



# What Investors Look For (Hint: It's What's Most Overlooked)



## **Adam Claypool, DeWaay Investment Partners**

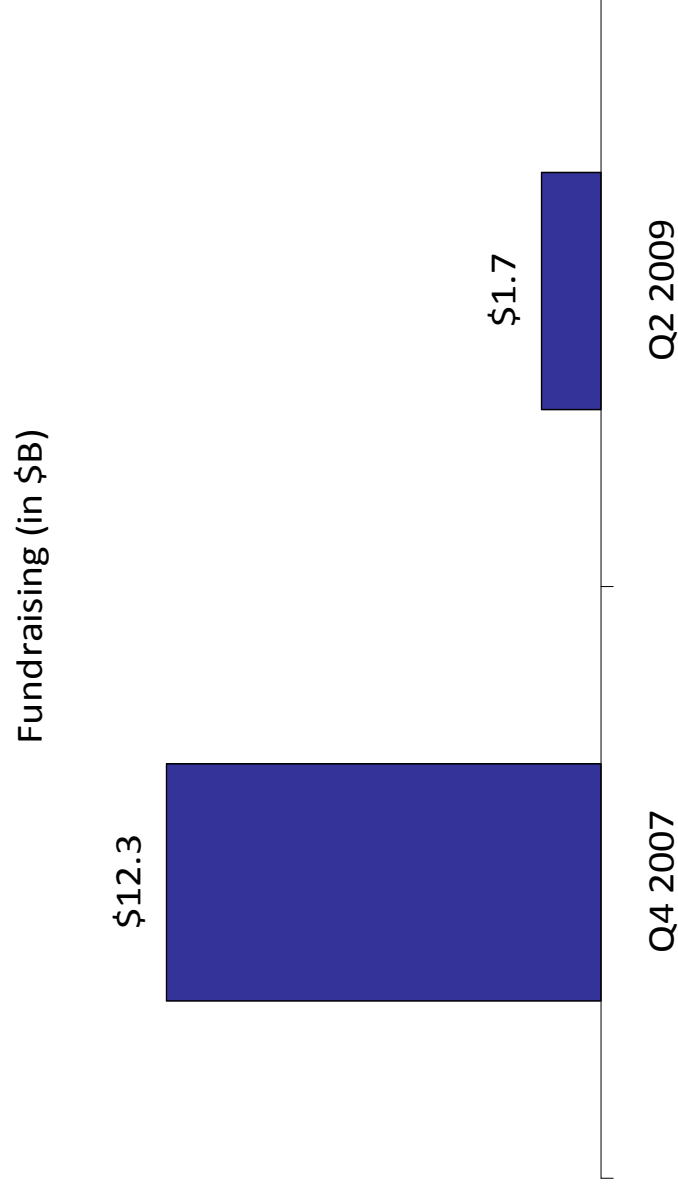
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DeWaay Investment Banking is a division of DeWaay Financial Network, LLC,  
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# My Background

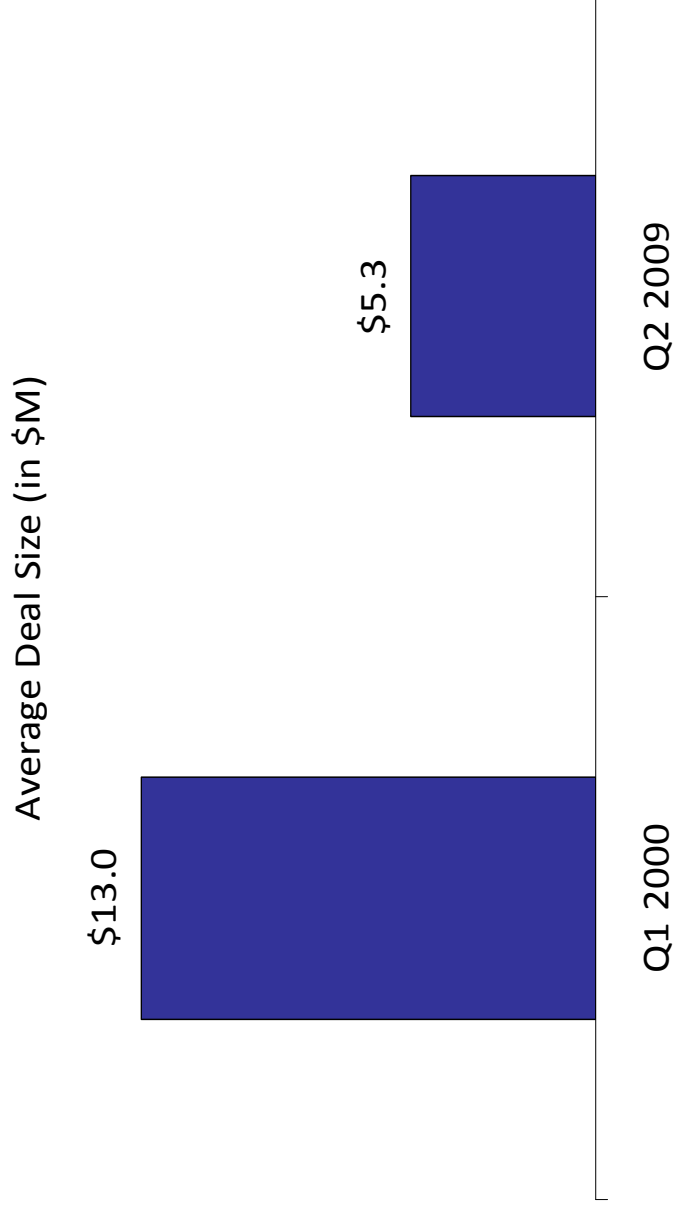
- Private Companies
- Early (to Later Stage)
- Small to Lower Middle Market
- Mergers & Acquisitions
- Corporate Finance
  - Equity and debt
  - Fund raising
  - Venture Fund

# VC Industry Overview



**Highest and lowest in the last 2 decades**

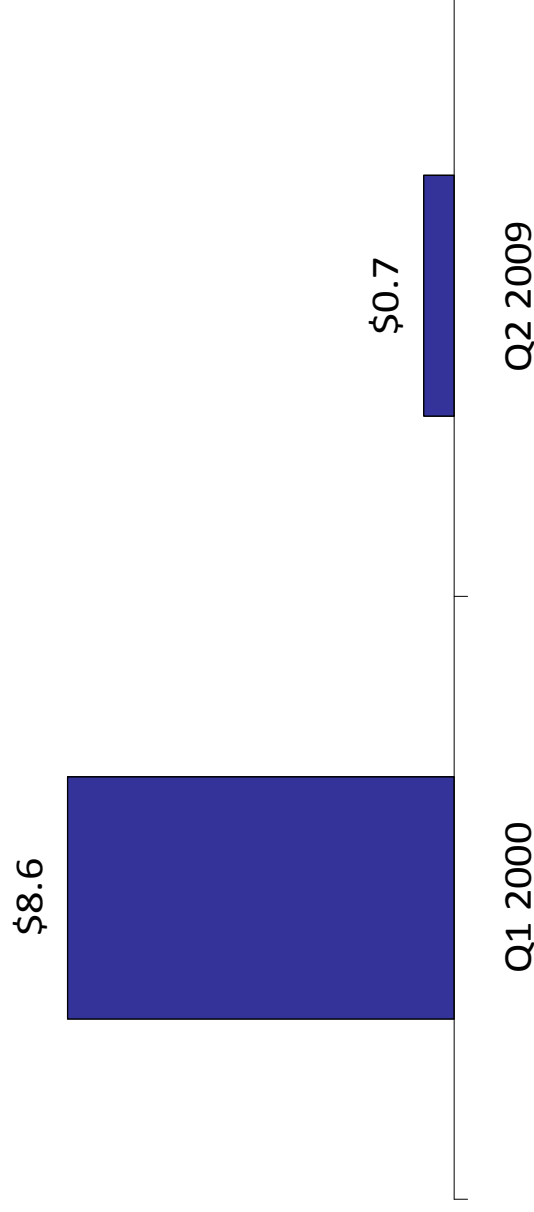
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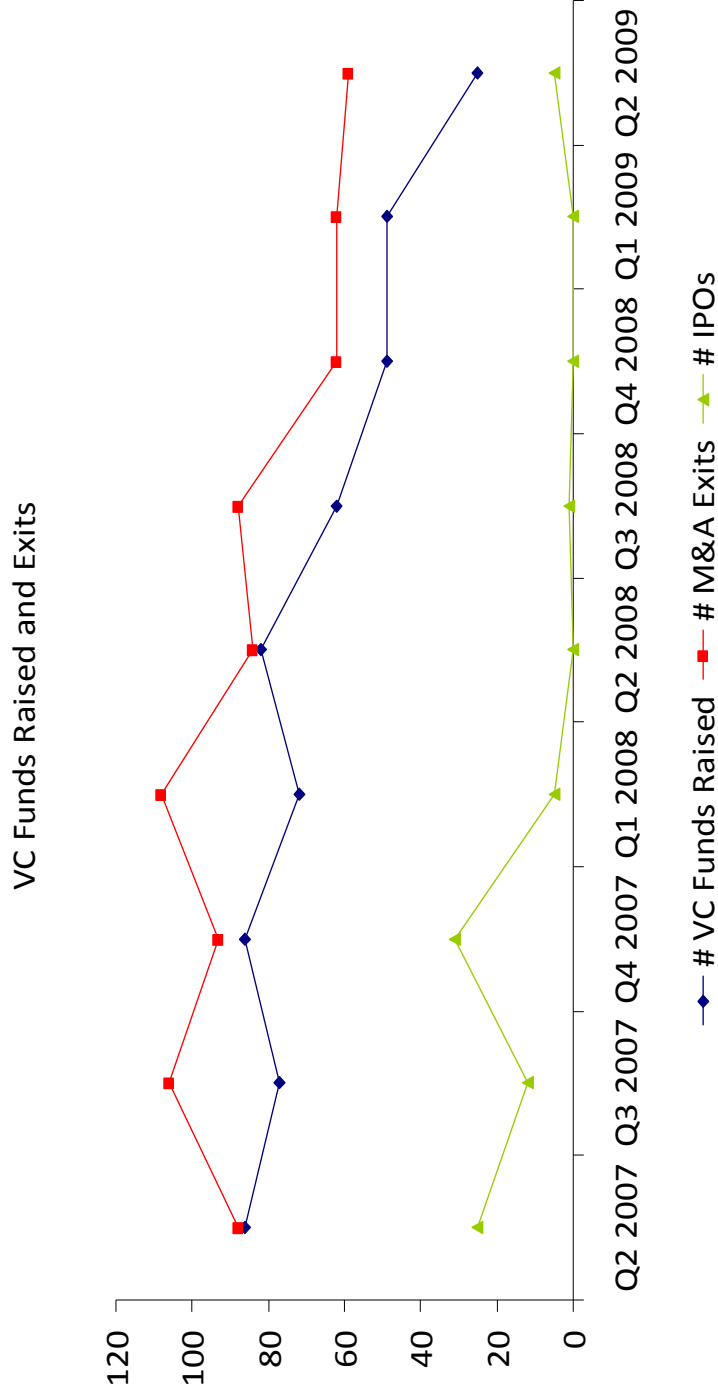
# VC Industry Overview

First Time - Amount Invested (in \$B)



**Highest and lowest in the last 2 decades**

# VC Industry Overview





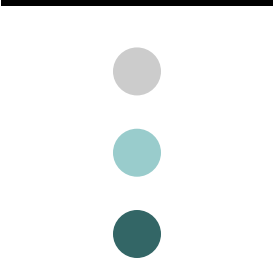
## For Starters: What To Avoid

- *The Field of Dreams Pitch*
  - Demand drives sales, not just good ideas
- *The Big Pie, Small Piece, Big Win Pitch*
  - Cool technology doesn't sell, people do
- *The Stork Pitch*
  - Exits aren't delivered, they're designed




## For Starters: What To Avoid

- *The Field of Dreams Pitch*
  - Demand drives sales, not just good ideas
  - **(Sales and) marketing**
- *The Big Pie, Small Piece, Big Win Pitch*
  - Cool technology doesn't sell, people do
  - **Sales (and marketing)**
- *The Stork Pitch*
  - Exits aren't delivered, they're designed
  - **Exit strategy**




# What Do Investors Look For?

- Ideas are nice
- Customers are good
- Profits are better
- Buyers are the best



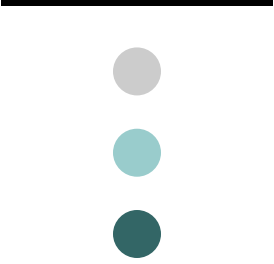
# What Do Investors Look For?

- Entrepreneurs that can demonstrate
  - ☑ How to build value
    - Intellectual property
    - Recurring revenue
    - Strategic partnerships
    - But, nothing happens without customers
  - ☑ How to realize value
    - Distribute cash to investors (dividends, recap)
    - Sell the business (strategic, financial)
    - \_\_\_\_\_



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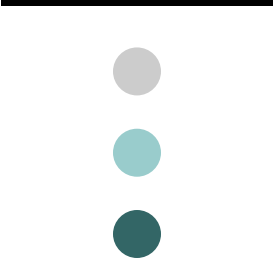
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    - \_\_\_\_\_



# Sales & Marketing Plan

- Effective plans are predicated on solid market research

|                          |                                       |
|--------------------------|---------------------------------------|
| Problem?                 | Compelling need to exist              |
| Problem worth solving?   | Addressable market, exit implications |
| Solution?                | Do you address the compelling need?   |
| Differentiated solution? | Competitive analysis                  |
| Demand?                  | Customer profile                      |



# Sales & Marketing Plan

- Execution is everything – be very specific
  - How will you penetrate the market?
    - Hint: having a website and attending trade shows ain't strategic
  - Method of distribution?
    - Channel vs. direct
    - Online – risky perception regardless of viability
  - Customer and sales support infrastructure
  - Do you have the right people to do it?
    - Relevant experience: product, customers, distribution
  - Tactical opportunity: analyst relations / public relations



# Exit Strategy

- Build the business in the shadow of the acquirer
- Plan for the exit at the time of investment
- What are the trends that suggest your business could be acquired?
  - Legislative
  - Technology
  - Customer/demand-driven
- Comparable transactions are a proxy
  - Financing activity
  - M&A activity
  - How recent?
  - Basis for establishing valuation expectations



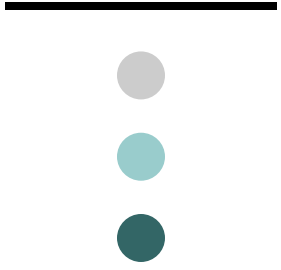
# Good Indicators...No Guarantees

| Target          | Acquirer     | Price (\$M) | Date           |
|-----------------|--------------|-------------|----------------|
| Onigma          | McAfee       | \$20        | October 2006   |
| Port Authority  | Websense     | \$94        | January 2007   |
| Tablus          | RSA Security | \$40        | August 2007    |
| Oakley Networks | Raytheon     | \$25        | October 2007   |
| Vontu           | Symantec     | \$350       | November 2007  |
| Reconnex        | McAfee       | \$46        | July 2008      |
| Orchestria      | CA           | \$22        | January 2009   |
| Vericept        | TrustWave    | \$20        | September 2009 |



# Parting Thoughts

- The goal is not just to get investors
- Process of securing capital should be viewed as constructive – certain investors can add value beyond dollars
- Expect challenges
- It's your baby, but it's not personal
- Demonstrating these things will make you a stronger operator (and impress investors)



*Thank you for attending!*

Questions?

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