

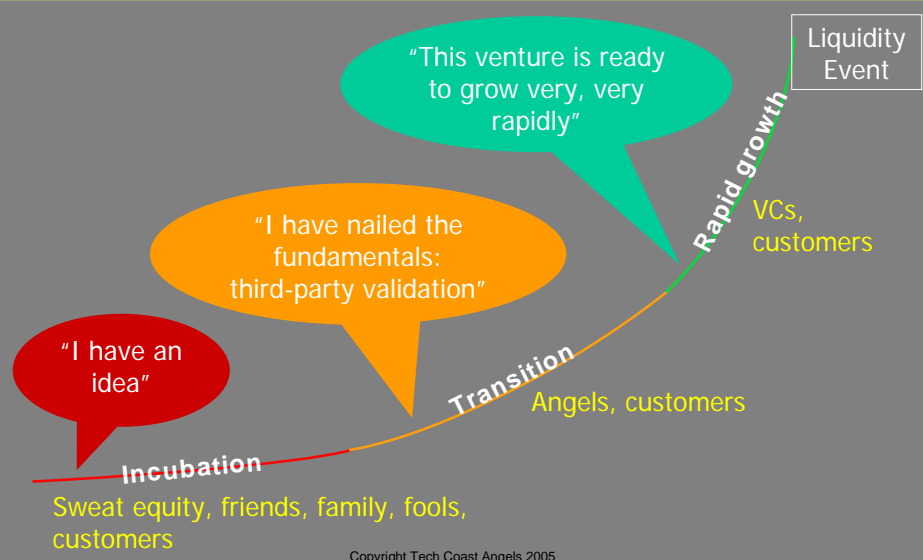


# Angel Investing

Kevin Scanlon, Ph.D.

Tech Coast Angels

## Stages of Growth & Funding



Copyright Tech Coast Angels 2005

# Who are Angel Investors?



- Invest own capital
- But limited financial resources (compared to institutions)
- Variety of backgrounds
  - CEO's, founders, VC's, Senior executives, professionals
- What to look for:
  - Extensive networks, resources
  - Interested in your business
  - Mentors who have time to add substantial value, guidance, and access to strategic resources
- Established networks have matured, e.g. TCA is the largest in the US



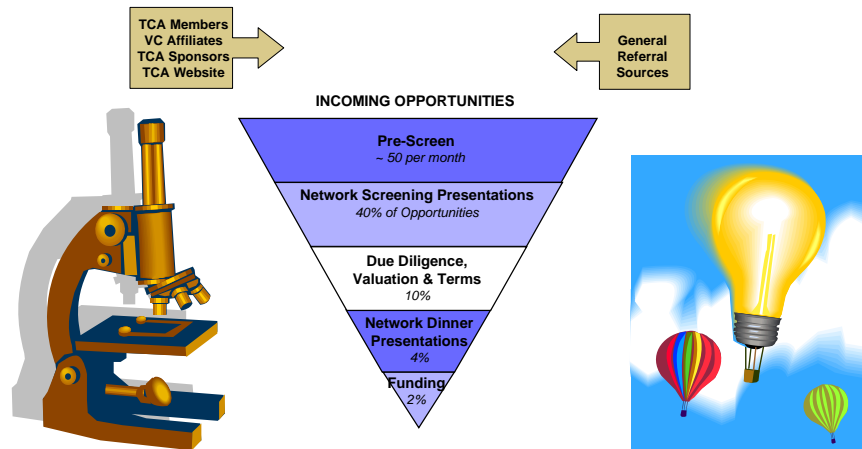
"Seeking Queen Isabella's Support"

Copyright Tech Coast Angels 2005

# TCA Screening Process



TCA relies on comprehensive screening process

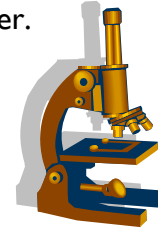


Copyright Tech Coast Angels 2005

## Typical Criteria For Funding



- Must address a compelling business need.
- Market needs to support a significant business.
- Product must offer serious advantages, e.g. pain killer.
- Protectable advantage that leverages a return.
- Validation from lead customers.
- Market size enabling >10x return within 5 years.
- “Coachable” & talented management team.
- Ability to attract future funding.



Copyright Tech Coast Angels 2005

## Angels & Entrepreneurs - Challenges



- **Angels typically are first “Smart Money” encountered – and most vulnerable**
  - Mgmt will always get more stock options, angels will not.
- **Typical Angel “Firsts”:**
  - Challenge strategy, market, value prop, competition, IP, financials, etc.
  - Take a “professional” approach to diligence and evaluation.
  - Question choice of personnel.
  - Expect angels to play an active role in mentorship.
  - Expect to stay closely informed of progress.



Copyright Tech Coast Angels 2005

## Some Angel & VC Differences



### Angels...

- Will look at “cold call” deals
- Willing to do work to make deals “fundable”
- Primarily former op execs (all types)
- Diverse experience and appetite
- Typically tapped out at around \$1 million
- May take board seats



### VCs...

- Want referrals to entrepreneurs
- Companies should be fundable
- Mix between financiers, MBA's, operating execs
- Few partners, narrower focus on specific areas
- Typically start at \$1 million and will exceed \$10 million
- Always take board seats

Copyright Tech Coast Angels 2005

## Top 10 Diligence Failure Items



- **Management** – Lack capability, closed-minded, weak experience
- **Customers** – Not compelled, long cycle, behavior change
- **Future fund-ability** – Not compelling enough to future VCs
- **Market** - Too small to enable venture-level return
- **Differentiation** - Inadequate IP or protect-ability
- **Tech Immaturity** - Too much “invention” still required
- **Fin/business model** - Lack margins or credibility, too long to CFBE
- **Staging** – Too early and not likely to meet stated goals
- **Pre-existing agreements** – Harmful or expensive
- **Shareholders** – Disruptive family, friends, former employees

Copyright Tech Coast Angels 2005

## Top 10 "Turn-Off's" To Investors



- **Lacks excited customers** – Adoption rate suspect
- **Founders lack experience** – Mismatched team and leadership
- **Lack expert endorsement** – Any real 3<sup>rd</sup> party validation?
- **Weak presentation** – Miss critical points, lack credibility
- **High valuation** – Lack of premium for taking early risk
- **Not "Protect-able"** – Limited IP, captive customers and such
- **Biz model not credible** – Customer acquisition, price erosion, etc.
- **Long-term or delayed exit** – Hard to visualize future buyers
- **Won't get big enough** – Other deals have better upside
- **Too much capital required** – Dilution looks to be high

Important visual: "Vitamin" vs. "Pain Killer"

Copyright Tech Coast Angels 2005

## Recent TCA Investments



Company	Situation
	Series A included TCA, \$3M Series B from Kline Hawkes, \$30M revenue, recognized as fastest growing company in LA, raising Series B of \$20M.
	Series A and B by TCA, \$6M Series C led by Sequoia Capital, now \$20M+ rev and profitable.
	Seeded by TCA, Series A by InQtel, \$4.0M Series B led by Palisades Ventures, profitable, \$10M+ rev for 2005.
	Seeded by TCA, \$3.5M strategic investment by The Wedding Channel, now \$15M+ revenues and profitable.
	Series A led by TCA, \$5M Series B led by Sequoia, sales of \$5M+ in 2005.
	Series A led by TCA, Shepherd Ventures and Stone Canyon co-invested in \$4M round, company launching revenue now.
	Seeded by TCA, \$6M Series A and B exclusively with Sequoia Capital, will raise Series C north of \$40M.

Copyright Tech Coast Angels 2005

# Questions and Discussion