

SFU

SIMON FRASER UNIVERSITY  
THINKING OF THE WORLD

# New Venture Planning

## Plan Your Exit at the Outset

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STIRLING MERCANTILE  
CORPORATION

Please turn off cell phones and pagers.

# About Stirling Mercantile

## Sectors

- Mid market financings
- Early-stage VC financings
- Mergers and acquisitions
- Valuations and fairness opinions
- Public market advisory services



# About Stirling Mercantile

<p>June 2004</p> <p><b>AVATAR Petroleum Inc.</b></p> <p>Has amalgamated with</p> <p>Quest Investment Corporation, Venergy Resource Corporation and Anasco Capital Corp.</p> <p>Stirling Mercantile Corporation provided financial assistance to Quest Investment Corporation in the form of a \$5 million loan as part of a \$10 million financing.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2005</p> <p><b>CELERES</b></p> <p>Seed Financing of Common Equity plus Matching Warrants</p> <p>Provided by</p> <p><b>Advantage</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>June 2005</p> <p><b>BlueStar</b></p> <p>\$2,000,000 Subordinated Debt with Warrants</p> <p>Provided by</p> <p><b>Gibbitt Capital Corporation</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>August 2005</p> <p><b>BlueStar</b></p> <p>\$25,000,000 Revolving Line of Credit</p> <p>Provided by</p> <p><b>FINOVA</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>April 2007</p> <p><b>CRYOPAT</b></p> <p>\$3,000,000 Common Equity</p> <p>Provided by</p> <p><b>Claridge SRI Investments</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>January 2008</p> <p><b>efgroup</b></p> <p>US\$2,960,000 Debt Restructuring</p> <p>The undersigned acted as financial advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 2008</p> <p><b>efgroup</b></p> <p>\$3,500,000 Common Equity</p> <p>The undersigned acted as financial advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>June 2008</p> <p><b>GALEFORCE</b></p> <p>\$2,800,000 Series A Equity Financing</p> <p>Provided by</p> <p><b>TALLEY VENTURES WEST</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>
<p>November 2004</p> <p><b>ISOTIS Orthobiologics</b></p> <p>Issued through the acquisition by Isotis, U.S. of</p> <p><b>gen.sci</b></p> <p>The undersigned acted as exclusive advisors to Isotis for the \$75 million transaction.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2004</p> <p><b>Clonidine Canada's Ltd.</b></p> <p>\$10,750,000 Management Buy-Out</p> <p>Financing provided by the vendor and</p> <p><b>Bank of Montreal</b></p> <p>The undersigned acted as exclusive advisor to the management group and issued the financing.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 2005</p> <p><b>Redstone</b></p> <p>MidMarket Lender Company</p> <p>\$7,000,000 Asset Based Loan</p> <p>Provided by</p> <p><b>CONGRESS FINANCIAL</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2005</p> <p><b>Matanza Holdings Inc.</b></p> <p>has purchased a 50% equity interest in</p> <p><b>Yveex Laboratories Inc.</b></p> <p>The undersigned acted as exclusive advisor to Matanza Holdings in obtaining and negotiating the acquisition of the company in 2005.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 2005</p> <p><b>MEDICARD</b></p> <p>Medicaid Finance Inc.</p> <p>\$5,000,000 Secured Revolving Line of Credit</p> <p>Provided by</p> <p><b>Bank of Montreal</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>September 2005</p> <p><b>MEDICARD</b></p> <p>Medicaid Finance Inc.</p> <p>\$400,000 Senior Secured Term Notes</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2006</p> <p><b>IT-CSI</b></p> <p>ITCS International Master Safety Software Inc.</p> <p>\$2,000,000 Subordinated Debt and Equity</p> <p>Provided by</p> <p><b>MERCANTILE</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2006</p> <p><b>PRIME PLAY</b></p> <p>\$1,300,000 Subordinated Debt with Warrants</p> <p>Provided by</p> <p><b>RBC Royal Bank</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>
<p>October 2005</p> <p><b>SHARP</b></p> <p>Sharp Plastics Manufacturing Ltd.</p> <p>has been acquired by</p> <p><b>COMPTON</b></p> <p>Compton International Ltd.</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>February 2006</p> <p><b>Tantus</b></p> <p>Common Equity</p> <p>Through a Group of Private Investors</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2006</p> <p><b>THE ZONE</b></p> <p>The Zone Entertainment Group, Inc.</p> <p>\$1,000,000 Senior Debt and Working Capital Facility</p> <p>Provided by</p> <p><b>RBC Royal Bank</b></p> <p>\$1,724,611 Equipment Financing</p> <p>Provided by</p> <p><b>efgroup</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2006</p> <p><b>LATITUDE</b></p> <p>Latitude Multimedia Inc.</p> <p>has sold to</p> <p><b>unity wireless</b></p> <p>is a debt exchange transaction.</p> <p>The undersigned acted as exclusive advisor to Latitude, and issued and closed the transaction.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>November 2006</p> <p><b>Uniserve</b></p> <p>Universe Communications Corporation</p> <p>\$3,400,000 Term Notes and Common Equity</p> <p>Provided by</p> <p>A Group of Investors led by Michael Seltzer including</p> <p><b>Gibbitt Capital Corporation</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>December 2007</p> <p><b>unity wireless</b></p> <p>US\$926,537 Private Placement, Common Shares and Warrants</p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>July 2008</p> <p><b>DIGITAL</b></p> <p>\$4,400,000 Subordinated debt and warrants and trade finance facility</p> <p>Provided by</p> <p><b>FINANCIAL</b></p> <p><b>ENSIS</b></p> <p><b>RBC Royal Bank</b></p> <p>The undersigned acted as exclusive advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>	<p>June 2008</p> <p><b>metrobridge</b></p> <p>\$1,000,000 Seed Financing of Common Equity</p> <p>Provided by a group of investors led by</p> <p><b>Advantage</b></p> <p>The undersigned acted as advisor to the company and issued the financing from the Securities.</p> <p>STIRLING MERCANTILE CORPORATION</p>



# My Bio

- Entrepreneur – 3 meaningful startups
- Corporate Finance – negotiated over 100 transactions, CIBC Investment Banking
- Boards
  - Chair of a pre-revenue start-up
  - Founding director of MetroBridge, recent IPO
  - Director of fastest-growing local VC, BCAF





STIRLING MERCANTILE  
CORPORATION

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Our Process Completed Transactions Tech News and Links Speaking Engagements

## Corporate Finance

Quality advisory services  
More than just money

Stirling Mercantile Corporation

### Welcome

The partners of Stirling Mercantile Corp have extensive knowledge and contacts in the senior debt, growth capital and equity markets and bring this experience to bear in assisting growing companies with their financial plans and funding requirements.

We hope you find this site resourceful.

### Sectors

- Mid market financings
- Mergers and acquisitions
- Early-stage VC financings
- Valuations
- Public market advisory services

### Recent News



Stirling client Celeres Systems Inc. closes seed round with first investment by the Venture Fund of BC Advantage Funds [More...](#)



Stirling raises \$3.4 million of debt and equity for Uniserve Communications Corporation's expansion plans [More...](#)



Stirling client GaleForce Solutions Inc. receives \$2.8 million first round equity financing from Ventures West and Yaletown Ventures. [More...](#)





www.stirlingmercantile.com



# Goals

## Why build a business?

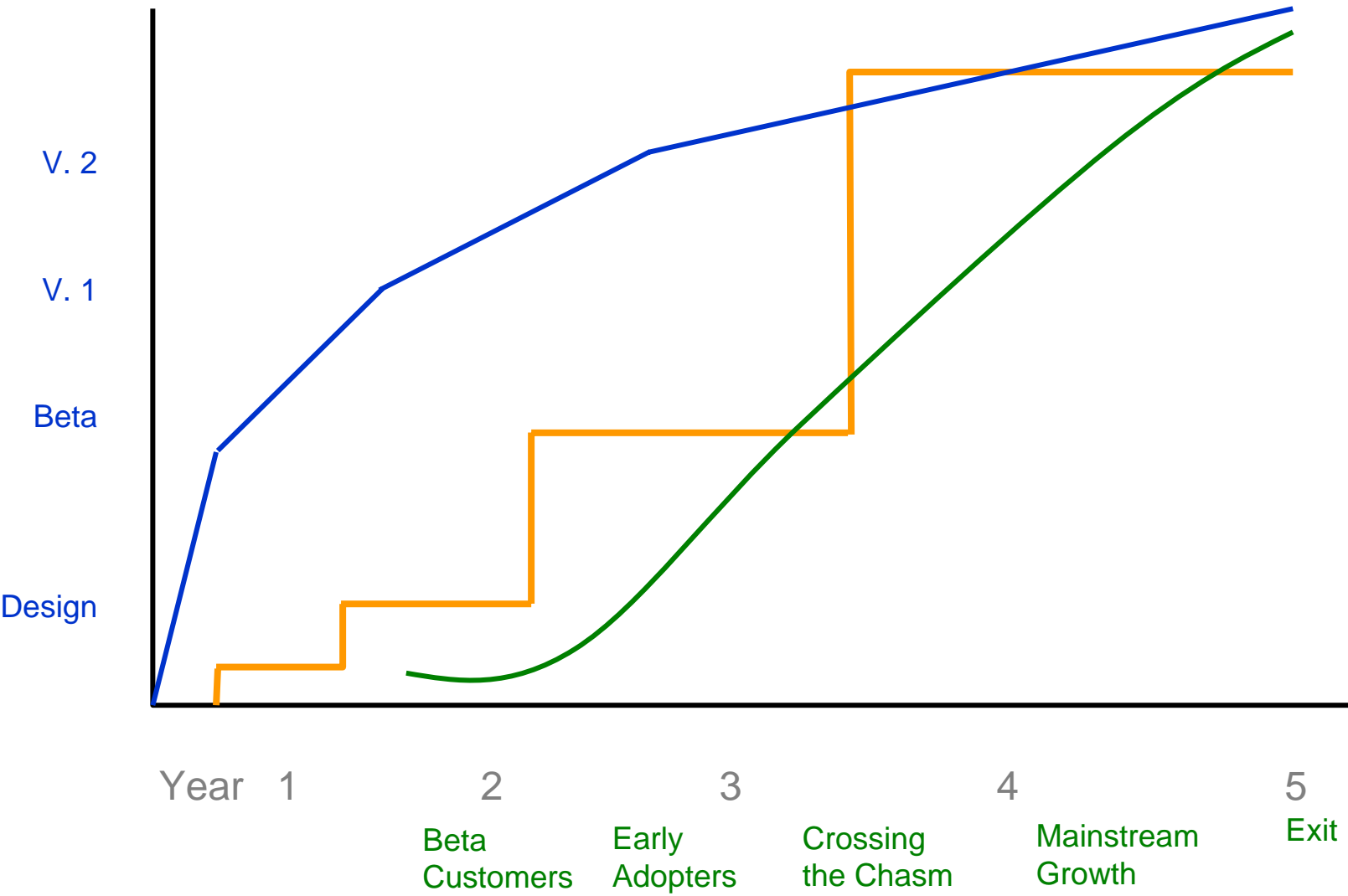
- Lifestyle
  - freedom (choose your own 16 hours a day)
  - salary (less than market)
- Build quickly for an exit
  - Probably involves investors, loss of control
  - Could allow for retirement (on second or third try)



# The Financing Map

IP Roadmap

Funding Roadmap



Series B

Series A

Seed, Angel

F, F & E



# Exit Transactions

Founders' liquidity, fast growth plan

- IPO
- Sale
  - Strategic
  - Financial



# Valuations

- Multiple of
  - Profit, EPS
  - Revenue
- Discounted Cash Flow
- All are better when company is growing
  - (Importance of timing)



# Relative Valuations

## Big Co

- Experienced management, board
- Large revenues
- Diversified customer base
- Scaled Infrastructure
- Worth 3 x Revenues

## Small Co

- Great founder, some holes
- Small growing revenues
- Concentrated customer base
- Scalable infrastructure
- Worth 1.5 x Revenues



# Deal Drivers

- Accretive acquisitions
  - You must add to buyer's valuation
  - For example:
    - Buyer: \$100m Revenues x 3 = \$300m market cap
    - Buys \$10m Revenues x 1.5 = \$15m cost, cash and stock
    - Adds \$10m x 3 to valuation or \$30m



# Deal Drivers

- Strategic
  - Add value to other products or assets
  - Adds customers
  - Keep away from competitors
  - Product or geographic expansion



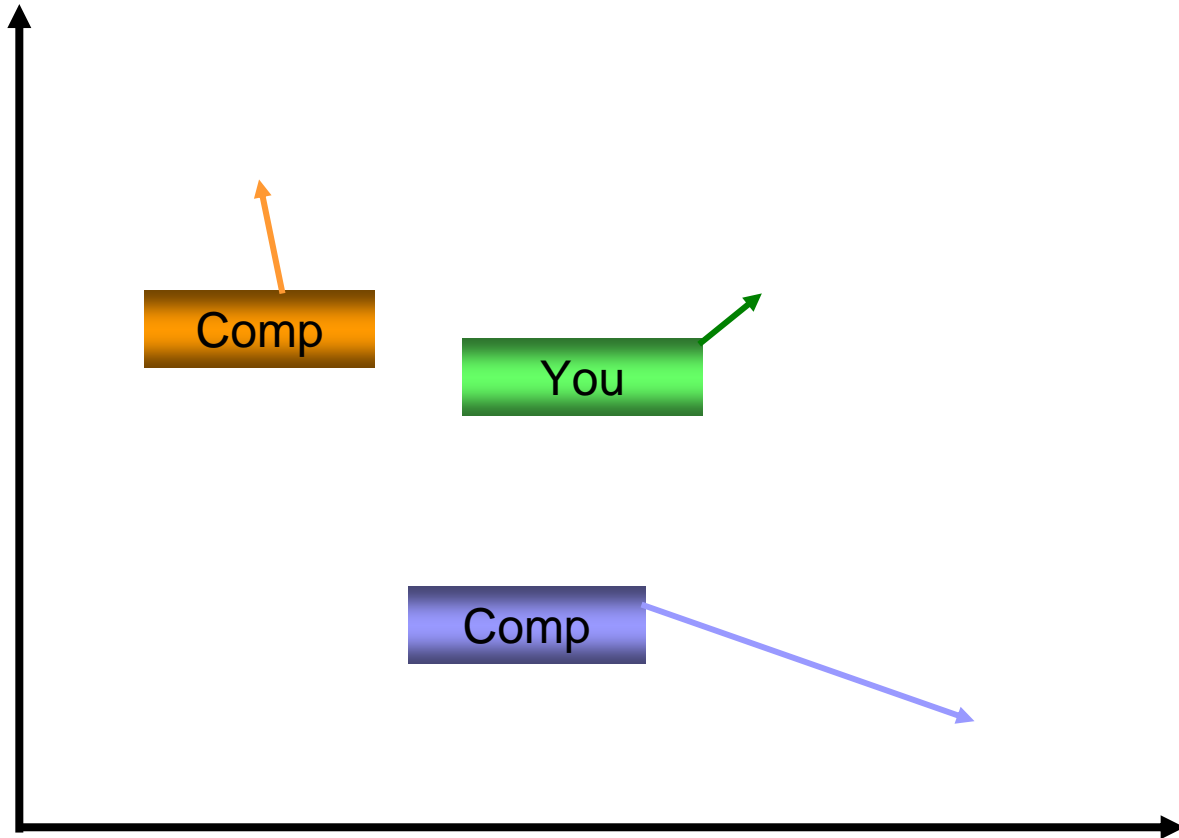
# Marketing the Exit

- Plan the exit from the outset
- Get to know your potential buyers early
- Get to know your service providers early



# Position

Value to  
Customer



Sales Unit  
Volume



# Think Like A Buyer

- Strategic
  - Market share, keep away from competitor
- Financial
  - Earnings, valuation multiples, accretive value to a stock price
- Entrepreneur
  - Lifestyle



# Think Like A Buyer

Spend money to...  
... make money, or  
... save money



# Structuring

Understand leverage available to buyers

- A profitable company can be purchased with a portion of subordinated debt, like 3 X EBITDA
- Senior debt can be 2 X EBITDA
- The balance in equity

Combined ratios, post transaction. Specialists may go higher



# Due Dilly Binder/Folder

- All material contracts
- Details of financials
  - Inventory and valuable assets
  - HR tables and analysis
  - Comments on liabilities or notes to the Financials
- Don't leave out any salient details!!



# Due Diligence Folder/Binder

A great example of a due dilly map, made available in the root of the folder or binder

Updated 20-Dec-06  
Last Update 13-Dec-06

Added or Updated Since Last Update  
On FTP Site - Black Text  
To be provided - Red Text

## Corporate

CDN Corp. Documents  
Articles of Incorporation  
Bylaws  
Board Meeting Minutes  
Board Resolutions  
Shareholder Resolutions  
Filings  
Industry Canada  
Provincial  
Taxation  
US Corp. Documents  
Articles of Incorporation  
Bylaws  
Board Meeting Minutes & Resolutions  
Various  
Business Plan  
Capitalization Table  
Insurance Policy  
SRED Claims

## Financial

Financial Projections  
Financial Statements  
Statements-200610  
Consolidation-200610  
Trial Balance-200610  
A/P  
Directory of Suppliers  
Debt  
Debt Summary  
Interest Calculations  
Prommissory Notes  
Convertible Loan Agreement  
Convertible Notes  
Funding Prentation

## HR

Employment Contracts  
Key employee resumes  
Stock Option Plan, agreements  
Advisor  
Contractor  
Employee  
Various HR Items  
Benefits Plan  
Org Chart  
Salary Summary

## Market

Competition  
Competitive matrix  
Market research

## Agreements

Consulting Contracts  
Stirling Mercantile Corporation  
Partner Validation Agreement  
Office Lease  
NDA & Proprietary Rights Agreements

## Product

Development Process  
Release  
Busdev Roadmap  
Release plan  
Specifications  
Whitepaper  
MRD's  
PRD's  
Feature Spec  
Countering Network Failures  
Intellectual Property  
IPR Identification  
3rd Party IPR Validation  
IPR Protection Strategy



# Financial Models

- Estimates your future value
- Focus on price and unit sales
- Be able to back it all up – this is your credibility



# Bottom Up vs. Top Down

- Market = 100,000,000
- We will get 5%
- At a price of \$2,000
- We will sell \$10,000,000

Incredible!

- Sales cycle = 60 days
- Sales training = 60 days
- We will hire 20 effective sales people...
- ...who will sell 21 per month
- At a price of \$2,000
- We will sell \$10,000,000

Credible!



# Reading

- **Books**

- Good to Great
- Art of the Start
- The E Myth
- 7 Habits of Highly Successful People

- **Blogs, RSS, Newsletters**

- CFO Executive
- VC Experts
- The Deal
- Kedrosky
- Wall Street Prep

Much more at Stirling Resources



# Thank you

A copy of this presentation is available at:

[www.stirlingmercantile.com/speakers.htm](http://www.stirlingmercantile.com/speakers.htm)



# Appendix



# Financial Models

*“Plans are useless, but planning is indispensable”  
- Dwight D. Eisenhower*

- Not intended to be carved in stone
- Represents your plan, expected to change



# Purpose

- Explain how the company scales
- Must clarify price and sales growth
- Estimate how much capital will be required
- Shows you can plan to be fiscally responsible



# Price

- Support your price based on competition
- Get client validation, in writing if possible
- Consider how your price may change going forward



# Expenses

- Spend a lot of time on being accurate about your cost of sales and profit margin
- Spend very little time getting the fixed expenses right, unless your business is different
- Showing losses in the first 2 years is ok, assuming you have the cash to do so



# Cash Flows

- Must detail working capital requirements
- Must show how much money the company will need and when
- Can be simply added to the bottom of the income projection



# Scope

- Run out 60 months
- First two years for cash flow
- Last three for size of opportunity
- Show prior actuals if you have them



# Bottom Up vs. Top Down

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- At a price of \$2,000
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Credible!



# Assumptions

- Separate tab
- Include most trigger cells on the same page for investor adjustment
- First Things First
  - Highlight key assumptions



## Assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>New Sales</b>	78	342	1,044	2,232	3,492
<b>Cumulative Sales</b>	78	420	1,464	3,696	7,188
<b>Prices (\$CAD000s)</b>					
Software Sales	10.0	10.0	9.5	9.0	8.5
Hardware and install	5.0	5.0	5.0	5.0	5.0
Monthly Maintenance	0.10	0.10	0.10	0.10	0.10
<b>Direct Operating Expenses</b>					
Direct sales commissions	10%	10%	10%	10%	10%
Partner selling costs and commissions	30%	30%	30%	30%	30%
Hardware and install costs	40%	40%	40%	38%	36%
<b>Selling, General and Administrative</b>					
General & administration		12%	10%	8%	8%
Research & development		25%	25%	20%	15%
Selling, marketing and partnerships		30%	25%	20%	20%



**Projected Income Statement Analysis**

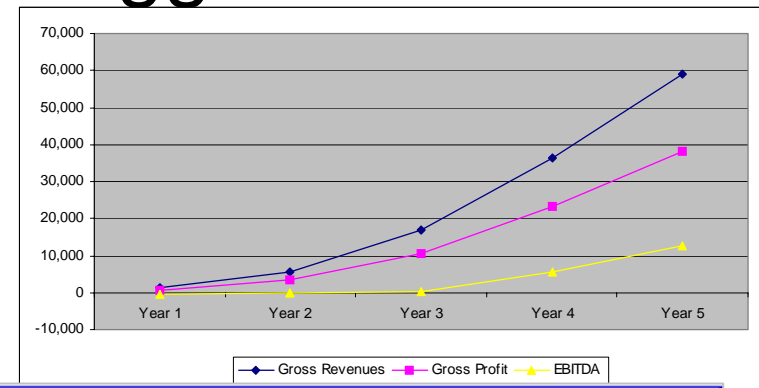
(\$000's)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>New Sales</b>	78	342	1,044	2,232	3,492
<b>Cumulative Sales</b>	78	342	1,044	2,232	3,492
<i>Growth</i>		438%	305%	214%	156%
<b>Revenues</b>					
Software Sales	780 65%	3,420 63%	10,440 62%	22,320 61%	34,920 59%
Hardware and install	390 32%	1,710 32%	5,220 31%	11,160 31%	17,460 30%
Monthly Maintenance	36 3%	271 5%	1,097 7%	3,036 8%	6,619 11%
<b>Gross Revenues</b>	<u>1,206 100%</u>	<u>5,401 100%</u>	<u>16,757 100%</u>	<u>36,516 100%</u>	<u>58,999 100%</u>
<i>Growth</i>		448%	310%	218%	162%
<b>Direct Operating Expenses</b>					
Direct sales commissions	78 6%	342 6%	1,044 6%	2,232 6%	3,492 6%
Partner selling costs and commissions	234 19%	1,026 19%	3,132 19%	6,696 18%	10,476 18%
Total	<u>468 39%</u>	<u>2,052 38%</u>	<u>6,264 37%</u>	<u>13,392 37%</u>	<u>20,952 36%</u>
<b>Gross Profit</b>	<u>738 61%</u>	<u>3,349 62%</u>	<u>10,493 63%</u>	<u>23,124 63%</u>	<u>38,047 64%</u>
<i>Growth</i>		454%	313%	220%	165%
<b>Selling, General and Administrative</b>					
General & administration	226 19%	648 12%	1,676 10%	2,921 8%	4,720 8%
Research & development	525 44%	1,350 25%	4,189 25%	7,303 20%	8,850 15%
Selling, marketing and partnerships	275 23%	1,470 27%	4,189 25%	7,303 20%	11,800 20%
Grants (expense recoveries)	0 0%	0 0%	0 0%	0 0%	0 0%
Total	<u>1,026 85%</u>	<u>3,468 64%</u>	<u>10,054 60%</u>	<u>17,528 48%</u>	<u>25,370 43%</u>
<i>Growth</i>		338%	290%	174%	145%
<b>EBITDA</b>	<u>-288 -24%</u>	<u>-119 -2%</u>	<u>439 3%</u>	<u>5,596 15%</u>	<u>12,678 21%</u>



# Formatting Suggestions

- Use a **different** colour for triggers
- Add simple graphs
- Provide ratios



## Projected Income Statement Analysis

(\$'000's)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>New Sales</b>	78	342	1,044	2,232	3,492
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# Sales Growth

- Add a realistic monthly figure for growth in the first 18 to 24 months
- Multiply that by your prices(s) to generate revenue
- Scale it up in the last 3 years



# Total Revenue

- At critical mass, revenues should be significant
- Don't reverse engineer with unrealistic assumptions for sales growth
- Find a way to get to \$30 to \$50 million in 5 to 7 years, with defensible assumptions, ie:
  - Expand your markets
  - Add value for a higher price



# Format for the Presentation

- One slide for assumptions
  - Identify the key variables, likely price and take-up
- One slide for results
  - Include ratios
- One slide for deal structure or closing cap table

