

Western Mass Venture Forum NEWS

2000 - 2001 SPONSORS

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Focus on B2B & Excess Capacity

By: Thomas Crogan, C.P.A. - *Corbin, Tapases & Crogan, P.C.*

If you are wondering how businesses will compete in the age of the Internet and the global economy, you should have attended the last session of the Western Mass Venture Forum.

The featured speaker for the evening was Mark Parent, President of Profile Systems, Inc. The business plan presenter was Jef Sharpe, founder and Chief Executive Officer of XScapacity. The three member panel that commented on the Xscapacity business plan were, Mark Parent, Mark Morrisette, Managing Director, North Atlantic Capital Corporation and Marshall Epstein, Chair, Department of Marketing & Entrepreneurship, American International College School of Business. In addition to the featured speakers, there were ten "one-minute pitch" presenters.

Profile Systems is a privately held company in West Springfield. It was organized in 1984 serving the B2B E-commerce market. It develops software that allows businesses to exchange product and pricing data electronically. This allows participants to reduce transaction costs and inefficiencies by managing and controlling inventories. The Company has grown from 12 people in 1999 to over 42 people now. They expect to add another 20 people in the next twelve months.

Mark Parent's topic was "Planning for Growth." If you want to grow your business and be successful you need the five P's. Mark described the five P's as: **Person** - Know and be in touch with your strengths and weaknesses. **Plan** - Decide how you relate the plan. You must have a passion for what you are doing. If you don't, change your vision or your focus. **Process** - Embrace technology and document procedures. It's difficult to unwind later. **Performance** - Decide how you are going to measure your goals or know if you have reached them. **People** - This is any business' most important asset. You need to hire people whose strengths are your weaknesses. Over hire, not in numbers but in talent. It is the people in your Company that drive the growth in your organization.

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Writing For The Business Plan Audience -Part II

By: Paul Peter Nicolai, B.A., J.D.

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A way to get a perspective on the comparative risk faced by an "angel" investor or a venture capital firm is to look at default rates on credit cards and bank loans. Default rates on credit card accounts and bank loans run in single digit percentages. A 5 percent default rate on credit card accounts and bank loans is high. Credit cards routinely charge interest rates in the 15 to 21 percent range. Bank loans start at prime and go higher. Mortgage loans, which generally carry interest rates in the 6 to 9 percent range, have default rates which average less than 1 percent. In addition to relatively minuscule default rates when compared to the one third of venture capital investments which become losers, bank loans and mortgages are usually secured loans. This means the lender can get the borrower's assets and, often, can get the assets of one or more guarantors.

When you compare paying a guaranteed interest rate of 10 to 12 percent, pledging the business assets, pledging personal assets and providing guarantees for a bank loan, the fact that an investor is looking for 40 percent annual returns over time for an unsecured investment is not as big a difference as it looks. Add that one-third of those investments will become losers and management should be able to readily understand why investors look for high yields.

When describing the market the company intends to sell into to the potential investor, be sure that when reading your plan or talking with management, the investor can understand what is driving the market. Why do people buy the product or service the company provides or intends to provide? If you are already in the market, why do people buy the company's product instead of someone else's? What is it that your company has or provides which allows it to fend off the competition?

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Jan 23 Forum Features Getting The Money & Firesafety Tech

The featured presentation at the January 23, 2001 session of the Forum will be GETTING THE MONEY to fund the plan. A panel of three experienced money providers - two venture capital representatives and a local angel - will offer their advice and experience and take audience questions. The panel will consist of:

Matt Harris, Chief Executive Officer of Village Ventures. As Managing Director of The Berkshires Capital Investors since 1997, Harris directed a local fund that initially raised \$5 million and invested in 12 companies based in Berkshire County, MA. BCI Fund I has produced returns in excess of 100% a year and created 600 new economy jobs. Harris is a critical reason why some \$150 million venture funding has flowed into Berkshire County since 1997. Village Ventures manages a network of early-stage locally focused venture capital funds and invests directly in promising companies emerging from that network. The Village Ventures network is composed of five funds operating in the Pioneer Valley region of Massachusetts, the Champlain Valley region of Vermont, Portland, ME, Williamstown, MA and Worcester, MA.

Bob Crowley, Executive Vice President & Chief Investment Officer of the Massachusetts Technology Development Corporation (MTDC). Crowley has been associated with MTDC since its inception in 1978 and is one of the most experienced venture capital investors in early-stage technology companies in the region. He is a key member of the team that built MTDC's success. Crowley is a Board Member and former Chairman of the MIT Enterprise Forum, a Director and former Chairman of the Smaller Business Association of New England (SBANE) and President of SBANE's Education Center. Crowley has spent most of his professional life in finance, initially as a commercial lender

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Focus on B2B & Excess Capacity - continued

You need to be able to communicate to your people where you are, where the business is and what is happening, Share financial results. Define goals not steps. Let your peoples' own creativity determine how they will attain the goal.

The business plan presenter was Xscapacity, located in Easthampton. Xscapacity helps businesses with idle equipment turn downtime into profit by providing a medium where sellers and buyers can list their needs. Excess capacity is the downtime for any productive capacity you have. If you don't use it you lose it. Under-use of production capacity is a challenge faced by most businesses. This is where XScapacity steps in. XScapacity puts sellers with excess capacity together with buyers for a small transaction fee.

Mark Morrisette, a venture capitalist with North Atlantic Capital asked what makes Xscapacity different from other internet start ups? They explained the markets they are entering and how they will market their site. The long-range plan is to market through other sites by having the XScapacity logo on them. For example, they have a listing on the Printers Institute of America (PIA) web site. A printer with excess capacity could go to that web site and list its down time. The buyer could go to Staples.Com web site and list their needs. Those needs will be matched with the seller via email and XScapacity will be paid a transaction fee.

Distribution partners will share in the transaction fees, creating an incentive for maintaining XScapacity on their web site and creating new customers. Xscapacity will start in the printing business and expand to other industries.

Mark Parent noted that in his review of the Xscapacity plan, he saw the high caliber and qualifications of their management team. Mark felt they should market their people and qualifications more, because "the people are any business' most important asset".

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Jan 23 - Getting The Money - continued

with Shawmut Bank and Neponset Valley Bank & Trust Company, and, for more than 21 years, as a venture capital investor with MTDC. The MTDC portfolio now contains 38 companies and it has invested over \$105 MM in Massachusetts companies.

Dave Townsend is an angel investor and advisor to other angel investors based in Longmeadow, Mass.

The business plan representation will feature Safety Tech Industries, Inc. (STI), a Vernon, Connecticut based developer of high technology communications solutions

Writing For Business Plan Audience II - continued

This is an important perspective to understand. The passage of time alone will change the risk factors associated with any business plan. Even if all the development inside the company proceeds according to plan and on budget, what is happening in the market outside the company may not be happening in the same way or on the same schedule as assumed in the plan.

The typical investor needs to be able to take second and third looks at how the risk factors are changing. It is important that these second and third looks happen when the technology or business development of the company is where something of value has been created. This allows both management and the investor to review the situation logically at those steps and decide whether aspects of the plan need to be revised.

A plan which assumes there will be one round of financing to complete

technology development and bring the completed product to market on a national or international basis is a high risk plan. Once the capital has been committed and a course of action commenced, the potential for waste in the development cycle is very high in this scenario.

Similarly, a plan which assumes several rounds of financing without connecting those rounds of financing to logical choice points in the technology or market development means a high potential for future investment dilution and waste. This is because the next round of financing will be needed when it will not be apparent how the prior investment created value. Not being able to see how the prior investment created value means it is more difficult to see how a new investment will create more value.

Forget The Investment Details

One area of the business plan where management should not spend much effort is the question of the structure of the company and, except either a general outline or several potential scenarios, the

exact form of the investment. Whether the investor will want seats on the Board of Directors, preferred stock, convertible stock, warrants or other particular forms for the investment are all choices the investor will want to make. Spending much space and energy in the plan on these issues only turns potential investors off, if the choice of form of investment that is proposed (and seem to insist on by having a long description in the plan) is not the form of investment the potential investor is looking for.

Value=Beauty...The Beholder's Eye

The \$64 million (or maybe more) question is valuation. This is where the most detailed and intensive negotiation between a potential investor and the business plan sponsor happens. In most situations, discussions about valuation center on using comparables; i.e., transactions believed to be like the transaction proposed. Of course, whether a transaction is really "like" the proposed transaction and whether the new business proposed by the business plan is really "like" the business used as a comparable is, finally, in the eye of the beholder.

There are various professional methods used to value companies and valuation formulae vary from industry to industry. The bottom line on valuation discussions is that they are very personal. Management believes that the idea, intellectual property, industry knowledge, technology development and market sense they bring to the table has a high value. The potential investor believes that, largely, the value of the idea, intellectual property, industry knowledge, technology development and market sense management has will not come true without the cash.

Attorney Nicolai and his team work with businesses and their owners. He can be reached at 413.272.2000, ext. 1 or at paul.nicolai@niclawgrp.com. The firm website is at www.niclawgrp.com.

Sponsor Highlight

Massachusetts Technology Development Corporation (MTDC) addresses the capital gap for start-up and expansion of Massachusetts technology companies. Since 1978, MTDC has invested more than \$46 million in 105 companies. Typical investments are from \$100,000 to \$500,000, primarily equity.

Prospective candidates should have a technology component and a business-to-business focus.

Applications are invited from entrepreneurs, members of the venture capital, banking, legal, auditing and academic professions. There is no application fee. MTDC makes investments on written business plans.

Contact Carol Cedrone Brennan directly at carolbrennan@alum.mit.edu or discover MTDC's Web site at www.mtdc.com.

for firefighters. This company is now looking for money to implement the manufacturing of its products.

STI has developed a wireless communication system called TeamTalk™ used by firefighters wearing air breathing apparatus during the most dangerous parts of firefighting. Inadequate communication is a major contributing factor in firefighter death and injuries. STI has three patents for its products. TeamTalk™, at the beta level of development, is well received by fire services testing the system.

After STI's presentation, Richard Feldman, President of the Corporation for Public Technologies in Northampton and Executive Director of the Western Massachusetts Technology Business Council (formerly the Western Massachusetts Software Association) will join Matt Harris and Dave Townsend to comment on the STI Plan, ask questions of STI management and answer audience questions as well.