INNOVATION LECTURE SERIES

“Investing in Your Start Up: From Business Plan to Market”

featuring

Kevin Centofanti, CFA

BROOKS, HOUGHTON & COMPANY, INC.

AGENDA: Introduction
Featured Speaker
Q&A
WELCOME

Christina P. Orsi,
Associate Vice President for Economic Development
Office of Economic Development
Bright Buffalo Niagara Entrepreneur Expo

- 90 second entrepreneur pitches
- Entrepreneur Trade Show
- Keynote address from Daymond John, founder and CEO of FUBU (“For Us, By Us”) clothing line and star of ABC’s business reality show “Shark Tank”

invitationonly
Tune in to the pitch sessions on your coasters!

brightbuffaloniagara.com
UPCOMING CBLS EVENTS

November 12, 2015 | 4 p.m. – 5 p.m.

CBLS, 701 Ellicott Street

- Featuring Susan Mangicaro, medical industry marketing consultant

- To include topics covering sales and marketing, establishing a brand and expanding your field of opportunity

- Beakers ‘n Beer to follow at the CBLS from 5 p.m. – 7 p.m sponsored by Superior Group and the BNMC
PARTNER EVENTS

October 15, 2015 | 5 p.m. – 7 p.m.

Beakers ‘n Beer
Sponsored by the Buffalo Niagara Medical Campus
Coco Bar and Bistro | 888 Main Street Buffalo, NY

- Enjoy a night of networking, free food & drinks
- Please join us after the program!
PARTNER EVENTS

October 22, 2015 | 8 a.m. – 4 p.m.

2015 Technology and Homeland Security Forum
Seneca Niagara Casino and Hotel
301 Fourth Street Niagara Falls, NY 14303

- Western New York's leading Technology & Homeland Security event for 15 years
- 60 homeland security/technology vendor displays, 18 educational sessions, and a nationally recognized keynote speakers
- To register, visit the “Event” section at www.infotechniagara.org
PARTNER EVENTS

October 28, 2015 | 5 p.m.

Panasci Technology Entrepreneurship Competition
UB’s School of Management Center
for Entrepreneurial Leadership
South Campus Abbott, B5

- Who’s next? Enter the competition to win!
- First prize $25K plus in-kind services; Second prize $10K
- Questions? Email mgt-cel@buffalo.edu
$5 million. One night.

Be there Oct. 29 at Shea's.

43NORTH

43north.org
PARTNER EVENTS

October 30, 2015 | 6 p.m.

Reidel Wine and Champaign Tasting Event
Buffalo Niagara Convention Center
153 Franklin Street Buffalo, NY 14202

- Annual fundraiser to benefit the Hauptman-Woodward Medical Research Institute

- Hosted by Steve and Vicky Glamuzina

- To purchase tickets, visit www.hwi.buffalo.edu/support_hwi
KEYNOTE SPEAKER

Kevin Centofanti, CFA
Senior Managing Director,
Brooks, Houghton & Company, Inc.
Investing in Your Startup
From Business Plan to Market

October 2015
Introduction

- Brooks, Houghton & Company, Inc. (“BHC”) is a merchant banking firm dedicated to providing corporate finance advisory services and direct investment to:
  - Middle market public and private companies
  - Emerging growth companies

- Founded in 1989, BHC emphasizes building long-term relationships with its clients by:
  - Providing innovative corporate finance solutions and professional execution at a reasonable cost
  - Taking a partnership approach with clients based upon mutual trust and responsibility
  - Delivering independent, objective and discreet advice

- Applying these principles, BHC has earned a reputation for providing high quality, reliable professional services to its corporate clients, investors and referral sources

- BHC’s merchant banking products and services include:
  - Mergers and acquisitions advisory
  - Debt and equity private placements
  - Valuations and fairness opinions
  - General corporate finance advisory
  - Principal investments in interim and bridge capital, Lloyd’s insurance syndicates and long/short hedge funds

- Although BHC has experience in a variety of industries, the firm has established silos of excellence in key industries including entertainment and media (via a strategic alliance with Entertainment Investment Group), insurance (via a strategic alliance with Stonybrook Capital), intellectual property (via a strategic alliance with TransactionsIP ), and healthcare
Investment Banking Focus

• BHC serves two primary market segments:
  
  – Middle market companies
    • Privately owned firms to mid-sized public corporations
    • Revenues ranging from $20 million to $300 million
    • Senior debt needs ranging from $15 million to $100 million
    • Subordinated debt needs or equity tranches ranging from $5 million to $50 million
    • Seeking M&A advice on transactions involving purchase prices in excess of $10 million
    • Considering full or partial sale of the company
    • Divesting non-core subsidiaries or acquiring strategic assets
  
  – Emerging growth companies
    • Strong emphasis on technology, digital media, life sciences and med tech sectors
    • Typically revenue-generating operating companies
    • BHC will advise pre-revenue companies on a selective basis

• For either market segment, BHC with its alliance partner, TransactionIP, is well-positioned to help corporate clients monetize the value of their intellectual property (IP) portfolios.
Strategic Alliances

The Entertainment Investment Group (EIG) was formed to assist investors and companies operating in the area of entertainment based intellectual property, including film, television and music rights.

TransactionsIP is a leading intellectual property brokerage and consulting firm. The company represents both sellers and buyers in IP transactions, and provides strategy and patent valuation consulting services.

Stonybrook Capital, LLC is a middle-market investment bank focused on the insurance industry. Holborn Corporation is a partial equity owner in Stonybrook.

The Pharma Partners (TPP) is a boutique advisory firm specializing in connecting North American and European healthcare and life sciences companies with Chinese investment, manufacturing, and distributing groups.
Kevin Centofanti, CFA

Senior Managing Director

Mr. Centofanti is a Senior Managing Director of Brooks, Houghton & Company, Inc. and a Registered Principal of Brooks, Houghton Securities, Inc. Mr. Centofanti is involved in new business origination and a variety of corporate finance assignments for the firm. Areas of particular interest to him include healthcare, technology, intellectual property, and business services. He is also responsible for managing Brooks, Houghton Securities. Before joining BHC, he was a Partner at The Nassau Group where he focused on technology and special situations for the firm, advising clients on mergers, acquisitions, divestitures/sales and on a wide range of capital raising initiatives. Previously, Mr. Centofanti was a Managing Director at WR Hambrecht + Co., a merchant and investment bank. At WR Hambrecht, Mr. Centofanti focused on advising new media, software, and special situation companies on public and private capital raising, mergers, acquisitions, and sales. Prior to WR Hambrecht, Mr. Centofanti was at Daiwa Securities America, an international investment bank. He founded that firm’s private equity group, which concentrated primarily on funding emerging growth companies in the technology and healthcare industries.

Mr. Centofanti received B.S. degrees in Pharmacy and Business from SUNY at Buffalo, and an M.B.A. in Finance and International Business from Columbia University. Additionally, he is a Chartered Financial Analyst.
Stages of a Company

- **SEED**
  - Break Even Point
  - Angel Investors

- **EARLY**
  - Venture Capital

- **MID/EXPANSION**
  - Debt Investments
  - Private Equity

- **LATE/MEZZANINE**
  - Mezzanine Financing

- **EXIT**

**TIME**

**REVENUES**
Writing an Effective Business Plan

• Business plans are at the heart of obtaining financing, forming alliances and recruiting executives

• Key sections include: Executive Summary, Company Description, Management and Organization, The Market and Competitors, The Product or Service, Business Strategy including Milestones, Marketing and Sales, Financial Information, and Appendices

• Biggest problem with business plans: Most waste too much ink on the numbers, and devote too little space to the information that really matters to intelligent investors

• Demonstrate that your team has thought through the key drivers of the venture’s success or failure including risk mitigators

• Break-even analysis

• Know your audience!

• In the end, business plans are everything and nothing
What Does an Investor Look for?

- Entrepreneurs and management teams with backgrounds and experience in the industry
  - Identifying teams with a successful track record in the company’s industry or in prior ventures

- Strong growth prospects
  - VC firms tend to look for companies in industries or market sectors that have promising growth opportunities
  - Proof that your market potential is large enough to make investing worthwhile
    Note: A larger, diversified and more stable customer base allows for stronger competitive advantage
    - Identify growth drivers

- A brilliant product or service that can be commercialized

- Company, product or service uniqueness
  - How differentiated is your product or service from major competitors?
  - Have you built a moat?

- Effective business model

- Attractive valuation

- Favorable exit opportunities
Financing Roadmap

- Founders
- On Spec
- Federal
- Corporations
- Family, Friends
- Fed, State Loans
- Other Credit Sources
- Referral Network
- Licensing, Partnerships, IP Sale
- Business Angels
- Venture Capital
- Corporations
- Investment Bankers

Sweat Equity
Science for Hire
Debt
Equity
Profit
Financing Roadmap (cont.)

• Key to any financing is ROI:
  
  – At the upper end, VCs will be seeking a multiple of 5x to 10x on their equity-oriented investment. All other less risky financings will have ROIs that typically are lower

• Additionally, institutional investors will invest in companies that have the operating profile they are seeking:
  
  – Mature, strong cashflow: Private Equity and Mezzanine (product or service defined and in market)
  – High potential growth: Venture Capital and Corporations (product or service in development stages)

KNOW YOUR INVESTOR(S) AND ALL PARTIES’ EXPECTATIONS BEFORE INTENSE DISCUSSIONS BEGIN
Commercialization and Investing

Institutional investors will focus on key commercialization aspects of a company including:

- Stage of product or technology development
- Market readiness
  - Need market studies by an independent third party
    - Will a new product sell in the marketplace?
- Risk
- Competition: compete v. cooperate

Note:

✓ Experience has shown that good entrepreneurs start not with a product idea but with a vision of what the targeted market needs and wants. Typically a successful product is evolutionary and not revolutionary

✓ A market-oriented company implies growth which appeals to venture capitalists or later stage private equity investors
Commercialization and Investing

Case study: The Biotechnology Industry

- Companies are dependent on financing options from strategic alliances (licensing, joint ventures, co-marketing) and financial partners (VCs, foundations, government-sponsored initiatives)
- In general, increased alliance activity makes future alliances more likely, but future VC activity less likely (Ozmel, Robinson, Stuart-September 2007)
  - WHY?
- Conversely, VC activity makes both future alliance and future VC activity more likely (Ozmel, Robinson, Stuart-September 2007)
  - WHY?

Conclusion:
- Alliances can cause diversion of scarce resources from internal projects towards projects that center around alliance activity. Potentially value-destroying from a financial partner’s perspective
- Alliances may place limitations on a change in the company’s control making investment less desirable for a financial partner (impact on an investor’s ability to monetize the investment)
- The positive from an alliance is that an alliance partner, by collaborating with an early-stage biotechnology company, signals to outside observers (including investors) that the company has valuable ideas and resources
Commercialization and Investing

Case study: A Biomanufacturing Company

Company Overview

- The company, located on the West Coast, provides manufacturers of biological drugs with innovative equipment, consumables and services that enable faster, more efficient and lower cost production.

Transaction

- An equity raise which will be used to address the company's growing sales backlog, aggressively fund market expansion and strengthen its product portfolio.

Commercialization Plans

- Introduce several enhanced disposable products to its purification product line.
- Launch a new bioreactor line in 2016 which will facilitate longer periods of cellular growth for production of biologics.
- Integrate the company's cell production and protein purification technologies with new innovations to create an integrated, continuous bioprocessing system for productivity enhancement of antibodies.

Financing Strategy

- The company is meeting with:
  - Financial Sponsors
  - Corporate Venture Capitalists
  - Corporations