

VENTURE FUNDRAISING REJECTION FORM LETTER

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Dear Entrepreneur,

Thank you for giving us the opportunity to view your

- business plan
- slide deck
- in-person pitch.

- Unfortunately, due to the volume of unsolicited content we receive, we were unable to give it the attention it deserves. Please ask somebody we already know to refer you, and we will look at it again.
- Because you asked us to review your materials under nondisclosure, we are returning them to you unread. We are unable to sign NDAs.

- We were impressed by your presentation.
 - We would like to begin our due diligence process. We will ask you to repeat your pitch to an expert reviewer sometime in the next two weeks.
 - Please find attached our standard term sheet. The valuation in that term sheet is not a typo; we are aware that it is not the valuation you asked for.

- We regret to inform you that we will pass on your opportunity at this time.
 - That said, we would like to keep informed of your progress. Please ping us again
 - if your idea changes significantly
 - if you are able to demonstrate market traction in the form of at least 100,000 end users or \$10,000 in accrued revenue.

- Something about you or your pitch triggered a visceral negative reaction. Please do not contact us again.
 - Notably, another investor warned us about you.
 - You seem to lack basic social graces, and we don't like to work with annoying people.

- Your pitch held promise but we would like further information about one or more aspects of your plan. See below.

PRESENTATION

Before we proceed further, allow us to make the following comments about your presentation:

- after thirty seconds it became clear that you were making unsubstantiated claims.
- you do not understand basic accounting principles: for instance, it is not possible to have a profit margin exceeding 100%. Even for a dot-com.
- please do not read aloud each slide.
- you went way over the allotted time. We're sorry, but we had to cut you off.
- you don't seem to be fluent in your chosen language. This is a red flag.
- you should be more precise about what you plan to do versus what you are already doing.
- every time you said the word "million", you sounded like you thought that was an impressively large number.
- it omitted one or more key elements which we will describe below.

Please review the following presentation-skills guides before pitching any other investor:

- Presentation Zen
- <http://www.garage.com/resources/perfectingpitch.shtml>

MATURITY

You must understand that our investment focus is limited to

- pre-seed
 - seed stage
 - early stage
 - growth stage
 - pre-IPO
- investments only. Your startup is too early / too late / just right for us.

How do we define these stages?

- You're pre-seed because you have an idea but no prototype or users.
- You're seed stage because you have a prototype or some nonpaying users, but no scalable way to convert those users to revenue.
- You're early stage because you have revenue, but are not yet profitable.
- You're growth stage because you have hit cash-flow-positive, but only in a small market, and you want to roll out new products and services to new markets.

- You're pre-IPO because you've got a solid track record of dominating your market.
- We couldn't figure out what stage you were at.
- Unfortunately, the amount of funding which you seek lies outside our investment range.

Accordingly, we suggest that you seek funding from a more appropriate funding source. Have you considered:

- friends and family
- building a prototype on a part-time basis while still working a day job; but do consider the IP clauses in your contract.
- a local angel association or any angels you know directly
- an institutional venture capital investor
- government assistance schemes
- potential customers
- the venture arm of a large corporation which might be interested in a strategic investment.

Furthermore, we focus on

- high-technology
- Internet infrastructure
- media and entertainment
- B2B
- B2C
- energy
- biotech and healthcare
- turnaround

opportunities, and your opportunity does not fit our profile. Did you not look at our website?

MARKET

- You spent all your time talking about what a great product you had, but you didn't say anything about the size or nature of the market you would sell it to. This is a red flag, and tells us that you have a solution looking for a problem.
- We agree that a market exists, but we would like you to quantify it. Please produce top-down and bottom-up projections, and make sure they are consistent, before pitching to another investor.
- We are totally unfamiliar with the market you're trying to sell to. Please explain it better to the next investor you pitch.
- We're not convinced that the people who you think will buy your product actually will buy your product. Can you provide a customer reference?
- You've already launched, but the market response is lukewarm. We want to see more traction than that. You have failed to inspire confidence.
- You've built the product, but haven't launched. Why not? Get back to us after you've launched and can show some customer numbers.
- Listen to the people who liked it; ignore the people who don't. Make them happy. Grow that base. Come back to us when you can show better traction.
- We're concerned that the people you need to sell to have much bigger problems than the one you're trying to solve for them.
- We're concerned that the sales cycle in your chosen industry is so slow that you'll go out of business before you make your first sale.
- We're concerned that you're selling to a market that isn't growing. In fact, your market might not even exist five years from now.
- You seem to have chosen a small target market, when a larger one exists. Have you ever travelled outside your home country?

Some startups never achieve traction. They fail. There is no shame in this: startups are an experiment to discover what the market is ready for. They may not have been ready for your product.

More funding isn't likely to help, unless you're ready to restart the company and build a different product. That's why it's so important to get it right the first time.

Remember: most startups miss the forest for the trees. After years of academia we are trained to do product development. But the real challenge is customer development.

PRODUCT

- Is your product a painkiller, a vitamin, candy, or crack? We couldn't tell.
- Your product is a vitamin. We don't fund vitamins.
- You didn't actually talk about what your value proposition was. It's great that your product is rapid adaptable customer-focused scalable high-margin, but how does it make a difference to anybody's life?
- It's nice to decrease expenses for a corporate buyer, but they're much more interested in increasing revenues.
- When people talk about "being the next Google" they don't literally mean the world needs another search engine. If it did, more people would use Bing.
- We're not convinced your product, as described, will be compelling enough to reach the sales figures you claim. Come back to us when you can show more traction.
- You've talked about a technology, but you have no product. A product is something you can put in front of users.
- You've talked about a generic platform, but it would be better if you could build a killer app on that platform, that's targeted to a specific vertical segment.
- Having a product that you can sell to six different markets is a red flag. Please pick a preferred embodiment.
- We couldn't figure out what you make and who you sell it to. Please clarify your pitch for the next investor.
- If your product is so awesome, and so easy to build, why hasn't somebody else already built it? Maybe they already have, and failed.
- We're concerned that your labor-saving invention may fail in a market where labor is actually quite cheap and doesn't need to be saved.

BUSINESS MODEL

- You didn't talk about how you would monetize your product.
- Having six different ways to make money means you don't really know which will work. Get back to us when you've picked one or two good ones.
- It is pretty clear that you have a content play whose business model is advertising, but we'd like to see you discuss your revenue model anyway.
- We're worried that when your product doesn't sell, you'll fall into a consulting model and run for a long time building a business that's different from the one you pitched.

DISTRIBUTION

- You didn't talk about how you would put your product or service in front of potential customers. Cash is king, but distribution is King Kong.
- You are attempting to disrupt an industry, but the players you're attacking are the same players you need on your side to sell. How are you planning to get around them?
- Every pitch says "we'll use viral marketing and social media." But first your users have to like your product. We're not convinced they will.
- We agree that the world will be a better place when everybody's doing it your way, but to get there, you have a huge chicken-and-egg problem. Boiling the ocean is hard. What's the hook? How are you going to suck people in virally?

COMPETITION

- You didn't talk about who your competition are. It looks like you didn't do any research and are flying blind.
 - We are aware of somebody else who is already doing exactly what you want to do, and
 - they're better qualified
 - they're better funded
 - they've been doing it longer
 - they've already been bought.
 - Do you know who they are? You should.
- Are you aware that the reason you have no competition is because everybody who's tried in the past has failed? Did you try a patent search?
- If Google wanted to do this, they could roll it out in a month. Of course this is true for many things but their superior access to data and distribution makes a big difference in this particular case.

COMPETITIVE ADVANTAGE

- Your product didn't appear to have any competitive differentiation relative to what's out there today. Did you do any research at all?
- It's not clear to us that you are more qualified to execute this venture than, say, a group of five random university graduates. Why you? How is your team specially qualified?
- We've seen very similar pitches five times in the last month. We haven't heard what makes you different.

INTELLECTUAL PROPERTY

- You seem to have spent all your time filing patents rather than building product.
- Don't pretend to have IP when you don't. A trademark on your logo doesn't count.

FINANCIALS

- Do you really think that if you start throwing off \$20MM of free cash flow, nobody else will try to bite off a hunk of that business?
- We're more convinced by bottom-up than top-down projections.
- Your startup is too early for DCF valuation to apply. DCF works well in situations where all risks are known. But your startup is subject to huge market risk, execution risk, financing risk, competition risk. Where you are today, you're worth \$1.5MM at most, not \$10MM.

SECTOR

- We regret that your sector has already experienced a mini-bubble, a mini-boom, a wave of consolidation, and a mini-bust.
- We believe that it is too late for new entrants.
- We have already made an investment in this sector and do not feel like making any more.
- Industry structure appears to dictate that an entrant in your role will be squeezed on margins to the point of unprofitability.

INNOVATION

- We tried to identify an exogenous innovation driver and we couldn't. In other words, we looked for a major obstacle that was removed, or a major enabler that appeared, to pave the way for you to do your thing; and we couldn't identify any such. We assume a certain level of background radiation –we expect that people out there have been constantly throwing themselves at the same wall you're throwing yourself at now. Why should you succeed when they've failed? Why now? Why not five years ago? If your product could have been made five years ago, and sold to a market that existed five years ago, why didn't somebody do it five years ago? Maybe they did, and failed.
- While you appear to have all the ingredients to make a successful, profitable business for yourself and your partners, we regret that it does not fit our investment profile, because

- the high failure rate in our investment sector
 - our fund structure
- requires that we only invest in businesses which have the potential to be worth a billion dollars within seven years.

- You appear to want to build a lifestyle business for yourself, rather than a business which investors can exit at a profit.
- We understand that your business will be very successful, but we will pass anyway, because we want to direct our dollars toward those innovations that help bring about a particular future that we want to live in, and your business is not essential to that future.
- Your business appears to be legal but unethical: it doesn't make the world a better place. How do you sleep at night?
- You appear to be entering a crowded, competitive market in which the only way to gain market share is to work harder and price cheaper. We prefer to see companies price to value, not to costs.
- It is not clear to us where the innovation lies. Yes, the world can always use another restaurant with good food, but we're not in the business of funding those kinds of ventures. We invest in deeply original, innovative, scalable startups. Doing something marginally better isn't what we consider deeply innovative.

Typically we look for

- a defensible competitive advantage
- a fundamental innovation in technology or business model
- a seismic shift in market characteristics

We were unable to detect any of the above.

- You appear to be trying to create a centralized aggregation portal in an industry whose players seem perfectly happy to transact directly. The situation has to be a whole lot more inefficient for aggregation to make sense.
- You appear to be trying to make it more convenient to do something which isn't actually that inconvenient.
- You appear to be trying to reinvent the Internet, but for a specific segment. We suspect that they are happy using the Internet they already have. You will have to demonstrate more value.

Furthermore, an invention must make sense in the world in which it is finished, not the world in which it began. We believe that by the time you're done building this,

- competitors will have beaten you to market.
- the world won't want it any more.

Why don't you skate to where the puck will be?

TEAM

Please do not take this personally, but

- you appear to be missing a technologist who can actually build the product you envision. You may want to outsource development, but
 - in our experience, outsourced development rarely works.
 - you seem to lack the product management experience you need to specify the product in enough detail that a third party developer can build it.
- you appear to be missing a business person who knows how to run a business. Do any of you understand basic accounting?
- you appear to be missing a sales person who is capable of selling into your chosen vertical(s).
- you appear to be missing an adult with social skills.
- you appear to be missing a domain expert who is intimately familiar with the market and the customer.
- your team don't seem to get along very well with one another.
- key members of your team seem to have left.
- at least one member of your team appears to be insane or impossible to work with.
- at least one member of your team appears ready to quit and go into competition with you.
- we are not convinced your team collectively possess the ability to execute the vision; the idea is good, but we're not convinced that you are the right team for the job.
 - you just don't appear to be smart enough to succeed in this field.
- While the business case seems sound, none of your team seem to be particularly connected to it. Can you please explain how you, personally, become passionate about this particular idea and not some other? Are you scratching your own itch, or did you simply identify an arbitrary opportunity?
 - We're not convinced that you will stick to this business for the next 5 years, through ups and downs, through thick and thin; your team members don't seem to be driven enough, and we're worried they'll quit and get corporate jobs at the first sign of difficulty.

OTHER RED FLAGS

- What you're doing will get you arrested.
- What you're doing will get you sued by humourless corporations with deep pockets.

CONCLUSION

- We must ask: why are you seeking venture funding for your business?
 - The business seems capable of bootstrapping to success.
 - You claim to have a successful exit behind you. Why not fund it yourself?

We hope you have found this feedback constructive, even if it was not encouraging.

And we hope you can understand why we do not consider your proposition investable.

We sincerely wish you the best in your venture, and close by reminding you of two things:

- Even Bessemer passed on Google. We probably would have, too. Go ahead, prove us wrong.
- You probably wouldn't give up even if we told you to, so we won't.

Should you be able to successfully answer the objections we raised, we are always happy to view your updated pitch.

Good luck!

Love,



An Investor