Internet Business Models and More

Sean Foote

March, 2006

Sean Foote - Business

AT&T Bell Laboratories (1988 – 1991)

- Artificial Intelligence systems for network analysis and testing

Boston Consulting Group (1993 – 1998)

- Senior manager for a wide range of clients

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Scripps Ventures (1998 – 1999)

- 6 investments

Labrador Ventures (1999 – present)

- Managing Director
- 17 year old firm
- Seed stage ($1 – 2M initially, avg. $4.5M premoney valuation)
- From Hotmail to Jareva

Sean Foote - Personal

Born – Pleasant Hill, MO

BS – University of Missouri – Rolla, Electrical Engineering

MBA – Darden, University of Virginia (tests on Saturday!)

University of California, Haas School of Business

- Lecturer – Venture Capital and Private Equity

Triathlete – Ironman, U.S. National Amateur Team – long course

Musician with coffee shop aspirations

Labrador Ventures Overview

Founded	1989, Palo Alto, California (west coast focus)
Sector Focus	Information technology (applied material science, messaging, information services, communications/networking, and software)
Stage Focus	Seed stage: first institutional money • Investing \$1 - \$2 million initially, \$3 - \$4 million in reserve • Single digit pre-money valuations • Typically pre-revenue
Diversification	Targeting 15 - 20 companies in portfolio over 3 - 4 years
Prior Performance	Consistently outperforming industry (IRRs: LV I = 15%, LV II = 70%, LV III = 39%, LV IV, LV V = still building)
Team	Three partners beginning ninth year investing together across three funds

Note: IRR data as of 9-30-04

Topics

About Sean Foote and Labrador Ventures

The internet, business models, and internet business models

- Examples

Articulate

Making the math add up

Great trends, innovative ideas

Q & A on business models

A Few Simple Questions

What is the internet?

What is a business model?

What are internet business models?

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What is “the Internet”?

Public data infrastructure

- Free, mostly
- Widely accessible
- Common standards

Other public data infrastructures

- Cellular data
- WiFi connectivity

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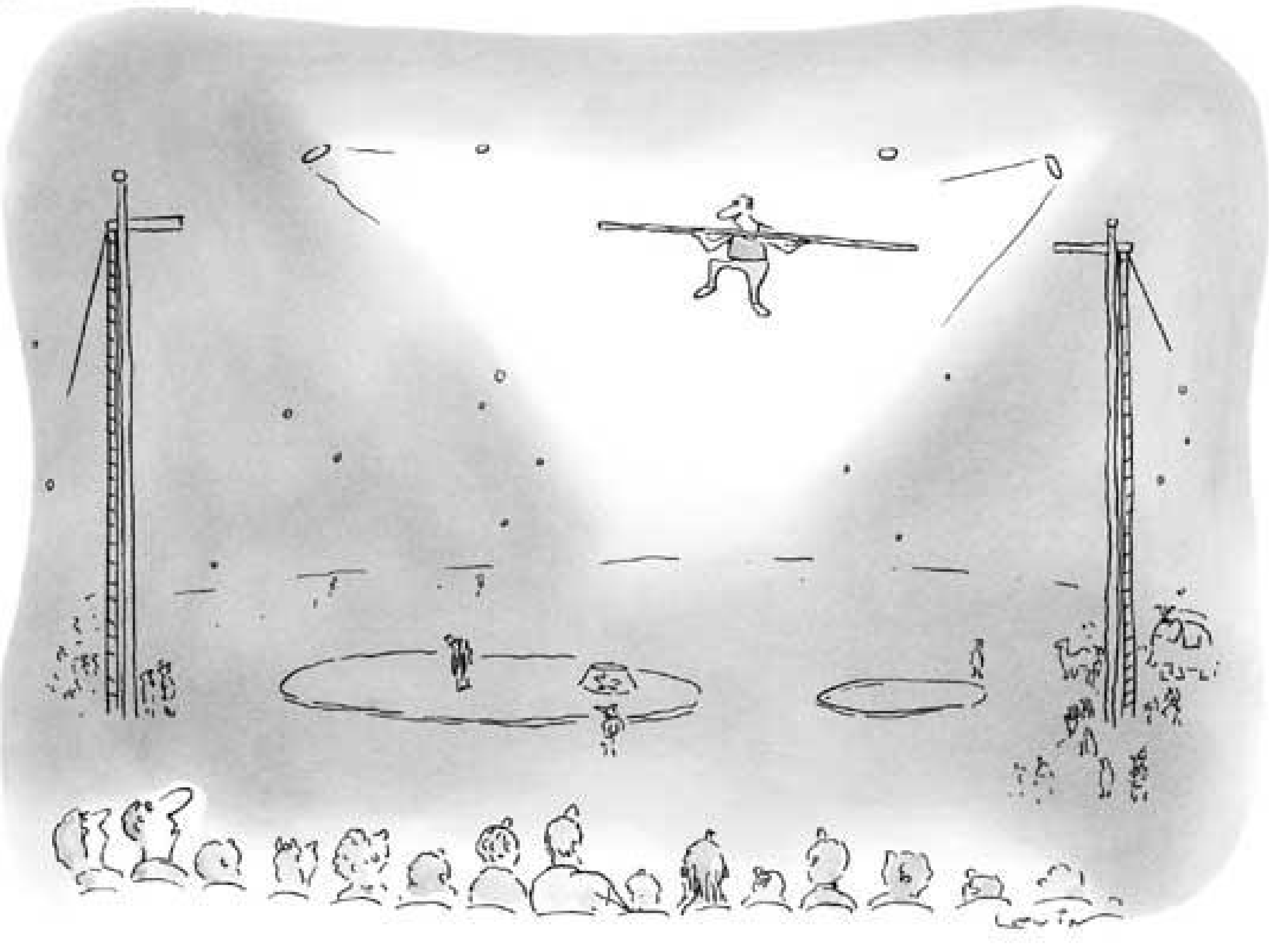

"It appears to be some kind of wireless technology."

Why is the Internet Important?

1) Large aggregation of people and computers

2) That can reach each other in a new set of ways

3) At low cost (think free phones or URLs on Coke cans)

4) With measurable outcomes

- Cost to contact (CPM), Cost per click (CPC) and Cost per action (CPA)
- Clickstreams, reach, demographics all knowable

Internet businesses leverage these characteristics

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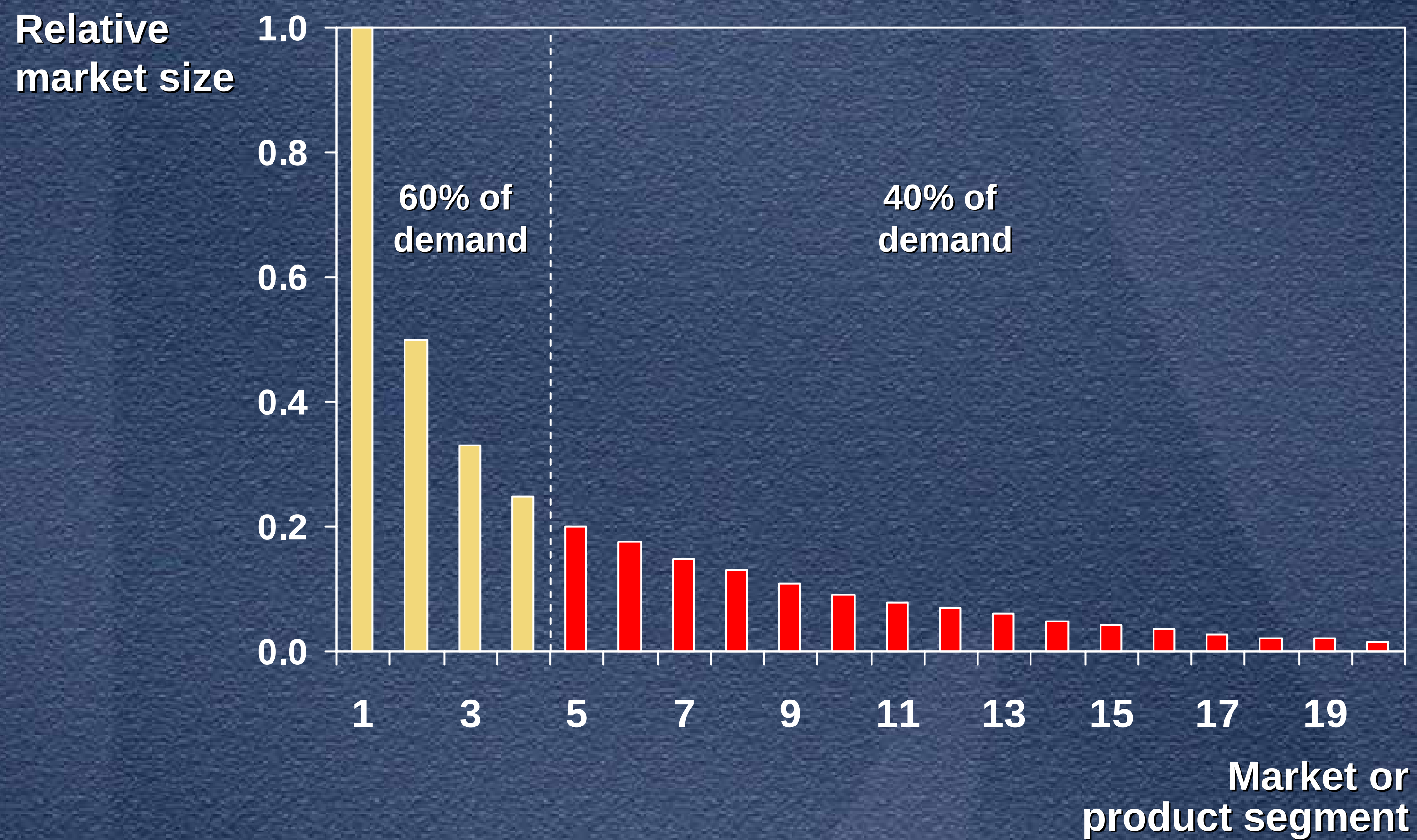
Aggregation of demand: The "Long Tail"



Internet allows efficient access to niche demand

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What is a Business Model?

Sean's definition:

- The competitively advantaged engine
  - for unit profits
  - for unit growth

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Business Model Examples

Traditional ⟷ Innovative

Traditional	Innovative
Cars are hand assembled	Ford starts assembly line
Ford: "Any color you want as long as it's black"	GM gives customers colors and yearly fashion changes

Traditional ⟷ Innovative

Traditional	Innovative
Airlines fly point to point	Some airlines start hub and spoke travel
Airlines have oligopoly pricing, compete on service, frequent flyer miles	Southwest starts low cost airline based on standardized infrastructure

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Business Model Examples (2)

Traditional	Innovative
Personal computers are sold in retail stores	Dell starts mail order business
Dell competes on price and quality	Apple creates designer computer products

Traditional	Innovative
Newspapers, TV, and Yellow pages advertisement	Yahoo allows advertising on search terms online
Yahoo sells ads online through direct salesforce	Google automates the ad purchase online

Some Business Model Components

Fundamental Math #1

Revenue	-	Costs	=	Profits
Price * units	-	Product or service costs	=	Profits

Business Model Components

Value to customer versus alternatives Method of payment Market entry	-	How product/ service is produced Customer acquisition method Delivery	=	Timing Capital needed

A cohesive, interrelated system

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Towards Internet Business Models

Using Just Two Variables

Method of payment	Product	Service
Purchase	Dell, eBay	Paypal
Subscription	Salesforce.com	Match.com
Advertisement	PeoplePC	Google
Free +	Cell phones	MySQL, LinkedIn
Free (exit?)	McAfee (early days)	Skype

Internet Enables Business Model Proliferation

New services

Drastically different pricing

User driven content

Small market aggregation

It's like electricity's effect on the entire economy

- Some industries are completely changed (whale oil)
- Some industries are created (General Electric)
- All industries are affected (clothing production)

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Fundamental Math #2

Value of customer > Cost of customer acquisition

Example: ezboard.com

Average cost to acquire a customer	$0
Average advertising value of customer per year	$1
# of users	5 million
Net revenue per year	$5 million

Opportunity – spend more to increase users

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Example: Pets.com

Average cost to acquire	$50
Average purchase per customer	$50
Profit per purchase	$0

Assume 10% profit is possible …	$5
# of purchases to breakeven	10
But only 20% of customers repeat, so # of purchases to BE	50

Example: Amazon.com

Average cost to acquire	$38
Average purchase	$40
Profit per purchase	$4
Purchases per year	2.5
Years to customer breakeven	3.8 years
# of customers	40 million
$ needed (40m * $38)	$1.4 billion

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Sometimes the Numbers Don't Add Up

The "Exit Value" Business Model?

Skype	$2.6 billion	60 million users ($450/user) 2006 revenue = $60m (43x forward rev)
Google	$110 billion	$6 billion revenue (18x) $1.5 billion profit (75x) 30 billion pageviews/mo. $4/monthly pageview
ezboard	?1/30th of $110 billion?	1 billion pageviews
	~ $5-10m	1-2x revenues, 5-10x profit $0.005/monthly p.v.

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Return on Capital is Important

Ezboard

- $11 million invested
- $5m/year revenue
- $1m/year profit
- = 9% per year dividend (if they dividend)

Or

- Get sale price up to $50m (from $5m today)
- Original investment made April 2000
- Exit value to investors: 23% IRR, or 3.5x over 6 years

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Costs of a Startup are Declining

20x reduction every 5 years

Source: Steve Gilheany, CRM, CDIA

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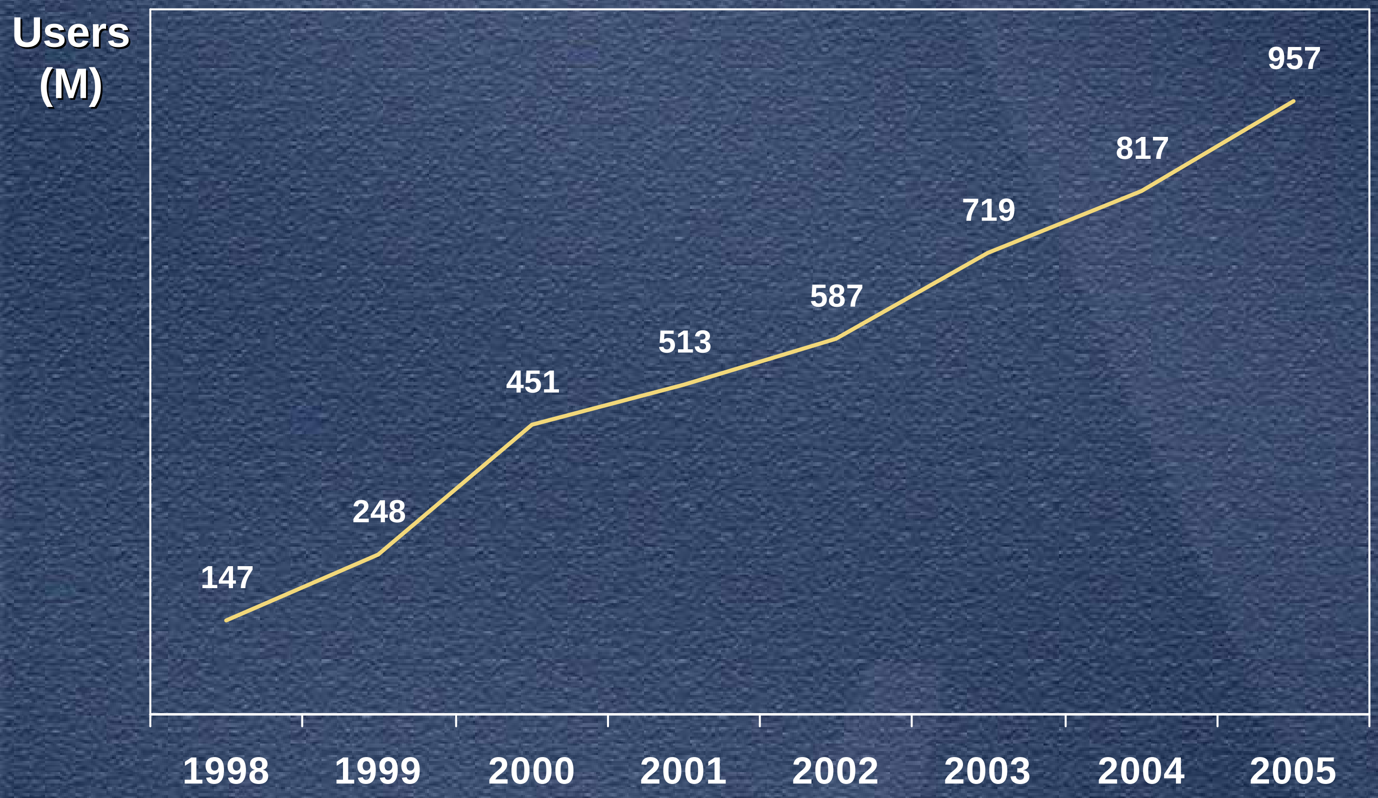
The Market Size is Growing

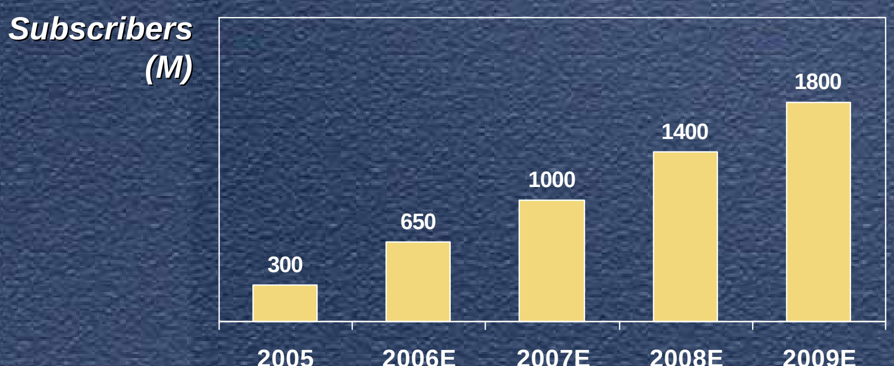


3x as many internet users as during the 1999 boom year

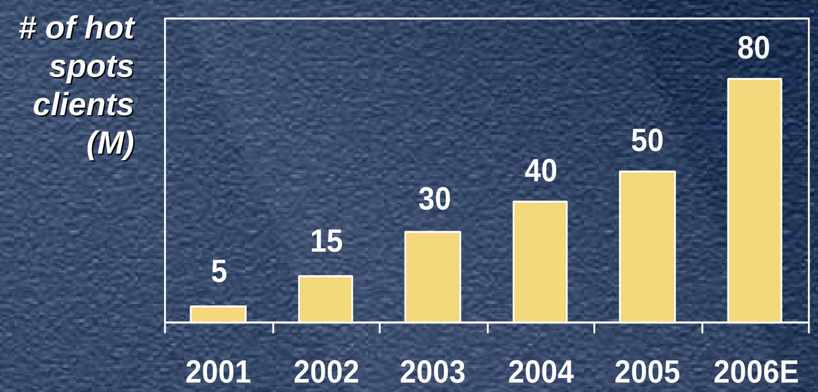
Source: IDC, Nua Ltd, Internet World

The Experience is Broader and in More Locations

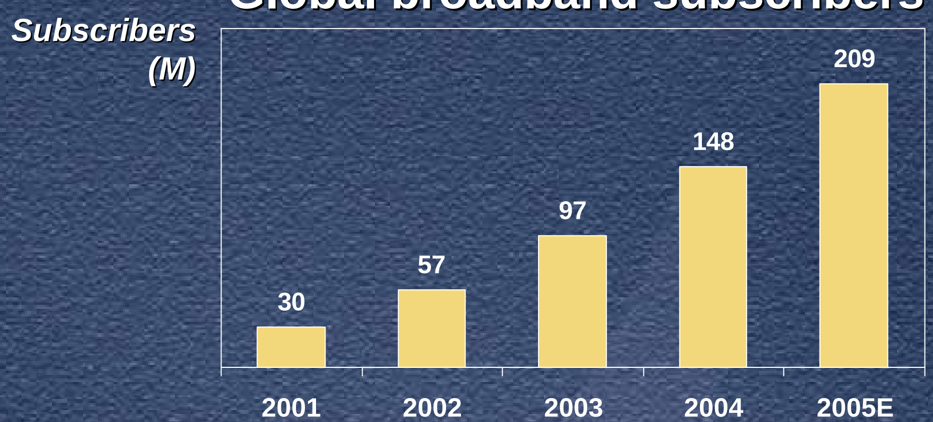
Global data subscribers - cellular



Growth of WiFi hotspots



Global broadband subscribers



Source: Morgan Stanley research estimates

Next Generation Devices are Proliferating

Today's cell phone has as much compute power as the PC in 1998 & 50x the data rate

Source: Strategy Analytics

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Proven Business Models: Internet Advertising

Medium	2004E US advertising spending ($B)	US households (MM)	US Ad spending / household ($)
Promotions	$101	99	$1,022
Direct telephone	91	105	865
Newspapers	48	72	674
Classifieds	*17*	*55*	302
Direct mail	51	99	514
Broadcast TV	45	108	416
Radio	20	60	334
Cable TV	18	74	240
Magazine	21	99	216
Yellow Pages	15	99	151
Internet / online	⬆ 10	⬆ 66	⬆ 145
Total	$420	881	$4,575
Average	42	88	458

100% growth

YHOO, eBay, & AMZN from a low market cap of $20B to $120B today ($178B at peak)

Source: Morgan Stanley

Morgan Stanley Research, PricewaterhouseCoopers, IAB, Jupiter Research, McCann-Erickson, RAB; Newspapers include Classifieds. Promotions ($101B) include: incentives ($27B), promotional products ($22B), POS ($17B), specialty printing ($8B), coupons ($7B), premiums ($6B), promotional licensing ($6B), promotional fulfillment ($5B), product sampling ($2B), and in-store marketing ($1B). Households may use multiple advertising mediums.

Now = Good for Starting a Company

Infrastructure

Computer & storage power

Network bandwidth

IP everywhere
- wireless & cellular data
- the dominant protocol

Device proliferation
- camera on every cell phone

Consumer Habits

Wide adoption of the internet
- huge base of users

"Long tail" of niche demand

Massive amounts of content
- video, music, vacation pics, passing notes

Business Innovation

Proven business models

Easy, low cost internet start-up tools

Mass customization

Virtual goods

Profoundly affects many traditional industries (e.g., music, telephony & video / TV / images)

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Some Labrador Investment Themes

Music

- Discovery & customization
- Digital Rights Management

Telephony

- Network improvements
- System integration
- New communication modalities
- Applications

Video / TV / images

- New applications (video search, vblog, peer-to-peer)
- Device inter-connections

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- **Examples**

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What VCs Look For in Companies

Rate of Return Calculations
Multiple of Original Investment

Years	2x	3x	4x	5x	6x	7x	8x	9x	10x
1	100%	200%	300%	400%	500%	600%	700%	800%	900%
2	41%	73%	100%	124%	145%	165%	183%	200%	216%
3	26%	44%	59%	71%	82%	91%	100%	108%	115%
4	19%	32%	41%	50%	57%	63%	68%	73%	78%
5	15%	25%	32%	38%	43%	48%	52%	55%	58%
6	12%	20%	26%	31%	35%	38%	41%	44%	47%
7	10%	17%	22%	26%	29%	32%	35%	37%	39%
8	9%	15%	19%	22%	25%	28%	30%	32%	33%
9	8%	13%	17%	20%	22%	24%	26%	28%	29%
10	7%	12%	15%	17%	20%	21%	23%	25%	26%

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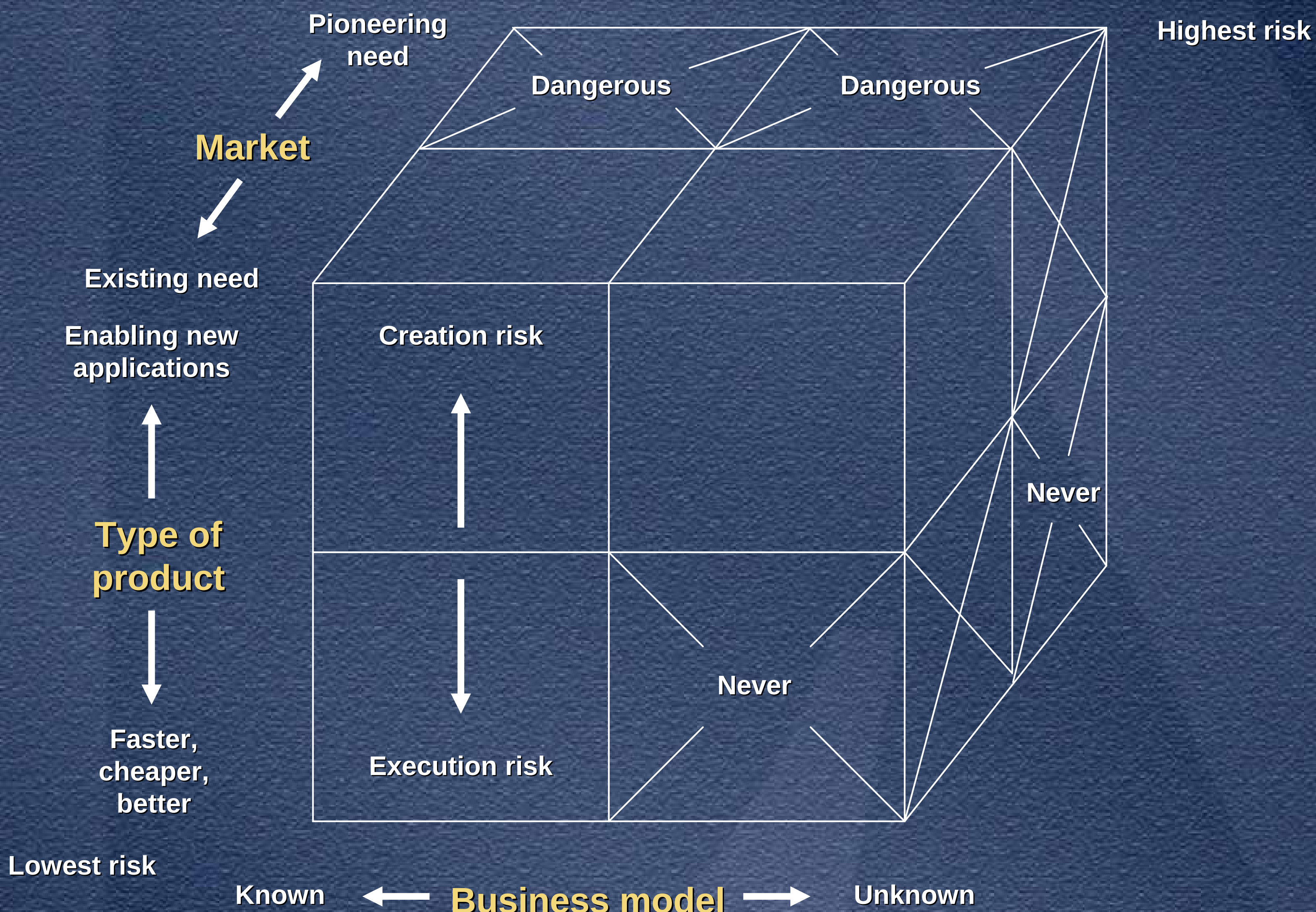
VCs Try to Reduce Risk

Multi-Dimension Space →	3 Dimension Space
People	"A" players in place or identifiable
Capital	< $30 million
Competition	First mover or market leader
Gross returns	> $40 million to fund
Risks	Up front and identifiable
Technology	Proven or provable quickly
Market size	Growing/large
Domain	IT, communications, medical subsets
Market need	
Product	
Business model	

Source: ONSET Ventures 2004

Investment Framework



Source: ONSET Ventures 2004

The Subjective Method
Factors That Influence VCs

The size of pain solved

The solution (composed of both the technology and the business model)

The team

Probabilities / certainties / due diligence

The financing market – lemmings

“Always drink upstream from the herd”

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Six Things an Entrepreneur Can do to Increase the Odds

Address a big problem

Secret sauce – proprietary technology without substitutes

Track record of success

Get started

Glowing customer references

Multiple exit options

Tour of the U.S. Venture World

Tour of the U.S. Venture World

Structure of the venture industry

Current state of the industry

What VCs do

Detour: valuation

Approaching a VC

Spruce up the business plan

Structure of the U.S. Venture Industry

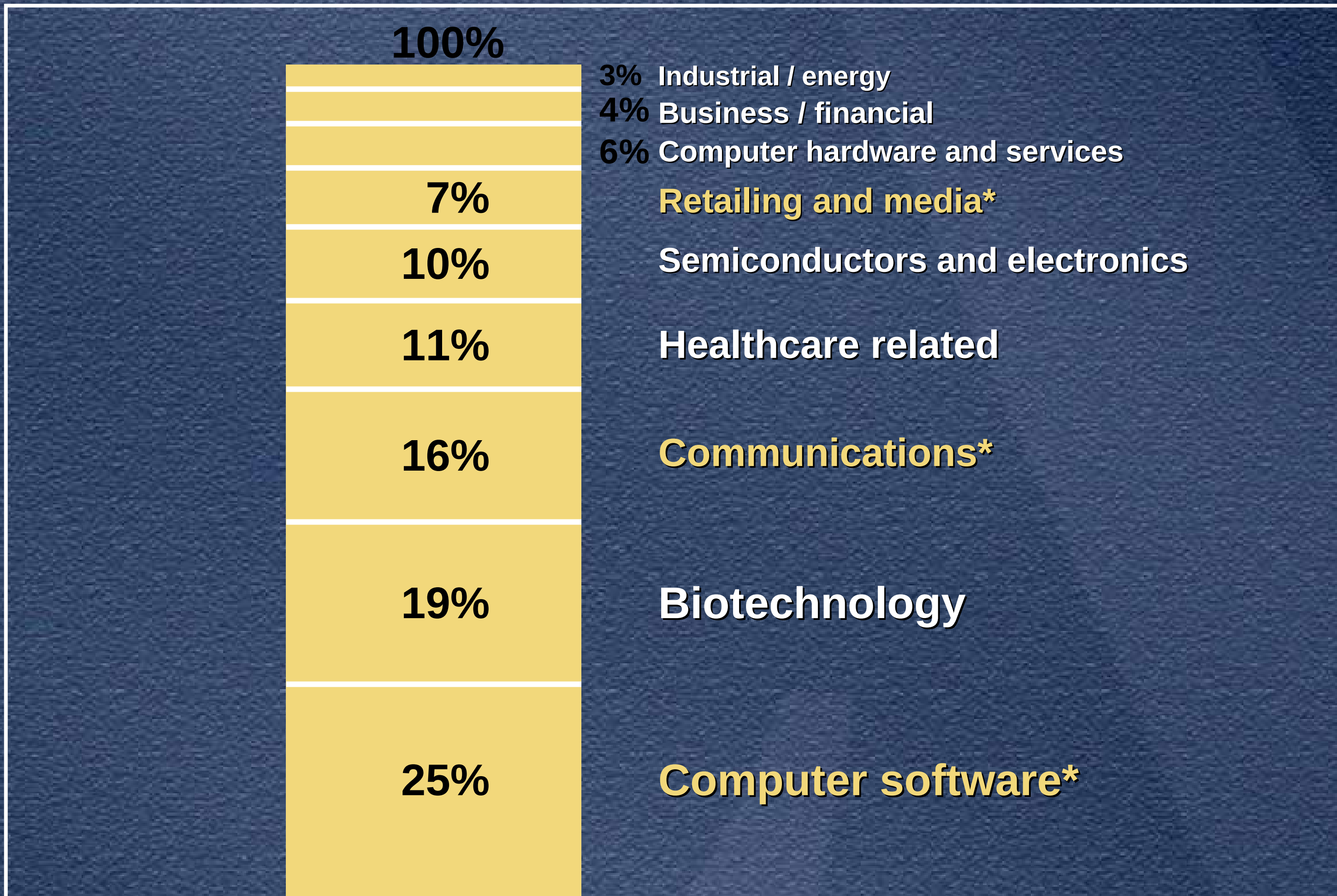
(or All VC Firms are Not the Same)

Stages of U.S. Venture Capital

	Seed	Early	Late	Mezzanine
Typical pre-money	$2M	$10M	$25M	$100M
Typical round size	$1M	$5 - 8M	$10 - 15M	$15 - 25M
Average performance (10 yr. IRR)	44.7%		15.4%	6.9%

Source: Thomson Venture Economics

Major Industries of U.S. VC



* Greater than 50% of investments “internet related”

Source: Thomson Venture Economics

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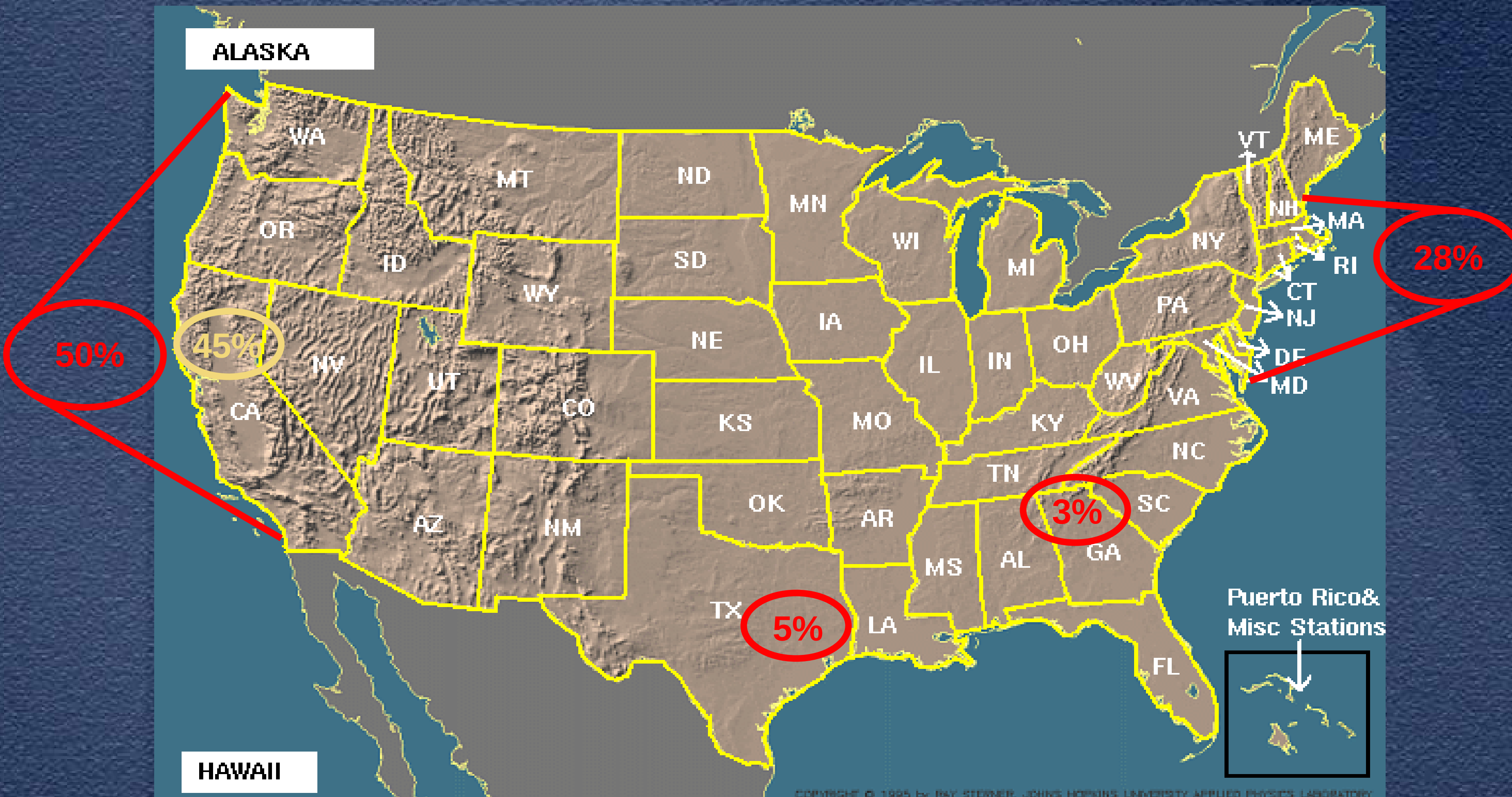
Geography of U.S. Venture Capital



All other = 14%

Source: Thomson Venture Economics

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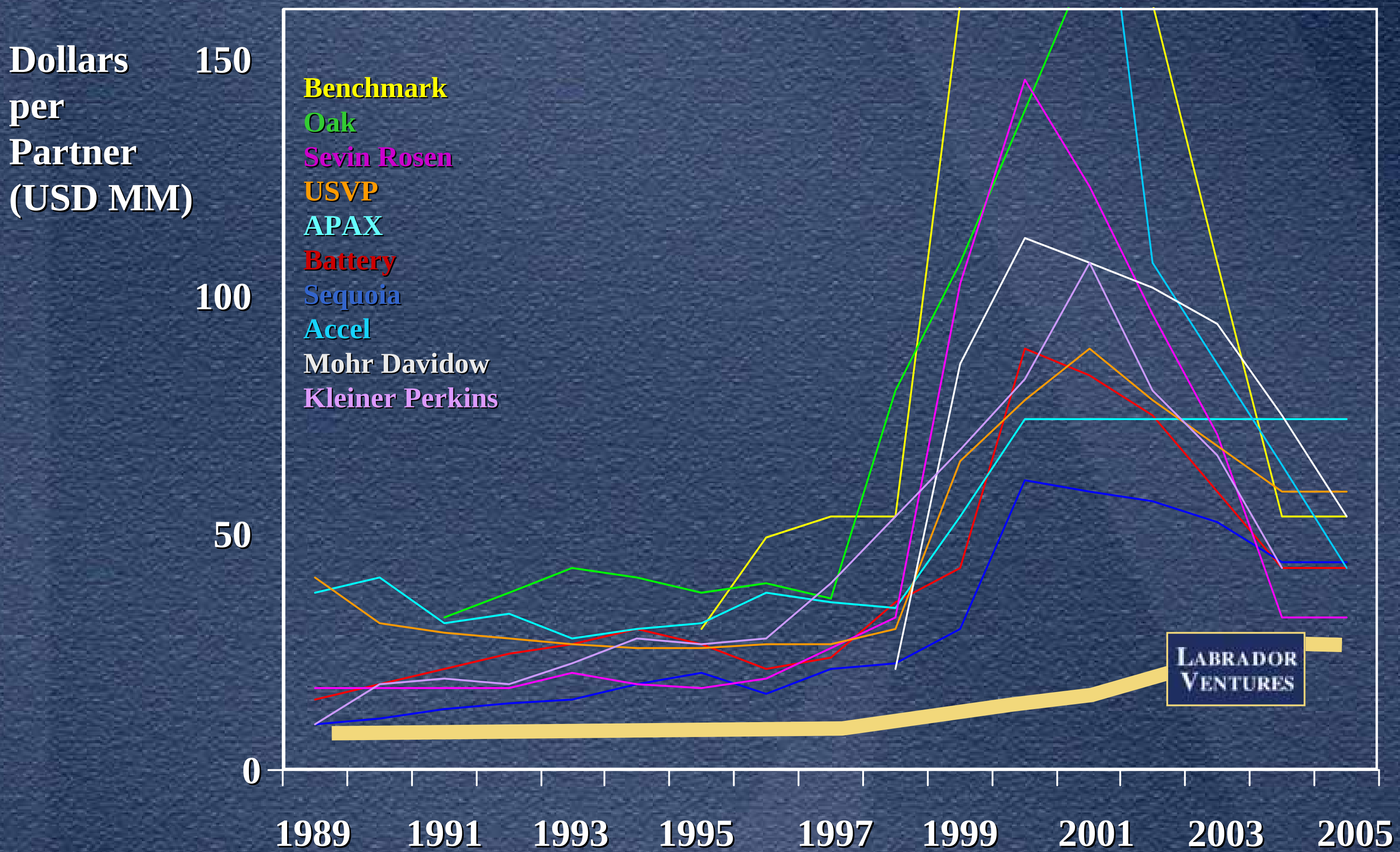
California a Net Importer of VC $

Deployed by CA VC firms:	$6,951M
Received by start-ups:	$9,465M

Source: Thomson Venture Economics

The Key Equation in Venture Capital



Source: Venture One, Company websites, Labrador Ventures analysis

The Right VC Firm

Focuses on companies that look like my company

- Stage (and $ / partner)
- Industry
- Geography

Current State of the U.S. Venture Industry

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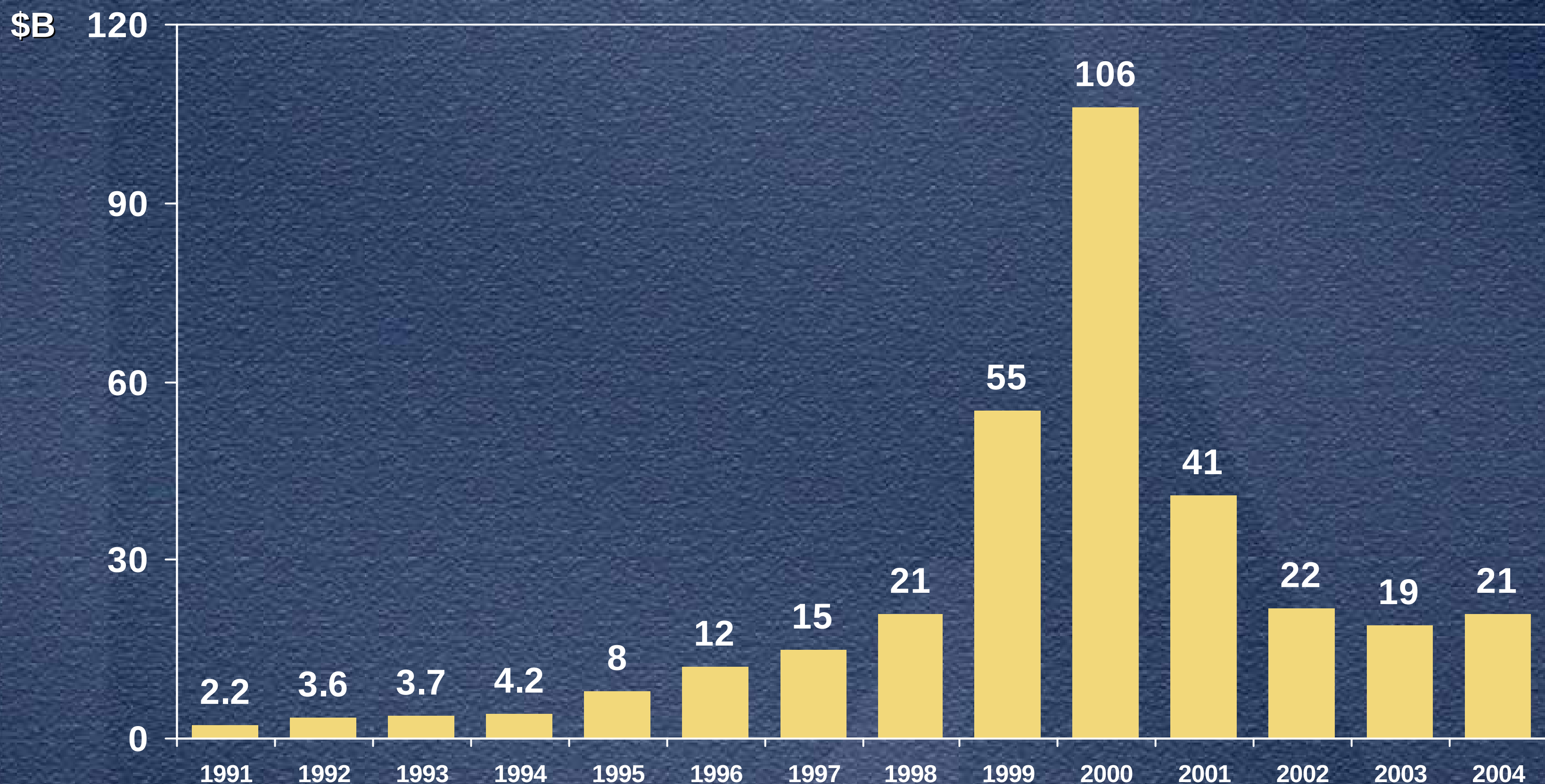
"I won't be able to handle your account anymore, as it suddenly appears that you're a small investor."

The Bubble (and Bust)
VC Investments by Year



Source: Thomson Venture Economics

Some VC Market Facts

"In the first half of last year, more money flowed into the venture industry than during the prior 13 years combined"

"In the first quarter of this year, VC investments were 1/3 the level of a year ago"

"The shortfall of capital is occurring across the board, but is especially acute in the early stage sector"

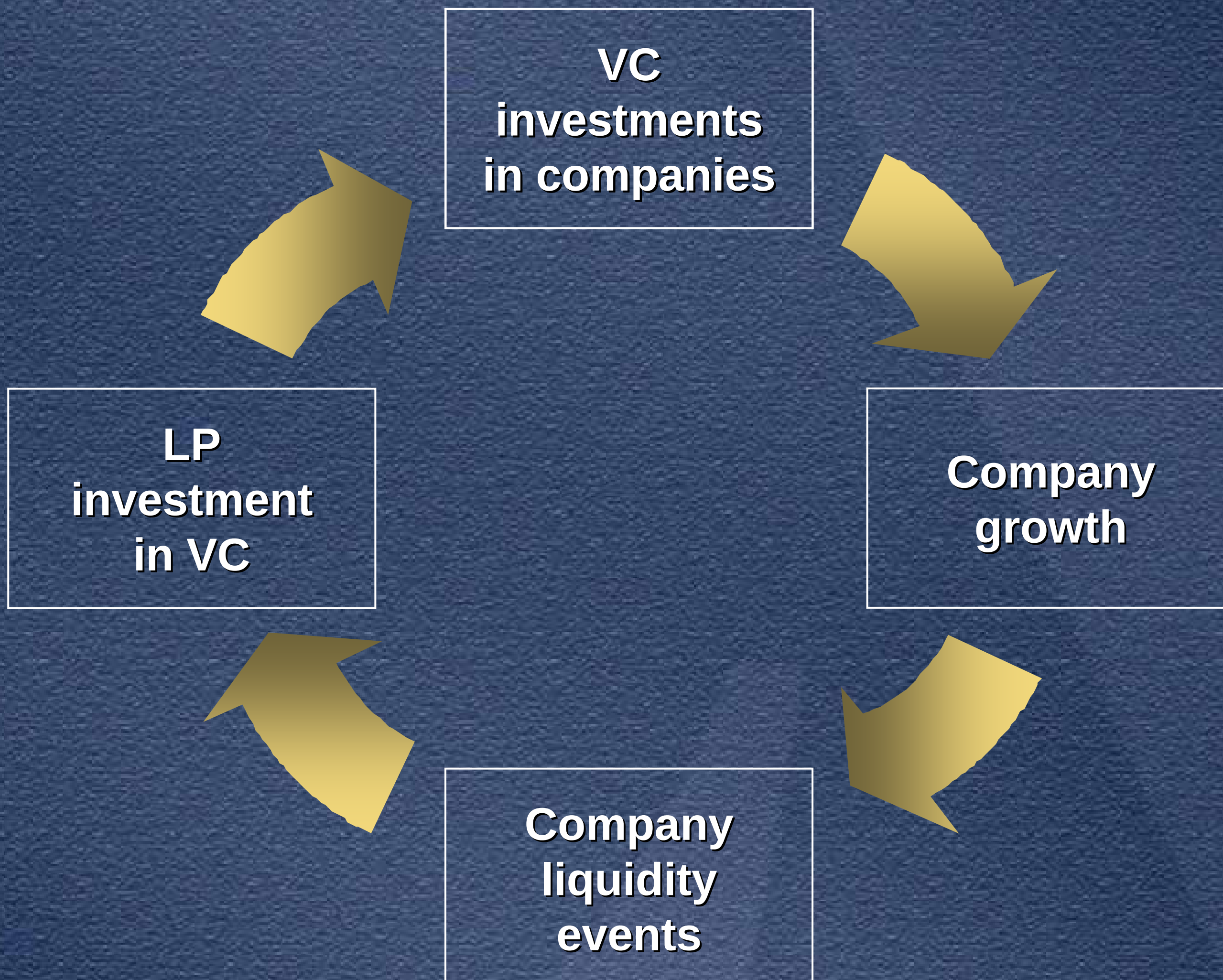
"Deal flow is increasing – much of entrepreneur's decision to strike out in a new venture is a function of human nature"

"Venture Capital returns are creeping down, but a new high-return cycle should begin soon"

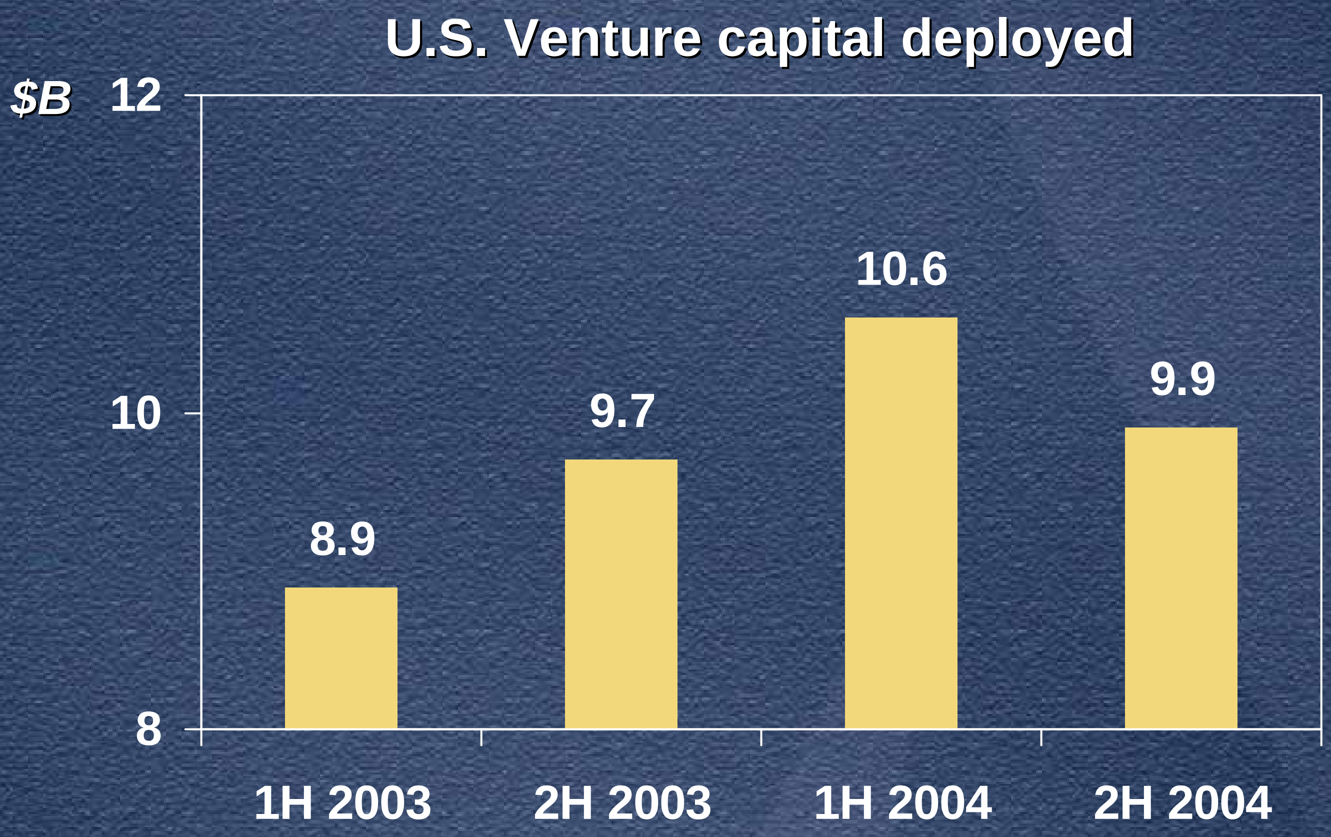
-Venture Economics
July, 1991

A cyclical business

Liquidity Cycle in Venture Capital



VC Investments Stabilize



Source: PWC, Thomson Venture Economics, NVCA

Portfolio Companies Grow as Tech Spending Rebounds

50% of capital expenditure (CapEx) is technology

CapEx was off 12% in this downturn

- 3x worse than in any other cycle since WWII
- Hard for portfolio companies to sell

Free cash flow has increased in recent quarters

Ratio of free cash to CapEx is highest in 30 years

Pent-up demand and cash ready to deploy

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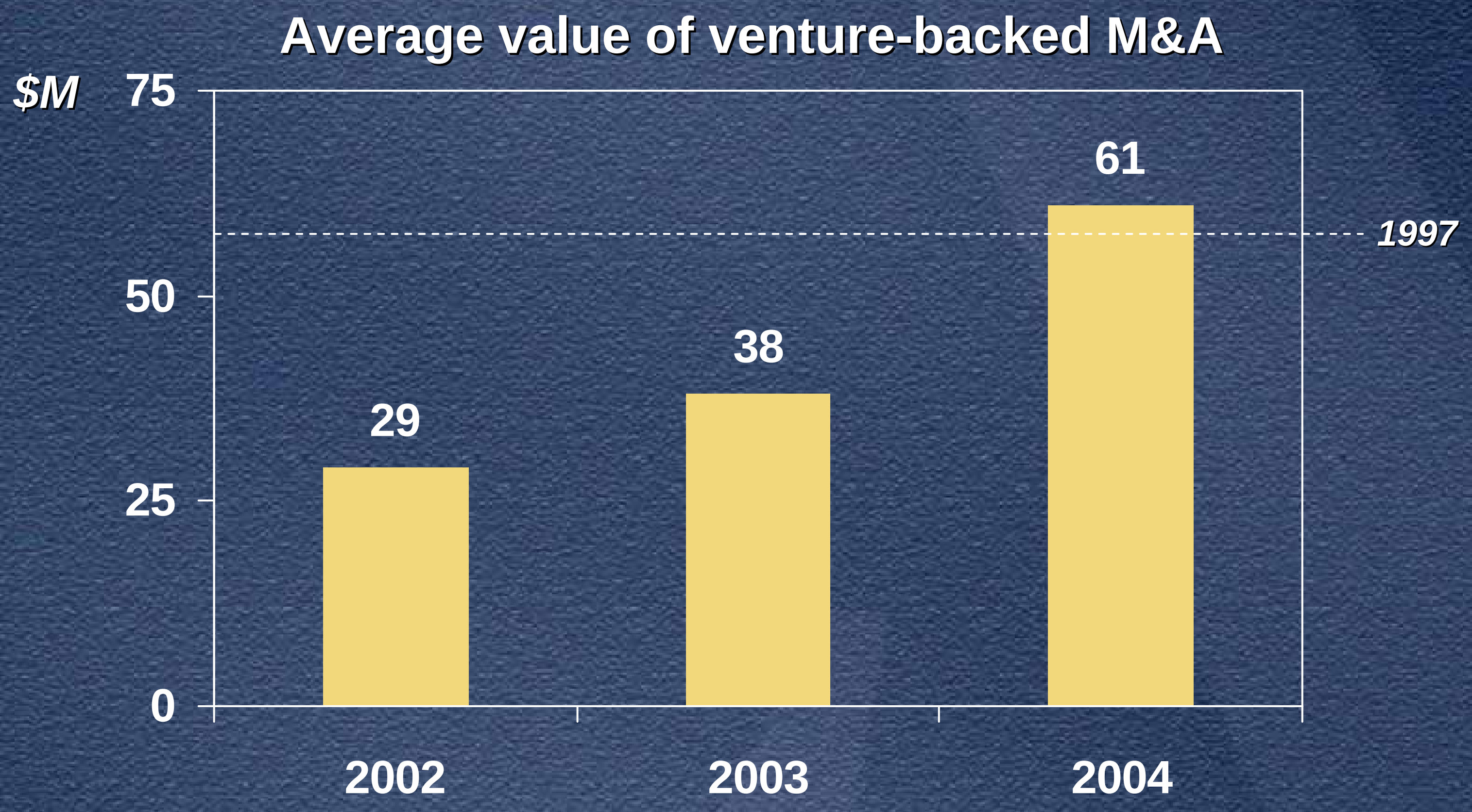
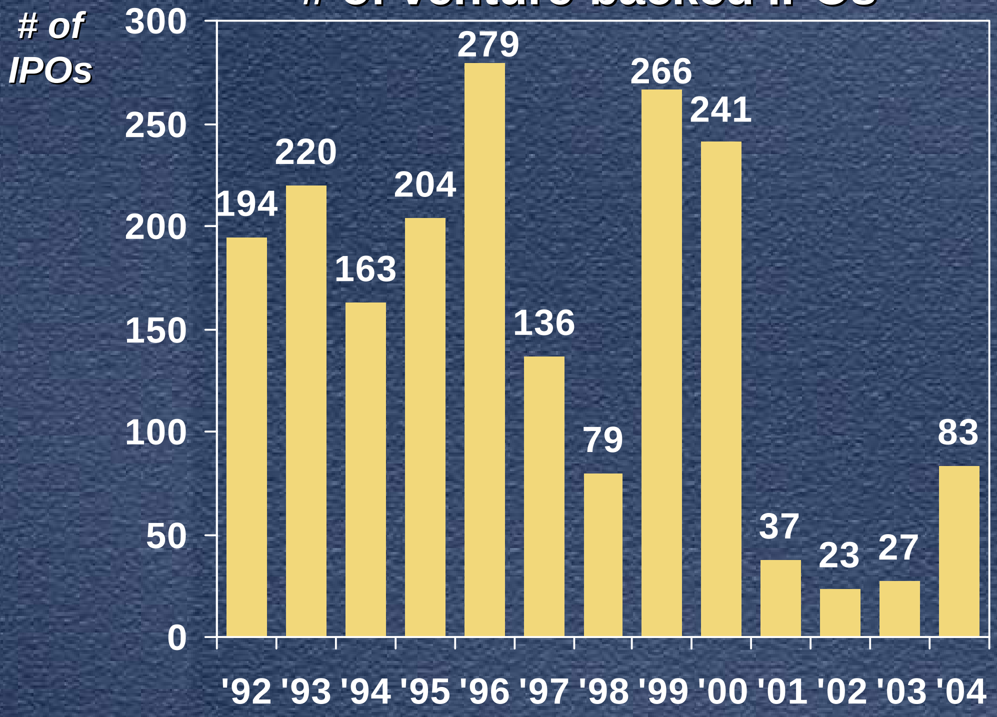
Liquidity: M&A Market Improving



Source: Thomson Venture Economics, NVCA , Venture One

Liquidity: 2004 IPO Market Best of the Decade
(But that's not saying much)

of venture-backed IPOs



Venture-backed IPO statistics

38 in registration as of 3/31/05

56% of IPOs trading at or above offer price

2004 IPOs up 9% vs. NASDAQ (10%)

Source: Thomson Venture Economics, NVCA , Venture One

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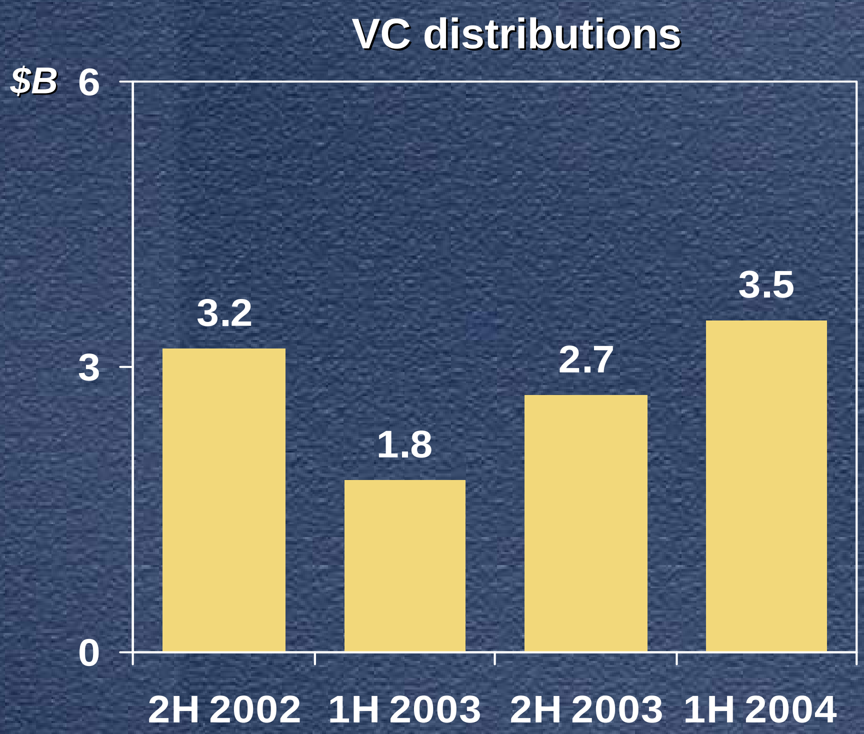
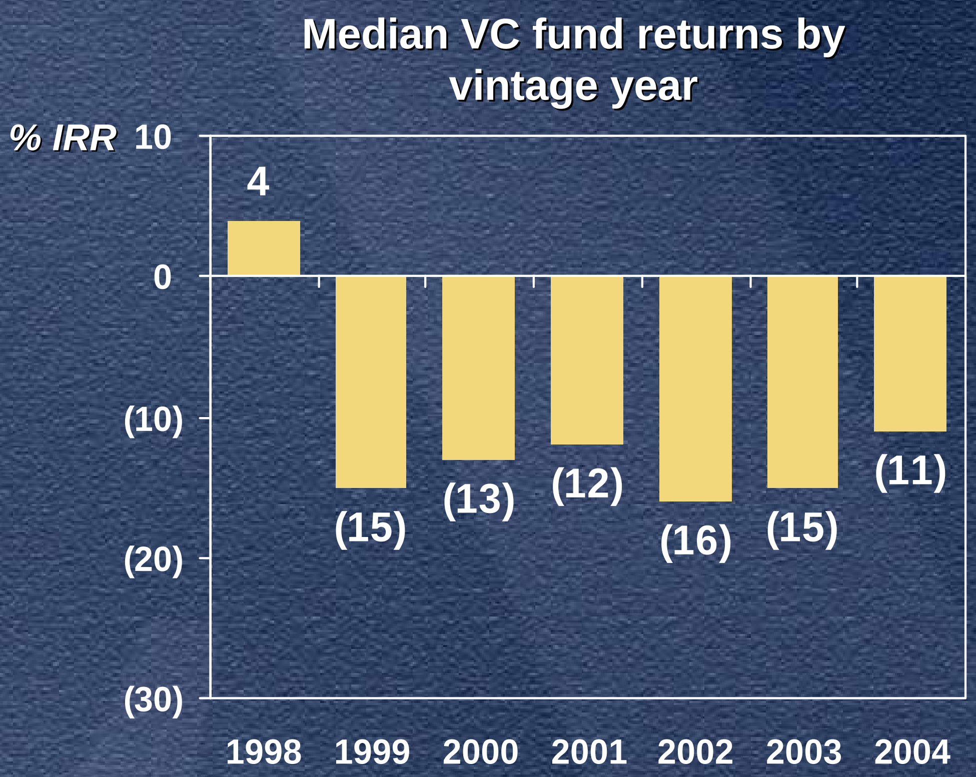
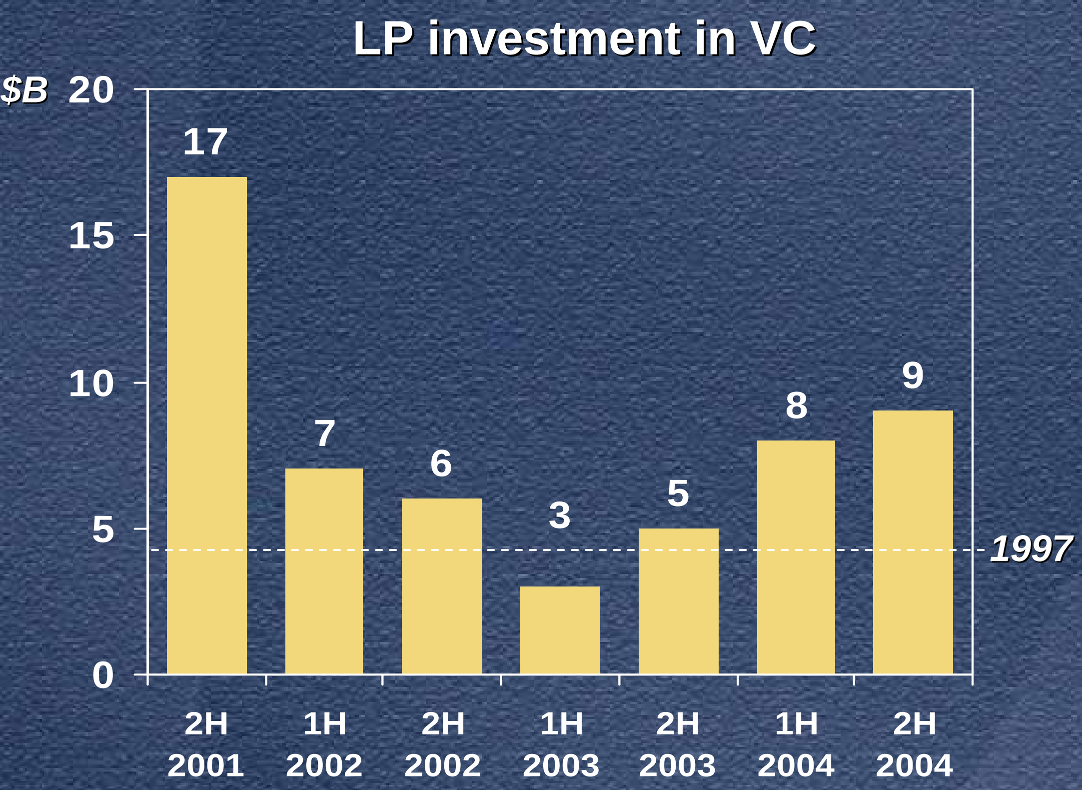
Despite Difficult VC Performance…





Sources: Cambridge Associates 3/31/2004; PWC; Thomson Venture Economics, NVCA

...Money Flowing Into VCs



VC asset class back in favor

- **Demand exceeding supply**

LPs now worried about access to VC funds

50% of VC funds raising money in 2005

Sources: VentureOne

Liquidity Cycle in Venture Capital

VC investments in companies

- Money being deployed

Company growth

- IT spending up

Company liquidity events

- M&A, IPO trending positive

LP investment in VC

- Institutional investment in VC rising

Party like it's 1997

The Right VC Firm

Focuses on companies that look like my company

- Stage (and $ / partner)
- Industry
- Geography

Invests during this financial cycle

- Deploying capital
- Cash on hand
- Not distracted by fundraising

What VCs Do

Many Elements of Venture Activity

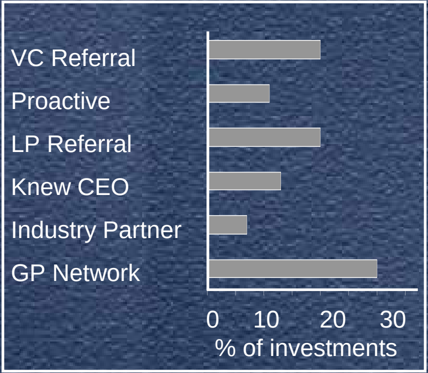
Positioning

- Low $ / partner
- Same investment space as experience

Deal flow

5,000 business plans / year

Proprietary sources



Analysis

7 layer risk assessment:

- Dev. / tech
- Mfg.
- Competition
- Marketing
- Business model
- Management
- Financing

Structure

Experience:

193 investments in 68 companies

Investment partners

Over 100 significant co- and follow-on investors

Portfolio mgmt

37 board seats

Experience in

- start-ups
- consulting

Exits

44 exits

Consistently out-performing the venture business

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Investment Process: Getting to No

3,000 plans

Level 1 filter

Early-stage
- ✓ Pre-revenue
- ✓ Within 6 months of product launch

Information Technology
- ✓ Industry (Software, Messaging, Comm./ networking, Applied material science, Information services)

West Coast
- ✓ Accessible
- ✓ Overseeable (92% CA)

1,000 plans

Level 2 filter

500 plans

Aligned management
- ✓ Coachable
- ✓ Cohesive
- ✓ Relevant skill
- ✓ "Core"

Sustainable model
- ✓ High gross margins (50-60%)
- ✓ Return 10x in 5 yrs
- ✓ IPO or sale possible
- ✓ Not cash intensive

Developed technology
- ✓ Proof of concept
- ✓ "Different Box"
- ✓ Unique, but achievable

Growth market
- ✓ Can support $100M new entrant

Competitively advantaged
- ✓ 1st, 2nd, or 3rd entrant
- ✓ Better, faster, cheaper or break through

Efficient mfg/ops
- ✓ Cost effective

Level 3 and 4 filter

[Repeat in greater depth]

Disciplined financing
- ✓ Co-investor
- ✓ In bad scenario we can support
- ✓ Metrics achieved with cash

5 – 7 investments annually

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Due Diligence Process is Long and Complex

But not always rigorous or logical

Plan entered into deal log → **Read plan and Assess** (Level 1 – 2 filter) 1 partner

No → Notify Entrepreneur

Yes → **Meet w/ mgmt** (Level 3 filter) 1-3 partners

No → Notify Entrepreneur

Yes (*risks identified*) → **Investment Meeting** 3 partners

No → Notify Entrepreneur

Yes ↓ ↑ Updates

Core Due Diligence - 1 lead partner (Level 4 filter)

- Meet subsequently
- Call references
- Perform technical due diligence
- Build financial model
- Interview customers and competitors
- Syndicate investors
- Analyze exit
- Propose deal structure

Results → **Final Investment Meeting** 3 partners

No → Notify Entrepreneur

Unanimous Yes (*risks mitigated and accepted)* → **Deal negotiation, structuring, and long term relationship**

Portfolio Company Efforts By VCs

Strategic advice

Oversight and / or pressure and / or moral support

Battle scars from situations and stage of development

Contacts and introductions to customers, partners, employees

VC Maxim: The best companies require the least work

Fundraising

The big pools of capital

- Endowments / foundations
- Retirement funds
- Funds-of-funds

For young funds, many meetings over 12 months

For established funds, many meetings over 3 months

Process similar to start-up fund raising

- Write pitch
- Get introductions
- Meet
- Submit to extensive due diligence

Environment changes over time

Day in the Life of a VC

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Day in the Life of a VC

Sean Foote - Calendar

Monday, September 30

8 am	
9 00	
10 00	Call w/ Vladimir Schwartz -781-652-8463 -SF,SD
11 00	Alexis Lakes -CFO Candidate/Harry Weiner Referral @ Labrador -SD,LK,SF (408-799-6477 or 650-551-5012)
12 pm	
12:30	Lance Murphy lunch - Mulligans - SF
1 00	
2 00	Updated: Jeff Bloom and Partners?/Champion Ventures @ Labrador -LK,SD,SF (Jamie Hamon @ 650-327-5023 - call to confirm partner attendance)
3 00	
3:30	Bruce Smith 650-888-6042/autonomic networks @ Labrador -LK,SF (requested by Larry)
4 00	
5 00	
6 00	

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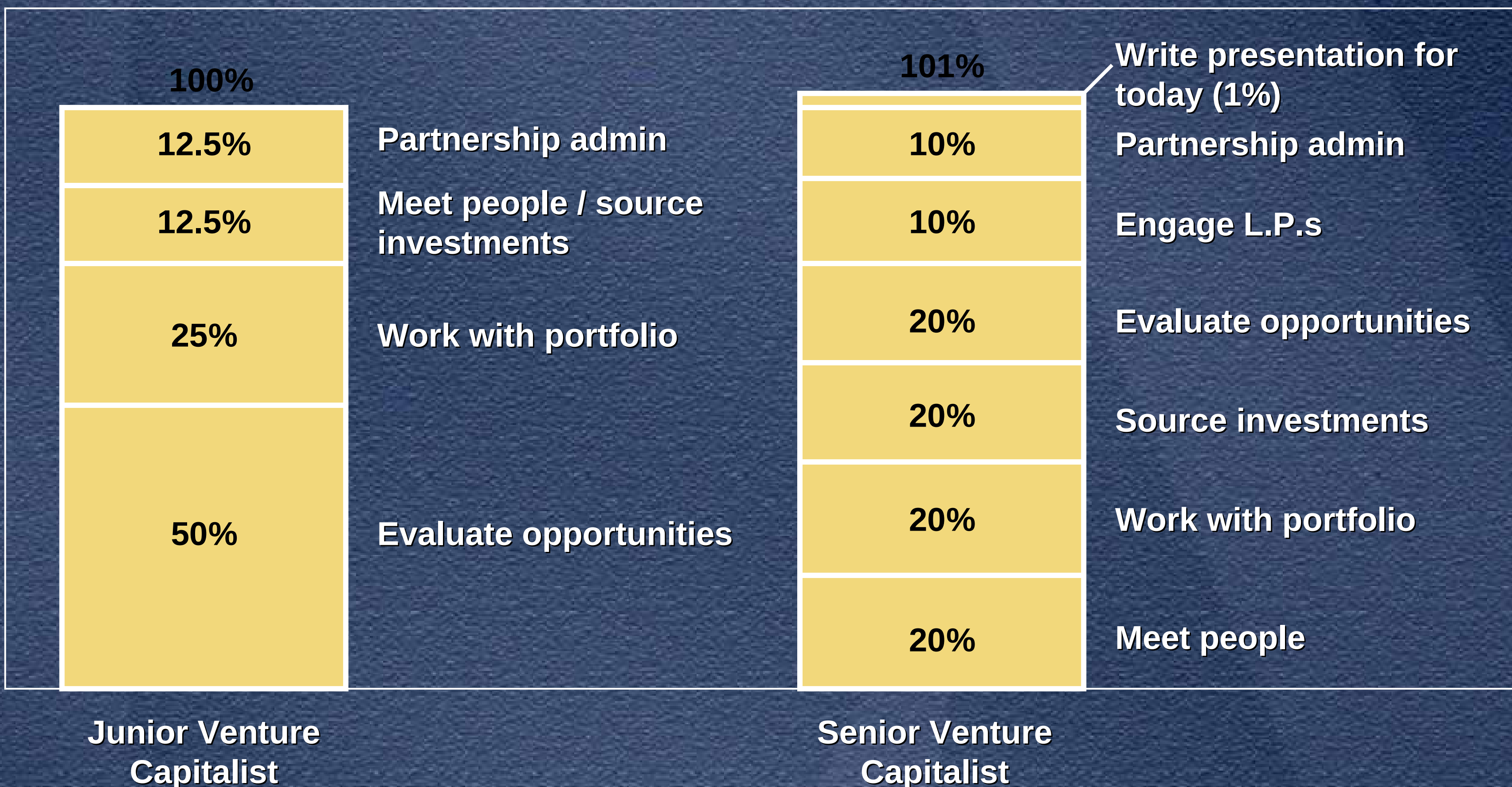
Time Fragmentation

Time allocation by seniority level



Source: Labrador time study

Time Fragmentation (2)

Time slice	Activity	Who
Meet people	Breakfast, lunch, dinner, golf, bicycling, go-karting	Referrals, future entrepreneurs, vendors, those with long-term rather than immediate impact
Work with portfolio	Board meetings, calls, emails, hiring discussions, partner / customer introductions	CEO, VPs, lawyers, customers, General Partners, candidates. Immediate impact
Source investments	Meetings and recreation	Same as “meet people”
Evaluate investments	Due diligence calls, interviews, company meetings, General Partner meetings	Entrepreneurs, General Partners
Engage Limited Partners	Meetings, PR, marketing, communications	Limited Partners, General Partners
Admin in partnership	Admin meetings, General Partner meetings	Admin, General Partners, vendors

Time/meeting priority

Financial impact	Relationships	Companies	Transactions	
High	Limited partner networking	portfolio employees Portfolio affiliates • Lawyers, headhunters, new hires, customers, biz partners	GP Fundraising Portfolio investments and exits	*The “big stuff”*
	Deal flow networking • VCs, Entrepreneurs • Lawyers, press, headhunters, other • Conferences, mixers • Phone calls	Board meetings New companies – meet and due diligence	Portfolio fundraising • Introductions, transaction	*VC “blocking and tackling”*
Low	General networking • Article writing, blogging Email Voicemail/phone calls	Deal flow review Industry research, position papers	Office processes, bills	*Details, details*

Low — High

Immediacy of return

The Right VC Firm

Focuses on companies that look like my company

- Stage (and $ / partner)
- Industry
- Geography

Invests during this financial cycle

- Deploying capital
- Cash on hand
- Not distracted by fundraising

Knows me or the company personally

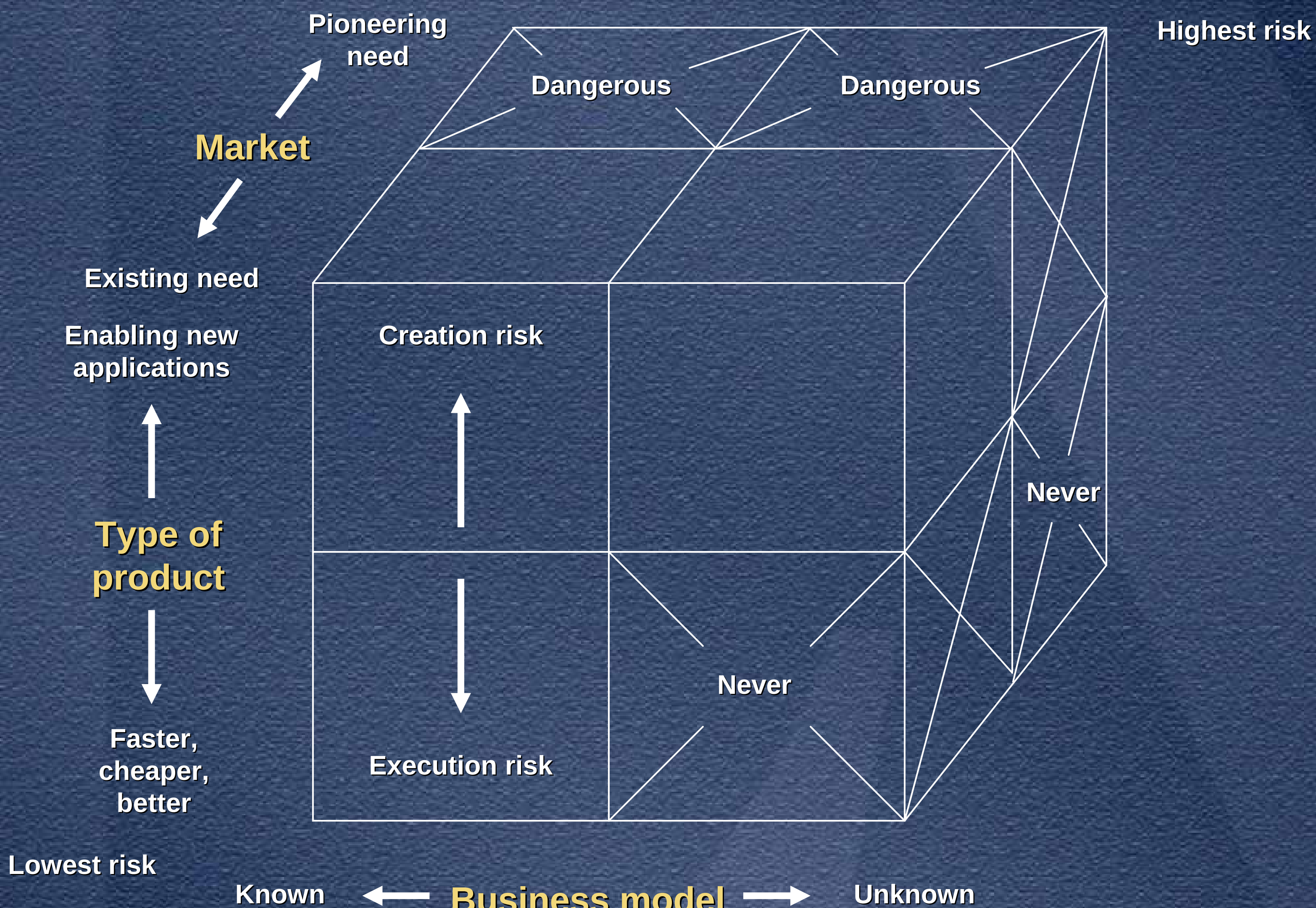
What VCs Look For in Companies

VCs Try to Reduce Risk

Multi-Dimension Space →	3 Dimension Space
People	"A" players in place or identifiable
Capital	< $30 million
Competition	First mover or market leader
Gross returns	> $40 million to fund
Risks	Up front and identifiable
Technology	Proven or provable quickly
Market size	Growing/large
Domain	IT, communications, medical subsets
Market need	
Product	
Business model	

Source: ONSET Ventures 2004

Investment Framework



Source: ONSET Ventures 2004

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The Subjective Method
Factors That Influence VCs

The size of pain solved

The solution (composed of both the technology and the business model)

The team

Probabilities / certainties / due diligence

The financing market – lemmings

"Always drink upstream from the herd"

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Six Things an Entrepreneur and Attorneys Can do to Increase the Odds

Address a big problem

Secret sauce – proprietary technology without substitutes

Track record of success

Get started

Glowing customer references

Multiple exit options

The Right VC Firm

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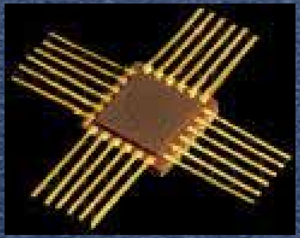
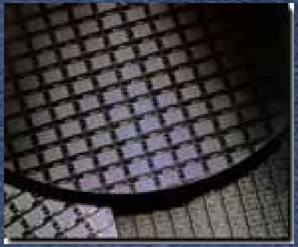
Example Investment Themes

Applied Material Science





Creates extreme competitive advantage

Themes:

- Focusing on “applied” not “science”
- Breaking performance limits of existing applied materials

Examples: Eoplex, IMI

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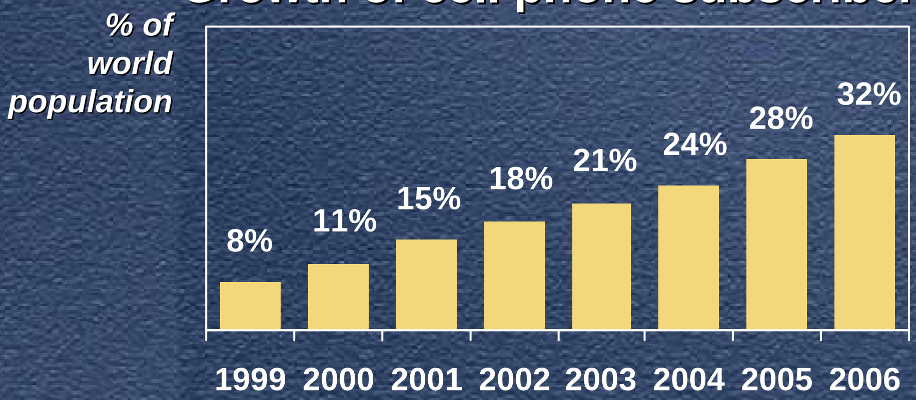
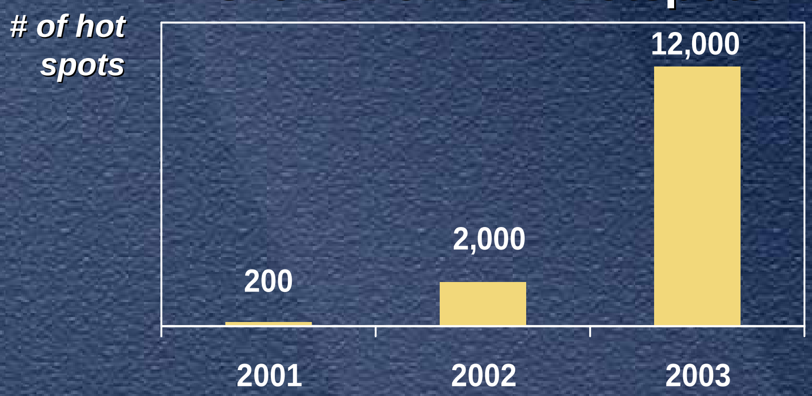
Shift to Mobile and Wireless

Growth of cell phone subscribers



Growth of WiFi hotspots



Tipping point is now

Themes:

- Interconnecting different systems
- Managing multiple access devices
- Providing new applications

Examples: Akira, Traverse Networks

Source: Force 9, Telecom Industry Association

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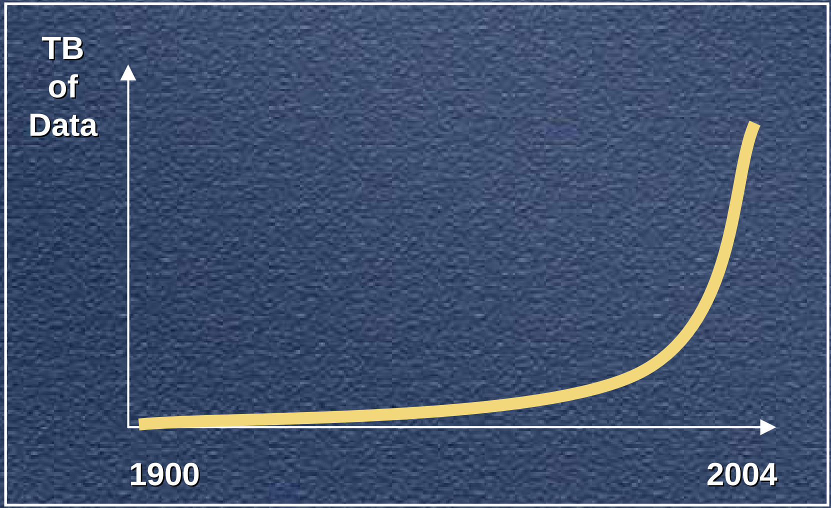
Creating Information From Data



"More information will be created in the next two years than in all of human history." (24B Gigabytes)

- UC Berkeley School of Information and Management Systems

Data manipulation / storage challenges continue

Themes:

- Finding data and making it information
- Customizing (technology as editor)
- Securing your identity

Example: Savage Beast

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The Right VC Firm

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Understands the industry of my company

The Right VC Firm

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Detour: Valuation

Some Complex Valuation Math

Post-money = pre-money + investment (money)

Valuation – The Black Art

Method 1: The "Real Estate" method

- A house down the street sold for $2M, and we're better!

Method 2: Everything is a nail when you've got a hammer

- Our average pre-money paid is $4.5M, and so are you

Method 3: Comp analysis

- Oracle's valuation is 10x revenue, so is ours

Method 4: Probability assessment

Exit values	Probabilities	Valuation
$300M	3%	$13M
$20 M	20%	
$0	77%	

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Deal Terms - Ways of Bridging Differences in Valuation Expectations

- Tranching
- Liquidation preference
- Participation
- Warrant coverage
- Option pool

Negotiating a Valuation

Relationship of trust and respect

Something that works for future financings

Maximize long term value

Get the deal done

Improving Your Company:

Spruce up the business plan and pitch

"The Internet startup only had enough cash for one more day. But, miraculously, the money lasted for eight days, until more venture capital could be raised."

Business Plan Elements

Executive Summary	First paragraph The rest
Market	Size Pain
Product/Technology	How it works How it solves pain Why it is unique
Competition	Why you are better
Management	Why you are qualified
Sales Plan	How you will sell, also known as “Business Model”
Financials	Revenue plan & ramp Costs Sensitivities

A First Paragraph

Executive Summary

Business Plan V. 1, September 2002

<u>The Company</u>: Castle™ Software, a Delaware "C" corporation, has headquarters in New York, NY. Formed in June, 2001, Castle is proud to unveil a revolutionary object networking platform. Over the past six months the company has invested over $100,000 in filing for patent protection for its six software inventions. Castle is seeking $500,000 to bridge the gap from a development stage company to a software licensing company. This investment will provide Castle with financial resources to implement a self-sustaining business strategy

Bad Executive Summary (1)

HILL ENTERTAINMENT

Have you ever invested in a Full Service Media & Entertainment Record Label Company, that includes the internet & information technology? Most investors in the media and entertainment industry will say, never thought about it, but it is certainly a <u>profitable</u> idea!! AN E-RECORD LABEL!!!!

Yes, investing in Hill Entertainment is going to be a <u>profitable idea</u>. Why?

Hill Entertainment LLC is established to become a full service media & entertainment company & record label. It will provide media & entertainment services as well as internet & information technology services to its clients.

Has it implemented any of these services? YES

It already has a studio/club located in Baltimore where artists can come to make their music and perform. It has built strong strategic partnerships with local companies in Chicago to provide other services for it clients.

What technology the company plans to use?

- Live real audio broadcasting
- Digital video production
- Software design (DVD, CD roms)
- E-commerce
- "Napster" technology
- Web development

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Excellent Executive Summary (1)

JPE is a hybrid - US/India contract animation studio that will leverage skilled labor in India to produce top-tier animation products and services for the TV and Games entertainment industry in the United States. Customers will benefit greatly by saving direct labor costs, while maintaining top-tier international quality standards, increasing capacity, and getting works of authorship to market faster. As JPE will solely be a contract animation studio, it will not be a competitor to producers and distributors of 3D original content.

Summary

The global animation market is $25B and is expected to grow 11% annually through 2007. The most important trend in the animation industry is the shift towards 3D animation. The North American 3D animation industry has not been able to capture potential cost savings leveraging global talent largely because the cultural, communication, technology, and quality concerns shared by studio producers, directors, and executives.

Market

This has created a tremendous opportunity for JPE. By bringing American and Indian talent under one company, JPE can transfer the American quality standards needed for 3D animation to its Indian talent without sacrificing cultural identification with North American markets. This combination of high quality, lower cost, will resonate with American entertainment clientele. Clay Pixel Studios will target the gaming segment, followed closely by the television segment.

Advantage

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Excellent Executive Summary (2)

JPE has built a management team that reflects the need to bring together entertainment, operational, and technological global expertise. Entertainment expertise is required to understand the quality needs of potential clients as well as deliver superior customer service. Operational proficiency is important in order to orchestrate the execution of high project volumes across multiple global locations. Finally, technological capabilities are critical operationally as well as in maintaining market-leading services.

Management

JPE seeks $1.1MM in a seed round investment. This investment will be used to create a demo animated short, which will serve as the JPE calling card to potential clients. In addition, JPE will build a small infrastructure in India and the US. After the animated short has been developed and initial client work has been sold, JPE will need another round of investment totaling approximately $10MM. This will be used to significantly build out the infrastructure required to serve our clients. Over the course of the next five years, we expect that the investments outlined, will generate a return on investment of 38%, with JPE turning cash flow positive in 2005. The total expected profits for the period 2003-2007 are $6.4MM on a revenue base of approximately $200MM.

Funding/
Finances

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VENTURES

Excellent Executive Summary (3)

In addition, JPE will escalate revenues, profits, and sustainable competitive advantage significantly through an aggressive intellectual property strategy that is defined in this plan. This includes (1) Royalty Residual Participation (2) Intangible Model Licensing (3) 3D Library Rental discount (4) Copyright ownership participation. In no scenario will JPE take IP participation that would potentially bias it in the eyes of other studios with whom JPE may in the future enter into sales contract.

Business Model

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Bad Formatting

Investor info.

My partner Tim Williams and I are ready to launch a world wide online business , the product is service driven and completely intangible , there is no other business in the world like it , our business model is water tight and has been intentionally engineered to acquire market share of two multi billion dollar sectors in short order . It requires startup capital beyond our personal resources. A maximum of 30 investors will be allowed to buy into this new unique venture. If you're a serious investor, who's able and willing to invest a minimum of $50,000.00 , contact us by e-mail with a request for more information [subject " DATEMLM investment info "]. Please include your name, mailing address, age, occupation , verifiable income for the past three years , verifiable net worth , phone # , best time to call you.

We will also welcome one investor that can invest the whole 1.5 M.

We do not want to hear from you if:

a) You're merely curious

b) you have less than $50,000.00 available for investment

c) You don't understand or believe in the potential or the concept of a multi-level marketing approach

d) You think the internet is a fad and the dot com's will never come back

We are looking for people who want to be part owners of this unique online business, in addition to ownership , you'll also have the option to receive a top distributor position in the co. , this alone can produce up-to $174,000.00 annual income.

This is serious a business, do not call us to waste our time please.

Thank you.

Carmine Puleo 305-527-8085

Carmine@datemlm.com

Bad Competition

Project summary of company.com

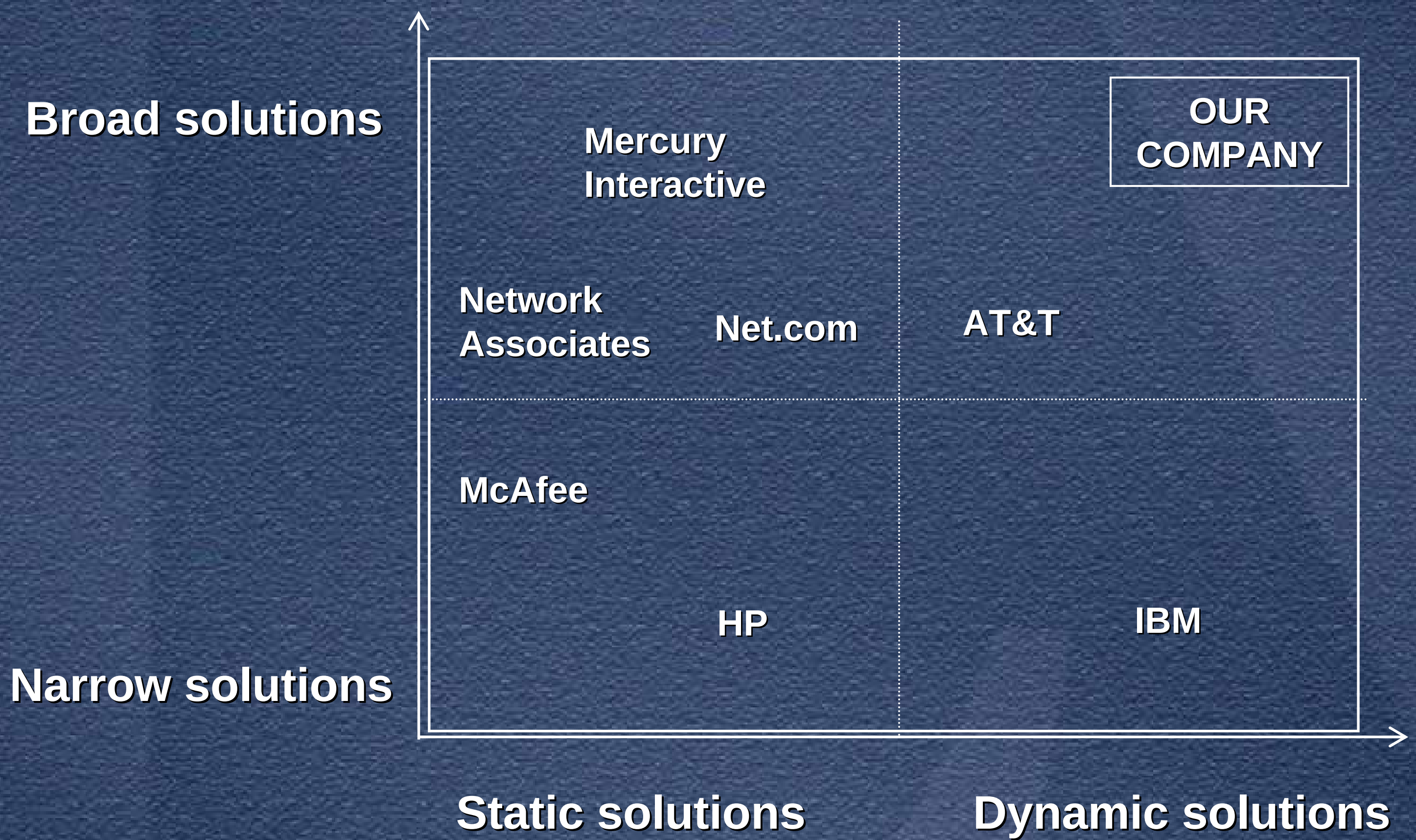
Competitors:

As we are the pioneer of this concept of advertisement. As of today we absolutely have NO COMPETITOR.

Good Competition

	Us	Competitors							
Features of outsourced solution providers	**A**	B	C	D	E	F	G	H	I
Remote 24x7 Server Monitoring	✓	✓	✓	✓	✓	✓	✓	✓	✓
Remote Control Server Management	✓	✓	✓	✓	✓	✓	✓		✓
Remote Control Desktop Management	✓	✓	✓	✓		✓			
Customer Provided Firewall	✓				✓				
Security Penetration Testing	✓				✓				
Security Monitoring	✓								✓
Remote 24x7 Security Monitoring	✓				✓	✓			✓
Remote Virus Update Service	✓		✓	✓	✓	✓			
Remote Backup Service	✓	✓	✓	✓	✓	✓			
Remote Software Update Service	✓	✓	✓	✓		✓			
On-Site Service	✓				✓	✓	✓		
Call-In Helpdesk Support (Trouble Ticket)	✓	✓	✓	✓	✓	✓	✓		
Call-In Helpdesk Support (Application Support)	✓	✓							
Telecommunications and other Hardware Management	✓	✓					✓		
Secure Connection Services	✓								
Web and Email Hosting Service	✓	✓		✓		✓			
Web Application Design and Architecture	✓						✓		✓
Network Infrastructure build-out	✓				✓	✓	✓		
Network Infrastructure Assessment	✓	✓	✓		✓	✓	✓	✓	✓
Network Design and Architecture	✓	✓			✓	✓	✓		✓

Good Competition



Financial Thoughts

- Cash flow breakeven
  - Lifetime value of customer
  - Bottom-up revenue analysis
  - Sensitivity
  - $50 - $100M revenue in 5 years
  - Cost versus alternatives

Contacting a VC Firm – Bad

-----Original Message-----

From: Lindsay York [mailto: lindsay_y@company3.com]

Sent: Thursday, August 22, 2002 5:44 PM

To: BusinessPlans@labrador.com

Subject: Please review this email closely

Dear Sirs:

I am sure you are pitched different ideas almost everyday. I have a business plan that will make millions but will not send it to anyone without a non-disclosure signed to protect it.

We are currently looking for $150,000 to get the project off the ground. This will equal 40% of the new company stock shares.

I am the owner and founder of www.company3.com and the project is built around this business but from a different angle and marketing on television. I have been featured on national television, newspapers, and radio shows. See this link: http://www.company3.com/in_news.php

Our competition is making $4,000,000/net per month and we have a concept that will dethrone them.

Please call or email me and let's talk. It will not be a waste of your time.

Thanks,

Lindsay York

President Company 3

Contacting a VC Firm – Worse

-----Original Message-----
From: Person A [mailto: person_a@company1.com]
Sent: Monday, September 09, 2002 12:53 AM
To: businessplans@labrador.com
Subject: For your collective interest
Importance: High

Contacting a VC Firm – Great

-----Original Message-----
From: Warren Jones [mailto:Warren@jfd.com]
Sent: Tuesday, August 13, 2002 1:32 PM
To: Sean Foote (E-mail)
Subject: ABC Co.

Sean:

It was nice catching up with you the other day. I believe that we spoke about ABC Co. during our lunch. Their initial market is fabricating LCD displays (yielding robust, light weight, low cost displays). They're in the market for another $8-10M to expand their runway from "cashout" (assuming 0 revenue) in Dec. 2003 to mid 2005. This cushion will allow more than enough time for them to move their 40-odd partner conversations from conversation to revenue. From a timeline perspective, they will have samples out to their customer prospects by the end of the year and contracts should start rolling in by mid-year. They already have a handful of JDAs in place for expanding the process from a batch process to a roll-to-roll process. I would be happy to introduce you to ABC Co.'s CEO, if you would like to dig in some more.

I have attached a one-pager that has a bit more information on the company. What might not come through in the one-pager is the quality of the team. They are truly outstanding. The CEO spent fourteen years at MNO Telecommunications where he was being groomed to be President. The VP Sales has terrific experience and is a GSB grad. The founders are from Michigan's Engineering Economic Systems program.

Warren

The Pitch

Provide Answers:
- What you do
- Why it matters (pain)
- Why you do it better
- Who you are
- How big does it get (for you and me)

Be yourself

Be open

Be flexible

Answer questions clearly

Tour of the U.S. Venture World