Workshop
Presented by
University of the Pacific
Economic Development Office

Funding University Entrepreneurs

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Financing Food Chain

• Understanding the Financing Food Chain
  – Savings & Credit Cards
  – Friends & Family
  – Angels
  – Venture Capitalists
## Financing Progression

### Understanding the Financing Food Chain

<table>
<thead>
<tr>
<th>Stage</th>
<th>Pre-seed</th>
<th>Seed/Start-up</th>
<th>Early</th>
<th>Later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source</td>
<td>Founder s, Friends &amp; Family</td>
<td>Individual Angels</td>
<td>Angel Groups</td>
<td>Venture Capital Funds</td>
</tr>
<tr>
<td>Investment</td>
<td>$25,000 to $100K</td>
<td>$100K To $500K</td>
<td>$500K To $2,000K</td>
<td>$2,000 K To $5,000 K</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$5,000 K+</td>
</tr>
</tbody>
</table>
Create Value by Achieving Milestones

<table>
<thead>
<tr>
<th>Phase</th>
<th>Valuation ($MM)</th>
<th>Investment Risk</th>
<th>%ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed</td>
<td>$50K+</td>
<td>Low</td>
<td>&gt;120</td>
</tr>
<tr>
<td>Angel</td>
<td>$500K+</td>
<td>Low</td>
<td>80-120</td>
</tr>
<tr>
<td>VC</td>
<td>$5MM+</td>
<td>Low</td>
<td>60-100</td>
</tr>
<tr>
<td>VC</td>
<td>$10MM+</td>
<td>Low</td>
<td>40-80</td>
</tr>
<tr>
<td>Mezzanine</td>
<td>$20MM+</td>
<td>High</td>
<td>25-35</td>
</tr>
<tr>
<td>IPO</td>
<td>$20MM+</td>
<td>High</td>
<td>8-11</td>
</tr>
</tbody>
</table>
• Approx. 250,000 active angels in this country
• Invest approximately $30 billion annually most of it in seed, start-up and early stage
• 7 million accredited investors – qualified potential angels
• Informal investors; $92 billion, 3.3 million companies
### Expected Returns

<table>
<thead>
<tr>
<th>Stage</th>
<th>Investor Type</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-seed stage</td>
<td>Founders</td>
<td>20X in 7 yrs</td>
</tr>
<tr>
<td>Angels</td>
<td></td>
<td>10X in 6 yrs</td>
</tr>
<tr>
<td>Early-stage</td>
<td>Venture capital</td>
<td>10x in 6 yrs</td>
</tr>
<tr>
<td>Mid-stage</td>
<td>Venture capital(s)</td>
<td>3X in 3 yrs</td>
</tr>
<tr>
<td>Late-stage</td>
<td>Venture capital(s)</td>
<td>2X in 2 yrs</td>
</tr>
<tr>
<td>Exit</td>
<td>Investment banks</td>
<td>1.35X 1yr</td>
</tr>
</tbody>
</table>
Where

- “Use your own cash when you can”
- Friends, Family and Fools
- Angels and Local Venture
- Local Venture and Syndication National / Strategic Partner
- Get a Partner who has money
- Lawyers, CPA’s, Bankers, Angel Groups, High Net Worth
- Local VC, Super Angels with market knowledge
- Customers, Suppliers, Compliments, Manufacturers
Historically – Goal of Many Entrepreneurs was VC Funding

Angels Provided Bridge Between Family and VCs
  - Patient Money, Some Could Bring Contacts

Venture Capital Firm Could Bring:
  - Deeper Pockets
  - Operating Experience
  - Valuable Contacts
  - Hands-On, Sage Advice
  - Legitimacy – Mark of Approval or Distinction
The Value Proposition for VCs Has Changed:
- VCs Increasingly Looking Farther Up the Chain
- Bigger Individual Investments
- Less Time Spent Guiding Individual Portfolio Cos.
- VCs Sometimes More Banker or Newly Minted MBA Than Seasoned Manager
- VC/Institutional Money Not Necessary Prerequisite for Successful Liquidity Events
- Wall Street Will Make Its Own Assessment of the Quality of the Opportunity
Size of Angel Activity

- Approx. 250,000 active angels in this country
- Invest approximately $30 billion annually most of it in seed, start-up and early stage
- 7 million accredited investors – qualified potential angels
- Informal investors; $92 billion, 3.3 mil companies
Changing Value Proposition Of Angels

• Value Proposition for Angels Has Changed:
• Angels Can Be:
  – Deep Pockets; Start Small Then Go Big
  – Willing to Fund Companies Through Later Stages
  – Bring Sage Advice and Contacts
    • To Help Raise More $$
    • To Help Create More Sales
    • To Help Bring Employees and Consultants to the Company
  – Not Seal of Approval for Company on Wall Street
  – But Maybe Legitimizes Management Competency
• Result: Angels Can Be a Viable Alternative to VCs in the Right Circumstances
Current Equity Capital Climate

• The bad and good news:
  • Liquidity is still very difficult – Merger oriented
  • VCs are investing more rapidly than in years past
  • Valuations still have downward pressure
  • Subsequent rounds for VC-funded companies are not easy
  • Liquidity windows open and close with the economy
  • VCs do have lots of money to invest
  • Better more complete companies will emerge from this period
  • Expectations are much more realistic
  • Those companies that succeed in raising $ have more board involvement, better resources, and less competition
Words to the wise

• Don’t burn bridges with investors
• Mitigate Risk / Maximize Return
• Take the smart money
• Don’t screw your old investors
• Incent the employees with good expectations and personal growth
• Communicate often to your investors
• Keep your word – always
• You will lose control – Have great partners when you do
• Some Useful Reference Materials
  – Inside Secrets to Venture Capital
    • Brian E. Hill & Dee Power
  – The Art of the Start
    • Guy Kawasaki
  – Term Sheets & Valuations: A Line by Line Look at the Intricacies of Term Sheets & Valuations
    • Alex Wilmerding