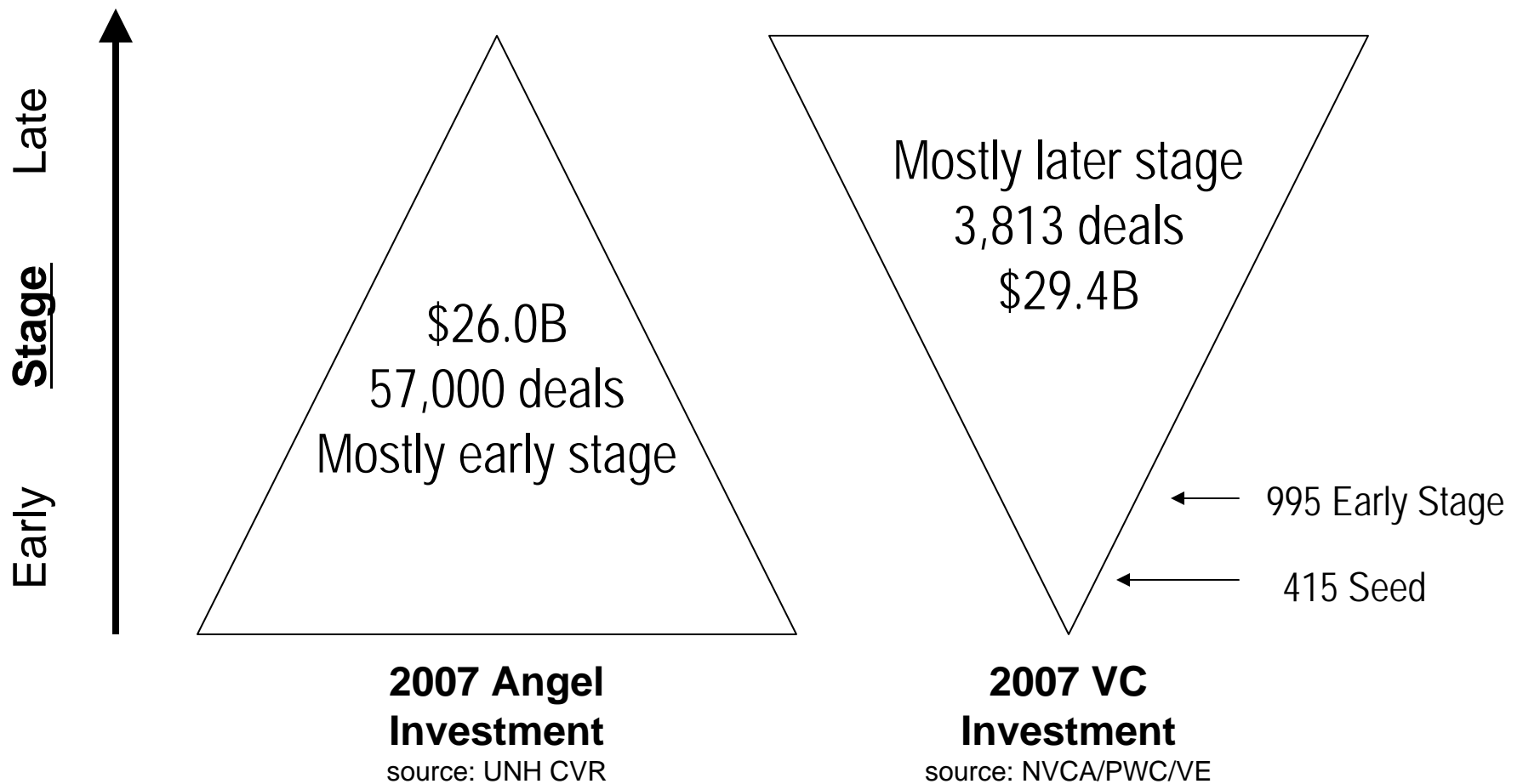


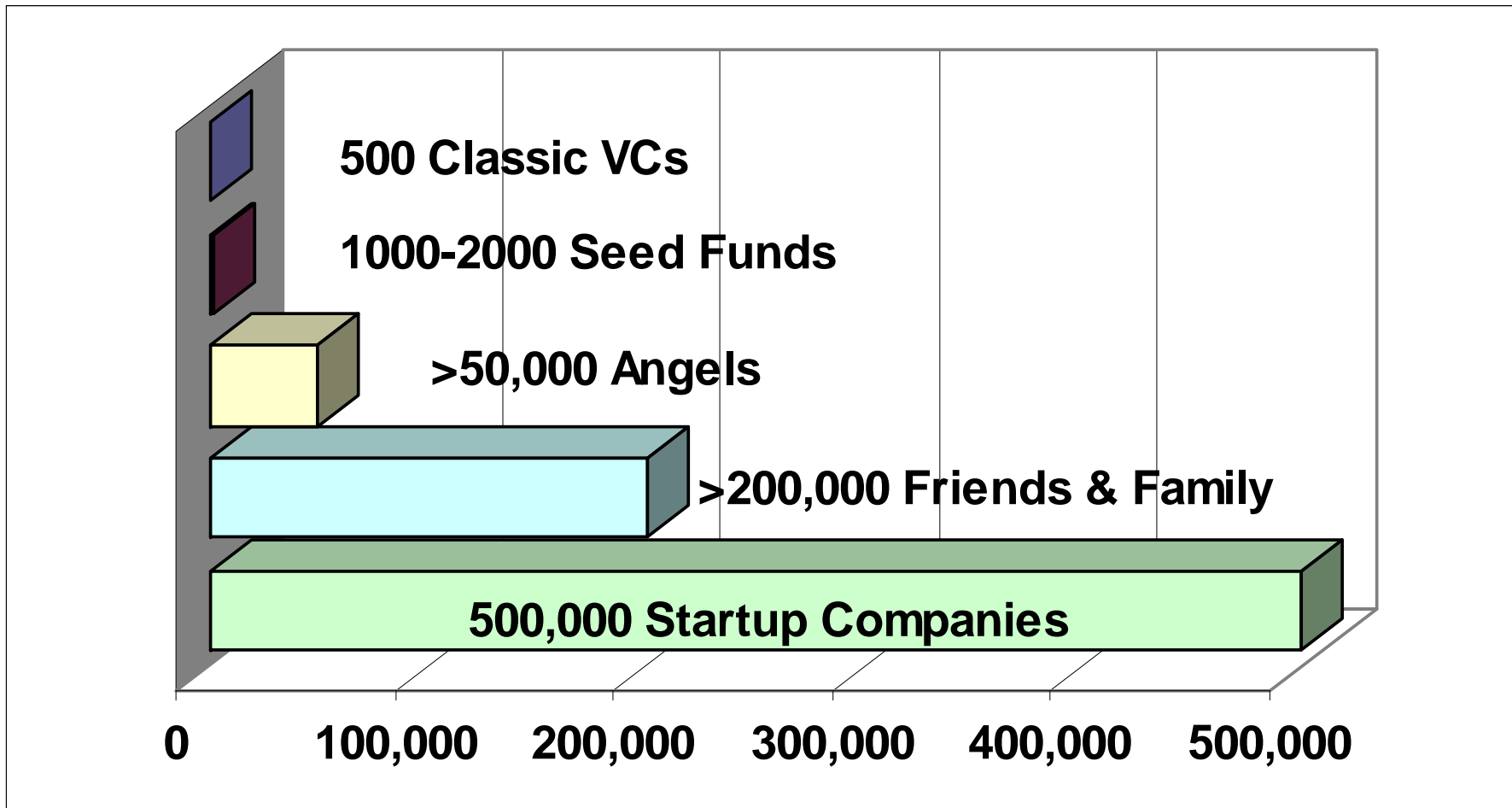
Important Things for Entrepreneurs to Know about Angel Investors

Equity Capital Markets Large, Complementary



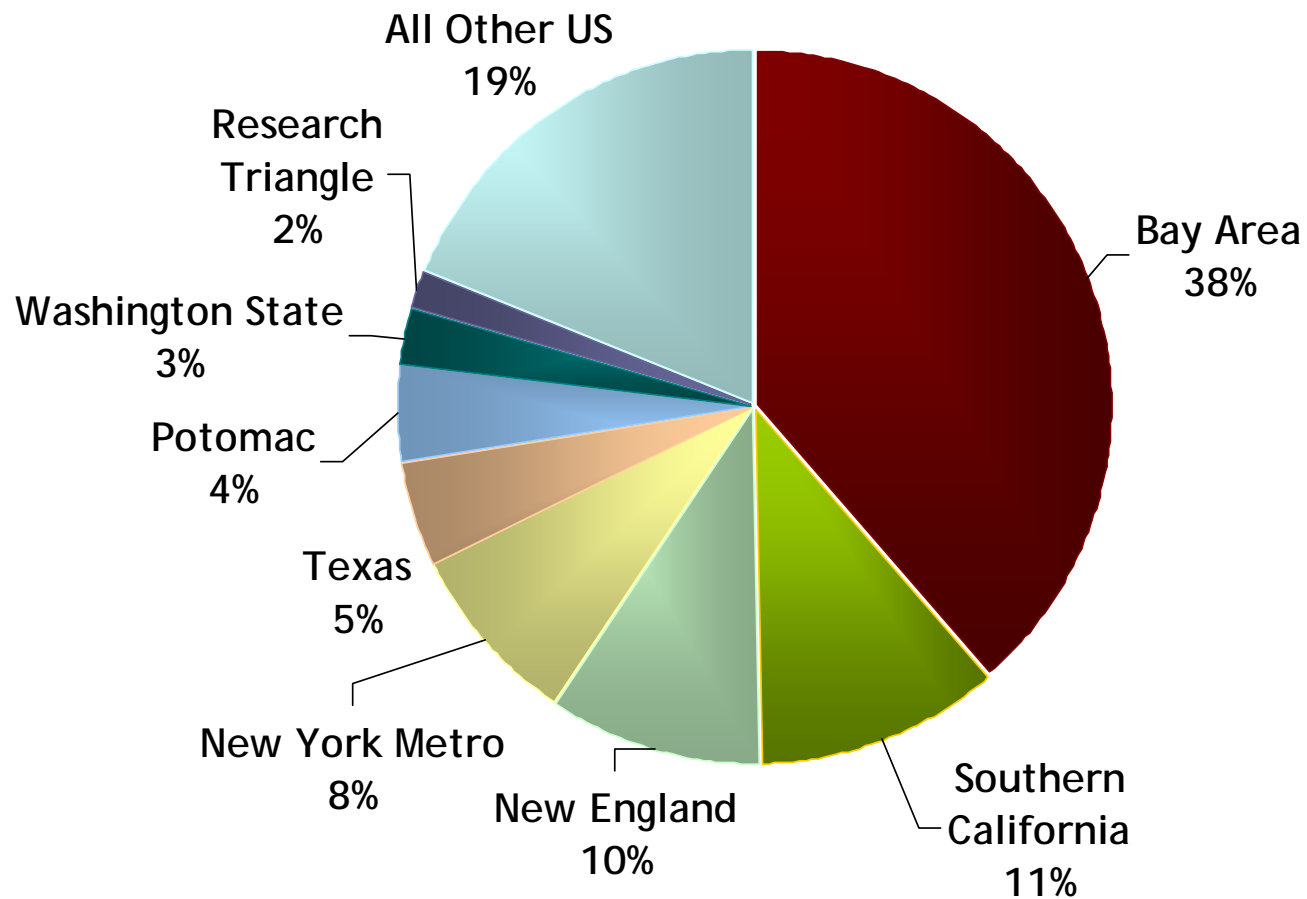
New Company Formation

Source of Equity Funds – Typical Year



Bay Area Draws Most Investment Dollars

Regional Investment in the United States 3Q'06



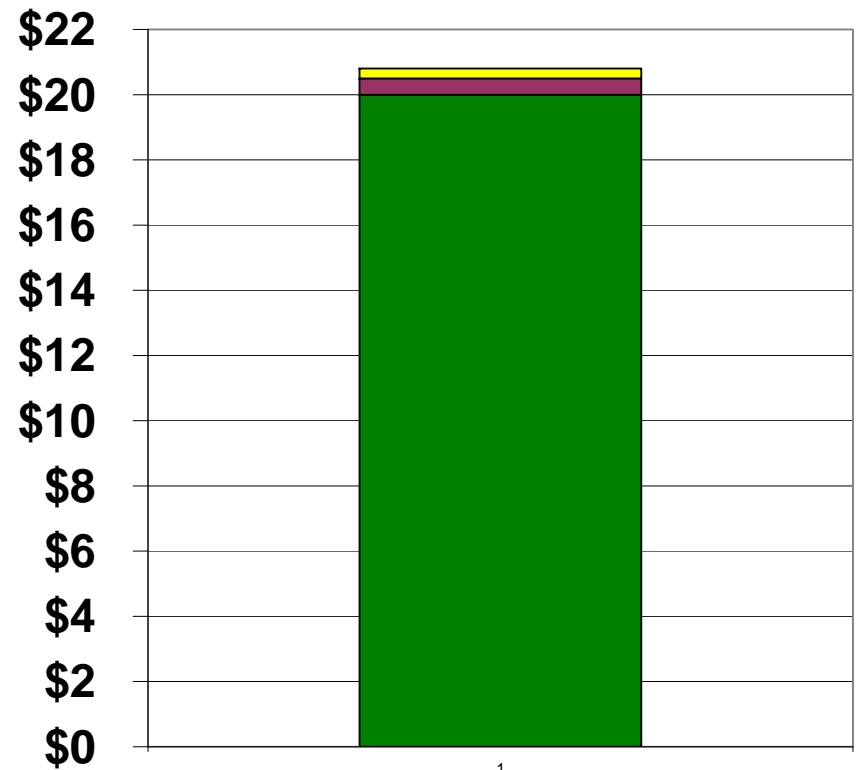
Source: Dow Jones VentureOne/Ernst & Young

Annual Sources of Start-up Funding

Venture Capital ~\$.3 billion
State Funds ~\$.5 billion
Angel Investors ~\$20 billion

Angels: 90% of outside equity for start-ups?

Friends & Family ~\$60 billion



Companies Backed by Angels



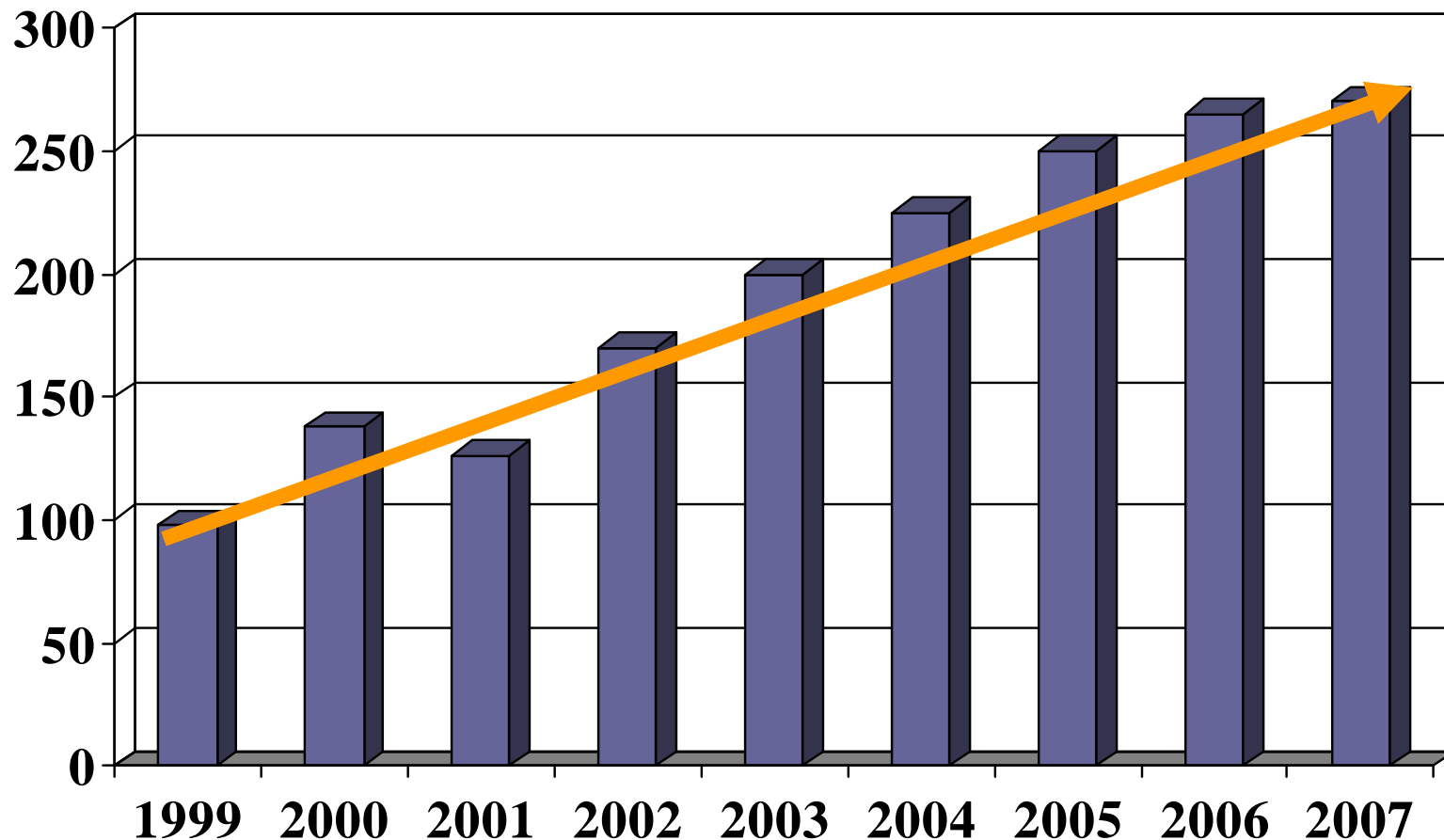
Why Angels Matter

A really great angel helps an entrepreneur:

1. See around the corner
2. Gain a sober second opinion
3. Network with people who can help build the business
4. By being an ambassador
5. Gain credibility in a field

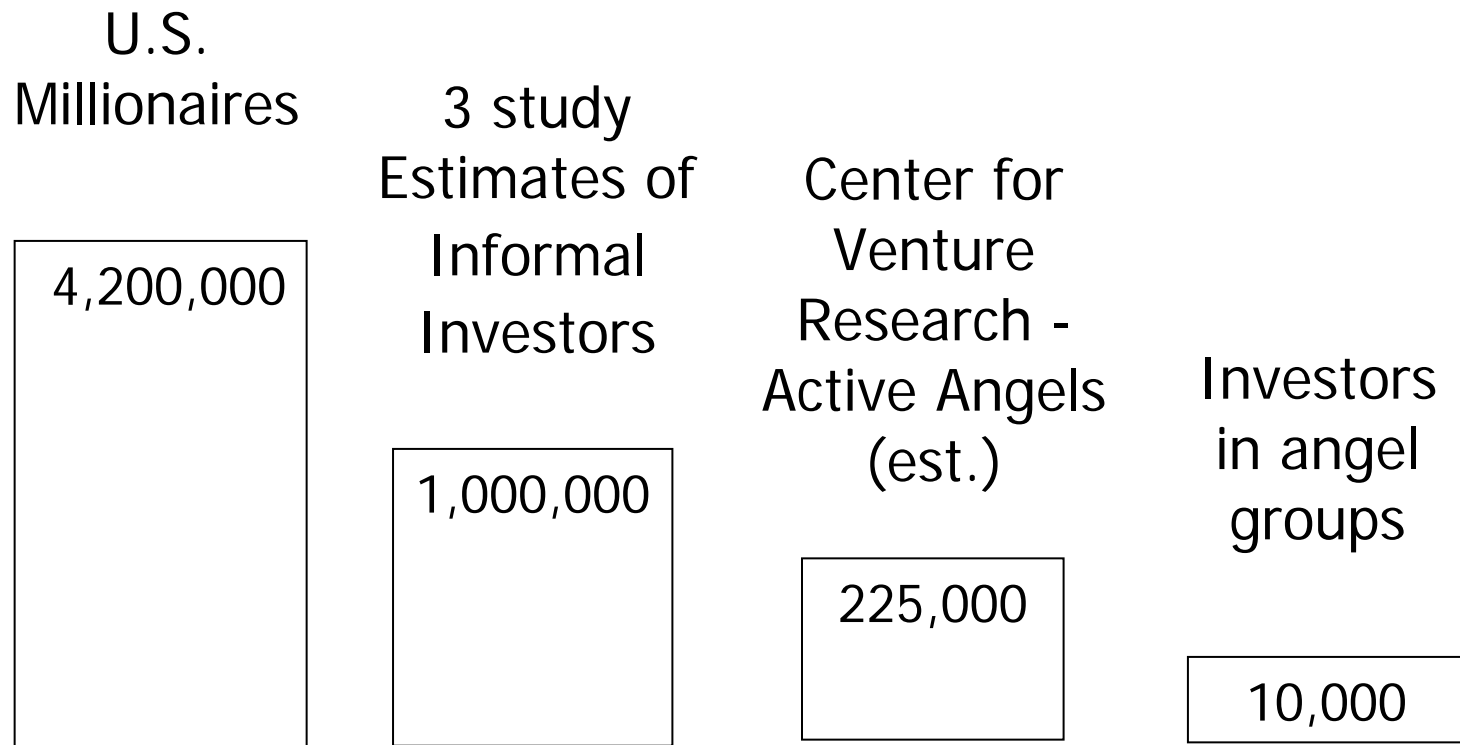
Source: David Pecaut, Boston Consulting Group, 9/06 NAO

Growth in North American Angel Organizations



Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ACEF (04-07 data)

Potential Angels in the US



Premise on Angel Groups

- Creating new class of investor
 - Entrepreneur-friendly
 - Developing sophistication/ excellent processes
 - Growing geographic diversity
- Market efficiencies developing
 - Entrepreneurs can locate more easily
 - Investors get better quality deal flow, while individuals maintain anonymity
 - Building partnerships with other angel groups and VC community for follow-on funding
- Beginning to close capital gap

Angel Organizations Can Help Fill Capital Gap

Stage	Pre-Seed	Seed/Start-Up		Early	Later
Source	Founders, Friends and Family	Individual Angels	Funding Gap between \$500,000 and \$2,000,000/\$5,000,000 (depending on region)	Venture Funds	
Investment	\$25,000 to \$100,000	\$100,000 to \$500,000		\$2,000,000/\$5,000,000 and up	

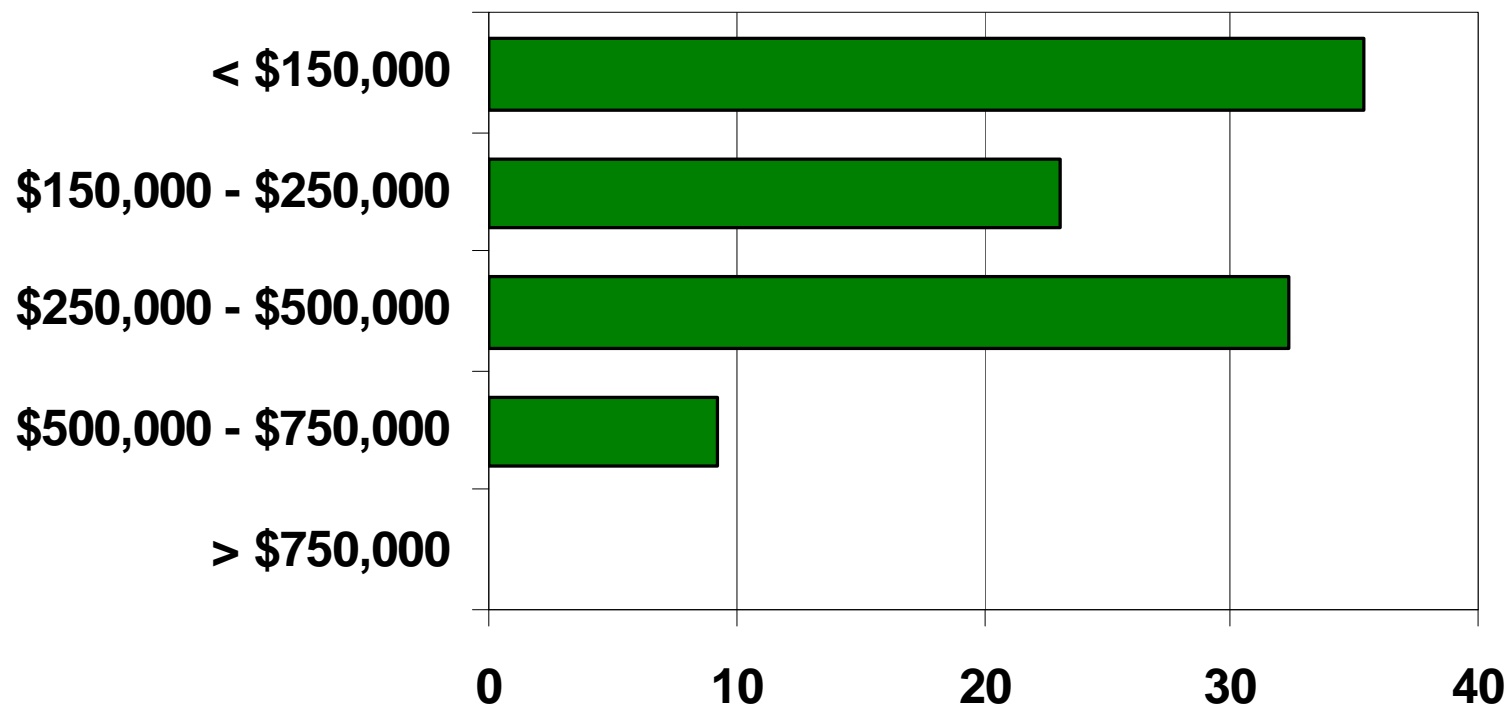
2007 Group Investment Data

	Average	Median
Number of Investments	7.3	5
Total dollars invested	\$1.94 mil	\$1.1 mil
Dollars invested per round	\$265,926	
Number of new companies	4.5	

- 10% increase in average investment per round from 2006, but same number of investments
- 66% had follow-on or co-investments with venture capital firms
- 25% had distributions to investors
- Pacific Northwest: \$2.5 mil in 13.5 companies average (\$189K per round) – BUT limited data available

Source: 2008 ACA Angel Group Confidence Survey

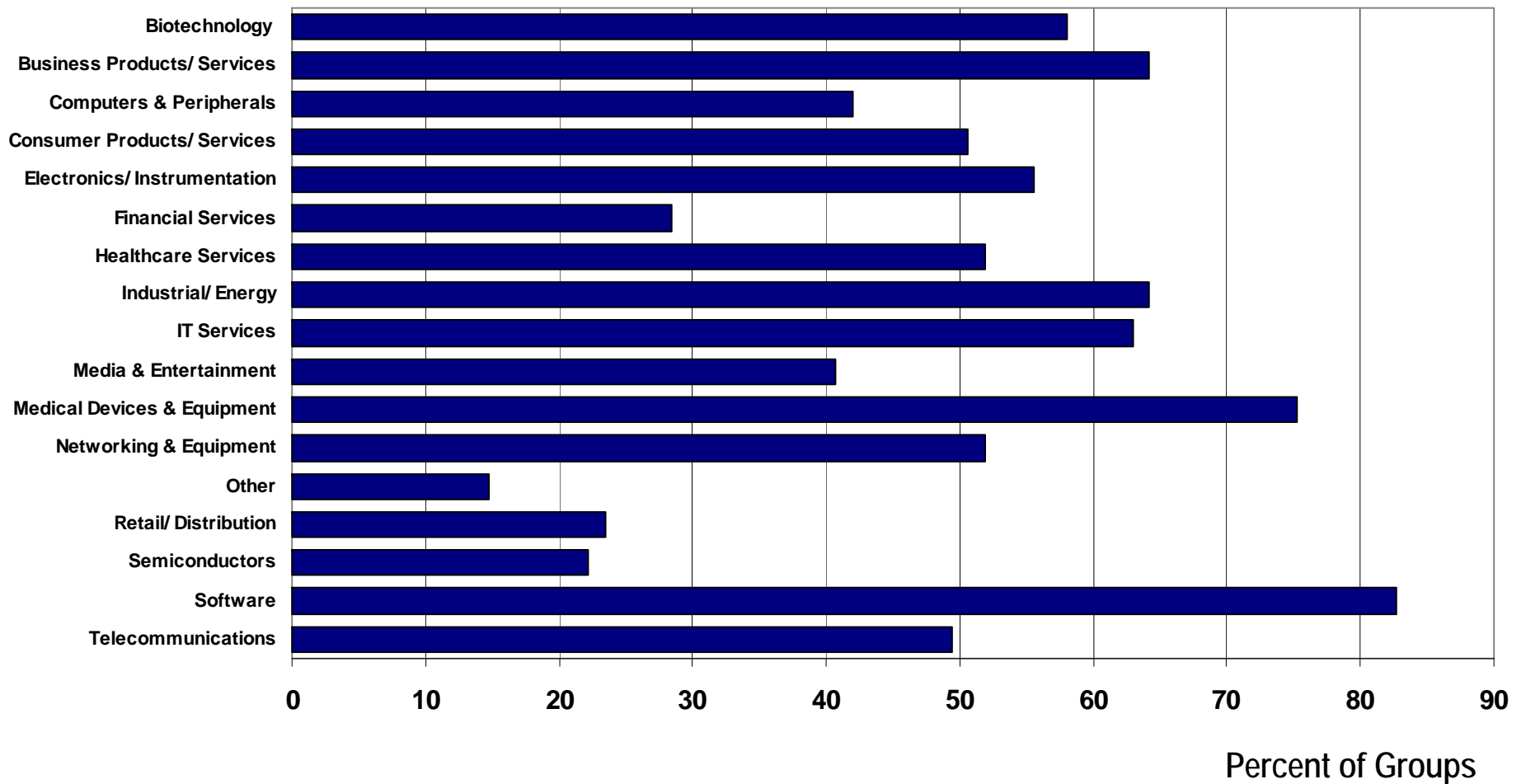
Average Size Investment Per Round - 2007



Source: 2008 ACA Angel Group Confidence Survey

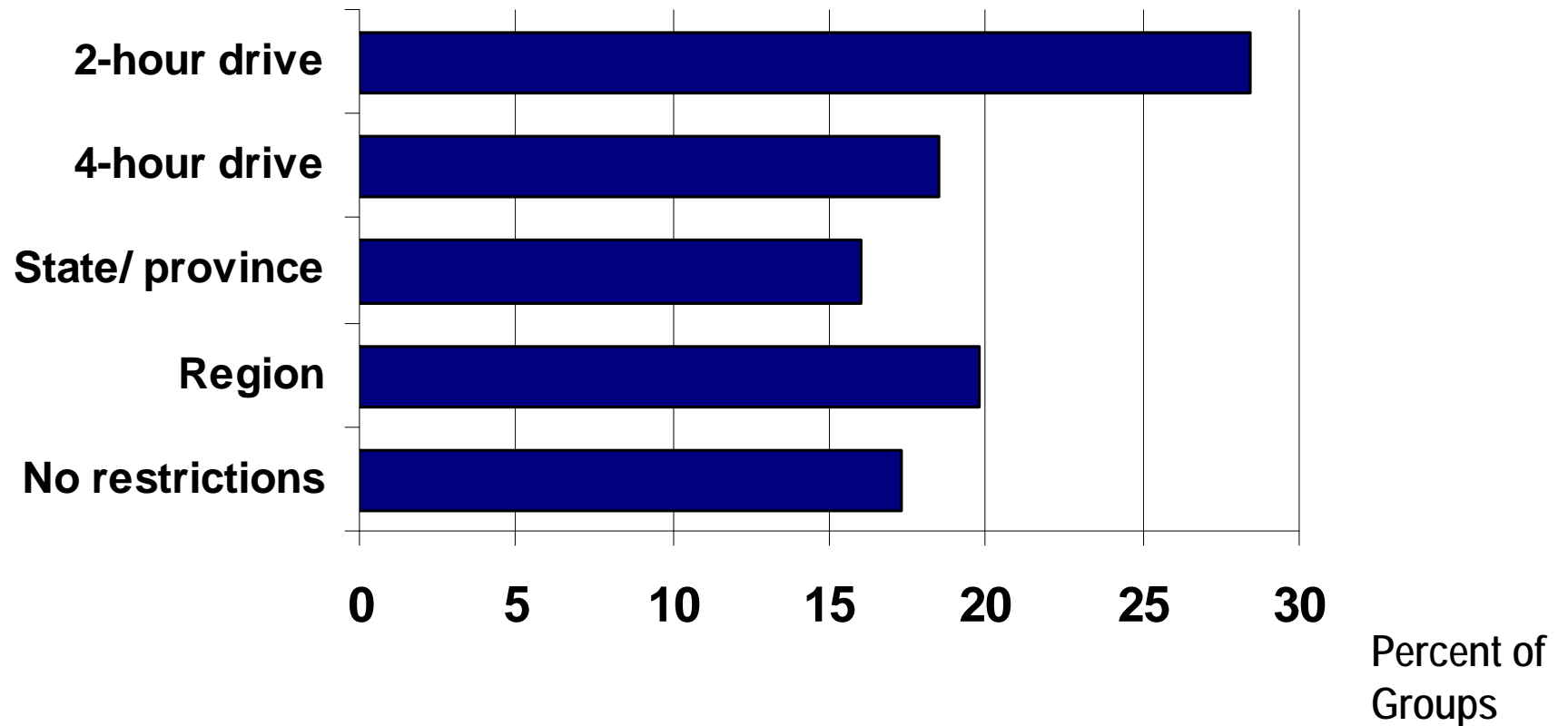
Percent of
Groups

Investment Preference – 2007-2008



Source: 2008 ACA Angel Group Confidence Survey

Geography – Where do Groups Invest?

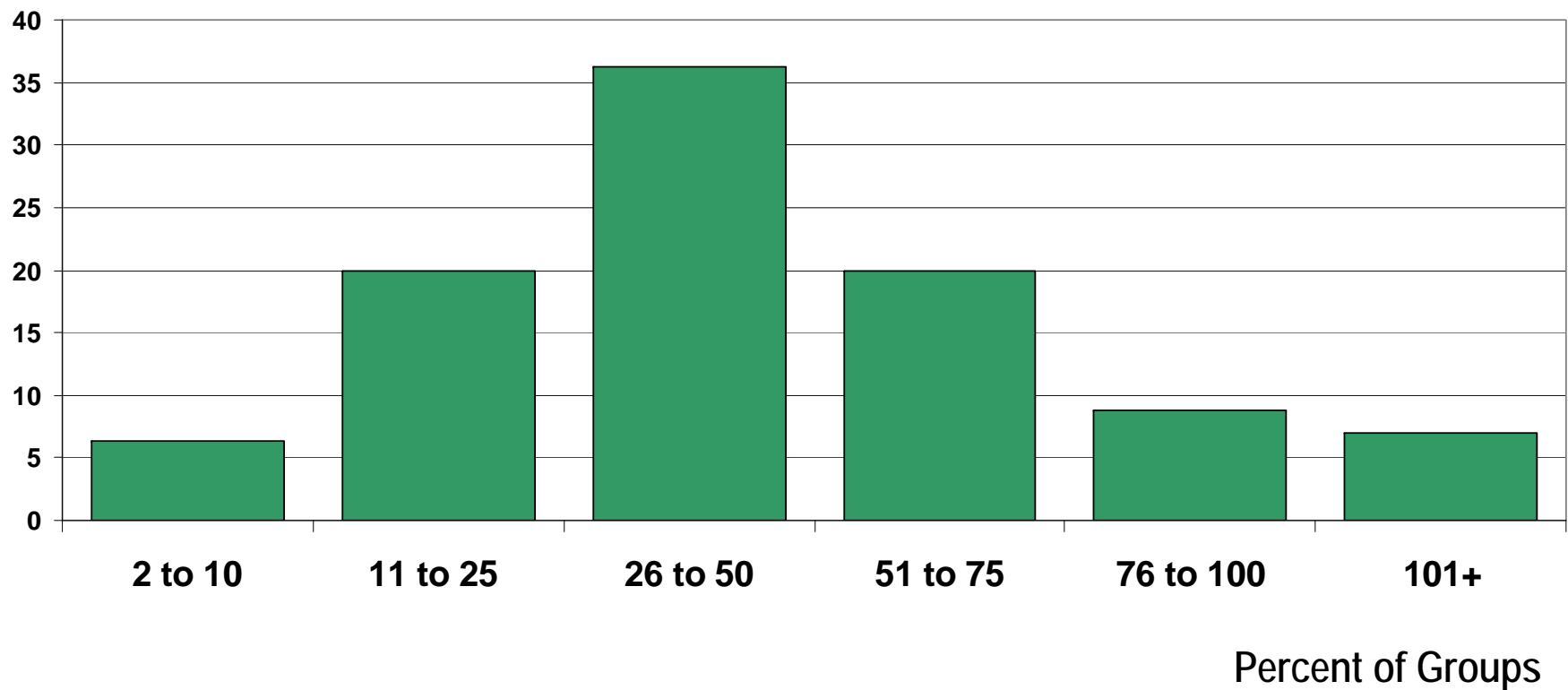


Source: 2008 ACA Angel Group Confidence Survey

Investors Per Group

Average = 55

Median = 41



Source: 2008 ACA Confidence Survey

Engaging Angels

- How do you find angels?
- What do angels expect?
- What attracts them to deals and/or entrepreneurs?
- What do entrepreneurs need to provide to angels?

Finding Angels

- Business plan in top shape
- Referral from someone the angel knows and trusts (lots of networking)
- Web site matching – caution!
 - www.vfinance.com, <http://activecapital.org>, www.gensx.com,
www.fundinguniverse.com
- Find local angel group
- Directories of angel groups:
 - U.K: www.bbaa.org/uk
 - Europe: www.eban.org
 - North America: www.angelcapitaleducation.org
 - North America: www.angelcapitalassociation.org (includes only ACA member groups)

Investment Expectations

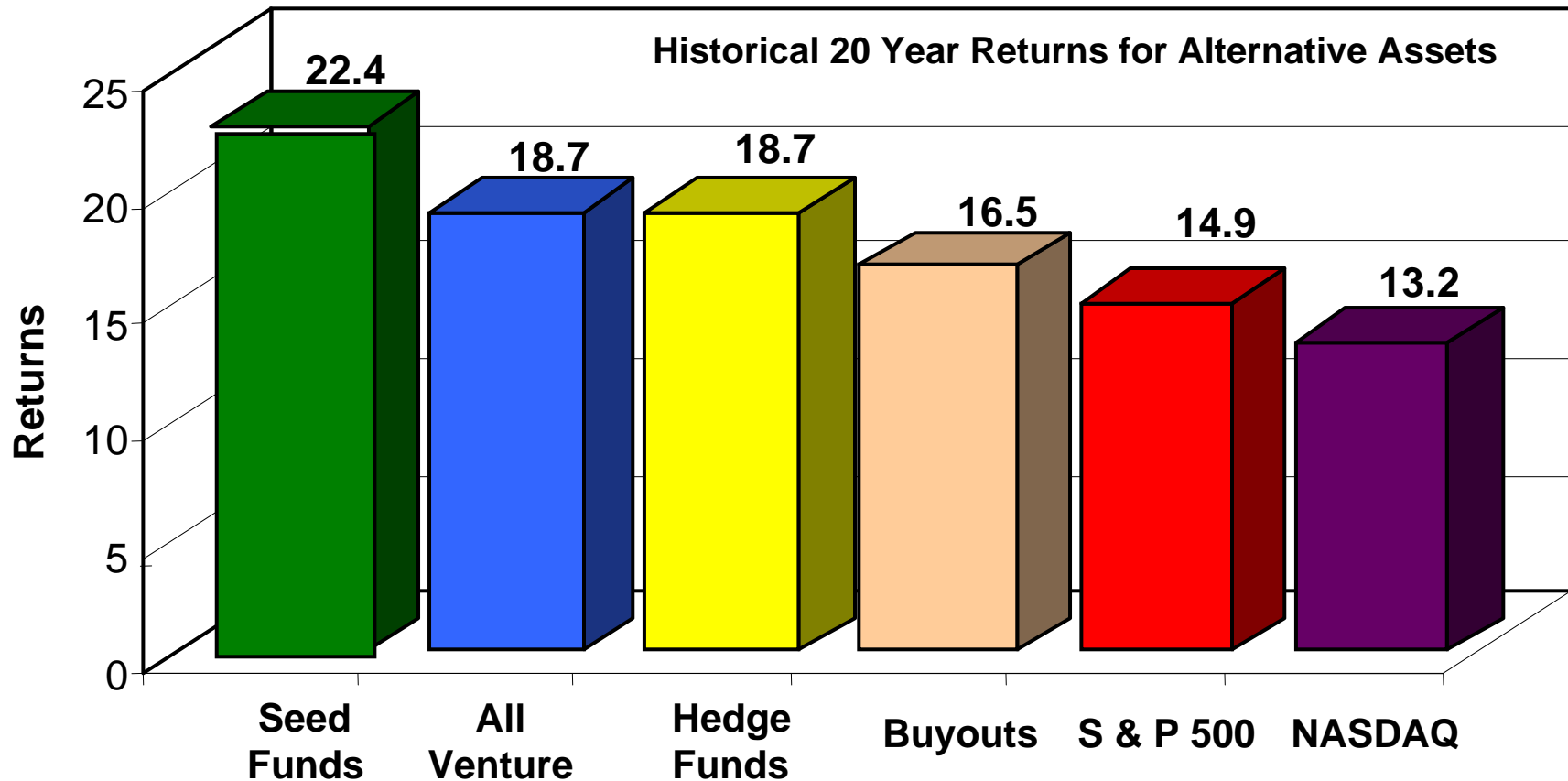
- From investor's perspective
 - Return on Investment
 - Company involvement
 - As advisor
 - On board
 - Part of management
 - Or some want to be passive
- From company's perspective
 - Find or provide follow-on investments
 - Introduction to potential partners or customers
 - Very little interaction

A Word About Return Expectations

- **Angel investing is VERY risky**
 - 1 or 2 of every 10 investments brings most of return
 - Hard to tell which companies will return
- **Current return estimates for portfolios:**
 - Annual IRR of 27% - 2.6X in 3.5 years*
- **If business gets VC funding later, angel investment is often diluted**
- **Some really great angels therefore looking for 10 to 30X potential**
 - Wide variety of expectations, depending on mix of motivations to be an angel
- **Correct valuation is critical**

*Source: Rob Wiltbank, Willamette University, November, 2007 paper

Angel Returns: 20-25% Per Year?



**November study: IRR = 27%
or 2.6X in 3.5 years**

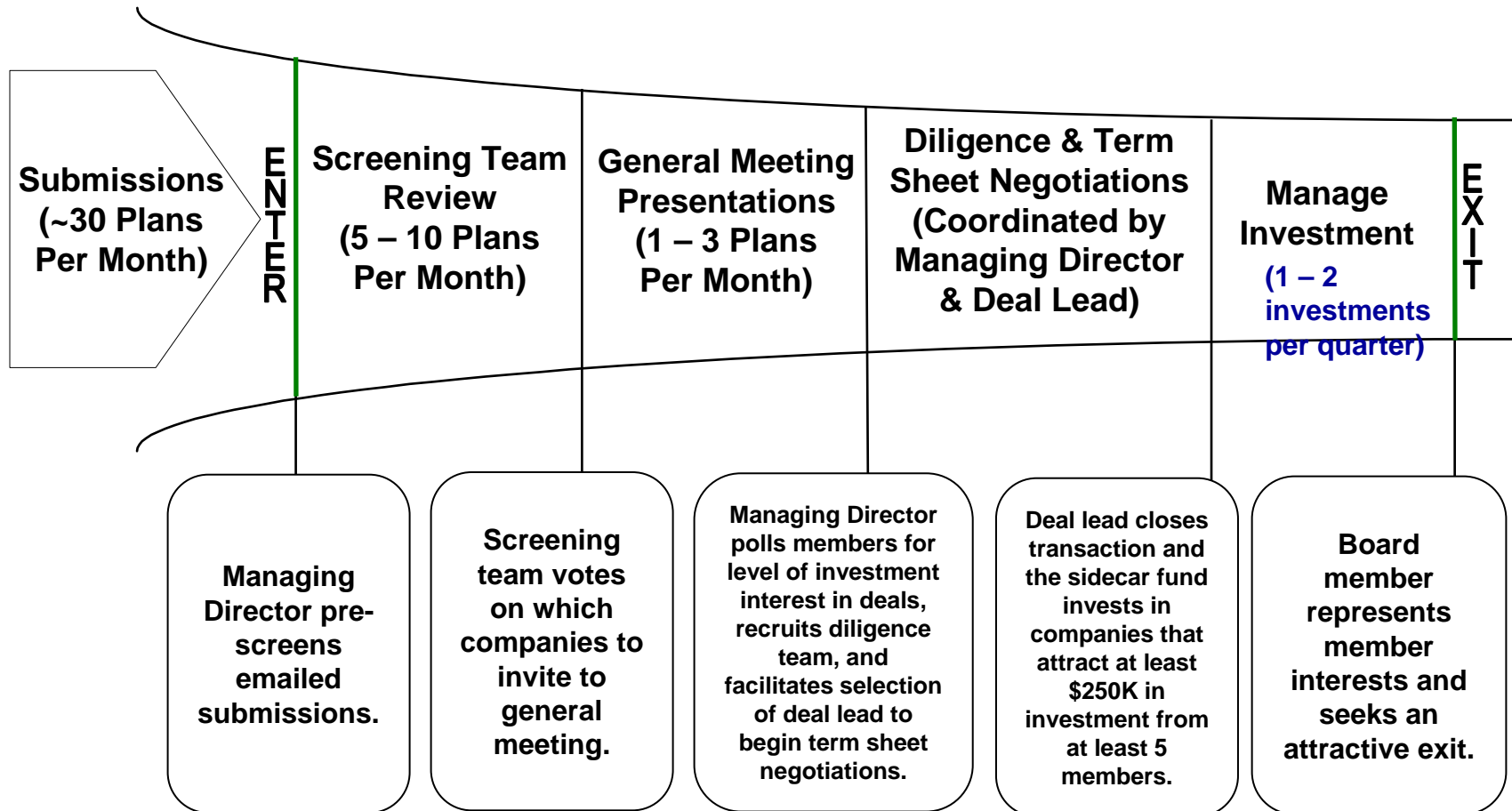
Source: Venture Economics, HFRI Equity Hedge Index

Rob Wiltbank, Willamette University

Process, Deals & Implications

- What's the process for investment?
- What do the deals look like?
- What issues do entrepreneurs need to consider for angel and follow-on funding?

How Angel Groups Work: Typical Deal Process



Source: James Geshwiler, CommonAngels, Boston

Deal Flow Statistics – Angel Groups

- Prescreening 1 in 4 to screening
- Screening 1 in 3 to DD/ present
- Due Diligence 1 in 3 to investment meeting
- Investment 1 in 2 raise money
- OVERALL 1 to 4 in 100 who apply receive investment

Writing Business Plans

- Entrepreneur MUST write plan (no consultants)
- See Pitching Angel Investors
at www.eVenturing.com (Kauffman site)
- Use editors for clarity and brevity
- Resources:
 - SBA - http://www.sba.gov/starting_business/index.html
 - The Business Mentor - www.fasttrac.org
 - INC Business Plan Building, Section by Section
http://www.inc.com/guides/write_biz_plan/20660.html

Forms of Business Plans

Elevator Pitch	Two minute verbal summary Product, opportunity, differentiation Attract interest – not closing
Executive Summary	2-4 page written summary Balanced presentation Attract interest – not closing
PowerPoint	20 minute verbal presentation Cover whole plan Find serious investors
Full business plan (write full plan first)	20-50 pages plus appendices Validation scorecard (due diligence) Basis for all other plan forms

Angel Rating System

Management Team	0-30%
Size of Opportunity	0-25%
Product or Service	0-10%
Sales Channels	0-10%
Stage of Business	0-10%
Size of this round	0 - 5%
Need for more funding	0 - 5%
Quality of plan	0 - 5%

Fundable Management Teams

- CEO
 - CEO experience
 - Vertical experience
 - Coachable (very important)
 - Leadership
- Team
 - Balance & Complete
 - Experience working together

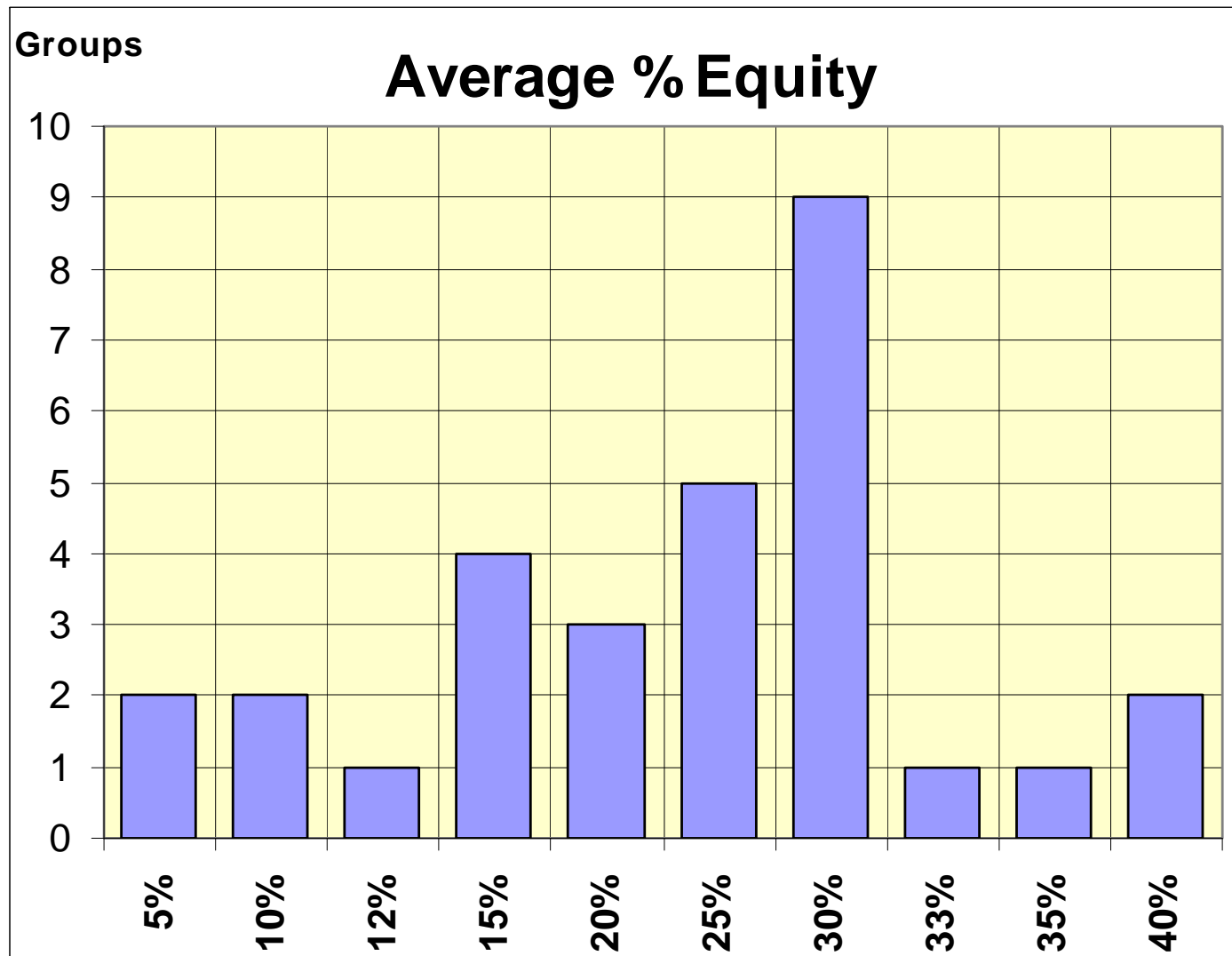
The Opportunity

- Scalable
 - \$30 million (min.) in revenues in 5 years
 - (VCs look for \$100 million)
- High gross margins
- Large niche market
- Unfair competitive advantage
- Ready for customers

Terms Preferred by Sophisticated Angels

Moving toward “vanilla” term sheets with:

- Preferred stock
- Liquidation preference
- Board & information rights
- Anti-dilution
- Participation rights



39 groups reporting (Caution: source data is incomplete & unverified)

Common Mistakes in Pitching Angels

- Only discuss technology/product
- Not prepared for presentation
(practice, practice, practice!)
- Presentation too long
- Inappropriate appearance

Once you get investors to the table...

Closing the Deal

Understand the Process

- Read how angel groups work

(Cutting-Edge Practices in American Angel Investing

J. May & E. O'Halloran, U of VA)

- Look on the website of your local group
- Network with those familiar with the process
- Know what to expect
- Be open and honest with investors
- Remain patient

Understand the Terms

- Start-up funding terms are unique
- Study these terms
 - Read *Term Sheets & Valuation* (A. Wilmerding - \$15)
 - Talk to your advisors
 - Consult with experience entrepreneurs
- Stay flexible on terms, especially valuation
- Understand common practice
(your region and business vertical)

Closing

- Read and understand the closing documents
- Remain patient with investors
- Communicate regularly with possible investors, use friendly persuasion
- Pursue low hanging fruit
- Get the deal closed...and **execute the plan!**

Kauffman Foundation's Angel Initiatives

- Education on investment process and opportunity
 - Power of Angel Investing
- Develop data and support research ([Returns study](#))
- Promote best practices and collaboration among angel groups
 - Angel Capital Education Foundation
- Develop tools/ education on starting groups
- Promote role models to expand participation of women and minorities

Information, Resources, and Support

ANGEL CAPITAL ASSOCIATION
THE PROFESSIONAL ALLIANCE OF ANGEL GROUPS

- Kauffman Foundation www.eVenturing.com
- www.angelcapitaleducation.org
- Angel Investor News
- Inc Magazine (and Web site)
- Books (see www.angelcapitaleducation.org)
 - ✓ *Term Sheets & Valuation – A Line by Line Look at the Intricacies of Venture Capital Term Sheets & Valuation*, A. Wilmerding (2003) \$10 from www.amazon.com
- Top level entrepreneurial support orgs
- Web sites match entrepreneurs and investors

Need More Information?

Marianne Hudson

Angel Capital Education Foundation

8527 Bluejacket St

Lenexa, KS 66214

913-894-4703

mhudson@angelcapitalassociation.org

www.angelcapitaleducation.org