

ANGEL WORKSHOP

SESSION 3:

CONTEXT + ACTION



**STARTUP
FUNDING**

+



**ONGOING
SUPPORT**

=



**PHX EV
ANGEL**



PRESENTED BY JAMES GOULKA
June 13, 2018

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

PREVIOUSLY

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

PART 1

TRENDS IN ANGEL + VC INVESTING - 2018



*Angel investor and venture capital rates of home run investments are similar.
Roughly 90% of ROI is provided by 10% of investments.
It pays to maintain a diverse portfolio.*

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

JOBs 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 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?

PHX EV ANGEL
INVESTOR
WORKSHOP



SESSION BREAK

PART 2

NOW JUST DO IT



There are some 400 angel groups in the United States. Together, these groups account for around 65,000 deals per year, more than 16x the number of deals made by professional venture capital firms.

DECISION #1: HOW MUCH?

- % of investment portfolio
- How Risk Averse are You?
- Will You Have Additional Amounts over Time?

PORTFOLIO IS NECESSARY

- Diversity is Key
 - Minimum 10 investments
 - 18-20 is Optimal
- Investment Period <5 Years
 - 2-5 investments per year

SCALE + DIVERSITY = INVESTMENT SIZE

- Assume \$2 million liquid assets
- Assume 5% of assets invested in Angel deals = \$100,000
- Assume 10 company portfolio
- Assume Each investment is same size
- Result = \$10,000 per investment

INVESTMENT STRATEGY: ACTIVE OR PASSIVE?

ACTIVE

- Picking Your Own Investments
 - Advantages
 - You determine your own criteria for investment
 - You determine your own actions
 - Potential for board seat / involvement in company
 - Disadvantages
 - Time consuming
 - What don't you know that others do?

INVESTMENT STRATEGY: ACTIVE OR PASSIVE?

PASSIVE

- Letting Others Pick for You
 - Advantages
 - Don't have to allocate a lot of time
 - Benefit from Others' expertise / writing checks before you
 - Disadvantages
 - Subject to others' interests / time commitment / biases
 - Little opportunity for involvement in a company

DOING IT

ACTIVE INVESTOR: GOING SOLO

- Developing Deal Flow = Establishing Reputation
 - Talking and talking to entrepreneurs / capital seekers
 - Credibility is making investments
 - But
 - Reserve the right to say no MOST of the TIME
- Decision Process Takes Time
 - You're responsible for all of it
 - Still rely on others

Mario Martinez is the Best in the Valley

DOING IT

ACTIVE INVESTOR: PAID STAFF

- Family Offices Do This
 - Source Deals
 - Diligence Deals
 - Present for Decision
- Cost >\$250,000 per year
 - Assume 5 deals / year = \$50,000 added per investment but no additional securities.
 - Requires bigger investments

DOING IT

ACTIVE INVESTOR: ANGEL GROUP

- Individual Decisions + Organized Deal Sourcing and Analysis + Investing
 - Established Investor = Community Knows It
 - Formal Deal Sourcing
 - Screening by Peers
 - Diligence by Peers
 - Opportunity for Company Involvement

DOING IT

ACTIVE INVESTOR: ANGEL GROUP

- Group member-investors pool their investments into a single purpose investment vehicle = 1 larger investor
 - Permits investments as small as \$5000 per investor per deal
 - Opportunity for board seats / observers / influence
 - Large enough to gain Arizona angel tax credit but enables smaller investors to get their share
 - Information flow = Major Investor

DOING IT

ACTIVE: ANGEL GROUPS IN ARIZONA

- **Arizona Tech Investors** (ATI) (Mesa)
- Desert Angels (Tucson)
- Canyon Angels at GCU (West Side)

DOING IT

ACTIVE: ARIZONA TECH INVESTORS

➤ Scale

- 90 men & women
- 56 companies, of which 46 are Arizona-based
- \$16 million

➤ Events

- Quarterly Pitch Meetings (3-4 Screened companies)
- 1-2 Special Meetings
- Educational Workshops

DOING IT

ACTIVE: ARIZONA TECH INVESTORS

- Screening & Diligence by Members
- Member Requirements
 - Accredited Investor
 - Active participation
 - Dues of \$1750 per 10-01 through 09-30 year (pro rata for initial year; eg joining in March = \$875)

DOING IT

PASSIVE: FUNDS

- Benefits
 - Time efficient for fund investor
 - Quick portfolio development
- Decision: Give Other(s) Decision-making Authority
- Costs
 - Fees
 - Carried Interest
- Access to Information & Management

DOING IT

PASSIVE: ARIZONA TECH INVESTORS SIDECAR FUNDS

- “Investment Committee” is a minimum of 3 ATI members who invest a minimum of \$75,000 in a company before the Sidecar Fund invests.
- Fund matches lesser of 1/3 of members’ investment or 20% of Sidecar Fund (minimum of 5 investments)
- Investment in 18 months or capital returned
- Information flows as if direct investor

DOING IT

PASSIVE: ARIZONA TECH INVESTORS SIDE CAR FUNDS

- Closed 3 Sidecar Funds = \$1,000,000
- Sidecar IV Open Right Now
 - \$10,000 minimum investment
 - Investment window through 06-30-2019
 - Costs are small fee + carried interest

DOING IT

PASSIVE: ATI / PHX EAST VALLEY SIDECAR FUND

- ATI Sidecar Fund that **Only Invests in Companies Located in PHX East Valley Cities**
- Usual ATI Sidecar Fund Structure
- Minimum Investment \$10,000
- Investment Window: 3 Years maximum
- Minimum Fund Size: \$125,000
 - Assumes 5 investments
 - Meets Arizona Angel Tax Credit Minimum Investment to get 30-35% tax credit against Arizona income taxes

DOING IT

PASSIVE: ARIZONA FOUNDERS FUND

- Arizona Founders Fund
 - Invests solely in Arizona software startups.
 - Some the same as ATI, some earlier
 - Romi Dhilon engaged to find, diligence, and present opportunities to 3 member investment committee

DOING IT

PASSIVE: PLATFORMS

- Platforms enable investors to see a huge array of opportunities without geographic constraint
 - Companies post documents
 - Platform verifies accredited investor status
 - Platform takes no position on companies
 - Investors can act solo or follow celebrity investors
- Examples
 - Angel List
 - Equity Net
 - Seedinvest

NEXT STEPS

- Complete our survey so we can better serve others:
<https://www.surveymonkey.com/r/BPBXFMS>
- If you have attended 1 or more workshop, we invite you to join an upcoming **ATI Membership Meeting (at no cost)**
 - **When:** September 13, 2018 at 3pm
 - **What :** Hear investment pitches from local startups
- For more info on angel investing or help getting started:
 - Schedule a meeting with Jim Goulka

HELP US RAISE AWARENESS

We will be offering these 3 workshops in surrounding PHXEV communities and could use your help in finding potential angels. **Help us get the word out!**

- **When:** This Fall in Mesa, Arizona
- **Where:** Mesa Center for Higher Education (245 W. 2nd St.,)

For updates and registration links to share, visit
investphxeval.org

THANK YOU FOR ATTENDING THESE AI WORKSHOPS BROUGHT TO YOU BY:

