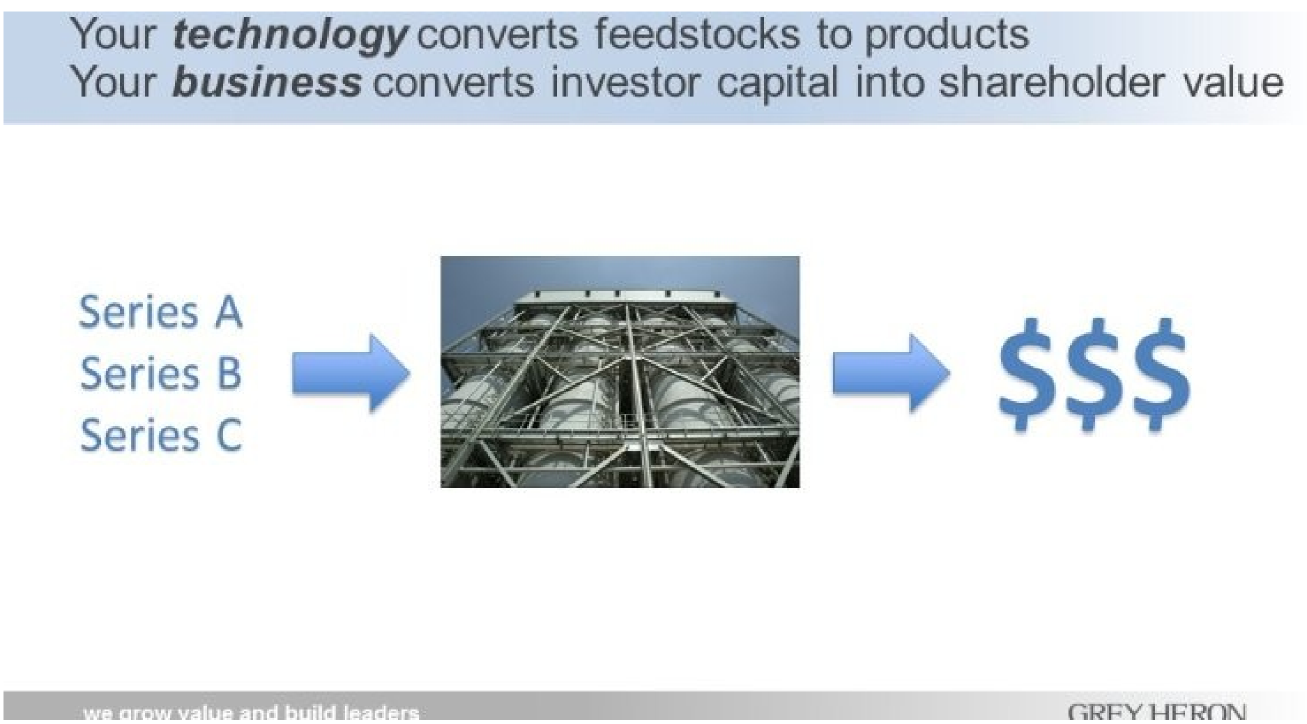
To raise capital, show how you convert investor dollars into enterprise value (not how you convert feedstocks into products)

biofuelsdigest.com/bdigest/2016/09/11/to-raise-capital-show-how-you-convert-investor-dollars-into-enterprise-value-not-how-you-convert-feedstocks-into-products/

By Steve Weiss, Co-Founder, Grey Heron venture consulting

Special to The Digest

Have you ever read articles with fund-raising advice? They have titles like "how to create an elevator pitch" or "the ten slides you need" – and can be very useful. And most of us already know how to show off our technology – the magic of how we convert feedstocks into products.

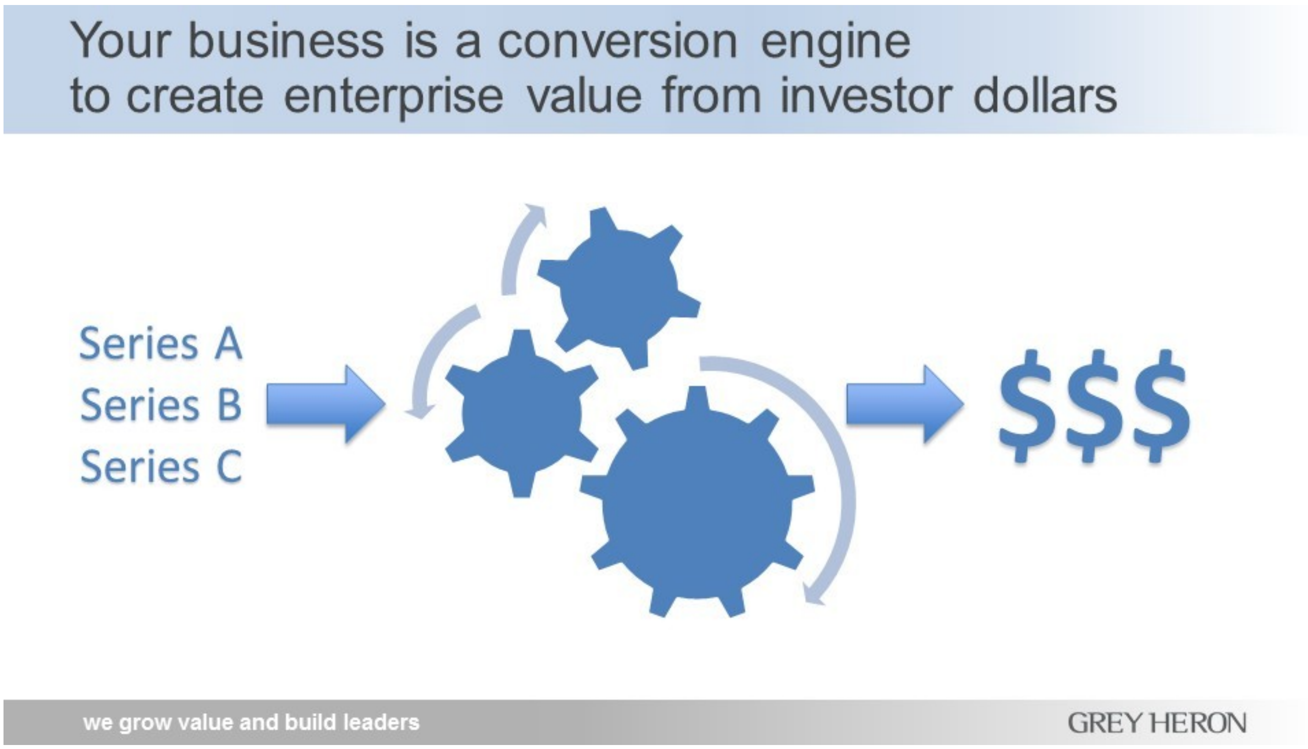


In this article, though, I'm going to take it up a level from those "details". I'll share *how to reframe your thinking and your pitch* to speak directly to one of an investor's key concerns – how you'll create value. That's especially important in the Bioeconomy given its history – and

I'll share some ideas at the end to address that directly.

Dollars in, value out

At the end of the day, your technology and business is a *conversion engine*. That engine eats investor dollars and needs to create enterprise value. Period.



Entrepreneurs love strategy, vision and technology. That's why many of us became entrepreneurs and focused on high tech.

But the thing to remember is that all of your technology is a means to an end – the creation of enterprise value. Investors care about return on their investment. Speak to how you deliver that, and you're speaking an investor's language – as well as setting yourself ahead of competitors.

Josh Green, general partner at Mohr Davidow Ventures and former chairman of the National Venture Capital Association, has helped more than 150 companies through successful IPOs. His comments sum it up: "VCs typically invest in just a few companies each year after considering a thousand or more opportunities. Yes, we invest in great teams. Yes, we invest in great technologies. Yes, we invest in large, growing markets. But the more a company can show it can get from here to there, and demonstrate the value that it will create, the better its chances of closing on a good financing."

Channel your inner CFO

I love the CFOs I work with. They bring a no-nonsense, solidly-grounded *discipline* to business thinking, starting with basics like “cash is king”. Part of their value-add is taking emotions out of the picture. While the CEO and technologists are animated about changing the world, the CFO can add important *balance*, forcing honest answers to why a customer really needs this – and asking for proof. When you’re preparing to raise money it’s a good time to put on your CFO hat or have someone that thinks like a CFO help pressure-test your pitch.

Case in point: I’ve worked with interim CFOs multiple times. I asked Kenton Chow, a partner at FLG Partners (which offers “CFOs as a service”) about the best ways to change how a company talks about itself: “Simple. Start with the basics – what it takes to drive customer growth, how big, how many, how fast and when. Customer acquisition costs. Understand the drivers of your business model and profitability. Be realistic about costs and be prepared to back them up.”

The currency of a CFO is metrics. Inputs, outputs, KPIs, sensitivity. Learn how to talk about what an investment buys you.

Translate your products to earnings

Is your business fundamentally about a single product? A single product that needs to be customized for different customers, regions, feedstocks? Multiple products? A “platform” technology?

To “speak CFO” (or investor) you need to translate your offering into financial terms. Your product(s) now become one or more earnings streams. You need to describe your fixed costs (e.g. the cost to develop and/or deploy your base technology) and your variable costs. Can you speak to the efficiency and returns of the incremental investment needed for product n+1? Do you know how much it will cost for ongoing improvements to an already “completed” product – and whether customers will pay for that?

A *conversion engine* mindset brings your business model to life

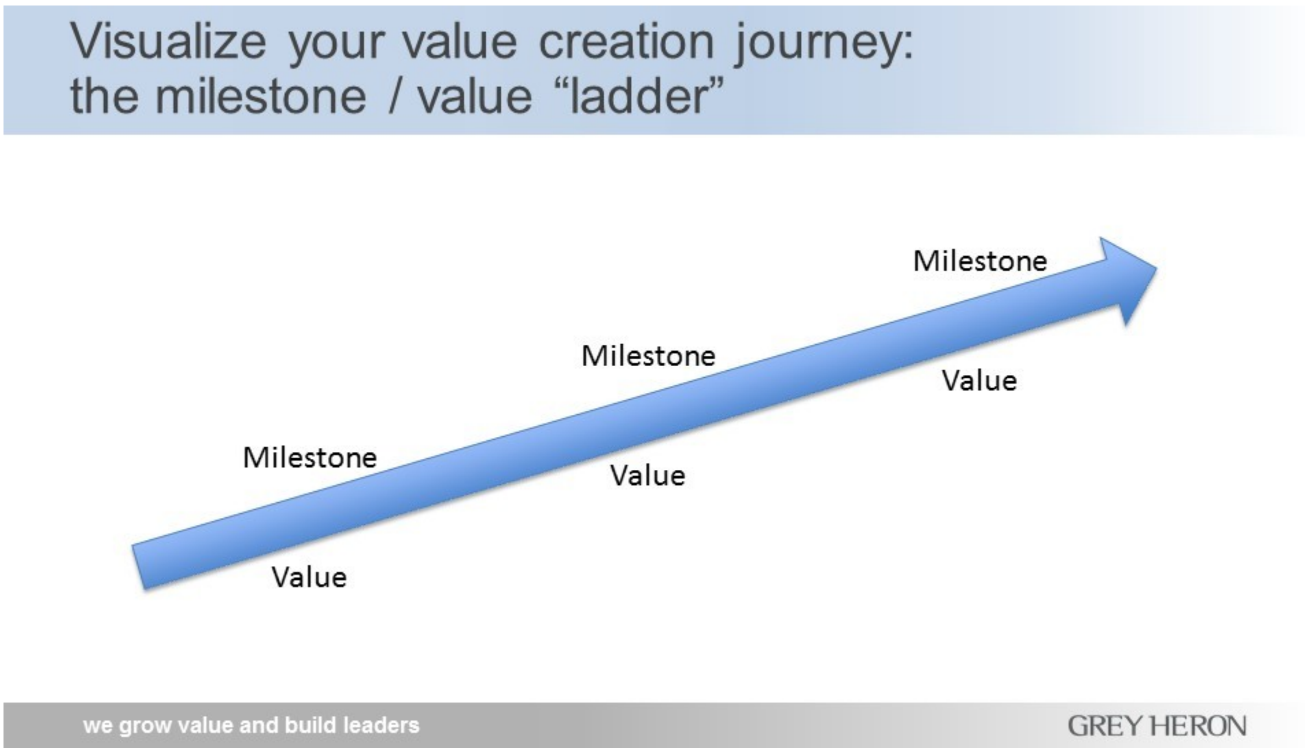
“We have a SaaS-like recurring revenue business model.” “We develop technology and license it to many customers that build plants, giving us a highly capital-efficient business model.” “Our long-term model is X percent of revenues to R&D, Y percent to sales and marketing, and Z percent margin.”

What’s the difference between your business model and this conversion engine idea? Your business model feels *static*. A conversion engine makes it *dynamic* – brings it to life. A business model is definitional. It characterizes.

But an engine is a living thing. You can tune an engine. Increase its efficiency. Get out the gunk. Fix a problem. Turbo-charge it. Feed it premium fuel. Instrument it to see what's going on. You feed it, nurture it, love it.

It's about (fundable) milestones and de-risking

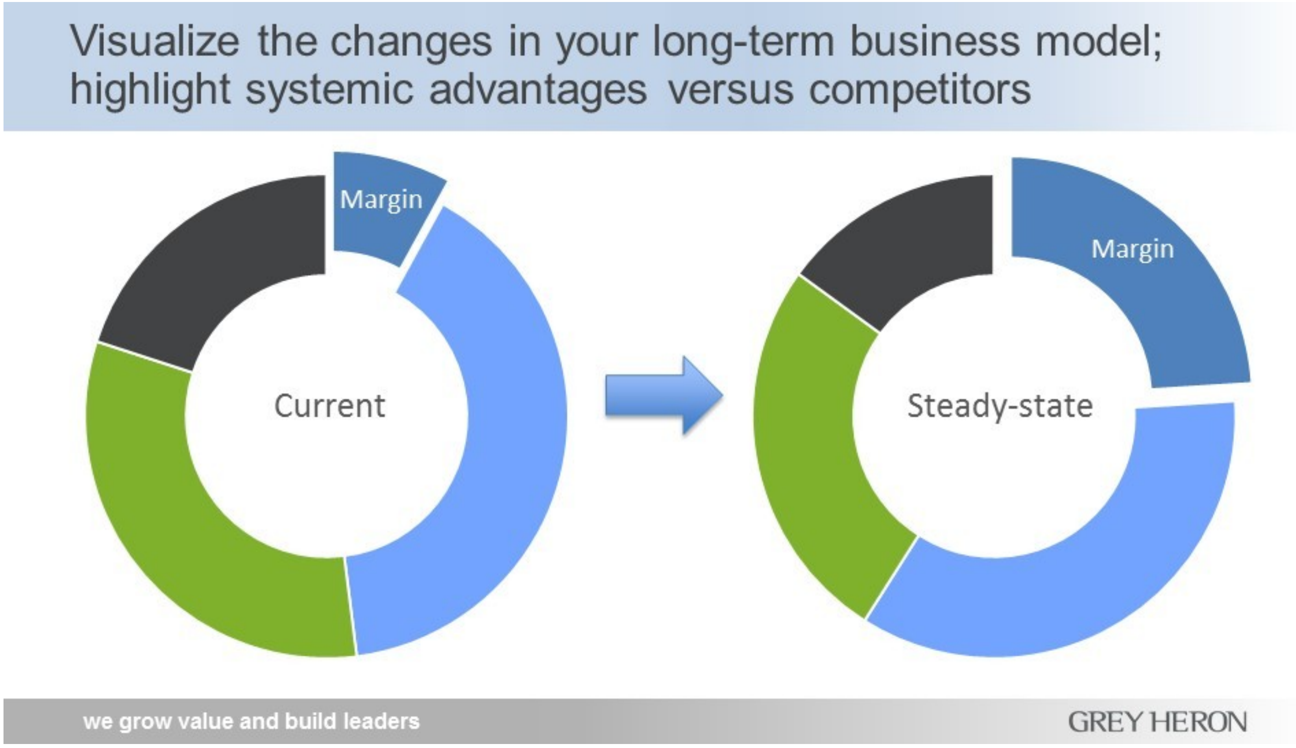
You build value by meeting market-relevant milestones. But a sequence of milestones is not just about features and timing. It's inextricably linked to the dollars it takes to get there, the time it takes, a safety margin and the results stream created by each milestone (e.g. revenue, profits).



Think of each successive market-relevant milestone as a lily pad. You need to raise enough money to reliably get to the next one. You need to prove out your model at each stage. Each milestone should tangibly reduce investor risk and therefore correspond to an increase in enterprise value. If an investor thinks that your next planned jump is too big, then you have a problem.

Use your conversion engine model to highlight your sustainable competitive advantage

Understanding how your business really works to convert investments into value allows you to – yes, you guessed it – take snapshots in time that describe your business model. A good way to do this is commonly used by public companies – showcasing pie charts with the target percentages of expenses and profits in both their current and target business models.



This also gives you a great opportunity to highlight your differentiation from others in your industry – and how it impacts your model. For example, if something about your technology allows you to access a consistently lower-cost set of outsourced manufacturing assets, here's the place to highlight that.

Dealing with the special challenges of the Bioeconomy as an investment proposition

The Bioeconomy does not have a great track record, overall, for creating the financial returns desired by venture investors. That sets a tough context that your overall vision and the strength of your conversion engine need to overcome. Here are some additional factors that can be prominent for Bioeconomy companies and how to address them:

- *The engine has to start up*: To paraphrase the old Abraham Lincoln public service announcement for college – "you ain't going nowhere without that value proposition". Many companies are focused on areas that *sound* like they make sense; that customers *should* go for. You've spent a lot of time to validate your technology. Make sure to validate your value to real customers. The more you can prove they *need* you, the stronger your position.
- *Long timelines can sap your engine's power*: The time until you generate meaningful income streams is not your friend. In financial terms, the future cash flows generated by your products are discounted – heavily. If investors apply a discount factor of 20-22% (per year), then the earnings you'll generate a few years from now are worth less than half of that in today's dollars. The answer: revamp your offerings or your business model to pull in some of those revenues – and deliver on or ahead of schedule.

- *Your engine could be finicky*: Investors know that Bioeconomy businesses can be sensitive to multiple externalities. What happens if feedstock prices go up by xx%? Or the selling price for your product drops by xx%? Or demand shifts? Or feedstock quality is inconsistent, increasing downstream costs? The answer: fire-harden your conversion engine so that it's more resistant to these changes. That can impact your product set (e.g. non-commodities; or a biorefinery model that lets you optimize output based on then-current conditions), your financial strategy (e.g. hedging), and more.

Getting fund-raising right

There's a lot you need to get right when you're fund-raising. Much of the time, you're already well-prepared to talk about your technology, your market and your competition. So spend a little more time focusing on how to talk the language of your potential investors – show them how your business will convert their dollars into significant enterprise value and deliver a great return for them.

Steve Weiss is co-founder of Grey Heron, a management and strategic marketing consulting firm. Over 23 years, the firm has helped executives and investors at over 130 companies turn technology into substantive businesses. Fields include energy and resource efficiency, cleantech, the Internet of Things, cloud/SaaS software, and advanced materials. Within biotech, Steve has worked with Genomatica, Beta Renewables and Liquid Light. Contact Steve at ; see Steve's LinkedIn profile.

This article is an expanded version of one originally published at SandHill.com. See Steve at ABLC Next in San Francisco this November.