

ANGEL WORKSHOP

SESSION 5: Trends in Angel & VC Investing - 2018



**STARTUP
FUNDING**

+



**ONGOING
SUPPORT**

=



**PHX EV
ANGEL**



PRESENTED BY JAMES GOULKA
February 7th, 2018

INTRODUCTION

- **Objective:** Add more Angel Investors in the East Valley
- **Who:** Accredited Investors who live or work in the East Valley
- **What:** 6 session primer on how to think about angel investing
- **When:** First Wednesday of each month
- **Where:** ASU Chandler Innovation Center, 249 E Chicago St

WHY WE'RE HERE

More Local Angel Investors



More Local Capital for Local Startups



Easier to Raise Money



Spend Locally On:

Hiring, Buying Goods and Services, Occupying Space,
Creating Local Wealth for Local Investors

JIM GOULKA

- Leads Arizona Tech Investors



97 men and women

56 companies in 10 years

- Serial CEO in software & NASA tech transfer
- COO/CFO of \$650 million publisher
- Private Equity finance
- Corporate finance

PREVIOUSLY

- Defined angel investors
- Discussed potential for huge gains
- Showed how to analyze new businesses
- Valued an Investment Opportunity
- Showed how Deal Terms protect

TRENDS

- Geography
- Domains
- Legal
- Crowdfunding

GEOGRAPHY OF FINANCE: CENTERS & OUTPOSTS

- US Treasuries: Washington DC
 - Euro
 - Renminbi / Yuan
 - Cryptocurrency
- Banks: New York City = Center of the Universe
 - Wells Fargo in San Francisco
 - Bank of America in North Carolina
 - Regionals (fewer & fewer)
 - Locals

GEOGRAPHY OF FINANCE: CENTERS & OUTPOSTS 2

- Investment Banks: NYC = Center of the Universe
 - NYC firms have regional offices
 - Regional firms
- Private Equity: NYC Not as Dominant
 - Chicago
 - Los Angeles
 - Miami
 - Minneapolis
 - Phoenix (a few)

GEOGRAPHY OF FINANCE: VC IN SV / SF

- SV / SF Venture Funding in 2016:
 - 55% of all US Venture Capital funding
 - \$25 Billion in 1484 Deals
 - \$17,000,000 mean Investment
 - Assume invest in 1 in 20 companies = 30,000 companies they see per year
- In Arizona:
 - I see 200 applications per year and invest in 10.
 - Mean deal is \$1 million and mean investment is \$250K

TRENDS OF VCS IN SV / SF

- Stampede of funds
- Size of Funds Has Grown
 - 2000 mean fund size: \$30 million
 - 2016 mean fund size: \$200 million
 - Many funds >\$1 billion
- Size of Investments Has Grown
 - Bigger Rounds: Up to \$100,000,000
 - Later Rounds: Series E, F, G
 - Higher Valuations

TRENDS OF VCS IN SV / SF

FOMO

Fear of Missing Out

Theranos

GEOGRAPHY OF VC: #2 & #3

➤ Boston: Center #2

- 75 years of MIT and Harvard research
- Multiple angel groups, VCs, and PE firms

➤ New York #3

- The global money capital
- Fintech & Media capital
- Last 15 years capital has sought new outlets: angel groups & VCs in addition to PE, etc.

GEOGRAPHY OF VC: SECONDARIES

- Austin / San Diego / Research Triangle / Orange County / Seattle / Salt Lake
- Creative flukes based on the concerted efforts of community leadership

GEOGRAPHY OF VC: REST OF THE US

- Major: Atlanta / Denver / Chicago / Minneapolis
- Minor: Everywhere Else
- Just like PHX

GEOGRAPHY OF FUNDING: ARIZONA

	Fund Size \$MM	Invest in AZ?	Invest/Deal	Institutional LPs
Grayhawk	30	some	\$2,000	yes
Social Leverage	50	some	\$100-\$1000	yes
Venture 51	43	no	\$1,000	yes
Canal Partners	by deal	some	\$1,000	no
Tallwave	13	some	\$100-300	no
AZ Founders Fund	by deal	exclusively	\$100-300	no
AZ Tech Investors	by deal	mostly	\$25-500	no
Desert Angels	by deal	mostly	\$10-\$1000	no
Canyon Angels	by deal	mostly	\$10-\$50	no

WHAT DOES THIS MEAN FOR PHX EV - 1?

- Comparisons with SV / SF are Meaningless
 - We don't have the density of startups
 - We don't have the density of funding
 - Stop whining
- Money is Fungible & Transportable
 - Money goes to superior deals
 - Deals in Arizona can be attractive
 - Geographic Discount

WHAT DOES THIS MEAN FOR PHX EV - 2?

- Action: Nurture Potential World Class Companies to Attract VC Money from Elsewhere
 - "If we're good enough, they will come"
 - Pricing discounted in comparison to SV / SF
- Angels are the Key
 - We Screen for Them: Our Winners → Theirs
 - We De-Risk Deals by Taking Earlier Risk
 - More Important than Angels in SV / SF

DOMAIN TRENDS: IT - 1

➤ 2010-2015

- Phone apps
- Search Engine Optimization (SEO)
- Daily Deals

➤ 2016

- Sales Automation (SalesForce)
- Cloud Computing

DOMAIN TRENDS: IT - 2

- 2017
 - Big Data
 - Cyber Security
- 2018
 - Blockchain
 - Bitcoin, other Cryptocurrencies
 - AI
 - FinTech

DOMAIN TRENDS: LIFE SCIENCES

- Precision Medicine
 - Blood & Breath Diagnostics
 - Animal Health
 - Gene & DNA Engineering
 - Personalized Medicine
 - Skipping Animal Trials
- GT Technologies in Mesa
Breezing in Tempe
Anicell in Chandler
Reglagene in Tucson
Precision Profile in Boulder
Nortis in Seattle

DOMAIN TRENDS: RENEWABLES

➤ 2000 – 2016

- Wind Farms
- Semi-efficient photovoltaic cells

➤ 2017-2018

- Sensors
- Big Data Analytics
- Recycling

SWEET SPOT FOR INVESTING

- Early into a Newly Observed Market
- Real Problem to Be Solved
- Risk: Being Wrong
- Risk: FOMO

LEGAL TRENDS - 1

- SV / SF Major Law Firms Lead the Way
 - Firms Like:
 - Wilson Sonsini
 - Cooley
 - DLA Piper (also in Phoenix)
 - Very expensive
 - Create Structures for Specific Situations (eg SAFE)

LEGAL TRENDS - 2

- Legal Firms in Arizona
 - Some very sophisticated
 - Some want to emulate SV Lawyers
 - Structure of deal
 - Deal Terms
- Sometimes That Gets in the Way of a Deal

CROWDFUNDING

JOB Act of 2012:

Enable more people to invest in early stage companies.

Intention: Great

Execution: Devil in the Details

CROWDFUNDING: PART 1: FOR ACCREDITED INVESTORS

Prior Rule:

SEC Reg D, Section 506(b): Private Solicitation
(eg pitch to ATI)

New Rules:

Keep 506(b) as is

Add 506(c): General Solicitation

CROWDFUNDING FOR ACCREDITED INVESTORS: GENERAL SOLICITATION

- Enables company to broadly advertise that it is fundraising
- Requires company to take “reasonable steps” to satisfy itself that investors are accredited.
 - Those steps can be onerous for both investors and companies.
 - Major sanctions for failure to comply.

CROWDFUNDING FOR ACCREDITED INVESTORS: RISE OF THE PLATFORMS

- Platforms that enable companies to reach out to a wide array of accredited investors
 - Companies post documents
 - Platform verifies accredited investor status
 - Platform takes no position on companies
- Examples
 - Angel List
 - Equity Net
 - Seedinvest

CROWDFUNDING FOR SMALLER INVESTORS: RISE OF THE PLATFORMS

- Funding for Purposes Other than Stock
 - Indiegogo
 - Kickstart
- Evolution of Existing Platforms to Sell Equity
- New Platforms

CROWDFUNDING FOR SMALLER INVESTORS: RULES FOR AN ISSUER OF SECURITIES

- <\$1 million per year raise
- File information with SEC
- Disclose to public

CROWDFUNDING FOR SMALLER INVESTORS: RULES FOR AN INVESTOR IN SECURITIES

- If income or Net Worth is less than \$100,000
 - May invest the up to the greater of \$2000 or 5% of either
- If income or Net Worth is greater than \$100,000
 - May invest up to the greater of 10% of either
 - Max of \$100,000
- Provide regular reports to the Platform

CROWDFUNDING FOR SMALLER INVESTORS: RULES FOR THE PLATFORMS - 1

- Regulator: SEC
- Anti-Fraud: SEC defined
- Report: to SEC

CROWDFUNDING FOR SMALLER INVESTORS: RULES FOR THE PLATFORMS - 2

- Must provide investors
 - Education
 - Information about issuers
 - Ongoing communications channel

- Must not provide investors
 - Investment advice
 - Solicitations for purchases or sales
 - Holding cash and securities

CROWDFUNDING FOR SMALLER INVESTORS: RISKS

- Potential for fraud - boiler room platforms
- “I thought I was going to make a lot of money”
- Crowded Cap Table:

Who Wants to Invest Large Sums in a Company with Hundreds of small, potentially Unsophisticated Investors already there?

LAST SESSION:

Angel Investing – Doing It!

Individuals invest as Angels in several ways: alone or together in groups sharing intelligence. They can be active or passive. They can have a little of each. Learn the differences and how to take action that suits

- **When:** March 7, 2018 from 5-6:15pm
- **Where:** ASU Chandler Innovation Center