From
THE MIND OF THE INVESTOR™ series

UNC Pembroke Entrepreneurial Summit
March 12, 2009
ANGEL FUNDING LANDSCAPE

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NC SBTDC Private Equity Initiative

ENHANCE the INVESTMENT PROCESS, via

- Practical research-based educational programs
  - *Investor-Ready Entrepreneur* for growth-oriented entrepreneurs
  - *Power of Angel Investing* for accredited investors

- Capital Formation
  - Support angel / other funds (IMAF, RVF)

- Publications
  - Capital Opportunities For Small Businesses in NC

- Capital Highway websites
  - NC & US Capital Highways – web resource for investors (angels / VCs), entrepreneurs, and entrepreneurial support community
    (*under development*)
Why Investor-Ready Entrepreneur (IRE)?

- **Level the playing field for ENTREPRENEURS**
  - Understand the investment process
  - Know investors and their expectations
  - Get on the same page with fundamental knowledge
  - Reduce the risk of deal blow ups

- **Learn how to play the private equity “game”**

- **Driven by the folks who know**
  - Experienced angel/VC Investors & Serial Entrepreneurs
Focus: What investors expect

- Theme: “What investors expect” at each stage
- Hint: Think about & treat potential investors as Customers of Equity
Understand Private Equity Process

PRIVATE EQUITY INVESTMENT PROCESS

IDEA
CREATE BUSINESS PLAN & EXEC. SUMMARY
DEFINE THE MARKET
COMPLETE FINANCIALS
DETERMINE FUNDING NEED
ASSEMBLE MANAGEMENT TEAM & BOARD OF ADVISORS

REVIEW I.P. POTENTIAL
FIND & QUALIFY FUNDING SOURCES
PREPARE THE PITCH

PRESENT TO INVESTORS

DUE DILIGENCE MATERIALS
DUE DILIGENCE PROCESS
VALUATION
STRUCTURE THE DEAL
CLOSE
EXECUTE THE PLAN

Get feedback & adjust accordingly
The NC Small Business & Technology Development Center is pleased to present

The Private Equity Investment Process

*In the trenches* …
Key Questions to Answer...

- What is the funding “food chain”?
- What is the funding landscape?
- Where do Angels and Venture Capitalists fit?
- What are other funding sources?
- What do investors expect?
The Funding Landscape – Debt and Equity

Source: Garheng Kong, Intersouth Partners

Legend:
- Angels: 100% Equity (Small: $100K)
- Seed/Early VC
- Later VC
- Mezzanine VC
- Public Equity
- Sub Debt
- Venture Leasing
- Traditional Banks
- 100% Debt

Transaction Size:
- Big: $100 MM
Life Cycle of an Emerging Growth Company

- **Seed / Start-up Stage**
  - Founders / Family / Friends

- **Early Stage**
  - Angels / Private Equity

- **Expansion Stage**
  - Venture Capital / Private Equity

- **Later Stage**
  - Commercial Banks / Mezzanine Debt

- **Exit**
  - Mergers & Acquisition (M&A) / IPO
## Angels and VCs

Source: Kauffman Foundation & Center for Venture Research (CVR)

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<thead>
<tr>
<th></th>
<th><strong>Angels</strong></th>
<th><strong>VCs</strong></th>
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<tbody>
<tr>
<td><strong>Number of Investors</strong></td>
<td>250,000</td>
<td>&lt;900</td>
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<tr>
<td><strong>Number of Investments</strong></td>
<td>57,000</td>
<td>2,500</td>
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<tr>
<td><strong>Per round</strong></td>
<td>$0.50 million</td>
<td>$7-8 million</td>
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<tr>
<td><strong>Investors per round</strong></td>
<td>6 - 10</td>
<td>2 - 3</td>
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<tr>
<td><strong>Professionally managed</strong></td>
<td>Sometimes</td>
<td>Yes</td>
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<tr>
<td><strong>Motivation</strong></td>
<td>Various</td>
<td>ROI first</td>
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The Funding Food Chain Odds

Source: Kauffman Foundation – “Power of Angel Investing”

- <1 in 20 Start-ups obtain angel financing
- <1 in 500 Start-ups are VC financed
- <1 in 5,000 new companies go public
- <1 in 25 angel deals see VC money
- <1 in 250 angel-funded companies go public via IPOs
Business plan “funnel”

Source: NVCA (2007)
Annual Sources of Start-up Funding

- **VCs** (PWC MoneyTree™ data) ~$0.3 billion (<200 companies)
- **State Funds** (estimate by several) <$0.5 billion
- **Angel investors** (Center for Venture Research) ~$26 billion
Look to angels

90% of the outside equity capital funding for seed/early stage entrepreneurs comes from angels – not VCs
Trends in IPO and M&As

Source: Kauffman Foundation – “Power of Angel Investing”

Source: NVCA
Entrepreneurs: Go Where Investors Are

Source: Kauffman Foundation – “Power of Angel Investing”

Number of investors

Angels

VCs

$5 million

$10 million

$50K - $100K

$250K - $1M

$1-5 M
Other Funding Sources

- Revenue
- Reduction in Overhead
- Equity for services
- Research Grants – NIH, SBIR/STTR
- Specialty Loans – NCBC, Self-Help, Local
- Licensing
- Partnerships / Strategic Investors
- Venture Banking
- Loans – guaranteed by you or others
Investor Expectations

- Ask them
- Create something of value
  - Financially
  - Team Success
  - Community
  - Society/Science
  - Bragging Rights
- Profit, Contribute, Have Fun
Targeting / Qualifying Funding Sources

Who’s got your money?
Who’s YOUR customer of equity?
Key Questions to Answer.....

- What is a “qualified funding source”?
- Where do Angels live?
- Can you avoid the Angel from HELL?
- What do Angel networks look like?
- What due diligence can an entrepreneur conduct?
- What is the most common mistake committed when seeking a funding source?
What is a qualified funding source?

- In the angel world, it starts with an accredited investor … a person with a net worth of $1M or an annual income of at least $200k …

- This should be your first screening criteria when you start the search
Where do the Angels live?

- Angel investors don’t advertise
- Angel investors don’t hang out a shingle
- You could be surrounded by Angels … and not even know it
- Careful networking is required
What does a network look like?

- Angels tend to form networks either by design or by chance.
- Some key entry points to these networks will be found through wealth management specialists, attorneys, bankers and accounting firms.
- Have your executive summary ready and begin to talk to these people.
An Entrepreneur’s Due Diligence

When your networking yields results ...

- Research the Angel Group’s focus or area of interest. Websites are useful here.
- Make certain that the angels have a common interest in your area
- Expertise is as important as the money
What are the most common mistakes?

- Not researching the interests of the Angel group properly
- Not being prepared when invited to make a pitch
- Accepting investment money from non-accredited investors