(almost) Everything you wanted to know about the Investor’s Perspective

*But weren’t even sure how to ask
"Everyone offers to carry her books - you need a better value proposition."
Objectives

• Provide you with a fundamental knowledge base of what investor’s look for…

• Discuss investment patterns in Clean Energy

• Identify sources of capital for Network Centric Energy

• Evaluate new funding sources and strategies
What do you want to learn?
PART I
What Investors Want to Know
The 4 M’s

**Market**
- Size of Opportunity
- Value Prop
- Identify Profitable Clients & Products
- Cost to Acquire a Customer

**Management**
- Alignment of Purpose and Strategy
- Right People in Right Positions
- Experience to get to the next level

**Model**
- Strong Economic Model
- Infrastructure and People Investments can Scale
- Industry Profit Zones

**Money**
- Underlying Risks in the Business
- Accurate Financial Forecasting

Source: Kirk Coburn, Chief Outsiders and 4M Navigators
# Market – Value Proposition

<table>
<thead>
<tr>
<th>Market</th>
<th>Value Proposition</th>
</tr>
</thead>
</table>
| • **Market** | • Market big enough to be interesting > $1B  
• Who are top 5-10 customer prospects  
• Team can clearly articulate competitive advantage  
• Value prop is compelling, unique and defensible  
• Gross Profits of Business Strong  
• Company’s Pricing Strategy compared to others  
• Sales efforts are focused on most profitable customers and products  
• CEO can delegate all non-critical customer decisions  
• Company can keep promises made to customers  
• Management team knows the cost to acquire a new customer |
| • **Size of Opportunity** |  |
| • **Value Prop** |  |
| • **Identify Profitable Clients & Products** |  |
| • **Cost to Acquire a Customer** |  |

Source: Kirk Coburn, Chief Outsiders and 4M Navigators
Management

Right People in Right Places

Management

- Alignment of Purpose and Strategy
- Right People in Right Positions
- Experience to get to the next level

- CEO/Founder is positioned for his/her best use
- Management team can run the day-to-day operations
- The right people are in the right leadership positions
- Team can report Operations or Sales issues before they appear in the Financial Statements
- Leadership team looks to CEO for solutions in their areas of expertise
- Some management team members have experience in their current position at a company at least 2x
- Leadership responds quickly to change
- Leadership team aligned on same strategy
- Employees valued on performance above all else

Source: Kirk Coburn, Chief Outsiders and 4M Navigators
**Model - Profit Zones**

<table>
<thead>
<tr>
<th>Model</th>
<th>Company profits compared to industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Company invests appropriate resources to develop new products &amp; services</td>
</tr>
<tr>
<td></td>
<td>Infrastructure, management and capital structure are adequate for a company 2x</td>
</tr>
<tr>
<td></td>
<td>Can scale value proposition &amp; earn profit at higher volumes</td>
</tr>
<tr>
<td></td>
<td>Management team knows competitive landscape</td>
</tr>
<tr>
<td></td>
<td>Understand key infrastructure investments needed to grow</td>
</tr>
<tr>
<td></td>
<td>Company had product/service pipeline tied to forecasts</td>
</tr>
<tr>
<td></td>
<td>Can estimate net-income within +/- 10%</td>
</tr>
</tbody>
</table>

Source: Kirk Coburn, Chief Outsiders and 4M Navigators
Money – Required Capital

- Total Capital Required Now and Future
- Good return capable on people and assets
- Cash Flow required to operate business
- Company can obtain capital if needed NOW
- What is the company risk
- Company has a clear exit strategy
- Identified greatest risk and has a plan to reduce that risk
- Understands numbers, profitability, and other critical financial ratios of industry

Source: Kirk Coburn, Chief Outsiders and 4M Navigators

Money
- Total Capital Needs
- Underlying Risks in the Business
- Accurate Financial Forecasting
Intangible Doesn’t Mean Immeasurable

Know the Critical Business Drivers (KEY LEADING INDICATORS) of your Industry and your Business!!!

**Lagging Indicators**
- Revenues
- Profits
- Economic Value
- Net Promoter Score

**Leading Indicators**
- Critical business drivers:
  - Measurable
  - Manipulable
  - Customer Centric

Source: Kirk Coburn and Chief Outsiders
The Go/No-Go Decision

- KNOW probing questions so the Investor team can understand the justifications and the risks
- Provide financial information to frame the investments, risks, and paybacks from the strategy
- Provide insight into breakeven volumes

Ask
- What is the key driver that will determine if the company will drive profit or not
- When will we know if the company is working or not
- What is the financial exposure at that time?
- How do breakeven volumes compare to marketing forecasts?
- How big is the risk compared to the reward?
- What’s the total investment required for this to succeed?
- What financial commitments must be made, and when?
- What portion of the investment is a total loss, what can be recouped if success is not achieved?

Source: Kirk Coburn and Chief Outsiders
PART II
Sources of Capital for the Network Centric Energy
Energy Deals - $USD

Energy Deals (1995 - 2011)

Source: PWC Moneytree
Energy Deals - volumes

Energy Deals (1995 - 2011)

Source: PWC Moneytree
Energy Deals – avg deal size

Average Deal Size (1995 - 2011)

Source: PWC Moneytree
Energy Efficiency Segment
Q2'11 - $183.7M
Q2'10 - $189.2M
20 Total Deals in Q2'11 – Active

Hara Software, Inc. – Q2’11 - $25M

Efficiency Segment Characteristics
Competitive
Highly Active

Source: PWC Moneytree, PRNewswire
Outlook - Generation

Continued strength in Energy Generation segment

- Q2’11 - $311.6M
- 1H’11 - $686.9M
- 1H’10 - $700.6M

Solar - $234.2 (21% of Q2’11)

BrightSource Energy - $168.0M

Source: PWC Moneytree, PRNewswire
Outlook - Storage

Energy Storage
Q2'11 - $150.3M
Q2'10 - $144.3M

General Compression
$54.5M – Q2’11

Source: PWC Moneytree, PRNewswire
Funding Landscape
# Introduction
## DFJ Mercury Overview

<table>
<thead>
<tr>
<th>Stage</th>
<th>Seed-stage venture capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industries</td>
<td>IT &amp; Science-based startups</td>
</tr>
<tr>
<td>Geography</td>
<td>U.S. Midcontinent</td>
</tr>
<tr>
<td>Capital Under Management</td>
<td>$115M+</td>
</tr>
<tr>
<td>DFJ Mercury Fund I</td>
<td>$70M: 12 investments to date (vintage 2008)</td>
</tr>
<tr>
<td>DFJ Mercury Fund II</td>
<td>$30M: $21M (vintage 2005); $9M Annex (vintage 2009)</td>
</tr>
<tr>
<td>Portfolio Investment Parameters</td>
<td>$50K - $1.5M initial investment</td>
</tr>
<tr>
<td></td>
<td>$3M - $4M total investment per deal</td>
</tr>
<tr>
<td></td>
<td>Add’l $2M - $4M potential from Annex/Opportunity Fund</td>
</tr>
<tr>
<td>General Partners</td>
<td>Blair Garrou, Managing Director</td>
</tr>
<tr>
<td></td>
<td>Dan Watkins, PhD, Managing Director</td>
</tr>
<tr>
<td></td>
<td>Ned Hill, Managing Director</td>
</tr>
</tbody>
</table>
PART III
New Accelerator Funding Strategy
SURGE
Accelerating Efficient Energy Technologies
America needs a framework that promotes cost-effective investment, fosters innovation, empowers consumers with better energy information and secures the grid.

-June 2011
The Mission

Accelerating World-Class Entrepreneurs focused on Efficient Energy Technologies
Efficient Energy Technologies

SMART GRID
IT applications used to increase grid efficiency, measure demand, and reduce waste

TRADING & RISK MGMT
Capital Markets + IT = Increased visibility and flexible response to supply or demand shocks

DIGITAL OILFIELD
Data + IT used to maximize production, safety, and efficiency at the wellhead
Seed Accelerator Overview

- Provide Entrepreneurs with Capital, Mentorship & Connections, in Return for Equity
- Structured 10-12 week curriculum culminating in “Pitch Day” to VCs and Industry Execs
- Similar programs have achieved strong returns in other IT verticals
The Model is working in other Industries and Regions
Case Studies: IT Succe$$es

Another Y-Combinator Win: *WuFoo* Exits for $35M, After Raising Only $118,000

Salesforce.com has just announced that it is acquiring Heroku for $212M in cash

AOL acquired SocialThing with $550k in fund raising post TechStars

Limbo merges with Brightkite and announces $9M funding round

Localytics Raises $2.5M for Mobile Analytics Platform

Dallas’ TechWildcatters ImageVisionLabs raises $2M from Walden Venture Capital
Portfolio Strategy

- **FOCUS:** Entrepreneurs developing innovative applications at the intersection of Energy + IT

- **GOAL:** Take startups from theory & prototype to commercialization

- **INVESTMENT:**
  - 10 teams
  - 30-40k per team
  - 5%-10% equity
## Case Studies: Energy

<table>
<thead>
<tr>
<th>Amount</th>
<th>Company</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50M</td>
<td>OPower</td>
<td>Kleiner Perkins and Accel Partners</td>
</tr>
<tr>
<td>$50M</td>
<td>iControl</td>
<td>Intel, Cisco, Comcast and Kleiner Perkins</td>
</tr>
<tr>
<td>$25M</td>
<td>Hara</td>
<td>GE, NRG, ConocoPhillips, Itochu</td>
</tr>
<tr>
<td>$60M</td>
<td>NEOS GeoSolutions</td>
<td>Energy Capital Group and Bill Gates</td>
</tr>
<tr>
<td>$4.2M</td>
<td>Carbonflow</td>
<td>$4.2M to streamline carbon emissions trading</td>
</tr>
</tbody>
</table>

Entrepreneurs and Investors are ready to Invest
World Class Ecosystem

CAPITAL
- DFJ MERCURY
- Houston Angel Network
- GE Energy
- LIME ROCK PARTNERS
- energy ventures

CUSTOMERS
- Reliant Energy
- WM Waste Management
- CenterPoint Energy
- SUNGARD

COMMUNITY
- Houston Technology Center
- RICE ALLIANCE
- University of Houston
- Pecan Street Project

SERVICE PROVIDERS
- Winstead Attorneys
- PKF
- Microsoft BizSpark
- Rackspace
- Insperity

ACCOLADES
- Forbes
- FASTCOMPANY
- Ewing Marion KAUFFMAN Foundation
- VM
# Leadership: Steering Committee

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>KIRK Coburn</td>
<td>Managing Director</td>
<td>4-time Entrepreneur: PGA TOUR Network, Chief Outsiders. Dell Exec</td>
</tr>
<tr>
<td>Blair Garrou</td>
<td>Board of Directors</td>
<td>Managing Director of VC firm DFJ Mercury. Entrepreneur. Rice Faculty</td>
</tr>
<tr>
<td>Andrew Clark</td>
<td>Board of Directors</td>
<td>Former Chairman of Houston Angel Network, DFJ Venture Advisor, Active Angel, HTC Advisor, former Compaq Exec</td>
</tr>
<tr>
<td>Brian Landrum</td>
<td>Board of Directors</td>
<td>Former COO Reliant Energy, Compaq GM, McKinsey and Co</td>
</tr>
<tr>
<td>Brett Perlman</td>
<td>Smart Grid Lead</td>
<td>Former Public Utilities Commissioner. Former McKinsey consultant. Expert on Smart Grid.</td>
</tr>
</tbody>
</table>
Keys to Program: Mentors
SURGE: Custom Curriculum

Week 1

STAGE 1: Connections

- Customer Discovery
- Pivot

Week 2

STAGE 2: Product Readiness

- Customer Validation

Week 3

STAGE 3: Pilot Landing

- Customer Creation
- Company Building

Week 4

- Mentor Workshops (Marketing, Sales, Ops, IT, Legal, etc.)

Week 5

- Term Sheet Prep

Week 6

- Connect Lead Mentors to Teams

Week 7

- Product Development and Market Validation

Week 8

- Business Plan and Financial Model Development

Week 9

- Connections to Capital, Customers, Entrepreneurs, Expertise, Talent

Week 10

SURGE WEEK

- DFJ MERCURY
- Houston Angel Network
- GE Energy
- S3 Ventures
- GreatPoint Ventures
Target Entrepreneurs

- **LOCATION:** Willing to locate in Houston
- **FOUNDERS:** Coachable Intelligence, Integrity and Energy
  - Strong value proposition
  - Strong competitive advantage
  - Target a large market
- **CAPITAL:** Will bootstrap with seed funding
- **COMPANY FOCUS:**
  - Information Technology that Improves Energy Efficiency
  - Existing Prototype/Product
  - Capital Efficient
  - Leverage Texas Ecosystem
<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/15/11</td>
<td>Launch Website and Video at Rice Energy Forum</td>
</tr>
<tr>
<td>12/01/11</td>
<td>Open Applications</td>
</tr>
<tr>
<td>1/15/12</td>
<td>Close Applications</td>
</tr>
<tr>
<td>1/20/12</td>
<td>Investment Committee narrows down finalists</td>
</tr>
<tr>
<td>2/01/12</td>
<td>Pitch Day (20 teams) – mentors invited to provide feedback</td>
</tr>
<tr>
<td>2/10/12</td>
<td>Select 10 teams – Committee makes final decision</td>
</tr>
<tr>
<td>3/01/12</td>
<td>Begin First Class</td>
</tr>
<tr>
<td>6/01/12</td>
<td>End First Class</td>
</tr>
<tr>
<td>6/02/12</td>
<td>SURGE Day (Pitch Day to 300-400 VC’s, Angels, Corp.)</td>
</tr>
</tbody>
</table>
SURGE Day

- **What:** Class 1 Presents Plan and Demo
- **When:** June 2012
- **Who:** 300 – 400 venture capitalists, angel investors, energy companies and corporate development teams, media, entrepreneurs and others
- **Where:** House of Blues
- **Results:** Expect 70%+ to land follow-on funding and land critical pilots
Smart Grid: $138B market

Key Application Areas:
- Demand Response
- Electric Vehicle
- Grid Reliability
- Distributed Generation/Automation
- Cyber Security

Customers:
- Utilities
- Residential Consumers
- Commercial Buildings
- Cities

Logos of various companies related to smart grid technology are shown at the bottom.
Energy Trading & Risk Management: $500M market

Key Application Areas:
- Market data acquisition
- Real-time position tracking
- Predictive analytics & reporting
- Carbon trading
- Weather Integration
- Demand-Response integration

Customers:
- Energy Companies
- Utilities
- Commodity Traders
- Companies that hedge energy use (i.e. airlines, freight logistics)
Digital Oilfield

Key Application Areas:
- Real time data acquisition
- Reservoir management
- Well modeling
- 4D Seismic
- Wireless remote operations

Customers:
- E&P companies
- Oil field service companies
- Technology vendors

[Logos of various companies]