



 Flying with Angels


 6 June 2008




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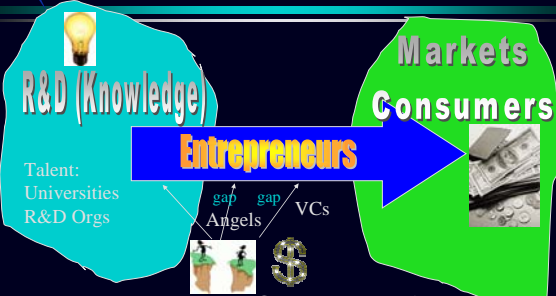
 University/Industry Liaison Office

 Simon Fraser University


 WUTIF

 WUTIF Capital (VCC) Inc

Innovation is *the* key to growth



 Entrepreneurs are the Champions of Innovation

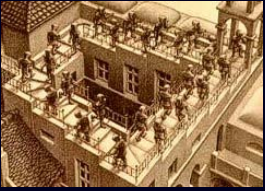
The Quandary

 ↗ More and more Ideas

 ↗ More and more \$\$\$

 But no investments!

 WHY?



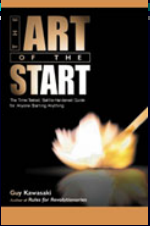
Early Stage vs Startup?

 ↗ 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.vef.org 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
FOURTY Capital	http://www.fourty.com	Office in for the
ANGELS and other Investors (VANTAGE)	http://www.vantage.com	As you can appreciate, this is a monthly
ANGEL FORTM	http://www.angelforum.org	A periodic forum
EDC Venture Capital	http://www.edc.ca/entrepreneur/venturecapital	EDC is a government and EDCM is a "not-for-profit" fund
Business Capital Partners	http://www.businesscapitalpartners.com	Est. in 1993. Based
Velocity Capital Corp	http://www.velocitycapital.com	Investative services
U.S. Advantage Funds (VOO) Inc	http://www.usadvantagefunds.com	Formed in 2000. Focuses on raising funds for the general public
U.S. Discovery Fund (VOO) Inc	http://www.usdiscoveryfund.com	This is another private equity fund
Small-Army Investments	http://www.smallarmy.com	ARM wants to see offers. Contact
ABC Corporation	http://www.abc.com	ABC is focused on the industry
ABC Capital Corp (EMOOD)	http://www.abc.com	Est. in 1996. Based in the
Canadian Science and Technology		

The Angel "Industry"

NATIONAL SUMMIT CONFERENCE (some trends)

- Angel Investing is becoming an industry (Incentives Lobby)
- Angels and private investors provide more capital than VCs
- Only Angels invest in startups
- Lots of capital; more pooling; but lower valuations
- Angels are becoming more like VCs

IN CANADA:



IN THE USA:



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

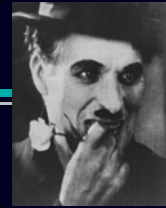
Some Recent Observations

- 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?

As: Terms of Offering for WUTIF	
Company:	Company Inc. (Inc. "Company")
Offering:	\$5,000,000 in \$500,000 units with subscription of one Common Share without preference and a Warrant to purchase an additional common share at a price of \$5.00 in 12 months after the date of issue.
Price per Unit:	\$1,000
Amount:	\$10,000,000
Offering Jurisdiction:	The Offering will be sold in the Province of British Columbia.
For Details:	Company is an "Exempt Business Corporation" and the "Private Fund Exemption" in the Securities Act of British Columbia. Please Contact: [Name] at [Phone Number].
Restrictions:	The Offering will include all appropriate and available anti-dilution provisions.
Options:	Options shall have priority over all other options of the Company for a period of 12 months from the date of issue of the Offering and shall be exercisable until the date of the next general meeting of the Company.
Anti-Dilution:	Holder of this round of common shares, as well as holders of all previous rounds of common and preferred shares of Company will be protected with respect to dilution through anti-dilution provisions until December 31, 2015.
Anti-Preemptive:	Company shall provide, upon the request of investors, a copy of the most recent financial statements of the Company as of the date of the offering.
Board:	WUTIF shall be entitled to nominate one director on the Board of Directors.
Participation:	Each common share will be entitled to one vote.
Notes:	The proceeds have been made for the payment of any interest for the period of 12 months.

Goal: "Standardize" Terms

- 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

See www.wutif.ca for a sample

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	PROFITS	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

milesvalley.com

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!



The Angel Network (VANTEC)

Under auspices of the VEF... (started Apr'99)
(check: www.vef.org 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:



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<http://www.wutif.ca>

<http://www.hitechbc.com>



THANK YOU!
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