



The NC Small Business & Technology Development Center
is pleased to present



From THE MIND OF THE INVESTOR™_{series}

UNC Pembroke Entrepreneurial Summit
March 12, 2009
ANGEL FUNDING LANDSCAPE

SPONSORS



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

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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

PREPARE DUE DILIGENCE MATERIALS

DUE DILIGENCE PROCESS

VALUATION

STRUCTURE THE DEAL

CLOSE

EXECUTE THE PLAN



Get feedback & adjust accordingly.





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The Private Equity Investment Process

In the trenches ...

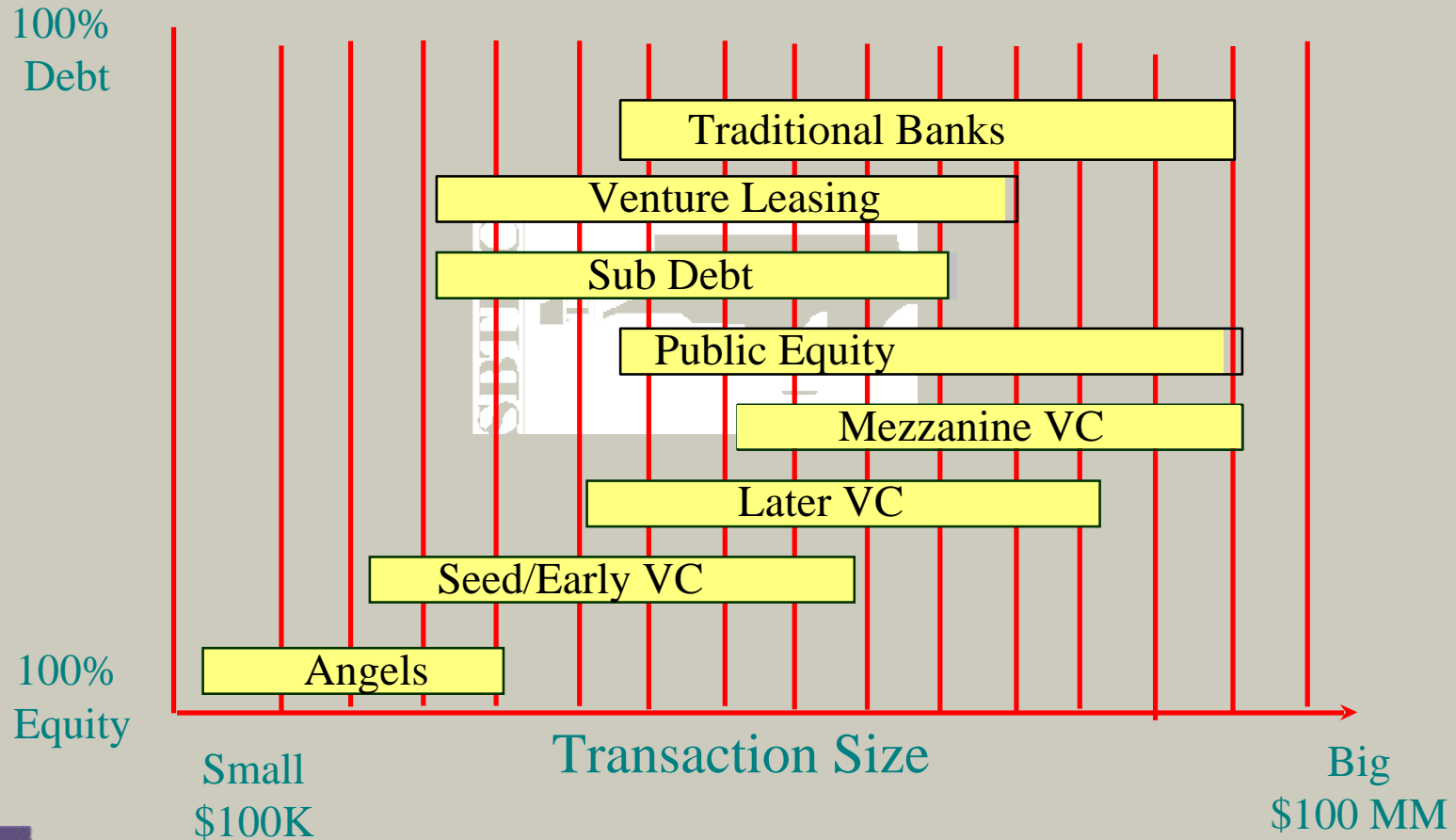


Key Questions to Answer...

- 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



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)

	<u>Angels</u>	<u>VCs</u>
Amount of Capital	~ \$26 billion (2007)	\$26.5 billion (2007)
Number of Investors	250,000	<900
Number of Investments	57,000	2,500 (~200 seed)
Per round	\$0.50 million	\$7-8 million
Investors per round	6 - 10	2 - 3
Professionally managed	Sometimes	Yes
Motivation	Various	ROI first

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



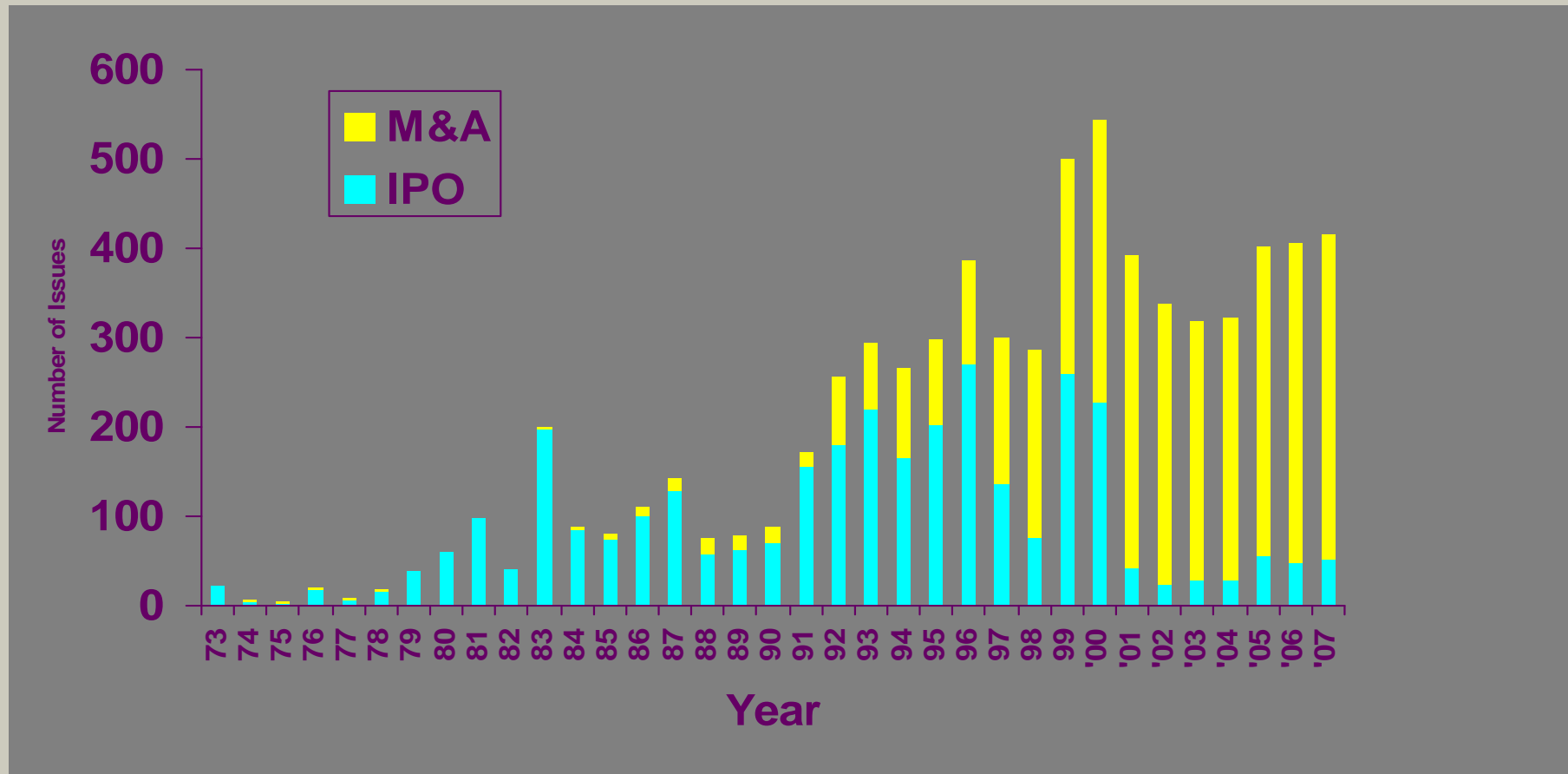
Look to angels

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”

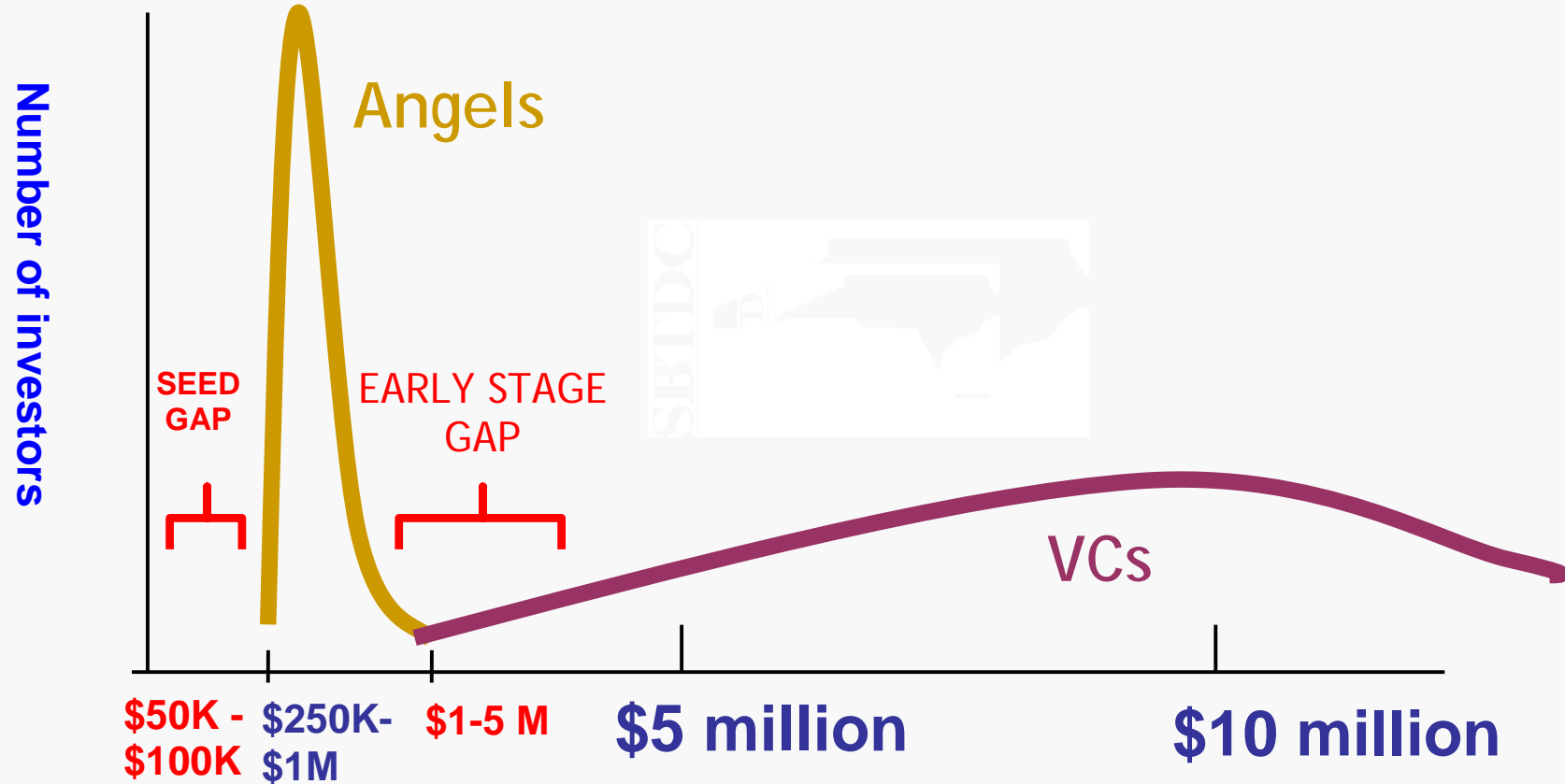


Source: NVCA



Entrepreneurs: Go Where Investors Are

Source: Kauffman Foundation – “Power of Angel Investing”



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





Becoming an **INVESTOR-READY ENTREPRENEUR™**

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