Wyvern Fund
www.wyvernfund.com

Created by David Blair
Finance Director

Technology Business Starter Guide

Food for Thought for Hi-Tech Entrepreneurs

"It's not because things are difficult that we dare not venture. It's because we dare not venture that they are difficult."

Seneca

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1. Starting a Technology Company

"I have not failed" said Edison "I have just found 10,000 ways that won't work". These are challenging odds for the technology entrepreneur, especially if they only have the resources to back one winner. Still, there are enough tales of thirty-something inventors being cashed out and retired to their yachts to ensure a constant flow of people willing to give up steady jobs in academia or industry and risk everything on the hope of being the next technology millionaire.

If you are thinking of joining these scientific storm troopers, the first thing to grasp is that just because your idea is great, and even if you can get the science to work, if it does not meet a commercial need then nobody is going to pay you for it and you had better plan on wet weekends in Norfolk rather than cruising through the Caribbean.

The best way to shorten these odds is to:

1. Have a properly thought out business plan

2. Make sure that whatever resources you do have are carefully focused on making it happen

You might think these go hand in hand, but this is often not the case. Carefully composed (and expensive) business plans frequently go into the drawer and are forgotten once the frenzy of running the business starts. There are no proper checks to see how far they are deviating from plan or how conditions have changed.

It's like a car journey - you can use an atlas to plan your route but if things have changed you need a sat-nav to help you keep on course - and avoid problems.

This book considers the four key components of your business plan:

Devising -	how you will make money
Resourcing -	getting the cash to make it happen
Implementing -	setting up shop and keeping you legal
Delivering -	staying on track

The book also thinks about Exiting - the end game that will finally get you that yacht, mansion or whatever else your heart desires.

Above all, it focuses on how an integrated approach to all these areas of delivering the plan can make your resources go further and boost your chances of success.

Remember, management information is critical, but make sure that you are looking at the right metrics. Certainly you want to make profits, but in the early stages your business will not be generating profit, possibly not even generating revenue. This is not necessarily a problem - a company can go on quite happily making losses year, after year, after year.

But it only runs out of CASH once!

2. Devising The Plan

Business plans are written for two main reasons:

1. To raise finance

2. To implement strategy

Your time is limited so write one plan which is capable of doing both.

There is lots of freely (and not so freely) available advice on how to write a business plan and this is not the place to repeat it. Just remember that for your specific technology start-up it's your plan; make sure that you know it, understand it, believe it and live it.

a) The Grand Strategy

A plan is a structured approach to making something happen; to delivering change. Make it useable - what milestones need to be passed in each area to make it happen - and when? Set them out, assign priorities, responsibilities and deadlines - even if they are all down to you. How else will you track progress?

1. For You
Keep it real - an academic treatise is no use in executing the plan. Have a clear list of objectives and deliverables which work towards the end game.

2. For Investors
Keep it simple - few investors are likely to have your specialist knowledge. You should have something which fills a need better, cheaper or faster than the competition - and you should know how to make it happen. This is the message you need to communicate.

3. For Both
Keep it short - don't write an enormous plan simply to deliver the "thud factor". Investors will not have time to read it and there is plenty of time to get into the detail once their interest is piqued.

Above all, remember - IT'S YOUR PLAN - don't give it to anybody else to write. You must know it, eat it, breathe it and be prepared to live it twenty four hours a day. It is a living, real world document, not something to forget once the investors' money is in the bank.

"Plans are nothing; planning is everything".

Dwight D. Eisenhower

b) The Ingredients

You are likely to spend longer researching your plan than writing it. You should present it in a way that is useful to you, but should address the following:

Executive Summary - ideally a one page summary of the key points for your investors, and an opportunity to keep you focused. This may be all that potential investors have allocated time to read, so make sure that it's succinct and lifts the key points from the rest of the plan.

1. Market - fundamental, but often overlooked by technology start ups. What need will your product address, how is it better, cheaper, faster than existing solutions and what is the competitive landscape?

2. Technology Plan - what are the challenges to bringing the technology to market and how will they be addressed?

3. Business Model - how will the model be actioned - product scale, service delivery, licensing?

4. Corporate Plan - formal housekeeping, but an essential framework. What is the corporate structure and background? How do you plan to exit?

5. IP Strategy - your intellectual property is likely to be your main or only asset. How are you going to protect it?

6. People Plan - what skills do you need? How will you find them; who is already on board and what is their track record?

7. Operating Plan - how are you going to execute the strategy? This should set out a month by month plan for the first year; quarterly thereafter.

8. Financial Plan - well thought out and clearly presented financials are essential. But think about what indicators are needed to drive the business and what information is needed to manage it - not just a simple cash flow. What will you need to know about how the business is performing?

"The potential for loss when gambling on a certainty is infinite".

Winston Churchill

c) The "Sizzle"

These headings are true for any business, but as a technology start up there are two key areas to which you need to pay particular attention.

1. What do you know?

If you come from an academic background or have been working in a research and development team in industry, you are likely to be familiar with the process of generating patents.

You are now on your own, without the support of the university or its corporate resources. Your business is a commercial organisation which needs to make money from the intellectual property which it has or you plan to develop. This IP is where the value, or more particularly the potential value in your business lies, and it is critical that you understand it from a commercial perspective, protect it, guard it and appreciate the associated costs and timelines which should be properly incorporated into your plan.

Remember that your IP portfolio extends to more than just patents

- Patents are important but take time to grant and are costly to obtain and maintain. Is this the right approach for your technology? Where will you seek protection? What sort of protection will you need?
- Do you have any know-how or trade secrets which need to be protected and/or managed?
- Are you preserving your copyright in anything that you create?
- You are likely to generate a corporate image and brand identity early in the company's life. This can quickly turn in to your trade mark, which in a rapidly developing environment can take on its own value. This will require considerable thought and talent to create a professional brand, it is worth consulting with graphic designers and marketing professionals to ensure you get it right first time. You only get one chance to make a first impression.

You also need to think about licensing. Have you licensed the IP from outside, in which case how secure is it as a commercial asset; or if you are licensing out the technology, how are you going to control it?

In short, the way in which a mountain lioness guards her cubs should pale into insignificance against the way in which you guard your IP.

It is your key asset - you need a detailed and properly thought through IP strategy which addresses both its legal and commercial aspects. Take proper professional advice and be prepared to allocate adequate resources to your portfolio. Although you work in a knowledge based industry it is unlikely that you will have all of the specialist knowledge that an experienced IP professional can bring to the table. Be prepared to acknowledge gaps in your knowledge, in the long run it will strengthen your skills and earn you respect.

"Management is doing things right; leadership is doing the right things".

Peter Drucker

2. It's a People Business

Investors invest in three things, management, management and management.

You may be the worlds leading expert in your sphere, but you will need help to develop the technology. Successful entrepreneurs recognise gaps in their own skills set and understand the importance of bringing in others to compliment and complete the management team.

Whilst you will want to recruit full time members of the core scientific team you will not need, (nor can you afford), full time senior managers in specialist fields such as marketing, finance or regulatory process. But you will need their knowledge and experience if your business is to be credible and successful.

In particular you should appreciate where your own skills lie and where, as founder, you can add most value to the business. It is a fact that in many, if not most, successful technology start-ups the founders have a clear business vision but also recognise the gaps in their own experience. They should therefore plan from the outset to recruit a skilled CEO that can fill those gaps. Remember, "nobody's perfect, but a team can be"

The good news is that technology companies generally start up within a cluster - silicon fen and silicon glen, for example, where there is a concentration of specialist investors and professional advisors as well as experienced individuals who are willing and able to join your team on a flexible part time basis.

Research the available talent thoroughly and be prepared to take advice from a variety of sources to make sure that your business has a strong and complete management team to maximise its chances of success.

“Whoever has the gold makes all the rules”.

(The Golden Rule)

Starting your own business obviously entails a multitude of decisions; decisions which can seem overwhelming without the right players on your team. In order to succeed you need to equip yourself with the right people to provide you with critical professional advice. The right accountant and solicitor can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

In recruiting and retaining key staff, remember that they will expect a competitive benefits package in addition to basic salary. This includes: pensions and, critically for start ups, share options.

Share options are used extensively in early stage technology companies to incentivise management and employees and to align employee interests with those of shareholders. Making options widely available to employees enables companies to preserve valuable cash by not paying excessive salaries to attract the best talent.

Typically, options are only exercisable on a realisation of value for shareholders, usually on a flotation or trade sale. The exercise price of an option is usually the market price at the time the option is granted, so the employee gets the benefit of the uplift in value between the date of the grant of the option and the date of sale. As share options dilute the investor’s shareholding, it is usual for them to impose limits on the aggregate number of the shares over which options can be granted. There are several types of share schemes with different opportunities for tax planning depending upon the recipient. Appropriate advice should be sought as to how to best incentivise staff and implement share schemes.

3. Resourcing The Plan

You have a business plan but how will you fund it? Generally external business financing can take two routes - debt and equity.

Debt means borrowing money and the principal features of commercial debt is that it has to be repaid from the profits of the business within a fixed timescale. A commercial lender accepts no risk that the money will not be repaid and rates of return are therefore set lower than for equity investments. As a technology start-up, you are unlikely to have sales, let alone profit, so debt funding will not be an option.

Equity means selling a portion of your business. This involves issuing shares in your newly formed company in exchange for cash and is a complex process for which you should use a specialist legal advisor. There are several specialist technology investors and you should research the arena to establish who are most likely to invest in your business and who will add the most value.

Of course, the best way to fund a business is by getting paid by your customers for the goods/services that you have delivered. This means that you have not only retained full ownership of the business but have proved that there is a demand for your offering. Do not rule out the company's ability to "soft start" by careful cash management and maximising the use of grants and similar schemes.

a) Who

Traditionally, equity investors are either venture capitalists or business angels.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They provide in-depth experience in areas where your management team may be weak. Importantly they can also deliver valuable contacts and introductions in your industry. A venture capital investor becomes a member of your team and may well own the majority of your company. Many have a minimum transaction size, typically £2m, and in recent years their appetite for pre-revenue start ups has been limited.

They are professional investors and the terms they will impose under the investment agreement are likely to be more onerous than private individuals. They are also often more able to take a strategic view of the company's business and provide further funding in "follow on rounds"

There are a number of specialist healthcare or life science funds investing at all stages of the fundraising cycle as well as general funds, a number of which have specific amounts of their funds earmarked for investment in technology. These funds invest at all stages of the funding cycle and "lead" fundraisings or funding rounds.

“The most dangerous strategy is to jump a chasm in two leaps”.

Benjamin Disraeli

You should research the market thoroughly before approaching any potential investor to make sure that they are both interested in your field and are able to bring something more than just cash to the table, for example, contacts or industry expertise. The British Venture Capital Association is a good source of information.

Business “Angels” are successful individuals in their own right that have accumulated substantial wealth. Such individuals may believe that the success of your business may enhance their businesses as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors.

Angels can provide a very useful source of funding to early stage companies, particularly at the start-up stage when the amount of funding needed is limited. They are likely to be less sensitive to the price paid for their shares than VC’s and can also bring useful and relevant skills to the management team. However, beware of those who are looking to immediately take back their investment as management fees.

Equity investors own a proportion of your business and seek to make a gain by selling (or “exiting”) the company.

Other Sources

Remember that the more equity you raise, the less of the company you will own, so think carefully about other available sources of finance.

Grants

Government grants are available to assist research and development projects. They will not meet the whole cost but can provide useful additional funding.

"A minimum is quite sufficient if used properly".

Phileas Fogg

Small Business Research Initiative

The recently revitalised SBRI programme, based on a successful American model should provide an additional route to government contracts for early stage companies and reduce the amount of "hard" equity that they need to raise (see www.innovateuk.org for more details)

R & D Tax Credits

Established companies engaged in research and development can "sell" part of their tax losses to the government in exchange for cash. This can provide a useful injection but this is a complex area and specialist advice should be sought.

Corporate Ventures

Typically large life science or telecoms companies who may invest in early stage businesses as part of a strategic alliance or commercial collaboration with that company.

b) Why

Remember that investors are likely to own at least a significant proportion of your business, so what's in it for them?

Your driving position may well be the technology at the heart of your business, but investors will mainly put money into it because of the prospect of making a return.

The growth potential and competitive position of companies in the technology sector distinguishes them from companies in other sectors competing for venture capital financing. The strong competitive position afforded by the appropriate IP protection can make an attractive investment proposition.

Although investing in early stage technology companies has unique challenges, the overall objective is clear: to make the best possible financial return on any capital invested. This is the same objective for any commercial investment decisions, the only difference being defining an acceptable level of return for a given amount of risk. Therefore, given that early stage investing in technology is high risk the returns need to be excellent compared to other asset classes.

"Great deeds are usually wrought at great risks".

Herodotus

Central to making excellent commercial returns from investing in early stage companies is the concept of value creation or turning your liquid cash asset into an intellectual property asset that has more value.

The new investor needs to be confident that the valuation at which he invests will enable him to make his target return, typically 35-40% compounded on an annual basis. The higher the valuation placed on your company, the lower your "dilution" from the investment (ie, you will sell less percentage ownership for the same cash invested). Remember, there are likely to be several rounds of investment as the business grows with further potential for dilution at each round.

The pre-money valuation (ie, the value of the company at which the new investment is introduced) is therefore critically important. The valuation of early stage technology companies is notoriously difficult and there is no definitive or universally accepted methodology. However, the questions that any investors will ask are:

- What is the quality of the Management?
- What is the quality of the existing investors: are investors following on?
- Are there any contracts/deals with quality companies: what are they like?
- What is the quality of intellectual property and are there barriers to entry?
- Is there any revenue and what is its quality?
- What's hot and what's not?

If you are prepared to address these with a well thought out plan then you have more chance of improving the valuation of the investment and minimising your dilution.

Against this, remember that there are other factors at work in the market outside your control and it is important to be realistic and informed when negotiating value and not to lose sight of what the investor brings in added value.

It is probable that you will never be satisfied with the valuation that you achieve in a funding round, feeling that the investors have undervalued your business - your "baby". In many respects this is a positive - you are the one who believes in its potential and are most focused on delivering it. You are therefore not as distracted by the other factors that incoming investors must take into account, or are more confident in overcoming risks that they perceive as serious barriers. As a general rule, if you are seeking equity investment and there is money on offer, take it. It is always better to have a small percentage of something valuable rather than 100% of nothing.

"In the business world, the rearview mirror is always clearer than the windshield".

Warren Buffett

c) How

Once your investor has agreed to invest they will provide a term-sheet setting out the principal features of the deal. They will then instruct lawyers. If you have never gone through this process before, the documentation can be daunting, so this section outlines the paperwork that you can expect.

The investors will subscribe cash for new shares which will usually be a different class of shares to those held by management or other investors. In return they will be looking to make a substantial capital gain on an eventual exit, typically an initial public offering (IPO) or trade sale.

Documents

The main documentation setting out the rights and obligations of the investors, the company and management will comprise:

- An investment and shareholders agreement
- Memorandum and Articles of Association

In addition, there may be technology transfer agreements under which the company acquires the technology and intellectual property on which its business plan is based.

Investment and shareholders agreement

The purpose of the investment and shareholders agreement is to regulate the arrangement between investors, the company and management. It will set out the principal commercial terms for the investment agreed between the parties and how the company is to be managed. This will be expressed as a series of undertakings by the management which protect their position but generally impose a discipline of good communication and corporate governance and therefore should not be too contentious.

Investors will require:

- The right to appoint a director to the board
- Monthly board meetings
- The right to veto various company actions
- The right to receive financial and other management information on a monthly basis

“Give me six hours to chop down a tree and I will spend the first four sharpening the axe”.

Abraham Lincoln

Warranties

A warranty in this sense is a statement that the facts set out in the business plan are correct. This provides the investors with the comfort that their decision is based on full and accurate disclosure of key points and if they are incorrect the warrantor may suffer personal liability for the consequences.

As future projections are based on assumptions rather than established facts, it is the warranties surrounding these assumptions that often cause the greatest debate. When making an assumption upon which the plan is based you should therefore carefully consider it and its implications.

The investors will want you to warrant ie personally confirm that the information that you have supplied is accurate and that any assumptions or opinions are well researched and honestly believed.

Investors will request that warranties are given to them by management and usually, the company itself. Although the investors will have undertaken due diligence on the company and its management, they will be subscribing for shares on the basis of information provided by management and will, therefore, require warranties.

Covenants

Covenants are specific promises that you make not to damage the company, typically as a safeguard for investors should you leave the business. The usual ones are:

- Non compete - you will not participate in a rival business
- Non solicitation of customers - you will not attempt to steal the business’ clients
- Non solicitation of staff - you will not attempt to poach the company’s employees

Warranties and covenants will be negotiated between the parties and given the association with the business plan *should be reasonable.* However, they can come as a shock to the novice manager and it is imperative that you get specialist advice.

As part of the process you will produce a “disclosure letter”. This document provides a mechanism for you to advise investors formally of any relevant items or qualifications to statements made in the warranties. For example, you may be asked to warrant that there were no legal actions against the company - if there was such an action it would be referred to in the disclosure letter and you would not be liable under the warranty for damage to the company from that action.

"This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning".

Winston Churchill

Articles of Association

Articles of Association set out in detail the different classes of shares and the rights attaching to those shares. The investor will usually own a different class of share to management, with the investor's shares having certain preferred rights in the following areas:

Pre-emption rights - any shares which are to be offered for sale must be offered first to the other shareholders.

Mandatory transfer - staff who leave must offer for sale all or any of their shares in the company. The rationale for such a provision is to encourage management to remain and to build value.

Drag-along provision - when selling the company if a majority of shareholders accept the offer, then the dissenting shareholders must sell their own share to the third party purchaser on the same terms.

Tag-along - where the majority of shareholders have accepted an offer, a minority can require the purchaser to take their holding on the same terms.

Preference - when the company is sold, the price may not always provide the investors with their anticipated rate of return or even the recovery in full of the amount invested in the company. In this case the articles may dictate that the proceeds of the sale are reallocated between the shareholders so that the investors receive back their original investment (plus, possibly, a minimum rate of return) before other shareholders.

Anti-dilution - if in future financing rounds, the company issues shares at a price lower than that paid by the investors, then they are entitled to additional shares at nil or low cost to average their subscription price per share down to the later lower issue price.

As companies often undergo several funding rounds with different share classes being issued to each incoming investor, "preference stacks" and anti-dilution provision can become very complex.

4. Implementing The Plan

Once the investment is complete and the money is in the bank, you will quite naturally be preoccupied with making the technology work. However, there are a host of issues as a new company which you may be unfamiliar with. If properly managed they are little more than good housekeeping; but if ignored they can land you and the company in serious legal and commercial difficulties.

a) Dealing with Companies House

It is likely that you will have to become a company director, possibly for the first time. Whilst this may sound glamorous, being a director attracts a range of statutory responsibilities in addition to the demands placed on you by the shareholders agreement. It is important to address these as neglect could see you with a criminal record and substantial fines.

In law, a company is a separate legal person, able to raise money, employ staff and enter contracts in its own right. It is owned by the shareholders who delegate to the directors (these may be the same people) the day to day responsibility for running the business. A critical feature of the company is that the liability of its members (shareholders) is limited to the amount of share capital they have invested - so in the event of the company failing then other creditors of the company cannot pursue them personally for the company's debts.

The price of this protection is that the company must make public more information about itself, its trading, members and officers. It does this by filing certain documents at Companies House in Cardiff, where they are freely available for inspection. These documents must be filed according to strict deadlines which, if missed, will cause the company to incur penalties and can lead to criminal actions being taken against directors.

These documents are:

- The Annual Return - which lists current members and officers; the due date of which depends upon the company's date of formation.
- The Annual Accounts - which are generally due 10 months after the year end.

The directors have other legal responsibilities, notably the duty to keep proper accounting records which enable them to establish the company's financial position on an ongoing basis.

They also have duties to employees, members, creditors and others so that when acting on behalf of the company they must be careful to consider the rights and responsibilities of others and document their decisions accordingly.

"In this world nothing can be said to be certain, except death and taxes".

Benjamin Franklin

In summary, being a director brings many duties that you may not have considered and you need to make sure that your legal requirements are adhered to. If properly managed this should not distract you from delivering the business plan. It does mean that you need the right skills in your team to keep you legal and make sure deadlines are met.

Although small companies are not now required to have a Company Secretary, a good company secretarial function will ensure that your legal responsibilities are discharged without your having to worry about them. It will also create a strong corporate governance environment, which will help make your eventual exit from the business much smoother and could increase the company valuation.

b) Dealing with HM Revenue and Customs

Although the companies' legislation requires you to keep proper accounting records and file accounts, you must also comply with the taxation legislation which is extensive and can be confusing. Again, the penalties for non-compliance can be severe. The tax environment is likely to have a more immediate impact upon your operations and in particular:

1. You must notify HMRC of existence by completing forms CT41G. The form notifies HMRC of your accounting date, your accountant, and also enables a PAYE (Pay As You Earn) scheme to be set up, which is a requirement if you are to be an employer.

2. Payroll Taxes: If you employ staff you must set up a PAYE scheme to enable tax and national insurance to be deducted from their pay each month. This must be remitted to HMRC the following month.

3. Corporation Tax: Companies are charged corporation tax at the rate applicable during the financial year (6 April - 5 April). Where a company's accounts period spans two financial years the profits for the period are apportioned between the years. The company is required to send its completed tax return (form CT600), accounts and tax computation to the Inspector by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late.

“No plan of battle ever survives contact with the enemy”.

Heinz Guderian

4. Value Added Tax: A company which makes taxable supplies becomes liable to be registered if the level of turnover exceeds preset amounts over a given period. In certain circumstances it may be possible to register on a voluntary basis so that input tax may be recovered prior to the registration limit being reached. This is often the case with technology start up companies. Returns must be made monthly or quarterly.

c) Dealing with the ‘Real’ world

You will need other aspects of business administration that are prescribed by either law or the investment agreement. Others are simply good business practice that will support the long term growth of the company.

These include:
Insurance - as an employer you must have employers liability insurance but investors will also want a more general commercial policy.

Health and safety - an extremely important area for all business. You must ensure that an appropriate policy is in place and properly policed.

Personnel - you must have proper contracts of employment for all staff and compile a company handbook setting out policies and procedures, including grievance and disciplinary procedures.

Data Protection - you may need to register the business under the Data Protection Act.

Although these were probably not in your mind when writing the business plan they can end up giving you a real headache. You should try and find a ‘Corporate Aspirin’ to stop that turning into a migraine!

5. Delivering The Plan

You have already set out your objectives and deadlines in detail in the Operating Plan which you wrote as part of the business plan. But how is progress actually to be measured?

Operating The Operating Plan

You need to be clear about how progress is actually to be achieved. Clarify who will do what, where, how and by when?

In practical terms this means the management of resources, which is most easily expressed in financial terms through an operating financial budget. If you are to obtain the maximum value from the considerable effort that you will put in to compiling the budget then you should follow some simple guidelines:

1. When writing your plan, think about the business model, how is it to be structured, where will the income and costs come from? Will there be different operating divisions?

2. Make sure that your strategic financial plan is built around that model

3. Understand how changes to assumptions will affect the models output

4. The operating statement of income and expenditure will differ from your cash flow - for example, you actually pay suppliers the month after making the purchase. Make sure that the two projections are modelled separately but come from the same core assumptions

5. Ensure that the financial information in the strategic business plan is in the same format and with sufficient sensitivity to support changes against the plan

6. Set up your systems to capture the actual data in the same format as your ideal business model

In this way you can build a detailed road map that is tailored to your business and can be used to plan a route to achieve the core goals.

"If you don't know where you are going, any road will take you there".

Lewis Carroll

Your own "Sat Nav"

This is far more than the simple bookkeeping which is your legal responsibility, but is critical if you want to make your cash go as far as possible. The legal and regularity issues described in implementing your plan are important, but simply complying with the statutory minimum will not provide you with adequate market information to execute a complex business plan with limited resources.

You may be receiving a set of perfectly constructed flawless historic financial information. This is absolutely useless from the perspective of running your business.

If you want to keep on track you need to:

1. Make sure that the actual business data - the raw transactions - are being captured in the same format that you anticipated in the business plan

2. Make sure that the output for this is being presented clearly and consistently in a format you can understand and is useful to you

3. Make sure that it shows where you are - and how you got there - against where you thought you would be - and how you would get there

4. Have the information analysed and summarised so it can be quickly assimilated by investors and other key users

5. Update your model with actual data and flex the projected position to take account of current intelligence.

In this way you can stay on course and take appropriate corrective action at an early stage.

And listen to it!

As in all things, get the right advice on board and be prepared to pay for it. Remember that the profit and loss forecast is not the same as your cash forecast; these need to be understood and planned separately. Complications such as delays between selling something and getting paid; the need to build up a stock of parts or the operation of the VAT regime all have an impact on cash and, particularly as you are unlikely to have much of it, it is essential that you understand this and plan accordingly. This is not easy if it is to be done properly and can take a lot of your time unnecessarily.

Remember - there is an old truth in accounting which says cash is fact - everything else is opinion. Make sure you get the facts right.

> "*There are no secrets to success. It is the result of preparation, hard work, and learning from failure*".
>
> **Colin Powell**

A final thought…….(almost)

A common feature of early stage technology companies is that they are inherently high risk business propositions. They also have limited resources and are generally seeking to raise further investment - itself a difficult and time consuming process. In consequence, they sometimes fail - the company is wound up and the investors are not repaid. Other creditors such as suppliers, the employees and tax authorities may also be unpaid.

Because the company is a separate legal person and its shareholders have limited liability, the creditors cannot generally seek to get their money back from the directors who were responsible for running the business. However, if the directors know, or ought to have known, that the company would fail and continue to incur debts which would not get paid, then they can be guilty of wrongful trading and personally liable for some or all of the company's shortfall. This is made more complicated because certain liabilities which are not generally revealed in the company's accounts (such as the cost of laying off staff) may be crystallised on a wind-up and make the position worse.

This is particularly very worrying for directors of these companies. The position can be addressed by planning properly and following good business practices. As in all things, have a proper plan, understand your responsibilities and take appropriate specialist advice. Above all, we wish you fun and good luck.

"Never Tell me the Odds".

Han Solo, Starfighter

6. Exiting

(What you should really be planning for!)

The Last Word

This book has been concerned with the compilation and execution of business plans for early stage technology companies. The "end game" for all of these companies is generally achievement of an exit for investors and founders through a trade sale or float.

These companies therefore need to hold themselves in a constant state of "investment readiness", able to react promptly and professionally to a due diligence examination by a potential investor, acquirer or even a major new customer or supplier.

Unlike many businesses of their type and size they have a particular need for:

1. Accurate, timely and useful management information

2. A comprehensive and current data room containing all relevant documents

3. An efficient system to respond to requests for information promptly and professionally

This can all be addressed by having an experienced and commercially astute Company Secretary who will also keep you legal and make sure that the company's corporate governance is of a proper standard. This will help a speedy and efficient exit and get you to your yacht with minimum delay.

Oh, and getting the science to work is useful as well!

About the Wyvern Fund

The Wyvern Fund is a source of seed and growth capital for early stage technology companies associated with our university partners.

The Universities of Bristol and Southampton are leading research institutions and sit at the centre of a science and technology ecosystem which includes the SETsquared Partnership, and the Wyvern Seed Fund.

Wyvern is independent from, but closely allied with, its university partner's and has preferred access to investment opportunities originating from this technology cluster.

The fund is prepared to invest from the creation of a company and will invest additional capital to fund its future growth. We encourage other investors to join us at all stages and build syndicates with "deep pockets" to provide the necessary capital to build significant businesses.

About The Author

David M Blair MA FCA MBA CF

David has spent the majority of his career working with young, entrepreneurial companies. As well as business planning, fund raising and M&A work, he has often served as part time finance director to help businesses deliver corporate plans and execute organisational change. David was company secretary of a publicly quoted venture capital fund and is experienced in reporting and financial management of funds structured as limited partnerships.

He is a recognised champion of the sector and has won several awards for his work with entrepreneurial technology businesses. At a national level, his work with the Institute of Chartered Accountants' High Tech and Clean Tech Policy Forum has resulted in a number of clients being invited to Westminster to engage directly with policy makers about the challenges facing the sector and discuss ways to deliver world class businesses.

An Oxford chemistry graduate, he qualified as a Chartered Accountant in 1987. He holds a Master of Business Administration degree from Manchester Business School and the Advanced Diploma in Corporate Finance.

For further information please
contact us at info@wyvernfund.com

Wyvern Seed Fund,
University Gate East,
Park Row,
Bristol BS1 5UB.

Tel: +44(0)117 903 1129

www.wyvernfund.com