

# Angel Financing Panel Discussion

## Panelists:

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## Topics:

- What investors look for
- What you should look for in an investor
- The angel investment process
- Due Diligence – preparing for the inquisition

## What do investors look for?

- business opportunity in superior product
- a business model they understand
- high growth potential
- global prospects
- sustainable competitive advantage
- quality management team
- previous investors
- existing customers and partners
- realistic and alternative exit strategies
- professional business practices

## The Magic Market Ingredient:

- Unique value proposition
- Key selling advantage
- Key differentiator
- Compelling reason to buy
- Distinctive competence
- Economic buying vision
- Defensible IP
- Secret sauce

## What kind of investor are companies looking for?

- passive vs. active
- mentor / board member vs. hands-on management role
- industry knowledge – expertise in their field
- track record as investor
- trustworthy (get referrals from other investee companies)
- contacts and networks
- long term relationship – someone they can get along with
- capacity for follow-on funding
- enthusiastic
- ethical

## Private Equity Investing – Process for the Investor

1. Introduction to the opportunity
2. First Meeting – looking at the big picture – first impressions
3. Give a quick “No”
4. Sign NDA (if required)
5. Review of the business plan
6. Develop questions to ask
7. Meet the management team – ask the questions
8. Site inspection – kick the tires

## Private Equity Investing – Process for the Investor

9. Ask around
10. Find out who else has invested
11. Be comfortable with the valuation
12. Complete your due diligence
13. Review shareholders' agreement – are you protected?
14. Check for ETC eligibility
15. Sign a subscription agreement and write the cheque
16. Monitor the investment

## Due Diligence – Info you will have to provide

The basics you need to know:

### (A) The Company:

- History, including accomplishments to date
- Mission

### (B) Product(s)/Services

- Description of product(s)/services
- Ownership
- Development stage
- Timing of, and process to, commercialization
- Unique attributes and opportunities (intellectual property)

## Due Diligence – Info you will have to provide

More basics:

### (C) Market

- Size and definition
- Industry trends
- Need for product(s)/services
- Customers
- Sales/distribution plan
- Necessary partnerships and status

## Entrepreneurial Market Analysis Mistakes:

- Assuming that:
  - A market gap = winner
  - Having something unique = success
  - Everyone wants the latest technology
  - There are no competitors
- Unable or unwilling to be honest with themselves

## Due Diligence – Info you will have to provide

Still More basics:

### (D) Competition

- Comparative analysis, including key features and benefits
- Competitive advantage/market differentiators
- Barriers to entry for competitors and company

### (E) Management

- Experience of all senior management, including previous start-ups
- Previous experience working together
- Needs/key vacancies
- Board of Directors
- Advisors

## Due Diligence – Info you will have to provide

And Even More basics:

### (F) Financials

- Founder's investment
- Fully-diluted capitalization table (i.e., including options, warrants, and debt)
- Summary projected financials (one and three to five years)
- Funding needs for this round and subsequent rounds
- Use of funds
- Exit strategy and timing
- Business milestones for next six months and next two years

## Organization/Ownership

- Is the share structure simple?
- Know what you are selling:
  - Common Shares?
  - Preferred Shares?
  - Convertible Debt?
  - Warrants attached?
- Who owns the company? (Have a capitalization table)
- Does the company own other companies?
- Is there a shareholders agreement?
- Are minority shareholder rights recognized? – How?
- Who are their advisors? Who's on the Board?

## Intellectual Property

- What do they own?
- Patents, Trademarks and Trade Secrets
- Licensing Arrangements
- Who developed it?
- Defensibility

## Subscription Agreement

- Legal document used to subscribe for shares of a company
- Lays out terms and conditions
- Four Parts
  1. Terms – company, subscriber, amount per share, number of shares, delivery instructions
  2. Conditions/definitions
  3. Accredited Investor Attestation
  4. Equity Tax Credit information (if applicable)

## After the Investment

- Communication
- Communication
- Communication



Questions?