

# MASTER CLASSES

---



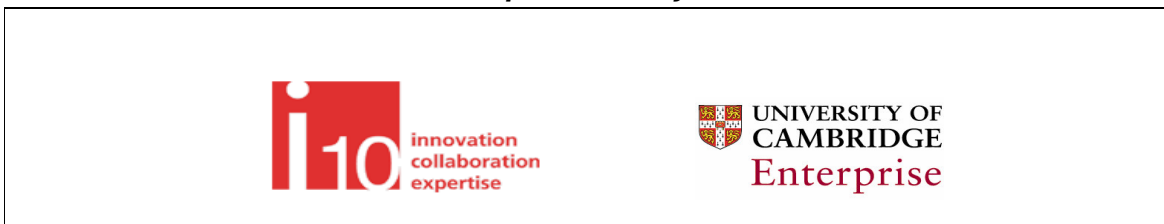
# Fundamentals of Finding Finance

A Master Class with

**Alan Barrell**

*Entrepreneur in Residence, CfEL*

*Sponsored By*



---

For queries and further information, please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

# MASTER CLASSES

---

## Introduction

Welcome to CfEL's Master Class on the Fundamentals of Finding Finance, hosted by CfEL's Entrepreneur in Residence, Alan Barrell.

The aim of this Master Class is to address the key issue of finding finance and help you to develop a clear strategy for seeking and securing the best finance to invest in the next stage of your early business venture. By the end of the day you will have gained a deep understanding of:

- Different sources of finance and how to research them
- What each type of investor looks for in a new business
- The investment process and the role of intermediaries
- How to do the deal

This booklet is the manual for the day and comprises both the presentation slides and some supporting notes which we hope you will find helpful. We hope that you have an enjoyable and highly worthwhile day.

We would like to acknowledge both i10 and Cambridge Enterprise who have generously sponsored this Master Class. Further information on both follows.

For any queries please do feel free to contact the following members of the CfEL team:  
Programme Manager: Yupar Myint [y.myint@jims.cam.ac.uk](mailto:y.myint@jims.cam.ac.uk)  
Programme Manager: Dr. Emily Scraggs [e.scraggs@jims.cam.ac.uk](mailto:e.scraggs@jims.cam.ac.uk)

Centre for Entrepreneurial Learning  
2<sup>nd</sup> Floor  
Keynes House  
Trumpington Street  
Cambridge  
CB2 1QA  
Tel: 01223 766900  
Fax: 01223 766922

Please do also visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk) for more information on the activities of the Centre for Entrepreneurial Learning.

# MASTER CLASSES

---

## Sponsors

I10



i10 is a collaboration of ten universities in the East of England. Through funding, collaboration, facilitation and networking, i10 provides a unique opportunity for businesses to tap into the region's pool of innovation, expertise and assets. i10 is funded by the Higher Education Funding Council for England (HEFCE) and includes: Anglia Polytechnic University, The University of Cambridge, Cranfield University, The University of Essex, The University of East Anglia, The University of Hertfordshire, The University of Luton, Norwich School of Art and Design, The Open University in the East of England, and Writtle College.

For more information about i10, please contact on 01223 765471 or Email [info@i10.org.uk](mailto:info@i10.org.uk) or visit their website at [www.i10.org.uk](http://www.i10.org.uk).

### Cambridge Enterprise



Cambridge Enterprise exists to help University of Cambridge inventors, innovators and entrepreneurs make their ideas and concept more commercially successful for the benefit of society, the UK economy, the inventors and the University. For more information about Cambridge Enterprise, please contact on 01223 760339 or Email [enquiries@enterprise.cam.ac.uk](mailto:enquiries@enterprise.cam.ac.uk) or visit their website at [www.enterprise.cam.ac.uk](http://www.enterprise.cam.ac.uk).

# MASTER CLASSES

---

## Contents

<b>Programme</b>	<b>5</b>
<b>Alan Barrell</b>	<b>6</b>
<b>Reading and Resource Material</b>	<b>7</b>
<b>Fundamentals of Finding Finance</b>	<b>8</b>
<b>Presentation Slides</b>	<b>43</b>

# MASTER CLASSES

---

## Programme

9.00am	Current investment climate and overview of sources of finance for early stage businesses
10.30am	<i>Coffee</i>
11.00am	Sharing Information – “Financing I need for my Business” and Key Elements of the Financing Plan
11.45am	Grants and Other Non-Equity Finance
12.30pm	<i>Lunch</i>
2.00pm	Planning, Positioning and Presenting <ul style="list-style-type: none"><li>• Preparing the case</li><li>• Selecting prospective investors</li><li>• Presentations and Plans</li><li>• The ‘Elevator Pitch’</li></ul>
3.30pm	<i>Coffee</i>
4.00pm	Developing the Funding Plan and Timetable
4.30pm	Selected Elevator Pitches
5.10pm	Term Sheets and the Legals – Best ways forward
5.20pm	Review – and future plans – and Q and A
5.35pm	<i>Close</i>

# MASTER CLASSES

---

## Alan Barrell



Following a scientific training and six years working in the hospital laboratory service, Alan Barrell has spent almost thirty years in senior executive positions in technology based industries. He worked around the world with Baxter Healthcare, the world's largest Health technology company and was Chief Executive of Baxter UK for six years. Subsequently he switched industries and joined a very small Cambridge Phenomenon company in industrial electronics, Domino Printing Sciences, as Managing Director. Alan stayed six years, during which time Domino grew internationally and was listed on the London Stock Exchange. Today Domino has revenues of £160 million plus a market capitalisation approaching £200 million.

Alan's last full time Chief Executive position was six years with Willett International, a manufacturing and marketing company in industrial electronics which now has businesses in 100 countries, 26 overseas subsidiaries and sales of close to £100 million. Since early 1998 Alan's business life has been spread between non-executive chairmanship of smaller technology companies, engagement with N W Brown Capital Partners in raising a new regional early stage technology venture capital fund of £35 million [The Cambridge Gateway Fund] and work with charities in which he has special interests. These include the Papworth Trust, The Royal Society of Arts Manufactures and Commerce (where he has been treasurer and member of the Trustee Board) and The Centre For Tomorrow's Company of which he was Vice Chairman. Most recently, Alan's time has been devoted primarily to the Cambridge Gateway Fund, with any available spare time spent chairing the Steering Committee of the Cambridge International Enterprise Conference now held annually.

From the beginning of 2000 until April 2002 Alan worked full-time as Director and Managing Partner of N W Brown Capital Partners Ltd, raising and investing the Cambridge Gateway Fund. He is also closely associated with the Great Eastern Investment Forum. The Cambridge Gateway Fund was recently week voted "Investor of the Year" in the Cambridge Evening News Business Excellence Awards.

Alan has delivered Managing Intellectual Capital for Shareholder Value Workshops at Putteridge Bury. His most recent appointments have been as Entrepreneur in Residence, University of Cambridge and Visiting Professor of Enterprise, University of Luton School of Graduate Business Studies, and Chairman of Transitions Ltd. A consulting firm engaged in the support of innovation and change management.

# MASTER CLASSES

---

## Reading and Resource Material

### **Books**

Camp, J. (2002) *Venture Capital Due Dilligence: A Guide to Making Smart Investment Choices and Increasing Your ROI*, John Wiley & Sons Inc ISBN 0471126500

Southon, M. & West, C. (2002) *The Beermat Entrepreneur: Turn Your Good Ideas into a Great Business*, Prentice Hall ISBN 0273659294

Wilmerding, A. (2001) *Term Sheets and Valuations: An Inside Look at the Intricacies of Term Sheets and Valuations*, Independent Publishers Group ISBN 1587620685

### **Websites**

British Venture Capital Association [www.bvca.co.uk](http://www.bvca.co.uk)

European Venture Capital Association [www.evca.com](http://www.evca.com)

National Venture Capital Association (USA) [www.nvca.org](http://www.nvca.org)

NESTA National Endowment for Science Technology and Arts [www.nesta.org.uk](http://www.nesta.org.uk)

National Business Angel Network [www.nationalbusangels.com](http://www.nationalbusangels.com)

Taylor Wessing – Plain Dealing [www.tjguk.com/plain\\_dealing/](http://www.tjguk.com/plain_dealing/)

# MASTER CLASSES

---

## Fundamentals of Finding Finance

### Introduction

Successfully finding the first finance for a new venture is perhaps one of the most critical issues for entrepreneurs. Even once early finance is secured; there will almost always be a need for further finance to be raised during the lifetime of the business.

The aim of these notes, is to support some of the information that you will hear during this Master Class on Finding Finance. They are not intended to be totally comprehensive, but are intended to give a broad overview of some key issues and provide guidance on where to look for further information.

The key areas covered here are:

- Different sources of finance for different stages of the business
- Preparing the business case and pitching it to investors
- What's involved in the venture capital process.

### Sources of finance

Finance for a business can be divided into three broad categories:

- **Debt** – this is effectively a loan. The entrepreneur is 'hiring' the money from (typically) a bank. The money will have to be paid back at an agreed time, and regular interest payments will have to be made. If the amount of the loan is large, then there bank will also require some form security – i.e., something that the bank will take possession of if the entrepreneur fails to repay the loan.
- **Equity** – this is effectively the sale of part of the ownership of the entrepreneur's business. The amount of money that can be raised by selling part of the business depends on the value of the business. A 'fair' valuation of any business is extremely difficult, but is particularly hard when the business is in the early stage of development (See later notes).
- **Grants** – this is effectively a gift. The money does not have to be paid back, and is not given in exchange for part ownership of the business. However, there is often a stipulation that any grant awarded must be matched by funds from other sources. Typical sources of grants (in the UK) are the Department of Trade and Industry ([www.dti.gov.uk](http://www.dti.gov.uk)), your local Enterprise Agency ([www.nfea.com](http://www.nfea.com)), or the European Commission ([www.cordis.lu](http://www.cordis.lu)). There are a number of sources of information for finding grants. One example can be found at [www.j4b.co.uk](http://www.j4b.co.uk).

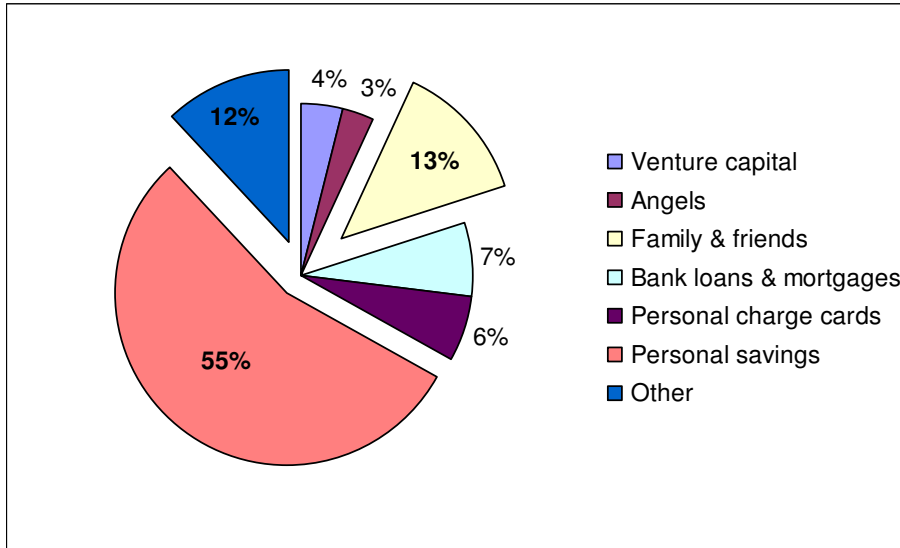
Which type of funding is appropriate for the business will depend on a huge number of factors such as the level of new technology involved, how quickly revenues are likely to be generated, the risks involved and the stage at which the business is at.

# MASTER CLASSES

## Different Types of Finance for Different Stages

By way of illustration, Figure 1 below shows how leading US corporations raised their initial funding.

**Figure 1 – Typical sources of start-up funding for 1996 Inc 500 companies**



Source: Bhidé, Amar V., 2000, *The Origin and Evolution of New Businesses*. Oxford University Press: January 2000.

As the graph demonstrates most entrepreneurs gain their very first sources of funding from themselves and their savings. A few more (13%) gain investment from family and friends, but only 7% use bank loans and another 7% gained venture capital or business angel equity funding.

Table 1 – Provides some information on the different sources of finance that are available to entrepreneurs at different stages of their venture.

The order of the sources of funding corresponds (roughly) to the stages of development of the business, i.e., personal savings tend to be used in the very early stages, banks and corporate venturers would come in at much later stages.

Figure 2 also illustrates these sources of finance in terms of the risk and maturity of the venture.

## MASTER CLASSES

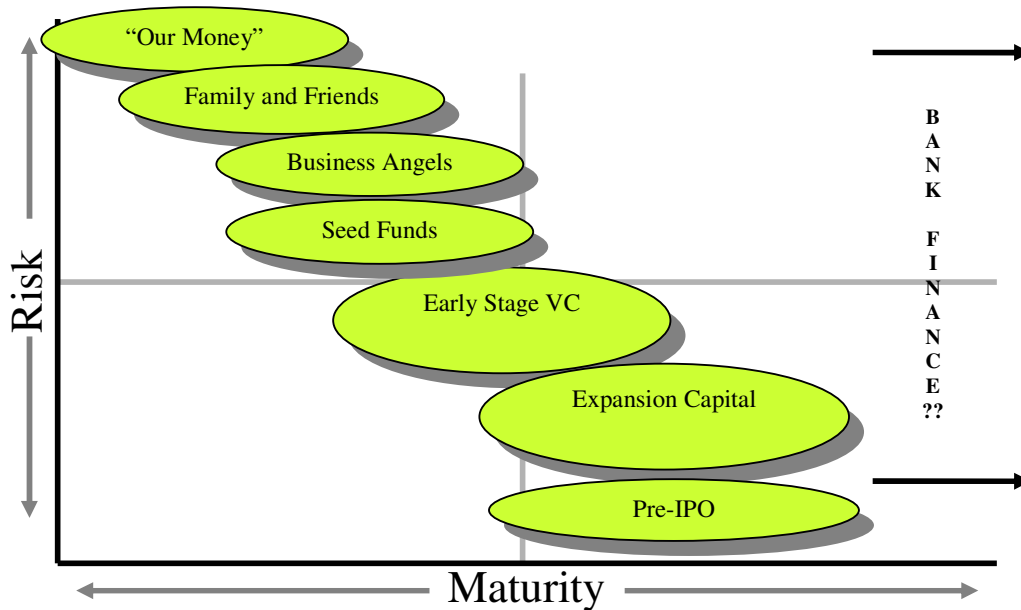
Source	Description	Return	Stage	£	Security
Personal Savings	Entrepreneur's own savings/resources best at the early stages when there is just an idea. The entrepreneur retains 100% ownership. Cash advances from credit cards have also been used as a means to access money in the short term – this is not to be recommended!	Unlimited	V. Early	£1,000 to £25,000	None
Friends & Family	Provide a potential source of finance and more likely to believe in the entrepreneur with only the germ of an idea than would an unknown potential investor.	0% to 100%+	Early	£5,000 to £100,000	Minimal
Grants	Public-sector grants are often available to help with the costs of feasibility and development projects. See <a href="http://www.j4b.co.uk">www.j4b.co.uk</a> to search for relevant grants.	None	Early to Middle	£50 to £1 million+	None
Business Angels	Business Angels are individuals who have personal money they wish to invest in new ventures. They are often successful entrepreneurs. They may operate as individual investors, or as part of a network. A good Business Angel will bring more than just money; they will also bring experience of successfully setting-up and growing a new venture, and provide a wide range of contacts and networks. For further information see National Business Angel Network ( <a href="http://www.nban.co.uk">www.nban.co.uk</a> )	100%+	Early	£5,000 to £50,000 (£500,000 total)	Shares, Board &/or Legals
Venture Capital	Venture capital is a type of finance that is focused mainly on funding the expansion of businesses, but specialist funds may also focus on the very early stage of set-up as well ('seed funds'). See British Venture Capital Association ( <a href="http://www.bvca.co.uk">www.bvca.co.uk</a> ) or European Venture Capital Association ( <a href="http://www.evca.com">www.evca.com</a> )	50%+	(Early) to Middle	(£50,000) to £250,000 to £1million+	Shares, Board & Legals & Targets/Floors
Banks	Banks will be of most use to business when you can show a track record of sales. They will then be able to help with leasing arrangements, overdraft facilities, loan guarantees, factoring and other commercial requirements.	Repayment + Interest (Base +2/4%)	Middle to Late	£1,000 to £1 million+	100%+
Corporate Venturers	Large businesses may provide a particularly valuable source of funds for growing ventures. 'Corporate venturing' has become a substantial source of investment for new and growing businesses. See link from <a href="http://www.ukbi.co.uk/other">www.ukbi.co.uk/other</a> for more information on how corporate venturing works.	Mix of VC & Bank	Middle to Late	£10,000 to £1 million+	Shares, Board &/or Legals

For queries and further information, please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

# MASTER CLASSES

Figure 2 – Different Types of Finance at Different Stages



The typical stages of investment fall broadly into the following stages of development of the business:

**1. Seed**

Developing IPR, unlikely to have full time employees, and may well have no business premises. The key activity is work on “proof of principle” of the idea.

**2. Start up**

Company in the process of being set up, with limited trading. Key activities involve product development and initial marketing.

**3. Early stage**

Company has completed the “proof of principle” stage, owns some IPR, has a management team substantially in place. The funding requirement is to support manufacturing and/or licensing, and sales.

**4. Expansion**

Established company, with a full management team and generating sales, and require further finance to break into new markets. The definition “Expansion” often creates confusion.

**5. Pre IPO**

This is the final round prior to a listing on a recognized Stock Exchange. It can also be referred to as “Expansion” funding.

**6. Later stage**

There are many variants which include mergers and acquisitions (M&A), Management Buy-Outs (MBO), Management Buy-Ins (MBI) and others.

# MASTER CLASSES 2004

---

## **Sources of Early Stage Non-Equity Finance – Grants**

Many technology start-up companies gain some of their first funding through various grants from government agencies, charitable foundations or private sector bodies. The Department of Trade and Industry (DTI) considers that:

- A grant is financial assistance, usually for a specific project, given to a business by an awarding body.
- A grant provides financial assistance to allow a business to undertake a specific project that without financial assistance would not be able to proceed.
- A grant is usually a one-off payment and will provide funding that covers a percentage of the costs of a specific project. Generally, a grant will meet up to 50 percent of the costs of a project, with the business meeting the remainder of the costs. This is known as 'matched funding'.

In most cases it is necessary to prepare an application for this which involves developing a strong business case and some measurable outcomes from the project.

There are many grants currently available to new businesses and it is impossible to provide an exhaustive list. Appendix 1 provides information on some grants and is correct at November 2003.

## **Sources of Early Stage Equity Finance – Business Angels**

Business angels are individuals who invest their own personal capital in and bring entrepreneurial know-how and managerial experience to start-up enterprises. They are a source of equity finance and will invest in the region of £5000 to £50000 in a new enterprise in return for shares.

In the current investment climate business angels can also be seen as filling a funding gap. Banks are often unwilling to finance early stage companies because of the risk involved and for venture capitalists the transaction costs of doing a small deal and the due diligence involved are proportionally high. Business angels however use their own knowledge and experience in a particular field when deciding whether to invest, and can have a leveraging effect for other sources of funding including bank loans and formal venture capital.

Entrepreneurs often regard the experience of business angels as equally important as the financing they provide. This is particularly true for technology oriented start-ups where entrepreneurs often rank business and strategic advice as the first thing they want from their investors followed by money and contacts. Business angels often invest in local projects so that they can provide hands-on experience and managerial support for the entrepreneur and this is crucial in reducing the risk of failure for these ventures.

Although business angels do invest individually, they also make investments through business angel networks. There are three different levels of business angel networks:

1. National Networks e.g. the National Business Angel Network in the UK ([www.nban.co.uk](http://www.nban.co.uk)). These facilitate the matching of investment supply and demand.
2. Regional Networks e.g. the Great Eastern Investment Forum in the East of England ([www.geif.co.uk](http://www.geif.co.uk)). These may hold regular meetings to bring together angels and

# MASTER CLASSES 2004

---

- entrepreneurs and increase the efficiency of matching by providing opportunities for entrepreneurs to network with and present to business angels
3. Informal Syndicates e.g. Cambridge Angels ([www.cambridgeangels.net](http://www.cambridgeangels.net)) which are more informal groups operating as investment clubs.

## **Equity Finance - Venture Capital**

An excellent source of information on venture capital is the British Venture Capital Association ([www.bvca.co.uk](http://www.bvca.co.uk)) who provide information for both entrepreneurs and investors and have a directory of over 170 private equity (venture capital) firms in the UK.

### **Box 1 - What is Venture Capital?**

Venture capital provides long-term, committed share capital, to help unquoted companies grow and succeed. If you are looking to start-up, expand, buy-into a business, buy-out a division of your parent company, turnaround or revitalise a company, venture capital could help you to do this. Obtaining venture capital is very different from raising debt or a loan from a lender, such as a bank. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of your success or failure. Venture capital is invested in exchange for a stake in your company and, as shareholders, the investors' returns are dependent on the growth and profitability of your business.

Venture capital in the UK originated in the late 18th century, when entrepreneurs found wealthy individuals to back their projects on an ad hoc basis. This informal method of financing became an industry in the late 1970s and early 1980s when a number of venture capital firms were founded. There are now over 100 active venture capital firms in the UK, which provide several billion pounds each year to unquoted companies mostly located in the UK.

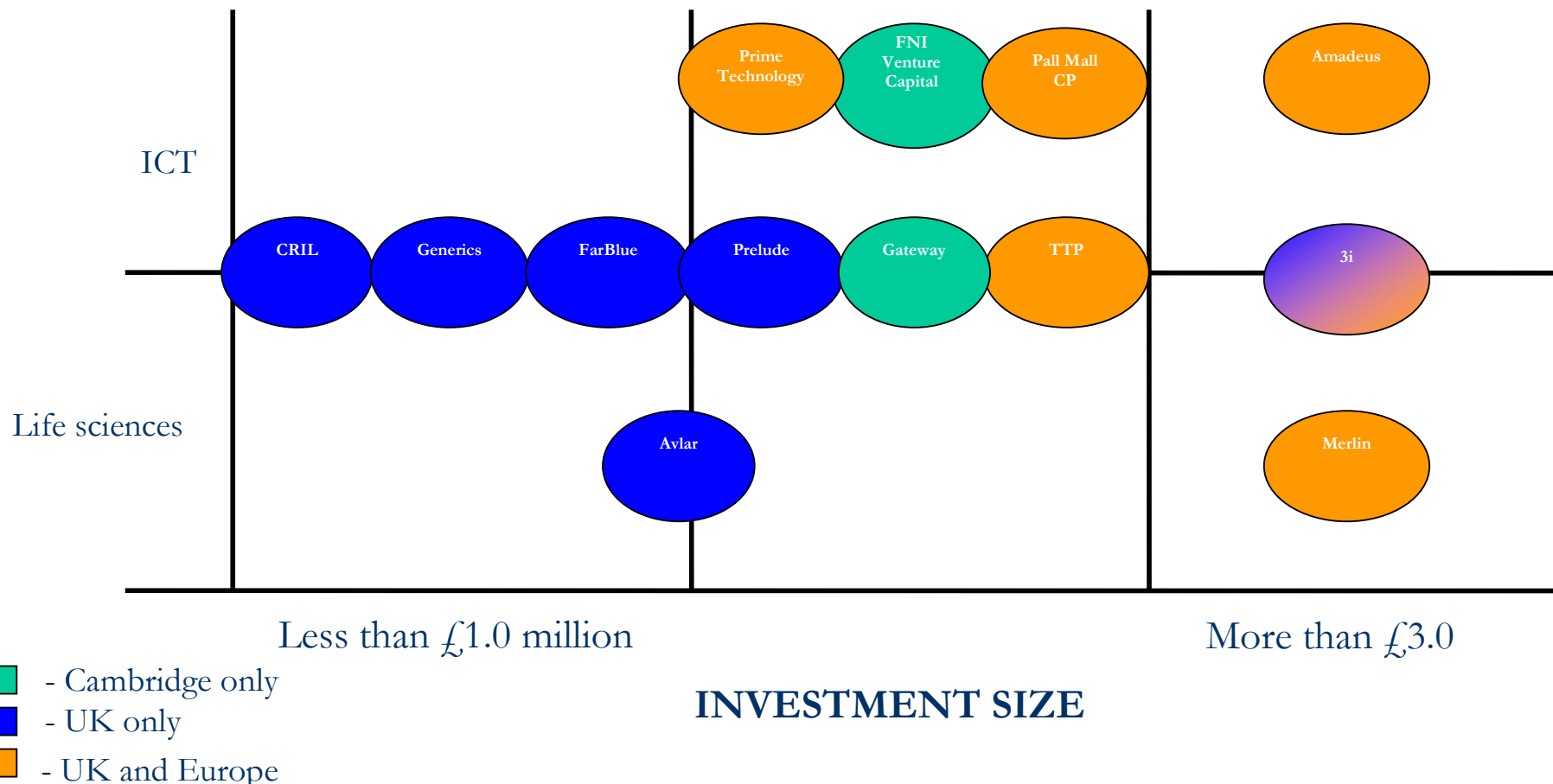
In the UK, Continental Europe and much of the rest of the world, "venture capital" means the equity financing of unquoted companies ranging from small early stage companies to large management buy-outs. In the USA, however, "venture capital" refers only to investments in early stage and expanding companies. "Private equity" is an increasingly widely used term in Europe, but some commentators use it to refer only to the management buy-out and buy-in investment sector.

From [www.bvca.co.uk](http://www.bvca.co.uk)

Figure 3 presents some Venture Capital Companies operating in the Cambridge area in terms of the technology sector in which they invest and the size of the investments they make.

# MASTER CLASSES 2004

Figure 3 – Overview of some Venture Capital Companies



For queries and further information, please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)












# MASTER CLASSES 2004

## The Venture Capital Process

The venture capital investment process has a number of key stages where actions will be required by either the entrepreneur or the venture capital firm and there will also be a need for them to meet and negotiate at certain points. An overview of the process is shown in Figure 4.

We have already discussed the business plan, and we will consider some of the other key stages later, but first and as the aim is to gain investment in return for shares in the business we need to discuss issues of ownership.

**Figure 4 – The Venture Capital Investment Process**

STAGE	ENTREPRENEUR	ENTREPRENEUR AND VENTURE CAPITAL FIRM	VENTURE CAPITAL FIRM	REPORTS
<b>Approaching the venture capital firm/ evaluating the business plan</b> 	<ul style="list-style-type: none"> <li>● Appoint advisers</li> <li>● Prepare business plan</li> <li>● Contact venture capital firms</li> </ul>		<ul style="list-style-type: none"> <li>● Review business plan</li> </ul>	
<b>Initial enquiries and negotiation</b> 	<ul style="list-style-type: none"> <li>● Provide additional information</li> </ul>	<ul style="list-style-type: none"> <li>● Meet to discuss business plan</li> <li>● Build relationship</li> <li>● Negotiate outline terms</li> </ul>	<ul style="list-style-type: none"> <li>● Conduct initial enquiries</li> <li>● Value the business</li> <li>● Consider financing structure</li> </ul>	
<b>Due diligence</b> 		<ul style="list-style-type: none"> <li>● Liaise with accountants</li> <li>● Liaise with other external consultants</li> </ul>	<ul style="list-style-type: none"> <li>● Initiate external due diligence</li> </ul>	
<b>Final negotiation and completion</b>  	<ul style="list-style-type: none"> <li>● Disclose all relevant business information</li> </ul>	<ul style="list-style-type: none"> <li>● Negotiate final terms</li> <li>● Document constitution and voting rights</li> </ul>	<ul style="list-style-type: none"> <li>● Draw up completion documentation</li> </ul>	
<b>Monitoring</b>  <b>EXIT</b>	<ul style="list-style-type: none"> <li>● Provide periodic management accounts</li> <li>● Communicate regularly with investors</li> </ul>		<ul style="list-style-type: none"> <li>● Seat on Board?</li> <li>● Monitor investment</li> <li>● Constructive input</li> <li>● Involvement in major decisions</li> </ul>	

## Preparing the Business Case

To access all of these sources of finance it will obviously be necessary to put forward a strong business case with your business plan. Box 2 provides a check list of what potential investors like to see in a plan and you should look to include concise and relevant information on each of these points.

### **Box 2 - Sections of the Business Plan**

1. The Business – A concise summary section with a clear overview of planned activities
  - a. Business mission – overall statement of aims and purpose
  - b. Strategic intentions – from the mission 6-10 clearly defined strategic goals
  - c. Significant, specific objectives – major definable, measurable aims which can be split into key tasks later in the plan
  - d. Financial goals – five year expression of the major financial factors used to measure the effectiveness of the business. Some directors and managers prefer always to make financial goals the first section of the plan. *Must* include earnings statements, return on sales, return on capital employed and or/shareholders funds, earnings per share, cash generation
  
2. The Market
  - a. Market *definition* – what is the market
  - b. Market *analysis* – by geographical area and total
    - i. Size
    - ii. Growth
    - iii. Value
    - iv. Segmentation and definable niches
  - c. Market *Structure*
    - i. Competitors
    - ii. Market share
    - iii. Trends in share movement
  - d. *Gaps* in the market (where can we create new sectors or niches and dominate them?)
  - e. Projected trends in
    - i. Environment
    - ii. Legislation
    - iii. Customer behaviour
    - iv. Manufacturing methodology and technology
  
3. Business and Product Positioning
  - a. Rationale for 'our' product or service
    - i. Clear justification for entry
    - ii. Comparative benefits, strengths and weaknesses of our product and competition
  - b. How our company and products or services will be positioned presented and promoted vis-à-vis competition
    - i. Segment to be attacked
    - ii. Specific niches we might create and dominate

# MASTER CLASSES 2004

## Box 2 – Cont.

4. Sales and Distribution Plans
  - a. Methods of sales could include some or all of:
    - i. Sales forces
    - ii. Tele-sales
    - iii. Distributors and agents
    - iv. Mail order
  - b. Sales resources
    - i. Direct staff
    - ii. Distributor candidates
  - c. Sales forecasts units
    - i. By product per period of plan
    - ii. By territory per period of plan
    - iii. Showing comparative growth period by period
  - d. Pricing policy and prices, margins, distributor discounts, agent commissions
  - e. Sales forecasts – revenues
    - i. By product per period of plan
    - ii. By territory per period of plan
    - iii. Showing comparative growth period by period
5. Organisation and Resources
  - a. Management organisation chart
  - b. Functional organisations
  - c. Outside contract help projected
  - d. Facilities and equipment
6. Expenses, Investment and Cash
  - a. Investment in facilities and equipment
  - b. Operating expenses projected for the annual periods of the plan
  - c. Working capital requirements and asset management measurements including: receivables and inventory
  - d. Cash flows, sources and distribution of funds

### **An Extract from a book by Alan Barrell**

# MASTER CLASSES 2004

---

## **Why a good pitch is so important**

In order to gain access to many of these sources of finance, but particularly for venture capital or business angel funding it will be necessary to do a presentation or 'pitch' about your business. You need to be able to articulate your business opportunity clearly, as well as demonstrating your passion for creating a new venture to commercialise new ideas and technology.

The chances are that your first meeting with a key investor (or someone who can provide a route to an investor) will be purely a chance one. For example it may be at a networking event. You only have a few seconds to grab their attention and impress potential investors enough to get a much longer meeting.

It's at this second stage that you'll need to present your business plan more thoroughly. You have to know your audience and put together a great presentation highlighting the key and relevant issues of your business ideas and deliver it in the right way.

## **The Psychology - Knowing your Audience**

Knowing your audience is one of the first critical steps to giving a presentation. It can help you to pitch your presentation at the right level in terms of what level of detail you go into on technology and business issues, and finding out what they want to hear can help to stop you making some real blunders.

Venture Capitalists<sup>1</sup> (VC's) know how to deal with entrepreneurs effectively, but entrepreneurs (especially novices) may not know how to deal with VCs. VCs are therefore well placed to take advantage of this situation to maximize the return for the venture fund's investors, unless the entrepreneur is armed with better information about how venture capitalists operate. Box 3 presents a very brief guide to VC's from the viewpoint of an entrepreneurial engineer.

You also need to remember that venture capitalists hear hundreds of pitches from entrepreneurs a year, many making big claims for the future success of their ventures in order to impress. The venture capitalist will however have heard all these before. They will also have seen the outcomes of these ventures and may instantly be turned off your idea. Box 4 gives some examples of what to avoid saying when pitching to VC's.

---

<sup>1</sup> Although the term VC is used throughout these notes, potential investors may also be Business Angels, Bankers, Corporate Partners etc.

# MASTER CLASSES 2004

---

## Box 3 - An Engineer's view of Venture Capitalists (Tredennick & Shimamoto 2001)

**VC's don't sign non disclosure agreements** – it affords them protection if they like your ideas, but they want to fund someone else to do them.

**VC's are sheep** – they will either all fund something or none of them will, so if you have an idea that's too new and too different you may struggle to find funding.

**VC's aren't technical** – they dismiss what they don't understand, your novel ideas and they focus on what they know, usually irrelevant marketing terms or growth predictions.

**Experts aren't very good** – The VC will send at least one 'expert' to evaluate your ideas. Don't expect the expert to understand what you are doing. Again if your idea's too new and different for the expert to understand then you may not get funding.

**VC's don't take risks** – VC's have a reputation as risk takers – they are not. They collect money from rich people to build investment funds. The rich investors take some risk, though their risk is spread across the funds investment.

**Venture funds are big** – If your idea needs a lot of money, then you have a better chance of getting money than an idea that promises the same rate of return for much lower investment. This is because it's easier for the VC to manage fewer big investments than many smaller ones.

**VCs collude** – They price fix by discussing among themselves funding and pricing for candidate start-ups. They will probably between them only fund between them two or three companies in an industry – this limits competition and makes success of the few more likely.

**VC's don't say no** – if the VC is interested you and expect a call and eventually a cheque. If the VC is not interested, you won't get an answer – saying no encourages you to look elsewhere. That's not good for the VC who would prefer to have you hanging around that going elsewhere for funding.

**VC's have pets** – many venture firms keep a cache of start-up executives on their staff. When you show your start-up to the VC's they will grill you about the experience of your team – but it won't be enough. The VC will then supply you with the necessary talent – you get a CEO, the CEO replaces your friends with cronies.

**Your idea, your work, their company** – The VC's CEO gets 10% of the company, VC placed board members get 1% each, your entire technical team gets 15% - and even this gets diluted in later rounds of financing. The VC's executives therefore control the company, you and the rest of the engineers do the work.

# MASTER CLASSES 2004

---

## Box 4 - The Top 10 Lies of Entrepreneurs, Kawasaki (2001)

1. **'Our projections are conservative'** Nobody believes financial forecasts – investors simply want to see that the entrepreneur understands the industry, the logic involved in putting together a reasonable financial model and how companies grow.
2. **'Our market is forecast to be \$50 billion by 2003'** When every plan makes the same grandiose claims about market size, investors have a hard time taking the projections seriously.
3. **'We're signing a big deal next week'** Never talk about a big deal until it's a signed deal.
4. **'Key employees are set to join us as soon as we get funded'** If the entrepreneur can't get key executives to join because of the opportunity then they probably can't be enticed by big salaries – one of the key entrepreneurial skills is to attract talent without money.
5. **'We have no competition'** Claiming that there is no competition to an investor who has heard a similar pitch five times in the last six months, will not attract funding.
6. **'We need you to sign a non-disclosure agreement'** Investors won't sign a non disclosure agreement because they usually see several similar plans. In reality the ability to implement an idea (the team) and not the ability to keep a secret is the key to a successful start-up.
7. **'The big company is too slow to be a threat'** Big companies didn't get where they are by being slow – need to show respect for them whilst demonstrating a compelling and believable way to compete with them
8. **'We're glad the bubble has burst'** No one is glad the bubble has burst – it's harder to get funded, valuations are lower and due diligence takes longer.
9. **'Our patents make our business defensible'** Unless you are a biotech or medical device company it's hard to support this claim. Investors believe that what makes a company defensible is its ability to out-implement rivals.
10. **'All we have to do is get 1% of the market'** No one wants to invest in a company that aspires to grab just 1% of a market, shooting for a much higher market share is much more attractive to the investor.

## The Elevator Pitch

The 'Elevator Pitch' is a very brief (one or two minutes) introduction to your business which you would probably use when making new contacts at networking events.

To understand why it's called an 'Elevator Pitch' imagine you have just jumped into a lift on the ground floor and purely by chance the only other occupant of the lift is the person who you would most like to get funding from. He or she is travelling to the 5<sup>th</sup> floor, so you have the opportunity to gain their full attention, but for only the minute or so that it takes to travel the height of the building. You may only have this one chance – and your only objective is to gain a much longer meeting or conversation with them.

# MASTER CLASSES 2004

---

In this kind of situation there is clearly a need for you to be able to articulate your business idea very clearly and concisely so as to grab their attention. The key is to have ready a well rehearsed and well delivered pitch that covers the key areas of your business plan, without the need for any visual aids or props.

The following is a checklist of what you should try to include in your pitch.

- Market opportunity and market drivers
- The product offering and the need it satisfies
- Pricing and distribution
- The unique selling points
- Why you and no one else is the right person for this opportunity
- Your partners – especially well known and influential ones
- Way to engineer feedback and a follow up meeting

Effective delivery of your elevator pitch will:

1. Convince the 'target person' to schedule a longer meeting with and be receptive to doing business with you.
2. Empower and enable the 'target person' also to convince other appropriate people to become interested in your company
3. Demonstrate sincerity, including listening
4. Communicate a sense of value, empathy and urgency
5. Combine thorough sales and market research
6. Require no more than 1-2 minutes

## **The Investor Pitch**

For many discussions about business particularly for investment issues a presentation of the business plan will be needed. Indeed in many cases this will be used much more than the written text of your business plan.

Your business plan presentation should be brief – a maximum of 20 slides (10 slides is better with some additional ones as background!). You should talk for a maximum of 20 minutes and answer questions for 30minutes. The presentation must cover all of the key business issues and this means it should not dwell on the technology or the product too much.

Some of the key points it should make are:

- Large market
- Clear customer need
- Protectable product
- Clear benefit over competitors
- Sound commercial case

You should keep the presentation concise and focus on investor issues – if they give you some money; when will you give them lots more back?

You will need to work hard on getting your presentation to cover the key business and investment issues in a relatively small number of slides. You should rehearse your presentation in front of a constructively critical audience i.e. your mentor or CEC, to make

# MASTER CLASSES 2004

---

sure that the story works, that you cover all the key issues, and that you give correct emphasis to relevant parts of the plan.

Some suggestions of how a presentation can be put together and some examples of good and bad presentations are available at Austin Technology Incubator's website <http://www.ic2-ati.org/powerpoint/powerpoint.htm>. They suggest that there are a number of key elements which should be covered in a presentation, although the order and exact content will vary depending on the nature of the business, the audience, the stage of funding and so on. Box 5 provides a summary.

## Box 5 – Overview of a Pitch to Investors

**Introductory Slide** - should be put onto the screen as soon as possible, and should include the following main items: the company's name, a logo, and a one sentence description of what the company does.

**Product Slide** - What is the product and how does it work? The product slide should present the name of the product and a short description. Diagrams, photographs, or screen shots often help to illustrate. Keep them simple.

**The Problem/Pain Slide** - In most cases, customers don't purchase a product until they have a real problem or feel real pain that the given product will fix. This slide should describe the problem that needs to be solved, the pain that needs to be addressed, or the otherwise urgent demand that will be satisfied by the product. Many successful new companies meet a demonstrated market demand or solve a specific problem.

**Target Customers Slide** - Should explain who will buy the product. Are the customers businesses or consumers? If the product will be sold directly to consumers, the slide should describe the target geographical area, demographics or other applicable characteristics (age, education, employment, etc.) If the product will be sold to businesses, the slide should describe the target industry or market segment, and specific examples of targeted customers.

**The Market Size Slide** - should give an idea of the size and the composition of the target market. If the market described is too small, investors may lose interest. No matter how strong the product, large revenues are not possible without a sufficiently large market. If the market is too large, the audience may feel that the company's marketing objectives are not sufficiently focused. This slide (or slides) should also show the growth and composition of the market. For example, a pie chart which breaks the market into segments, and/or a bar graph which shows market growth are helpful.

**The Proposed Distribution and Sales Channels Slide** - The distribution and sales channels are elements of the presentation which are often overlooked. Will this product be sold by a direct sales force, through dealers / distributors, directly via the internet, etc? How will the sales and distribution channels be structured? If it is an internet business, how will it drive traffic to the site?

**The Competition and Competitive Advantage Slide** - "We have no competitors." That statement can be the kiss of death for a venture presentation. Yet a surprising number of companies repeat that very statement. This is a result of a) not doing enough research, b) self-delusion: believing that no one else can do what the company plans to do, or c) both. There are always competitors, even if the company is not aware of them. The other mistake is to acknowledge competitors but dismiss them out of hand, because they are too slow, too

---

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

# MASTER CLASSES 2004

---

entrenched, don't have a great product, or a myriad of other reasons. A much better approach is to acknowledge the strength of the competition, show that they are being watched very closely, and clearly articulate the competitive advantage. As a start-up company, competitive advantage could be a superior technology, a completely new (and more efficient, cheaper, better) solution to solving a problem, a better management team, or all of the above. It is important to demonstrate a significant advantage. A matrix / table comparing the company with the competition is helpful.

***The Financials (4-5 year projections) Slide*** - The financials chart shows the basic numbers that need to be presented: the number of customers (or units sold, as appropriate), revenues, expenses, and profits over a five year period. These numbers may need to be justified verbally, and the business plan will go into more detail. In most start-up technology businesses, profitability is expected by year 3-5. Revenues should grow significantly by year 4-5.

***The Funding Requirements Slide*** - Funding requirements should be listed on the financials slide or on a separate slide. This will show investors the amount of money being requested, and how this money will be spent.

***The Partnerships Slide*** - should describe alliances and partnerships already formed or in progress. What is the nature of these partnerships, why would they want to partner with the company, and how will the partners help the company reach its objectives?

***The Management Team Slide*** - should list three to five key members of the management team. Having at least 3-4 key team members on board is critical for the company's credibility. A few gaps or provisional hires are acceptable, but at a minimum, the team should demonstrate relevant industry experience. Previous start-up and blue chip company experience also help. A well-rounded and committed advisory board can also help to fill in some gaps.

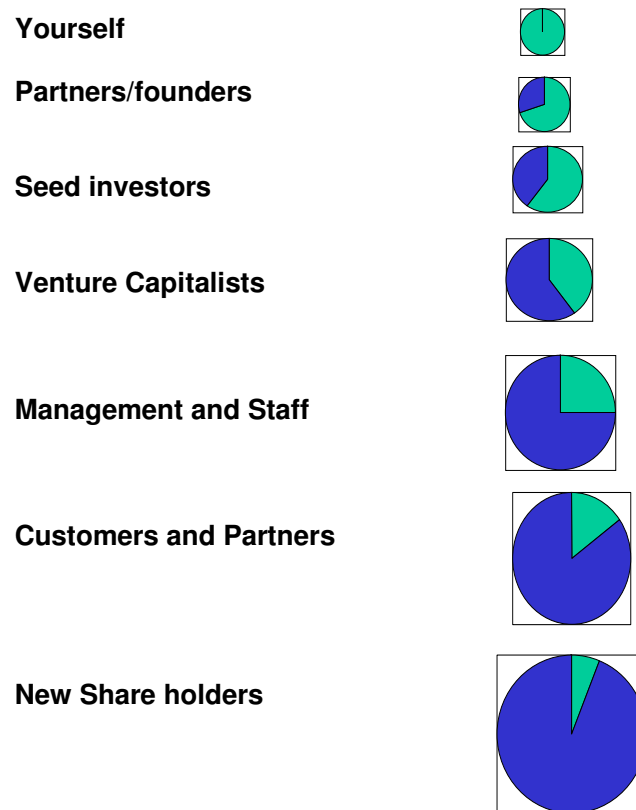
***The Milestones Slide*** - is important for showing the progress made by the team to date, and for outlining the future plans for the company. Milestones should be both realistic and substantial. A timeline is a good way to illustrate milestones.

## Doing the Deal - Ownership and Dilution of Ownership

An entrepreneurial business in its very early days, perhaps when it is still just an idea, will belong solely to the inventors of the idea or the entrepreneurial founders. Once the business is actually started a number of formal legal documents will need to be drawn up to register the company and establish initial shareholdings among the founders (see Appendix 2 on the Legal Issues of Starting up).

If the entrepreneur chooses to raise finance through the route of selling equity in the business venture, then issues of valuation, dilution and ownership will become paramount. Dilution of ownership is something that some entrepreneurs fight against. In order to grow the business, resources need to be accessed, and finance will be needed to pay for these in some way. If equity finance is the route selected, then this will mean that the entrepreneur will have to give up part of the ownership of the business – ownership will become ‘diluted’. The smart entrepreneur knows that owning a small(er) part of a very successful and hence valuable business is much better than owning all of a less successful and less valuable venture as Figure 5 shows.

**Figure 5 – Dilution of Ownership – Who owns the Business?**



When gaining investments from venture capitalists they may ask what valuation the company is seeking or may volunteer a ball park figure. Venture capitalists often base their valuations on the entrepreneur's predictions, but will also benchmark with other deals done in the industry by other companies. Obtaining information on comparable companies that have received venture financing can help an entrepreneur establish the right valuation.

## Box 6 - Example and Definitions

As an example and to highlight definitions of some venture capital terminology let's consider a venture capitalist who wants to put £2 million into a business that is worth £3 million pre-money.

**Pre-money** – means the valuation put on the business before the investment takes place

So before the investment the company will be worth £3 million and with the £2 million investment from the venture capitalist the company will be worth £5 million post money.

**Post-money** – means the resulting valuation after the investment has taken place.

In return the venture capitalist will expect to become the owner of a corresponding proportion of the equity in return for the investment. In this case it will be:

$$£2 \text{ million} / £5 \text{ million} = 40\%$$

This will therefore mean that if the founding team prior to the investment own 100% of the business, after investment it will be diluted to 60%.

## Valuation

In order to sell part of the business at a fair price, a value must be put on the business as a whole. Four important facts must be kept in mind when considering the value of a business:

1. The value of a business changes over time – and any attempt at valuation is linked to trying to predict the future
2. The buyer and seller of equity in any business will have different views on what is a 'fair' valuation at a given time
3. Valuation is more of an art than a science – there is no proven formula that will determine the value of your business
4. Valuation is linked to different perceptions of financial risk

An investor is seeking to buy partial ownership of a new venture at a low cost, then (hopefully) do all they can to ensure that the overall value of the business increases such that they can sell their partial ownership at a much higher price. Two key questions relating to this are:

1. How do you value a business?
2. How does the value of a business increase?

The main methods of valuing a business are not particularly difficult, but each will deliver different answers. Some of the main methods of valuing a business are<sup>2</sup>:

- What someone will pay for it
- The assets of the business less its liabilities (net asset value)

---

<sup>2</sup> Information on these and other methods can be found in books such as Sullivan (1995), Copeland, T., *et al.* (1994), Lang (2001). Detailed references are at the end of these notes.

# MASTER CLASSES 2004

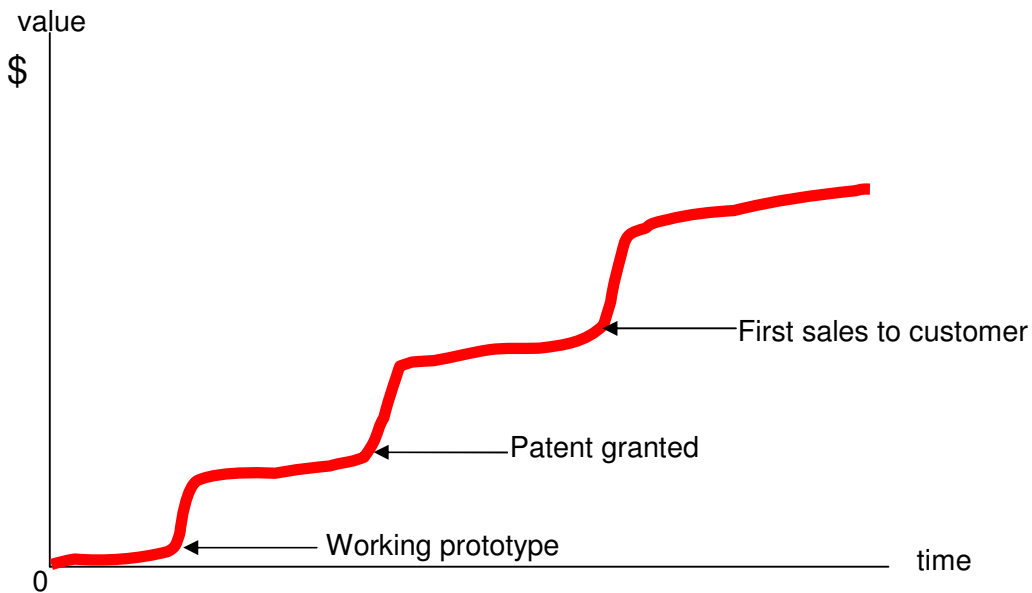
---

- Price earnings (P/E) ratio – a multiple of profits based on industry sector norms
- Discounted cash-flow methods that look at future income streams (e.g., pay-back analysis, Net Present Value (NPV), risk-adjusted NPV, internal rate of return (IRR))
- Probability-adjusted methods (e.g., decision analysis, options-based pricing theory)

There are a large number of activities that will be impact upon the value of a business (see Figure 6). The most significant of these are those that demonstrate endorsement of the success of the business, e.g.;

- **Getting initial funding** –shows that someone (other than the entrepreneurs) believes in the business idea
- **Building a team** –shows that the entrepreneur has a group of people committed to the success of the business
- **Making a working prototype** – shows that the product or service really works
- **Customer endorsement** – shows that real users like the product or service
- **Meeting a earnings / profit forecast** – shows that the product or service really does sell and bring money into the business as planned

**Figure 6 – Events which have an impact on the value of the business**



# MASTER CLASSES 2004

---

## Doing the Deal - Valuation Methods

Three different valuation methods will be investigated more fully using an example.

### **Net Asset Value**

The net asset value, or book value of the shareholders equity in the business is derived from the company's balance sheet. The principle is that the company is worth, to its ordinary share holders the value of its assets less the value of any liabilities to third parties. See Table 2 for an example Balance sheet for the fictional company Widget Co.

**Table 2 - Balance Sheet for Widget Co. at 31<sup>st</sup> December 2002**

	£m
<i>Fixed Assets</i>	1.2
Property	0.5
Equipment	0.7
<i>Current Assets</i>	
Stocks	0.4
Debtors	0.2
Cash	0.3
<b>Total Assets</b>	<b>2.1</b>
<i>Liabilities</i>	
Creditors	0.3
Bank Loan	0.4
<b>Total Liabilities</b>	<b>0.7</b>
<b>Net Assets</b>	<b>1.4</b>
<b>Equity –Share holders Funds</b>	<b>1.4</b>

In this example the Net Asset Value is £1.4m

The net asset value includes some assets at historic costs, some at current value (e.g. property) and some written down over their estimated life using some kind of depreciation method. So depending on the type and age of the assets held by the company, the net asset value will be somewhere along the spectrum between historic cost and the current market value. It should be noted that the balance sheet generally only contains values for tangible assets and does not include any intangible assets.

There are a number of ways in which the net asset value can be adjusted to give a much better estimation of value:

1. If there are details on the tangible assets of the business such as property and equipment and their ages, it may be possible to gain a better estimate of the current value of these and adjust the book value accordingly. For example if Widget Co owns some property as part of its fixed assets which is included on the balance sheet at £0.5m, the value at which it was purchased 3 years ago, it may be more relevant to adjust the figure to £0.7m – a value gained from a revaluation which took place in February 2003. This will therefore increase the Net Asset Value of the Business to £1.6m
2. Estimates may be included for tangible assets such as expenditure on research and development, brand values and intellectual property. These intangibles are very difficult however to assign values to.

# MASTER CLASSES 2004

---

3. Off-balance sheet items – for example certain forms of leases for capital equipment for example may not be included in the balance sheet. These are forms of debt finance and should be accounted for in valuations.

## **Market Values including P/E Ratios**

The start point for estimating market based values for companies is to consider the values of companies whose shares are listed on stock exchanges. Share prices for companies listed on stock exchanges give an instant picture of a company's value. For example if another company Reciprocator Co was listed on the London Stock exchange with a share price of 83p and had 30 million shares issued the value of the company (or Market Capitalisation) would be £24.9 million.

The most popular method for valuing companies is to use a price to earnings ratio or P/E ratio. This is determined as:

$$\text{P/E Ratio} = \frac{\text{Share Price}}{\text{Earnings per Share}} = \frac{\text{Market Capitalisation}}{\text{Earnings for Shareholders}}$$

If we consider Reciprocator Co. and find out from its Profit and Loss Account that its earnings per share for 2002 are 7p then the P/E ratio = 83p/7p = 11.9.

P/E ratios can be used to value any company whether listed or not by multiplying its earnings by the appropriate P/E value as P/E values can be calculated for sectors and markets.

So if we assume that Reciprocator Co and Widget Co operate in the same sector and we want to determine a valuation for the unlisted Widget Co we can base it on a P/E ratio of 11.9. So if Widget Co's earnings per share are 4p and they have 5 million shares, then the value of Widget Co can be determined as:

$$\begin{aligned} \text{Value} &= \text{P/E ratio} \times \text{Earnings Per Share} \times \text{No of shares} \\ &= 11.9 \times \text{£}0.04 \times 5000000 \\ &= \text{£}2.4 \text{ million} \end{aligned}$$

This is substantially higher than the Net Asset Value of the same company!

There are however a number of factors which should be taken into account to ensure that the comparison between companies is valid, for example:

- Accounting methods used by each company may be different
- The financial year ends may be different – so they will relate to different parts of the economic cycle
- One company may have experienced atypical drops in earnings – this will have the effect of boosting the P/E ratio.

## **Discounted Cash Flow Technique**

Discounted cash flow techniques can be used to value the enterprise and hence determine a value for the equity involved. There are six steps to completing a valuation by this method:

1. Determine a time horizon for the forecast
2. Forecast operating cash flows for the period
3. Determine the residual value of the enterprise at the end of the time horizon
4. Estimate the cost of capital

# MASTER CLASSES 2004

---

5. Discount the cash flows
6. Prepare any financial statements that are required.

In determining the time horizon one would need to consider both the economic and business cycles and the growth that you would expect the business to achieve within this period. For example if a new business was to be built around a new computer software package – you might estimate that a relevant time horizon is just 3 years as development can be fast and the package may be obsolete after this time. However for products which have longer development cycles a longer time horizon of 10 years may be better.

You will then need to forecast cash flows for the period which include future sales, operating profits, capital expenditure, taxes etc. Table 3 shows some cash flow forecasts for Widget Co for the first seven years of its operation. The following assumptions have been made:

1. There is a one off capital expenditure of £600K now
2. There are £1M of sales in year 1 and these grow at 20% per year
3. Operating costs are 80% of sales
4. Tax is levied at 30%, one year in arrears

**Table 3 – Cash Flow Forecast for Widget Co.**

Widget Co - Cash Flow								
	£000's							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Sales	0	1000.0	1200.0	1440.0	1728.0	2073.6	2488.3	2986.0
Operating costs	0	-800	-960	-1152	-1382.4	-1658.88	-1990.66	-2388.79
Operating Profits/Earnings	0.0	200.0	240.0	288.0	345.6	414.7	497.7	597.2
Capital Expenditure	-600	0	0	0	0	0	0	0
Pre Tax Cash Flow	-600.0	200.0	240.0	288.0	345.6	414.7	497.7	597.2
Tax	0.0	0	-60.0	-72.0	-86.4	-103.7	-124.4	-149.3
Cash Flow	-600.0	140.0	168.0	201.6	241.9	290.3	348.4	597.2

The residual value is the value can be calculated in a number of ways depending upon what is envisaged for the business after the forecast time horizon. For example if the business is to be closed down, then one might say that the residual value is the remaining value of fixed assets such as equipment. An alternative if the business is set to continue into the future is the use the ratio of EV/EBITDA.

EV is known as the enterprise value which is defined as:

$$EV = \text{Market Value of Equity} + \text{Value of Debt}$$

So for Reciprocator Co which has a Market Capitalisation of £24.9 million and if we assume that in addition it has a £5 million loan outstanding the enterprise value would be £29.9.

EBITDA is earnings before interest, depreciation and amortisation. If we assume that for Reciprocator Co earnings are £4 million in the current year then the ratio of EV/EBITDA is around 7.5.

As Reciprocator is in a similar industry to Widget Co we can, like the P/E ratio apply this to the business, however it should be treated with caution as we are applying a figure that is relevant now, to events a number of years into the future.

# MASTER CLASSES 2004

---

So if we apply an EV/EBITDA of 7.5 to Widget's earnings in year 7 we gain a residual value of the enterprise of around £4.5 million.

We still need to take into account the time value of money over this seven year period. For this we need to estimate the cost of capital for the business. This will depend on the levels of debt and equity in the business, the level of interest that the bank expects to be paid for debt finance and the returns that equity investors expect to make. For the case of this example we will assume that the cost of capital is 10%.

With this cost of capital in mind we can determine the present value of each of the cash flows for each year by applying a relevant discount factor. The present value can be determined using the following equation:

$$PV = I/(1+r)^n$$

Where:

I = the amount  
r = the cost of capital  
n = number of periods

The discount factor to be applied for each year is therefore simply  $1/(1+r)^n$ , so for year 7 the discount factor can be determined by:

$$1/(1+0.1)^7 = 0.513$$

Table 4 shows the discounted cash flow for Widget Co over the seven year period. In addition it also shows the net present value or NPV which is sum of the present values for the seven years of operation – this is estimated at £0.665 million.

**Table 4 – Discounted Cash Flow for Widget Co**

Widget Co - Cash Flow								
	£000's							
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Sales	0	1000.0	1200.0	1440.0	1728.0	2073.6	2488.3	2986.0
Operating costs	0	-800	-960	-1152	-1382.4	-1658.88	-1990.66	-2388.79
Operating Profits/Earnings	0.0	200.0	240.0	288.0	345.6	414.7	497.7	597.2
Capital Expenditure	-600	0	0	0	0	0	0	0
Pre Tax Cash Flow	-600.0	200.0	240.0	288.0	345.6	414.7	497.7	597.2
Tax	0.0	0	-60.0	-72.0	-86.4	-103.7	-124.4	-149.3
Cash Flow	-600.0	140.0	168.0	201.6	241.9	290.3	348.4	597.2
Discount Factor	1	0.909	0.826	0.751	0.68	0.621	0.564	0.513
PV	-600	127.26	138.768	151.4016	164.5056	180.2788	196.4777	306.362
NPV	665.0537							

To complete the estimation of value we need to add the present value of the residual value of the enterprise – this will be:

$$0.513 \times \text{£}4.5 \text{ million} = \text{£}2.3 \text{ million}$$

So the total value is £0.67 million + £2.3 million = £3.0 million.

---

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

## So What's the Value?

So far we have used three different techniques to determine a value for Widget Co and have come up with three different answers as illustrated in Table 5.

**Table 5 – Valuations for Widget Co**

Valuation Method	Value £ million
Net Asset Value	1.4 (but could be adjusted to 1.6)
P/E Ratio	2.4
Discounted Cash Flow	3.0

The key question is which value is correct? These values can provide the entrepreneur and investor with some ballpark figures but, when doing the deal with an investor which involves money in return for equity, the answer will come down to negotiation.

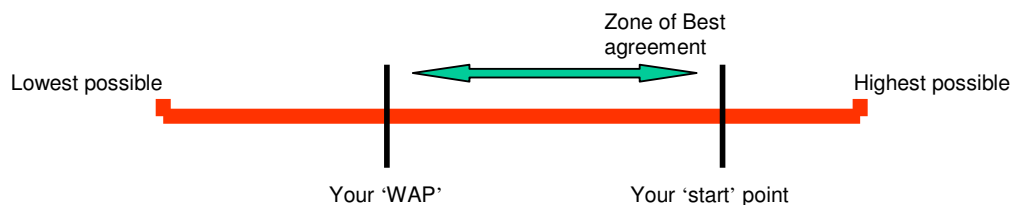
## Doing the Deal - Negotiation

The value of your business will ultimately depend on what someone is prepared to pay for it and what you are prepared to sell it for. You will come to the final price through negotiation. The key to successful negotiation and getting what you want from the deal is preparation.

Before going to negotiate you should make sure that you know your business plan well – i.e. you should know in detail what your product is, what your business is about and who your target customers are and the kind of value you will be providing to them through your products and services.

You should also work through a number of deal options and work out the range of prices you would be prepared to accept or the 'Zone of Best Agreement' (Figure 7). This range will be bounded by the ideal price (the greatest value that you could possibly expect from the deal) at the top end and the walk away point – the lowest price that you could possibly accept, below which you are no longer interested in this deal. You will also need to think about why you would be prepared to drop the price over this range.

**Figure 7 – Zone of Best Agreement**



# MASTER CLASSES 2004

---

In order to play the negotiation game you will also need to prioritise the various elements of the deal from both your side and the VC side by working out what is important for you and what is important for them.

## Doing the VC Deal – Points to Watch Out For

Aside from getting the right valuation for the business and the equity involved, there will be a number of other points which must be negotiated with venture capital investors<sup>3</sup>. These could include the following:

- **A Seat on the Board of Directors** – investors may want to have a representative on the board. Like other directors they should add value to the company and not just act as an observer for the investor.
- **Share structure** – investors usually want a substantial minority (between 25% and 50%). You will need to consider the impact of this when shareholders vote on new resolutions
- **Veto rights** – investors often wish to enhance their position as minority shareholders through having veto rights on some key decisions such as: changes to share rights, constitutional documentation, expenditure over certain thresholds, issue of further shares or options, disposal of assets, changes to the nature of the business and so on
- **Warranties** – investors often ask for warranties from management as to the business and assets of the company. These need to be considered carefully and limits on management's liability needs to be agreed.
- **Restrictive covenants** – investors may want to prevent management setting up competing businesses or poaching staff and employees
- **Share transfer restrictions** – departing directors or employees may be required to sell their shares when they leave. Other rights such as tag-along rights (procedures used to protect a minority shareholder whereby if a majority shareholder sells their stake then the minority shareholder has the right to join the transaction and sell their minority stake in the company) and drag-along rights (rights enabling a majority shareholder to force a minority shareholder to join in the sale of a company but under the same price, terms, and conditions as any other seller) may also be negotiated.
- **Exit** - Equity investors will also want to see a clear route for exit and realisation of their investment usually within 3-5 years, through listing on a stock exchange, seeing a trade sale or carrying out a re-financing.

## Term Sheets

Part of the documentation used during the venture capital process is a term sheet which this sets out the details of the investment. A typical term sheet may include the following sections:

1. **The investment** – details of how much is to be invested, the valuation of the business and the number of shares the investor will gain
2. **Conditions of Investment** – which deals with the need to complete due diligence and may also include requirements for co-investment from other VC firms

---

<sup>3</sup> These points are highlighted further in Mills and Reeves's Launch Pad.

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

# MASTER CLASSES 2004

---

3. **Founder shares** – conditions placed on the founders and the shares that they hold and what happens to these if and when they leave the business
4. **Terms of Investment** – which deals with warranties, the appointment of an investor to the board of directors and their fees, information flows about the business, rights of founders and investors to acquire shares, intellectual property issues
5. **Confidentiality** – basically states that the details of the term sheet should remain confidential and that both founders and investors will enter into a non-disclosure agreement
6. **Applicable Law** – states which legal jurisdiction the term sheet complies with
7. **Expiry date** – provides a time-line within which the founders and company should accept the offer
8. **Exclusivity** – which may state that whilst this deal is in progress, the founders should not seek alternatives

For a more detailed standard term sheet see

[www.tjguk.com/plain\\_dealing/pdf/standard\\_term\\_sheet.pdf](http://www.tjguk.com/plain_dealing/pdf/standard_term_sheet.pdf)

## Due Diligence

Once an initial offer has been negotiated the investor will want to perform 'due diligence' – a detailed assessment of the technical and financial feasibility of your business proposition. The venture capital firm will often use external consultants to consider the market prospects and technical aspects of the business and chartered accountants to report on the details of the financial projections and other financial aspects.

The aim of the due diligence review is to either support or contradict the venture capital firm's own initial impressions of the business plan and to sift out any fundamental problems that exist.

## After the Deal

After the deal is finally done and the contracts signed, the Venture Capitalist will want to be sure that the investment is growing in value. Many investors take a 'hands on' approach as described in Box 7.

### **Box 7 - Role of Investor after the deal is done**

A "hands-on" or active approach aims to add value to your company. In addition to advising on strategy and development, the venture capital firm will have many useful business connections to share with you. The venture capital firm aims to be your business partner, someone you can approach for helpful ideas and discussion. A hands-on investor is particularly suited to a company embarking on a period of rapid expansion. However, day-to-day operational control is rarely sought. In order to provide this support, some venture capital firms will expect to participate through a seat on your board. The director may be a venture capital firm's executive or an external consultant and fees will need to be paid for the director's services. The venture capital firm will expect to:

- Receive copies of your management accounts, promptly after each month end
- Receive copies of the minutes of the board of directors' meetings

---

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

## MASTER CLASSES 2004

---

- Be consulted and involved in, and sometimes have the right to veto, any important decisions affecting the company's business. This will include major capital purchases, changes in strategic direction, business acquisitions and disposals, appointment of directors and auditors, obtaining additional borrowings, etc.

Some investors will have a less active role in the business, a "hands-off" or passive approach, essentially leaving management to run the business without involvement from the venture capital firm, until it is time to exit. They will still expect to receive regular financial information. If your company defaults on payments, does not meet agreed targets, or runs into other types of difficulties, a typically hands-off investor is likely to become more closely involved with the management of the company to ensure its prospects are turned around. Most venture capital firms in reality tend to operate somewhere between these two extremes.

From [www.bvca.co.uk](http://www.bvca.co.uk)

# MASTER CLASSES 2004

---

## References

Copeland, T., Koller, T., and Murrin, J., 1994, *Valuation: Measuring and managing the value of companies*, Wiley.

Kawasaki, G. 2001 The Top Ten Lies of Entrepreneurs, *Harvard Business Review* January pp 2-3.

Lang, J., and the University of Cambridge Entrepreneurship Centre, 2001, *The High Tech Entrepreneurs Handbook*, Pearson

Sullivan, N.F., 1995, *Technology Transfer: Making the most of your intellectual property*, Cambridge University Press.

Tredennick, N., & Shimamoto, B., 2001, An Engineers View of Venture Capitalists, *IEEE Spectrum* September pp 13-19

# MASTER CLASSES 2004

## Appendix 1 - Grants for Start-up Businesses

### 1. Grants for Research, Development and Innovation

<b>DTI RESEARCH &amp; DEVELOPMENT GRANTS</b> <a href="http://www.businesslink.org/r-d/">www.businesslink.org/r-d/</a>	Provides grants to help individuals and small and medium-sized businesses research and develop technologically innovative products and processes. These were formerly known as the SMART award scheme and incorporate five different types of grants
Investigating an Innovative Idea	Businesses who have an idea to develop an innovative product, process or service, but are not sure whether they are ready to take it forward successfully, may be able to receive help under a Grant for Investigating an Innovative Idea. The grant will reimburse some of the costs of consultants chosen to provide expert advice on identified 'barriers' to the successful implementation of the business' innovative idea. The project outcome is an action plan.  YOU Get: 75% of total project costs up to a maximum of £12k.
Micro Projects	Micro Projects are simple, low-cost development projects lasting no longer than 12 months. The output should be a simple prototype of a novel or innovative product or process. A grant of up to £20,000 is available to businesses with fewer than 10 employees.  YOU Get: Get 50% of total project costs up to a maximum of £20k
Research Projects	Research Projects typically involve planned research or critical investigation lasting between 6 and 18 months. The result of the project could be new scientific or technical knowledge that may be useful in developing a new product or process. Available to businesses with fewer than 50 employees.  YOU Get: 60% of total project costs up to a maximum of £75k.
Development Projects	Development Projects involve the shaping of industrial research into a pre-production prototype of a technologically innovative product or industrial process. Available for businesses with fewer than 250 employees.  YOU Get: 35% of total project costs up to a maximum of £200k.
Exceptional Development Projects	Exceptional Projects involve technology developments which have higher costs. These projects are likely to generate much wider economic benefits and must be recognised as strategically important for a technology or industrial sector.  YOU Get: 35% of total project costs up to a maximum of £500k
<b>NATIONAL ENDOWMENT FOR SCIENCE, TECHNOLOGY AND THE ARTS</b> <a href="http://www.nesta.org.uk">www.nesta.org.uk</a>	NESTA was set up to pioneer new ways of supporting and promoting creativity and innovation - to find new ways of keeping talent in the UK, for the benefit of the UK. We mainly do this through our core funding programmes, but we're keen to explore other opportunities as they arise. NESTA is building a network of partnerships and collaborations to do just that. There are a range of different grants and awards available in the following programmes:

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

# MASTER CLASSES 2004

	<ul style="list-style-type: none"> <li>• Invention and Innovation</li> <li>• Learning</li> <li>• Fellowships</li> <li>• Graduate Pioneer Programme</li> <li>• Ignite</li> <li>• FutureLab</li> <li>• Planet Science</li> <li>• Partnerships and Competitions</li> </ul> <p>The awards available are different in each programme both in terms of their size and purpose.</p>
--	--

## 2. Grants for Collaborative R&D and Networking

<p><b>EU FRAMEWORK PROGRAMME 6 (FP6)</b>  <a href="http://www.dti.gov.uk/ostinternational">www.dti.gov.uk/ostinternational</a></p>	<p>Projects must involve several partners from different countries. Framework Programme 6 (FP6) is the European Union's main instrument for the funding of research and innovation in science, engineering &amp; technology.</p> <p>Funding is provided to businesses undertaking projects in the following seven key areas that have been chosen as the priorities for the five year period starting January 2003:</p> <ul style="list-style-type: none"> <li>• life sciences, genomics and biotechnology for health</li> <li>• information society technologies</li> <li>• nanotechnologies and nanosciences</li> <li>• aeronautics and space</li> <li>• food quality and safety</li> <li>• sustainable development, global change and ecosystems</li> <li>• citizens and governance in a knowledge-based society.</li> </ul> <p>The programme is open to EU public and private entities of all sizes.</p>
<p><b>LINK COLLABORATIVE RESEARCH</b>  <a href="http://www.ost.gov.uk/link/">http://www.ost.gov.uk/link/</a></p>	<p>LINK Collaborative Research brings together industry and academia to undertake pre-commercial research projects, with Government providing up to 75% of the total cost for feasibility studies; 50% for core research, leading to 25% for nearer market development.</p> <p>Through LINK Collaborative Research, businesses can engage with some of the best and most creative minds in academia, to tackle new scientific and technological challenges so that they can go on to develop innovative and commercially successful products, processes and services.</p> <p>Government provides up to 75% of the total cost for feasibility studies; 50% for core research, leading to 25% for nearer market development, which is matched by industry (through either in kind contributions, cash or a combination of the two).</p> <p>The average size of a core LINK Collaborative Research project is around £500,000, with the average duration being 3 years. Companies of any size and research organisations based in the UK can participate in LINK Collaborative Research projects. Each project needs to involve at least one company and one research base organisation (universities, research and technology organisations, public sector research establishments, etc).</p>
<p><b>EUREKA</b>  <a href="http://www.globalwatchonline.com/eureka">www.globalwatchonline.com/eureka</a></p>	<p>EUREKA is a pan-European network for encouraging near market, collaborative research and development projects which lead to the development of advanced products, processes or services. It involves organisations from 33 European countries and the Commission of the European Union.</p> <p>Funding of up to 50% of eligible costs may be available for projects, which must involve a minimum of two independent</p>

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

# MASTER CLASSES 2004

	<p>organisations from two member countries. A project can be in any technological area chosen by the participants.</p> <p>Any UK-registered company, research organisations and Higher Education Institution may be eligible to apply for funding.</p>
--	--

## 3. Grants to help with Market Research

<p><b>EXPORT MARKETING RESEARCH</b>  <a href="http://www.britishchambers.org.uk/exportzone/emrs/index.html">www.britishchambers.org.uk/exportzone/emrs/index.html</a></p>	<p>To be a successful exporter it is essential to plan your entry into the market. Marketing research is crucial in the development of a market entry strategy and professional advice and financial support is available.</p> <p>As well as providing information and other resources about exporting on its website, Trade Partners UK provides financial support to companies to undertake export marketing research through the Export Marketing Research service. This service is managed by the British Chambers of Commerce.</p> <p>Financial subsidies are available of up to 50% towards the cost of conducting marketing research either in-house or through the use of consultants.</p>
---	--

## 4. Grants to help with Financial Issues

<p><b>RESEARCH AND DEVELOPMENT TAX CREDITS</b>  <a href="http://www.inlandrevenue.gov.uk/r&amp;d/">www.inlandrevenue.gov.uk/r&amp;d/</a></p>	<p>Research and Development (R&amp;D) Tax Credits for SMEs were introduced in 2000 to encourage small firms to invest in research and development.</p> <p>Under the scheme a company can increase the amount that it deducts for qualifying R&amp;D spending when it computes its profits for tax purposes to 150%.</p> <p>A company that is not in profit can surrender its qualifying R&amp;D losses (including the R&amp;D tax relief) to the Exchequer in exchange for a cash payment, worth 24% of the spending on R&amp;D. This is called the payable R&amp;D tax credit. The Inland Revenue makes the payment.</p> <p>R&amp;D tax relief and the payable R&amp;D tax credit can be claimed by a company even though it has not started to trade for tax purposes.</p>
<p><b>SMALL FIRMS LOAN GUARANTEE SCHEME</b>  <a href="http://www.sbs.gov.uk/sflgs">www.sbs.gov.uk/sflgs</a></p>	<p>Small businesses with viable business proposals may not be able to obtain a conventional loan because of a lack of assets to offer as security against the loan. The Small Firms Loan Guarantee helps to overcome this by providing lenders (banks and financial bodies) with a guarantee against default.</p> <p>Guaranteed loans – which are intended to supplement and not be used instead of normal commercial finance – are only made available in those cases where a lender would be prepared to lend, but for the lack of security.</p> <p>The Department of Trade and Industry's (DTI) Small Business Service, along with 23 approved lenders (including all the main banks), are able to provide the security needed by guaranteeing the outstanding loan. The DTI guarantees 75%, with the remainder being guaranteed by the lender involved.</p> <p>Minimum loan £5,000. Maximum loan £100,000 (£250,000 if applicant has been trading for two years or more at the time of application).</p> <p>Guaranteed loans are available to businesses with no more than 200 employees and a turnover of not more than £3 million in the last 12 months (£5 million for manufacturers).</p>

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

# MASTER CLASSES 2004

	Eligibility is also dependent on the type of business and the purpose for the loan.
<b>ENTERPRISE GRANTS</b> <a href="http://www.businesslink.org/enterprisegrants">/www.businesslink.org/enterprisegrants</a>	<p>Enterprise Grants work alongside funds from commercial sources, such as banks, in helping small and medium-sized businesses (that is, businesses employing fewer than 250 people) to finance their growth. Projects can involve expanding, modernising or restructuring an existing business, or setting up a new business. The creation of jobs adds extra weight to a case for support and applications are assessed to ensure that no jobs will be lost as a consequence of the project.</p> <p>The grant is discretionary and will be awarded to those projects that offer good prospects for sustainable business development and maximise the economic benefits for their region.</p> <p>A small business (with up to 50 employees) can receive a grant of up to 15% of their eligible project costs up to a maximum grant of £75,000.</p> <p>A medium-sized business (with 50 to 250 employees) can receive up to 7.5% of their eligible project costs up to a maximum grant of £37,500.</p>

## 5. Grants to help with People

<b>KNOWLEDGE TRANSFER PARTNERSHIPS (KTP)</b> <a href="http://www.ktponline.org.uk">www.ktponline.org.uk</a>	<p>(Formerly TCS) – Small and medium-sized businesses with the potential to grow, and larger companies as well, can participate in a Knowledge Transfer Partnership (KTP) and benefit from the expertise of academics in universities, tutors in further education colleges or researchers in a research based institution (a Knowledge Base Partner).</p> <p>No direct financial assistance is provided to businesses participating in KTPs. However, a grant is paid to the Knowledge Base Partner as a partial contribution to the project costs. The company is invoiced for the balance of those costs. These can vary depending on a variety of factors relating to the agreed project, but it may be around £32,000 for a two-year project.</p>
<b>STEP</b> <a href="http://www.step.org.uk">www.step.org.uk</a>	<p>The Shell Technology Enterprise Programme (STEP) aims to help businesses develop their potential by utilizing the skills of undergraduates at an affordable cost.</p> <p>STEP can help a business to define a project and identify an appropriate undergraduate to work on it for the business during 8 weeks in the summer (July and August). Shorter non-summer placements and longer projects (up to 12 months) can also be arranged, subject to the availability of suitable undergraduates, especially on Electronic Engineering projects.</p> <p>The student will undertake an agreed business related project pre-defined by the company. STEP projects are particularly suitable in an area where the company does not have the time, resources or in-house skills to devote to it.</p> <p>STEP students are paid a weekly training allowance of £170 per week, free of tax and national insurance, for an eight-week summer project. Depending on local circumstances, businesses participating may be eligible for a subsidy. Companies may also be asked to make a contribution to the student's travel expenses.</p>

## 6. Grants for Sustainable Technologies, Environmental or Social Businesses

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

# MASTER CLASSES 2004

<p><b>SUSTAINABLE TECHNOLOGIES INITIATIVE (STI)</b>  <a href="http://www.oakdenehollins.co.uk/sti.html">www.oakdenehollins.co.uk/sti.html</a></p>	<p>Companies of any size can apply for grants in support of the development of new technologies or the adoption of existing technologies which will contribute to sustainable development and competitiveness. The grants are awarded in collaboration with the science base.</p> <p>Businesses which aim to utilize technology and the design process to decouple economic growth from adverse environmental impacts are likely to benefit from the grants provided by the STI. Businesses are especially encouraged to submit proposals which incorporate truly novel approaches to the development and production of processes, products and services. These proposals will have integrated sustainability into the processes and products during the design stage. Therefore, sustainability should be integral to the design process and not a bolt on.</p>
<p><b>THE CARBON TRUST</b>  <a href="http://www.thecarbontrust.co.uk">www.thecarbontrust.co.uk</a></p>	<p>Works with businesses and the public sector to help them move to a low carbon future and exploit the commercial opportunities this presents.</p> <p>Supports a wide range of research, development and demonstration projects within the UK that demonstrate the potential to reduce greenhouse gas emissions. They look for genuine innovation, clear need or demands for outputs of the project, value for money and evidence that the funding will make a clear impact.</p> <p>It will accept applications from any UK organization including businesses, universities, public sector and voluntary organizations. The maximum amount of funding a project can receive is a grant of £250,000 which is repayable on successful commercial exploitation.</p>

## 7. Places to search for more grants

<p><b>EUROPEAN UNION</b>  <a href="http://europa.eu.int/comm/secretariat_general/sgc/aides/index_en.htm">http://europa.eu.int/comm/secretariat_general/sgc/aides/index_en.htm</a></p>	<p>This website is an excellent start point to find out more about all of the grants available from the EU</p>
<p><b>J4B</b>  <a href="http://www.j4b.co.uk">www.j4b.co.uk</a></p>	<p>Comprehensive UK based searchable database of business grants and loans</p>

## 8. Business Plan Competitions

<p><b>CAMBRIDGE UNIVERSITY ENTREPRENEURS BUSINESS PLAN COMPETITIONS</b>  <a href="http://www.cue.org.uk">www.cue.org.uk</a></p>	<p>Three annual business plan competitions open to students within the University of Cambridge.</p>
<p><b>RESEARCH COUNCILS BUSINESS PLAN COMPETITION</b>  <a href="http://www.rcuk.ac.uk/businessplan/">http://www.rcuk.ac.uk/businessplan/</a></p>	<p>The competition is open to researchers based in UK HEI's or PSRE's, from across the whole spectrum of academic research - from arts and biosciences, to environmental, physical and social sciences to technology.</p> <p>Postgraduates, postdocs and academic staff who have a business idea arising from their research and want to develop this further are encouraged to participate.</p>

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

# MASTER CLASSES 2004

---

## **Appendix 2 - Legal Issues of Starting Up**

The Companies Act (1985) stipulates that to be a legal entity companies must be incorporated and registered with Companies House, and should disclose certain information for the public record. Registration of a Company costs £20, but it is worthwhile seeking professional legal advice so that you get the 'structure' of your company right. Detailed information is provided on the Companies House website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk), the following notes provide a summary of some of the key points.

There are a number of different types of company, the four main ones are:

- *Private company limited by shares* - members' liability is limited to the amount unpaid on shares they hold.
- *Private company limited by guarantee* - members' liability is limited to the amount they have agreed to contribute to the company's assets if it is wound up.
- *Private unlimited company* - there is no limit to the members' liability.
- *Public limited company (PLC)* - the company's shares may be offered for sale to the general public and members' liability is limited to the amount unpaid on shares held by them.

Most technology based start-up companies are initially formed as Private Companies Limited by Guarantee.

To actually form a company you need to compile two key documents:

- *Memorandum of Association* – which sets out the company name, where it is located and the address of the registered office, and what the company does or its object. This may be very vague and be simply to carry on business as a general commercial company.
- *Articles of Association* – which is essentially the company's 'rule book' which defines how its internal affairs are run, e.g. how shares are issued or transferred, meetings and resolutions and the obligations of the company's directors. The Companies House website has some model Articles of Association on its website – an example is Table A which is generally used by start-up companies operating as private companies limited by guarantee. Companies can adopt all of these articles, but they are often amended to encompass different classes of shares, and change directors voting rights, restrict the transfer of shares, change how board meetings are conducted.

An additional document that many companies also complete is a shareholders agreement which governs the shareholders dealings with each other. Unlike the other two documents this is not disclosed to the public. Often a shareholders agreement is entered into between founder members at the start, however it is also appropriate where there is significant outside investment e.g. through venture capital, which may change the managerial structure of the company or dilute existing shareholdings.

Every company must have a number of formally appointed company officers at all times.

A private company must have at least:

- one director - but the company's articles of association may require more

---

For further information please contact Yupar Myint on [entrepreneurs@jims.cam.ac.uk](mailto:entrepreneurs@jims.cam.ac.uk) or visit our website at [www.entrepreneurs.jims.cam.ac.uk](http://www.entrepreneurs.jims.cam.ac.uk)

© Centre for Entrepreneurial Learning 2003

## MASTER CLASSES 2004

---

- one secretary - formal qualifications are not required. A company's sole director cannot also be the company secretary.

A public company must have at least:

- two directors;
- one secretary - formally qualified.

All company officers have wide responsibilities in law, and some of the key duties of Directors were discussed in the notes on Teams.

Once the company is registered the Companies Act stipulates a number of other legal requirements which concern the publication of the Company Name both outside its premises and also on company stationery, the disclosure of accounts on a regular basis, and when directors or the companies registered address change.

In addition there are a whole host of other legal requirements that a company must satisfy including those which concern the employment of staff, having sufficient levels of insurance, health and safety and so on.

## Presentation Slides