The Programmer CEO

How to start a tech company

This talk is about...

How to start a tech company from the perspective of a programmer.

But more broadly, anyone who ends up doing:

- Sales
- Marketing
- Managing
- Business
- People

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Back in 2005...

Lesson #1 - choose any cofounder(s) carefully

It is like a marriage.

Trust is essential.

Two best, three probably hard, many examples where 1 or 4 have worked.

Don’t be greedy

Lesson #2

Be honest with yourself and understand your motivations

The dreaded Red Tape

A secret: there is no red tape!

Bastion of lazy right-wing journalist/politicians, failed entrepreneurs and bad managers.

Just don't be a dick

Lesson #3: the government is your friend

EIS + SEIS

Entrepreneurs’ Relief

R+D Tax Credits

EMI Options schemes

Lesson #4: there is so much help available

Incubators and accelerators

Meetups

Investment competitions

Email someone you admire, and offer to buy them lunch

Read: lots of books and online resources

Lesson #5: WFIO

Learn to embrace uncertainty.

One can always find lots of reasons something won’t work.

Lesson #6: Investment is hard to get but worth it

Investors always say yes until it’s no.

They bring so much more than money.

Investors 101 - different kinds of investors

Angels - invest their own money, typically £10K-£200K

- Often successful entrepreneurs who can work very closely with you.
- Simple deals.
- Some talk that business model is under threat from micro VC and Crowd.

VC's - invest other people's money, typically £1m-£100m.

- Sometimes former entrepreneurs, probably have less time for you.
- Can be very "value add".
- Different VCs invest at different stages.

Crowd-funding

- New, can be easy money.
- Often low touch - low hassle, little value add.

Investors 102 - company valuation

Valuation

Pre-money: before the investors put their money in.

Post-money = pre-money + investment.

e.g. invest £100K at £400K pre-money valuation, 1m ordinary shares

Share price is 40p

Create 250,000 new shares to sell to investors.

Post money there are 1.25m shares, of which you own 1m

I.e. you own 80% of the business, you diluted by 20%.

Valuation is typically 3x-4x the amount raised

Free money! (?)

Investors 201 - different types of money.

All ordinary shares or different classes for founders, employees, investors.

Preference shares:

Liquidation multiple: number of times investors get their cash back before you see a penny.

Non-participating prefs (aka single-dip): if company sells for less than invested, investors get paid you don’t, but once sales is more than invested everyone participates equally.

Double-drip prefs: investors get paid first, then the pot is divided up.

Some examples - investors buy 20% for £1m

	Exit price							
	£500K		£1m		£2m		£10m	
	Founders	Investors	Founders	Investors	Founders	Investors	Founders	Investors
All ords	£400K	£100K	£800K	£200K	£1.6m	£400K	£8m	£2m
1x non-participate	£0	£500K	£0	£1m	£1m	£1m	£8m	£2m
1x double dip prefs	£0	£500K	£0	£1m	£200K	£1.8m	£7.2m	£2.8m
2x double dip prefs	£0	£500K	£0	£1m	£0	£2m	£6.4m	£3.6m

Multiple rounds can lead to a “preference stack” and this gets very complicated, and you can sell for £1bn and walk away with nothing.

Investment deals

It can get very complicated, remember:

Try to keep it simple, don’t get swayed by big valuation.

You are not expected to know this shit!

There are usually multiple rounds, hopefully at increasing valuation

Beware down rounds and washout rounds.

You give up a lot of control

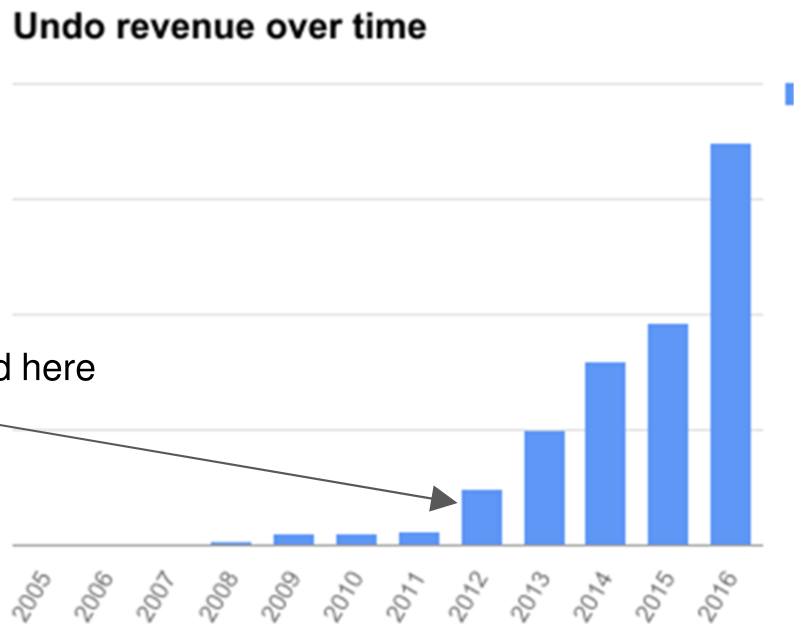
Investors usually have the right to appoint new CEO.

Leaver provisions can be nasty.

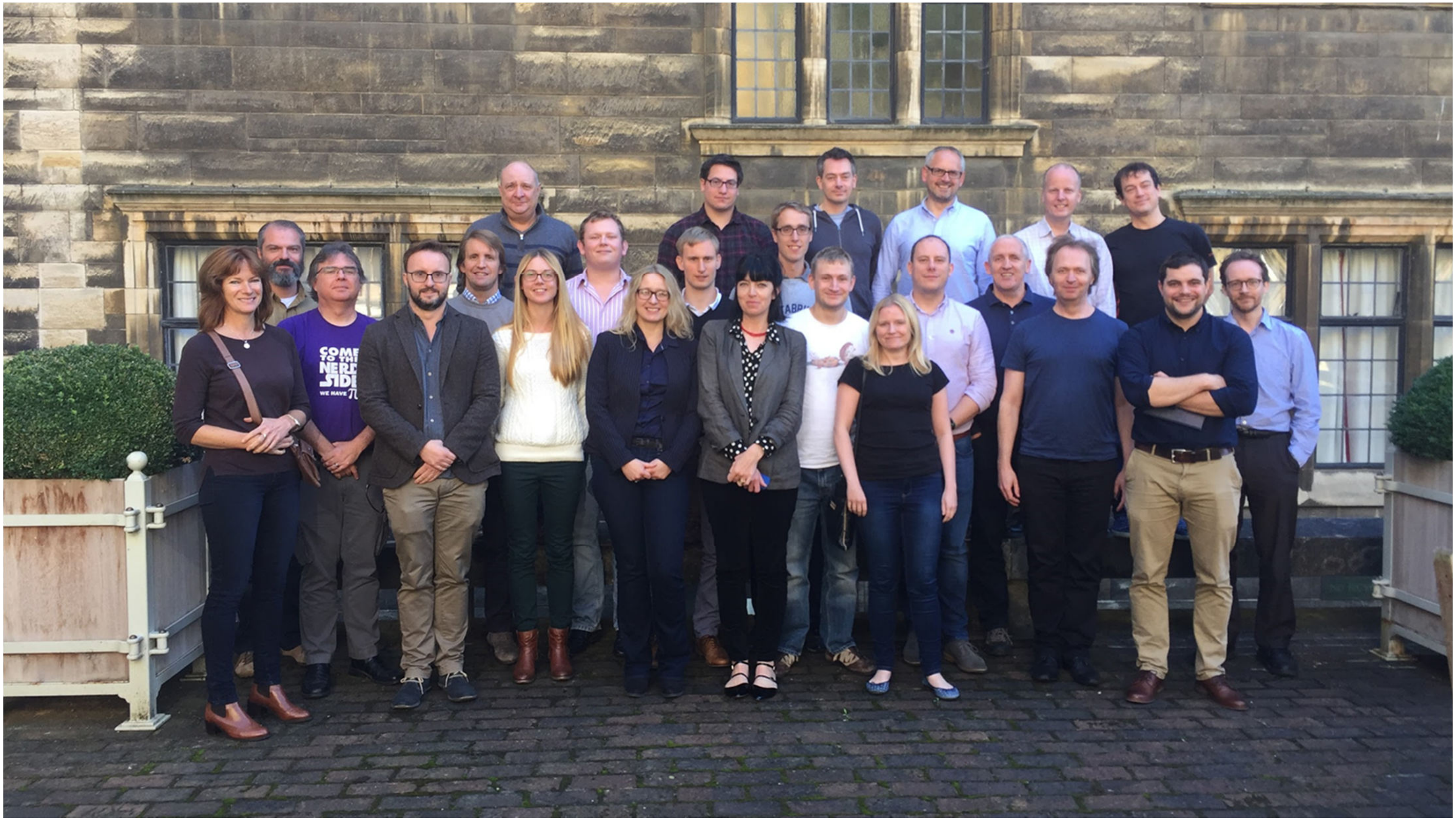
Choose investors you can trust.

Good investors’ reputations are worth more than your company.

It’s all worth it though



Investment happened here



Lesson #7 - be honest with your board

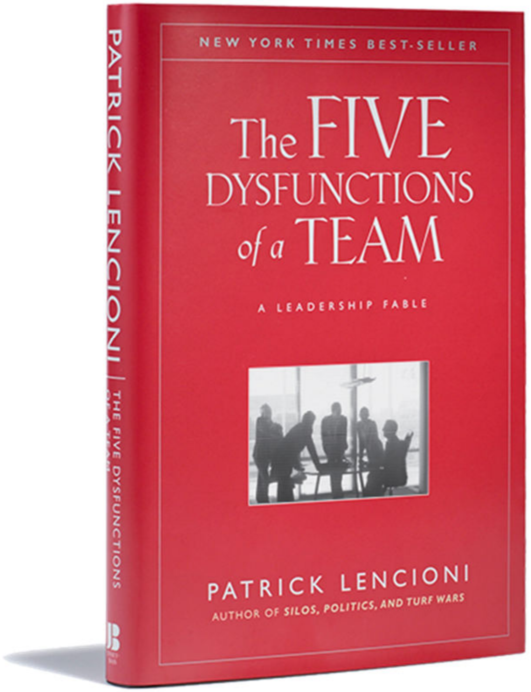
They are there to help.


DRAGONS' DEN


SILICON VALLEY

Lesson #8 - Sales is hard, marketing is really hard

Lesson #9 - leadership is crazy hard



Lesson #10 - beware lazy cynicism

Low hanging fruit

Market vertical

Rifle shoot vs scattergun

All your eggs in one basket

Different kettle of fish

People in glass houses shouldn’t throw stones

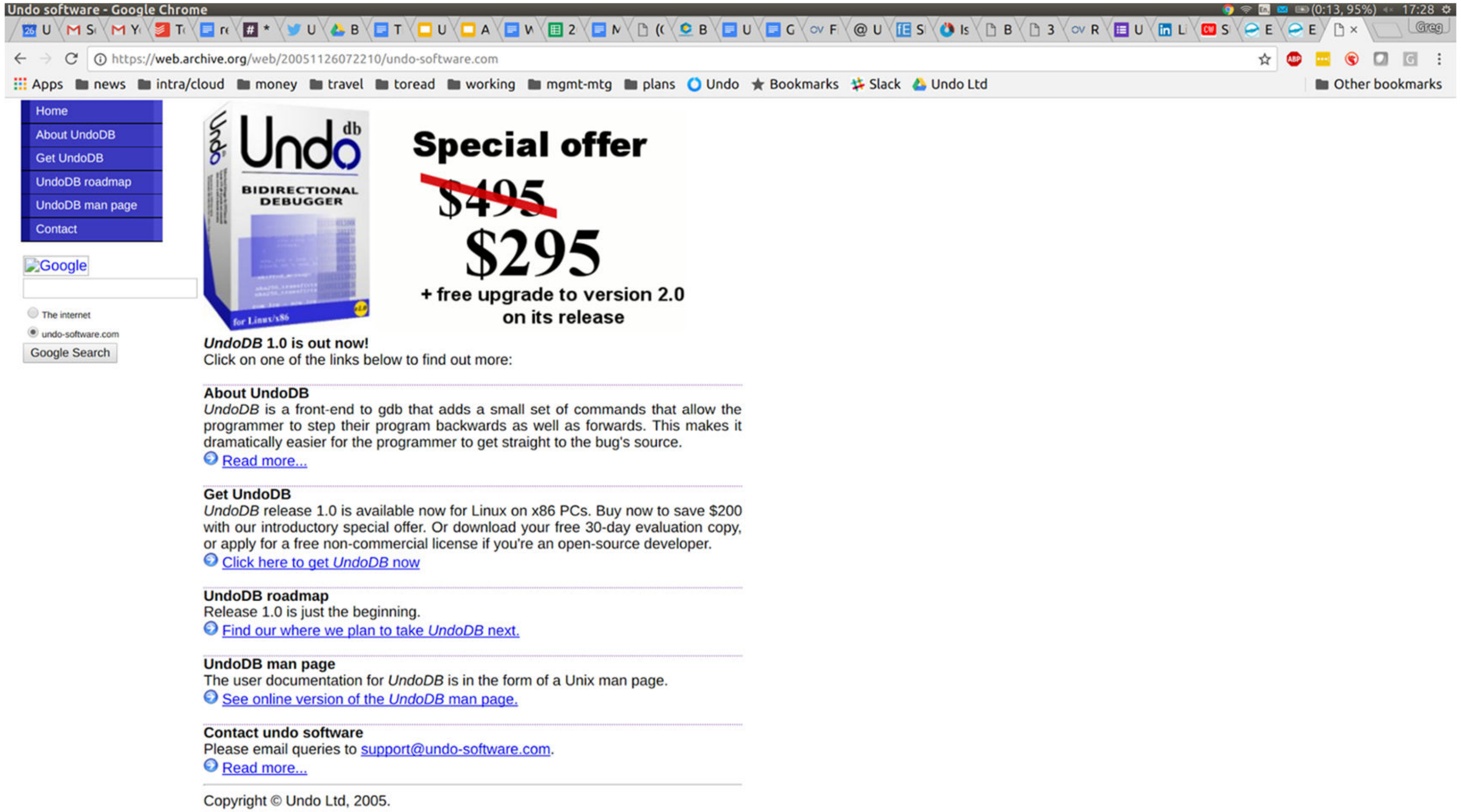
Comfort zone

Business moves at the speed of trust

So, if you think you want to start a company

#1 recommendation - seek professional help

Lesson #10 - don’t design your own logo/website



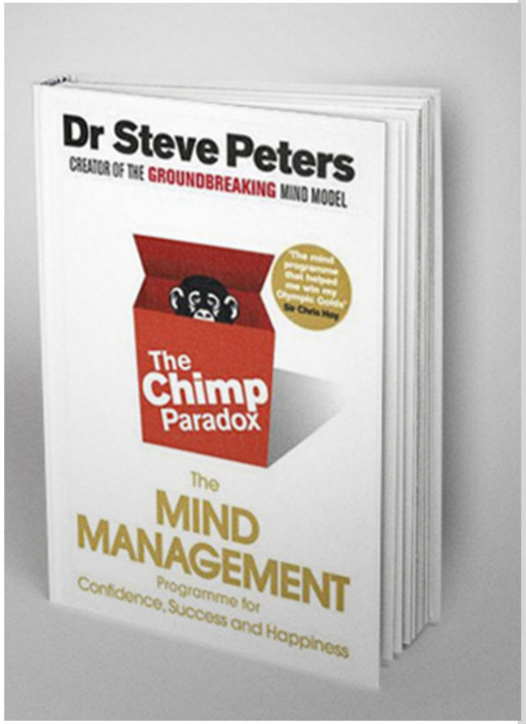
Professional help

Find someone to design your logo (e.g. upworker) and ideally build your site

Get an accountant who knows xero or similar

Get training on the management stuff

Lots of resources available for (almost) free



Twitter is a great resource

If you want to get rich, your best bet on a risk-adjusted basis is to join a profitable and growing public company. Google for short. Make $200-500k all-in a year, work hard and move up a level every 3-5 years, sell options as they vest (in case you joined Enron), and retire at 60, rich. This plan works every time.

Beyond the sub-market salary you'll receive for joining a startup, there are no financial guarantees. Your equity is probably worthless. The whole damn thing might fall apart any time. The hours are long. A lot of shit won't work right. etc.

But, as far as I know, startups are the only way to get 20 years of experience in five. The reason to join a startup is because you are awesome, you're willing to work hard, and you don't want to wait 20 years to be making decisions that impact the business.