



Looking for  
the right stuff



## Step 1: The business plan

Your ability to write a high-quality business plan is the first test of your capacity to work as a team and run your company successfully. We receive countless inquiries regarding the style of business plan that we prefer.

What are we looking for? A plan that is realistic, easy to understand and is concise as possible. You should be able to make us understand why this is a compelling opportunity in 25 pages or less. Remember, we read hundreds of business plans. Intricate spread sheets and white papers don't make our hearts beat any faster. In fact, rarely in early-stage investing are there significant financials from which to work. If your technology is complex, we have access to experts to help us understand it. Ideally, the perfect business plan should be submitted electronically, begin with its mission statement, and address all of the questions that follow.

### Management team

- Does the team have the collective relevant experience and background to succeed?
- Do the team members individually have exceptional track records of success?
- What are their roles and responsibilities?
- What is the composition of the board?

### Market

- Does a significant market opportunity exist? (\$100 million potential annual revenue)
- Who will your customers be?
- Who are the company's key customers?
- Is the market growing? At what rate?

### Product

- What is the product or service?
- Does the company's product add clear value to the customer?
- How does the product meet customer needs?
- What proprietary advantages does it possess?
- Is it intellectual property, ingenuity, first to market or a combination?
- What are the competitive advantages and are they sustainable?
- Does the product require a significant change in customer behavior?
- What are the barriers to entry for competitors?





### **Competition**

- Who are the company's competitors and what are their strengths and weaknesses?
- What advantages does the company possess over the competitors?

### **Operating plan and business model**

- Revenue model – How will the company generate revenue?
- What will your customers pay?
- Business model – Does the company have a clearly defined strategy?
- What is the marketing strategy?  
Sales strategy?
- Does the company have strategic partners?
- Is the company affiliated with others that can help with its mission?

### **Financial**

- What are the company's current and future capital requirements?
- What is the anticipated valuation?
- How will the company use the money?
- What is the ownership structure?  
(capitalization table)
- What are the possible exit strategies?

We don't expect a business plan to have all the answers we are looking for. What we look for is the quality and the idea, the nature of the opportunity, and the plan of attack. If your business proposal appears to be a good match for Highway 12, we'll promptly contact you to set up a meeting with your management team. If, however, we choose not to pursue the opportunity, please accept our decision. It doesn't mean your business concept isn't worthwhile, it simply means it isn't a good match for Highway 12. We do our best to respond to all inquiries within two weeks.

Regarding non-disclosure agreements (NDAs): Like most top-tier venture capital funds, Highway 12 does not sign NDAs or confidentiality agreements, as it would seriously limit our independence to evaluate and invest in new companies. We are not in the business of commercializing your ideas, and we respect the trust you place in us to keep your documents confidential.





## Step 2: Due diligence

Once we've determined that the opportunity is compelling to us, we'll schedule a meeting with you and key members of your team. At this meeting, management should be able to defend the business plan, exhibit command of the market, and discuss the proposed value of the company. In short, this is your chance to sell us on your vision. If we leave that meeting excited about you and your team, we'll begin our diligence process. We'll perform in-depth research on the company's market, its products, and most importantly, its people. We will utilize our extensive network of local and national advisors in addition to our partners at Village Ventures.

### **This process includes:**

- Repeated individual meetings with management and key technical employees
- Both macro and micro analysis of the market
- Review of the company's technology by experts
- Detailed review of business and financial models
- Discussions with your customers, prospects, and partners
- Thorough competitive landscape analysis
- Review of sales and marketing strategies
- Gaining an understanding of the product development process
- In-depth reference checks of management team

The part of this process most important to us is time we spend with the team. Whiteboard sessions, social outings, and time spent at company headquarters. During this stage, we'll be asking ourselves a number of questions about the management team, the market, and the product.





### Management Team

- Is the management team exceptional – both individually and collectively?
- Do they work well together?
- Do they have the experience and capability to handle the inevitable challenges that await them?
- Are they focused, yet flexible?
- Are they charismatic and able to attract top-level employees?
- Do they have the vision of creating an industry giant?
- Do they have what it takes to become industry leaders?

### Market

- Does the company have the potential to generate annual sales in excess of \$100 million?
- Is the market big enough to accommodate a few large successful companies?
- Will the market be around for a long time?
- Is there home run potential here?

### Product

- Is the product unique?
- Does it create real value for customers?
- Does it solve real problems?
- Even if it solves real problems, will customers pay for it?
- Is the company's product or service at least equal or better than any other that we can identify?
- Is the management keenly aware of others that may be attempting the same solution?

Nothing will go untouched, no question unanswered. This stage, the most exhaustive, will generally take 8-12 weeks depending upon the maturity of the company. Companies offering securities privately are not required by federal securities law to provide investors as much information as they would if they were offering securities in the public markets. Thus, we must do the work ourselves. If at the completion of this phase both Highway 12 and Village Ventures unanimously agree on the merits of the investment, we will begin negotiating terms of the investment.





## Step 3: Negotiation of terms

This gets down to the nitty-gritty: Negotiation of investment terms that are agreeable to both parties.

**What is the valuation of the company?**

**What percentage of the company's equity will Highway 12 receive for its investment?**

**What rights and obligations will be required or possessed by both parties?**

During this phase, we constantly remind ourselves that at the end of these talks, there's a good chance we'll be sitting on the same side of the table, partners in the growth of your company. Our goal, therefore, is to work toward an agreement that both sides truly believe to be fair.

Like any significant capital purchase or investment, negotiation of terms can be challenging. This is particularly true in the situation of early-stage private equity where many entrepreneurs are unfamiliar with the venture capital process and the common industry-wide terms present in the investment documents.

Once both parties sign the term sheet, a number of things might happen. If building a syndicate (recruiting other institutions to invest along with us) is required, a timetable is set to accomplish that. There might be some milestones that the company must complete that were specified in the term sheet. If applicable, once those are completed, a closing is arranged, funds are wired, and a new company is welcomed into the Highway 12 ventures portfolio of companies.

