

Deal Evaluation - How Venture Capitalists Evaluate Potential Venture Opportunities

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The Office Safe



The Perfect Deal

- Everyone needs the product
- No one has the product
- Everyone knows what the product does
- The market is \$1 billion or more
- There is no competition now
- There will be no competition in the future
- The high growth company can be funded with a small amount of money
- The management is highly competent, and has made money for other investors

TELCOM SYSTEMS, INC.

COMPANY OVERVIEW

Prepared for:



Windfall Ventures

Bob Smith
President and CEO
(800) 555-5555
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The Problem

- You need to run a fiber optic cable to the building on the other side of the street
- The city won't let you dig up the street
- And they want permits for tunneling



Fiber Optic Cables in the Sky

- Wireless Communications with
 - ◆ The data rates of fiber
 - ◆ The security of fiber
 - ◆ The reliability of fiber
- That can be installed in a day, for one-third the cost



Ready for Market

- Three year design effort complete
 - ◆ \$3 million prior investment by the founders
 - ◆ Fundamental patent position
 - ◆ First customer orders obtained & installations in progress
- Raising \$4 million for go-to-market plan

TelCom Management Team

- **Bob Smith – President and CEO**
 - Experienced Telecommunications Executive
 - Built and sold 2 prior companies
- **Sally Brown – VP Engineering**
 - Founded 3 successful wireless start-ups that were acquired
 - Products from these start-ups have yielded sales of over \$500M to date
 - Lead technologist on the development of the first 48 GHz radios
- **Jose Calvet – Chairman of the Board**
 - Secretary General of the World Telecommunications Society
 - Former President of General International Corp.

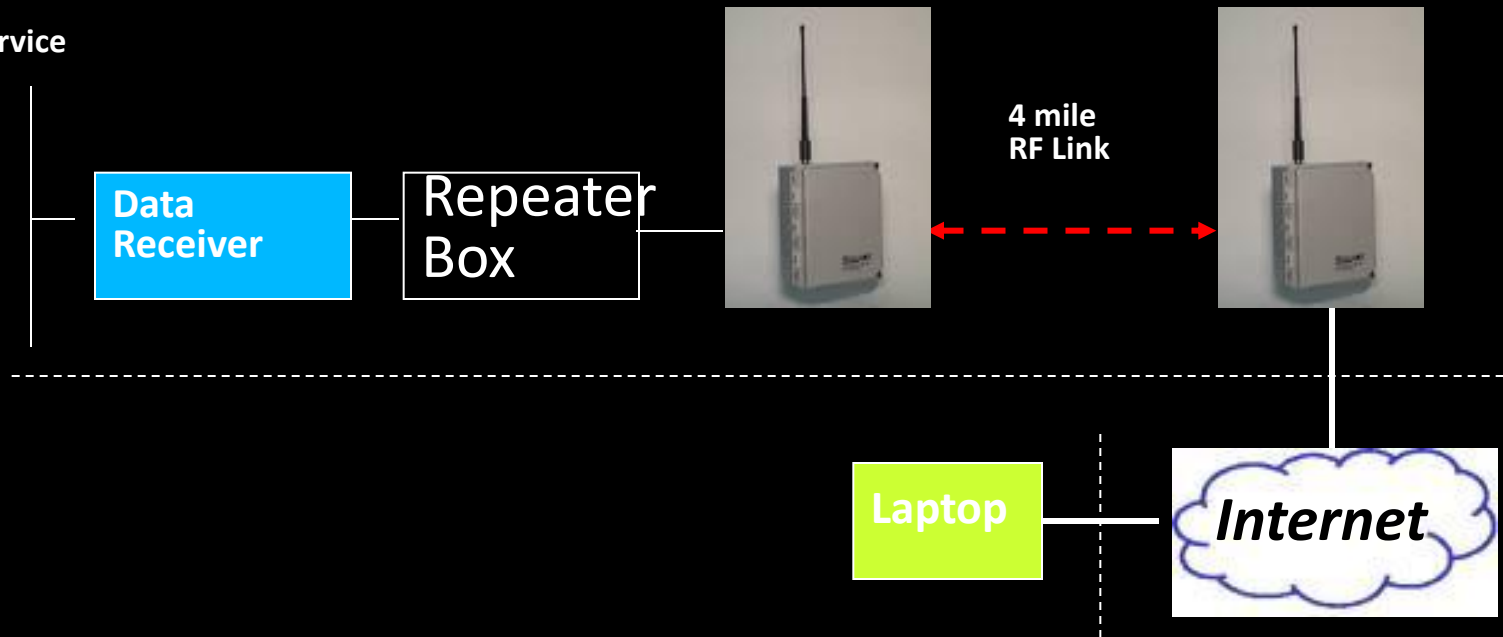
The Technology

- A disruptive new technology
 - ◆ A High Power, Long Distance, High Data Rate Radio in a small box
- Key components obtained through exclusive license
- First patent filed 3 years ago
 - ◆ One of the earliest in the field
- Broad patent protection prevents competitors from including key features



The Biggest Markets: Data Feeds

Data Service



Product – Entering the Market

□ Now in Production

- Received FCC approval earlier this year
- Initial build of 50 units completed
- Automated test process now in place

□ Sales Effort Underway

- Data Feed Opportunities:
 - Nynex – New York City
 - Marin County Police Department
 - Brighthouse Networks – Florida
 - Utah Energy

Market Potential

- 1,000,000 potential sites in the US
- About 10% of the potential sites acquire solutions each year
- The TelCom product sells for \$2,500
- The competition is buried cable
 - ◆ Two out of three potential customers will settle for buried cable
- Annual revenue potential is \$82 million per year

Financial Projections

Parameter	Year				
	2019	2020	2021	2022	2023
Income (\$)	4,000,000	12,000,000	27,000,000	43,000,000	70,000,000
COGS (\$)	2,000,000	4,500,000	10,000,000	17,000,000	29,000,000
Gross Profit (\$)	2,000,000	7,500,000	17,000,000	26,000,000	41,000,000
Gross Margin (%)	50	63	63	63	59
Expenses	3,000,000	6,000,000	10,000,000	13,000,000	22,000,000
EBITDA (\$)	-1,000,000	1,500,000	7,000,000	13,000,000	19,000,000
Headcount (EoY)	22	55	83	110	176

Summary

- TelCom is shipping its first product now
- Disruptive Technology creates high growth opportunity
- The company can enter and dominate its niche market
- TelCom has orders in hand from customers
- Solid patent foundation creates a real barrier to entry
- TelCom is raising \$4million

Criteria for Deal Selection

- Can I get a 10x cash-on-cash return?
- Is there a Sustainable Difference?
- Is the market \$1 billion or more?
 - Will the company capture 33% of the market?
- Is management driven, but flexible?
- Is the company mining, and not prospecting?
 - Technology risk
 - Market risk
 - Operations risk
 - Financial risk

How IDEA Fund Makes Its Selections:

- Get to the know the Company
- Get to know the Management
- Start with a small commitment
- Bet more on the winning contenders

