

Angel Financing

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Several Types of Angels



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Is There a Typical Angel?

- The "average" private investor is 47 years old with an annual income of \$90,000, a net worth of \$750,000, is college educated, has been self employed and invests \$37,000 per venture.
- Most angels invest close to home and rarely put in more than a few hundred thousand dollars.
- Informal investment appears to be the largest source of external equity capital for small businesses. Nine out of 10 investments are devoted to small, mostly start-up firms with fewer than 20 employees.



Is There a Typical Angel?

- Nine out of 10 investors provide personal loans or loan guarantees to the firms they invest in. On average, this increase the available capital by 57%.
- Informal investors are older, have higher incomes, and are better educated than the average citizen, yet they are not often millionaires. They are a diverse group, displaying a wide range of personal characteristics and investment behavior.
- Seven out of 10 investments are made within 50 miles of the investor's home or office.



Is There a Typical Angel?

- Investors expect an average 26% annual return at the time they invest, and they believe that about one-third of their investments are likely to result in a substantial capital loss.
- Investors accept an average of 3 deals for every 10 considered. The most common reasons given for rejecting a deal are insufficient growth potential, overpriced equity, lack of sufficient talent of the management, or lack of information about the entrepreneur or key personnel.
- The Small Business Administration estimates that there are at least 250,000 angels active in the country, funding about 30,000 small companies a year. The total investment from angels has been estimated at anywhere from \$20 billion to \$50 billion.



A Useful Paradigm

Individual(s) Know the market and /or technology	Individual(s) Don't know the market or technology
Organization Knows the market and /or technology	Organization Doesn't know the market or technology

How to Find Angels

<http://www.angelcapitalassociation.org/>

ACE-net (Angel Capital Electronic Network)

U.S. SBA Office of Advocacy

Matches entrepreneurs with individuals and groups—requires SEC formalities

<http://www.inc.com/articles/2001/09/23461.html#national> (Inc. magazine listing of national and regional angel groups)

How to Find Angels

<http://www.gaebler.com/angel-investor-networks.htm>

North Carolina Angel Investor Groups

[Atlantis Group](#)

[Blue Angel Ventures, Inc](#)

[Blue Ridge Angel Investment Network \(BRAIN\)](#)

[Charlotte Angel Partners](#)

[Piedmont Angel Network](#)

[Tri-State Investors Group](#)

[Inception Micro Angel](#)

How to Find Angels

Economic Development Organizations

SBTDC

NC BioTech

Other Angels

Other Entrepreneurs

UNC Business Professors

Accountants

Attorneys

When You Find Your Angel

- Ask if there is a format/process they use to consider investments
- Know your market opportunity and present in order of priority:
 - Unmet market need and size; illustrate with good stories and substantiate with good statistics
 - Your qualifications to access the market and meet this need. Supplement with orders, contingent investment commitments, "name brand" advisors

When You Find Your Angel

- Barriers to Entry / Intellectual Property
- Current competition
- Your product or service
- Governance, Valuation and Deal Structure
 - Angels open to very early stage opportunities, investing \$10-\$50k to get started with a mere idea
 - Will likely discount value of idea in view of work to be done
 - Will want role in governance (Board seat, etc.) that may seem disproportionate to entrepreneur
 - Investigate their track record in follow-on financing, bringing in other investors.

A Special Word about University Involvement in Entrepreneurship

- Can't own equity
- Can't compete with private business
- Usually require immediate or early reimbursement of all out-of-pocket expenses, especially I.P. expenses
- Confidentiality can be a problem
- Otherwise can be quite reasonable
- Prestigious affiliation w/ most investors and customers

Case Study 1

University of Cincinnati Medical School

Invention of heart transplant surgeon

I.P. owned by university

Company took license and paid further I.P. protection

Angel round \$900k, mostly used for I.P. and inventor salary

SBIR funding

VC round \$2 million

I.P. sold, incidental invention developed and licensed for modest royalties

Case Study 2

Case Western Reserve University

Technology developed by anatomy instructor

\$70k angel round

\$100k convertible loan from economic development organization

contract supplier to national marketer of orthopedic implants

employs 8, positive cash flow, no exit for angels

QUESTIONS?