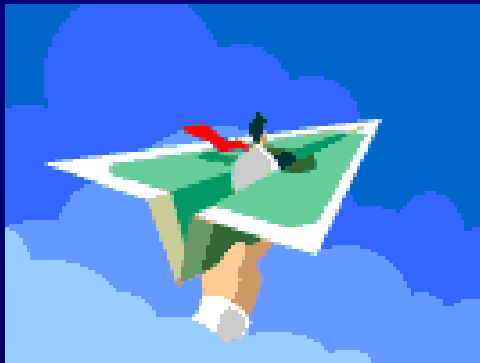




# Deal or No Deal

## -From Seed Funding to IPO



**Harold Fock**  
**Litespeed Group**  
**CFO and Deputy CEO**

# Content

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## 1. Why Entrepreneurship?

- The Challenge of a New Globalised World

## 2. How to get Funding?

- Myths and Realities of getting Funding

## 3. The Litespeed Experience

- The long road ahead

# 1. Why Entrepreneurship?

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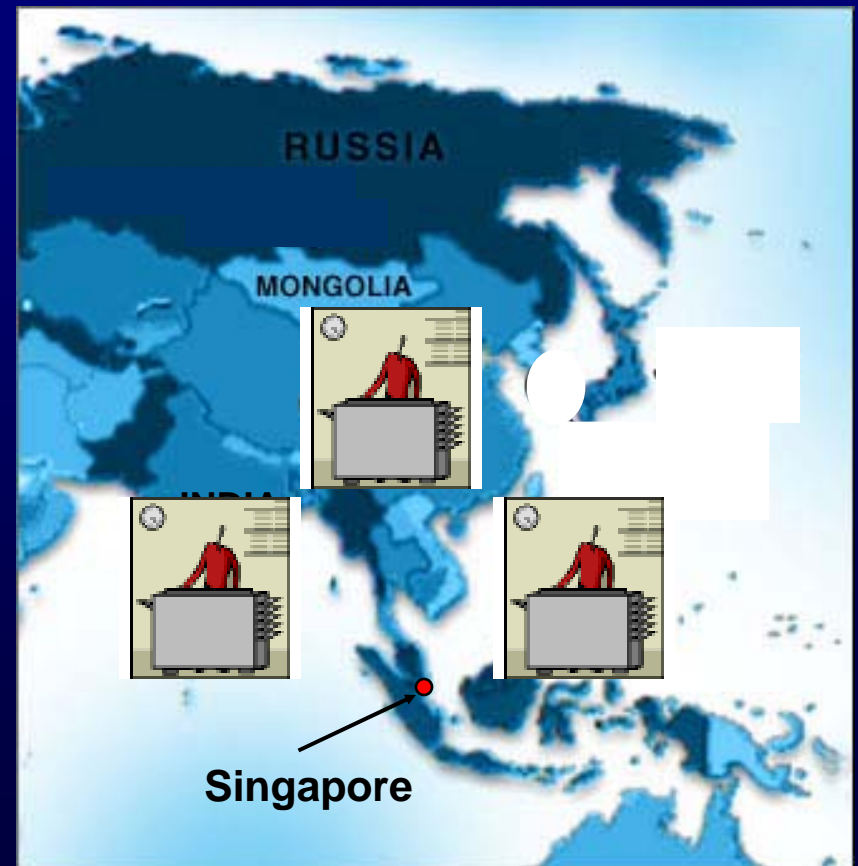
- **Macroeconomic Trends**
- **Workforce Trends**
- **Enterprise Trends**

# Myth #1 – The globalised world is a land of opportunities

- What if they are cheaper, faster, more productive and cleverer than us?
- Like a 3-D photocopy machine that duplicates and improves products, services, ideas!
- Even Innovation is being outsourced to China, India and SE Asia (Businessweek 1<sup>st</sup> March, 2005)

## The Rose Story

- *“A rose by any other name would smell as sweet”*



# Myth #1 – China and India are lands of opportunities

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## China

- Teutonic shift on how Chinese businessmen behave
- Ideas cannot be copy-righted

## India

- Companies are hunting for outsourcing contract and yet planning to attack your markets at the same time!
- Lesson in India = 1.5 times my output and 2 times cheaper = **3X Advantage**

## Malaysia

- MSC Status – Tax Free for 5 + 5 years!
- Guaranteed response time

# Myth #2 – You will retire at 55

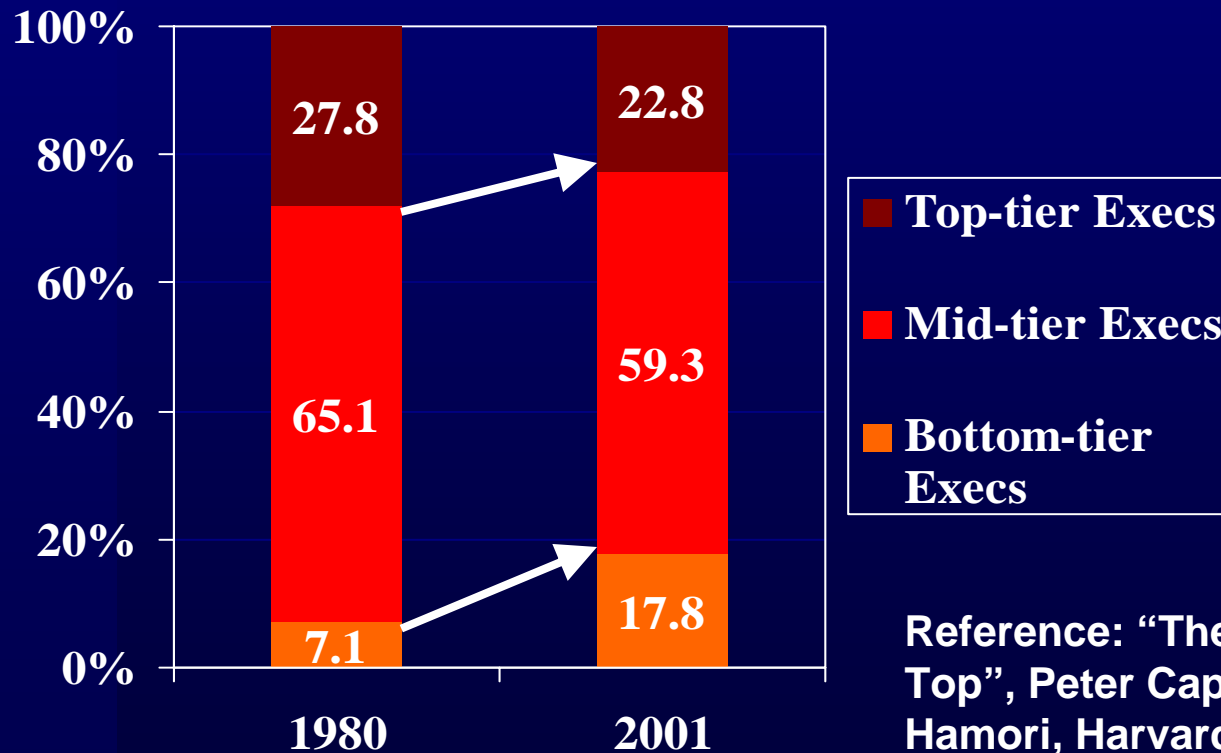
- Assume an average income of S\$5000 and live till 75 yrs old
- You own 2 cars in your lifetime = S\$75,000\*2=S\$150,000
- You got a condo or Exec Condo = S\$600,000
- Total Major Purchases per Lifetime = \$750,000

Productive Age	Lifetime Income Leftover	Spending Power per month
25 to 55	Income: S\$2.2 mil Leftover: S\$1.45 mil	S\$2,400 Working: $1.45/(50*12)$
25 to 45	Income: S\$1.5 mil Leftover: S\$0.75 mil	S\$1,250 Working: $0.75/(50*12)$
25 to 40	Income: S\$1.1 mil Leftover: S\$0.35 mil	S\$583 !!! Working: $0.35/(50*12)$

**Caveat: The above is a simplistic, napkin type computation but the lesson is real!**

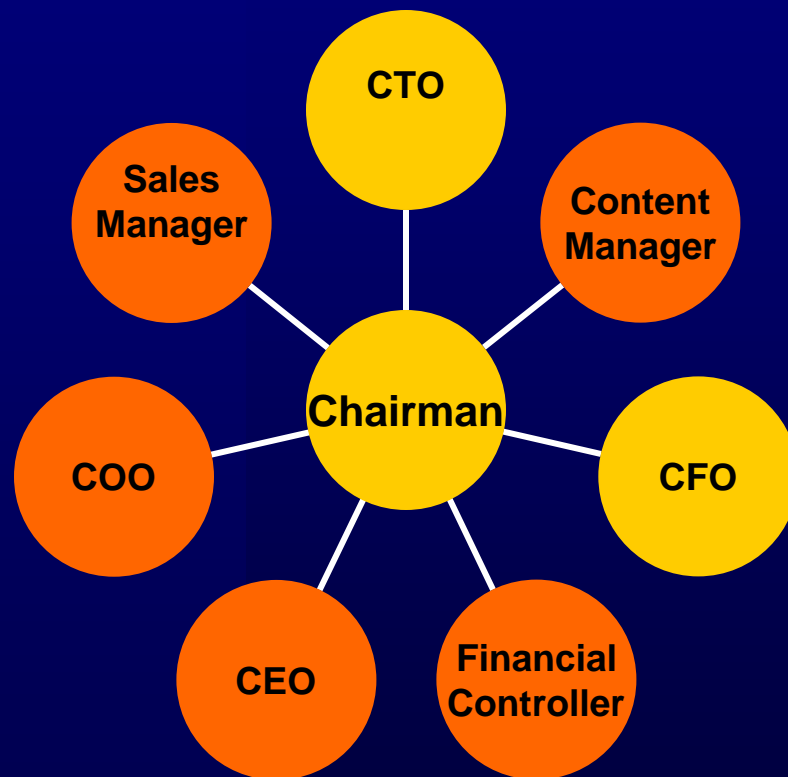
# Myth #3 Work hard - there is room for you at the top!

- Corporate Hierarchies are flattening:



Reference: "The New Road to the Top", Peter Cappelli & Monika Hamori, Harvard Business Review (January 2005).

# Myth #4 – Behind every entrepreneur...



<b>Litespeed Roles</b>	<b>No</b>
Entrepreneurs/ Board Members	3 (9%)
Senior Executives	5 (14%)
Line Staff	27 (77%)
<b>TOTAL</b>	<b>35 (100%)</b>

**Only 23% are top tier executives but the odds...**

# The New Workstyle in the Globalized World

- True! 2/3 of all women & men who ever lived past 65 years old on this planet are ALIVE today (Fortune July 11, 2005)

## Old Lifestyle

- Get Born
- Get into Top School
- Get scholarship/top class
- Work in MNC/SC
- Buy car/condo/wife/husband
- Retire
- Die

## New Workstyle

- Get Born
- Get into Global School
- Work
- Get into School
- Work/Run business
- Get into School
- Work/Run business
- Forever Learning
- Hard to die

# The New Workstyle

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- **We need Entrepreneurs to create jobs and wealth as an additional source of productive asset for your country.**
- **We cannot depend on MNCs, GLCs and the Civil Service to keep us feed, alive and happy.**
- **Not everyone can be/should be entrepreneurs.**
- **Do things with a passion, learn forever.**

## 2. How to get funding?

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- How to value your company
- Myths and Realities of getting OPM

# Myth 1 – Am I worth Billions and Billions of Dollars?

## The Textbook Way of Valuing a Company

### 1. Discount Cashflow/Dividend Model

$$V_0 = \sum_{t=1}^{t=n} \frac{D_t}{(1+R)^t} + \frac{D_{n+1}}{(1+R)^n(R2 - G2)}$$

### 2. Replacement Cost

How much it takes to replicate the business on Day One?

### 3. P/E ratio Comparison

# Reality - The Harold Fock's way of valuing everything



How much investors are paying now?

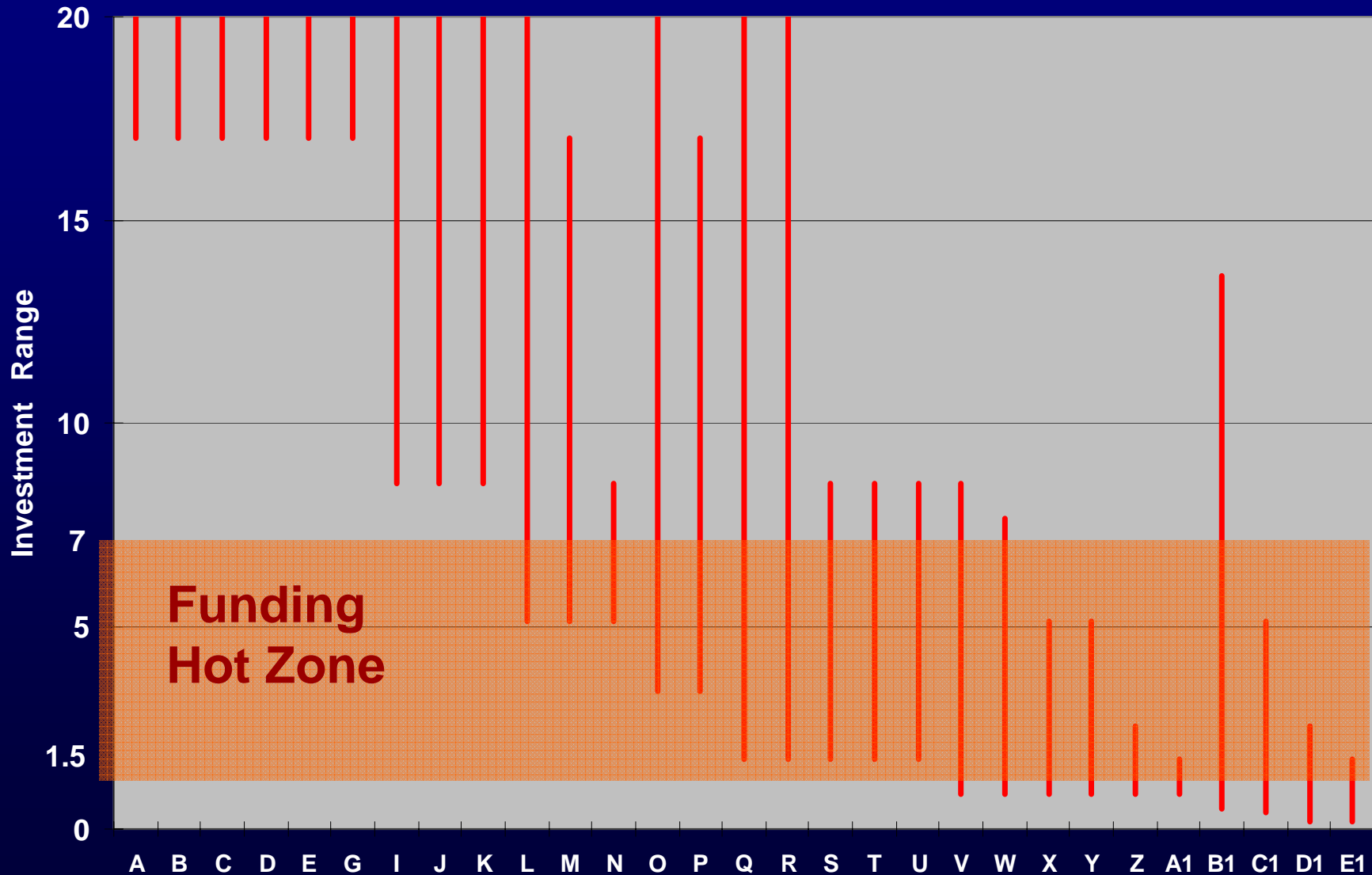
Situation	X times	Examples
IPO	10-12X	Company earns S\$1 mil Net Profit IPO values it as S\$10 mil market cap.
Net Profit	4-5X	Company earns S\$1 mil Net Profit Investor values it as S\$4 mil
Revenue (net loss)	2-3X	Company receives S\$1 mil Revenue Investor values it as S\$2 mil
No Revenue	S\$100-500k	Lucky to get some \$\$\$ Seed funding or technology bet

The Investor/VC's purpose is to make himself rich; not you.

# Myth 2 – How much does a VC invest?

S\$ mil

Only 12% does seed funding



# Myth 3 – Government does not support SMEs or Government is an ATM

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## The Litespeed Experience

- Not true that government won't help SMEs
- Litespeed got Innovative Development Scheme (IDS) grant & Prime Minister's Office The Enterprise Challenge (TEC) grant

## Engage the government but . . .

- Don't be a weather vane – “China China India India”
  - Don't be an American footballer – “Hub Hub”
  - Be a Compass; Be True and Honest
-

# Myth 4 – Is funding an ATM?

## What Not to Do when you grow up!!!

Capital Expenses extracted from a real Business Plan

Sony VAIO Notebook	S\$3,500
PC with ATI video card	S\$2,500
Latest Samsung Smartphone	S\$9,00
Canon Digital Cam	S\$600
<b>Attractive Secretary</b>	<b>S\$8,000 a month!!!</b>

**You need profit-orientation!**

# Myth 5 – Is it good to say Good Bye?

## Exit Strategies – Should we talk about it?

- A VC is like a good parent. They want to kick you out of the house when you reach maturity.
- It gives comfort to investors that you have planned for them to exit profitably.
- Do not be afraid to say it.

## The Litespeed Experience

- On Day One, they told us what they want and how to get out! We have great parents!

# Myth 6 – How positive should I be about my company?

<b>Company</b>	<b>Net Profit Margin</b>
Apple	12.9%
GE	12.9%
P & G	13.3%
Microsoft	28.0%
SIA	15.2%
<b>Investment</b>	<b>Average Return</b>
Berkshire Hathaway (Warren Buffett)	25% in 25 years

## Harold Fock's LightSpeed Rule

PM > 50%

- Illegal trades
- Gambling
- Arms dealing
- Things your mom will not approve

## Myth 7 – Should we IPO now?

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- Textbook advises the company to get most of the things right before contemplating IPO – right time, right product, right place, right people

### The Litespeed Experience

- We don't have a crystal ball.
- “**Ask money when the market conditions are right not when you need it**” - our IPO advisor.
- The IPO process is not all money, ego and glory. It is an internal cleansing process!

## 3. The Litespeed Way

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- **The Long Journey Ahead**
- **The Litespeed Experience**
- **Rules of Entrepreneurship**

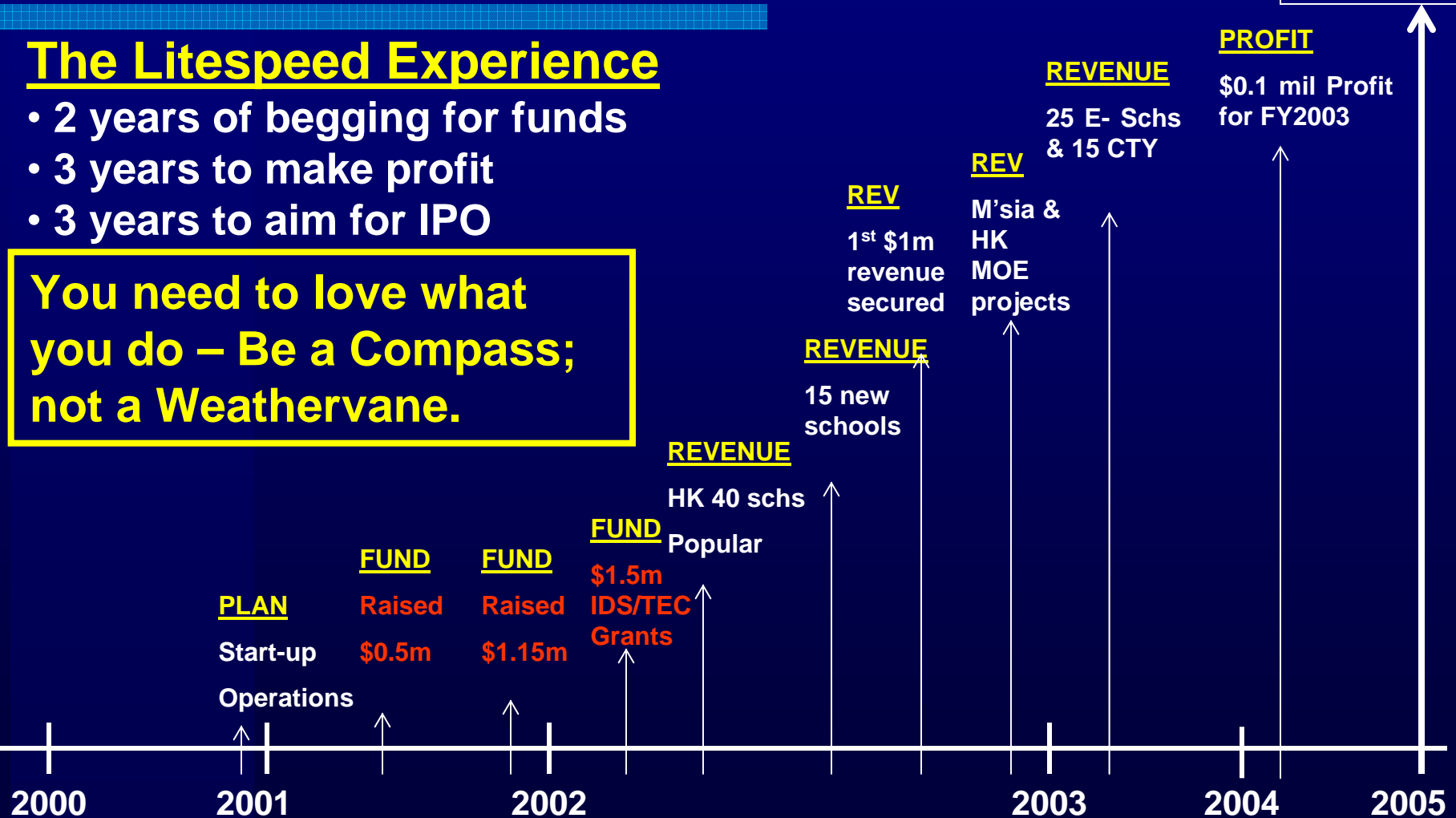
# Reality Check – Long Road Ahead

IPO in  
MESDAQ  
Nov 2005

## The Litespeed Experience

- 2 years of begging for funds
- 3 years to make profit
- 3 years to aim for IPO

You need to love what you do – Be a Compass; not a Weathervane.



## 3. The Litespeed Way

The unofficial Harold's guide to Cashflow Management

Revenue + **Funding** = **Burn Rate** + Bank Balance

### The Litespeed Experience

- Start Small
- Stay Lean and Mean
- Fail Cheaply
- Investors reward caretakers not big spenders!

**“The KL Story”**

# Rules of Entrepreneurship

1. **People, Product, Plan & Price (4 P's)**
2. Think like an **investor**; imagine yourself in his **shoes**
3. Start **small**; Fail **early**
4. **Research, Resources and Repetition**
5. Are you a **care-taker** of the investor's money?
6. Never invest an idea you can't illustrate with a **crayon**
7. Work for someone else first. Learn from his **Mistakes!**
8. Be a **Compass**, Not a **Weathervane**
9. Have **ethical** friends and business partners
10. Be **Polite** and **Humble**, always