



LECLAIRRYAN

Angel Investing 101

Shenandoah Valley Technology Council

November 18, 2010

Road Map

- Context – where does angel money fit in?
- Individual angels/organized angel groups
- Typical angel deal terms
- Special challenges
- Tips for approaching angels
- Getting deals done

Overview: Available Paths to Money (assuming company is not bankable)

- Personal Funds
- FFF
- CIT GAP Fund
- Angel Money
- Institutional Venture Capital
- Other (e.g. strategic alliance)

CIT GAP Funds

- Makes seed-stage equity investments in Virginia-based technology and life science companies
- GAP BioLife — a seed fund investing exclusively in life science companies
- GAP Tech
- Invests up to \$100,000 alone, or in syndications of \$500,000 or less (milestone-driven)
- Will not invest in companies that have had outside financing in excess of \$500,000 from family, friends and/or angels

Angel Financing

- Individual angels: \$25,000 - \$500,000
- Organized angel capital groups: \$150,000 - \$3,000,000 range
- Investment preference
 - Individual — depends on prior industry experience/business background
 - Organized angel groups — depends on composition of membership
 - Demographics/green bananas

Institutional Venture Capital

- Upward pressure on size of investment due to increasingly large funds
- Trend in current market environment is to serve as a substitute for bank financing
- Recent past: \$5,000,000 but would reach down to \$3,000,000 for a great deal
- Current trend: \$5,000,000 is low-end; really want to invest \$8,000,000 - \$10,000,000
- Looking for an exit in 3 - 5 years max but that timeline has been stretched to 4 - 7 years

Strategic Alliances as a Source of Funding

- In certain circumstances, funding may be available by entering into a strategic alliance with a large industry player
 - Sometimes R&D funding to develop an exclusive custom product
 - Sometimes equity
 - Sometimes debt
 - Sometimes prepaid licensing fees
- Proceed with caution – large industry player will always want exclusivity and rofr

Angels-as you find them:

- High net worth individuals
 - Be aware of the difference between smart, dumb and dangerous money
- Angel networks – 3 basic models:
 - 1) VAAN and New Dominion Angels
 - dinner format/monthly meetings
 - “call” model
 - 2) Jefferson Corner Group
 - Luncheon format/monthly meetings
 - “committed” model
 - 3) 460 Angels
 - ad hoc

Typical Angel Deal Terms:

- Common stock
- Preferred stock
- Convertible debt

Special Challenges Associated with Angel Investing

- Valuation
- Dilution
- Due diligence
- Adult supervision
- Leaving the door open for subsequent rounds
- Ensuring the exit

Tips for Approaching Angels - I

- Your personal network/industry contacts
- Referrals from trusted advisors
- Intermediaries
 - Broker dealers
 - Online marketing services – careful!
- Don't post solicitation on your website

Tips for Approaching Angels – II

- Know the Tools of the Trade:
 - Executive summary
 - Business plan
 - Killer slide deck
 - Private placement memorandum

Getting deals done – a VC Lawyer's Perspective

- Fund to milestones
- Avoid commitments to taking in more money than can be intelligently spent
- Grow the pie
- Look for more than money
- Match the amount of capital to the company's needs, not vice versa
- Match the source of capital to the company's needs, not vice versa
- Companies can sometimes fund to an exit with angel money
- Or not. Sometimes, when a large amount of committed capital is required, institutional venture capital is a necessity

Conclusion

Raising capital has never been particularly easy, but in the current environment investors are more selective than ever. Still, deals are being funded for the astute, well-prepared entrepreneur. There are no shortcuts or second chances.

Resources

- Angel Capital Association (for North America)
 - (www.angelcapitalassociation.org)
- National Association of Seed and Venture Funds
 - (www.nasvf.org)
- Kauffman Foundation
 - (www.emkf.org)
- National Venture Capital Association
 - (www.nvca.org)
- Every Business Needs an Angel – John May
 - (Crown Business: 2001)
- “State of the Art: An Executive Briefing on Cutting-Edge Practices in American Angel Investing”
 - (Darden Business Publishing: 2003)
- Association of Strategic Alliance Professionals
 - (www.strategic-alliances.org)

Thank You!

Questions?

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