proportion of the company each of you own (see Equity Split, page 13). For example, if you want total control over the company, it will look like this **(fig. 1)**.

And if you have three founders and you own the company in equal share it will look like this **(fig. 2)**.

Alternatively, if there are three founders and one of you has invested more money and spends more time working for the company, the wheel may look like this **(fig. 3)**.

Big part of a small company or small part of a big company

If you operate a 'soft start' business, such as a consultancy, or a small sole trader business from home, the size of your Equity Wheel will initially grow quickly and then continue over time at the same size.



However, as in the case of technology companies, you may need funds to develop and sell your product. If you are willing to share your Equity Wheel in order to raise funds and hire a good team of employees then the size of your Equity Wheel (therefore the value of your business) can grow exponentially! This does of course mean that you may have less ownership of the company, but it may be a financially better option to own a lower percentage of a huge company than a large percentage of a small company! **(fig. 4)**

How it Works

An Equity Fingerprint Explained

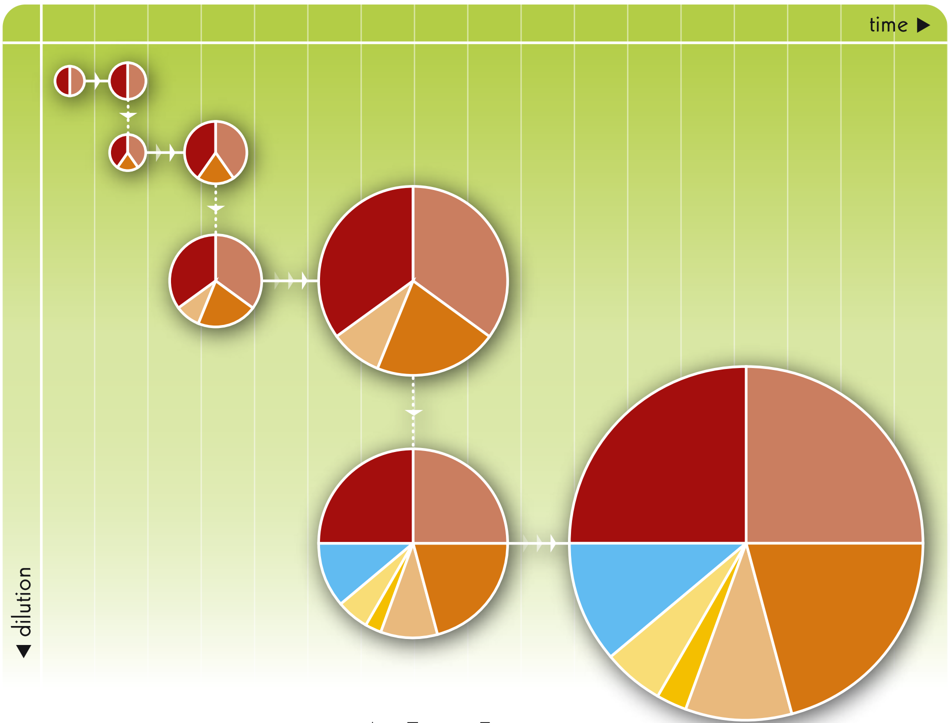
Equity Fingerprints

Equity Fingerprints focus on the change management within a business – when shareholders accept dilution of their share in the company in order to gain the resources needed to make the company grow, and how the company changes to accommodate this. We call these points of change nodes. Each new circle on the Equity Fingerprint is a node and the effects of the decision made are seen in the changing size and structure of the company's Equity Wheel.

The decisions made at certain points within the company's life will determine its future growth, its value and its ability to survive. Examples of decision points are when a founder leaves the company or money is invested. The Equity Fingerprints that we have so far completed are of great value to the entrepreneur as a business plan resource so that you can see how other high growth companies have worked.

Key

- Founder 1
- Founder 2
- VC 1
- VC 2
- Angel
- Angel 2
- CEO



An Equity Fingerprint

How it Works

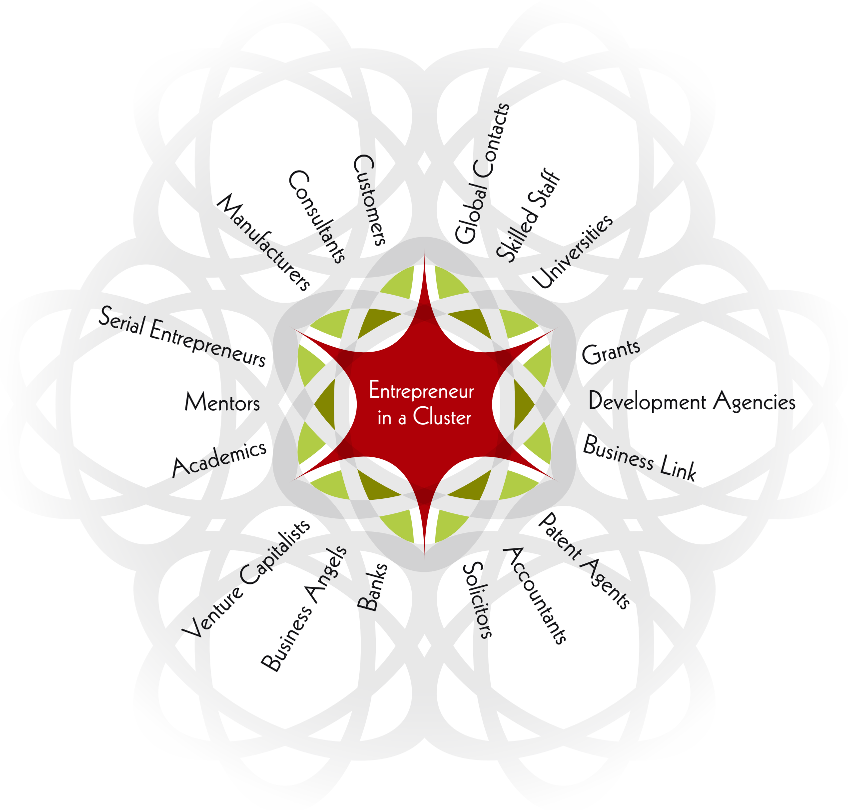
An Equity Fingerprint Explained

Everything grows faster in a cluster

Clusters and Entrepreneurs

What are clusters and where can they be found?

Business (or industry) 'clusters' occur where related companies and organisations set up close to one another and work (sometimes in collaboration) to expand their business. By collaborating in such a way, the industry that all companies within the cluster are involved in can develop at a faster pace, be more innovative and indeed produce a higher quality of work. Working in collaboration like this also aids infrastructure, training and makes employing new staff easier.



Examples of clusters are:

- The Silicon Valley, in California in the field of computer technology
- Paris for Haute Couture
- The Silicon Fen in Cambridgeshire for biotechnology and computer technology
- Antwerp, the diamond centre

How does a cluster benefit the entrepreneur?

When starting a new business it makes sense to draw on the resources, insight and knowledge of those who have experience in the field and offer specialised services specific to your business.

You will notice that all the example companies in the final section are Cambridge start-ups. Would they have in some way benefited from the special combination of expertise and capital found only in a cluster? Would they have been as successful elsewhere where the Cambridge network is not available?

Guidance & Information

Always first try the sources you don't need to pay back!

Sources of finance

Don't forget that you can use our free business plan resource to provide information to potential investors.
www.equityfingerprint.com

Customers

A business's most obvious source of finance is the customer. The profits from the sale of your product or service to customers will be ploughed back into the company's development and growth. Interaction with the customer is also a great way to determine how well you are meeting their needs. However, it may be that you need to research and develop your product/service before it is ready for the consumer. In that case, you need to secure funding from other sources…

Government Grants

Government grants are a good way to fund research and development. There is much paperwork involved and you are expected to have a large proportion of funds raised by yourself, but the kudos of government funding can do much to create interest for future investors.

More information about government grants and where to apply can be found in our 'Investor Ready' section on page 25.

Bank Loans

Banks are able to provide new businesses with advice and networking opportunities but are unlikely to offer you large loans for a start-up. Banks are risk-averse and without any evidence of your success or an ability to demonstrate orders from customers, they are unlikely to help. However it may be possible for you to take out a personal loan to raise start-up capital if you are willing to take on that personal debt and can secure your loan against a mortgage.

Guidance & Information

Private Funding – Friends Family and Fools!

In the beginning asking your loved ones to invest in you can be a simple way to raise start-up capital. You may not get as much money as you need but it may be enough to start you off. Friends and family are unlikely to be cut-throat business people and will not demand high interest or quick profit, or a say in the running of the business. Turning their small investment into a worthwhile one at some point down the line is likely to be good enough – so it takes the pressure off your business in the initial stages.

Do, however, take the advice given by Jeffrey E. Sohl. "Friends and family – we actually call them friends, family, and fools – may be enamoured with the idea of being investors, but they may not have the skill or knowledge to perform due diligence to assess risks," warns Sohl. "They may not understand the odds are so high that they will never see a return on their investment."

So, unless relatives can afford to lose their money, it may be prudent to seek funds elsewhere. Otherwise Sunday lunches may never be the same again!

Angels

Business angels are people who provide funds for business start-ups in return for equity ownership. The money that they bring to the table is 'smart money,' a term meaning that they have knowledge and experience of your chosen industry and can offer you advice and mentoring as well as the cash! Business angels invest their own money and not the money of others (as in the case of VCs – see later) but they do sometimes work in syndicates to share information and pool together their investments when greater funds are needed.

Old dogs can teach you new tricks!

Angels do take a high risk when investing and for this reason they demand a high return on their investment over a few years. This can be daunting but they will use their knowledge and network of contacts to do everything they can to help. Angels are often established and/or retired business people themselves and see their investment as a way to teach new dogs old tricks and to keep themselves up to date with the business world and their contacts – they can be of invaluable help to fledgling entrepreneurs.

Venture Capital

Venture Capital is money invested by a Venture Capitalist on behalf of a pool of third party investors and is usually used for business start-ups, struggling businesses and those investments deemed too risky for more traditional sources of funding like banks. Venture Capitalists often have much experience of business start-ups and can offer a wealth of advice to you and your business. They demand good returns on their investment over a 5-10year cycle – more of this is explained on page 17.

Guidance & Information

From Research to commerce

The table below shows where you can apply for funding at various stages of your business's development, as well as showing what tasks need to be completed at each stage to guide your development from research to the big money world of commerce. Consider carefully any financial advice offered and be sure to apply to all sources of finance open to you - even if at first you don't think they may be granted. Any amount of help is better than none.

Funding sources	Public Sector	Public Sector Business angels Friends and family	Venture Capitalists Large companies
Value chain	Fundamental Research	Product Innovation	Commercial Application
Public Sector DTI SRC MRC MOD Trusts	Identify research topic Choose location(s) Apply for research grant	Apply for grant	
Academic Professors Researchers Education	Submit research Initiate research Build research team	Initiate business Attend business courses Write business plan	Attend Scientific Advisory Board Join company as CTO Subscribe for shares
Commercial/ Entrepreneurial Entrepreneurs Business mentors Business angels Large companies Venture Capitalists		Initiate business Evaluate market Do SWOT analysis Attend mentoring courses Write business plan Product Prototype Engage with Customers	Product generation and distribution Marketing Build company Subscribe for shares Join company as CEO

Successful wealth creation and established working relationships

Back to Contents

Equity Split

Better to own 5% of a £5b company than 50% of a £5m one

Founders' Agreement

It is very rare that a single person starts a high growth company. Aside from too much money and work being involved to be handled by any one person, differing expertise will be needed to progress. Therefore we base our advice and information on high growth companies started by a team of people, as is the norm.

Whether your business partner is your best friend, family or another business person, you need to come to a fair and amicable decision over how profits will be split before you start. Taking the 'easy handshake' and assuming that an equal split will work is going to cause personal rifts that are bad for your business. If one founder is working harder than other, or one person has more claim to the initial idea, then they need rewarding accordingly.

You can use **Equity Fingerprint** as a business plan resource to look at how other companies have made their equity splits and how that affected each founder's equity throughout the life of the company. In the future our algorithm will be able to create a model for your equity splits and show different ways that your company may grow with the right investment at the right time.

Dilution Explained

Many first time entrepreneurs do not realise that when others invest in their company, their ownership of the company will become diluted. For example, if you own 25% of the company and a business angel gives you funds in return for 25% ownership of the company, you do not keep 25% of the whole company, but are diluted down to 25% of the 75% left after the angel has their share (see fig. 5).

This happens each and every time that a new investor gives you funds in return for equity. So, now you have 18.75% ownership of the whole company and the angel has 25%. Now when a VC gives you huge funds in return for a 50% share in the company, the business angel's share is also diluted – its is now 25% of the 50% left after the VC has claimed their share. In turn – you now have a 25% share of whatever is left after both the angel and the VC have theirs! (see fig. 6).

Entrepreneurs also need to bear in mind that VCs will expect a share options pool to be created before they invest in a company, or may demand one in order for them to proceed. If the VC wants a 50% share of the company, they will expect the share options to be allocated within the remaining 50% of the company that they do not own, therefore diluting the entrepreneurs' share further. It can cost about £5,000 to set up share options and many new companies will not do this when they are uncertain of their future. However a VC will want the company to grow rapidly and will want share options set up for employees to have when the time comes. On the positive side, at a later date the entrepreneurs may be offered share options by the VC, which would benefit them greatly if the company is successful.

Equity Fingerprint demonstrates how this works and shows how other companies have worked in such a way – to their great advantage.

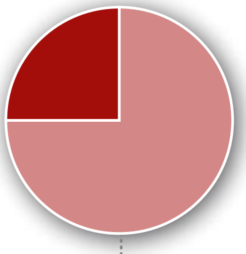


fig. 5

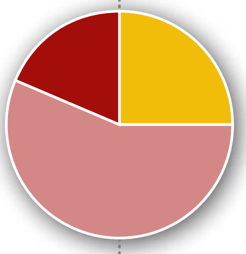


fig. 6

Key

- Founder 1
- Founder 2
- VC 1
- Angel

Equity Split

Anti-dilution clauses explained

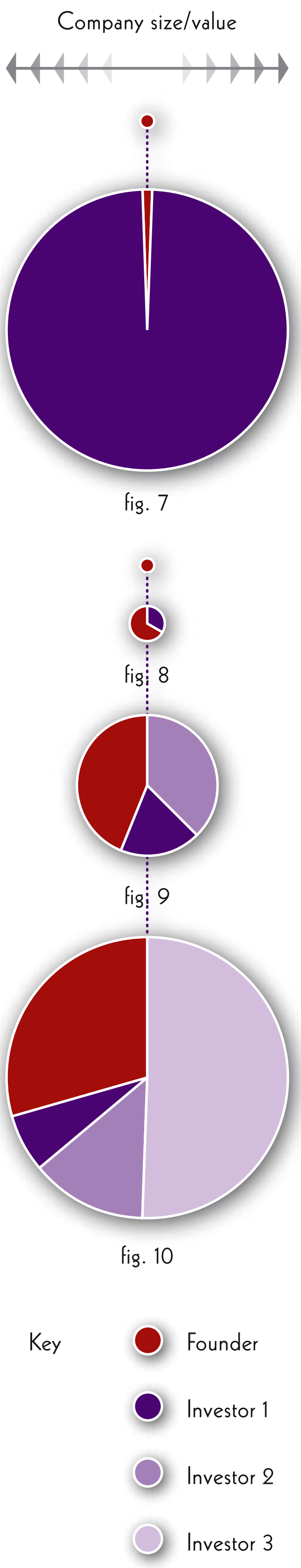
Anti-dilution clauses can be written into a contract when an investment is made. Look out for them! They maintain rights for existing investors to be the ones who provide any future investment needed, therefore maintaining their equity share in the company as it grows. This can be very detrimental to the entrepreneur. When the company value rises, shares can be sold to new investors at a higher price so less equity has to be sold to raise capital, thus reducing the dilution of the founders. When new investors look at your company, they want a certain amount of ownership in return for their money. If others have anti-dilution clauses in their contracts then there is no room for new investors.

VCs have access to more money than angels and so the angel is at risk of becoming 'washed out' as the VC gradually supplies more and more capital. This isn't a problem if the share values rise and the angel's original investment grows but if the company decreases in value then the angel will lose out. The same is true of entrepreneurs but VCs see them as key players so would offer them share options which 'vest' upon meeting targets or on the sale of the business.

Shares incentives for employees

Many high growth companies give their employees share options – either as bonuses or via monthly amounts from their wages, which not only give employees the potential to make some money but in doing so encourages them to put their all into their work so that their own investments are more fruitful.

Equity Split



Why it is best to raise finance and invest in stages?

Unlike the professional manager of a large plc, the entrepreneur does not have the luxury of demanding the entire £10m start-up capital for a new project all at once. As a new entreprenuer with perhaps little or no business experience, you are too risky a prospect for most investors. So, as an entrepreneur, you must build value from both inside and outside the company, attracting more investors as your company develops and gains knowledge, respected employees, stature and customers. You must achieve key milestones in order to progress to the next round of funding and get an increased valuation.

Each new investment round means re-valuing the company. When the value has risen so too will the share price. It is therefore wise to seek new investment from those sources that will pay the new share price, instead of asking existing investors for more money (as they may only be willing to pay the original price). In this way, you will raise more funds but sell fewer shares hence retaining as much of your own equity as possible. In addition to this, although the percentage of the shares that you own may be reduced, the value of your shares will increase with each new investment. For example:

If you raise £15m at the start, and your own personal investment is only £15k, then you will always own 0.10% of a £15m company **(fig. 7)**.

However, if you raise money in stages the following will happen:

You need to raise £50k start-up funds so you convince your investors that the idea and the team you have assembled has a value of £100k.

After the investment of £50k, you are left with two thirds of the business **(fig. 8)**.

You meet all your goals, the product attracts interests from customers and you need a further £500k to continue. This time you justify a pre-money valuation of £1m, £500k is invested and you are diluted to 44% **(fig. 9)**.

You decide all looks promising and you want to go for the big time. There are lots of orders and investors are excited. You can now justify a pre-money valuation of £10m for the £5m investment. This time you are diluted to 29% and your shares are worth over £4m **(fig. 10)**.

High valuations of progress, both inside and outside the company, means you can raise money on terms that are good for the entrepreneur.

Venture Capital Explained

What is a Venture Capitalist?

Venture Capitalists (VCs) are those people who make investments on behalf of other people. Venture capital is a fund raised from third party investors such as major companies and pension funds. Investments are high risk and returns are above average. VCs usually have past experience of working for the types of company that they invest in. As such they are qualified to advise the third parties on what makes a good investment and also advise the business in question on how to maximise value.

Why do you need one?

As VCs invest pooled capital from several investors, they are likely to be able to offer you substantial amounts of money if they feel that your company is going to make them above average returns. This type of investment comes at a price – it is the most expensive and explosive capital you can raise. This also makes it the most powerful money you can raise.

Friend or foe?

As mentioned previously, VCs have experience within their chosen investment industry and that, together with their investment experience and need to make a profit, will ensure that they give you much good advice in making any business decisions. They will also be able to help you recruit key management employees. They are, however, highly unlikely to give you any sympathy if you are required to work 18-hour days seven days a week for five years. They will steal your soul to get their profits, but this can propel you into dizzying financial heights and industry fame. VCs want special shares and agreements giving them control. They get their money back, sometimes two or three times, before everyone shares the winnings.

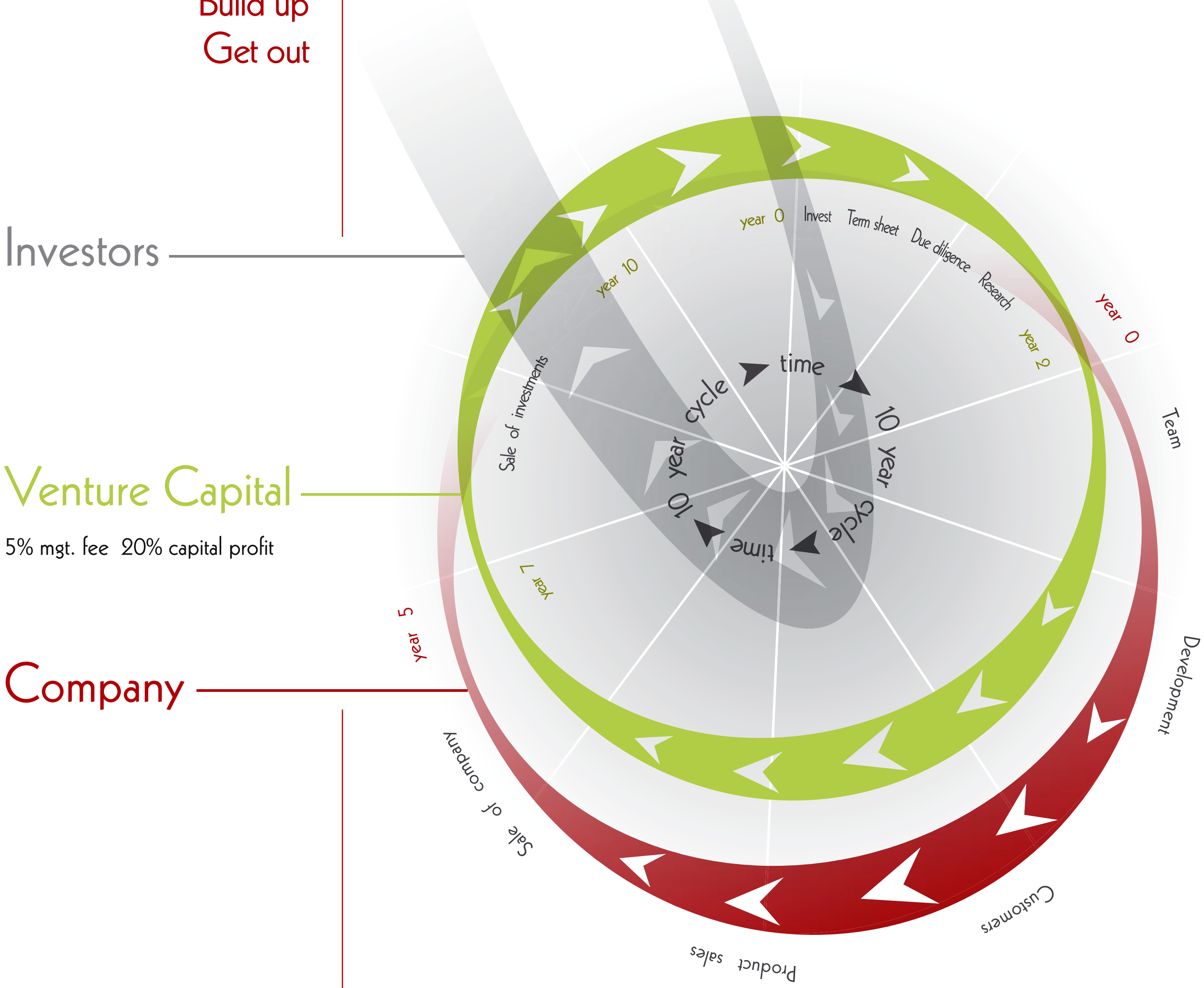
Venture Capital Explained

How do they work – VC cycle

Venture Capital funds (those funds controlled by VCs) run on a ten-year cycle. The model for their cycle arose from the investment in many technology companies in Silicon Valley in the 1980s. Back then, it was wise for investors to make their investments across a range of new technology companies as the industry grew and to get out before they became too associated with any one company (in case that company lost value as the industry matured).

The first two years are spent researching markets and companies to invest in. Years three to seven are spent investing and monitoring and building those investments (re-investing in those companies that are successful) and then the last three years of the cycle are spent selling the investments and returning the original monies plus profits to the VCs investors (not forgetting to take their own 20% commission!).

Get in
Build up
Get out



Venture Capital Explained

High investment levels = high stress levels

How do you get them to invest in you?

Optimum returns for VCs can be as high as 300-1000% over five years. They are interested in high growth and high profits so if you are a small "lifestyle" company with a plan only to have time to yourself and no boss to tell you what to do – VCs are not for you. The industries of most interest to VCs are biotechnology, nanotechnology, technology and life sciences. You also have to keep the VC cycle in mind. There is no point approaching VCs who are in the last three years of an investment cycle, as they will not invest in new companies. You need to catch them in the early years or check that they are raising new funds.

The best course of action is to concentrate on building the value of your business for a couple of years using other sources of funding before approaching VCs. The more you have accomplished under your own steam, and the more growth your business has experienced, the more attractive you will appear to VCs.

Networking is the key to securing VC funds. VCs hunt in packs. They invest in one out of hundreds of companies at which they look. If you can secure one VC, others may be interested. You can expect that raising VC interest will be a long and mostly thankless process. You will attend hundreds of meetings, mostly fruitless, and will need energy, enthusiasm, stamina and a fresh face every time you meet a new VC. It is hard work but if you can get it right – it's well worth the effort.

Angels or VCs?

Many companies that chase VCs are not suited to this type of investment, or do not in fact need it. You should only look for VC investment if you fit their criteria of being in a high growth industry, of wanting to rapidly grow and then sell your business within five to ten years.

Getting money from VCs is like going to a loan shark. You visit them requesting huge amounts of money when every other source of finance thinks you are too risky. In return for their money, they want a huge profit on their investment and they want it in a set timescale. If you don't make it you could be doomed. Whilst VC money and advice are invaluable, the expected returns put your business and you personally, under great stress.

VC investment is given on behalf of third parties and they all need answering to. It is wise to seek other sources of finance such as angels first, who will be able to invest and advise but do not expect such a high return and who may even take you to lunch occasionally when they see you need a break!

That said, if you need more funds than angels can provide and can meet the demands of VC funding your business could be catapulted higher than you ever imagined!

Venture Capital Explained

When to sell, sell, sell!

You need to keep a keen eye on your industry to gauge when is the right time to sell shares, or indeed your entire company. Sell when it is the right time for you and your investors and remember that it isn't just the largest investors that will benefit. Employees with minor shareholdings and options will experience the greatest life changes from the sale of the company if it's completed at the right time.

How a company is valued

The case studies for **Equity Fingerprint** show the value of companies based on the share price at the last round of investment. However, when the company is sold as a whole, buyers value the business on more than the sum of its shares. When you sell your company, there are many factors to its evaluation including the company's staff, its history, reputation, customer base (or potential customer base), its ideas, structure, share price, goodwill and the state of the industry sector market at the time of the sale.

Example Fingerprints

Stage 1 – 2000

A medical doctor whilst doing his PhD, dreams of having more impact on more patients by developing drugs after working in research departments in Cambridge and UCSF, San Francisco; attends CfEL Summer School.

Stage 2 – Jan 2002

Assembles academic team including Cambridge Professor and former colleague who remains an academic at UCSF; also appoints experienced Chairman and secures inital funding from University fund, £150k.

Stage 3 – July 2002

Experienced Bio Entrepreneur leads Cambridge Angel and UCF investment of £850k (including SMART award) and joins board as non-executive director. Experienced COO with Judge MBA appointed.

Stage 4 – Nov 2002

Wellcome Trust invest (£450k).

Stage 5 – Dec 2003

Current angels, UCF and Wellcome invest £500k and in April 2004 company wins another £220k govt grant. Total grants won total nearly £1m.

Stage 6 – Jan 2005

Gateway, a Cambridge VC, lead £3.2m round from existing investors, new angels and two other VCs.

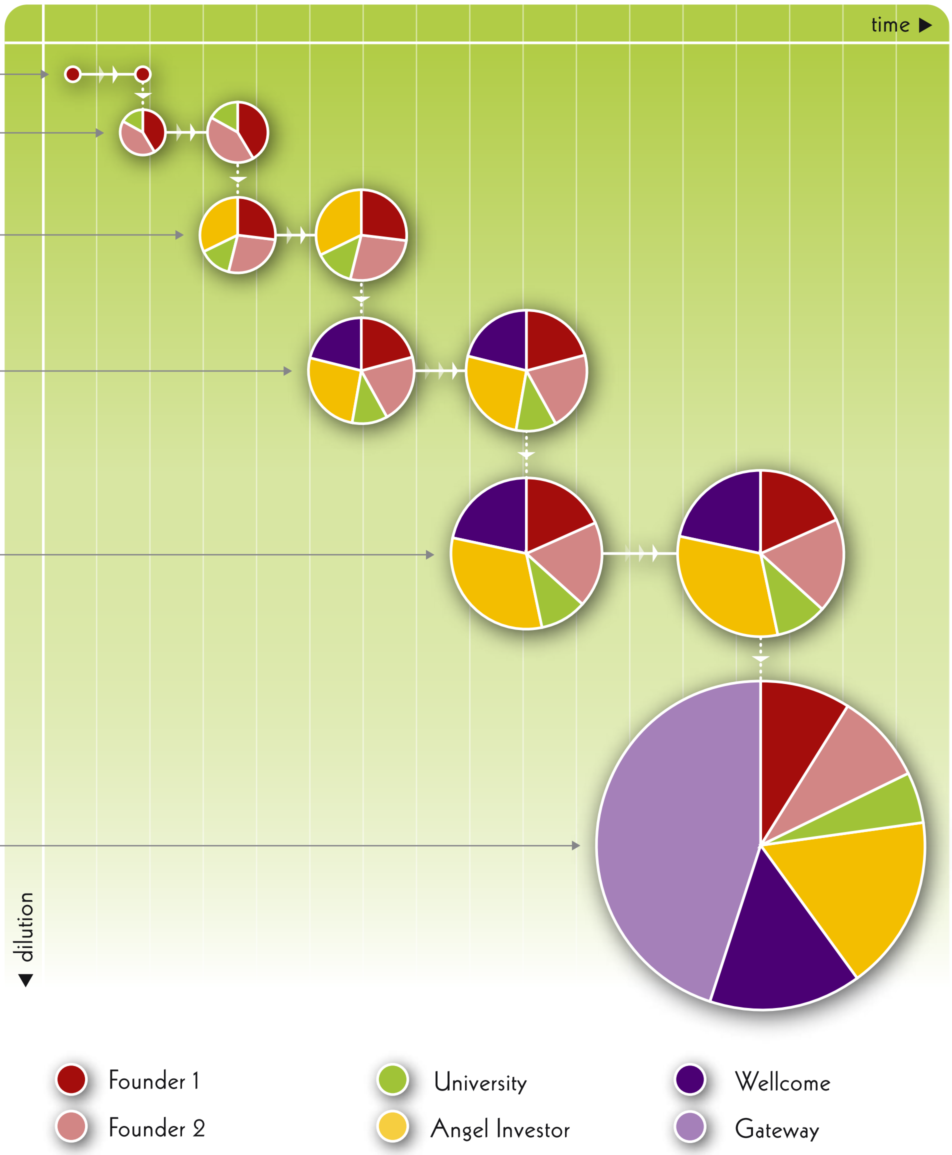
Information from: Google and public data sources

Daniolabs

Little fish in murky waters!

This is a hybrid company undertaking the same bio discovery process in three ways for:

- a fee (income generating from year 1 with benefit of being close to market)
- a reduced fee and a share of the profit
- in-house with the intention of licencing the discovery



Example Fingerprints

Baddeley Associates Limited

Example of Soft Startup – Consultancy with VC funding later

Baddeley Associates developed from a small scale consultancy business based at home to a major Change Management consultancy using the latest technology. One of the early companies to have more screens than people! Customers were from the Cambridge area. As the company developed into a Change Management consultancy, divisions of major companies became clients. Cambridge has few of these types of companies and so clients were from outside the Cluster. The company was an early adopter of technology in all areas of the business and closely followed the changing work practices in the printing industry. (In the early 80s, work had to be re-keyed for typesetting and printing.) From the start, there was a strong element of building a business and raising VC funds prior to a trade sale.

Stage 1 – 1982

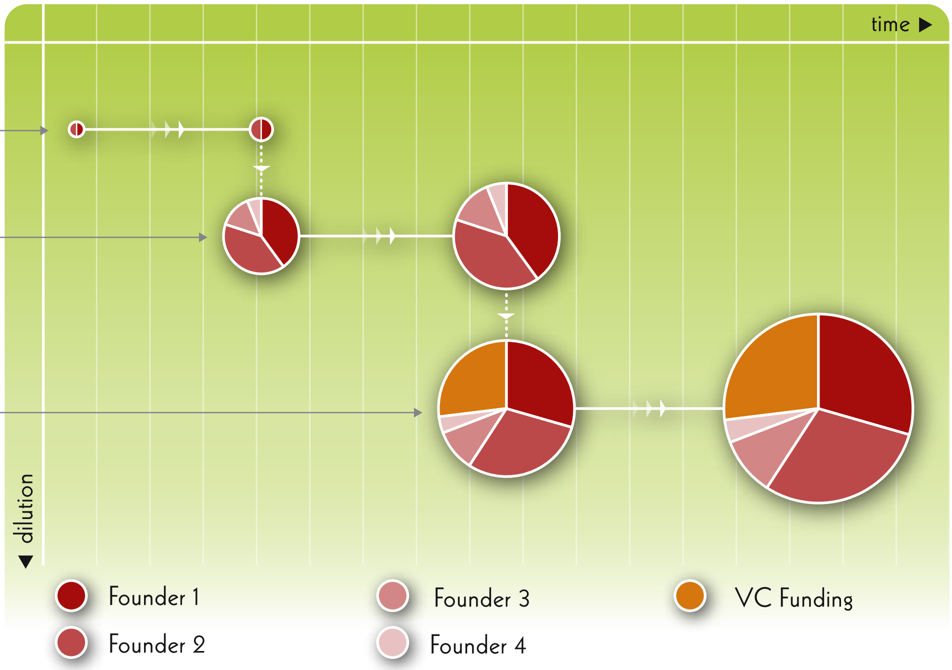
It started as a partnership (husband and wife) working from home in response to market demand for well written and clearly designed user guides for pcs made in the Cambridge Cluster.

Stage 2 – 1983

The Founders moved to Cambridge and the company immediately benefited from association with Cambridge and easy access to people. A limited company formed with two key employees – an experienced designer and a brilliant graduate of English from Cambridge; more staff were recruited.

Stage 3 -1985

VC funds were raised to build on a strong balance sheet. The VC required improved corporate governance. The non-executive director added discipline to the board and company. The VCs were not active in securing customers, new markets or acquisitions.



1987 was the final stages of a bull market. One evening in January, a senior partner of a leading London law firm said "It was the best time ever to sell a business ". The phone rang early the next morning. After six months of due diligence, the company was sold in June 1987 just before the stock market crash in October.

Baddeley Associates became one of the first companies in the Cambridge Cluster to be sold within five years of start-up. 5% of total proceeds were distributed between 50 staff. Share options were not common as very few companies had experienced rapid growth. Over £400k in cash at time of sale reduced the purchaser's (listed plc) anxiety! The Cambridge Cluster was crucial for the recruitment of talented staff. At that time, tax rates were nearly 40%. Understandably, some entrepreneurs who had sold a business elected to become tax exiles and their skills and funds were lost from the Cluster and from the UK.

Example Fingerprints

BioRobotics

Angel funding, slow start, early cash generation and perfect sale

BioRobotics developed from a research project at the Medical Research Council in Cambridge. The MRC wished to develop the machine with USA partners. Four of the team started BioRobotics to develop the technology commercially. The team was a Cambridge University lecturer (with many years of experience of inventing, patenting and commercialising devices; he took a sabbatical and made the products in his machine shop at home), another lecturer (who also acted as a business angel), a researcher and a recent PhD graduate who had started his own consultancy company and who became CEO;

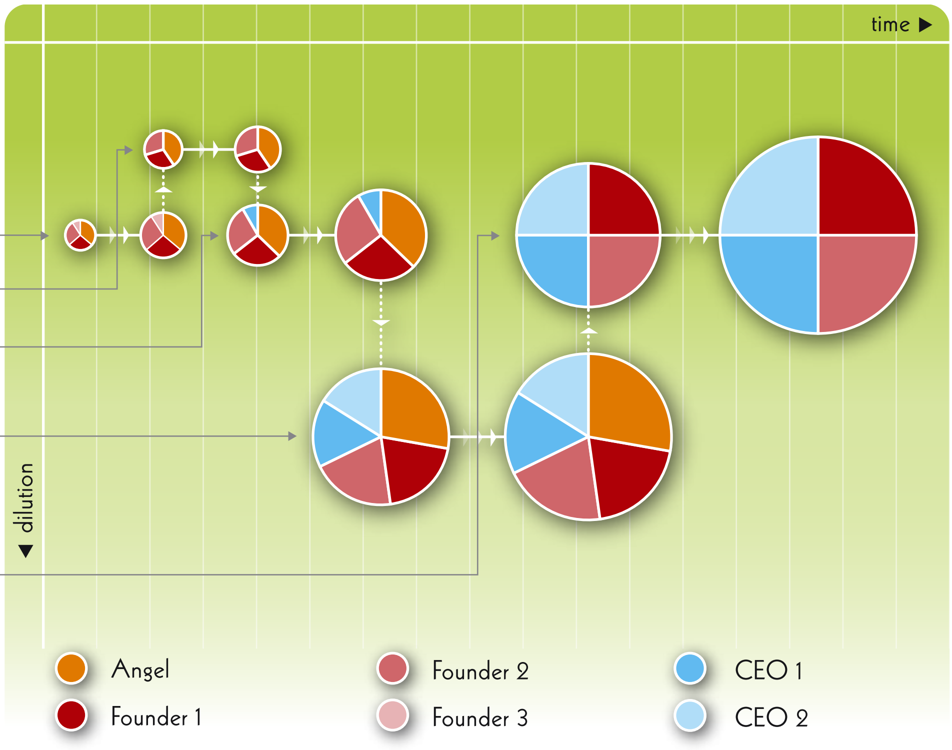
Stage 1 - 1993
Slow start.

Stage 2 - 1994
MicroGrid microarray robot completed and sales made at good margins. One of the Founders leaves.

Stage 3 - 1995
Key employee becomes shareholder.

Stage 4 – 1996/7
Another Key employee becomes shareholder.

Stage 5 - 1998
The business angel dies and shares purchased by other shareholders. The company expands rapidly.



2000 is the top of the bull market and the founders are concerned that all their wealth is tied up in one asset. BioRobotics is placed up for sale and is sold to a USA company for an undisclosed amount. BioRobitics shows what can be achieved with minimal investment; experienced, focused people; high-margin products designed for a growth market. Shortly after the sale, and with the collapse of stock markets, the USA company underwent a major restructuring and the BioRobotics operation was closed. The founders were always aware of the market for their product and for the company.

Information from: Google and public data sources

Example Fingerprints

Active Hotels

Making a vision come true

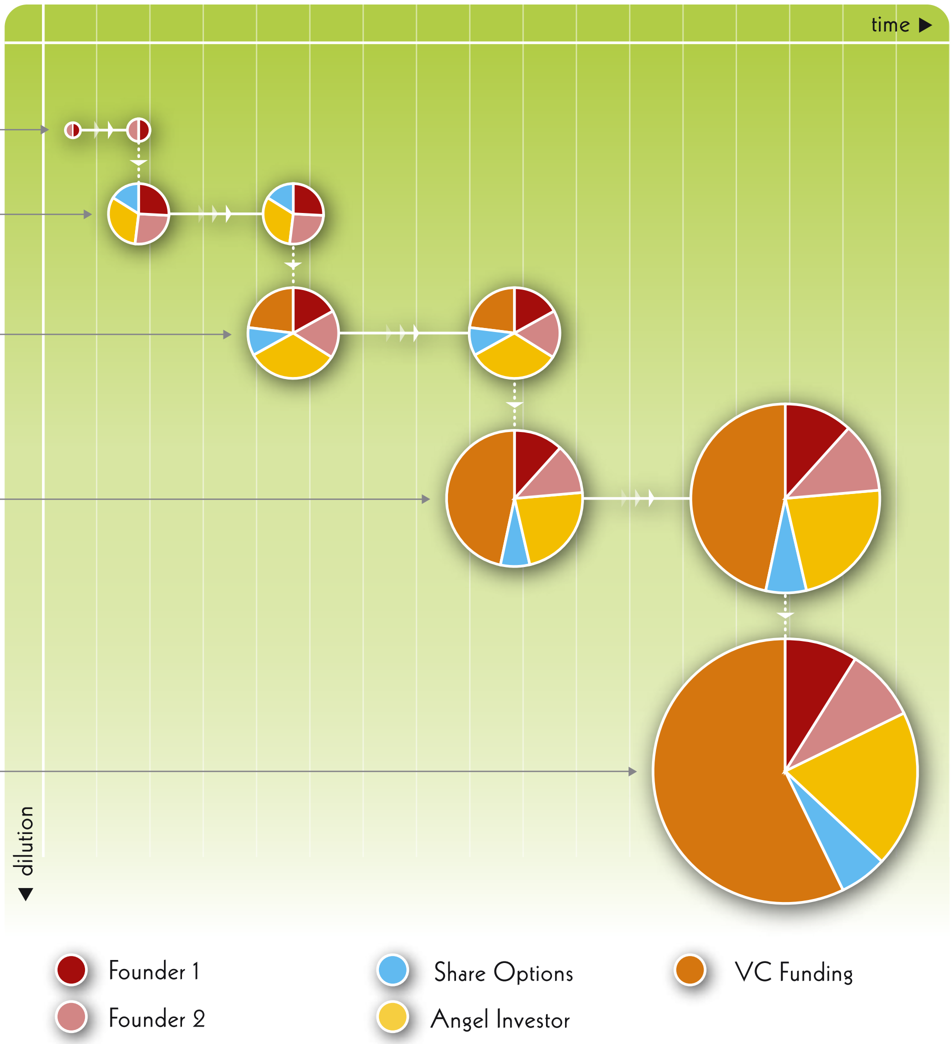
In 2000, two cousins in their early thirties decide to build a £100m business. One cousin (Marketing Director) had worked for small companies in the Cambridge Cluster and started his own company. The other cousin (CEO) was working for BOC and had just obtained an MBA from INSEAD to add to his Cambridge PhD.

They decided that travel bookings on the Internet would be a major growth business and concentrated on hotels which were used to paying healthy commission rates. The cousins envisaged that by 2004 a large USA corporation would want to buy the brand.

Stage 1 – 2000
Rigorous MBA style market and customer research.

Stage 2 – 2001
With a carefully prepared focused plan, £405k of business angel finance was secured in two weeks from groups in Cambridge and London. Quickly the small terraced home was outgrown and the business grew.

Stage 3 – 2002
A further £3m raised in tranches from VCTs. Experienced non-execs join Board.



In 2003 hockey stick time - profits up at £2.2m, against 2002 losses of nearly £1m. In 2004, with the company profitable and winning the Deloitte prize for fastest growing company, some shareholders were keen to make it a long term play. But the cousins kept faith with their plan and sold out for £100m cash to a USA company. The VCTs made a ten fold return on their investment. Cousin CEO remains and the other is developing Sawston Hall into an Eco Hotel.

Information from: Google and public data sources

Example Fingerprints

Cambridge Silicon Radio

The VCs dream

At Cambridge Consultants, a team of 9 people had been working together on "wireless" for many years and realised that their innovative chip design met the recently agreed Blue-tooth short range wireless standard for which no one had made the chip. After nearly two years of planning, costing some £2m, the group spun-out straight into a VC funded company. No business angels here or kitchen table! An experienced CEO starts three months later. Experienced, committed founders prepared to travel world-wide frequently to visit customers and suppliers. From the start, a PR agency was appointed and the focus was on an IPO. Ethos - Big company started Small!

Stage 1 – 1999
Project funded by Cambridge Consultants and clients costing around £2m. This is not a kitchen table startup!

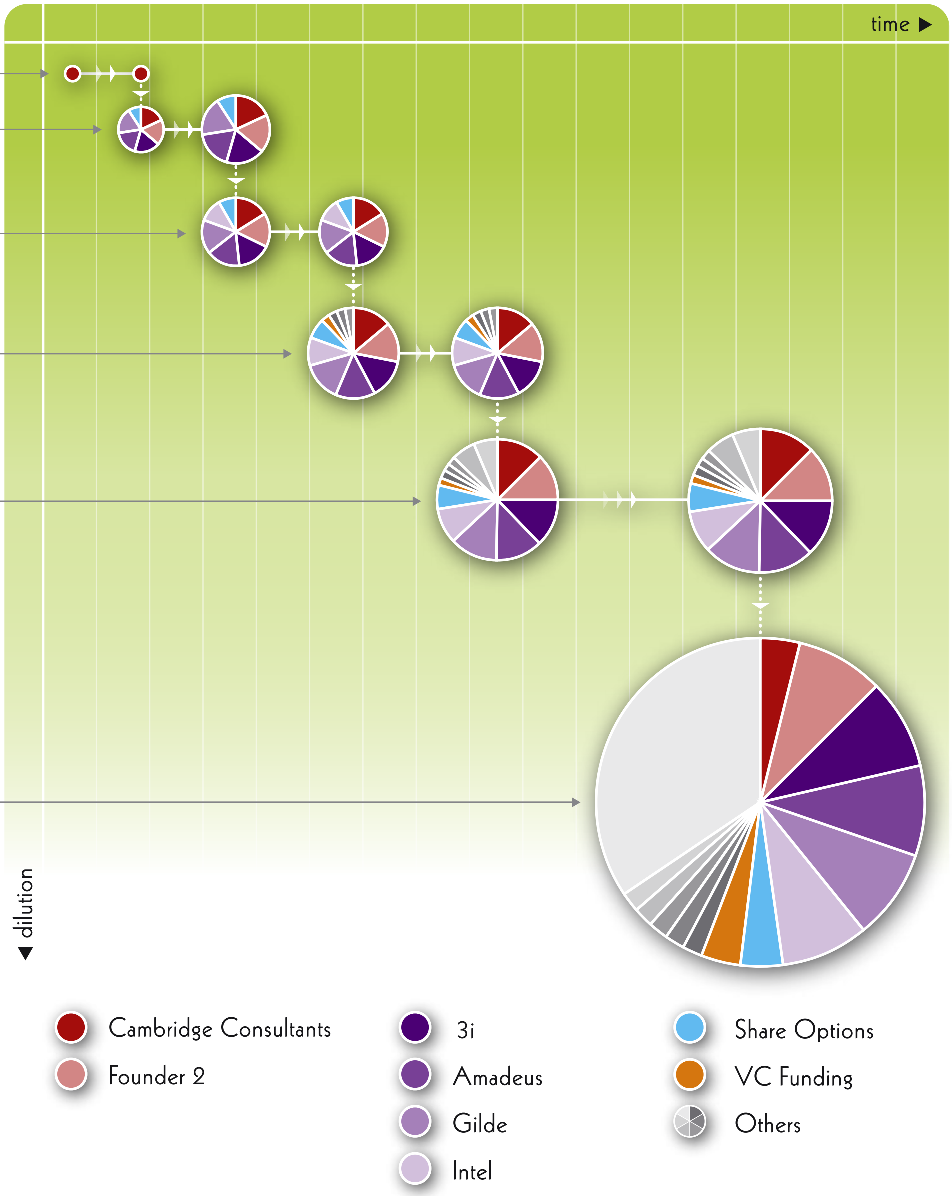
Stage 2 – 2000
Cambridge VCs with domain experience and deep pockets. £6m in three tranches against milestones (would the chips work at the Bluetooth frequency?).

Stage 3 - 2001
Intel Ventures join - serious international business.

Stage 4 – 2002
A host of corporate VCs of companies in the Bluetooth consortium invest with names and phone numbers of key industry leaders.

Stage 5 – 2003
Corporate finance arms of two banks invest giving due diligence, credibility and cash for the IPO.

Stage 6 – 2004
IPO at £250m and two years later a billion pound company.



This is fantastic execution with total focus. It is easy to forget that in 1999 many people thought that Bluetooth had a very limited market. It was a great investment for the VCs. No angels invested and no Founders had a really big pay day to plough back into the Cambridge Cluster.

Information from: Google and public data sources

Investor Ready

The Entrepreneur's Checklist

Now you understand equity, dilution, and the importance of raising in stages. What next? The following checklist outlines the key steps you need to take to finance your business:

Business review

- ❑ update and review your business plan
- ❑ review your financial model
- ❑ get credible third-party feedback on the plan and model

Set funding objectives

- ❑ identify total funds needed with contingency built-in
- ❑ identify timeline for total funding requirements
- ❑ identify how you can raise this in stages
- ❑ assume it will take 9-12 months to raise money

Find the right investors

- ❑ apply for all grants, subsidies available
- ❑ identify if you need angel, VC, or corporate venture capital?
- ❑ know what experience you are looking for in investors
- ❑ have you spoken to the portfolio companies of investors?

Prepare the groundwork

- ❑ brief management team, non-execs, scientific board
- ❑ draft investment opportunity materials (flyer, slides, Q&A)
- ❑ draft list of primary contacts and potential leads
- ❑ sign up for public pitching opportunities in advance

Investor contact

- ❑ engage contact network and selectively distribute materials
- ❑ ensure competition among investors in the funding round
- ❑ conduct one-on-one investor presentations
- ❑ obtain feedback on the presentation and the opportunity

Closing

- ❑ negotiate term sheet with aid of legal counsel
- ❑ project manage due diligence
- ❑ close and settle

with thanks to Richard Dellabarca

Investor Ready

Business Plan Checklist

Every business plan is unique. The plans that obtain funding will be strong in many, if not all, of the main headings described below:

The Business

- ❑ Executive Summary (one page)
- ❑ Company's Business
- ❑ Strategy
- ❑ Mission Statement

The Market

- ❑ Historic and projected sizes (Units, £)
- ❑ Market Trends

Product Offering

- ❑ What is the product benefit?
- ❑ Product description
- ❑ Product development pipeline
- ❑ Product commercialisation pipeline
- ❑ Product differentiation
- ❑ Is the product protected by a patent?
- ❑ Revenue Model

Distribution

- ❑ Key customers
- ❑ Customer acquisition strategy
- ❑ Sales channels
- ❑ Partnerships

Competition

- ❑ Key competitors
- ❑ Competitive advantages
- ❑ Barriers to entry

Management Team

- ❑ Roles and Responsibilities
- ❑ Team member backgrounds
- ❑ Board composition

Financials

- ❑ Historic and Forecast P&L, Cash Flow and Balance Sheet
- ❑ Projected Headcount by functional area
- ❑ Capitalisation Schedule
- ❑ Financial Requirements – amount to be raised, anticipated valuation, use of proceeds

Risk Analysis

- ❑ Technical Risk
- ❑ Market Risk
- ❑ Commercial Risk
- ❑ Team/People Risk
- ❑ Financial Risk

with thanks to Richard Dellabarca

Investor Ready

Hints, Tips & Reminders

Finally we leave you with some hints tips and reminders that will be important to you and your business…

- **Learn the economics of your area of business.** Are companies similar to yours high growth or not? What is your competition? Does the market need you? Which leads onto our next point…

- **When deciding on your product,** beware of jumping on bandwagons. When a new idea arises every company wants to be the one to pioneer it, to bring it to the biggest audience. But that can mean that the market gets saturated and there is no room for new business.

- **Be careful when pricing your product.** Under-pricing does not always equal success. If your prices are much lower than everyone else's, it may make the customer think you are either giving a lower quality of service or a poor product. You need to keep your price in line with your image. If you are a cut above the rest then you should price yourself slightly above them. It is true that you get what you pay for!

- **A good business plan** is essential when seeking finance from investors or bank. You must back up all your financial predictions with solid research (which is where **Equity Fingerprint**, a business plan resource, is useful). It is all very well to say you can sell for £1b in five years but totally useless if you cannot show how, based on realistic sales forecasts, complete with how you plan to staff your business, fund research and how you plan to get the product to customer.

- **When creating your business plan include both good and bad cash flow projections.** It is good to show investors the most optimistic outcome but you must also be prepared for the worst so there are no surprises that you can't budget to. A realistic cash flow forecast is the one that will be taken seriously. You are asking for money from people who deal with business every day and they will know if you are unable to produce what you say you will.

- **It is very wise to always keep a percentage of profits and investment aside for a rainy day.** You never know when a vital piece of equipment will need repairing or whether a key staff member will become sick, making it necessary to hire temps.

- **Only spend on what is absolutely necessary.** When you start out, you may need to pay yourself less than your staff, you should buy second hand equipment where you can and use your own home or a cheap office for premises. Do not buy yourself a sports car and a Savile Row suit straight away. Just because you have £10m in the company account doesn't mean you can go on an expensive holiday and pay for everyone's drinks. That is money the investors have put into your idea and your business – not your own wallet.

- **As the company does begin to grow,** the situation may arise whereby things are simply not working and ploughing more and more money in may not help. If this is the case then you need to stop throwing money at it and admit defeat. At this point you will be glad you raised investment steadily as you will not have to return as much money to investors.

- **Focus on making sure all decisions are made with your end goal in mind.** It is easy to get sidetracked and this will mean that your business suffers. If you have run your business in one direction then it will be structured to fit your needs. Getting sidetracked by other ideas will not make the best use of your resources.

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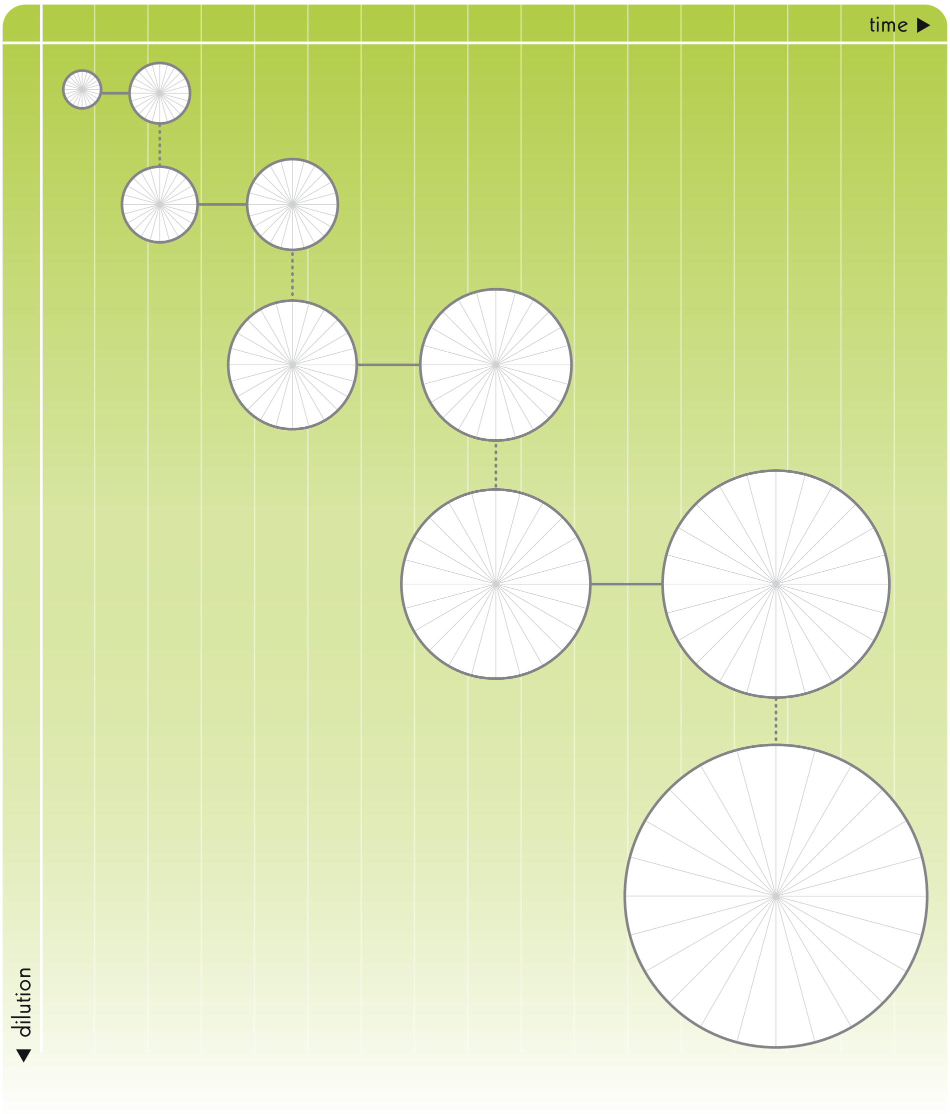
Fingerprint Template

Company name:

Stages



Founders

University

Angels

VC Funding

equity fingerprint
know the business

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Notes

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Useful Information

Noam Wasserman's Founder Frustrations Blog

feeds.feedburner.com/NoamsFounderFrustrationsBlog

Helpful information for new business founders

Frank Demmler's Articles

www.andrew.cmu.edu/user/fd0n/articles.htm

A Collection of articles offering information and advice on everything from Equity Splits to loans and business plans to company valuation.

The High-Tech Entrepreneur's Handbook:
How to Start and Run a High-Tech Company

Author: Jack Lang Publisher: FT.COM ISBN: 0273656155

Venture Capital Funding

Author: Stephen Bloomfield Publisher: Kogan Page Ltd ISBN: 0749442913

Companies House

www.companieshouse.gov.uk

Register your business name

Lancaster University Management School

www.lums.lancs.ac.uk

East of England Development Agency

www.eeda.org.uk

Advice on grants and loans

British Business Angels Association
www.bbaa.org.uk

Cambridge Enterprise

www.enterprise.cam.ac.uk

An organisation providing support and advice to Cambridge University staff and students to ensure ideas become commercially viable businesses that will help UK society and the economy.

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The Great Eastern Investment Forum

www.geif.co.uk

NESTA (National Endowment for Science, Technology and the Arts)

www.nesta.org.uk

Backing, funding and stimulating entrepreneurship at all levels.

The British Venture Capital Association

www.bvca.co.uk

Judge Business School

www.jbs.cam.ac.uk

St John's Innovation Centre

www.stjohns.co.uk

Flexible office and workshop accommodation and business support for early stage knowledge based companies.

Glossary of Terms

www.3i.com/media/glossary.html

Networking Opportunities:

The Cambridge Network

www.cambridgenetwork.co.uk

Cambridge High-Tech Association of Small Enterprises (CHASE)

www.chase.org.uk

Enterprise Link

www.enterprise-link.co.uk

www.equityfingerprint.com