

The Investor Pitch

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There are as many different forms of investor pitches as there are investors. If you are looking for a silver bullet, there isn't one! For every investor who prefers a two minute presentation, there will be as many who want 20 minutes. For every Angel who wants you to tell them how much money you are seeking up front, there will be just as many who would rather have that information at the end when they know what you want to do with the money.

However, don't be despondent. Over 50% of the presentations I hear are seriously lacking and almost all of them have some vital bit of information missing. Rarely have I heard a great pitch. If you can avoid the obvious mistakes, you will be in the minority and if you can provide the essential information, you will be well received. There is nothing wrong with generating questions at the end of a presentation, but what you don't want is your audience to be left wondering why they wasted their time because they don't understand what you do or what you want from them.

Global serial entrepreneur, consultant, educator and author, Dr. McKaskill has experience in starting, growing and selling ventures and was successful in raising venture capital twice. He is acknowledged as the world's leading authority on exit strategies for high growth enterprises. Dr. McKaskill recently retired from the Richard Pratt Chair in Entrepreneurship at the Australian Graduate School of Entrepreneurship and is the author of a series of books for entrepreneurs covering such topics as new venture growth, raising venture capital, selling a business, acquisitions strategy and angel investing. Dr. McKaskill is a member of the Gold Coast Angels.

Building a story about your business and being able to present it to different audiences is an essential requirement for any entrepreneur. If you are looking for investment, recruiting a key executive, selling to that first customer, borrowing money from a bank or trying to convince a supplier to give you extended credit, you need to be able to give a succinct and compelling explanation of your business. They can't be expected to wade through all the details of your business to discover if it makes sense. Unless you can provide a short sharp 'pitch' on your business, you are going to miss out on some great opportunities.

The short version of your investor presentation is often referred to as an 'elevator pitch' and is part of the language of venture capital. It derives from an exercise that MBA students were required to do as part of their training in entrepreneurship. You are told you have entered an elevator and next to you is a venture capital executive who will get off the elevator in two minutes. You have two minutes to present a compelling argument as to why he should meet with you so that you can explain your venture in more detail. People who work exhibition stands know the drill very well although they rarely get 2 minutes. If they are lucky they might get 20 seconds.

There is a lot to be learned from building a 2 minute pitch on your venture and trying it out on people who know nothing about your business. The first thing you learn is that 2 minutes goes by real fast. You have to use words sparingly and stick to the most important points. The next thing you find is that your audience does not understand your business at all. They fail to grasp what a great business idea you have, how great the product or service is and how important it is that they invest in it. Basically – they don't' get it!! Of course it does not take a rocket scientist to discover that this is not their fault. You have simply failed to structure the explanation in such a way that they could understand it. So go back to the drawing board and start again.

Many people make the mistake of being too technical and providing too much detail, forgetting that the aim of the pitch is to convince the non believer about how financially attractive and robust the business venture is. Generally, the greatest mistake is to fail to provide a clear explanation of the essence of the business; what problem are you solving, how you are solving it and for whom, how big is the opportunity, what is your competition and why you think you can be successful.

For an investor to be seriously interested, they need to see a customer with a compelling need, a product or service that has unique, hard to copy attributes which fulfill that need and enough potential customers to make it a reasonable size business. You have to convince them that you have the team that can execute on the opportunity. Lastly, it has to provide a good return on their investment through a public listing or by selling the business within a relatively short period of time, say, 3 – 5 years. You need to be able to deliver that message in two minutes. A longer presentation allows you more time to present greater detail but the core message is the same.

At one investment pitch session for angel investors which I attended, eight seed and early stage ventures were given 20 minutes to present their investment opportunity. The presentations varied from poor to very good and from boring to passionate. However, most of them failed to clearly define the problem they were solving and why their solution was better than the competition. Some forgot to provide statistics on market size, what portion they could capture within a reasonable period of time and how they were going to do that. Not one of them had a clear explanation of the exit strategy, perhaps the most fundamental aspect of any angel investment.

I suspect that with further probing, all of these ventures could have been made to look attractive. Angel investors are not typically passive investors who put their money in and wait for the cheques to come; they are active investors who typically assist the venture to develop. They do not expect the business model to be ideal at the initial investment stage, but they do expect to be given enough information to decide whether to spend more time in the investigation of the opportunity. Most of these ventures wasted their presentation time at this forum as they were poorly prepared, had failed to test out their presentations with non expert audiences and lacked practice. Following each presentation, the angel investors were given an opportunity to ask questions and the teams were able to see where they had failed to present essential information. Fortunately for them, they also received some very good advice on areas where their business strategies could be improved.

Whether you have 20 seconds, two minutes or an hour to present your business opportunity, you do need to prepare and practice the presentation otherwise you are wasting invaluable opportunities. As a potential recruit, a

prospective customer or investor, I want to be convinced by both your passion and your argument. If you can't explain succinctly what you do and why I should be a part of your grand venture, why should I waste my time working with you?

What Investors Want to Know

Put yourself in the investor's shoes. Why are they there and what do they need to know to have an active interest in talking to you further? Remember, they hear lots of presentations, don't really care about the product or service and are really interested in the risks and rewards for their investment. Keep in mind that without a highly probable exit event, they don't get their money back and don't achieve a return on their investment, so don't forget about the exit.

While there is no 'one size fits all' presentation, the basics should include the following:

Introductions

Who are you, what is your position in the business and what is the name of the business.

What does the firm do?

You should be able to state what your business does in a few sentences.

"We provide security safety fences for high rise building developments"

" We develop skin care products designed for tropical climates"

What problem or need are you addressing?

You would be surprised at how often I ask 'What problem are you solving?' at the end of a product presentation. I hear all about the features and functions, how it beats the competition and that customers love it, but half the time I am not told what problem or need it addresses. The key here is to explain why customers need the product. What pain are you addressing? What need are you satisfying? Why can't the customers defer, delay or avoid buying it? What evidence do you have that your solution is effective and that customers will buy it at the price you propose?

Who is the customer?

I want to know exactly who the customer is and why they need it. How do you put yourself in front of your target customer with a compelling proposition?

What is your competitive advantage?

A strong competitive advantage means that you solve the problem better than anyone else and that customers with that need or problem prefer your solution. You also need to demonstrate that you can protect your advantage over time through some registered IP (patent, brand, copyright, license, trademark etc) or a level of deep expertise which is difficult to copy, mitigate, develop or acquire.

How big is the market?

This is where evidence is required about the number of potential buyers, the manner of distribution and the conversion rate of prospects to sales.

"In our initial pre-release testing we had a take-up rate of 9 in 10 tradesman. With 600,000 tradesman in our target region, we can expect sales of \$2 million within 2 years of the initial marketing campaign. Replacement sales are anticipated to be at a rate of 20% per annum."

What is your distribution strategy?

How are you going to distribute the product and put your product or service in front of your target customer? There are a variety of strategies which can be used; direct sales, internet, retail, wholesale and manufacturing license. Which ones will you be using and why do you think they will be effective in meeting your revenue and profit targets?

What is your exit strategy?

Unless you have an exceptional high growth venture which could achieve an IPO, your business will need to be sold in a trade sale to achieve an exit. What is your target exit date? Which companies have you identified who would be interested? Why would they buy your business and what is the estimated sale price?

What do you need to do to achieve the exit?

What are the milestones you need to achieve and tasks you need to complete to succeed in a trade sale or IPO event? This might include product development, proof of concept, revenue targets, strategic relationships and so on. If the exit is a trade sale, you should have selected the potential buyers, have a plan to approach them and understand why they would want to acquire your firm.

Who is going to do the work?

Who is on the management team? What are their qualifications and experience and which positions need to be filled for you to deliver on your strategy? Why do you think this team is capable of achieving the milestones and exit outcome? It is OK to have an incomplete management team but you should show how you plan to fill those vacant positions.

How much investment do you need?

How much funding do you need, when do you need it and what is the money going to be used for?

What are you offering the investor?

While this will certainly be negotiated, if you can, you should give some idea of the level of equity participation and the likely return to the investor.

Be prepared! You may expect to have 20 minutes to present and then be told you have only 5 minutes. You may anticipate doing a formal presentation to be told that they only want a short description of the investment proposal.

The Elevator Pitch

Sometimes you only have a minute or so to get the message across. In those situations you need to focus on the essentials and ensure your audience understands what you do and why they should come and talk to you after your presentation.

Here are two examples from ventures which I have been involved with. Each of these presentations could be done in less than one minute.

Investor Pitch for Pioneer Computer Group (1990)

My name is Dr. Tom McKaskill and I am the President of Pioneer Computer Group, a software development business located in Northampton, UK, with offices in London, San Diego and Auckland. The business develops, markets, implements and supports integrated enterprise wide resource planning (ERP) applications for both discrete and process manufacturers and a set of software development tools (4GL). The business currently employs 160 staff and has revenue of \$15 million.

PCG has over 200 customers for its ERP systems and over 2,000 customers for its 4GL products spread across 16 countries supported by its own staff and over 20 distributors. PCG has partly completed the world's first 4GL, relational database ERP system for process manufacturing which has received significant interest from early customers, distributors and our major strategic partner, Digital Equipment Corporation. The process manufacturing ERP market is anticipated to be the next big growth market in the software applications space. PCG have just signed an agreement to install the system in 16 factories of a large UK based manufacturer, the largest manufacturing software contract signed this year in Europe.

PCG is seeking \$2 million to complete the development of the process manufacturing suite, set up trial sites in the USA and seek a strategic US buyer for the business. We estimate sales of the new product to exceed \$100 million in the first two years of release in the USA giving a potential trade sale exit value of around \$50 million within 2 years.

This explanation would be improved if I had identified the potential buyers and the reason why they would be willing to pay a premium to buy the business, but you can see how much information can be delivered in a brief statement.

Investor Pitch for Distinction Software (1997)

My name is Tom McKaskill and I am President of Distinction Software, a software development company which provides an integrated suite of software modules for supply chain optimization for medium sized process manufacturing companies who manufacture high volume, low priced consumer packaged goods.

Our product suite optimizes the relationship between retail demand, warehouse inventory, logistics, manufacturing capacity and raw material inventory. The package uses a sample of client data and shows a payback time on the cost of the software of less than 6 months.

The product suite is one of only a limited number of fully completed and implemented supply chain optimization products worldwide.

The market for such products is growing rapidly and there is keen interest from large application software providers to enter this market. These products are highly specialized, take years to develop and are expensive to complete.

Our exit strategy is to sell the business to a global software corporation providing them with an immediate revenue opportunity within their existing customer base as well as a strong competitive advantage for future sales. We estimate an exit price of around \$60 million.

We are seeking \$2 million to complete multi-lingual translation, multi-country trial implementations and documentation and training material required for a global release.

This description was my first attempt. Note that I do not mention revenue, staff numbers or projections. With any presentation, you should improve each time you do it. It is important to be able to explain your business in one minute or in a description which is no longer than one page.

Powerpoint Presentation Guidelines

There are lots of ways of doing a presentation and therefore there is not one format which is perfect but the basic rules of presentation still apply.

Do's of Presenting

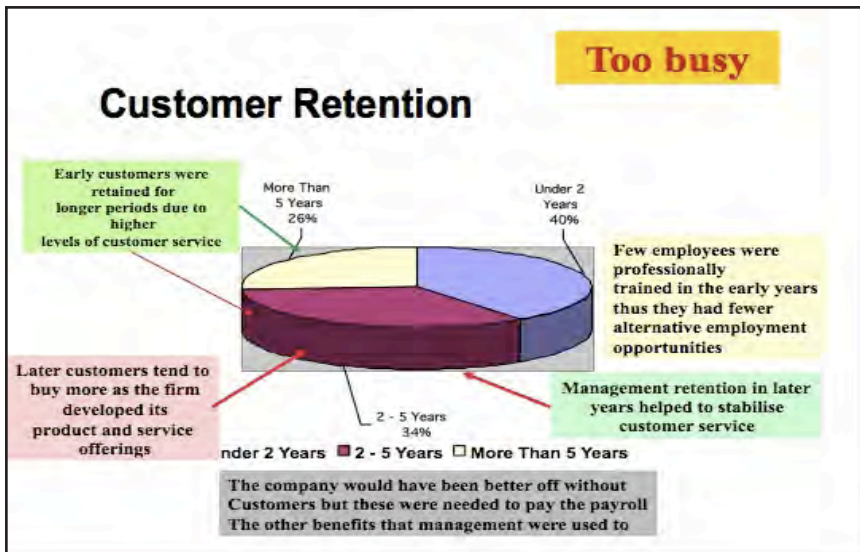
- Outline why you are there
- Tell them what you are going to tell them, tell them and then tell them what you told them
- Have a logical flow, be confident, positive, focused and professional
- Use photos, diagrams and videos to demonstrate your product
- Show you know what you are talking about
- Be honest (identify problems, risks, outstanding work)
- Tailor your presentation to the target audience (why are they there)
- Be realistic and reference your data sources
- Limit the number of points to a slide
- Use at least an 18pt font. Major bullet points should be at least 24pt

Don'ts of Presenting

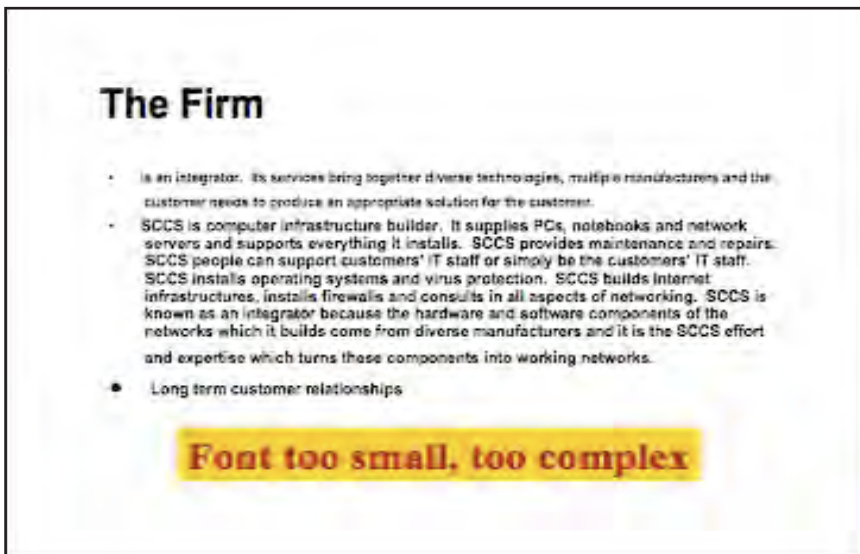
- Don't make ambiguous, vague or unsubstantiated statements
- Don't use technical or industry jargon
- Keep the sizzle down - stick to the meat
- Keep the slides simple and to the point
- Don't be casual, uninterested or otherwise engaged - show you are keenly interested in the decision
- Don't read and don't present financials to 3 decimal places.

Powerpoint is a very powerful tool but can be over-used. The slides are there to allow you to convey information - remember that your audience can read so you don't need to read them out. The order of slides allows you to control the flow and pace of the presentation. You are telling a story, make it interesting but stick to the central theme.

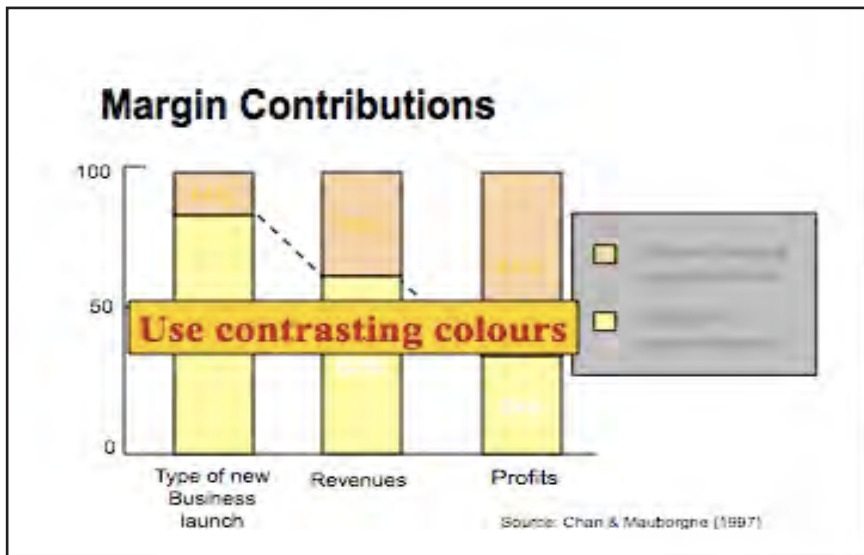
Your audience should be able to read everything on the slide within a few seconds. Don't put so much information on the slide that it distracts them from listening to your explanation.



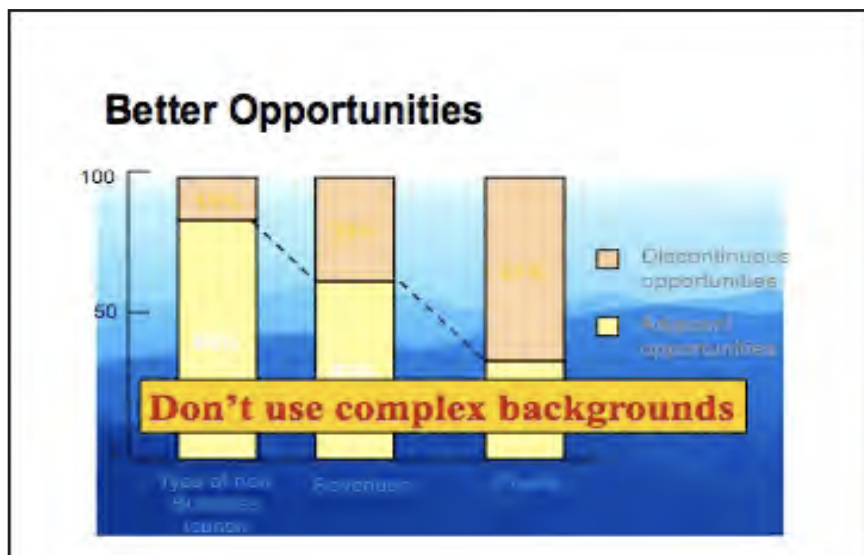
Use fonts you can read from a distance. Avoid TLCs and technical jargon if you are presenting to a non-technical audience.



Ensure the colours you use are easy to read. Put contrasting colours together so the text can be read easily.



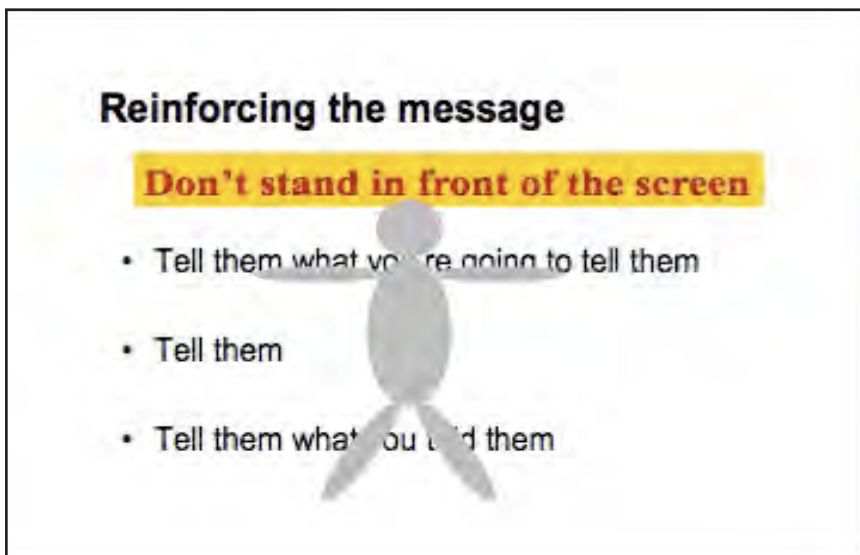
Avoid using backgrounds which have lots of different colours or shades. It is very difficult to get contrasting colours when you have complex backgrounds.



You are presenting to a professional audience so avoid the gimmicks. Don't use fun graphics, noises or fancy animations.



Your audience wants to read what is on the slide.



Why Are You There?

Be very clear in your own mind what you want to achieve from your presentation and ensure you come back to that at the end. Listen carefully to the questions and make sure you answer them rather than simply repeat what was in your presentation.

Learn from every presentation:

- What went right, what went wrong?
- What questions came up later - can this information be incorporated in the presentation?
- Find out where the weak points were.
- Where were you not convincing?
- In the story, strategy, concept - what did you miss?
- Who or what do we need to do to be successful?

Your presentation is only the first step, you need to have a plan to follow up on the meeting. Ask for business cards of those who would like a further discussion. You can also ask if you can send them additional information.

Presentation Checklist

After you have put your presentation together, check it against the following list. Depending on the type of business and the type of exit, not all of these items will be relevant and some will need more detail than others.

Almost without exception, you will have made some assumptions about your audience, especially their knowledge of your industry and technology. You need to deskill your presentation for a general audience. The best way to do this is to give the presentation to people from outside your sector. Try it on friends, siblings, your spouse/partner/mother and your co-workers. If there is something they don't understand or have difficulty following, you need to change your presentation. At the end of the presentation, you might ask them questions about your business and investment opportunity and see if they understood it. These days it is not essential to wear a business suit and tie but neat and professional is important.

- Introduce yourself and your other presenters
- Who are you and what do you do
- What problem or need do you satisfy
- Is the customer clearly identified
- Are you showing why the customer should buy from you
- Are you identifying your principal competitors
- Are you identifying your sustainable competitive advantage
- Are you showing who the management team is
- Do you have financial projections with worst, likely and best case
- Are you identifying the risks in the deal
- What problems are unresolved or needed additional work
- Do you have a well defined exit strategy
- Have you identified what needs to be done to deliver on the exit event
- Have you said why you are there and make the investment request
- Is the investment opportunity well defined and convincing.
- Are your Powerpoints clear and easy to read

Depending on whether you are a financial or a strategic exit, your explanation of what is important can be very different. With a strategic trade sale, the key is to identify the strategic buyers and explain why they would want to undertake the acquisition. In a financial sale or an IPO, you need to show that you can create a high growth venture.

The last time I raised venture capital I did over 30 presentations to venture capital firms in 5 cities up and down the eastern seaboard of the USA. Each time I learnt a little more about what they were interested in and refined the presentation. What I also found was that even the best opportunity had to fit into their investment criteria, investment portfolio, sector preferences and level of investment. You may need to do a number of presentations to different audiences before you find a match.

Some organisations will have a preferred presentation outline which they would like you to follow. Ask them if they have a specific format which they

prefer. Often they will want an executive summary either in advance or on the day. This needs to cover the major points of the investment proposal and should include contact details for those who wish to explore your proposal further. Some organisations like to have a written business plan available for those who wish to examine the proposal further.

With formal Powerpoint presentations, many organisations like to hand out a copy of the slides to the audience so they can make notes during and after the presentation. Remember to invite the audience to ask questions and offer your business card for follow-up discussions.

Most investors try to put themselves into the shoes of the target customer and ask the question “Why would I buy this product and from this firm?” They try to do this as early into the presentation as possible so they can understand the business. This means that it is really important to deal with this issue as early into the presentation as possible. Showing the product, demonstrating it or showing a short video or photo of it in use can be quite effective.

I have sat through many presentations where I didn’t understand what the product was or what problem it solved until well into the presentation. The problem for the presenter was that most of the audience were not listening to the content because they were still focused on working out what the business did. You should not be spending more than a minute or so on describing your product or service. Once the audience understands what you do, move on to the core of the presentation which is about what you need to do to develop the business, the investment required and the return which the investors will receive by participating in the venture. If you are at the idea stage or still developing your business concept, simply state that in your presentation, but ensure that your host understands that prior to the presentation and has the opportunity of setting the right expectation for those who will be attending.

If you are not sure what level of detail is required in the presentation or are unfamiliar with some of the terms used by investors, ask your host. You can also learn a lot about Angel and Venture Capital funding from articles, websites and books. The more familiar you are with the requirements, the better prepared you will be to deliver your presentation and answer the questions.

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Suggestions and comments can be sent to info@tommckaskill.com