

ANGEL WORKSHOP

SESSION 1: INVESTING IN BRAND NEW BUSINESSES



**STARTUP
FUNDING**

+



**ONGOING
SUPPORT**

=



**PHX EV
ANGEL**



PRESENTED BY JAMES GOULKA
May 1, 2018

INTRODUCTION

- **Objective:** Add more Angel Investors in the PHX East Valley
- **Who:** Accredited Investors who live or work in the PHX East Valley
- **What:** 3 session primer on how to think about angel investing
- **When:** 5:30 – 7:30 pm
- **Where:** University Building, 92 W Vaughn Ave, Gilbert

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



90 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

PART 1

WHY INVEST IN BRAND NEW BUSINESSES?



© 2015 Angel Investor
All Rights Reserved

You don't have to invest millions of dollars to be an angel investor. A typical investment is \$25,000 to \$100,000. Over time, you'll want to build a diverse portfolio of startups to mitigate risk and maximize your odds of a home run investment.

ANGEL INVESTOR DEFINED

“ Individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. ”

Wikipedia

BASICS OF INVESTING

Publicly Traded Securities

- Market Conditions
- Historical Trends
- Management Tweaks

Private Equity

- Market Conditions
- Financial Engineering

Real Estate

- Market Conditions
- Absorption Rates
- Financing Costs

VC & Angel Funds + Deals

- Market Conditions
- Is There a Business?

WHY TAKE THE RISK OF ANGEL INVESTING?



IRRs of 25% - 200%

GOOGLE

- **1 Investor:** Andy Bechtolsheim
- **Invested:** \$100,000
- **Value:** \$2,500,000,000


FACEBOOK

- **1 Investor:** Peter Thiel
- **Invested:** \$500,000
- **Cashed Out:** \$1,000,000,000

AMAZON

- **1 Investor:** Nick Hanauer
- **Invested:** \$40,000
- **Cashed Out:** \$100,000,000

WEBPT

- **1st Investors:**  & Canal
- **Invested:** \$1,000,000
- **Cashed Out:** \$15,000,000
4 years

CAMPUSLOGIC

➤ **Invested:** \$ 454,250

➤ **Cashed Out:** \$2,900,000

➤ 2.9 years

➤ 88% IRR

INFUSIONSOFT

- ✗ Raised \$750k from angels in 2006-07; 35 employees
- ✗ Used the capital to grow 100% per year
- ✗ Angel round → VC round of \$9M in late 2007
- ✗ Now raised over \$100M, about half of that going to early investors
- ✗ First investors made 100x returns
- ✗ Today 550 employees, over \$100M annual sales and sights set on going public and building a billion-dollar company

ANGEL INVESTOR SEC DEFINITION

- Unsophisticated = Widows & Orphans
- Sophisticated Investors = Accredited
 - Net Worth
 - \$1 million (excludes primary residence)
 - Gross Income from last 2 years
 - \$200,000 if individual
 - \$300,000 if married

ANGEL INVESTORS INVEST

- Individually
- Groups & Funds
- AngelList & Other Platforms
- Crowdfunding

OTHER BENEFITS OF ANGEL INVESTING

- Company Involvement
- Stay at Cutting Edge of the New
- Work With Smart People
- Build Community

ANGELS ON WHY ANGEL INVESTING

- **Michelle Tinsley**, Tinsley Retail Insights, formerly Intel
- **Aaron Cain**, Fennemore Craig
- **Erik Probstfield**, International Rectifier

PHX EV ANGEL
INVESTOR
WORKSHOP



SESSION BREAK

PART 2

IS THIS AN INVESTIBLE BUSINESS?



Most high-growth companies are not venture-capital backed. A Kauffman Foundation survey of 479 companies on the Inc. 5000 list revealed that only 6.5% raised money from venture capitalists while 7.7% raised money from angel investors.

STARTUP SEEKING CAPITAL

- 1-2 year old business
- Management: Most are first time entrepreneurs
- Team: Incomplete
- Product: Prototype
May be a thing or may be electrons
- Disruptive: Requires customers to change behavior
- IP: Is there any?
- Capital: limited to founder funding + friends + family

WHERE DO YOU START?

- No Direct History
- There are indicators
- Derived from systematic questioning
- **ATI** Candidate Template

FIRST: MANAGEMENT-BASICS

- Does management have experience that relates to the opportunity?
- Serial entrepreneur > value of first time entrepreneur
- Entrepreneurial mindset = no staff
- Youth doesn't matter: Fit does

MANAGEMENT-CHARACTER

- Integrity: Background checks
- Coachability: Listen to advice or know it all
- Passion: 24/7 work ethic
- Team Sense: I **vs** We / Boundaries

MANAGEMENT-ECONOMICS

- Skin in the game
- Can they afford to be entrepreneurs?
- Not greedy: little cash / mostly stock
- Share rewards with everyone in company

IS THERE A PROBLEM TO BE SOLVED?

- A problem that needs solving: Not a solution in search of a problem.
- Validate the argument by:
 - Ask your domain experts
 - Research
 - Talk to beta customers

WHO HAS THE PROBLEM? = CUSTOMERS

- Who are they?
- How many of them are there?
(how big is the market)
- How acute is the problem?
(how important is the issue)
- Ask your domain experts
- Research
- Talk to beta customers

TURN PROSPECTS → CUSTOMERS?

- Can the company get to their buyers?
 - Consumers
 - Enterprise purchaser
- Do they know how customers buy?
- Do they know how to convert prospects to customers?
 - Tools
 - Methods

(ONLY NOW DO WE GET TO) THE SOLUTION

- Does the product solve the customer problem?
- Does the Customer value proposition make sense?
 - Do own analysis
 - Ask customers

SOLUTION – NOW & FUTURE

- Intellectual property
- Product development road map
- Test the product:
 - Look at the code or the device mechanics
 - Does it work?
 - Is it scalable?
- Supply chain evaluation & management assessment
- Regulatory path

WITHOUT MEASUREMENT YOU HAVE A HOBBY

- Management dashboards: what do you measure?
- Do actions convert to numbers?
- Do numbers cause actions?
 - Especially recalibrations of behavior?

FINANCIAL PROJECTIONS

- High level only
- Don't believe them as a promise of the future
- Reflect management thinking about drivers and results
- Solve for capital need, not driven by it

RECAP

- Is there a superior (if incomplete) management team?
- Is there a serious problem to solve?
- Is the market big?
- Will customers put great value on (ie pay a lot for) the solution?
- Can the company sell effectively?
- Does product work as advertised? Can they protect it?
- Does management know how to manage?

FIGURING IT ALL OUT

- A lot more than trend analysis
- Analytical efficiency gained through sharing work with others who know parts of the analysis. This is why **ATI** exists.
- Can't reach certainty, only an acceptable level of confidence
- Confidence level is defined by the investor

NEXT SESSION: MAY 16

VALUING & DE-RISKING THE OPPORTUNITY

- If you get comfortable that a company is a business with high potential and acceptable uncertainty:
 - Then you need to determine what price you will pay to get a piece of it.



- Is this opportunity worth enough to allocate some of my scarce capital to?
- **Join us on May 16:** Same Time, Same Place

FUTURE SESSIONS:

June 13th, 2018

WORKSHOP FOCUS

- **Trends in Investing, with a Nod to Venture Capital:** Startups are emerging in Arizona in software, semiconductors, medical devices and other fields all the time. Arizona is not Silicon Valley and Silicon Valley is not the entire U.S. Some trends apply everywhere; others are localized, and all of them matter. Learn which comparisons are important and which are not. And learn how Angels and VCs are dependent upon each other... to a point.
- **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 you.

QUESTIONS?

#PHXEVANGELS