



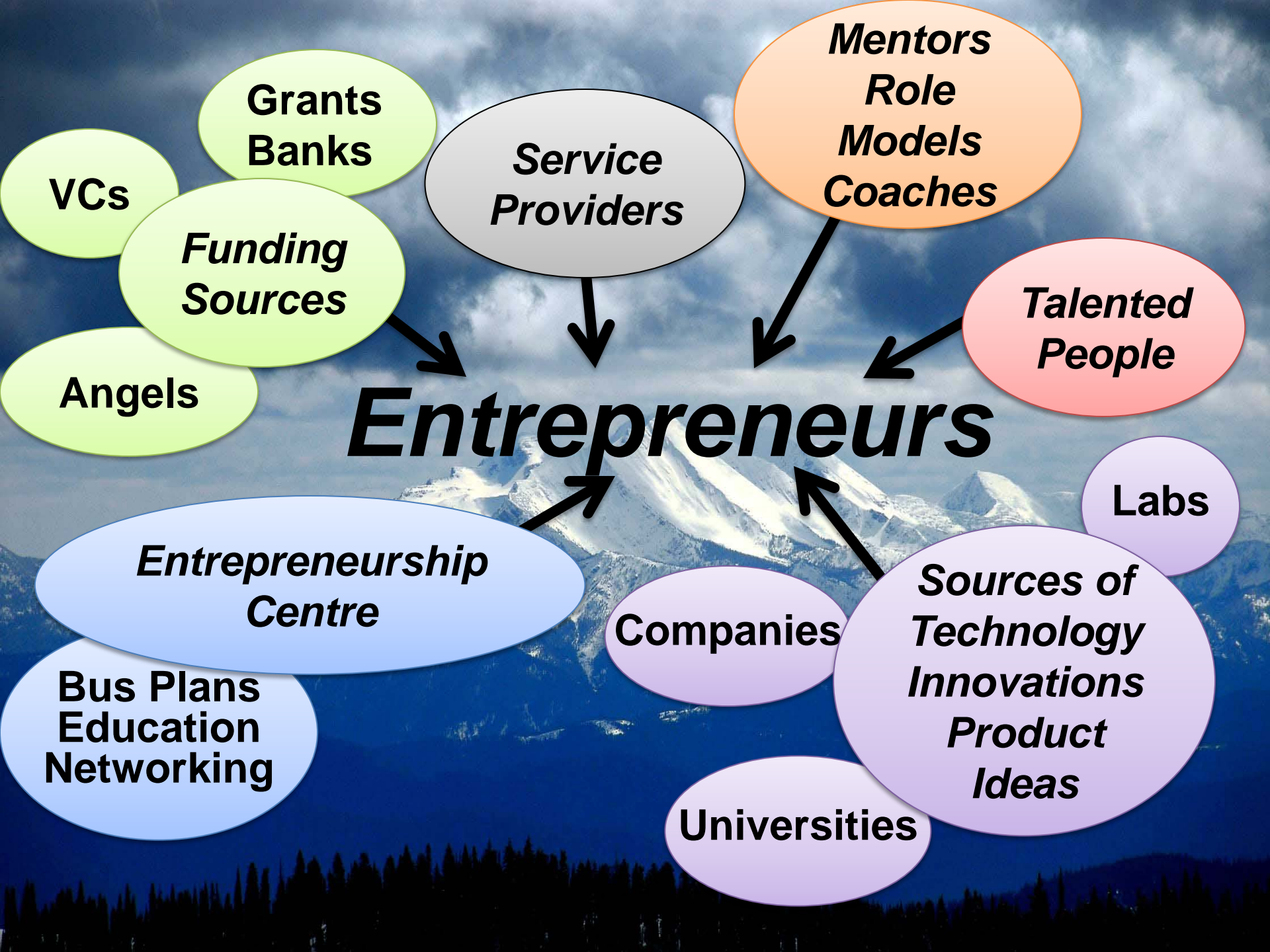
Capital for Start-ups in Montana

Photo courtesy of Jerry Meislik

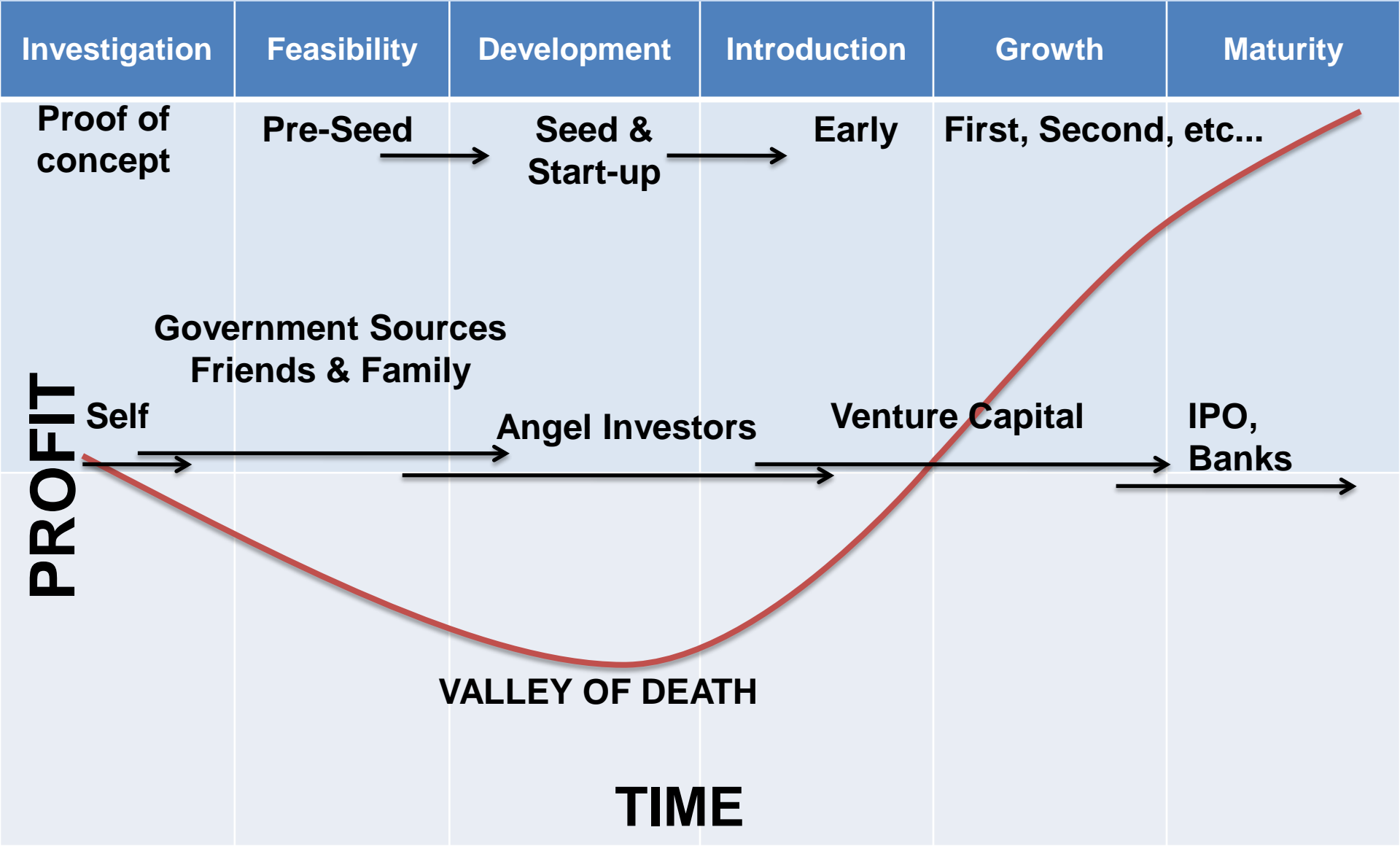


Agenda

- **Introduction**
- **Entrepreneur-friendly Communities**
- **Angels and Job Creation**
- **Who are these Angels**
- **Typical Angel Deals**



The Capital Lifecycle



Friends & Family

Typical round:
<US\$100K

Each investor:
US\$2-10,000

Annual Total:
US\$60B

Unsophisticated

Investing in a friend,
family

Passive

1-2 lifetime investments

Equity, debt, gift?

Angels

Typical round:
US\$400K

Each investor:
US\$35,000

Annual Total:
US\$20B

Accredited, savvy

Investing time and
money

Active

Investing in entrepreneur

Portfolio of angel deals

Venture Capitalists

Typical round:
US\$7M

Each investor:
US\$3M

Annual total:
US\$20B

Limited partnership

Institutional money

General Partners
active

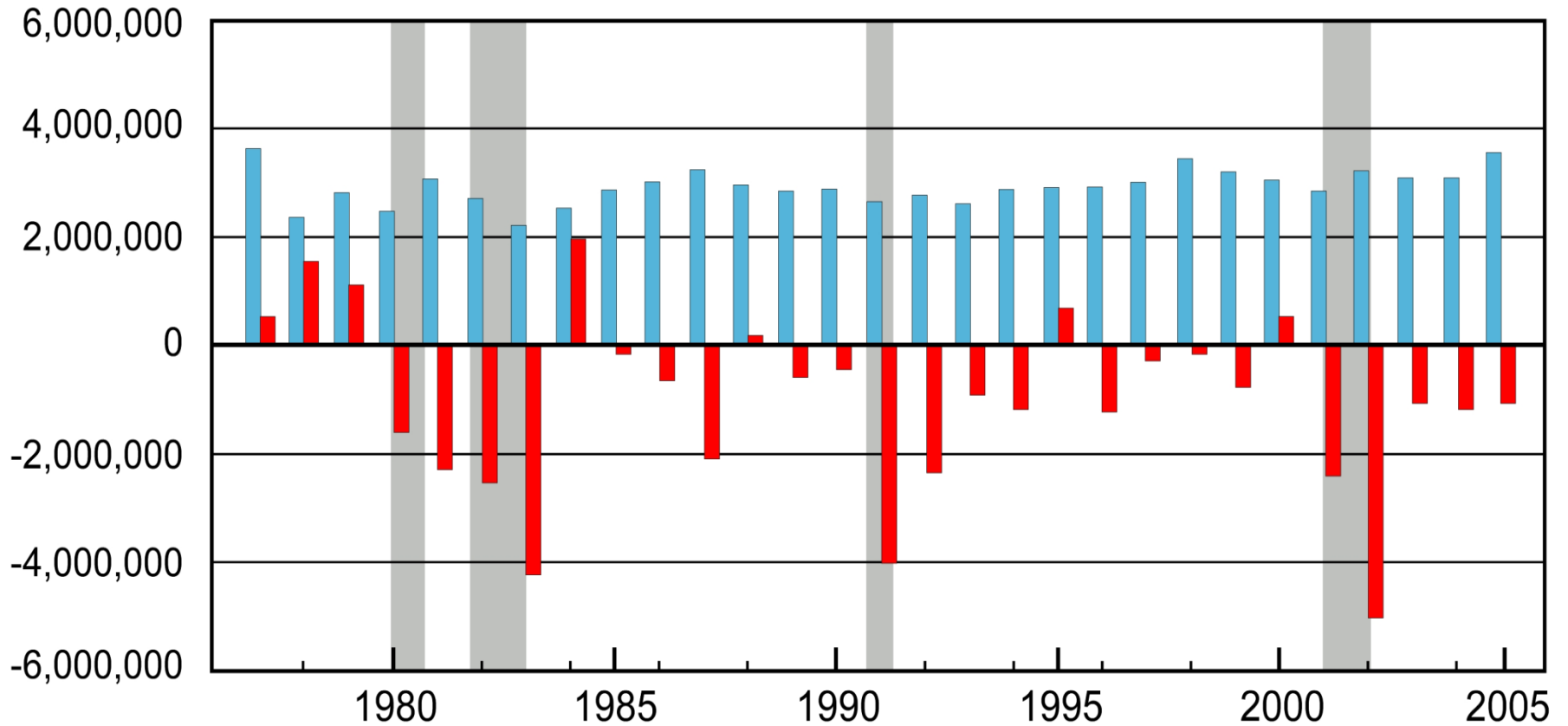
Invest in company

Large portfolio



Angels and Job Creation

Job Creation from Startups



■ Jobs from startups less than 5 years old
■ Net jobs without startups

■ Grey areas denote recession

Kauffman Foundation



Quotes: Dr. Bob Litan, VP Kauffman

- **Companies less than five years old have created 40 million jobs in the US in the past 30 years**
- **Companies five years and older have, in the sum, lost jobs in the past 30 years**

***American angels fund 20,000
new companies per year that
are in the sweet spot of
job creation in the US***



Angel Investors



Who are these Angels?

- **Wealthy individuals – ‘accredited investors’**
- **Business savvy – investing time**
- **Investing ‘Mad money’**
- **Generally \$25K-\$250K per deal per angel**
- **Diversified portfolio (a dozen or more)**
- **Range of involvements**
 - **Lead investor – Chairman of the Board**
 - **Investor/advisor**
 - **Passive investor**



Professor Josh Lerner, HBS

[The Consequences of Entrepreneurial Finance: A Regression Discontinuity Analysis (2010)]

“Mentoring and business contacts are even more important than angels’ money”



Motivation

VENTURE CAPITALISTS: make money

ANGELS

- Return on Investment is the metric
- Staying involved (sense of usefulness)
- Give back to community
- Affection for entrepreneurs

**Altruistic
Motivations**



amazon.com[™]

Google[™]

myspace.com[™]
a place for friends

bitpipe

PayPal[®]

AMBIT[®]
Broadband

COSTCO
COM


CISCO

YAHOO![®]

facebook

redhat.

BEST BUY


ALCOA

 **Regeneration**[™]
TECHNOLOGIES, INC.

Ask[™]
COM

 green dot



Evaluating Deals

What do investors look for?



Angel Rating System

Management team	0-30%
Size of opportunity	0-25%
Product & technology	0-15%
Sales channels	0-10%
Competitive advantage	0-10%
Size of this round	0 - 5%
Need for more funding	0 - 5%



Typical Angel Group Deals (p1)

Management team has:

- **Integrity**
- **Experience (management, business vertical)**
- **Identified key advisors/directors**
- **Key players in the wings**

And...CEO is coachable



Typical Angel Group Deals (p2)

- **Scalability**
 - **Build revenues to >\$30 million in
5 to 8 years**
- **Serving large niche market**
- **Expecting large gross margins**
- **M&A exit feasible within 5+ years**



Typical Angel Group Deals (p3)

- Prototype ready to show customers
- Customers identified and have been shown product or prototype
- Customers can validate that the product is a pain killer, not a vitamin pill
- Unfair competitive advantage



Competitive Advantage (IP)

- Patents
 - Important, but difficult to defend
- Trademarks/copyrights
- Trade Secrets
- Very important at exit



Typical Angel Group Deals (p4)

- Validated business model
 - Reasonable sales channels are available
 - Low customer acquisition costs
 - Competition is fractured
- (Microsoft is not lurking around the corner)



Typical Angel Group Deals (p5)

- Entrepreneur is flexible on terms
- 20X ROI is possible
- Reasonable valuation
- Deal structure allows input/control
by investors
- Board representation is available
- CEO is willing to step aside



Montana Angel Groups

Big Sky Angels

www.bigskyangels.com

Missoula

Bridger Private Capital Network

www.techranch.org

Bozeman

Frontier Angel Fund

www.frontierangels.com

Whitefish

Montana Angel Network www.montanaangelnetwork.net

Polson



Summary

- Angels are critical to Job Creation
- Entrepreneurs: Understand capital sources
- Examples: Angel-fundable deals



Resources

- ***Definitive Guide to Raising Money from Angels***,
B. Payne (2006) \$37 from www.billpayne.com
- ***State of the Art: An Executive Summary Briefing on Cutting Edge Practices in American Angel Investing***
J. May & E. O'Halloran (2003) \$35 from www.amazon.com
- ***Term Sheets & Valuation – A Line by Line Look at the Intricacies of Venture Capital Term Sheets & Valuation***,
A. Wilmerding (2003) \$10 from www.amazon.com
- ***The Art of the Start***,
G. Kawasaki (2004) \$18 from www.amazon.com



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