INVESTOR GUIDANCE ON BUSINESS PLANS AND PRESENTATIONS

ENET Panel

Elliot Katzman
Commonwealth Capital Ventures

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Our team has over 90 years of VC and operating experience, and has invested in 140 high-growth companies

General Partners

Mike Fitzgerald	**Jeff Hurst**	**Elliot Katzman**	**Steve McCormack**	**Justin Perreault**
Managing General Partner, Co-Founder	*General Partner, Co-Founder*	*General Partner*	*General Partner, Co-Founder*	*General Partner*

Prior Experience:

Mike Fitzgerald
- Palmer Partners, GP
- Distribution Mgt. Sys., CEO
- IBM

Jeff Hurst
- GE Equity, SVP
- Cox Partners, GP
- Bankers Trust, VP

Elliot Katzman
- Kodiak Ventures, GP
- MyTeam (Active), Founder/CEO
- Atria-IPO, SolidWorks, Epoch

Steve McCormack
- 3i, SVP
- Merrill Lynch Ventures, GP
- Interactive Data Corporation

Justin Perreault
- Object Design, CEO
- Harvard Mgt. Co, VP
- McKinsey & Co.

Notable Investments:

Mike Fitzgerald
- Constant Contact (IPO)
- Nova Analytics (ITT)
- Centra Software (IPO)
- Aberdeen.com (HH)

Jeff Hurst
- American Internet (Cisco)
- Macgregor Group (ITG)
- NBX (3Com)
- NeuroMetrix (IPO)
- BBN (Raytheon)

Elliot Katzman
- OneRiot
- Vela Systems
- EpiCon (Nortel)
- Watchfire (IBM)
- CloudSwitch

Steve McCormack
- Altiga Networks (Cisco)
- Wavesmith Networks (Ciena)
- Viewlogic (IPO)
- E-Dialog (GSI Commerce)
- Compete (WPP/TNS)

Justin Perreault
- Object Design (IPO)
- SoundBite (IPO)
- Qiave (Watchguard Tech.)
- Reval Inc.
- Antenna Software

BA Amherst College
MBA Harvard Business School

BA Duke University
MBA Tulane University

BSBA Salem State College

BA Dartmouth College
MBA University of Michigan

BS Rensselaer Polytechnic
MBA Harvard Business School

AGENDA

- *Team*

- *Business Model*

- *Product plan*

- *Marketing Strategy*

Management Team

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"I'd rather have an A management team with a B idea, than a B management team with an A business opportunity".

- author unknown

Team is MOST IMPORTANT !!!

- Startups NEVER go in straight line from concept to liquidity.

- Management needs to constantly "bob and weave", assess and reassess

- Good people work for / with good people.

- **What defines a Good team?**

Thinking about what makes a good team…..

- Is there a Domain Expert – someone who truly understands the customers PAIN?

- Is there at least one world class individual ?

- Have members been part of a success before?

- Will individuals create a positive culture?
  - High achievement
  - Mutual respect / trust
  - Know what it is like to win?

- Will initial team be able to recruit the needed talent to build the business

- Are all skills properly represented and balanced?

Hiring Philosophies

- Don't focus exclusively on functional expertise i.e. Engineering, Marketing, Sales, Finance

- Think about Leadership vs. Management

- Hire People Who Scare You With Their Competence

- If You Feel You Are Still Needed, Your Team May Not Be Strong Enough

Financial / Business Model

Business Model Orientation

- Discuss Business model – not just the #'s

- *Allow investors to "feel the business"*

- **Discuss leverage points to business**
  - *<u>Annuity</u>* **model (i.e. SaaS) - most software companies**

  - *<u>Addictive</u>* **nature of product - i.e. config. mgmt.**
    - *The more you use it, the more you need it, the more you use it………*

  - *<u>Long term</u>* **value proposition - i.e. storage mgmt.**
  - **Pain with switching…**

Some Business Model Attributes…..

What does it take to acquire customer?

What is the value of a customer?

How long does a customer stay as a customer (attrition)?

What are the leverage points in the model ?

Business Models are not always what you think they are….

…..make the investor "FEEL" the business

Go deep on business model discussion

Example Movie Exhibitor –

- Lose $ on movies – make $ on concessions

- Average concession sale is $.xx / person

- Most people go to movies as a couple

- Average point of sale is$ Y

- Repeat purchases are…

Target Model

	FY'06	Q1'07	Target
Gross Profit Margin	93%	90%	88-90%
R&D	27%	22%	18 -20%
Sales & Marketing	50%	46%	42 -44%
G&A	9%	9%	8 -9%
Operating Income	8%	12%	20%
Effective Tax Rate	1%	17%	36 -38%

What is communicated from this model?

What was communicated from model shown?

• Profit expansion in most recent quarter compared to last period

• Most recent gross margin is higher than forecasted
  • Build credibility right away

• Leverage in Operating Expenses as company grows
  • Principally R&D and G&A
  • Minimal in sales expenses (variable)

• Explained normalized tax rate - credibility

Product

Product – Lessons from Apple

Apple iPod 30Gb
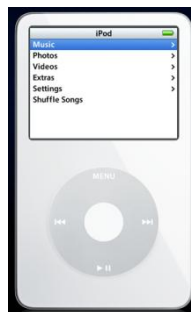**Fewer Music Formats**
No Radio
No Voice Recorder
$249

75% Market Share

Creative Labs Zen Vision M 30Gb
More Music Formats
Radio
Voice Recorder
$222.99

<10% Market Share

Source: Wall Street Journal, 12/11/06

Apple iPod
Buying is a *human behavior*
Less is more
Low frustration
Great styling

WHOLE USER EXPERIENCE (iTunes, Apps, etc)

iPod Lessons

Apple iPod 30Gb
Buying is a *human behavior*
Less is more
Low frustration
Great styling
Whole user experience (iTunes, Apps, etc)
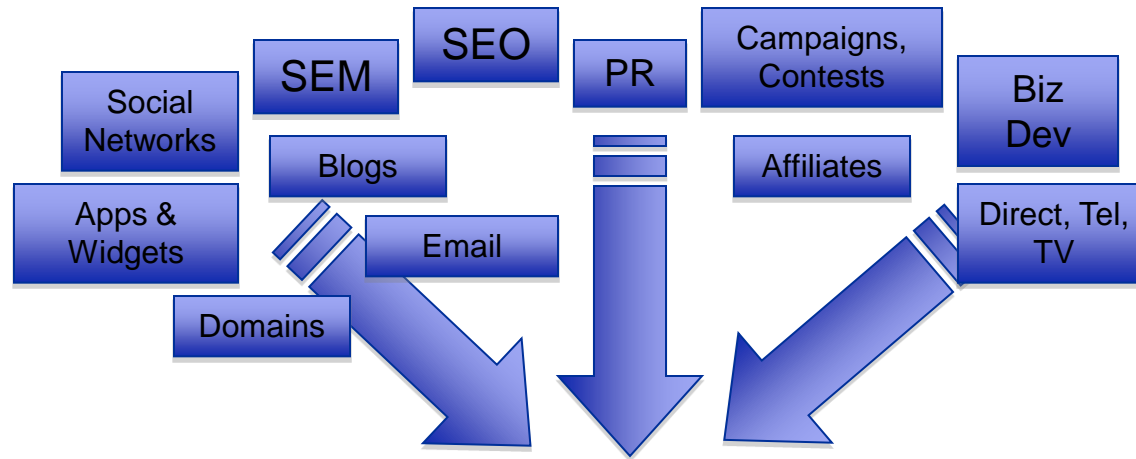
Creative Labs Zen Vision M 30Gb
It ain't just features and price

Product plans should NOT be built around features and price… They should be built around creating the best customer experience!

Marketing Strategy
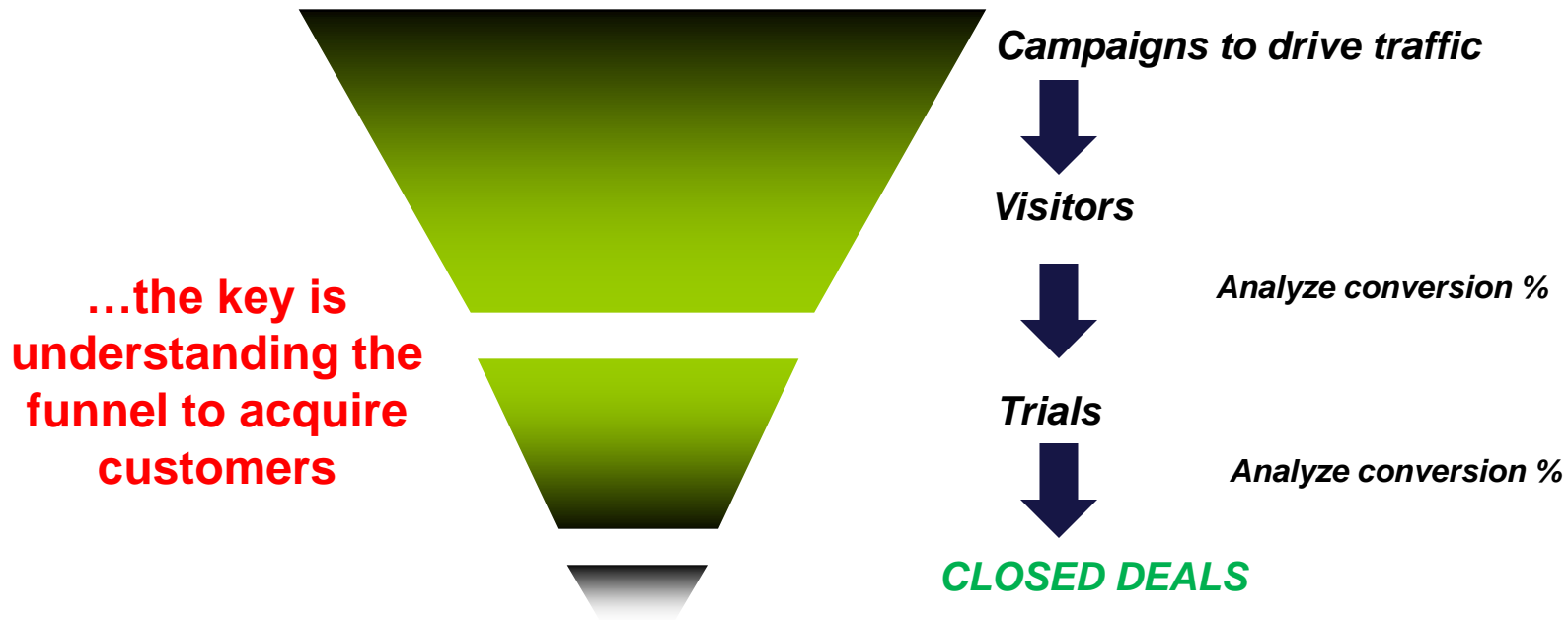
Capturing Leads is Only the Start

There are many ways to capture leads…

Social Networks

SEM

SEO

PR

Campaigns, Contests

Biz Dev

Blogs

Affiliates

Apps & Widgets

Email

Direct, Tel, TV

Domains

Campaigns to drive traffic

Analyzing the funnel is crucial

Stage in Sales Funnel	No of Prospects	Conversion Rate
Campaigns to drive traffic	Eyeballs seeing the campaign	Conversion % to Visitors
Visitors	Site Visitors	Conversion % to Trials
Trials	# of Trials	Conversion % to Closed Deals
Overall Sales Process (start to finish)	**No of Visitors**	**Conversion % to Closed Deals**

…the key is understanding the funnel to acquire customers

Campaigns to drive traffic

Visitors

Analyze conversion %

Trials

Analyze conversion %

CLOSED DEALS

Note: see David Skok's Blog "*For Entrepreneurs*"

Example: Company XYZ

	2009	2010	2011	2012
Leads	1,000	2,000	5,000	10,000
Conversion	8.0%	10.0%	11.0%	12.0%
Subscribers (new)	200 (80)	280 (200)	480 (550)	1,030 (1,200)
Monthly $ / subscriber	$479	$500	$510	$520
Cost / Subscriber	$7,955	$5,856	$5,349	$4,344
LTV / Subscriber	$17,244	$ 18,000	$18,360	$18,720
Months to Payback	16	12	10.5	8.5

	2009	2010	2011	2012
Rev	$1,609	$2,880	$6,304	$13,915
GM %	46%	49%	54%	60%
EBITDA	($3,190)	($1,133)	$1,289	$4,139
Headcount	23	28	33	40

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Marketing: A Very Simple Equation

Thank you –