

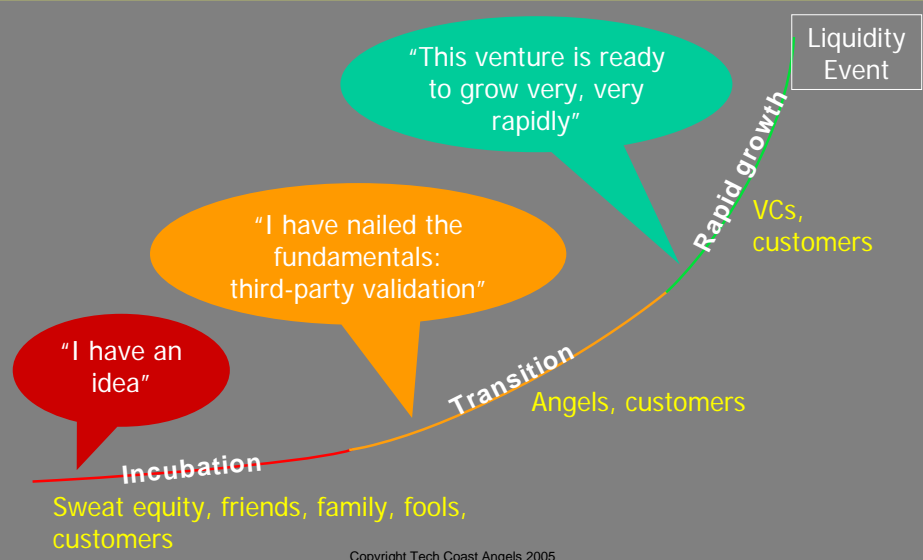


Angel Investing

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Tech Coast Angels

Stages of Growth & Funding



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Who are Angel Investors?



- Invest own capital
- But limited financial resources (compared to institutions)
- Variety of backgrounds
 - CEO's, founders, VC's, Senior executives, professionals
- What to look for:
 - Extensive networks, resources
 - Interested in your business
 - Mentors who have time to add substantial value, guidance, and access to strategic resources
- Established networks have matured, e.g. TCA is the largest in the US



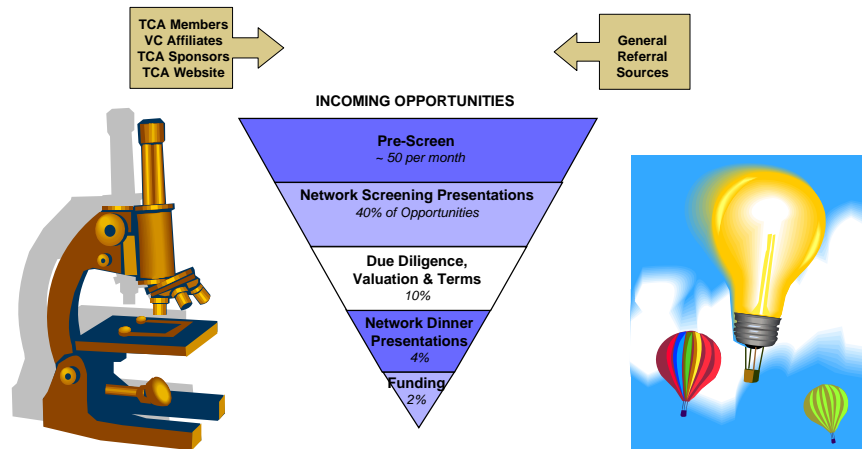
"Seeking Queen Isabella's Support"

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TCA Screening Process



TCA relies on comprehensive screening process

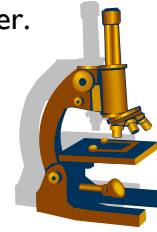


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Typical Criteria For Funding



- Must address a compelling business need.
- Market needs to support a significant business.
- Product must offer serious advantages, e.g. pain killer.
- Protectable advantage that leverages a return.
- Validation from lead customers.
- Market size enabling >10x return within 5 years.
- “Coachable” & talented management team.
- Ability to attract future funding.



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Angels & Entrepreneurs - Challenges



- **Angels typically are first “Smart Money” encountered – and most vulnerable**
 - Mgmt will always get more stock options, angels will not.
- **Typical Angel “Firsts”:**
 - Challenge strategy, market, value prop, competition, IP, financials, etc.
 - Take a “professional” approach to diligence and evaluation.
 - Question choice of personnel.
 - Expect angels to play an active role in mentorship.
 - Expect to stay closely informed of progress.



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Some Angel & VC Differences



Angels...

- Will look at “cold call” deals
- Willing to do work to make deals “fundable”
- Primarily former op execs (all types)
- Diverse experience and appetite
- Typically tapped out at around \$1 million
- May take board seats



VCs...

- Want referrals to entrepreneurs
- Companies should be fundable
- Mix between financiers, MBA's, operating execs
- Few partners, narrower focus on specific areas
- Typically start at \$1 million and will exceed \$10 million
- Always take board seats

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Top 10 Diligence Failure Items



- **Management** – Lack capability, closed-minded, weak experience
- **Customers** – Not compelled, long cycle, behavior change
- **Future fund-ability** – Not compelling enough to future VCs
- **Market** - Too small to enable venture-level return
- **Differentiation** - Inadequate IP or protect-ability
- **Tech Immaturity** - Too much “invention” still required
- **Fin/business model** - Lack margins or credibility, too long to CFBE
- **Staging** – Too early and not likely to meet stated goals
- **Pre-existing agreements** – Harmful or expensive
- **Shareholders** – Disruptive family, friends, former employees

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Top 10 "Turn-Off's" To Investors










- **Lacks excited customers** – Adoption rate suspect
- **Founders lack experience** – Mismatched team and leadership
- **Lack expert endorsement** – Any real 3rd party validation?
- **Weak presentation** – Miss critical points, lack credibility
- **High valuation** – Lack of premium for taking early risk
- **Not "Protect-able"** – Limited IP, captive customers and such
- **Biz model not credible** – Customer acquisition, price erosion, etc.
- **Long-term or delayed exit** – Hard to visualize future buyers
- **Won't get big enough** – Other deals have better upside
- **Too much capital required** – Dilution looks to be high

Important visual: "Vitamin" vs. "Pain Killer"

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Recent TCA Investments



| Company | Situation |
|---|--|
|  | Series A included TCA, \$3M Series B from Kline Hawkes, \$30M revenue, recognized as fastest growing company in LA, raising Series B of \$20M. |
|  | Series A and B by TCA, \$6M Series C led by Sequoia Capital, now \$20M+ rev and profitable. |
|  | Seeded by TCA, Series A by InQtel, \$4.0M Series B led by Palisades Ventures, profitable, \$10M+ rev for 2005. |
|  | Seeded by TCA, \$3.5M strategic investment by The Wedding Channel, now \$15M+ revenues and profitable. |
|  | Series A led by TCA, \$5M Series B led by Sequoia, sales of \$5M+ in 2005. |
|  | Series A led by TCA, Shepherd Ventures and Stone Canyon co-invested in \$4M round, company launching revenue now. |
|  | Seeded by TCA, \$6M Series A and B exclusively with Sequoia Capital, will raise Series C north of \$40M. |

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Questions and Discussion