

Angel Financing

Financial Projections and ROI

by Kevin Callaghan

Who are Angel Investors?

- Wealthy individuals who invest in early stage, high risk companies.
- Provide seed and start up capital.
- Due to the high risk of investing in start up and early stage companies, angel investors seek high rates of return. (Risk vs. Return)

Think like an Angel

- Put yourself in the angel investors shoes when considering your presentation
- You are asking them to invest large amounts of money in a risky (start ups carry high risk of failure), unproven company
- Yes, angels care about your idea
- Angles also care about the return on their investment – unlike banks angels invest their own money in the companies. If the company fails, the money is normally lost.

Example - New York Angels

- <http://newyorkangels.com>
- Technology focused Angel group located in New York City.
- Investment criteria:
 - Stage – process of commercializing product
 - Growth potential – \$50 million within 5 years
 - Cash sought in current round – less than \$2 million

New York Angels

- Typical Investment \$100,000 to \$1,000,000
- Pre-money valuation – less than \$5 million.
- Evaluation of companies based on:
 - Management team
 - Market opportunity – seeks target markets in excess of \$500 million where the company can claim a reasonable share of the market.
 - Use of funds – funds must be used to increase company's value.

New York Angels

- Growth potential
- Competitive advantage
- Fit
- Technology
- Exit Strategy – investors seek at least 5X initial investment within five years.
- [Angel Investment Checklist](#)

Key Terms

- Pre-money valuation - value of the company prior to obtaining the capital being sought
- Equity percentage – % of common stock owned by the angel after the capital is invested
- Exit strategy – How the angel investor will get their money back.

The Financial Presentation

- The company needs to demonstrate to the angel that the product idea is feasible, and also provides the potential for a high rate of return for the investor.
- For purposes of your presentation, you will put the necessary financial information on 1-2 slides.
- In practice, these slides would be derived from your business plan.

Sample Business Plan # 1

- Business Plans come in many sizes – from 20 pages into the hundreds.
- The sample business plan for PDAware Software Company Business Plan is located here:

<http://static.howstuffworks.com/pdf/sample-business-plan.pdf>

Sample Business Plan # 2

- Another excellent sample business plan, is located at the website of a Tulane School of Business faculty member:
- <http://elvis.sob.tulane.edu/Documents/Uniandes/BPTemplate.pdf>

Business Plan Worksheets

- Spreadsheets available to you at the Tulane sites include:
 - Sales forecast
 - Personal financial statement
 - Startup expenses worksheet
 - Twelve month profit and loss projection
 - Four year profit projection
 - Cash flow projection

Business Plan Worksheets

- Opening day balance sheet
- Projected balance sheet
- Break-even analysis

The Angel Presentation

- After you have researched and calculated the financial information necessary to complete your business plan, you will summarize this information for your angel presentation
- Multiple examples of financial slides follow
- The first is by a leading CPA firm Deloitte & Touche

Deloitte & Touche -Financial Roadmap

- Provide high level 5 year projections
- Revenues and expenses by major categories
- Pretax profit (loss), cash flow from operations, capital requirements
- Highlight milestone targets
- First revenues
- Cash-flow positive
- Tangible competitive barriers (customers, IP, etc.)
- \$100M/yr run rate in year 5 is cliché, but expected

Source: <http://www.scribd.com/doc/120558/Investor-Presentation-Presenting-Template>

Financial Overview

	2012	2013	2014	2015	2016
Revenues (\$K)	\$1,500	\$7,000	\$25,000	\$60,000	\$105,000
Expenses (\$K)	\$2,500	\$10,000	\$24,000	\$49,000	\$79,000
Profit (\$K)	(\$1,000)	(\$3,000)	\$1,000	\$11,000	\$26,000
Investment (\$K)	\$5,000	\$5,000			
Headcount	15	60	150	300	450
Customers	5	20	50	150	250

Investment Sought

\$5M Series A: Now

\$5M Series B: 12-18 months after Series A

Use of Proceeds

Get Product into Beta/GA implement with 1-3 beta customers

Build solid pipeline, sign initial partnership deals

Stage scaling of Sales/Prof Service/Engineering/G&A

Source: <http://www.scribd.com/doc/120558/Investor-Presentation-Presenting-Template>

Financial Projections

	2012	2013	2014	2015
Revenue	\$0	\$750K	\$3.0M	\$9.0M
COGS	\$0	\$100K	\$400	\$1.2M
Net Income	(\$1.7M)	\$150K	\$500K	\$2.1M

- Exit Opportunities
 - Sell to incumbents within 3 years; already had one inquiry
 - Sell to new strategic: two big firms interested in this space
 - IPO possible but not capital efficient, better return with less \$
- Why You as Investor?
 - Right size investment, expertise in sector
 - Trusted partner

Cash Flow Projections

Table of Cash Flow Projections, example below

<30 seconds>

Company XYZ					
Cash Flows - in 000's					
	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	100	200	300	650	1200
Units sold	10	20	35	80	1000
Gross Margin	10	50	100	460	900
% Gross Margin	10%	25%	33%	71%	75%
Operating Expenses	250	350	400	450	600
Operating Income	(240)	(300)	(300)	10	300
Funding	540		400		
Cash Flow	300	(300)	100	10	300
Cumulative Cash Flows	300	0	100	110	410

“Business Logo™”

Ownership - Valuation

- Current ownership
 - Owners and their equity %
 - Current valuation (Pre-money Valuation)
- Debt structure
 - Outstanding balance and terms (time and interest)
- Post investment ownership
 - Owners and their equity %
 - Valuation (Post-money Valuation)

Valuation is often one of the most contentious discussions an entrepreneur will have with potential investors. It's best to be prepared to discuss; however, only discuss Valuation if you are ready and can back up your assumptions. Many investors do not expect an entrepreneur to discuss valuation during their presentation, though it often comes up during the question and answer session afterwards. A back-up answer, if investors are pushing for one, could be to suggest a range the valuation could fall within, though that can result with investors focusing on the low-end of the range given.

<30 seconds>

“Business Logo™”

Exit Strategy

- Exit Strategy
 - When/How can your investors cash out
 - Expected valuation

<15 seconds>

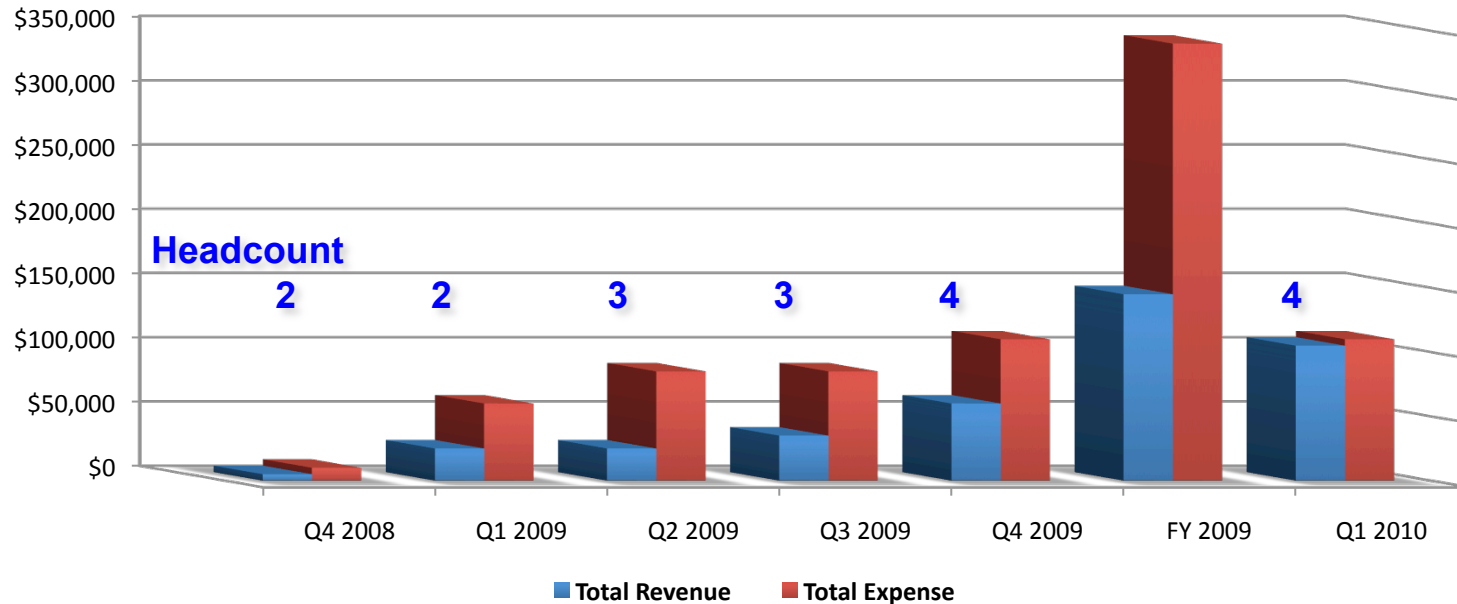
“Business Logo™”

Additional formats

- The following two slides are located at:
<http://www.slideshare.net/kipmcc/2010-sample-investor-vc-pitch-deck>

Financial Information & Projections

Revenue & Expense



	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	FY 2009	Q1 2010
License / Product	\$0	\$10,000	\$15,000	\$25,000	\$50,000	\$100,000	\$90,000
Services	\$5,000	\$15,000	\$10,000	\$10,000	\$10,000	\$45,000	\$15,000
Total Revenue	\$5,000	\$25,000	\$25,000	\$35,000	\$60,000	\$145,000	\$105,000
Salary	\$0	\$50,000	\$75,000	\$75,000	\$100,000	\$300,000	\$100,000
Other	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000	\$10,000
Total Expense	\$10,000	\$60,000	\$85,000	\$85,000	\$110,000	\$340,000	\$110,000
Net Loss/Income	\$ (5,000)	\$ (35,000)	\$ (60,000)	\$ (50,000)	\$ (50,000)	\$ (195,000)	\$ (5,000)

Financing Details

- Existing Investors
 - Founders seed funded the company for 3 months
 - Approximately \$100k invested by founders & family
 - Raised \$20k from Capital Factory
 - Common stock, \$xyz valuation
- Would like to raise \$zyx
 - Lasts company 12 months
 - Use of proceeds
 - Hiring 2 people: developer, sales
 - Incremental server capacity
 - Critical tool / service we need to run business
 - Timing: would like to close in next 90 days

ROI

$$\text{ROI} = \frac{\text{Sale Price from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

Angel ROI Example

- **“Hypothetical Example**

 - THE RAISE*

 - Investment \$500,000

 - Pre Money \$600,000

 - Post Money \$1,100,000

- *OWNERSHIP*

 - Founders 55%

 - Investors 45%

- *EXIT*

 - Sale Price \$5,000,000

 - Time 5 years

- *INVESTOR RATIOS*

 - ROI 355%

 - Multiple 4.55x

 - IRR 35%

 - NPV @ 10% \$828,000”

Source:<http://pasadenaangels.com/blog/?tag=bob-aholt>

Excellent Resources

- Entrepreneurship.org located at:
<http://www.entrepreneurship.org/>
- Resources include:
 - Sample templates on pitching angels
<http://www.entrepreneurship.org/en/resource-center/sample-template-on-pitching-angels.aspx>
- Free Sample Business Plans:
http://www.bplans.com/sample_business_plans.php

Crowdfunding – Available Jan 2013

- Crowdfund investing refers to the exemption that was created by the JOBS Act which “provides an exemption from the registration requirements of the Securities Act for offerings of securities by *US Company* made through an SEC registered Crowdfunding Platform. Under this new US Crowdfunding exemption investors do not have to be U.S. Accredited Investors and do not count toward the 2,000 investor threshold.”
- <http://www.startupexemption.com/crowdfunding-101#axzz2BdjN4zmW>

Crowdfunding - Framework

- “The Issuance Limitation is \$1mm Annually
 - A company seeking money from “the crowd” may sell up to \$1 million of securities in any 12- month period to an unlimited number of investors.
- The law is designed to facilitate small investments by many people
- The SEC limits investment amounts by individuals based on annual income or net worth, because the idea is for a lot of people to contribute small amounts of capital and to collectively create a larger pool of cash for use by entrepreneurs.” <http://www.startupexemption.com/crowdfunding-101#axzz2BdjN4zmW>
- Read more: www.startupexemption.com <http://www.startupexemption.com/crowdfunding-101#ixzz2BdmthGOo>

Crowdfunding

- Will be available in January 2013
- [Wefunder](#) will begin providing Crowdfunding to companies in January 2013. This site answers many of the questions available to businesses seeking crowd funding.
- [Top Ten Crowdfunding](#) sites according to plan to start.com
- [Crowdfunding Video](#) from Micro Ventures