



SAUDER
School of Business

UBC-MBA Talk
Flying with Angels
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 **W U T I F**
 WUTIF Capital (VCC) Inc

Innovation is *the* key to growth



R&D (Knowledge)
 Talent:
 Universities
 R&D Orgs

Entrepreneurs

Markets Consumers

gap gap
 Angels VCs

Entrepreneurs are the Champions of Innovation



My Passion: Tech Startups

Experience:

- starting them (tech entrepreneur, mentoring)
- raising capital for them & investing in them

Observation over 30 years:

“good” companies *will* always get funded
startups are getting better each year

Conclusion:

It's all about Entrepreneurship & Leadership
Beware of the E-myth!



A Great time to start a Company

- ↗ Prime at 2.25%, low inflation, GDP: ? %
- ↗ Lower taxes (small bus. rate, cap gains exempt)
- ↗ Low R&D costs (SRED Credits)
- ↗ Great Infrastructure (see www.hitechbc.com)
- ↗ Overhaul of securities regs (easier financing)
- ↗ Special incentives: SBVCA - VCC program
- ↗ Make a list of all un-invented things!
- ↗ Americans will buy anything!



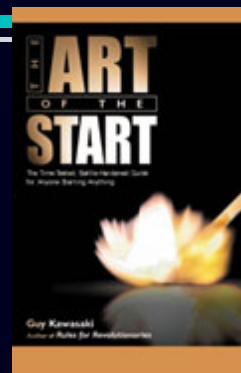
What's New?

- Lower Valuations
- More investors at smaller amounts
- Business Structuring is getting more attention
- It's all about EXITS!! – need a “Plan”
(What's better 5X in 5? Or 10X in 10?)
- Politics?



Early Stage vs Startup?

- Early stage:
 - Team
 - Products
 - Business Plan
 - Customers
 - VCs – maybe
- Start Up:
 - one or two people
 - ideas and/or IP
 - VCs – forget it!



[See www.garage.com]

What's An Angel?



ANGEL:
a term borrowed from Broadway
(successful “stars” helping “starlets”)

TWO key (ideally) characteristics of Angels:

1. Been there, done that (entrepreneur, CEO)
2. *Invests Own Capital, \$25K-\$1M+ (no agents, no OPM)
(* essential criterion)



The Alternatives

Go to www.hitechbc.com for MONEY LINKS:

- Golden Gov't funding
- Love Money
- Angels & Angel Funds
- Private Investors
- Hedge Funds
- Venture Capitalists
- Public Markets
- Strategic Partners
- Customers
- Debt, VISA, sharks, etc

SOURCE	LINK	COMMENTS
EQUITY Capital	(Green Money)	(Green is for Green)
ANGELS and other Investors (VANTEC)	http://www.vaf.org/angels/index.html	As you can appreciate, Mike@vaf.org is monthly.
ANGEL FORUM	http://www.angelforum.org/	A periodic forum for discussion. Contact: chaworth@direct
BDC Venture Capital	http://www.bdc.ca/inf/invest/finance/venturescap/index.html	BDC is a government and \$90M in 9 other investments* fund.
Banyan Capital Partners	http://www.ecgroup.com/banyan/bcp/index.jsp	Est in 1999, Banyan
Berkely Capital Corp	http://www.berkeleycapital.com	Innovative warrants 10% of the company.
B C Advantage Funds (VCC) Inc	http://www.bcadvantagefunds.com	Formed in 2003, 7 venture start-up funds the general public.
B C Discovery Fund (VCC) Inc	http://www.bcdiscoveryfund.com	This is another professional BC-based tech co.
Bell Mobility Investments	http://www.bellmobility.ca/bmi	BMI wants to invest. Offered. Contact: b
BIRC Corporation	http://www.birc.net	BIRC is focused on the drug industry.
BMO Capital Corp (EMOCC)	http://www.bmo.com/emoccf/	Est. in 1996, Bank potential at all stages.
Canadian Science and Technology	http://www.cst.ca/	For more information



Why Entrepreneurs like Angels

- The *best* way to get the funding process started
- If they can't get interest in this level, they won't go far with anyone else
- Angels are a magnet for Venture Capital (really?!)
- Angels make excellent mentors & coaches
- Angel money is true risk capital... and it's becoming more ubiquitous
- Been there, done that – angels are entrepreneurs
It's not just about the money!



What Angels Want

1. Fun
2. Interesting Opportunity
3. A willing protégé
4. To use one's resources
5. Attractive Return:
10X to >>100X
6. 3 I's: Intensity, Integrity, Immediacy (person)
7. 3 G's: Goodness, Greatness, Greed (company)





Angels: Where on Earth are they?

Sorry! There's no "list"
Get a friend...

a mentor
a coach
an advocate



(this is the "key" to the angel network)

There is no shortage of venues!!
(they're everywhere! they're everywhere!)

Good people/deals will always get funded!



ANGELS vs VCs

	ANGELS	VCs
Stage of Investment	Startup (pre-BP)	No startups
Capital Invested & Source	\$100k-\$1M Own Money	>>\$1M Others' Money
Incentive & Participation	No Fees, Hobby Founding team	Fees, Profession Management Team
ROI & Exit Goal	>100X, >\$5M	>10X, >\$100M
Due Diligence	Gut feel, Why to?	No risk, Why not to?
Other Attributes	Fast, innovative, entrepreneurial	Cautious, smart, managerial



Some Recent Observations

- Vantec Angel Study: 50% get funded; \$1M (avg)
- From a Toronto VC:
 - Angels in Vancouver are more sophisticated than VCs
- Vancouver Angels better at syndication; do more deals
- US VC: 22% ROI, California: 54%, Canada: 2%?
US Angels: 2.6X in 3.5 years (ROI = 28%)
- More “angel funds”
- More and more angel groups

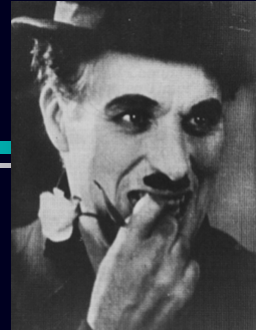


ROI? How to calculate?

- eg: 2.6X in 3.5 years (ROI = 28%)
- Use .xls function = IRR(values, guess)
- eg: 12*IRR(D128:AT128,0.2/12)
- monthly vs annual compounding?
- Examples:
 - 2X in 5 years = 15%
 - 5X in 5 years = 38%
 - 10X in 10 years = 26%
 - 50X in 10 years = 48%



Angel's Angst



The Issues:

- How to pick the winners?
- What's the "valuation"? (dumb deals are common!)
- What will we do about follow-on financing?
- Will we suffer merciless dilution? Cramdowns?
- Simply too busy!



The Valuations Issue



- What is the sell-out target? (\$10m? \$100m?)
Angels need at least 10X
 - If an angel gets 15% instead of 10%:
Angel gets 50% more, entrepreneur gets 6% less
 - The 3 times 1/3 rule: Investors: Founders: \$\$\$
- | | | | |
|-----------------|-----|-----|--------|
| Angel Round: | 33% | 67% | <\$1m |
| Series A Round: | 33% | 45% | >\$5m |
| Series B Round: | 33% | 30% | >\$10m |



The Terms Sheet?

- Offering:
 - Common vs Conv Deb vs Prefs
- Valuation:
 - Trading cash for futures
 - Use accretive approach for performance
- Vesting for founders:
 - 50% Linear over 3-4 yrs
 - 50% on liquidity event
- Capital & Structure:
 - avoid options – use trust shares
- Governance:
 - board rep/independence
- Shareholders Agreement:
 - standardize

A: Terms of Offering for WUTIF

Company:	Company Inc. (the "Company")
Offering:	10,000 Units at \$1.00 per unit, each unit consisting of one Common Share without par value and a Warrant to purchase an additional common share at a price of \$1.25 on or before two years from the date of issue.
Price per Unit:	\$0.00
Amount:	\$100,000.00
Offering Jurisdiction:	The Offering will be sold in the Province of British Columbia.
Tax Credits:	Company is an Eligible Business Corporation and an Eligible Small Business under the terms of the British Columbia "Mutual Capital Corporations" ("MCC") Act.
Exemptions:	The Offering will utilize all appropriate and available exemptions from prospectus requirements.
Closing:	Closing shall take place within fifteen (15) days of the date when Company has raised, subsequent to Sept 16, 2004, additional financing of \$150,000 and has provided evidence of such financing satisfactory to WUTIF.
Anti-Dilution:	Holder of this round of common shares, as well as investors in all previous rounds of common and preferred shares in Company, will be protected with normal industry standard anti-dilution provisions until December 31, 2005.
Audit Requirements:	Company shall provide audited financial statements beginning from the year ended December 31, 2004.
Board Participation:	WUTIF shall be entitled to nominate one director on the Board of Directors.
Voting:	Each common share will be entitled to one vote.
Dividend:	No provision has been made for the payment of any dividend for the foreseeable future.

Goal: "Standardize" Terms

See www.wutif.ca for a sample (under "companies")



Cap Table (Ideal)

	CAP TABLE				
	StartUp	Angel Round	VC Round	Exit	Gain
Founders/Mgmt	\$0 (100%)	\$0 (75%)	\$0 (60%)	\$60M	1000X
Angels		\$500K (25%)	\$500K (20%)	\$20M	40X
VCs			\$2M (20%)	\$20M	10X
Market Cap	\$0	\$2M	\$10M	\$100M	



Cap Table (more likely)

	CAP TABLE				
	StartUp	Angel Round	VC Round	Exit	Gain
Founders/Mgmt	\$0 (100%)	\$0 (75%)	\$0 (37%)	\$11.25M	1000X
Angels		\$250K (25%)	\$250K (12%)	\$3.75M	15X
VCs			\$3M (50%)	\$15M	5X
Market Cap	\$0	\$1M	\$6M	\$30M	



Angel's BS Bingo:

Domain Expertise	ProActive Management	Unique Proposition	Low Burn Rate	Best of Breed
Enabling Technology	Empowered Team	Ground Floor Opportunity	First To Market	Platform Technology
Market Driven	World Class Products	<u>PROFITS</u>	Competitive Advantage	Renowned Board
Proprietary Technology (no competitors)	Revolutionary Business Model	IP Portfolio	Favorable Valuation	Liquidity Event (Exit Strategy)
Revenue Traction	NASDAQ IPO	Mezzanine Round	Defensible Strategy	Visionary

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Winning with Angels:



Remember:

This is a contact sport

This is *not* an institutional activity (it's a network)

(Do not call to inquire about your "application")

Getting a mentor makes *the* difference!

It's just like finding a partner:

Love at first sight does happen, but...

Courting and building a relationship takes time

(one night stands cause headaches!)

Don't be desperate

....And it must be FUN!



What about Scale?

The \$100 million deal?

or

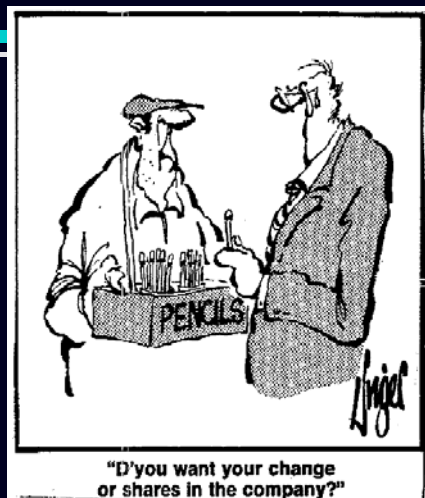
The Lifestyle Business?

Or

Something In between?

YOUR DECISION!

Then sell your story
to the right audience!





The Angel Network (VANTEC)

Under auspices of the VEF... (started Apr'99)
(check: www.vantec.ca for details)

How it Works:

- it is a network (no formal organization!)
 - by angels and for angels
 - monthly meetings: 3-5 short 15 min presentations
 - no hard and fast rules (no application process)
 - works on the sponsorship model
 - dovetails nicely with VCs, Incubators, etc...
- (Note: biotech and tech subgroups have formed)



Contact Info:



<http://www.mikevolker.com>

<http://www.wutif.ca>

<http://www.hitechbc.com>



THANK YOU!
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