Masterminds and Uncommon Opportunity

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David P. Adams III

- Founded Adams Capital, Inc. in 1996
- M.B.A. Georgia State University
- B.S.M.E. Georgia Institute of Technology
- Professional accreditations: CPA, ABV, ASA
- Over 20 years of testimony experience

Adams Capital, Inc.

- Independent, third party valuation firm
- We solve problems where valuation matters
  - Accounting compliance
  - Tax compliance
  - Transaction advisory services
  - Dispute resolution
- Experience with over 3,000 transactions

Flight to safety

- Recession risk
- Euro zone implosion
- Political Dysfunction
  - 19 days Nov 23, vote Dec 23, mandate Jan 15
    - Kick the can

      Market will not react well

Investment Perspective

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- Global Economy
- US Economy (or primary market economy)
- Industry performance past and expected future
- Prior experience of investments in this area
- Fund style or experience
- Fund size
- Only 1 in 10 startups last 10 years

Macro investment drivers:

- GDP = C + I + G + Net exports (exports – imports)
  - C = Total consumption personal and business
  - I = Investments
  - G = Government spending

Identity equation – true for all governments at all times

Macro Economic Growth:

- Δ GDP = Δ Population + Δ Productivity

  - Increase working age population
  - Increase productivity

  - Increasing working age population (demographic shifts) is demographically understood 20 to 30 years in advance. No real surprises expected here.
  - Increasing productivity (technology improvements) takes time and frequently results in lower prices which may add to deflationary pressure

Macro Economic Balancing Trends

- Deflation
  - Good – increased productivity
  - Bad – lack of pricing power/lower final demand
- Inflation
  - Always and everywhere a monetary phenomenon (Milton Friedman)
  - Printing too much money

Not inevitable but significant implications

Deflation

- Associated with massive wealth destruction
  - Trillions in wealth has evaporated

  Implications: massive deleveraging, reduced lending, default, bankruptcy, restructuring, financial distress, reduces nominal value of collateral, reduces credit worthiness, forces asset sales into falling prices

Inflation

- Central bank can print too much money
  - Brings inflation
  - Destroys currency

With deflation there is potential for printing money and still not causing inflation

Keynes's Paradox of Thrift

- While good for one person to save, when everyone saves it decreases consumer spending
  - Less pricing power

Minsky Journey (2008):

- Hedge unit – investment is its own source of repayment
- Speculative unit – investment only pays the interest
- Ponzi unit – only way to pay the debt is for the value of the investment to rise (Greece)

  – Ends in violent markets and unwanted volatility
  – Stability brings instability

Hyman Minsky

Balance Sheet Depression:

- Private sector balance sheets
  - More liabilities than assets

To credibly pay debt off the debtor has to have a well defined present value

debt should be repaid if you look far enough in the future

Problem with having more liabilities than you can service is that someone has to take a loss

financial oppression (squeeze down / cram down)

VIX – not that unusual

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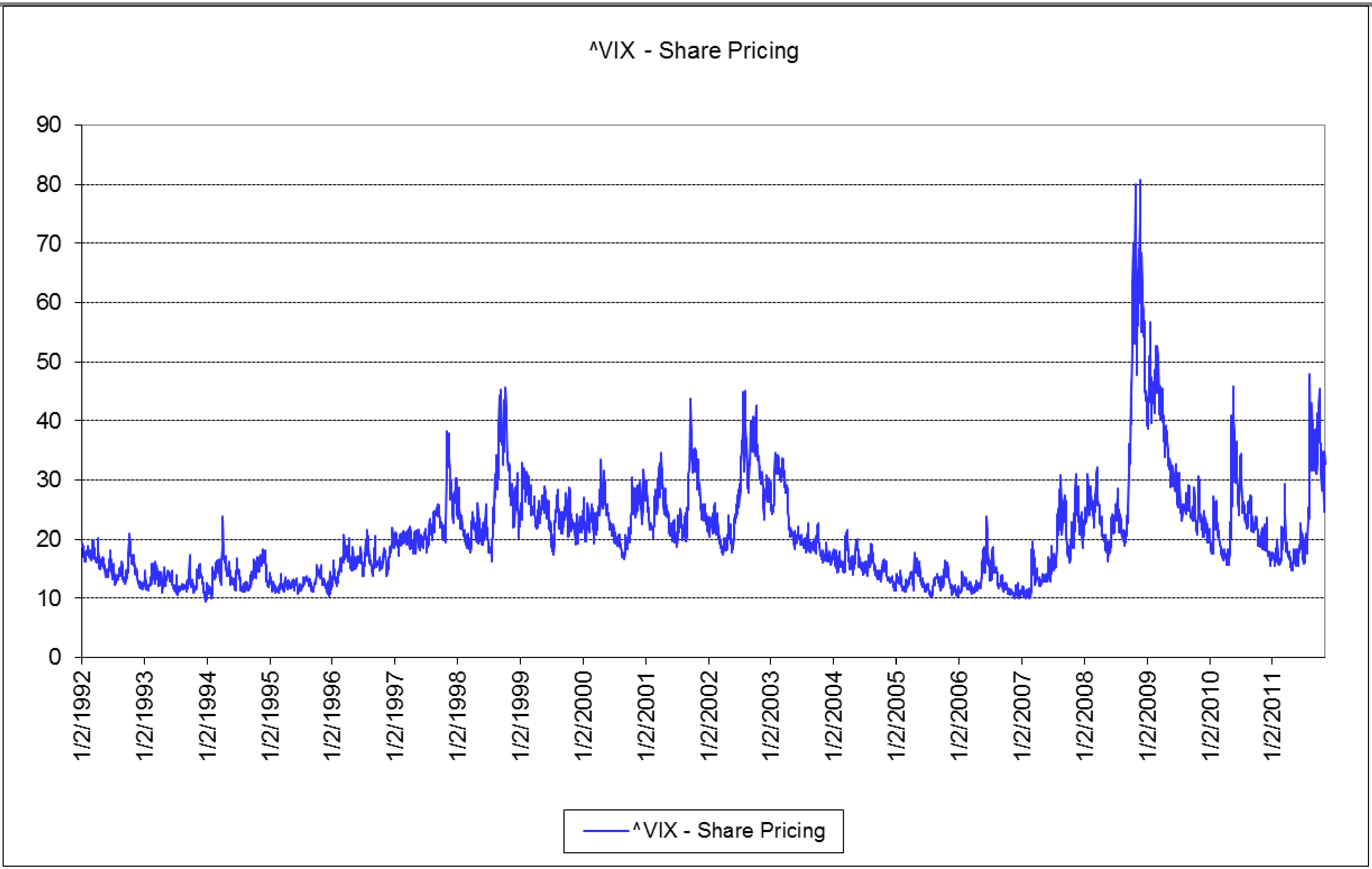


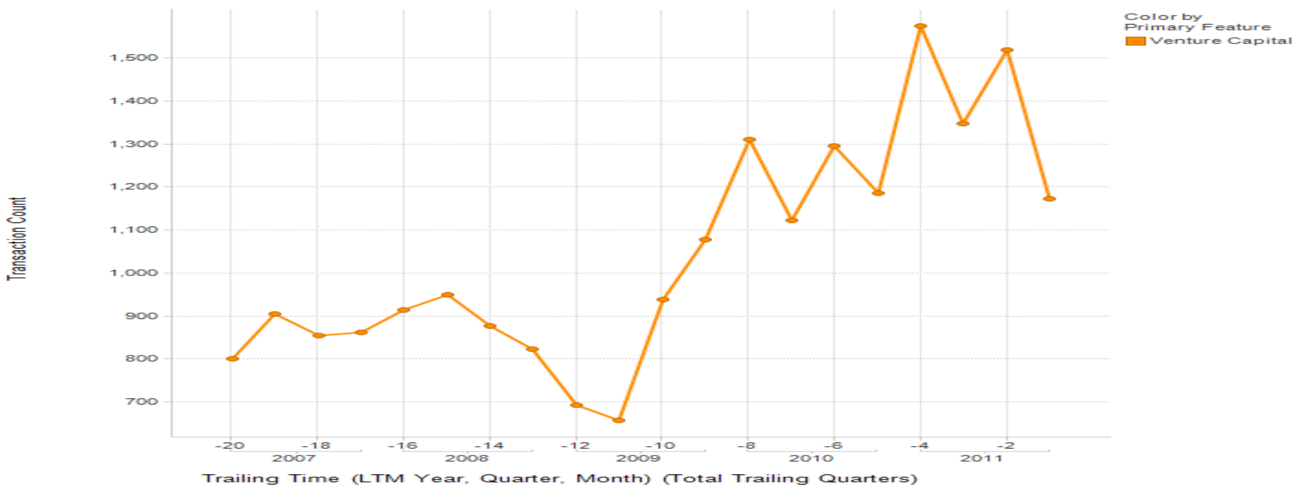
Mitigating Risk

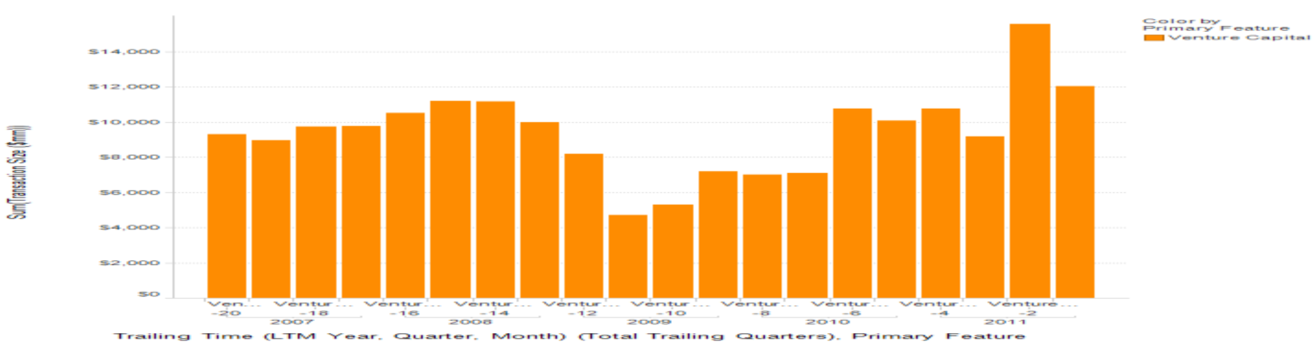
- "Risk comes from not knowing what you're doing."
- "Never count on making a good sale. Have the purchase price be so attractive that even a mediocre sale gives good results."
  - Warren Buffett

Volatility

- Get back to fundamental analysis
  - Get away from global correlation among all asset classes
- Bad behavior by politicians

Venture transactions are up





Fear and greed

- "Be fearful when others are greedy. Be greedy when others are fearful."
  - Warren Buffett

Barriers to Value

- Risk
  - Uncertainty of value over time
- Marketability
  - The desirability of the company by buyers
    - Controlling vs. non-controlling interest
- Liquidity
  - The ability to buy and sell the company at will

Not to Invest: Barriers to Funding

1. No industry experience
2. No business experience
3. No prior success
4. Poor concept
5. Large competitors
6. Significant capital requirements
7. Poor organization
8. Friends and family
9. Long sales cycle
10. Rosy forecasts

Really better to earn your financing

Value: What Someone is Willing to Pay?

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- Who is "someone" and what are their circumstances?
  - Free to decide to buy/sell or not to buy/sell?
  - Is the asset made available to many buyers?
  - Could the buyer flip the asset at the same price quickly?
  - What was the second highest bid?
  - Is the buyer knowledgeable and privy to all relevant facts?
  - Were the terms of sale all cash?
  - Are non-financial drivers at work?

To Invest or Not to Invest?

- What problem are we solving?
- Are we really solving the problem?
- What is the solution worth?
- Does the buyer immediately understand the value proposition?
- How much selling is required?
- Is implementation a hurdle?
- How long is the sales cycle?

Money, Money, Money

- What will it cost?
  - Time and amount
- How will I get my money back?
- What return will I get on my money?
- How is success defined?
- Will success require additional investment?

VC Perspective

- Commitment to the VC investors for 20% or more total annual return
  - Consistent industry, style, size
- Complex terms designed to earn a return
- Commitment to invest consistent with style and within 1-3 years
- Harvest within 5-7 years
- Wrap up in 10 years (average 12)

What Equity Investors Are Looking For

- Very high returns
  - $1 billion market potential and exit in 5 years
- Management with experience
- Management with financial commitment
- Recurring revenue business model
  - People pay you over and over again
- "Unfair" competitive advantage
- Customer validation (sales, letters of intent, orders)
- Plan B – positive cash flow – no cost to hold

Recommended Reading:

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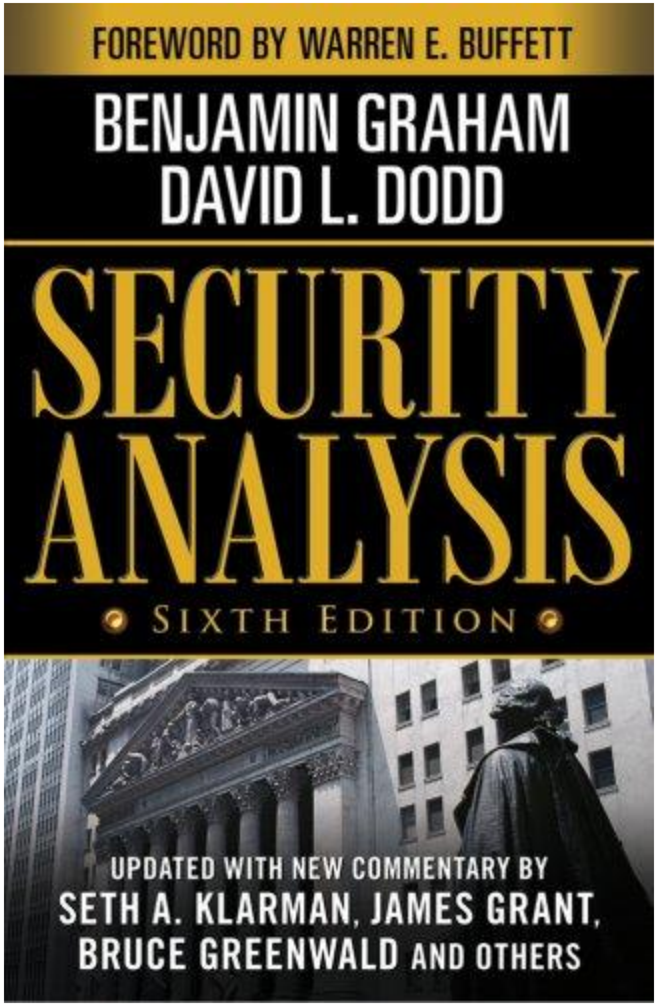
- Security Analysis: Sixth Edition
  - Graham and Dodd



Thanks!

Questions or Comments?