

What do Angel Investors want to see?

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Tech Coast Angels

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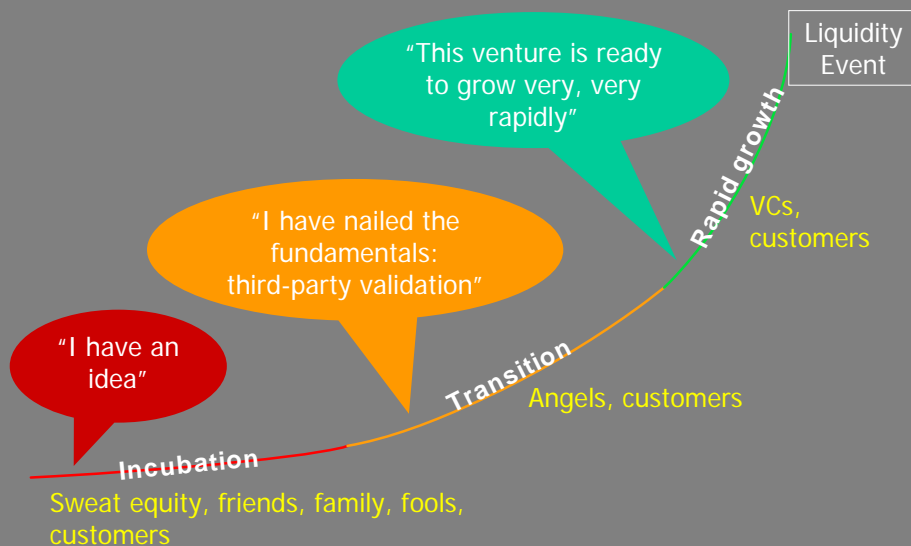
Top 10 “Turn-Off’s” To Investors

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

Important visual: “Vitamin” vs. “Pain Killer”

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Stages of Growth & Funding

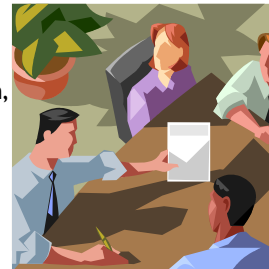


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Angels & Entrepreneurs - Challenges



- **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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Who are Angel Investors?



- We invest our 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



"Seeking Queen Isabella's Support"

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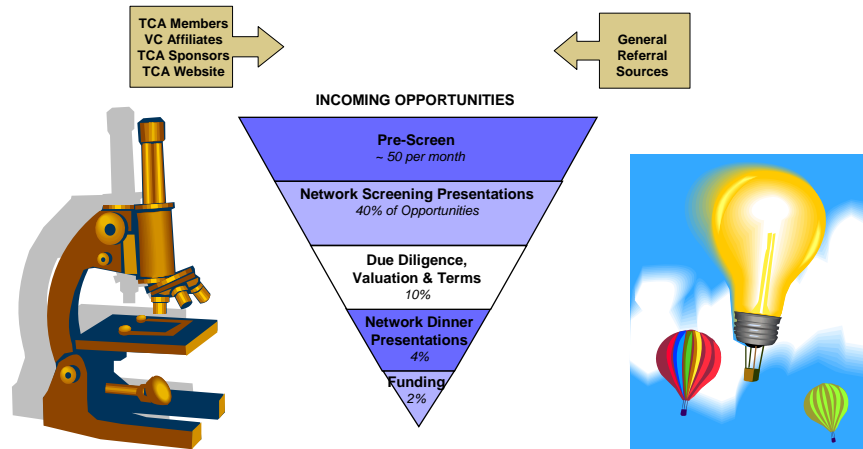
- Largest Angel group in the United States
- By members and by funding
- Tech Coast Angels ~280 members
- Started in 1997 and in 10 years:
- Mentored and Funded 138 Companies
- Companies: Technology, Life Science, IT and other
- Members invest individually
- Invested ~\$93 M in startup companies
- Raised follow on funding of ~\$988M from VC's

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TCA Screening Process



TCA relies on comprehensive screening process

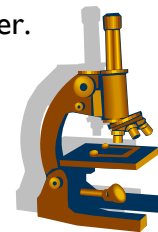


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Typical Criteria For Funding



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



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Top 10 Diligence Failure Items



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

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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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The Biotech Sector



What do we fund?

- Diagnostics
- Medical Devices
- Tool Kits for the medical field (Numira)

What we do not fund?

- Therapeutics (drugs); too long in development (FDA)

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Biomedical Industry



- Over 5,000 biomedical companies in the U.S.
- More than 2,500 in California
- Worldwide revenues of California biomedical companies \$7.8 B in 2000
- NIH grants in California \$2.3 B in 2000
- Over 225,000 Californians work in the industry

Bay Area: 713 companies

Sacramento: 106

Ventura/Santa Barbara: 133

Los Angeles: 307

Orange County: 318

Inland Empire: 91

San Diego: 499

* California Healthcare Institute 2002 Report on California's Biomedical R&D Industry

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California's Biomedical Industry



- Almost half of the biomedical venture capital dollars invested in the U.S. go into California companies
- About 35% of the investment dollars go to Medical Device, 44% to Biopharmaceuticals, and 21% to Medical Information Systems
- Job distribution: Medical Devices 34%, Biopharmaceuticals 32%, Academic Research 18%, Wholesale trade 13%, Lab Services 3%

* California Healthcare Institute 2002 Report on California's Biomedical R&D Industry

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Venture Capital Investment



Where the money is going in the Medical Device Sector

| | | |
|--------|---------------------|----------------------------------|
| 36% | Diagnostic tools | Imaging, ultrasound, X-ray |
| 23.6 % | Surgical tools | Lasers, endoscopic tools |
| 23.6% | Implants, wearables | Pacemakers, stents, prosthetics |
| 7.6% | On-site treatment | Dialysis, life support |
| 8.3% | Other | Chemical, industrial, e-commerce |

* Venture Reporter, August 2002

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Biomedical Industry Trends



- Average 510 K approvals are lengthening (72 to 76 days)
- Submission fees are being phased-in to defer FDA costs
- Investing 45% of operation expenditures on R&D (4 x as much as other high tech industries)
- 35 % of companies reported no revenue
- 40 % do not yet have products on the market
- Of the 800 products in development 48% were in clinical trials

* California Healthcare Institute 2002 Report on California's Biomedical R&D Industry

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Venture Capital Investment



Medical Device Sector vs.
Other Life Sciences Sectors

| | <u>Amount</u> | <u>Number of Deals</u> |
|----------------------|---------------|------------------------|
| 56% Biotech | \$5B | 348 |
| 21 % Medical Devices | \$1.5 B | 131 |
| 17 % Healthcare | \$1.3 B | 107 |
| 6% Pharma | \$814 M | 33 |

* Venture Reporter, August 2002

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What are the newest technologies?



- In 2000, the Human Genome was sequenced.
- Microarray screening has identified unique gene profiles for human diseases (cancer).
- Personalized Genetic markers for medicine.
- Genetic Medicines in the future ???
- Dx and Rx (Herceptin from Genentech)
- Chips-Genes-Software

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University = Innovation



- Private vs. Public Universities
- Office of Technology Management
- Evaluating IP
- Science vs. Business
- Term Sheet
- Managing Expectations on both sides.
- I have sat on both sides of this table.

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Angel Funding Guidelines










- What is the problem (pain)?
- What is the solution? IP protected?
- How many people have this problem?
- Who are the competitors? (better, faster & cheaper)
- What is the stage of validation?
- Who is on the management team?
- What is the market, sales & distribution?
- ROI/Exit Strategy

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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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Summary



- Concept
- IP
- Stage of Validation
- Management Team
- Funding
- Good Luck!

www.internationalbioscience.com (articles)

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Questions and Discussion