Origin Labs

A Startup Accelerator Business Plan

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Executive Summary

As the cost structure for new internet startups has plummeted over the past two years, new models of funding have emerged, especially seed funding that provides venture investment on a much smaller scale - generally less than $100,000. Prominent among these new models is the **startup accelerator**, which invests in multiple startups. In addition to the financial support, accelerators provide an education program in business and product development, legal and infrastructure support, and a strong mentorship network.

We will launch a startup accelerator in Vancouver that works with **thirty startups annually**: three programs, each including ten startups and lasting three months. Our competition mainly comes from other accelerators, as other sources of funding to very early-stage startups are either very restricted (friends and family) or difficult to aquire (bank loans). The inclusion of education and mentorship gives these programs a competetive edge against traditional VC or angel investors. We will achieve market leading performance for investors and startups by demonstrating and supporting in our startups **these principles**:

- High performing, supportive teams
- Testing assumptions, and seeking data on performance
- Continuous improvement
- Open communication

Fundraising can be difficult, but we will be configured to minimize capital requirements, to engage a larger group of smaller investors than normal, and to work towards **self-sustainability** in the long term. We will engage potential investors broadly through our investor portal, which will communicate the status of our internal funding rounds and those of our startups, allowing a dispersed investor community to be involved, and making us much more transparent than the norm, stimulating media and community coverage.

Our founding managing partners will cover all of the setup costs, so that all investor funds go towards investing in and supporting the startups. In addition the founding partners will take minimal compensation until successful exits generate carried interest for them.

Funds will be raised annually to cover investment and operations, but from successful exits a small portion of the gains are contributed by both investors and management to an endowment fund, the interest from which slowly reduces our annual fundraising requirements.

The normal annual fund size will be $900,000, reducing to $800,000 by year six. Investors are repaid first from exit revenue, and total investor return is forecast at $2.1-million, for a **five-year IRR of over 41%**. Angel investors generally achieve returns of around 22%. In BC there is a 30% tax credit for venture capital investments, significantly boosting these returns for BC-resident investors.

Setup tasks are straightforward and relatively brief. Year one includes setup tasks, raising the first annual round, communicating heavily in the investment and startup communities, and acepting the applications for our first program. Origin Labs opens its doors to the inaugural startups and their founders on the first day of year two.

Background & Venture Overview

In the past few years there has been a significant shift in the digital media startup environment (web, mobile and casual gaming), as the emergence of cloud computing has reduced the costs of servers and storage to negligible amounts. As a result, many new ventures in this space need far less capital then they would have five years ago, and their needs place them below the required investment size of traditional VC firms.

To serve this market, new models of venture capital have emerged, chief among them the seed fund and the startup accelerator. Each make relatively small investments (generally $50,000 or less per startup) in very early-stage ventures, but the startup accelerator pairs this with an educational program and a strong mentorship system. The education program aims to quickly impart relevant business knowledge and "lessons learned" to the startup team to improve the quality of their work, ensure common pitfalls are avoided, and foster a culture of constant learning and improvement. The emphasis on mentorship and networking ensures that not only is the quality of product higher, but that the startup can access wide networks within the community for such needs ash iring key staff, raising further capital, or discovering important early customers.

We will launch a new startup accelerator in Vancouver, B.C. that will run a three-month program three times annually. Each program will invest in seven startups, who will be co-located in our offices for the duration. They will receive small cash investments, administrative support, and a great deal of education and mentorship. The end of each program will culminate in a "graduation" event at which the startups demonstrate their products to investors. The difficulties for Canadian VC firms in investor funds are well known, and so this accelerator will be set up to minimize capital requirements, to engage a larger group of smaller investors than normal, and to work towards self-sustainability in the long term.

The Business Landscape

Competitive Landscape

Startups can get funding from more traditional sources, including angel investors and seed funds. Seed funds are relatively rare, as the current trend is to combine them with some educational and mentorship content and create an accelerator instead, to maximize the benefit for the startup. Many startups don't have easy access to qualified angel investors, who generally work quite privately, whereas a program like Origin Labs has a very public presense, both online and in the community. Especially during the application period for each new cohort, during which Origin Labs will be actively promoting its hunt for startup applications. The various aspects of our program (education, mentorship, graduation demo days) provide a great deal of differentiation when compared to traditional funding sources, and these are all designed to provide huge value to the startup. For the subset of startups that don't believe they need a program like ours, we will work to promote on our website and in the community the many benefits of our program and celebrate its successes loudly.

Our broader competition is any other source of funding, which could include debt, friends and family, and bootstrapping. The decision to bootstrap or to take funding is usually based on the capital needs of the company, the market it competes in, and the experience level of the founders. Debt funding however, can be very attractive depending on the economic conditions. The easy availability of low-interest funding was a key attribute of the boom economy leading up to the 2008 downturn, but even during those years it was difficult for startups to acquire debt financing as by definition the company has no track record. Debt can be acquired by securing it personally, but this is really a form of self-financing or friends-and-family. The latter two are some of the key competitors to our seed financing, because the level of cash is quite low. Indeed, many of the startups who choose not to enter our program will do so because they can obtain the funds without difficulty, but our differentiator is the education, mentorship, experience, and networks that we put at the startup's disposal.

The main competition for any accelerator are the other accelerators. Early-stage entrepreneurs are able to move to a new location with relative ease, creating more competition between new accelerators and the better-known programs in Mountain View, CA and Boulder, CO. That being said, Jed Christiansen found in his research that "as long as a community has a sufficient pool of potential startups, a seed accelerator programme will have sufficient interest". One of his survey respondents even wrote: "Location is the most important factor by far. Most of the programmes are roughly the same offering, so location is the differentiator."

Within the Vancouver area, our main competition will be Bootup Labs, a startup accelerator founded in 2008. They have done an incredible job of creating an active, exciting startup community that has demonstrated the need and desire for a stronger startup ecosystem in Vancouver and the funding and infrastructure to support it. Bootup runs a very different program than that proposed here. They do two cohorts annually in an eight-month program. They contribute $150,000 to the startup to acquire 15% of the equity, of which $50,000 is paid to a management company that operates the accelerator. While both Bootup Labs and Origin Labs use the accelerator model, the length of the program, level of funding, and equity exchanged are drastically different and will attract companies at different stages or with different needs. In fact, the goal is not to compete with Bootup Labs for startups, but to work alongside them in different segments of the market. Bootup has paved the way by bringing together a strong community of mentors and investors, and keep the community engaged through events and speakers, organized through their non-profit arm. Origin Labs will be able to benefit from their work in many ways on an ongoing basis. In fact, discussions with Bootup has resulted in agreements to share any startup proposals that either accelerator will not be accepting, and to partner on local events. Studies have shown that VC funds who are actively engaged with other investors enjoy improved returns, so our initiative on communication, openness, and active networking will directly contribute to our results[1].

Profile of a Startup Customer

Our target startup will be a team of at least two, but possibly three founders who are launching an internet-based business. Because the goal of our program will be to refine and prove the business model to get early traction, the business should be past the idea stage and the team should have already created either mockups or a prototype. No business plans are required. At least one of the founders must be strongly technical, and we will favour teams in which all members are technical. This enables them to execute faster and cheaper. Criteria are discussed in more detail below, but a hypothetical startup would be two friends who have spent several months refining an idea and testing it with others through interviews, mockups, or prototype development, and they are ready to dedicate themselves full-time to the project. They seek capital to pay for this early development, assistance in ensuring that their product solves a market need, and business advise.

In a study of the most important selection factors when startups are seeking an accelerator, Jed Christiansen discovered that immediate items such as the level of

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1. http://insight.kellogg.northwestern.edu/index.php/Kellogg/article/whom_you_know_matters

funding and the post-money valuation are ranked as significantly less important than those that provide lasting long-term benefit, such as product support, business support, and connections to capital. Startups are well-focused on what they will need in order to ensure their success, and have an impressive long-term view of the value that an accelerator can contribute.

Performance Expectations - Investors

A 2009 study of British angel investors found that while 56% of all investments resulted in failure, 9% returned more than ten times the invested capital. This resulted in an overall return of 2.2 times the investment, which was generally over a period of four years and resulted in an IRR of approximately 22%.[2] Similarly, while performance numbers are difficult to obtain from established accelerator programs, estimates in the Christiansen research indicate that they have at least broken even with only a tiny fraction of their portfolio companies exiting so far.[3] Investors will expect returns on their capital of at least 15%, since this is definitely a high-risk category. In order to compete with other investments in this range however, investors will need to see experienced and trustworthy management, and should expect frequent and clear communication from Origin Labs covering the portfolio companies, the business operations, and fundraising activities.

Performance Expectations - Startups

As discussed under Competetive Landscape above, there are well established accelerators in the US and Canada, and the model and its requirements are fairly well known. Startups will expect that beyond the quantitative contributions of capital and office space, Origin Labs is providing educational content, mentorship, and network opportunities that rival more established operations. It is our intention to be a leader in the creation of valuable and applicable educational programs for our startups, and to support those programs with regular face time with our managing partners and leaders in the local tech community.

Structure & Strategy

Each aspect of our model is based on the principles of demonstrating and encouraging:

- High performing, supportive teams
- Testing assumptions, and seeking data on performance
- Continuous improvement
- Open communication

It is our firm (even passionate) belief that implementing strong practices based on these principles will directly lead to market leading performance, both in our investor-facing activities and our startup-facing activities.

Investor Relations Plan

In the eyes of many the VC industry (especially in Canada) is undergoing a drastic "right-sizing" right now, and it is harder than ever to find institutional investors willing to come on as limited partners. The low annual capital requirements of a startup accelerator also put them below the investment threshold of most large funds. Origin Labs will work to avoid spending valuable partner time on "road show" style fundraising

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2. Wiltbank, 2009
3. Y-Combinator: 6 exits from 140 companies. TechStars: 4 exits from 10 companies.

activities, and will instead make it easy (and enjoyable, and profitable) for a large number of smaller investors to contribute to our funds.

While Vancouver's technology angel investor community may be small, we will win by engaging the broader community of potential investors not just in Vancouver but across Canada and internationally. The paired cornerstones of our fundraising system will be our online investor portal, and our ongoing public openness about our fundraising efforts and our investor successes.

An important part of our website will be the investor portal, which will make detailed information about investing with Origin Labs available to the public. Interested investors will be able to create an account and log into a secure information area, which gives us a valuable contact database for follow-up information and personal contact. In the secure area we will prominently and clearly display the fundraising status of any open Origin Labs funds, the current investor return and IRR of any closed funds, and information and status of any fundraising rounds that portfolio or graduate startups are working on. It is our intention to allow investors to become accredited on the website by completing the paperwork online[4] and then they can invest in any of the open funding rounds by submitting their intention to do so. We can follow up with them in person to arrange for payment, and update the investor portal with the new status. Portfolio and graduate companies will be able to exploit this system and the community of investors that it serves for their funding rounds as well, significantly boosting their ability to raise successive rounds. Mockups of the investor portal can be seen in **Appendix 1**. This portal will generate a huge amount of publicity and interest for our accelerator and its startups, as much of this information is traditionally only made available to select investor prospects. Journalists will be able to sign up and view the active rounds, which will make it much easier for them report on our progress, generating significant investor curiosity and interest. The real-time nature of the site will encourage investors to become engaged with our program, through news feeds and emailed updates.

This entire system will enable us to

1. Generate above-normal publicity and investor awareness
2. Create a valuable database of interested investors and reporters
3. Streamline the investment process - remove hurdles, improving completion rate
4. Take in a broad base of small investments
5. Fulfil our investment needs with a minimum of partner time involved
6. Communicate clearly with our investors, increasing their satisfaction
7. Create ongoing engagement with our investors and prospective investors, leading to high rates of initial investment and repeat investment

And each of these benefits applies not just to the Origin Labs' funding rounds, but to any rounds raised by portfolio and graduate companies through this system. Graduates would have access for life to the investor community. We will also have the option to allow other local startups to post their funding rounds on it in return for either a finders fee on the round (in the range of 4%) or an equity stake.

Education Plan

The educational program that accompanies our investment and mentorship is both one of the most important ways that our management team can positively effect startup success, and the area wherewe can most differentiate our model from other accelerators. Because of the pressures on founder time and founder focus, it’s critical that our education program consist of only the most important topics, covered in a consise way that is easily and immediately applicable.

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4. All paperwork will be streamlined online by using RightSignature (rightsignature.com) which allows online signing. See **Appendix 2** for an example of RightSignature in action

Perhaps the most important aspect of our education program will not be what topics are covered and how, but in the way we critically review it on an ongoing basis to ensure not only continual improvement in our information and format but continual updates to the content to suit the changing landscape of business and technology. We intend to create a revolving advisory board for the education program, consisting of our managing partners, founders who have recently graduated the program, and founders who have been accepted to a forthcoming cohort. This board will review the current content and establish the applicable value of each piece. They will also discuss what topics graduates should be familiar with that aren't currently covered. We will also debrief after every cohort to rate the value and effectiveness of each component of the education plan. Debriefing with startups is covered further in Startup Relations below.

Our initial education program will be significantly different from those of other accelerators in its inclusion of content for improving personal effectiveness and coaching high-performance team practices in the startups. The short length of the program means that one of the most effective things we can do to improve the success rate of our graduates is to improve their ability to perform both individually and within their team long after their graduation. We intend to outperform our peers in this market in part through helping to launch more productive, better performing, and emotionally healthier teams.

We will also include more traditional startup education topics, including business practices, software engineering best practices, working with employees and contactors, performing market research, product development for market fit, and marketing.

Startup Relations Plan

Our first challenge will be to attract a critical mass of high-quality startups who are interested in joining our program. We will do this both by generating as much publicity as possible online and by engaging deeply with the local community in order to raise awareness and knowledge about the values of our program. As discussed in the Investor Plan above, our higher than normal level of openness is designed in part to generate publicity, both for its uniqueness and for the availability of information. We will actively be involved in spreading the word online that we exist, that we provide unique value, and that we are accepting startup applications. On a local and regional basis, we will be heavily involved in the startup, entrepreneurial and tech communities, working to provide value to the communities with our experience and networks and seeking to inform about our program. Community participation is covered in more detail under Community Relations Plan below.

There will be three periods each year during which we accept startup applications, which we will make every effort to announce and publicize. The dates will be known well in advance, giving startups an opportunity to prepare their application and presentation. Our goal will be to keep the application requirements minimal for startups. They should submit an email brief outlining their project and their team, and then we will arrange a videoconference presentation in which we can get a better understanding of their potential, a better grasp of their personality and drive, and explore the idea through our questions. Their application data (contacts, email brief, and later video) will be stored in our mentor portal, enabling our mentor and investor community to comment on each and suggest questions for the video presentation. This will also enable us to identify mentors who have experience or interest of value to the prospect. With this simple system we will improve our selection process and our mentorship process.

Once a company is accepted, they will need to be able to work from our offices on the start date of their cohort. If they live out of town, they will need to move to Vancouver. We can assist where needed, but most teams will either be in Vancouver already or be able to handle the move on their own. The ability to be located here for the duration will definitely be part of our selection criteria. Teams in general will be arriving with their own computers and cell phones, so there will be no need for any infrastructure setup to be prepared. Each will have a dedicated workspace and common areas will encourage constant communication and collaboration between teams. A majority of their time will be spent working on their product, with a small fraction of their time put aside for the educational program and mentorship sessions with our general partners and external mentors. The general partners will be available full time (and indeed, around the clock) to assist with product design, direction, and execution.

At the end of the three-month program the companies will prepare and practice their pitches, and we will organize and publicize a Demo Day event, in which we gather as many investors from Vancouver and the region to hear pitches from each startup. We will also take the cohort of graduating startups to Silicon Valley to conduct a second Demo Day there involving the large investor and startup community there. The goal of the graduation and demonstration process is to allow our startups to impress investors who will become involved and support the startup in any further rounds. The Demo Day also gives Origin Labs an opportunity to generate a great deal of publicity three times annually, and so are an important contributor to the success of both the startups and the accelerator.

In parallel to the changes in capital requirements for startups, a shift in thinking has occurred within the startup community on how best to create a product that customers will purchase. Going by names such as "Customer Deveopment" and "Lean Startup", these business patterns place an emphasis on validating your assumptions about customers and what they will buy through direct contact and plenty of early experimentation. These methodologies help to ensure that the startup is producing something that customers want, instead of spending time and money developing product only to see it fail at launch. Incorporating practices from these systems is key to the success of startups, and in fact the themes of rapid iteration based on high-quality customer feedback will also be used to set Origin Labs on a course of constant improvement. There is a common paraphrase in the business community that "no business plan survives first contact with the customer"[5] , and to avoid that trap we will review our plans and practices regularly with feedback from portfolio teams. We will go through a debriefing process after graduation in which we critically review the entire operation with the startup founders to identify any areas that aren't providing immediate value to their success. It is through this attention to continuous improvement that we will ensure we provide the best program that it's possible to construct, and that we respond immediately to changes in the industry.

Community Relations Plan

It will be an important part of our success to be heavily involved in the local startup community. This community gives us contact with startups, mentors and investors, and allows us to publicize our existence and particulars. In Vancouver the Bootup Entrepreneurial Society (a non-profit loosely associated with the Bootup Labs accelerator) runs excellent startup community events, and we will be partnering with them on many future events.

Mentors are an important contributor to our program, and we are putting aside 20% of the carried interest in the fund (5% of the after-repayment gross) in a pool for mentors who commit to working with a cohort. The mentors are a big source of experience and contacts for the startups, and we will work to attract and select mentors who have the most to offer in the long-term. Mentors usually are interested in this work not out of financial motivation but because they enjoy assisting startups and get a great deal of

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5. Helmuth von Molke said "No plan survives contact with the enemy"

satisfaction out of the experience. For successful entrepreneurs, it can be a way to get "startup excitement without startup stress".

As mentioned in the introduction, Bootup Labs is a startup accelerator that has been in Vancouver since 2008, but in discussions with them we have agreed to complement each others programs instead of competing head-to-head. The specifics of the two programs are quite different, and will attract startups with different interests. Our open and friendly communication with Bootup Labs will result in additional opportunities for each accelerator, and additional opportunities for or portfolio companies. Research has shown that VC firms actually benefit from increased co-operation and communication, as it increases the number and diversity of their opportunities.

Management & HR

Managing Partners

Origin Labs is founded by two founding Managing Partners, who will lead the investment activities and the educational and mentorship programs. Each of our partners has a long history in founding and operating startups, which gives them not only the breadth and depth of experience necessary to mentor new founders, but the extensive personal networks that will contribute to the success of our startups and our program in general.

Jeff Magnusson co-founded the River Styx group of web software companies in 1998 and grew it through ten years of bootstrapped growth to become an online billing provider handling over $230-million in annual volume. Jeff and his partners successfully sold this company in 2008. Following the sale of the River Styx group, Jeff completed an MBA at Queen's University, and currently serves on the advisory boards of two startups and as a mentor at Bootup Labs. Jeff is an active angel investor, and works daily to improve the strength of his networks and the value that he contributes to the startups that he works with.

We are currently recruiting actively for the second managing partner through networks in Vancouver, across Canada, and in Silicon Valley. The candidate needs not only a track record as an investor, but also startup experience in establishing traction and building new ventures. Our short timeframe means that senior executive experience is trumped by years in the trenches creating products that customers want and validating their assumptions by gaining traction in the market. We will be running the accelerator as a startup, so experience with lean operations and comfort with the startup work style is a must.

Operations

In order for the Managing Partners to focus on the investment and mentorship activities of Origin Labs, it is necessary to employ an individual in an operations or coordinator role. Recruitment is underway for this position, but the candidates universally possess incredible energy and reliability and a knowledge of business operations and lifecycle of a startup. This role will not merely support the Partners in their work, but manage much of the day-to-day operation of the program and support the startup founders in their needs as well. This person has excellent people skills and is very effective at streamlining, supporting and accomplishing throughout the scope of Origin Labs.

Advisory board

Origin Labs is supported by an impressive advisory board, composed of veteran startup founders, experienced investors, and subject matter experts, all of whom are dedicated to the continuous improvement of our program and its results.

Danny Robinson is the Managing Partner of Bootup Labs, and a Director of the Bootup Entrepreneurial Society. Danny is a serial entrepreneur, with startups founded regularly from 1994 through 2009. He founded Bootup Labs in 2008, jump-starting the growth of the startup ecosystem in Vancouver and supporting it with the Bootup Entrepreneurial society, which stages regular social and educational events for the startup and tech communities. Danny can be considered to work for the "competition", but as discussed above there is a strong partnership between Bootup Labs and Origin Labs and performance will be improved for both through strong communication. Danny's accelerator-specific experience will be invaluable to our board.

[redacted]

[redacted]

McElroy Flavelle is currently in the thick of things as the founder of his first startup, Compass Engine (compassengine.com). Compass Engine is part of the 2010 Bootup Labs cohort, and McElroy will bring direct and current experience as a startup founder and as an accelerator customer. It is critical that we have recent startup founders on the advisory board to provide a reality check to the ideas of our more experienced members.

Compensation, Investment and Alignment

Origin Labs is structured to ensure complete alignment at all times between the management and the investors. Because each fund is raised to cover three cohorts in one year, no annual management fee is charged. Instead there are salaries to the Managing Partners, but they are kept to minimal levels, with the expectation that they are augmented by carried interest on sucessful exits. Our Managing Partners will earn only $50,000 each in Year 1, dropping to $40,000 and $30,000 as exits occur and carried interest begins to be paid out. In addition, management is only paid AFTER the full amount invested by outside parties has been repaid, so they are compensated not on startup exits, but on the fund returning more than its total invested capital.

Our founding Managing Partners have also agreed to invest the full amount of the setup costs (estimated at $50-100,000) so that they have a stake in running this lean "startup for startups". It's important that funds raised go to investing in and working with startups, not to the broader operation of the accelerator.

Origin Labs' unique endowment model also serves to align the management with the investors, and to align the interests of investors from different fund years. The consistent growth of an endowment stake for management serves over time to place them on an equal investment footing with outside investors, and the small contribution of each year's fund to the endowment likewise ensures that an investor in one year will have a financial stake in the success of every subsequent year. This mechanism will ensure that not only do we slowly reduce our dependence on annual fundraising, but that our investor community remains highly engaged with our program, encouraging repeat investment.

Financial Plan

Investment Structure

Origin Labs is structured as a Venture Capital Company, which results in a 30% tax credit for investments by British Columbia residents. The term of the fund is ten years, but should be fully repaid in under five. Investors are repaid first from any proceeds. For the management team there is no annual management fee, but there is 30% carried interest, which is above standard but there are two unique uses for it. 5% is pooled for the mentors of each cohort, in proportion to the number of cohorts that they were involved in for the life of the fund. Another 5% enters an endowment fund on behalf of the investors, which is matched by another 5% on behalf of the management team. There is 15% of the carry remaining for direct payment to management, significantly below industry standard.

The endowment fund is another innovation that will reduce the time spent fundraising, as its purpose is to eventually make the entire operation self-sufficient so no additional investment is required. The funds entering the endowment are earmarked to the investors who contributed them, so that investing in early funds will automatically include a stake in later funds with no further investment required. Once self-sufficiency is reached, no new investors will be needed but all of the investors who participated in the past will have a stake in every cohort, for perpetuity thanks to the endowment fund model.

Revenue Model

Startup accelerators must expect a high degree of failure in their portfolio companies, but structure their investments so that they can create the performance they need with a very low startup success rate. Indeed, in research by Jed Christiansen and by ourselves it appears that approximately 50% of portfolio companies will fail. Another 25% will break even, achieving either a small exit or an ongoing business that results in the repayment of our investment. Of the remaining 25% of startups, 20% will achieve a "good" exit, and 5% will achieve a large exit. The accelerator makes its returns from that final 25% of startups.

Here is an example showing one year, including 30 companies:

	% of Startups	Exit Size	Avg # of Startups in Cohort	Orig. Investment	Accelerator Equity @ Exit	Accelerator Share	Total Share for the Cohort
Failed	50%	$0	15	$20,000	6%	$0	$0
Breakeven	25%	$500,000	7	$20,000	4%	$20,000	$140,000
Small Exit	20%	$5,000,000	6	$20,000	4%	$200,000	$1,200,000
Good Exit	5%	$15,000,000	1.5	$20,000	3%	$450,000	$675,000
Large Exit	1%	$100,000,000	0.3	$20,000	2%	$2,000,000	$600,000

			30	$600,000			$2,615,000

With 1% of startups achieving "large" exits of at least $100-million, they have been included here as occurring every five years, since our annual cohort is 30 companies.

Our $600,000 invested annually results in estimated revenue from exits of $2,615,000. Those exits will generally occur anywhere between one and five years after the startup leaves our program. Revenue from exits will be "lumpy", and has been averaged over five years, starting after the first year in our models. The revenue from exits is shown in this fashion in **Appendix 3** - because of the five-year window for each cohort, the one-year lag on exit income, we reach full forecast revenue in Year Six. The "lumpiness" of our revenue does not create any risk for our operations, as the annual fund covers both investment and operations for the new cohorts.

From the exit revenue, first the original investment will be repaid, so that management is only earning fees based on positive investment return. Operating costs for a normal year of operation are estimated at $300,000 (annual operating budget is shown in **Appendix 4**), so we will normally be raising $900,000 in investment annually. From the $2,615,000 in revenue from a given cohort, the proceeds will be distributed as follows:

	Rate	Amount
Inv. repaid		$900,000
Remaining		$1,715,000
Investors	70%	$1,200,500
Management	15%	$257,250
Mentors	5%	$85,750
Endowment - on management behalf	5%	$85,750
Endowment - on investor behalf	5%	$85,750
Total to investors		**$2,100,500**
5-Year IRR		**41.3%**[6]
Total to endowment		$171,500

Five percent of the endowment will be used annually to fund operations and investments, with the amount used being allocated proportionally to the investors and managers who contributed to the endowment. For example, in the list above there are two blocks of $85,750 added to the endowment on behalf of the investor group and on behalf of the management. In each of the following years five percent will be used, or about $4,300 from each group. This will result in an ongoing stream of payments to investors from early cohorts, as their endowment contribution is used to purchase equity in startups in each of the following cohorts. Over time the endowment fund will grow to reduce our dependence on regular fundraising.

Financial Projections

As this is a repeating venture, as opposed to a growth venture, the key result of our projections is the slow creation of value in our endowment fund, enabling us to reduce our reliance on constant fundraising. This will be a long-term process, and in the meantime we must execute well year by year to continue returning the incredible returns

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6. IRR is calculated using the net payment stream to investors from an average cohort as calculated over five years.

that our investors expect. Our staffing and overhead needs will change very little, unless we expand the program locally or to other cities, as Y-Combinator and TechStars have done.

Although our model is very consistent and repeatable year over year, there are some variances due to the growth of the endowment fund. Annual cash flow forecasts are in **Appendix 5**.

Capital Requirements

As outlined above, we will raise one fund annually to cover operations and investments in our cohort companies. In Year One we will run two programs instead of three, funding 20 companies instead of 30, so our capital requirements will be lower than normal at $750,000. In Years Two through Four we will be at full capacity, but cash from exits will only begin to arrive midway through these years, so we will be raising a full $900,000. Years Five and onward we begin to benefit from startup exits and the endowment fund, and we can begin to reduce our annual funds to $850,000 and $800,000. On a long-term basis, the goal is to become self-sustainable but it is likely we will always need to raise some quantitity of funding annually. This amount will continually decrease however, giving management and previous investors a larger perpetual stake in future cohorts.

Risk Management

Input Risks

Without sufficient startup applications, we will either be forced to take in fewer startups or those with less chance of success, both of which carry significant threat to our revenue model. In order to protect investor capital, we will not reduce our standards of acceptance. Poor performance will lead to reduced reputation with both founders and investors. If we see a shortfall in the number of high-potential startups we will have options depending on the lead time or scope of the reduction:

- If we discover a shortfall during the active year, after funds have been raised, we will give investors the option of a proportional refund, to have their investment moved into the endowment to receive equity in all future cohorts, or to have their investment transferred to the following year, reducing the amount of additional funding required.
- If we are seeing an overall reduction in the number of startups or high-quality startups in the marketplace, we will reduce the planned size of our three cohorts in the following year and the size of our funding round. Our overhead is fixed, so a reduction in the number of startups will result in a reduction in the IRR for that year's fund, assuming that the exit forecasts are unchanged. For example, while the IRR at 30 startups is 41% over five years, at 20 startups it drops to 28% and at 10 startups 18%. We will only be able to reduce the number of startups as long as investors are willing to have more of their money going to our operations, and as long as they are still satisfied with the lower IRR. We expect that we could cut the number of startups to 21 (three programs of seven each) or 18, but not as low as 15, when fully half of the raised money would go to operations.

It is also possible that we would have the opportunity to accept more promising startups than expected. If in fact there are more than ten exceptional founder teams applying to a cohort, we would first work to shift some of them to following programs, reducing the amount of recruiting we needed to perform for those programs. If that was not possible, we could accept a higher number in one program and reduce the number in the following program, to maintain the total number accepted for the year. It is also possible that if there had been a shortfall in a previous program, that there would be excess investment budget and we could accept extra startups.

Operational (Process) Risks

The main operational risks can be grouped into two areas:

Falling short on helping to build successful startups:
There are many ways that we could fall short of our goal to help our cohort companies build successful companies with great product-market fit and a robust revenue model. If for example operational problems consume too much of our Managing Partners' time, or our expertise is lacking in some area, the results will not be as we expect and will be below the expectations of the startups and our investors.

We will combat this by executing frequent, lightweight surveys to take the "heartbeat" of our program throughout each cohort's time in-house. The surveys will be brief and anonymous and will give us rapid feedback on the satisfaction level of our founders. To ensure that our advise and education is having a real impact, we will set goals in collaboration with each founder team to establish when the product and market fit will be established, and when the revenue model will be satisfactory. Achieving both is key to our success, and these are higher priorities than the education program.

Failing to make connections that assist startups with further investment or acquisition:
Because of the brief nature of our three annual programs, the majority of the connection-making will happen at the beginning, as founders are introduced to mentors and our broader community, and at the end, as they present their work at our Demo Days and graduation. If we are hearing from founders that they are not making the connections they need to be successful, then we will have to increase the efforts of our Managing Partners to forge new connections themselves and to convince more members of their networks to participate in our program. We can also reach out through our investor community for direct participation and referrals.

Investment (Exit) Risks

If we have successfully avoided or resolved the risks presented above, in our acceptance, our program and in our connection-making, there should be little to no risk in the occurrence of exits. Those risks that remain will be at the macro-economic level, for example if the capitalization or risk tolerance of larger acquiring companies is drastically reduced. In these cases, our startups by virtue of possessing solid revenue models and product-market fit, should be able to survive and grow independently, but the returns to our investors will be delayed. In any case, the business cycle will inexorably swing back up and exits will begin again, resulting in returns close to our forecasts but lower IRR due to the longer timeframe.

Implementation Plan

Pre-Launch

Because the founding partners are covering the setup costs, we can get much of our infrastructure set up as we raise our first funding round, instead of waiting for the round to close. First we will need to create our legal structure, the Venture Capital Corporation. This will take about one month.

Once the company is created and the bank accounts exist, communication and fundraising will begin privately, within the partners' networks. Development will also begin on the website and investment portal, the latter of which will take 1-3 months. Once those are live, we can begin generating publicity and working to engage investors in the broader community, with the goal of closing the funding round as rapidly as possible, and generate as much positive attention and publicity as possible within the investor and startup communities.

While fundraising and communications is taking place, we will need to select, renovate and furnish our workspace. This will take up to three months.

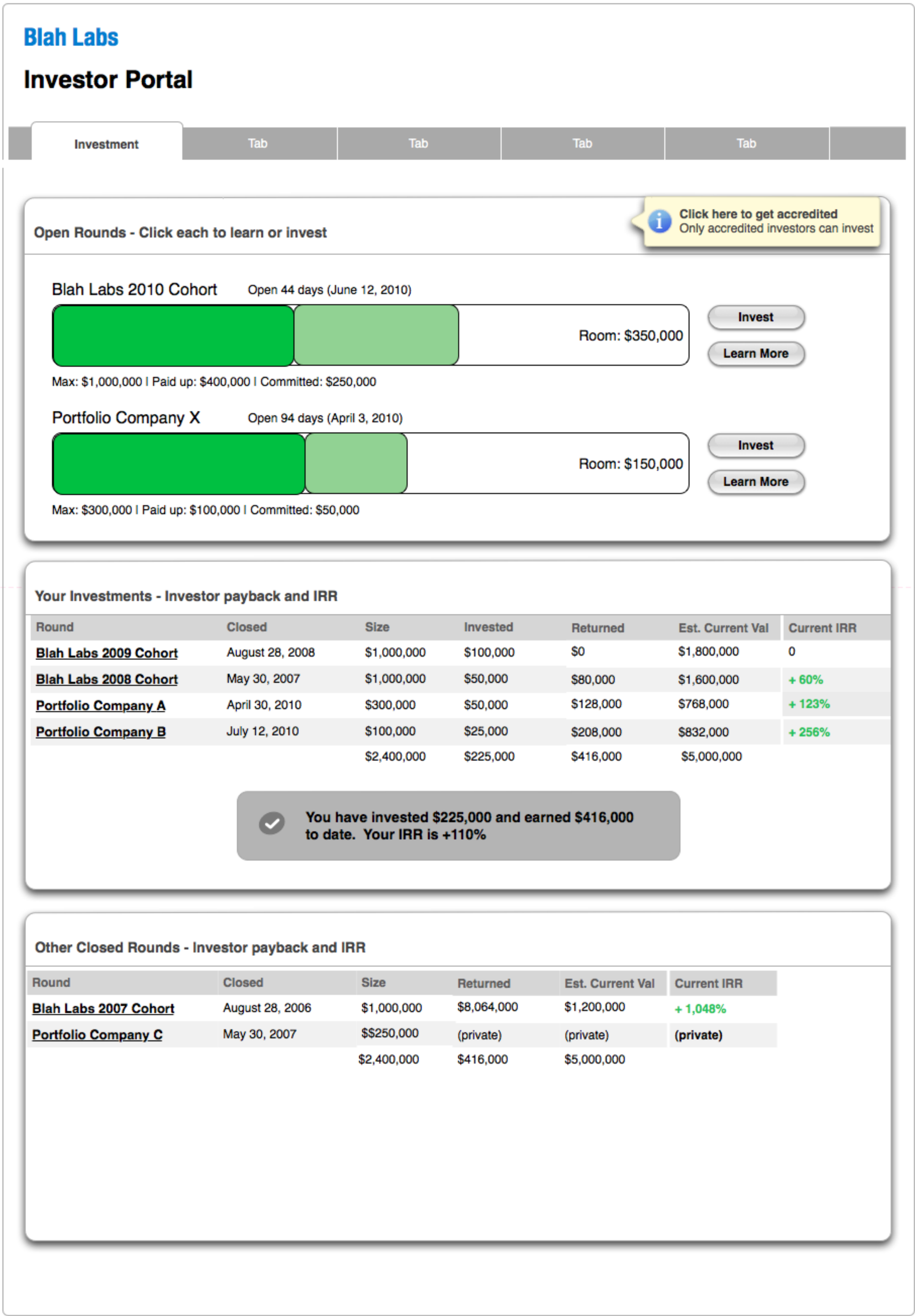
All told, we expect to spend one year on setup, publicity, and selecting the first cohort. The initial group of startups will begin their program one year from now, followed by additional cohorts every three months.

Development Timeline

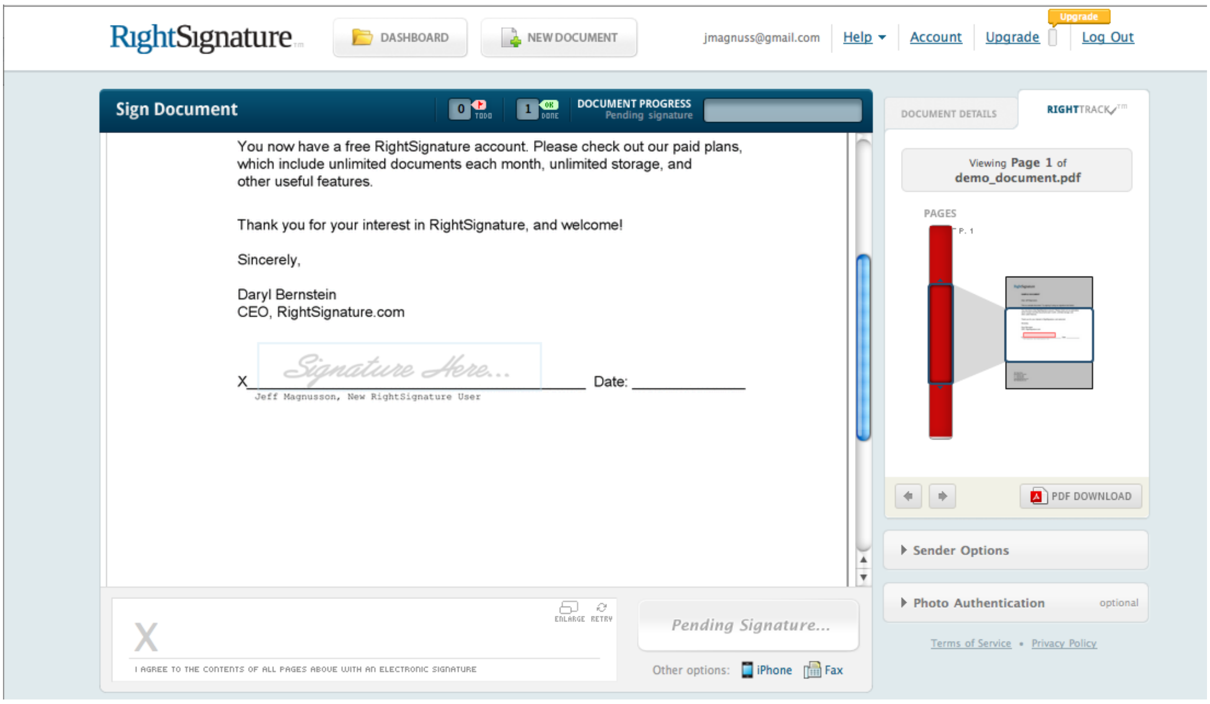
Because raising funds can be a lengthly process, and we must setup the workspace and the investor portal at the outset, it is likely that our first cohort will begin at the start of the second year:

	Year 1				Year 2			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Create VCC	■							
Website & Investor Portal	■							
Raise First Round		■	■					
Workspace Setup			■					
Publicity and Applications			■	■				
First Cohort					■	■		

Appendix 1 - Investor Portal Mockup



Appendix 2 - RightSignature for rapid document execution



Appendix 3 - Annual Revenue Model

Annual return model						**YEAR 6: FULL REVENUE**	
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**
# Funded	30	30	30	30	30	30	30
Size of Fund	$900,000	$ 900,000	$ 900,000	$ 900,000	$ 850,000	$ 800,000	$ 800,000
Exit Income - Year 1 Cos		$525,000	$525,000	$525,000	$525,000	$525,000	
Exit Income - Year 2 Cos			$525,000	$525,000	$525,000	$525,000	$525,000
Exit Income - Year 3 Cos				$525,000	$525,000	$525,000	$525,000
Exit Income - Year 4 Cos					$525,000	$525,000	$525,000
Exit Income - Year 5 Cos						$525,000	$525,000
Exit Income - Year 6 Cos							$525,000
Total Exit Income	$0	$525,000	$1,050,000	$1,575,000	$2,100,000	$2,625,000	$2,625,000
Investment	$600,000	$600,000	$600,000	$600,000	$600,000	$600,000	$600,000
Capital Gains	**-$600,000**	**-$75,000**	**$450,000**	**$975,000**	**$1,500,000**	**$2,025,000**	**$2,025,000**

Appendix 4 - Overhead and Operations Expenses

Overhead & operations									
Salaries									
Managing Director (2)	$100,000	$100,000	$100,000	$80,000	$60,000	$60,000	$60,000		
Coordinator	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000		
Operations	$0	$0	$0	$0	$0	$0	$0		
Total Salaries	**$150,000**	**$150,000**	**$150,000**	**$130,000**	**$110,000**	**$110,000**	**$110,000**		
								Per Cohort / 4 mos	**Monthly**
Rent	$108,000	$108,000	$108,000	$108,000	$108,000	$108,000	$108,000	$ 36,000	$ 9,000
Legal	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$30,000	$ 10,000	
Accounting	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$ 4,000	$ 1,000
Hosting	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$1,200	$ 400	$ 100
Supplies	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$ 1,000	$ 250
Demo days	$0	$0	$0	$0	$0	$0	$0	$ -	
Total overhead	**$304,200**	**$304,200**	**$304,200**	**$284,200**	**$264,200**	**$264,200**	**$264,200**		
Overhead per startup	$10,140	$10,140	$10,140	$9,473	$8,807	$8,807	$8,807		
Investment per startup	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000		
Total per-startup cost	$30,140	$30,140	$30,140	$29,473	$28,807	$28,807	$28,807		
Total Staff Comp	$150,000	$150,000	$172,500	$231,250	$290,000	$368,750	$376,250		

Startup Costs - Borne by Founders	
Office improvements	$50,000
Website	$5,000
Investor Portal	$20,000
Furniture	$30,000
Electronics	$10,000
Total overhead	**$115,000**

Appendix 5 - Cash Flow Forecast

Cash Flow Overview	***Income from exits is delayed one year***						
Endowment - Start	**$ -**	**-$ 4,200**	**-$ 8,610**	**$ 1,760**	**$ 85,147**	**$ 195,205**	**$ 313,265**
Inflows							
Investors	$ 900,000	$ 900,000	$ 900,000	$ 900,000	$ 850,000	$ 800,000	$ 800,000
Other income	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Endowment Interest	$ -	-$ 210	-$ 431	$ 88	$ 4,257	$ 9,760	$ 15,663
Exit $ to Endowment	$ -	$ -	$ 15,000	$ 67,500	$ 120,000	$ 172,500	$ 177,500
Total Inflows	**$ 900,000**	**$ 899,790**	**$ 914,570**	**$ 967,588**	**$ 974,257**	**$ 982,260**	**$ 993,163**
Outflows							
Investments	$ 600,000	$ 600,000	$ 600,000	$ 600,000	$ 600,000	$ 600,000	$ 600,000
Overhead & ops	$ 304,200	$ 304,200	$ 304,200	$ 284,200	$ 264,200	$ 264,200	$ 264,200
Total Outflows	**$ 904,200**	**$ 904,200**	**$ 904,200**	**$ 884,200**	**$ 864,200**	**$ 864,200**	**$ 864,200**
Net	**-$ 4,200**	**-$ 4,410**	**$ 10,370**	**$ 83,388**	**$ 110,057**	**$ 118,060**	**$ 128,963**
Endowment - End	**-$ 4,200**	**-$ 8,610**	**$ 1,760**	**$ 85,147**	**$ 195,205**	**$ 313,265**	**$ 442,228**

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