

the POWER of
angel
Investing



Building a Financing Plan

For the Entrepreneur
For the Investor



ANGEL
RESOURCE
INSTITUTE

Founded by:
Ewing Marion
KAUFFMAN
Foundation

Sections

- Basics
- Entrepreneur vs. Investor
- Fund Raising Environment
- Sources of information
- Questions

Where do you start?

- You've thought of your product/solution your value proposition, now how do you pay for it?
- Note: *Executive Summary & Financial plan*
- Build your financial plan from the ground up
 - “checkbook accounting”
- What are the components?
 - Software, hardware, people, places, what else?
 - How long to market
 - How long to cash flow breakeven
 - How long till investors sees a return on their investment*

Build a believable financial Plan

- What's the purpose?

for you the entrepreneur: (early or later stage)

- Project and understand what are your financial needs
- Think about tasks to accomplish
- Who are the “right people” to help build company
- Think about time and money to complete tasks
- Test your assumptions
- Tie the financial model back to your business plan

Build a believable financial plan

- For the investor:
 - Show that you have spent enough time to use the investors' funds efficiently
 - Show that you understand the details of how your company will grow
 - Show your commitment to make your investor a return on his money
 - Don't show a "hockey stick" revenue projection unless you have data

What are the basics: People

- What skills do you need and when?
- How much will you pay them?
 - Cash plus ownership or straight cash
 - Do deserve a piece of the company?
 - How much?
- What equipment will you need?
 - Laboratory or laptop and internet connection
- Where are you going to work?
 - How much will in cost/ month

Other Basics

- Legal
- Accounting
- Banking
- Internet
- Telephone

How much will this cost / month

- Use Excel spreadsheet starting with monthly cash burn
- Add up all the costs
- Adjust for time (e.g. you don't need all the workers in the first month)
- Do you need to pay for equipment/ inventory up front or do you pay them at the end of the month?
- ** *Build in a cushion for the unexpected*

Build a one year cash burn

- Try to detail as best possible your first year
 - Test assumptions
 - What costs did you forget (e.g. hosting charges)
 - What effect will delay cause to your cash (worker doesn't do job or gets sick)
 - When will you need more money

When will you need more money?

- 1st year cash flow
- 2 year cash flow
- Build in time for 2nd (3rd or 4th) money raise
- Show revenues that justify new rounds of financing

Start Simple

Cash Flow Plan

	Sep	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Salaries	48.50													
Base - Gene	18.42	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	\$ 150.00
Base - Tom	13.71	13.71	13.71	-	-	-								\$ 27.41
Base - Dave	13.71	13.71	13.71	-	-	-								\$ 27.41
	45.83	39.91	39.91	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	\$ 204.83
Medicare	0.67	0.58	0.58	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	\$ 2.97
FUTA		1.30												\$ 1.30
SS		2.47	2.47	0.78	0.78	0.78	0.78	0.78	0.78	0.78				\$ 10.37
Health insurance	1.99	2.11	2.11	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	\$ 11.91
Subtotal	48.49	46.38	45.08	14.23	14.23	14.23	14.23	14.23	14.23	14.23	13.45	13.45	13.45	\$ 231.38
														\$ -
Office rent	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	2.00	2.00	2.00	2.00	\$ 36.00
Auto lease	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	\$ 13.20
Insurance (see below)	7.80	8.78	11.68	4.18	3.58	1.28	1.28	3.58	1.28	6.88	10.08	1.28	1.28	\$ 55.13
Contract Staff				5.00	5.00	5.00	5.00	10.00	10.00	10.00	10.00	10.00	10.00	\$ 80.00
Regulatory	19.10													\$ -
Stability	13.60	-	15.70	9.50		12.20		7.31				9.48		\$ 54.19
Misc and AP	5.00	73.40	12.00	27.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	\$ 157.40
Cash Spend	98.59	133.16	89.05	64.50	32.40	42.30	30.10	44.71	35.10	39.20	41.63	42.31	32.83	\$ 627.31
Opening Cash	692.00	365.99	232.83	143.78	79.28	46.87	4.57	(25.53)	(70.24)	(105.35)	(144.55)	(186.18)	(228.49)	
Ending Cash	593.41	232.83	143.78	79.28	46.87	4.57	(25.53)	(70.24)	(105.35)	(144.55)	(186.18)	(228.49)	(261.32)	\$(514.32)

Multiyear plan:

Consolidated TrakLok Corporation Income Statement							
as of December 31st							
Pro Forma		2009	2010	2011	2012	2013	2014
Revenues							
Services							
	Hardware	\$ -	\$ 792,735	\$ 16,588,867	\$ 45,315,819	\$ 64,694,031	\$ 66,676,229
	ASP	\$ -	\$ 6,149	\$ 1,555,597	\$ 10,519,366	\$ 30,434,974	\$ 55,764,979
	Other Services	\$ 14,391	\$ 114,974	\$ 582,255	\$ 2,138,655	\$ 4,636,391	\$ 7,616,794
Total Revenues		\$ 14,391	\$ 913,857	\$ 18,726,720	\$ 57,973,840	\$ 99,765,396	\$ 130,058,001
	% Growth		6250.20%	1949.20%	209.58%	72.09%	30.36%
Cost of Goods							
	Hardware	\$ -	\$ 764,943	\$ 18,129,775	\$ 44,908,820	\$ 51,139,777	\$ 55,538,532
	Network Costs	\$ -	\$ 2,006	\$ 507,447	\$ 3,431,492	\$ 9,928,105	\$ 18,190,933
	Other	\$ 11,328	\$ -	\$ -	\$ -	\$ -	\$ -
Total Cost of Goods		\$ 11,328	\$ 766,949	\$ 18,637,222	\$ 48,340,312	\$ 61,067,882	\$ 73,729,465
Gross Margin		\$ 3,063	\$ 146,908	\$ 89,498	\$ 9,633,528	\$ 38,697,514	\$ 56,328,536
	% Margin		16.08%	0.48%	16.62%	38.79%	43.31%
Operating Costs							
	Marketing & Sales	\$ -	\$ 136,921	\$ 631,620	\$ 1,470,984	\$ 2,194,588	\$ 2,454,672
	Operations	\$ -	\$ 82,275	\$ 704,356	\$ 1,110,439	\$ 1,604,110	\$ 1,737,057
	G&A	\$ 184,721	\$ 212,175	\$ 541,950	\$ 906,820	\$ 1,377,763	\$ 1,481,385
	R&D	\$ -	\$ 412,550	\$ 761,520	\$ 1,107,888	\$ 1,578,566	\$ 1,703,070
	Customer Support	\$ -	\$ 450	\$ 72,313	\$ 479,777	\$ 1,382,237	\$ 2,538,189
	Commissions	\$ -	\$ 19,972	\$ 453,612	\$ 1,395,880	\$ 2,378,225	\$ 3,061,030
	Amortization	\$ -	\$ 62,500	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
	Depreciation	\$ 2,867	\$ 15,825	\$ 75,730	\$ 130,796	\$ 209,733	\$ 331,599
	Total Operating Costs	\$ 187,588	\$ 942,668	\$ 3,391,100	\$ 6,752,583	\$ 10,875,223	\$ 13,457,001
Total CGS and Operating Costs		\$ 198,916	\$ 1,709,617	\$ 22,028,322	\$ 55,092,895	\$ 71,943,105	\$ 87,186,466
Net Profit Before Taxes		\$ (184,525)	\$ (795,760)	\$ (3,301,602)	\$ 2,880,945	\$ 27,822,291	\$ 42,871,535
	% Revenue	-1282.23%	-87.08%	-17.63%	4.97%	27.89%	32.96%
Federal Tax Expense (Benefit)		\$ -	\$ (310,346)	\$ (1,287,625)	\$ 546,367	\$ 10,304,326	\$ 16,719,899
	39%						
	Tax Loss Carry Forward	\$ (184,525)	\$ (980,285)	\$ (4,281,888)	\$ (1,400,942)	\$ -	\$ -
Net Profit After Taxes		\$ (184,525)	\$ (485,414)	\$ (2,013,977)	\$ 2,334,578	\$ 17,517,965	\$ 26,151,636
	% Revenue	-1282.23%	-53.12%	-10.75%	4.03%	17.56%	20.11%
Investment Cash		\$ 600,000	\$ 1,350,000	\$ 5,000,000	\$ -	\$ -	\$ -
After Tax Cash Change		\$ 36,817	\$ 245,161	\$ 433,292	\$ 745,111	\$ 17,669,314	\$ 26,168,473
Cash Position		\$ 36,817	\$ 281,978	\$ 715,269	\$ 1,460,380	\$ 19,129,695	\$ 45,298,168

Revenues

- How long will it take to get product ready
 - How much will that cost?
 - How much time?
 - Delays?
- How do you sell the product or service?
 - Internet
 - Direct sales
 - Social (YouTube? Other?)

How long will the sale cycle take?

- How many months from first contact to getting paid?
 - (95% of entrepreneurs underestimate the time it takes to get to market)
- Who is the decision maker?
 - Hundreds books have been written about how to sell a product
 - Need to be selling to correct person(s)
 - Does your contact have decision making authority?
 - Need to solve a customer's "pain" (e.g. quicker, faster cheaper, better...)

Cash flow breakeven & investor

- How long will it take to turn cash flow breakeven
 - More cash in than out per month
 - Note: be conservative
 - Investor will discount your assumptions
- How long to investor return?
 - Will you pay a dividend?
 - Will you sell the company
 - When and where does he/she get their money back

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Building a Financial Plan

Entrepreneur meet the Investor

Next Steps

- What does an investor look for?
 - Reasonable assumptions
 - Logical progression
 - Conservative vs. speculative thinking
 - Tested assumptions
 - Management team experience with managing finances (prior experience)
 - Allowance for variances (the unexpected)

Investor: what are they thinking?

- Is this entrepreneur serious?
- Is this entrepreneur knowledgeable
- Has he/ she worked in this technology arena before?
- Have they made reasonable assumptions
- What research have they done about competition?
- What is the “Pain/need” for the product or service
- Are they trustworthy and believable?

Investor's main question

- Do they want to pay me back or are they just using my money
- Do they value just my money or also my knowledge?
- What's my chances of getting paid?
- What doubts do I have?
- **DO I TRUST THIS PERSON WITH MY INVESTMENT?**

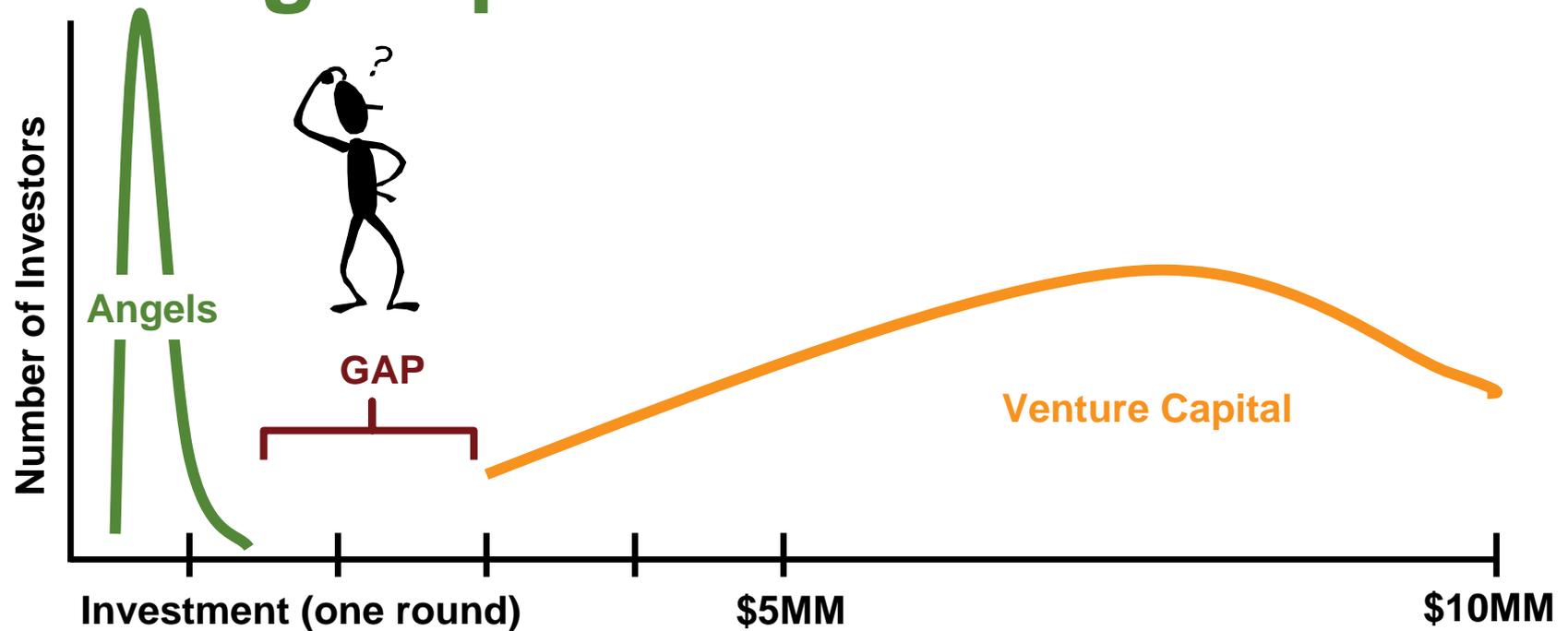
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Trends in Raising Capital

The Capital Raising Environment

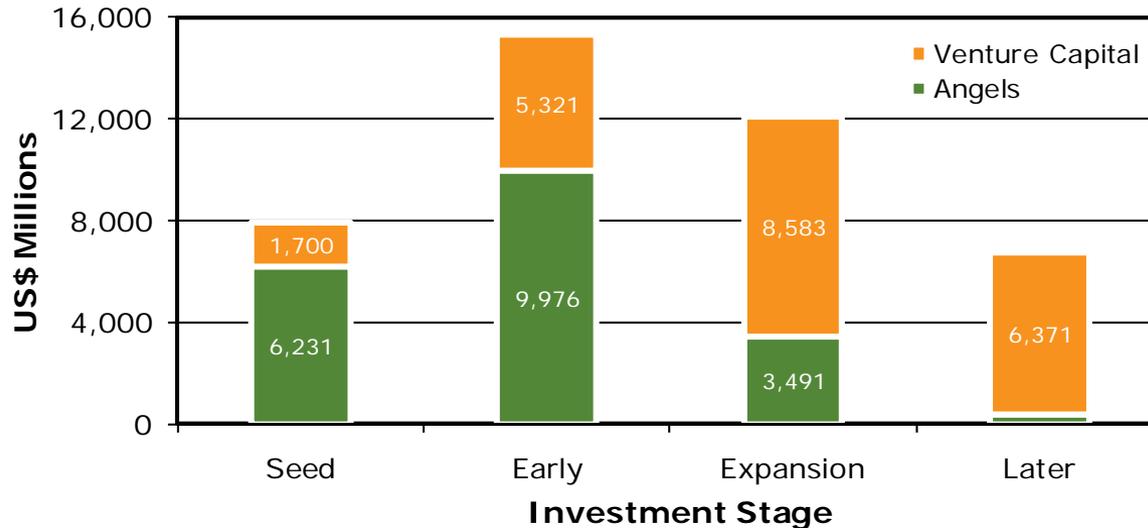
Funding Gap



Stage	Pre-Seed	Seed / Start-Up	Early Stage	Expansion (Launch)	Later (Growth)
Source	Friends and Family	Angels (Alone or in Groups)	Funding Gap between \$1,000,000 and \$3,000,000/\$5,000,000 (depending on region)	Venture Capital	
Investment	\$25,000 to \$100,000	\$100,000 to \$1,000,000		\$3,000,000 and up	

Early Stage Funding Profile

Funding by Source and Stage- 2010



Angel Investors 2010

- US\$ 20.10 billion
- ~61,900 deals
- 31% seed/startup
- 67% early/expansion stage
- 2% later stage capital
- Approx. 265,400 individuals

Venture Capital 2010

- US\$ 21.97 billion
- ~2,750 deals
- 8% seed/startup
- 24% early stage
- 68% later/expansion capital
- Total 462 firms active

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Trends in Raising Capital

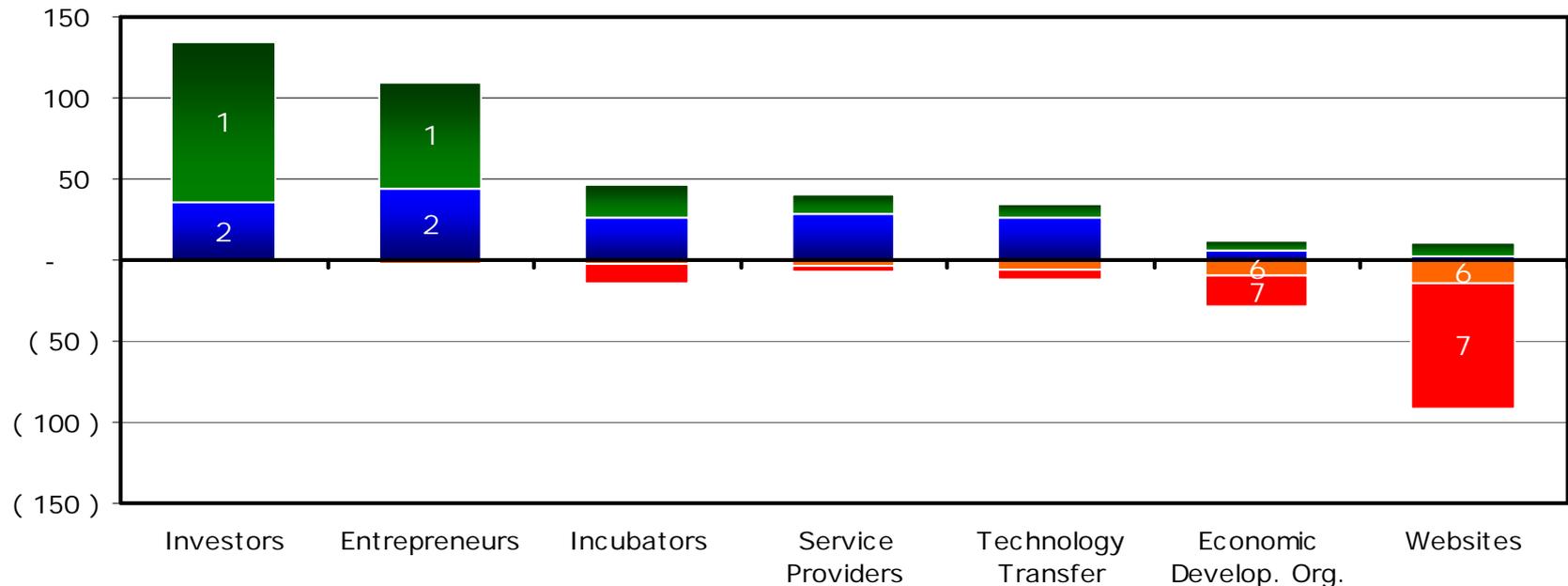
Meeting Investor Expectations in the Capital Raising Process

Aspects of raising funds

- How do you find the money?
- What do you need:
 - Executive Summary
 - Initial financial plan and funding needs

Value of Referrals

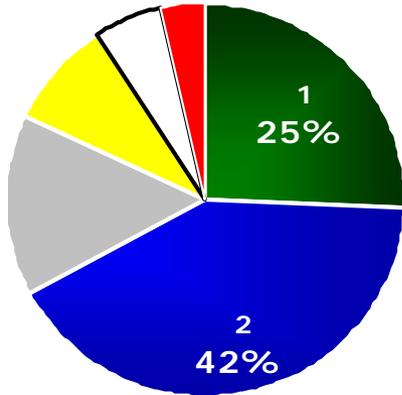
Value of Referral Sources



- Investor and entrepreneur referrals are valued
- Referral value depends on the level of alignment with the investor

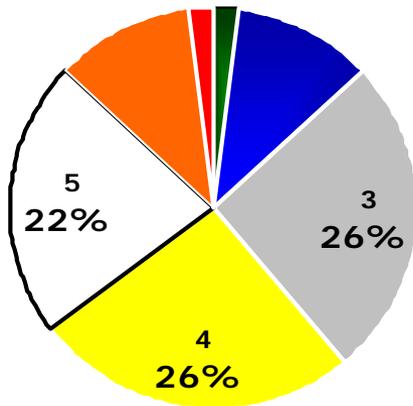
Financial Models

Value of Financial Projections



- Overall highly valued (67% rated 1-2), but
- Lowest percentage rating a “1”

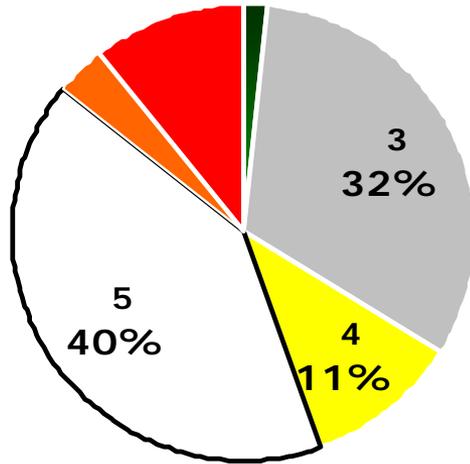
Quality of Financials



- Only 13% stand out (rated 1-2)
- 6 in 10 are sub-par (rated 4 or worse)

Assessment

Preferred Length (years)



- 5 years or less strongly preferred
- Use graphs and summary statements together
- Life sciences require additional reporting-
 - FDA process cost and timing by phase
 - Develop financials for entire regulatory period
 - Develop funding plan to match process

Desired Structure

- Develop and present your model well-

Mechanics

- Use monthly calculations
- Real world growth drivers
- Apply realistic processes-
 - Payment lags/receivables
 - Cap Ex/Depreciation
- Offer to run scenarios and provide results

Presentation

- Quarterly or annual results
- Show major line items only
- Primary statements-
 - Profit and Loss
 - Balance Sheet
 - CASH FLOW
- No best case/worst case
- Graphs highlight trends

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Summary

Executive Summary (solves a problem)

Good Financial plan (not too detailed)

Trustworthy management team*



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Questions?

Thank You!

<http://www.angelresourceinstitute.org>

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ARI Education Programs

- Comprehensive education programs for everyone affiliated with the startup world-

Full Day Seminars

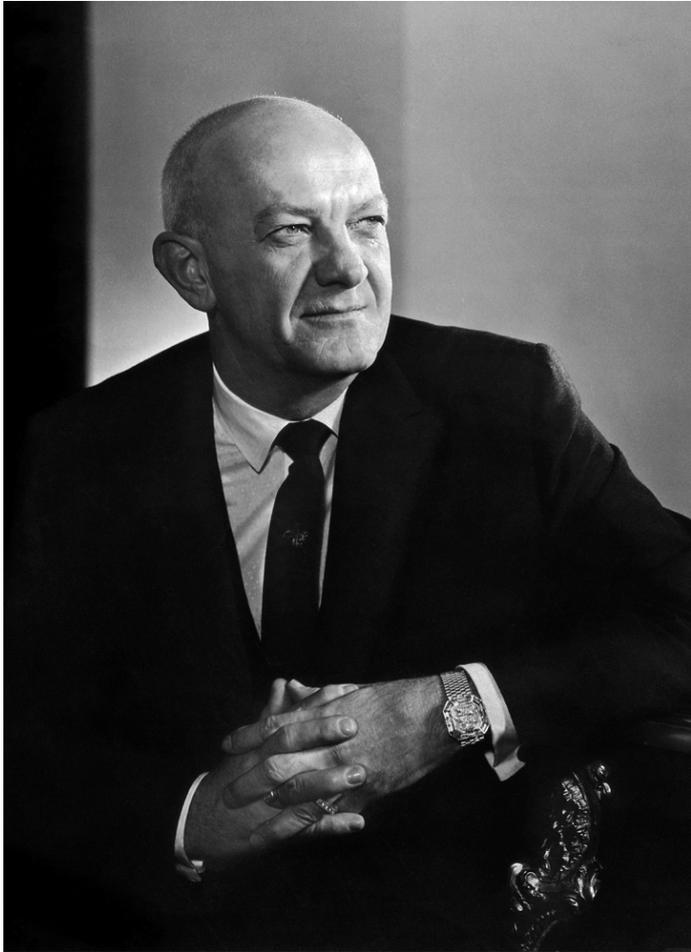
- Angel Investing Overview
- Starting an Angel Organization
- Angel Basics for Economic Development Professionals

Half Day Workshops

- Term Sheets
- Due Diligence
- Valuation of Early Stage Companies
- Trends in Raising Capital
- Early Exits

- Research and analysis of startup investing-
 - The HALO Report
 - Specialized surveys and studies

Ewing Marion Kauffman Foundation



- Founded by Ewing Marion Kauffman, entrepreneur and philanthropist
- Focus on entrepreneurship and education-
 - Enhance environment for innovative entrepreneurs to build healthy high-growth businesses
 - Math and science achievement for Kansas City's youth
 - \$2 billion plus in total assets

Co-founded ARI & developed the *Power of Angel Investing* programs

Angel Community Resources

Provided by



and



Education



Seminars build investment capability

Research/Data



Data and analysis on angel group investments, returns

Collaboration



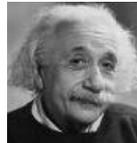
Members share ideas, co-investment

Services/ Toolkits



Access to background checks, insurance, documents, discounts, etc.

Knowledge & Insights



Professional development events, best practices & networking

Member Bottom-Line



Connect angels to groups, media coverage for groups and companies

Public Policy



Speak for angels, promote policies that support good angel investing

Links

- www.angelcapitalassociation.org