

Angel Investing

A startup's guide to raising money from Angels

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Network of Angel Organization – Ontario

- Established 2007
- Mission: create and grow non-profit Angel investor groups for all regions of Ontario
- Member of ONE
- Administers two government programs:
 1. Angel Network Program (ANP)
 - Ministry of Economic Development and Innovation
 2. Investing in Business Innovation OUTREACH Program
 - FedDev Ontario



Federal Economic
Development Agency
for Southern Ontario

Agence fédérale
de développement économique
pour le Sud de l'Ontario

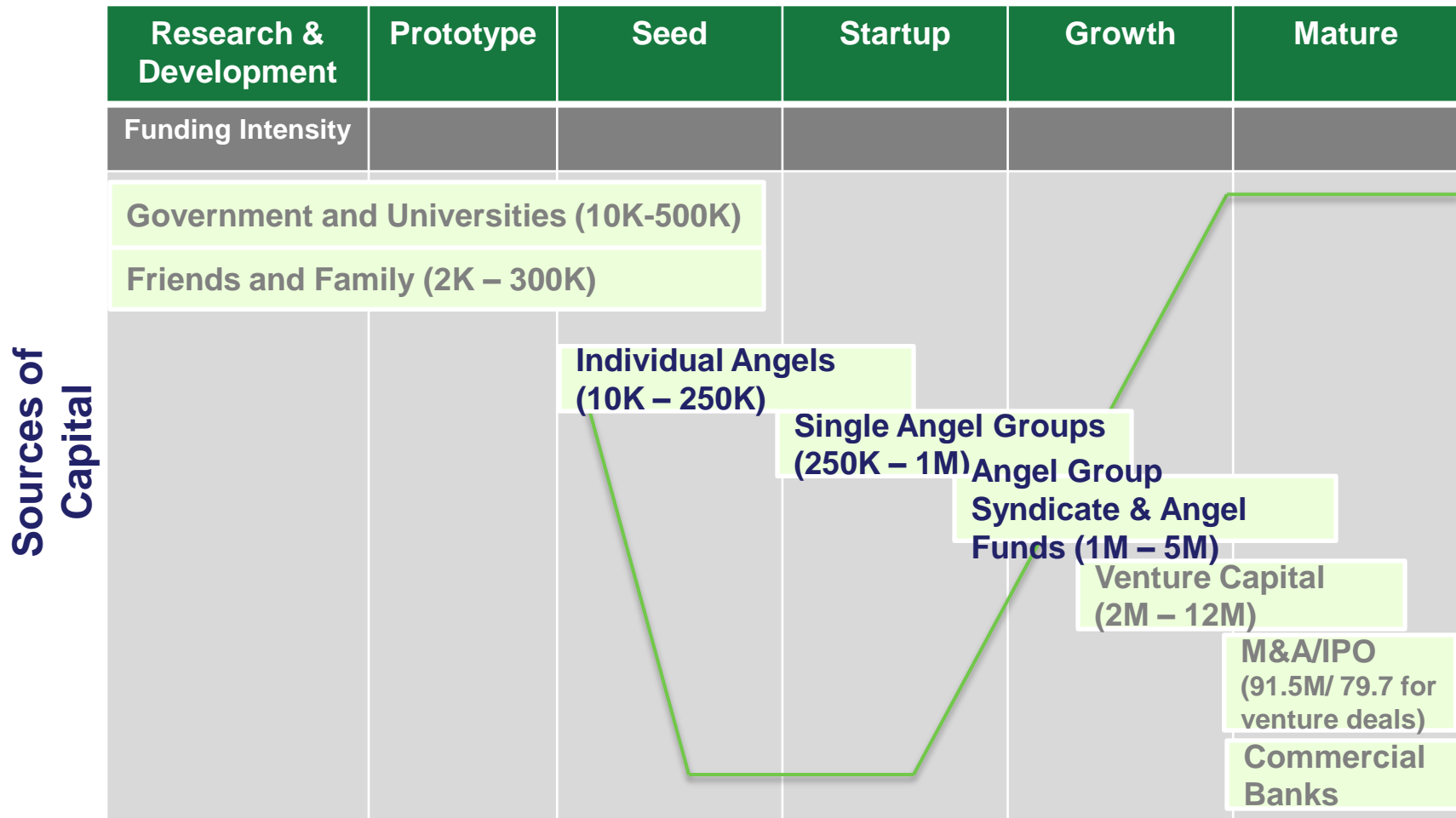


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Where Angels Fit In

Stage of Development



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Founder, Friends, Family and Fools

Investment size \$1000 to \$50,000 or
Bootstrapping

Proof of concept, Pre-revenue, Identify Users

Government Money = Grants, Loans...

Main Goal here is to **HELP**



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Angel Investors

Investment size \$150,000 to \$1,000,000

Entrepreneurs and Business persons

Mentoring

Small revenues, IP, team, product development,
development of channel partners

Main Goal here is to **COMMERCIALIZE**



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Venture Capital

Investment size \$2,000,000 +

Sophisticated Fund Managers

Invest after company has significant revenues, channel partners, Management team, a need to expand and capture market share.

Main Goal here is to **SCALE**



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The DNA of an Angel

High Networth Individuals

“Mad Money” or 3-10% of total portfolio, 25k-100k per deal

Motivations = ROI, staying current, giving back



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Types of Angels



Lone Wolf



Angel Group

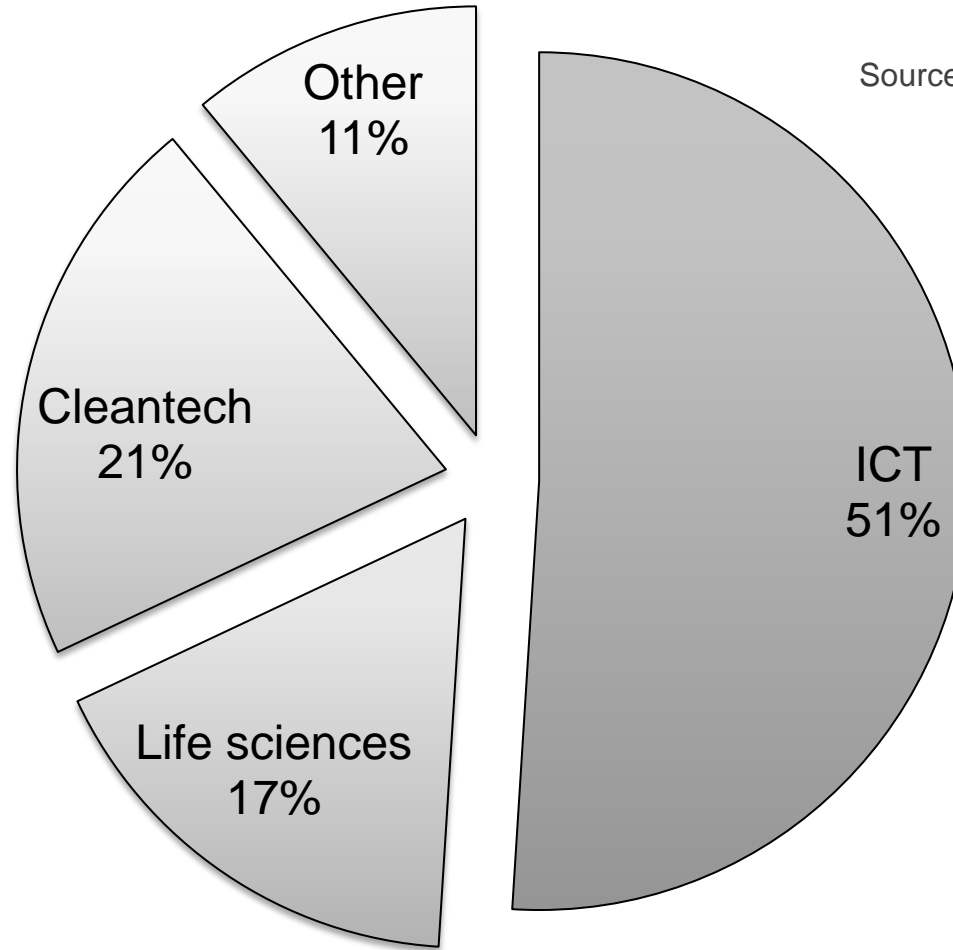


Angel Fund



Super Angel

Industries Angels Are Investing



Source: Industry Canada

2011 National Angel Capital Organization report

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High Growth or Lifestyle?

Lifestyle companies are great income sources for entrepreneurs **but** are **NOT FUNDABLE**



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So what do angels look for...

Fundable companies =

Scalable

High growth rate

Need capital to grow

Exit strategy defined

High gross margins

Unfair competitive advantage

Large niche market

“Entrepreneur builds wealth not income”



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The Angel Investing Process

Prepare your pitch

Submit application to Angel groups

Pitch to screening community

Pitch to entire Angel group

Term Sheet drafted

Due Diligence begins

And more Due Diligence

And more Due Diligence

Term Sheet Closes

Cash



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Due Diligence process

1. A Due Diligence (DD) team (or lead angel) is selected
2. DD Team meets with founders
3. DD Team visits the company
4. Technology audits
5. Reference checks
6. Customers and industry validation
7. DD team presents findings

Due Diligence Checklist

- ☑ Business Plan
- ☑ Minutes
- ☑ Charter Documents
- ☑ Corporate Organization
- ☑ Capital Stock
- ☑ Litigation
- ☑ Compliance with Laws
- ☑ Employee Matters
- ☑ Real Property
- ☑ Intellectual Property Matters
- ☑ Debt Financing
- ☑ Other Agreements
- ☑ Financial Information
- ☑ Tax Matters
- ☑ Acquisitions/Divestitures
- ☑ Public Relations
- ☑ Press Releases and Clippings
- ☑ Miscellaneous



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Show Stoppers



Harmful pre-existing agreements

Unsettled management team issues

Inadequate IP protection

Excessive current liabilities

Inappropriate use of proceeds

Disruptive or complex shareholders issues

Valuation

No single “correct” formula

- Negotiated market price
- The two sides will disagree over valuation

Affected by future-round valuations

Inherently linked to perceived risk

Benchmark/terms positively affected by Angel process

Valuation Moves...

Pre-money valuation vs Post-money valuation

Dilution with successive rounds of financing

The “Down Round”

The Angel to VC gap

Deal Terms

Later stage valuations effect Early stage valuations

Valuation variation between sectors

Supply vs Demand (Capital Providers vs Startups)

Canadian vs US

Mile-High View of Term Sheets

Basic information

Financial Structure of the investment

The valuation and/or mechanism by which the valuation will be set

Amount/parties investing

Use of Funds

Downside protection

Expenses

Exclusivity/no shop/ closing date

Milestones and tranches

Short vs long form



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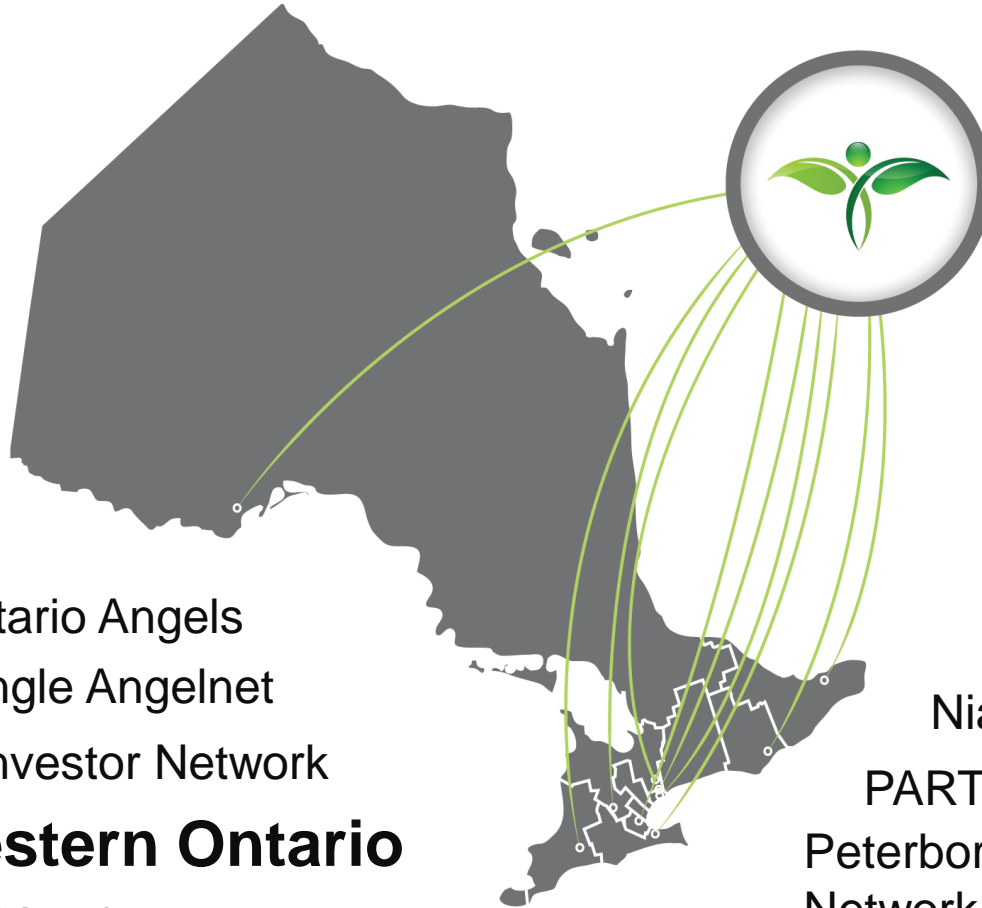
Top 10 Common Mistakes

1. There are employee obligations to prior employers
2. Founders' ownership should be on a vesting schedule – “earned”
3. The IP is not clean – ownership, protection ...
4. There are not written agreements that are up to date – needs to be clean; And the capital ownership tables are not accurate
5. Shareholders have different expectations – agreements
6. The business plan is not reasonable – always a hockey stick curve

Top 10 Common Mistakes

7. There may be great ideas but no customers
8. Cash-flow business models are an after thought
9. It always takes longer – 17 year idea valuation
10. Marketing is an after-thought

Where to find investors



Northern Ontario Angels
Golden Triangle Angelnet
Angel One Investor Network

**Southwestern Ontario
Angel Group**

Maple Leaf Angels
York Angel
Capital Angels
Capital Angel Network

Spark Angel Network

Ryerson Angel Network

Niagara Angel Network

PARTEQ Angel Network

Peterborough Region Angel
Network



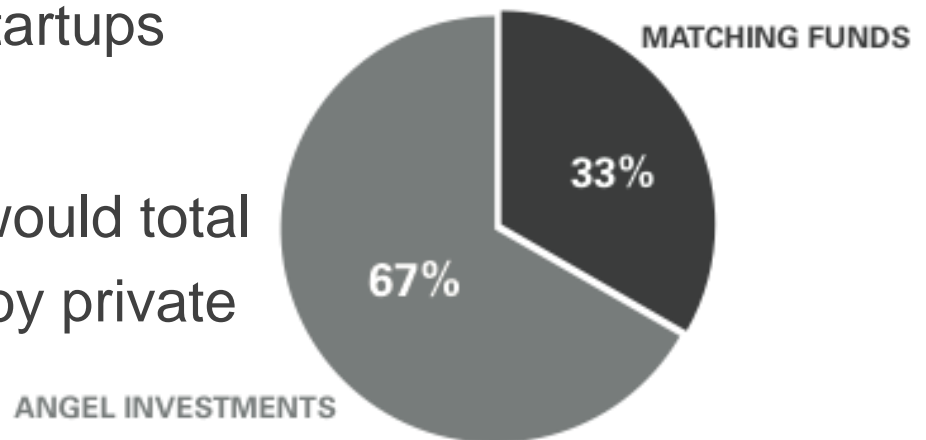
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Government Programs to leverage Investment Dollars

Investing in Business Innovation Program

- **Goals:**
 - Accelerate Commercialization in Startups
 - Boost Private Sector investment in Startups
 - Encourage Growth in Startups
- **Example:**
 - FedDev Ontario funds would total $\frac{1}{2}$ of the amount invested by private persons



ANGEL INVESTORS' FUNDS ARE MATCHED ON A 1:2 BASIS



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What can we do for you?

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