

FREQUENTLY ABUSED QUESTIONS

HOW WOULD YOU
ANSWER THIS...

NOT SURE!

THIS EBOOK TELLS YOU HOW TO ANSWER THE
AWKWARD QUESTIONS FROM INVESTORS AND
BUSINESS ANGELS

THANKS!



Brian Dorricott

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Contents

Frequently Abused Questions.....	4
Investment Process.....	4
Brian Dorricott	7
Writing Successful Pitches	8
5 Key Elements for Successful funding Pitches.....	8
Funding Startup to IPO Workshop.....	9
Ten key slides in a pitch	10
Deal Diligence and Negotiation Workshop.....	11
The Questions and Answers.....	12
How did you arrive at the sales of your industry and its growth rate?	12
What is the actual addressable market?	12
How big can the company get?.....	13
Where is your base/head office?	13
Perfect Pitch Workshop	14
How big is the market opportunity?	15
How will your investors make money?	15
How will you make money?	16
Why can this solution only exist now?.....	16
Pitch Review Service	17
Can you tell me a story of a customer using your produce/service?	18
What kinds of people/organization have the problem you are solving?	18

FREQUENTLY ABUSED QUESTIONS

Why Frequently ABUSED questions?

This book was written after seeing many people present a great pitch to investors and then kill the deal with a careless word in the Question & Answer section after the pitch. In other word, they took a simple question and by abusing the answer have destroyed their chances of investment in front of a crowd of over fifty people. Perhaps it was an inappropriate “joke”, who knows, when you have only 600 seconds to make the best impression it’s important to make every word count.

So read though the questions, read through why an Investor is asking them and prepare your answer. Being prepared now means you’ll be able to handle the question considerably better under pressure.

Investment Process

Once the decision has been made to seek outside investment there is a process to help you get ready for the demands of the strangers who will be exchanging some of their hard-earned cash for some equity in your company. The general process has eight steps:

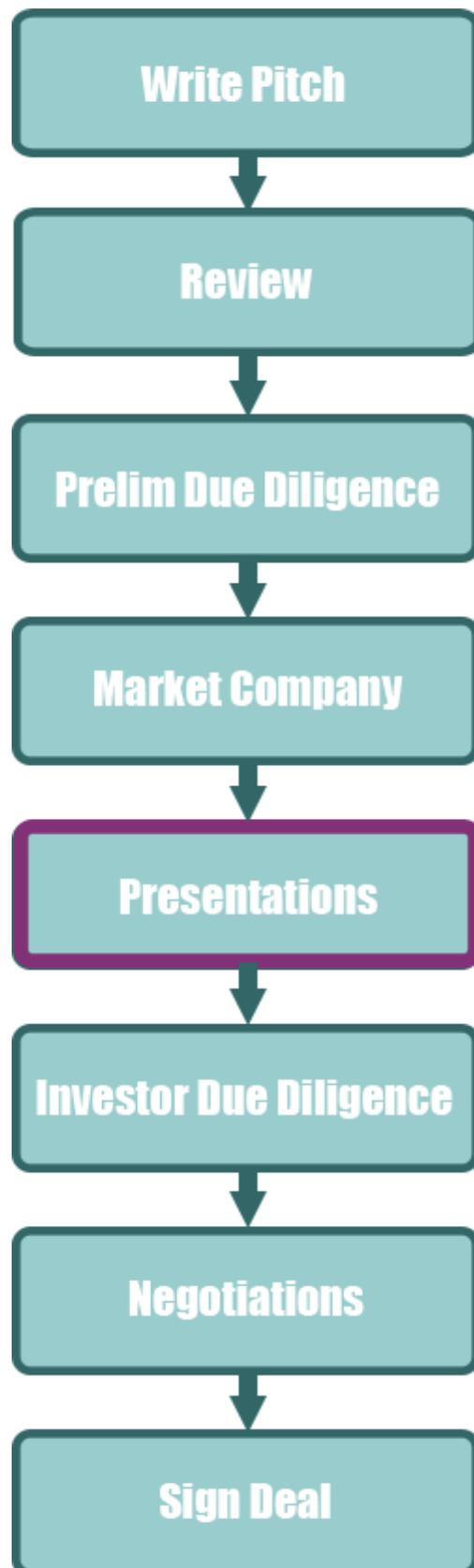
Write Pitch

First write your 5 or 10 minute pitch that you will present either in person or over the internet via web or email. The next chapter gives you some hints on how to prepare the ultimate presentation.

We can write your pitch for you taking information from your company and Financial Model and putting it together into a coherent story that you can provide to potential Investors. We can produce pitches for pre-meeting use or for traditional presentations where you will speak for 5-10 minutes. Our Perfect Pitch Workshop gives you a chance to try out your pitch in front of a group of people.

Review

Get as many people as possible to check your presentation for style, spelling, consistency, etc. Ask friends, family and colleagues. However there are



problems:

- Most will never have seen a pitch for funding before so don't know how to review it; and
- Most will not want to upset their relationship with you by giving you frank feedback – they want to protect your feelings.

In order to resolve this problem, we offer a Pitch Review service where you submit your presentation and tell us the purpose of the presentation. One of our advisors will review it give you written feedback about issues such as: slide content; missing information; layout consistency; and how you can improve slides to make key points more obvious and punchy.

Preliminary Due Diligence

In order to demonstrate how trustworthy you are, you need to be responsive to any requests by investors. By doing your own preliminary due diligence you can make sure that all the common errors and mistakes are avoided. In the long run this will speed up the investment process and reduce the amount of time you spend answering the same question time and time again.

Our workshop on Deal Diligence and Negotiation covers this topic in some detail.

Market Company

In the same way that you market your product/service to customers who are likely to buy it, you need to market your company. While you will be marketing to customers every day, marketing to Investors is something you hope to do only once a year. This means that finding the right audience is challenging – two places to start looking is your network (use LinkedIn) and Angel Networks.

We provide a package to help you market your company since we have and maintain connections with key investors in Australia.

Presentations

Finally you get to the presentation!

Presentations are usually in two parts: first you show your slides about how you solve the problem; second you have a question and answer session with the Investor(s). You may talk through your slides or have already sent them via email or web to the Investor. There will be questions that the Investor will want answered and they will usually kick off with a few easy ones.

This ebook is full of questions that you may be asked in the first and subsequent meetings. While some of the questions may appear easy to answer, you need to be prepared and understand why the investor is asking the question. That is why we've prepared some hints on how to answer them in the following pages.

Investor Due Diligence

More and more questions. Answering quickly and with confidence can stem the tide!

Negotiations

After the questions comes the negotiations about the value of the company – how many shares you are going to sell and for how much. On completion of the deal you will be asked to sign a new Share

Holders' Agreement. It is wise to be aware of each of the terms of the agreement ahead of time and know which points you are prepared to accept and which you cannot.

We provide a workshop with a case study of a negotiation phase called Deal Diligence and Negotiation which covers this in greater detail.

Sign Deal

When everyone is happy, it's time to sign the deal and arrange for the transfer of documents and money.

Now for the hard part... delivering on the promise.



BRIAN DORRICOTT

A serial founder and entrepreneur, Brian originally trained as an Electronic Engineer at Imperial College, UK. After leaving Philips and Logica he founded and was CEO of Gordano Ltd from 1994 through to an MBO netting a 217x return on investment at its MBO. Gordano's messaging software was used by 13,200 companies including Telstra, the US Army and IBM. Brian's second company was targeted to develop software to match a gap in Cisco's portfolio. With Cable & Wireless as its only customer, DeeZee was sold to Cisco Systems Inc. 25 months later for \$6,812K yielding a 50x return on investment. Brian proceeded to run an angel network reviewing 235 companies, presenting 23 to Business Angels and getting a total of \$10,850K investment for 11 companies, \$1,610K from local Angels.

Since arriving in Australia Brian has created the concept of Lean Commercialisation and been operating as Australia's Pitch Expert.

Lean Commercialisation is a methodology designed to prove that an idea or innovation has real potential to turn a profit for the stake holders using the minimum resources possible. The process concentrates on finding the highest risk elements for the commercialising team and mitigating them through testing actual customer behaviour.

Getting a Pitch right achieves the following things:

- The Right Message to the Right People;
- Filters those who come to talk to you; and
- Markets you as an expert.

If this is what you want, then call me on 0434 799 829 or email brian@briandorricott.com.

Finally, I hope you enjoy reading this eBook and take advantage of the hints about how to answer questions. If you think I'm right or wrong, drop me an email if you found it useful.

Brian

WRITING SUCCESSFUL PITCHES

5 Key Elements for Successful funding Pitches

While running a Business Angel Network in the UK I saw over 300 Entrepreneurs pitch their ideas and companies for investment. What are the key things that I learnt from seeing watching those who succeeded in gaining interest from investors and judges? Whilst most concentrate on one area (Content) there are another three which are equally important in portraying your opportunity as the one to invest in. Let's explore the attributes of the winning pitches:

1. **Content.** Cut the content to suit the audience and time available. A pitch of 19 slides with 950 words (which didn't get investment) is challenging to present in 10 minutes. Cut the content to the key points that make your opportunity investible and use as few words as possible to present them. Remember that you are pitching for money or to win a competition rather than for customers for your product. The audience is very different which means the pitch has to be different too. Oh, and another benefit of having few words is that it leaves you the option to change the meaning when you talk since you will often need to deliver the slides a week before the event.
2. **Logical Order.** Make sure that you tell a story about your proposition. Moving from problem to solution, why you are the best and no-one can follow you, a quick mention of the competition before covering the financials. (I cover this in more detail on my Perfect Pitch workshop.)
3. **What next?** Use your pitch to allow the audience to decide whether they should get in contact with you and what they will expect. Getting five people who are really interested is more important than getting twenty who are trying to figure out what you are doing. Of course, the do this well you will need a well formed picture of where you are going (which is covered in my Funding Startup to IPO workshop).
4. **Manage Variety.** Investors are individuals who all take in information in different ways. Think about using a variety of pictures ("Use a picture. It's worth a thousand words." Tess Flanders, 1911), words, tables and graphs (e.g. financial section). In selecting the material be mindful of maintaining style...
5. **Style.** Throughout the pitch deck ensure that the fonts, colours, logos, and design elements all work together from slide to slide. Choose the same colours that you are already using in your documentation and website so that everything fits together. For example, if your chosen colours are particular grey, green and purple then use them to colour areas on a map, the graphs, sales funnel diagram, etc. With this colour scheme, presenting bright red and blue will be incongruent and surprise the investor.

Once you've conquered these think about the three different occasions you will be using your pitch deck and it becomes clear that you'll actually need three: one for competitions; one for investors at pitch events (where the investor has to listen for ten minutes); and one for the web (where investors can abandon the pitch at any time). But that's for another blog...



FUNDING STARTUP to IPO WORKSHOP

FUNDING STARTUP TO IPO WORKSHOP

A full day workshop starting at 09:30 and finishing at 17:00 covering the thinking and what is required to get from the position of starting to being a company that could achieve an IPO > \$100M. The journey and requirements along the route will be discussed and the implications for the management structure and shareholder structure will be covered.

Material Provided

- Set of slides (used on the day)
- Dilution calculation spreadsheet
- Jargon dictionary
- Recommended reading list

Topics

- Financial Instrument overview
 - Equity & Equity classes
 - Loans & Mortgages
 - Convertible Loan notes
 - SMSF investment options
 - Grants and Tax Credits
- Investment round expectations
 - from FFF, Business Angels to Round D.
 - Crowd funding
 - Typical round process Due Diligence considerations
 - Legal documentation
 - Marketing investment in your company
- Investor profiles & expectations
 - FFF, Business Angels, Venture Capitalists
 - Key success criteria
 - Terminology
 - Exit options: Trade Sale, IPO, Share Buyback
 - Keeping investors ready for the next round.
- Motivating key employees
 - Employee Share Schemes
 - Bonus schemes
 - Stock Options
- Red flags – or what will kill an investment

<http://www.meteorical.com.au/funding-startup-to-ipo-workshop/>

Ten key slides in a pitch

Your web pitch deck will only be seen for 224 seconds (average from DocSend) and your verbal deck will get longer – perhaps as much as 600 seconds. You have to demonstrate your expertise, knowledge and ability to sell in a few minutes in order to get strangers interested enough to engage with you. So what do you cover in those 224 seconds or 10 slides?

Here's a good starting point:

- **Company Purpose** – A single, short sentence defining the company/business.
- **Problem** – What pain does the customer suffer with the problem you've identified. What do they do now to solve this pain. Note: don't confuse customer and user. A customer will pay money for the solution but a user will use the solution but pay nothing.
- **Solution** – How does the solution solve the problem and what is the value proposition from the customers' point of view? Demonstrate what and why they will pay. An example of a customer using your solution may be a good way to illustrate the point.
- **Why Now** – What trends lead to making your solution possible now rather than a year ago or a year in the future? Often reviewing the PEST analysis business management tool can help you answer this question.
- **Market Size** – Calculate the TAM, SAM and SOM for your customer set. Use external sources and real data from any sales to date.
- **Product** – Describe the product that customers will buy – benefits, intellectual property, form, functionality, etc. Provide a development roadmap for version 2, etc.
- **Team** – Give background Bios for the key people in the company – founders, management, advisors, etc. Aim to demonstrate depth of expertise.
- **Business Model** – How do you make money? What price will you charge? How will you reach potential customers? How much does it cost to get new customers? How will you improve the viral rate? How do you manage the pipeline?
- **Competition** – List other solutions for this problem that customers could buy. What are your benefits? What are their benefits?
- **Financials** (optional) – Provide Profit & Loss, Balance sheets, Cash flow analysis, details of the investment deal you are offering.

Seems like a lot? Remember that “pictures are worth a thousand words” so appropriate use of diagrams, tables, graphs, etc. can get many points over very quickly in a way that words never can.

It is important to get this right since Investors very rarely look at an investment proposition twice – and if they do it will be years later. An investor will assume that you did the best you possibly could first time around.



DEAL DILIGENCE AND NEGOTIATION WORKSHOP

DEAL DILIGENCE AND NEGOTIATION WORKSHOP

A full day workshop starting at 09:30 and finishing at 17:00 covering the thinking and what is required to get ready for due diligence by your potential investors and understanding how to negotiate the best deal. A crib sheet and selection of agreements is also provided to start you on the way to having a full document set.

Material Provided

- Set of slides (used on the day)
- DD Checklist
- External review of your company based on web research & preliminary investor material (provided on the day)
- Standard letters/contracts
- Jargon Dictionary
- Recommended reading list
- Example of Share Holder Agreement

Content

- Company structure review
 - Impact of trusts holding IP

- Outstanding promises
- Company documentation
- Suppliers, Customers & Advisors
- Roles
- Valuation
 - Different approaches
 - Strategy
- The Deal Process
 - Awareness
 - Syndicate Facilitation
 - Due Diligence
 - Offers
 - Negotiation – Irrevocable offers
 - Deal day
 - Post deal expectations
 - The next round?
- Due Diligence Checklist Review
 - Documentation Requirements
 - Intellectual Property Management
 - Risk Management
 - Market Specific Requirements
- Questions & Answers

<https://www.briandorricott.com/deal-diligence-and-negotiation-workshop/>

THE QUESTIONS AND ANSWERS

How did you arrive at the sales of your industry and its growth rate?

There are two parts to this question. What is the current sales of your target industry and what rate is your target industry growing.

Current Sales: Research using both primary and secondary data sources will help you to answer this question. For example, reports from industry analysts, news papers, white papers, conference speakers, deductions from competitor's sales figures, etc. Primary data will provide you with actual number of competitive products sold.

Growth: All industries will be in one of three phases: growth, no change or decline. It is easier for your company to grow in a market that is also growing because simply maintaining your market share means your company is growing. However in a market with no change, to grow you must increase your market share at the expense of other companies. And in a declining market, your company must grow even faster while other companies are exiting the market (this could be a potential benefit unless the market disappears altogether). Clearly it is harder to obtain growth from competitors so if you are selling into a growing market you are more likely to be successful.

This is an opportunity to cement your position as an expert in the target market as far as the investor is concerned.

You can find out more about the importance of research in the URL: Funding Startup to IPO workshop and Deal Diligence and Negotiation Workshop.

What is the actual addressable market?

There are many ways of answering this question depending what the investor really means.

The total addressable market (TAM) is how big or how many people could actually buy your product giving no impediment to reaching them. It is the total possible demand for your product. Clearly, you are never going to be out to sell this number of products. The Served Available Market (SAM) is the proportion of the addressable market you can reach with your product or service based on your current business model. Reasons you may not be able to reach the served addressable market include geography, language competition and the ability to get in front of customers. Finally the Share of the Market (SOM) is the subset of the Served Available Market you can realistically reach taking into account company limitations (i.e. the maximum number of customer you can serve) and competition.

Another approach starts by saying "We spoke to 1000 people and found 300 potential customers, 20% of them went on to buy the product at \$1000." This is then combined with more general statistics: "We know from the Australian statistics bureau that there are 1,000,000 people in this market segment. Therefore we the size of market from Australia in 200,000. This gives is a local market size of \$200 million." This approach is more detailed and more believable since it is based on real evidence.

Ultimately investors will want to see both approaches to estimate market size and if they are similar it gives some comfort that your proposition is good. Remember to keep a record of all the assumption you made and why you made them for discussion later.

You can find out more about the importance of the market opportunity on the Funding Startup to IPO workshop.

How big can the company get?

This is your opportunity to give some realistic expectation on how large the company could be in the future. How you measure size is up to you. You could measure size by the number of people employed, by the turnover or by profit margins. Use this opportunity to sell the dream of the company just before it is likely to be bought or go to IPO or when it has reached its maximum potential.

To prepare for this question you will need to have another a detailed financial plan based on information about the size of your market. This is the subject of the Financial Model Creation.

Where is your base/head office?

The location of the head office is important to investors for two reasons: legal and emergencies.

Legal: The country of origin of the head office dictates which legal jurisdiction the investment will be made. If it not local there are two additional risks for the investor: unknown legal jurisdiction; and currency fluctuation (which may reduce the value of the investment).

Emergencies: If anything goes wrong with the company the investor may want to come and help out and need to know if this is possible for them. Clearly it would be difficult to help if it takes a six hour plane flight to reach you.



PERFECT PITCH WORKSHOP

PERFECT PITCH WORKSHOP

Overview

A full day workshop starting at 09:30 and finishing at 17:00 covering the thinking and what is required to create the ultimate pitch deck. We start by considering the attributes of the audience, review the format of a presentation (whether written or verbal), review samples of effective pitch decks and then update our own pitch. Finally we present our pitch to everyone present for constructive feedback.

Content

- The Audience
 - Typical Business Angels, Investors, Venture Capitalists
 - Customers, Suppliers
 - The Expert
- Structure
 - The goal
 - Beginning, Middle & End
 - Winning ten points process
 - Providing evidence
 - Input types – Visual, Audio, Feeling, Digital
 - Presenting Financial results
 - Call to action
 - Timing (& strategies to solve it)
- Case studies
- The presentation
 - Style, Cloths, Expression, Charisma
 - Handling Questions
 - Strategies for testing your pitch
 - When things go wrong...
 - IT Fails
- Pitching for real with personalised feedback

<https://www.briandorricott.com/perfect-pitch/>

How big is the market opportunity?

Investors asking this question are trying to work out whether you could grow to be a large organization and give them a correspondingly large return on their investment. So how do you evidence the market size? There are two approaches you can take; one is top down approach and the other is bottom up approach.

The top down approach starts “there are 7 billion people in the world half of them are women and 50% of those have access to make up, of these 30% of those people are like to have the particular color of lipstick. So therefore our market is 500 million people”. This is called the “Total Addressable Market” (TAM). In general investors are not very interested in TAM because it really doesn’t indicate how many people you could actually each with your solution, so you need to do more work...

The Served Available Market (SAM) is the proportion of the addressable market you can reach with your product or service based on your current business model. Reasons you may not be able to reach the total addressable market include geography, language competition and the ability to get in front of customers.

Finally the Share of the Market (SOM) is the subset of the Served Available Market you can realistically reach taking into account company limitations (i.e. the maximum number of customer you can serve) and competition. Generally the investor is interested in the SOM when he was about the actual addressable market and will want to know about the assumptions you made to reach your conclusion.

The bottom up approach starts by saying “We spoke to 1000 people and found 300 potential customers, 20% of them went on to buy the product at \$1000.” This is then combined with more general statistics: “We know from the Australian statistics bureau that there are 1,000,000 people in this market segment. Therefore we the size of market from Australia in 200,000. This gives is a local market size of \$200 million.” This approach is more detailed and more believable since it is based on real evidence.

Ultimately investors will want to see both approaches to estimate market size and if they are similar it gives some comfort that your proposition is good.

You can find out more about the importance of the market opportunity on the Funding Startup to IPO workshop.

How will your investors make money?

There are several reasons that you may be asked this question – to discover the profile of company growth and how they can recover their money.

Investors are putting a large sum of money into your company looking for a very large return to cover their time and investments that fail on average. Only 1 in 10 of an investor’s investments make a significant return. Therefore they want to know that you can produce enough money to cover the 9 failures so that their portfolio makes an overall return.

Investor want to understand your long term intentions are for the company. You have several long term options: IPO; trade-sale; dividends; and share buyback. Investors in general are very wary of

IPO's and share buybacks and they are much more interested in the any opportunities that may be for trade sale. To demonstrate this, show that there are companies who could purchase you in the future and what sort of valuation you are expecting.

This is covered in great detail on the Finding Startup to IPO Workshop.

How will you make money?

For an investor there are two important steps: 1. the company paying its running costs; and 2. the additional return on their investment of money and/or time.

In the first case, explain how the income will pay the monthly wage bill, suppliers, insurance, etc. and still end up with a significant sum to reinvest and/or distribute. On average Investors hope to sell their equity in 3 years (although in practice this is 8-10 years) so they want to know that you will make money well before them.

To prepare for this question know your financial model inside out and use it to show how you are going to generate revenue. There is no right or wrong answers, but some answers are better than others. Poor answers include "we are going to generate from advertising". Good answers include "we are going to sell our product for \$1000 with an annual maintenance fee of \$500 and expect to sign the customer up to 30 per month by the end of the year".

Developing the financial information is part of the Financial Model Creation Package and you can find out more on the Funding Startup to IPO workshop.

Why can this solution only exist now?

In June 2015 Bill Gross presented a TED 2015 talk in which he revealed that Timing was the most important success factor accounting for 42% of the differences between Success and Failure for 200 companies. The other four factors he compared were Team (32%), Idea (28%), Business Model (24%) and Funding (14%). So if your idea is too early (customer are not ready) or (especially) too late (too much competition) there is little you can do.

Being early exposes you to additional problems of surviving until customers are ready and/or educating the market about a solution to a problem. The primary benefits are 1: that you can fine tune your product with early adopters so when the mass market is ready you have the "go-to" solution; and 2: being able to own the market. Being first in the market demonstrates that you are able to capitalize on your idea and make significant returns as others catch up with you. Those first into a market can own >50% giving them an unassailable lead.

One analytic tool you can use to help answer this question is PEST. Attend the Funding Startup to IPO workshop and Perfect Pitch workshop to cover this in more detail.



PITCH REVIEW SERVICE

Your slide deck is the first impression a judge or investor has of you. It reflects the quality of you, your work and your company. Any inconsistencies, confusion, or amateurish slide will damage your reputation. You only have one chance to make an impression. They will not look at you again if you don't stand out for the right reason...

Actually it's worse.

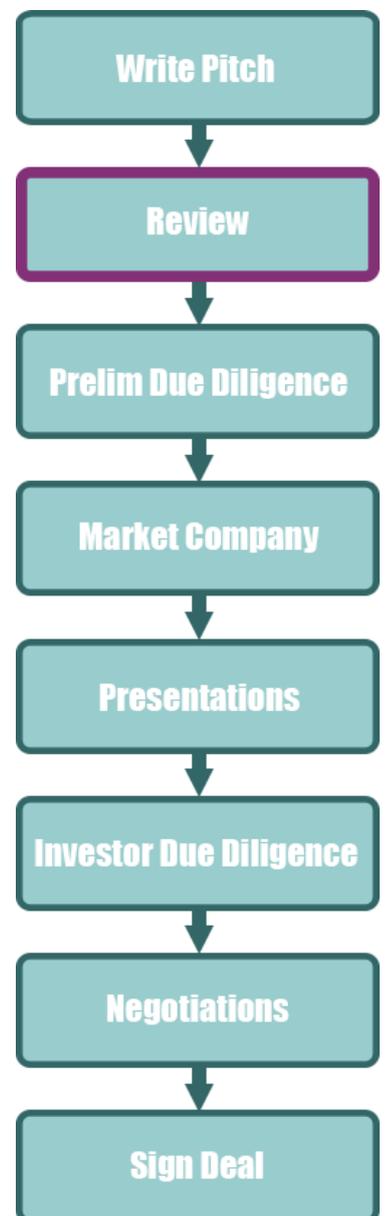
Those choosing the pitches decide just on your slides because they will not have seen you and probably never will. So no matter how good you are in person, you would never get the chance to pitch. Your slides have to reflect your ability to inspire and command attention.

Ten Primary Points

1. Company purpose
2. Problem
3. Solution
4. Why now?
5. Market Size
6. Product
7. Team
8. Business Model
9. Competition
10. Financial

Brian Dorricott, Australia's Pitch Expert, has teamed up with CeBIT Australia because he is passionate about helping entrepreneurs maximise every opportunity to shine. We want the international judges to see your pitch being the best at CeBIT 2017. The world will see you and the first prize will open doors and create new, unexpected opportunities.

A pitch review by Australia's Pitch Expert costs only \$495+GST. Head to the following page to learn more:



<https://www.briandorricott.com/pitchreview>

Can you tell me a story of a customer using your produce/service?

This is a great question and you should be well prepared for it.

It is your opportunity to provide a case study of the ideal customer for your company. Describe the problem that they had in detail and how your solution fixed that problem for them. Highlight how you reduced their costs and pain otherwise known as the value proposition. You have a minute to really shine!

This is covered in more detail in the Perfect pitch workshop.

What kinds of people/organization have the problem you are solving?

Succinctly demonstrate that you understand how your customers go about making decisions to buy your solution.

If you're selling to businesses, the investor is trying to work out the size and sector of the businesses that you're selling to. They know that different sectors and different company sizes have different buying characteristics. For example in a large business all members of a committee may need to agree a purchase over \$100k while in a small business it may only be the CEO.

If you're selling to consumers, you need to be able to demonstrate that you understand the consumer. For example, if you're selling a method by which consumers can order cups of coffee rather than waiting in the queue, investors need to understand the profile of customers which have that problem.