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ACS WEBINARS™

***Raising Capital with Angels: What They Don't Tell
You at Business School***



Speaker: Mike Elconin
Tech Coast Angels



Moderator: Molly Schmid
Keck Graduate Institute

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Raising Capital with Angels

MICHAEL ELCONIN

ACS Webinar

4/22/2010



Outline

- **Intro & A Little Basic Advice**
- **Types of Companies and Capital**
- **Angels and Our Groups**
- **The Pitch – Do's and Don't**
- **The Process – What to Expect**
- **Final Thoughts**





Some Basic Advice

- **Raising money is hard work**
 - It will divert significant time and energy from running and growing your business
- **Raising money is more complicated than you think.**
 - Get experienced advice
 - Free advice is probably available
 - Look for programs (SCORE and more)
 - Create an advisory board

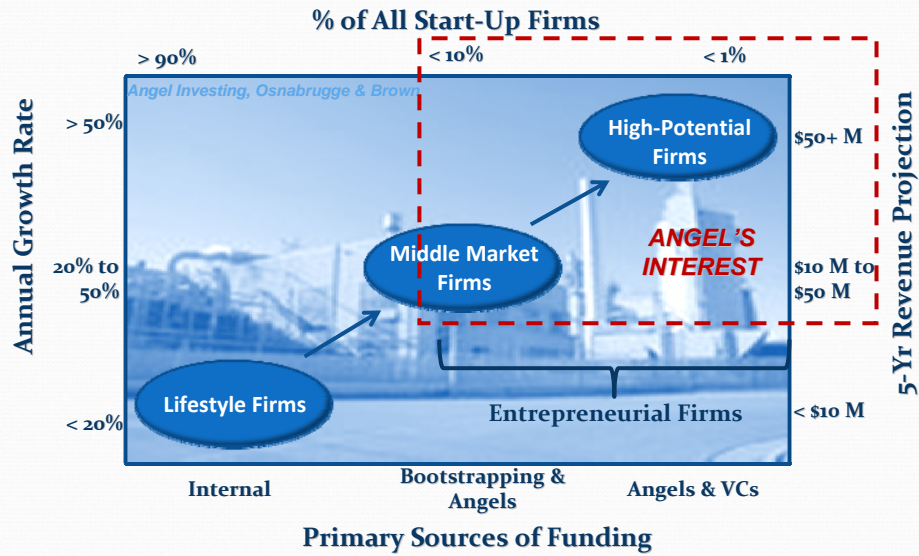


Some Basic Advice - Part II

- **Raising money is an art, opinions will differ (a lot)**
- **But....there are generally accepted standards**
- **But....But....EVERYTHING is negotiable**
- **But....But.....But....that will not always work to your advantage**
 - **Because he who has the money makes the rules**



Not Every Business Works for Investors

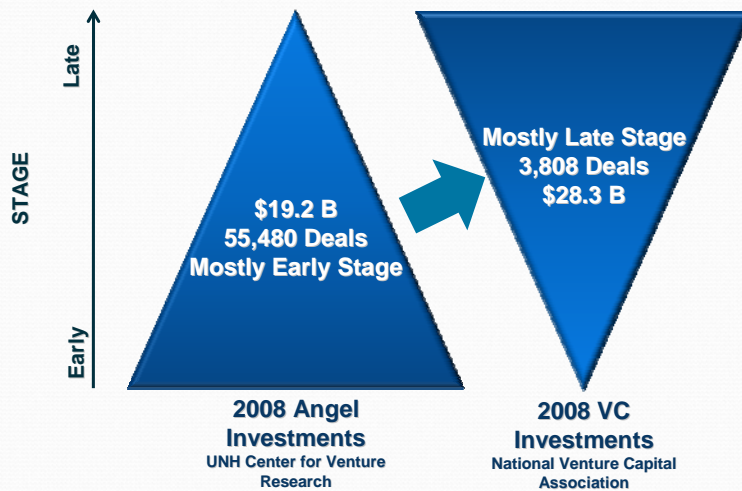


Money Comes in Many 'Colors'

- Self Funding – savings, CCs, mortgage
- Friends and Family
- Grants
- Private Investors
 - Angels 
 - Archangels 
- Venture
 - Strategics
 - VC's
- Conventional Finance



Angel & VC Markets Are Large, Complementary



Connect Framework Presentation - Jack Florio



Who are Angels ?

- Accredited* investors
- Mostly former owners, CEO's, executives, some professionals
- Invest 5-10% of net worth in high-risk portfolio for high potential returns
- Spread risk across many investments
- More active than other investors, can and want to devote time and add value



*Securities Act of 1933 - net worth > \$1 M, income exceeding \$200,000 in each of the two most recent years or a trust with assets > \$5 M



Angel Groups



- **Groups help angels/entrepreneurs find each other**
- **Enable**
 - **Sharing the work -too much effort per individual**
 - **Niche and financial expertise**
 - **Portfolio Diversification**
- **Total rounds typically \$200K to \$1.2M**
- **Total # investors 5-35, @\$10K to \$100K**
- **Groups can syndicate**



The Ideal Investment, Part 1

- **Solves real problem - “pain killer”**
- **A business, not an idea**
- **Accessible market(s)**
- **Proof that it works**
- **Proof you can build it**
- **Proof you can sell it at a good price**
- **Sustainable Competitive Advantage - so you can maintain prices**





The Ideal Investment, Part

2

- **No follow-on financing needed, or....**
- **Angel round will transform the company**
- **The ideal entrepreneur characteristics:**
 - **Good listener, coachable**
 - **More committed than we are**
 - **Doesn't need control of the company**
- **In the end it's all about exit, so bigger companies will want to buy you for a big price**
- **However, no deal is ideal – how much of the above do you have?**



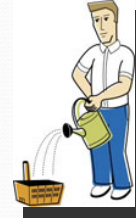
Terms

- **Generally 4 types of investments:**
 - **Sub S/LLC - good for owners to take losses, problems later with investors**
 - **Common stock – easiest, limited investor protection**
 - **Convertible note – avoids valuation but unattractive to some investors**
 - **Preferred stock – most common**
- **Sequence: term sheet, commitments, documents, collect checks**
- **There are many specific terms, not just price. Use an attorney.**



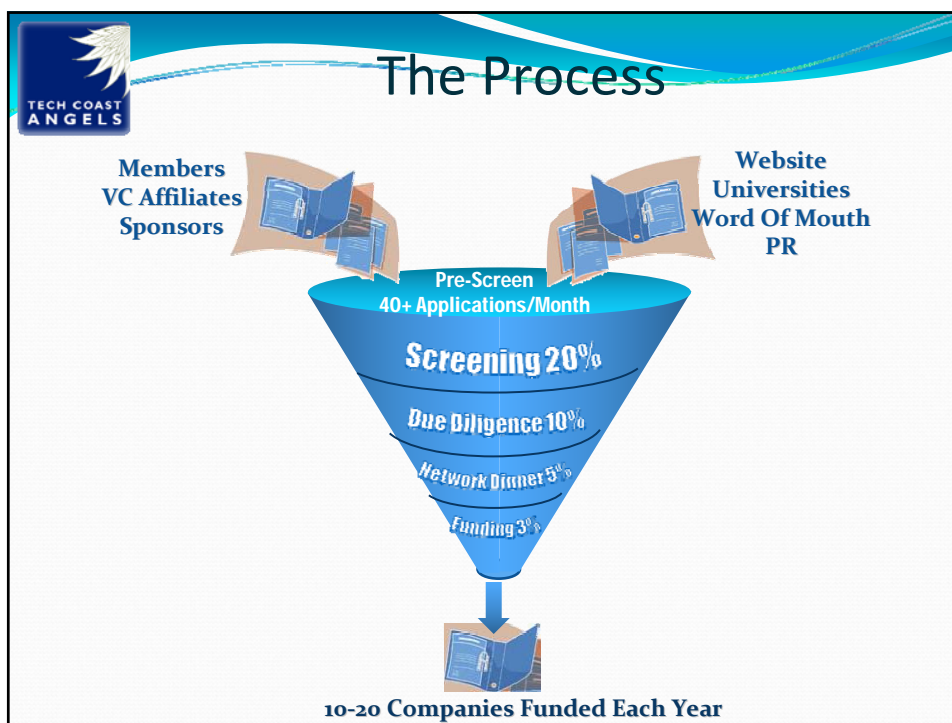
Pitch....Make Sure You Tell Us:

- What you do and what problem you solve
- Who will pay you, how much, and why
- How you will get to market
- Status of technology and company
- Why you, and what your role will be
- What your sustainable advantage is
- What you'll do with our money
- What the deal is and why it's the best deal we've looked at all year



Pitch Pitfalls....Don't:

- Be "salesy" (because it's a sales pitch)
- Sound evasive
- Answer questions narrowly
- Hide anything
- Argue (explain, don't argue)
- Fail to understand your IP and numbers
- Underestimate your competition
- Use the same slides for every audience



TECH COAST ANGELS

Final Thoughts About Angels

- They will often coach you on presentation.
- There are always more investment opportunities than investment \$'s –offer a good deal.
- Will be very concerned about the effect of later rounds.
- Don't underestimate how much money you'll need.
- Raising a round takes 3-9 months, but 6+ is typical.
- Angels are idiosyncratic
- They'll never admit it but they follow the herd
- Angels want to be your friend.



Q&A

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Q&A SESSION

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Please submit your questions for the speaker via the
Chat Panel in GoToWebinar

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with William Golton, a founder and the first Chairman of the Chemical
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