The Startup: Critical Success Factors

Stephen Pearse
Yucatan Rock Ventures
This Presentation

• Me: CEO, Entrepreneur, Investor, Advisor
  • Telecom, IT, Health Science

• You:
  • Potential Captain of Industry
  • Ask me questions
    • Team, Founders, Exit, Valuation
    • Public vs. Sell
    • M&A
    • Stock strategy
The Startup

- 1/10 “Succeed” 10x
- 3/10 yield 2-4x in 4-7 years
- 6 shut down
- Why don’t big companies build this stuff?
- Why do big companies buy startups?
Getting Money

• VC Noise

• Memorize Elevator Pitch
  • For <target customers> who are dissatisfied with <current alternative>, <our product> is a <new product category> that provides <key problem solving opportunity>. Unlike a <competitive substitute>, we have assembled <key whole product features>.*

• One Shot

• "I didn't have time to write you a short letter, so I wrote you a long one"

• Induce “Greed”  
  * Geoffrey Moore, Crossing the Chasm
The Pitch: KISS

- *Really* Simple!
- Hook
- Target Audience
- Lowest Common Denominator
- Keep It Short (10/20/30)
- Pictures!
- Answer detail/curveballs quickly
- Passion! Engage! Confidence!
Basic Anatomy

Hook
Solution
Magic/Technology
Business Model
Marketing and Sales
Competition
Management
Financials
Status and Timeline
The Offer
The Hook

• Pain or Huge Market Opportunity
  • 7 Seconds
  • “Imagine a safe rubber coating that conducts electricity…”
  • “Have you ever felt threatened?”
  • “Our box is 10x smaller, faster, cheaper”
  • “Do you get poor cell phone reception at home or work?”
NO Geek Speak

• **WRONG:**

  • Our technology is the first integrated and automatic book scanner that will scan and digitize bound documents at a speed of 1,200 PPM at a fraction of the cost of existing solutions based on a disruptive digital imaging technology initially developed at Bell Labs and protected by 12 patents.

• **RIGHT:**

  • We enable massive knowledge sharing by digitizing physical libraries at a very low cost.
Focus of Pitch

• Customer Benefits NOT Tech Benefits
• Tech Benefits- **SO WHAT??**
  • Improved Network Utilization
  • Scalable, Adaptable
  • Secure integration
  • Seamless Integration
• Business Benefits- Pain Reduction!
  • Increase Revenues by 60%
  • 34% cost reduction in 12 months
Style

- Use best presenter
- Be or have egghead in room
- Give firm answers
- Look at everyone in room
- Do your homework
- Pull Questions
Pitch Examples

- Good and Bad
CyberEx LLP
Cyber Messaging Security Services

10306 West Emerald Street
XXXX, XXX NNNN USA
XXX.343.8520
Executive Summary

- **2002-2003:** Development of proprietary message security processing technologies
  - proprietary eMessage-DNA technologies
  - markets: businesses, and individuals internet communications world-wide

- **2004:** CyberEx completes development advanced messaging technology services
  - target: rapidly growing eMessaging and Internet voice/data markets.
  - founders investment > $1,000,000 for proprietary technology and advanced product-services R&D.

- **2005:** CyberEx puts true "revenue" customers (Banks and ISP's) on line!
  - IDACOMM (Subsidiary of IDAHO POWER/ IDACORP)
  - Syringa Bank of Idaho

- **2007:** CyberEx growth to greater than $60,000,000 in sales.
  - market demand for CyberEx services is growing at greater than 30% year-to-year.
  - CyberEx’s Plan targets 60% share of served markets.
  - corporate growth of >200% year-to-year.
  - CyberEx’s market share opportunity >$1,000,000,000 in 2010

- **2007:** Investor IRR: greater than 200+% in less than 3 years!
  - $100,000 investment ≈ projected growth to $300,000+
CyberEx People

- **Aunt May - Managing Partner of CyberEx LLP.** Previously VP/General Manager Rockwell International, Director of Marketing Microcomputer Division Intel Corporation; over 30 years experience in the computer, e-business and telecommunications industries as an entrepreneur and business development consultant.

- **Peter Parker - Partner & CyberEx’s Senior Technology Officer,** > 10 years experience in computer networking applications markets. He received his BA from Washington & Lee University in Virginia, magna cum laude. Jason worked at Boise-based CyberHighway internet services provider, and as a manager IT and network specialist for the State of Idaho. He has received Professional Certification as a Cyber Security gateway systems expert and is a Member of the ISSA and Homeland Security Leadership Alliance.

- **Doctor Octopus-Williams - Partner & Chief Administration Officer,** has more than 20 years of business operations experience in high technology firms in Silicon Valley. She has been a member of several semiconductor and computer memory startup organizations and has held senior financial planning and market development positions with successful entrepreneurial firms. She served as VP of Finance for Spectrum Technology for 10 years.

- **CyberEx Advisory Board:** CyberEx has established a Technology/Business Advisory Board made up of key individuals from several cyber communications disciplines and business expertise arenas. The Charter of this body is “to facilitate critical reviews, discussions, analysis and recommendations concerning CyberEx development technology programs and/or business concepts.
  - Another Name - Senior Scientist – Advanced Technologies, Idaho National Laboratories
  - Another Name – Scientist – Cyber Security Infrastructure Research, Idaho National Laboratories
  - Another Name; CIO and University Network Security Director, Washington & Lee University;
  - Another Name – Director Emeritus UK Defense Electronics Research Agency (DERA)
  - Another Name - Chairman, Network Security Services, DCT KK (Japan);
  - Another Name - VP, Computer Science & Technology Dept Chairman, Pepperdine University;
  - Another Name - Executive VP Operations, IDACOMM [Internet Services Provider] Idaho
Sentinel eStrand© Technology
Dynamically Adjusts to Block Emerging Threats

• **Highly specialized iSTAT© programs** detect mutations in a message’s DNA

• **Sentinel’s iSTAT technology** immunizes against evolving spam forms

• **iSTAT technology** supersedes traditional approaches including content evaluation, lists, rules, heuristics

• **Sentinel’s eStrand engine**, using genetic algorithms, constantly provides most effective spam DNA classification accuracy

• **Sentinel eStrand Technology** delivers continuously updated eMessage DNA information 24/7

• **Sentinel eStrand Technology** appends each message with a unique tag enabling future logging services

**iSTAT© – Powerful Algorithms Identify Spam**
CyberEx Technology Benefits

- **CyberEx “SENTINEL” Technology provides complete cyber messaging solutions.**
  - Including: low cost 24x7 protection using the most advanced knowledge of attack signatures and eMessage-DNA properties to block: virus, spam, spyware, polymorphic Internet worms, Trojans, Identity Theft, adware, Intrusion and application layer cyber attacks.
  - Eliminating: need for the customer to hire/expand internal staff or spend capital to achieve complete security of internal and external network messaging environments.
  - Competitive Edge: SENTINEL services are easy (transparent) to integrate; use customer’s existing domain and networks; no additional infrastructure or personnel required.
  - Designed-in “Ability to scale“: CyberEx makes it easy for clients to grow or diminish in headcount, and/or bandwidth requirements. No client Capital budget “impacts” for additional (or surplus ) hardware, bandwidth, software or personnel changes.

- **CyberEx’s Proprietary Technology Benefits**
  - Auto-Provisioning: Customers are relieved of draconian bookkeeping and directory integration tasks; CyberEx automatically keeps track of "active" users eliminating painful periodic manual "culling" by the client administrator and insecure links to client directories.
  - Eliminates costs and maintains maximum client security and separation. [Several 100’s of hours per month of productivity savings, and incalculable security savings.]
  - Threat Classification Accuracy: For the end user client, as well as the VAR/ISP sales channel, this means unequalled productivity (real $$’s) savings, revenue enhancement and state of the art (99.9% accurate) Cyber Security benefits.
The Carrier’s Choice

Stephen G. Pearse
Chief Executive Officer
Metro Area SONET Deployment

<table>
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<th>Year</th>
<th>OC-12</th>
<th>OC-48</th>
<th>OC-192</th>
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<td>$1B</td>
<td>$0.5B</td>
<td>$0.2B</td>
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<td>2003</td>
<td>$5B</td>
<td>$1B</td>
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<tr>
<td>2008</td>
<td>$8B</td>
<td>$3B</td>
<td>$8B</td>
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Source: CIR
Why WDM Is Not Widely Deployed

- Capital expenditure
- Span distances
- Span cross-section/price
- Seamless end-to-end service provisioning
Why SONET Rings Are Deployed

- Ideal fault tolerance
- Industry standard
- Bandwidth flexibility
- Adherence to fiber deployment topology
- Ideal for delay sensitive traffic
- Architected to support multiple customers/services
Evolving View of SONET Equipment

Functionality

First Generation ADMs

- OC-3 ADM
- OC-12 ADM
- OC-48 ADM
Evolving View of SONET Equipment

Functionality

First Generation ADMs

OC-3/12 ADMs
OC-12/48 ADMs

Next Generation ADMs

ADM

1x

2x

97 98 99 00
Evolution of SONET Equipment

Functionality:
- **6x**: Evolution of SONET Devices
  - Data Aware SONET Devices
  - Statistical Multiplexing of Data over SONET (Limited to OC-12)

- **First Generation ADMs**
- **Next Generation ADMs**
- **Limited ADM Functionality**

Timeline:
- 97
- 98
- 99
- 00
Evolving View of SONET Equipment

M-BOS=Multi-service Bandwidth-optimized Optical Switch

First Generation ADMs

Next Generation ADMs

Data Aware SONET Devices

Massive Scalability
+ Full Function ADM
+ Advanced Bandwidth Optimization

ADM

ADM

ADM

ADM
Current MAN Hierarchy

Local Loop
- XDSL
- Ethernet
- Frame Relay
- TDM
- IP

Access
- Service Access Muxes
- SONET Rings @ OC-3/12

Metro Area
- Aggregation Routers
- Edge ATM Switches

Edge
- SONET Rings @ OC-12/48

Core
- Gigabit Routers
- Core ATM Switches
- OC-48 Rings over D-WDM

(Long Haul Network)
New MAN Hierarchy

Local Loop

SONET Rings @ OC-12/48

XDSL
Ethernet
Frame Relay
TDM
IP

Access

Metro Area

SONET Rings @ OC-48/192

Core ATM Switches

Terabit Routers

Core

OC-48 Rings over D-WDM

(Long Haul Network)

Edge
When to Raise Money?

• Get money when you don’t need it
• Launch >= 4 pitches simultaneously
• Assume >= 6 months
• Be “introduced” when possible
• Name brand usually trumps $
Business Basics

• CFIMITYM
  • Profit and Cash Flow
  • Growth can kill

• Business Plan

• Flexibility/ Pivots
  • First vs. Final product/service
Success Factors

- IP vs Speed
- Mission
- THE TEAM
- Where do you fit - physically, on food chain
- Lean startup: rapid prototyping
- When will you make it
- How much $ will it cost to build it/company
- How much money will you make “us”? 
More Success Factors

• Are you ready to do a startup (experience)?
• Be willing to try again after failure
• Speed and Execution are personality traits
• Focus, Focus, Focus
• Stock dilution/ control
• Take help from your investors
Bottom Line– Leadership Wins!

• Passion
• Confidence
• Engagement

CALL TO ACTION

• Win the War (if not that battle)!
YOUR TURN!