BlueTree
ALLIED ANGELS
Where Capital Meets Opportunity
Angel Investors

• **TYPES - all shapes and sizes!**
  - Friends and Family
  - Unsophisticated
  - Sophisticated
  - Guardian Angels or coaches/mentors
  - Passive
  - Super Angels
  - **Angel Networks /Funds**
Who are Angel Investors?

- Often successful entrepreneurs or retired business persons
  - Active investors providing money, expertise, and their network
  - Contribute to their local ecosystem (mentoring, judging, educating)

- Accredited investors – SEC definition (US & a few others)

- Invest their own money (not money managers)

- Generally invest in local companies

- Invest in businesses not run by family

- In 2013, 298,000 investors invested ~$24.8B in about 71,000 deals (2/3rds early-stage)
Why Angel Investor Networks

• **The Power of Aggregation**
  – Aggregating *investment dollars*
  – Aggregating *knowledge, experience*
  – Aggregating *industry connections*
  – Collective Due Diligence

• **Mitigate Risk** - Diversified portfolio

• **Higher Quality Deal Flow**

• **Greater Investment Clout**

• **Continuity through Portfolio Management** – monitoring and mentoring with talent and experience
Premise on Angel Networks
Advantages for Entrepreneurs

• Creating new class of investor
  • Developing *sophistication/excellent processes*
  • Creating opportunities for *Syndication*

• **Market efficiencies** developing

• Beginning to **close capital gap**
Growth in Number of American Angel Groups

Sources: Center for Venture Research (pre 03 data) and Kauffman Foundation/ARI (04-13 data)
BlueTree Allied Angels

- Network of Accredited Investors (Pittsburgh & Erie)
- 60+ Members
- Cashed-out Entrepreneurs, Senior and C-Level Executives, Professionals

- Investments:
  - $20K per deal (individual)
  - $200K per deal (group) minimum
  - $30 M invested in 46+ Companies ($400K/deal avg.)
  - Co-Invested with other groups and VC’s in 17 deals
• **Management Team usually most important**
  
  – **CEO**
    * Coachable, vertical experience, leadership
  
  – **Team**
    * Balanced & complete
    * Experience working together
    * OK to have some positions still to be filled
Investor Expectations

• Potential for Company to grow and scale
  – $30M min. revenue in 5 years
  – High gross margins business
  – Large “niche” market
  – Unfair competitive advantage
  – Ready for customers
  – Fundable management team

• Business capable of providing a return to Investors through an Acquisition (rarely IPO)
  – Expect a 10X – 30X ROI
  – 1 or 2 of every 10 investments bring most of return
  – >50% of businesses will fail
Investment Landscape – Company Valuation

**Company - Product Stage**
- Technology Discovery
- Proof-of Concept
- Initial Design
- Develop & Test
- Build & Deliver
- Scale Up

**Investment Needed**
- Pre-seed Funding: $25K
- Seed Funding: $100K
- Start-up Funding: $500K
- Expansion Mezzanine: $2M
- Operating & Growth: $10M
- $50M

**Funding Stage**
- Friends & Family
- SBIR Phase 1 & 2
- Individual Angels
- Angel Groups
- Founder
- Seed Funds
- Venture Funds
- Business Incubators
- Gov. Economic Dev.
- Institutional Equity
- Loans / Bonds

**Source of Funding**

**Company Valuation**
- $100K
- $500K
- $2M
- $10M
- $75M
- $250M
Angels Fund Nearly All Seed/Early-Stage Deals...

Without angels few startups would make it to VC, PE or IPO funding.

Source: Jeffrey E. Sohl, Center for Venture Research and 2013 NVCA Yearbook
## Angels Fund Majority of Startups in USA

### Angels Provide ~90% of Outside Equity for Startups

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>• $24.8 billion</td>
<td>• $29.6 billion</td>
</tr>
<tr>
<td>• 71,000 deals</td>
<td>• 4,050 deals</td>
</tr>
<tr>
<td>• 32,000 seed</td>
<td>• 120 seed</td>
</tr>
<tr>
<td>• 29,000 early stage</td>
<td>• 1,375 early stage</td>
</tr>
<tr>
<td>• 9,200 expansion</td>
<td>• 2,550 later/expansion</td>
</tr>
<tr>
<td>• &gt; 298,000 individuals</td>
<td>• 548 active firms</td>
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Sources: Center for Venture Research/UNH; NVCA 2014 Yearbook; PwC MoneyTree
Deal Flow Process
Submissions (~10 - 20 Plans Per Month)

Deal Flow Committee pre-screens emailed submissions.

Monthly Screening Meeting
3 – 4 Companies Present

Screening Committee votes which companies to invite to Member meeting.

Monthly Member Meeting
1 – 3 Companies Present

Members polled for level of investment interest in deals. Diligence team formed.

Diligence Performed Term Sheet Negotiated

Investment LLC formed, money collected and investment made.

Manage Investment (1 -2 per quarter)

Board member represents member interests and seeks an attractive exit.

Committee Process – Engages membership
Elements of the Pitch
The Pitch

- Solid Business Plan and Financial Model
- Two page Executive Summary

- Presentation - **10 Slides, 20 Minutes, 30 Pt Font**
  - Identify the Problem
  - Explain your solution
  - Business model – How will you make money?
  - Underlying magic/technology
  - Marketing and Sales
  - Competition
  - Management Team
  - Projections and Milestones
  - Status and Timeline
Opening Slide

• Organization name, your name and title, and contact information.

• Explain what your organization does.
  ('"We sell software for civil engineers." "We sell hardware for data networking companies." "We are a medical device company." "We protect the environment."')

• Amount of money to be raised, and the purpose of the money.

• Cut to the chase!
Problem

• Describe the pain/issues/problems you're alleviating.

• The goal is to get everyone nodding and "buying in" that the problem is real.

• Avoid looking like a solution searching for a problem.
Solution

• Explain how you alleviate this pain and the relevance of your product to the solution.

• Ensure that the audience clearly understands what you sell and your value proposition.

• Not the place for in-depth technical explanation.

• Provide just the list of how you fix the pain.

  Example: “We are a discount travel site. We have written software that searches all other travel sites and collates their price quotes into one report.”
Business Model

• Provide **simple** explanation of precisely how you make $$$$$
  – Who pays you
  – Distribution channels
  – Gross margins, etc.

• A unique, untested business model is a scary proposition. **Explain a revolutionary business model in terms of familiar ones.**

• **Drop the names of the organizations that are already evaluating or using your product or service.**
Underlying Magic

• Describe the technology, **secret sauce**, or **magic** behind your product or service.
  – *Discuss source*
  – *Why it can’t be easily duplicated.*
  – *Discuss patents*
  – *Is the technology yours, licensed from a University, exclusive, are there royalties, etc?*

• **The less text and the more diagrams, images, flowcharts, the better.**

• **White papers, research, and objective proofs of concept are helpful.**
Marketing and Sales

• Explain how you reach your customer and marketing leverage points.

• Estimate market size and realistic percentage that you can penetrate.

• Convince the audience go-to-market strategy is effective and won't break the bank.

• Explain the logic behind growth plans.

• Be sure working capital in financial models supports growth.
Competition

• Provide a complete view of the competitive landscape. Too much is better than too little.

• Never dismiss direct or indirect competition in core or adjacent market(s).

• Everyone including customers, investors and employees want to hear why you're good, not why the competition is bad.

• There is always competition!
## Example: COMPETITION

<table>
<thead>
<tr>
<th>Competitors</th>
<th>Item level In-transit visibility</th>
<th>Passive RFID</th>
<th>Local read capability with doors closed</th>
<th>No wires between devices</th>
<th>Transferable, Plug and Play</th>
<th>Comments</th>
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<tbody>
<tr>
<td>ABC Company</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Odin</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
<td>Nearly 3 x expensive</td>
</tr>
<tr>
<td>Lockheed-Martin</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>Read at portals only</td>
</tr>
<tr>
<td>Savi Tech</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>Discontinued</td>
</tr>
<tr>
<td>GE Commerce Guard</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>“On-the-road” operations only</td>
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<tr>
<td>Intermec</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>UNISYS</td>
<td>✗</td>
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<tr>
<td>Cubic</td>
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<td>✗</td>
<td>✗</td>
<td>Central control only</td>
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Management Team

- Key players are important.
  - Management team
  - Board of directors
  - Board of advisors
  - Any major investors

- Ok to have less-than-perfect team.

- As a founder, are you the “right” President & CEO?

  All startups have holes in their team; what's truly important is having a willingness to fix them.
Financial Projections and Key Metrics

• Provide 5-year forecast:
  – Chart or graph is better than just #’s
  – Know your key metrics: Customers #s, Conversion rate, etc.

• Bottom-up forecast: consider long sales cycles and seasonality.

• Explaining forecast’s underlying assumptions is as important as the numbers.

• Clearly identify cash flow break even point.
Example:
ABC achieves $37 MM in Y5 revenue

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<tbody>
<tr>
<td>Parent revenue</td>
<td>145</td>
<td>692</td>
<td>3,736</td>
<td>17,673</td>
<td>37,134</td>
</tr>
<tr>
<td>Media/recruiters/replay</td>
<td>0</td>
<td>?</td>
<td>?</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Percent gross margin</td>
<td>57%</td>
<td>51%</td>
<td>59%</td>
<td>60%</td>
<td>65%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>(510)</td>
<td>(1,026)</td>
<td>(509)</td>
<td>5,562</td>
<td>12,687</td>
</tr>
<tr>
<td>ABC headcount</td>
<td>8</td>
<td>21</td>
<td>38</td>
<td>83</td>
<td>191</td>
</tr>
<tr>
<td>Number of athletes</td>
<td>1.2K</td>
<td>5K</td>
<td>43K</td>
<td>136K</td>
<td>238K</td>
</tr>
<tr>
<td>Market penetration</td>
<td>~0.0%</td>
<td>0.1%</td>
<td>0.4%</td>
<td>1.2%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

$100 MM enterprise value in Y5
Revenue + EBITDA in thousands

$100 MM enterprise value in Y5
Revenue + EBITDA in thousands
Summary

– Various **Exit Strategies** and ROI
– Offering **Amount**, **Terms** and **Conditions**
– How money will fund **milestone** achievement.
– **Current Status**, **Accomplishments & Timeline**
– **Positive momentum**: close with a bias toward action.
Common Mistakes/Advice

• Common Mistakes
  – Discussing only the product and not the actual business
  – Lack of preparation
  – Presentation too long and does not build momentum

• Advice
  – Have back up slides with details to help answer questions
  – Prepare, Rehearse, Prepare, Rehearse.....
Information, Resources, and Support

- Kauffman Foundation  [www.eventuring.com](http://www.eventuring.com)
- Angel Capital Association  [www.angelcapitaleducation.org](http://www.angelcapitaleducation.org)
- Books
  - [Term Sheets & Valuation](http://www.angelcapitaleducation.org) by Alex Wilmerding
  - [The Art of the Start](http://www.angelcapitaleducation.org) by Guy Kawasaki