Advanced Course:
NASVF-NCET2 Seed and Venture Capital Course

Presentation by:

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EQUITY 101

What is it?
Where is it?
Can I get some?
What’s going to cost?

June 11, 2009
2008 WBI Program Success Stories Raised $67,000,000

Hawaii BioTech

Health Behavior Innovations
WBI’s Approach to Helping Entrepreneur’s Raise Money

Specific Knowledge
Specialized Training
Venture Based Mentoring
Introductions
WBI Programs

How to Raise Money in Utah™

21st Century Entrepreneur®

Venture Analysis Tools

The Deal Forum™

Investors Choice®

WBI Angels
When Financing Your Company Remember…

Debt or Equity -
  Efficient Capital Usage Enhances Value
Equity Capital is an Expensive Raw Material
Equity Capital is Essential for:
  Rapid Growth
  New Product Development
  Technology Adoption/Deployment
Fundraising 101

Attracting Investment
All You Need to Know about Raising Capital

- Freidman’s Reiteration
- Ironclad Law of Distribution
- Britt’s Law
- Brown’s Theory of Risk Minimization/Reward Maximization
The Hard Things First

- **Valuation** - What’s Your Deal Worth to an Investor NOT to YOU!

- **Control** - It’s about Adding Value NOT MAJORITY OWNERSHIP

- **Exit** - Your Business Will be Sold!

*Are You a Small Businessman/woman Or a Great Entrepreneur?*
Investor Reactions to Your Company

99% - I Don’t Care....

If You Want My Attention.....

....Make Me Care.
The Other 1%

You Have My Attention, If You Want My Money....

....Make Me Believe.
Evaluating a Business

Testing the Validity of the Business Model

Testing the Sustainability of the Business Model
Reasons Deals Fail

- The failure to **Innovate**
- The failure to **Create Value**
- The failure to **Persist Over Time**
- The failure to **Maintain Economic Scarcity**
- The failure to **Prevent the Appropriation of Created Value**
- The failure to **Maintain Flexibility**
Attributes of Your Deal

- Motivated Relevant Team
- Solves a Real Problem - Bottom Line ROI
- High Margins
- Rapidly Growing Market
- Clear Position in Competitive Landscape
- Limited Competition
- A Saleable Product with Little Expense
- Quick to Cash Flow
- Requires Little Outside Money to Breakeven
Fundraising 101

Chase the Right Money
Funding Sources - How Much?

**EQUITY**
- 5Fs - $0 - $250,000
- Angels - $25,000 - $250,000
- Angel Groups - $250,000 - $1 million
- Venture Funds - $1 million - $20 million
- Private Equity - $10 million - $1 billion
- SBIR - $100,000 - $1 million (non-dilutive)

**DEBT**
- Micro Lending - $500 - $35,000
- RLF’s - $25,000 - $250,000+
- Non Bank Lenders/Venture Debt - $250,000 to $5 million
- SBA $100,000 - $5 million
- Commercial Banks - $1 million+
Investor Risks

Technical/Product Development

- SBIR, 5Fs, Angels, Grants

Market

- Angels Groups, Early-Stage VC, Strategic Partner, RLFs

Execution

- VC, Strategic Partner, Banks

*Do Your Homework!*
Fundraising 101

Raising Money is a Contact Sport
Not a Spectator Sport
Who has the Money?

*The Network Knows!*

Specialized Lawyers
Certain Accounting Firms
BRCs
Govt. Technology Programs
MEP
Local Economic Development Organizations
Certain Bankers and Non-Bank Lenders
Seasoned Entrepreneurs
Local Angel Groups
Associations

16 Local Institutional Investors
Where Do I Find the Money?

- Fellow Entrepreneurs
- Local VCs
- Power Wards
- Key Hangouts
- Country Clubs
- Directors of Companies
- YPO
- Private Client Depts
- EOYs
- Networking Groups
- Angel Capital Assn.

- Trade Assns.
- Local Fund of Funds
- Power Stock Brokers
- Donor Lists
- High end Resorts
- Directors of Assns.
- Venture Conferences
- SiliconSlopes.com
- Angelsoft.net
- The Network!

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Fundraising 101

Closing the Deal
VALUATIONS

- Individuals - Up to $500K
- Angel Groups - $500K - $1.5M
- Venture Capitalists - $5M - $15M
- Private Equity - $15M Up
- IPO - $500M
The Term Sheet

- Amount to be Invested
- Terms
  - Instrument
  - Liquidation Preferences
  - Rights
  - Conditions
    - Milestones
    - Vesting
  - Option Pool
- Board Representation
- DUE DILIGENCE
2010 Money Raising Realities

- Revenues are Paramount
- Private Equity is Reviving
- Venture Capital is Running Scared
- Angels Under Attack
- Super Angels Replacing Early-Stage VCs
- Valuations are at 2002 levels but Rebounding!
- “D” Round Deals at “A” Round Prices
- More Angel Groups Exist
- More Venture Debt/RLFs
- Quality Deal Flow is DOWN
- Few Areas are in Good Shape to Weather the Storm
- Understand the Nip, Look for the Tuck
- Networking is Key

Lack of Quality Deal Flow
Only Great Deals will be Funded
WBI 2010 SUCCESS STORIES

- Solera
- HireVue
- LingoTek
- MediProPharma
- Matchbin
- Mangia
- Vutara
- Allegiance
- LineaGen
- Immunologix
- ArtisTech
- Axial
- Catheter Connections
- Coherex
- Heavy Stone Laboratories
- Holorad
- RawData
- Sendside Networks
- Venafi
- Thermimage
- $50 Million YTD
The Most Important Things to Remember

- Everyone’s in Trouble, Including your Competition
- Opportunity Cost vs. Bottom Line Cost (Real ROI)
- Speed of Lifecycle is Greatly Reduced
- Cash is King.....Kong!
- Grow Organically and Position for Better Deal Terms when the Market Improves
- Or If you can get an Up Round Prepare for Exit when the Market Improves