"I am an Engineer and how do I get Rich with my Ideas?"

By: Tim Kraskey
Who is Tim Kraskey!

- A Venture Capitalist
- An Entrepreneur
- A Teacher
- A Mentor
Background

• Universities are for Teaching & Research
  – But… Your research should eventually have some worldly purpose.
  – This implies your ideas will someday make someone money!
  – Why not you?
  – So how do you do it?
Ways you can get compensated!

- Founder stock
- Consult – Stock/Cash/Options
- Advisor – Options
- University IP – 1/3 partnership
- Leave of Absence – Max 2 years
The Basics!

- Need “Breakthrough IP”
  - Something that can not be copied fast (i.e. Protectable – Patents???)
  - Something that is revolutionary vs. evolutionary.
  - Built on science.
  - Has a broad market.
  - Is something people will pay money for.
Your Idea!

- Your ideas have to be understood by more than just peers.
  - Can you explain it to your spouse or administrative staff?
- If it is or is not understood – Get help from the TLO office who could help with the patent process.
- Carlson School is now trying to vent ideas!
Barriers to Entry

• Large and growing market (>$100M).
• Capital less than $30M to CFBE.
• Strong team.
• Strong channel & sales plan.
• Protectable IP.
• Management team & founders.
If Your Idea Passes …

• You need to find a key team to create a company.
• You will need money to finance it.
  – Angels
  – VCs
  – Friends & Fools
• Money is easy for good ideas.
VC Economics

2001
• “Winners” will be 1/6th of what they were in 1999.
• No longer a safety net for sales to overpriced public companies.
• Companies may have a three to four year maturation.

2003
• Winners may still be 1/6th of what they were in 1999 – or less.
• There may still be overpriced public companies…. but they are buying technology at $20 - $80 Million enterprise value.
• Maturation may be 5-7 years.
VC Economics

2003 - 2004

• New Model
  – 10X or 3X.
  – No IPO Exit. Require >$200M in Revenues.
  – Merger Exit: 5X Sales (If you have the right solution).
• May take 4-5 rounds of financing
Best Solution for Investing by VCs

• Look for “innovative technology” that can be turned into commercial products.
• Look for companies where the leverage is in intellectual property.
• Find companies that will be fundable by others (e.g. Syndicates).
• Realize that “Returns” will be more like the 1980s (e.g. 4-6x)
So What is Getting Funding?

**It Takes a Real Business!**

- What problem are you solving (i.e. Pain)?
- Who is your customer? Why will they buy?
- What is the size of the market opportunity and timing?
  - Real market research required!
- What are your sustainable competitive advantages (i.e. Solution to the Pain)?
- How will you make money?
- Who is going to pull it off?
Stages of Funding

- **Seed**
  - Highest risk
  - Few firm funding
  - “Angels” are important

- **Early Series A**
  - Medium risk
  - Many firm funding

- **Mid Series B**
  - VC syndicates are needed

- **Late Series C, etc.**
  - Lowest risk
  - Many firm funding
  - Buyout
  - Pre IPO
Series A Fundable Companies

- Starting sustainable companies with real value
- Can exist on their own--no need to flip the company
- Customer testimonials that can justify your product/service based on their own payback
- Strong team to pull it off
Series B Fundable Companies

• Justifiable business model with proof points
• Product or service that actually works -- Made it to Beta
• Paying, happy customers
• A clear plan to get to cash-flow breakeven
• Uses of Series B funds other than pure marketing
• Management team mostly complete
What’s Not Fundable Today!

• Series A companies that have no clear definition of the customer, opportunity, competitive advantages

• Series B/C/D companies that are meandering
  – Have never hit their stride
  – Multiple irresolute layoffs
  – Are biding their time until a buyout
  – Bad market timing = High cash burn
  – Limited or No revenues
The Term Sheet - Valuation

• Yesterday:
  – Entrepreneurs set the terms and rate.
  – VCs fought for the deals

• Today:
  – VCs set the terms and rates.
  – All deals are syndicated with very little negotiation
VC Math …
Post Series A

- VCs: 50%
- Founders: 25%
- Employee Options: 25%
What I Hear … on MN

- Local monies goes to the coast.
- Little monies come here from the coasts.
- MN VC firms are later stage.
- Midwest is rich in start-ups but struggle for money.
- Local investors are fragmented.
- No focal point in Midwest for monies.
The Mid-West Perception

- Very Conservative and Risk Averse
- Must have rules – Plan
- Medium paced
- Rigid systems
- Avg. Work Hours per Week = 40-50 (6 O'clock is fishing time)
- VC – Little Money (St. Paul, Norwest, Coral)
Minnesota Strengths

- High speed computing
- Storage
- Medical instrumentation
- Life Sciences
- Retail
- Material sciences
- Agricultural engineering
MN “Perceived “Weaknesses

• Work Habits – Need to put in more hours as Entrepreneur
• Weak Technology = Fiber Optics, Semi-Conductors, Software, Wireless
• Education Sector Not Tied Deeply to Entrepreneurship
• Not Enough Start-ups to Develop Culture
Fastest Growing States for VC Investment (1996 vs. 2001)

- Maryland 58% CAGR
- Minnesota 36%
- Massachusetts 35%
- Georgia 34%
- Oregon 34%
- New York 33%
- Colorado 32%
- Texas 30%
- Connecticut 27%

Source: VentureXpert™ Database by VE & NVCA
What MN and the Midwest need to do!

- Develop a culture and system for success.
- Must have Government, VCs, Banks, Universities and corporate support.
- “Focus” on key areas: Biotech, Nanotech, Computing, Security, Semiconductor, etc.
- Market effectively successes.
- Figure out how all can “Win”
Can I do it?

• If you understood what I just said – Yes, you can do it!
• There is plenty of money out there!
• Do you have the desire and drive to want to do it?
Resources

• CSOM – Entrepreneurship group

• TLO – Dick Sommerstad
  – Dick Sommerstad [somme024@umn.edu]

• MNVC – MN Venture Group
  – www.mnvca.org

• NetSuds – Matt Noah
  – www.netsuds.com

• MN High Tech Association
  – www.mhta.org
Thank You
Tim Kraskey
Managing Director
YankeeTek Ventures
(612) 766-4074
tim@yankeetek.com