FMS VC Forum

Session 301B-1
8/9/18
Wayne Rickard, Moderator
VC Panel

- **Wayne Rickard**, Moderator, Tech Coast Angels and Arizona Tech Investors
- **Pete Pappanastos**, Consultant, Vonzos Partners
- **Gaurav Tewari**, Managing Director, Citigroup Ventures
- **Stephen Socolof**, Managing Partner, Tech Council Ventures
Sources of Funding

**Angel Capital**
- Typically local individuals or groups
- Investments range from $100K to $1,000,000 and average around $600K
- Target 10x to 15x return in 3-5 Years
- Tech Coast Angels, Band of Angels, Sand Hill Angels, Keiretsu Forum

**Venture Capital**
- $5 million and up
- Institutional funds
- Look for 5x to 10x return
- NEA, Sequoia, Accel Partners, Bessemer, Lightspeed

<table>
<thead>
<tr>
<th>Pre-seed Stage</th>
<th>Seed/Start-up Stage</th>
<th>FUNDING GAP</th>
<th>Early Stage</th>
<th>Later Stages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Founders’ Friends &amp; Family</td>
<td>Angel Investors</td>
<td>Very few angel deals done above $1 million</td>
<td>Early Stage</td>
<td>Later Stages</td>
</tr>
<tr>
<td>$0</td>
<td>$250K</td>
<td>$1.5 million</td>
<td>$4 million</td>
<td>$10 million &amp; up</td>
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Flash Memory Summit 2018
Santa Clara, CA
Grant Money

- Federal Government has multiple programs
  - SIR, STTR, ATP
- Multiple Agencies within the “alphabet soup” of agencies:
  - DoD
  - NSF
  - NIH
  - NIST
  - NASA
  - VA
- Non-Dilutive
What is an Angel Investor?

- Anyone who makes a private investment in a non-public company
- High net worth individual
- Live in tech hubs, typically invest locally
- Usually well-educated
- Part-time investor
- Sees 50-250 startups/year, invests in 2-3
- Often are entrepreneurs themselves
- May be a member of an Angel Group for evaluating investments and sharing risk
What is an Accredited Investor?

- defined in Rule 501 of Regulation D of the U.S. Securities and Exchange Commission
  - $1 million in investable assets (not including value of primary residence) OR
  - $200K in income ($300K joint)
- Friends, family & founders can be non-accredited
- Crowd sourced investor are new category of non-accredited investors
The Angel Syndication Network shares the best deals among 40+ prominent angel groups (up from 25 last year). Each angel group nominates their best deals to share with other angel groups. Syndication can help fill a round, expedite a closing, and save the CEO from extended road shows. Collectively, the angel groups participating in ASN represent over 1500 angels, and over $1 billion in direct investment.
What are Investors Looking For?

- Enduring, Wealth Generating Companies in Growth Markets
- Early Stage or Seed Stage
- Management / Team
- Pain Killers, Not Vitamins
- Unfair Advantage / IP
- Ability to Rapidly Achieve Scale
- Clear and Rapid Path to Liquidity
- Strong Business Model
Trend: Early Stage Investors Getting Picky about Revenue

2017 TCA Mix by Stage of Round

2017 TCA Mix by Stage of Company

Source: Tech Coast Angels 2016 Annual Report
Investors are like Lemmings

IN
• Internet of Things (IoT)
• Autonomous Vehicles
• AI / Deep Learning
• Wearables
• Virtual / Augmented Reality
• Digital Health
• Fintech / Bitcoin / Blockchain
• Gaming / eSports
• Security
• Cannabis
• Pharmaceuticals ↑

OUT
• Drones ↓
• Renewable Energy
• Apps for Phones
• SAAS↓
• ASIC’s
• Hardware
## Non-Rational Criteria

<table>
<thead>
<tr>
<th>Founders</th>
<th>Product</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do I identify with you?</td>
<td>Cool factor</td>
<td>Personal experience</td>
</tr>
<tr>
<td>Industry University Experience</td>
<td>Resolving personal pain</td>
<td>Interest</td>
</tr>
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</table>
Decision-Making Process

Elevator pitch

Pitch Deck

Founder info

Market

Product

Customer Market size Competition

Problem/Solution Traction Product-Market fit

Due Diligence

Product overview Introduction
- Networking Events
- Quick Pitch Competitions
- Industry Group Meetings
- Mentoring Advisors

Product
- Market Business model Competition
  - Review Funding Application
  - Pre-Screen (online meeting)
  - Screen (Local x5)

Domain expertise Intelligence Communication skills Persistence Integrity Relationship
Decision-Making Process

- Tech team
  - Domain Expertise
  - IP / Barriers
- Use of funds
- Milestones
- Growth plan

Tech
Financials
Deal
Legal

- Amount
  - Terms
  - Investors
  - Syndication
- Regulatory threat
  - Formation
  - Stock
  - IP

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Final Thoughts

- **Valuations have been dropping**, so don’t cling to a higher expectation based on averages of the last several years. Doing so may leave you underfunded or even unfunded.

- **Raise as much money as you can** in the current round, and don’t be concerned about dilution. The next round of equity will be particularly challenging given we could soon be in a down cycle.

- Develop a plan that allows you to **achieve cash flow breakeven** with the funds you are raising in the current round. This may not be your “Plan A”, but you’ll need to have a way to survive if future funding does not materialize.

- **Spend wisely and frugally**. If the next dollar you spend doesn’t make for a better product or better customer experience, don’t spend it.

- Seek investors who can provide you with **experience, guidance and contacts** that can help you navigate the challenges ahead.
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