

# **Micro Nano Breakthrough Conference**

**Portland, Oregon  
July 28 & 29, 2004**

**Roundtable Discussion- Small Business & equity  
Capital for Microproducts  
Angel Funding for Microproducts**

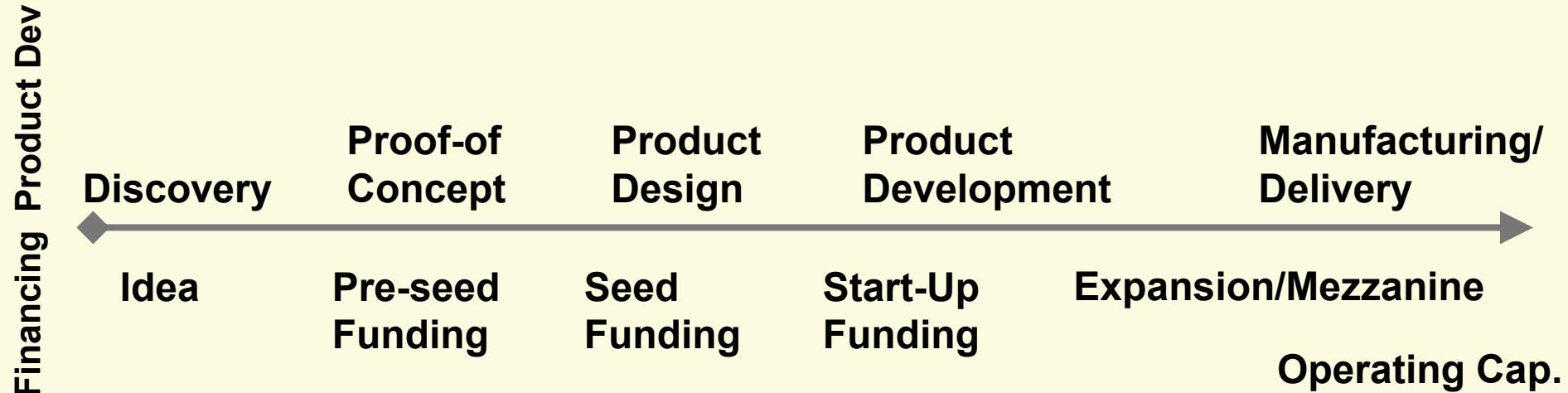
**Susan Preston  
Davis Wright Tremaine** 

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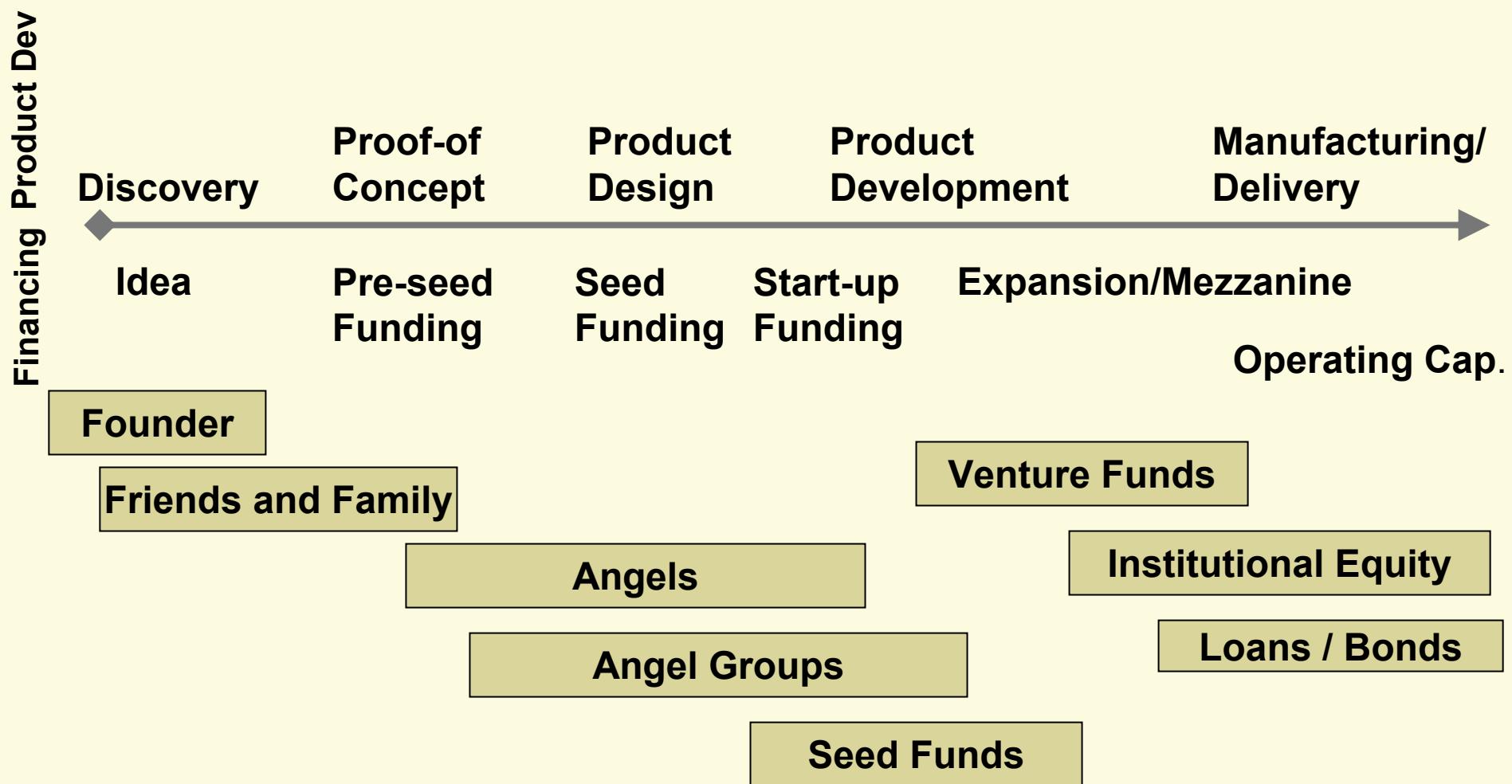
# Sources of Entrepreneurial Financing

- Credits cards/second mortgages
- Friends and family
- Angels
- Seed funds
- Venture capitalists
- Corporate investment arms
- Partners/customers
- Commercial banks
- Government loan programs  
(federal & state)
- Grants – public and private

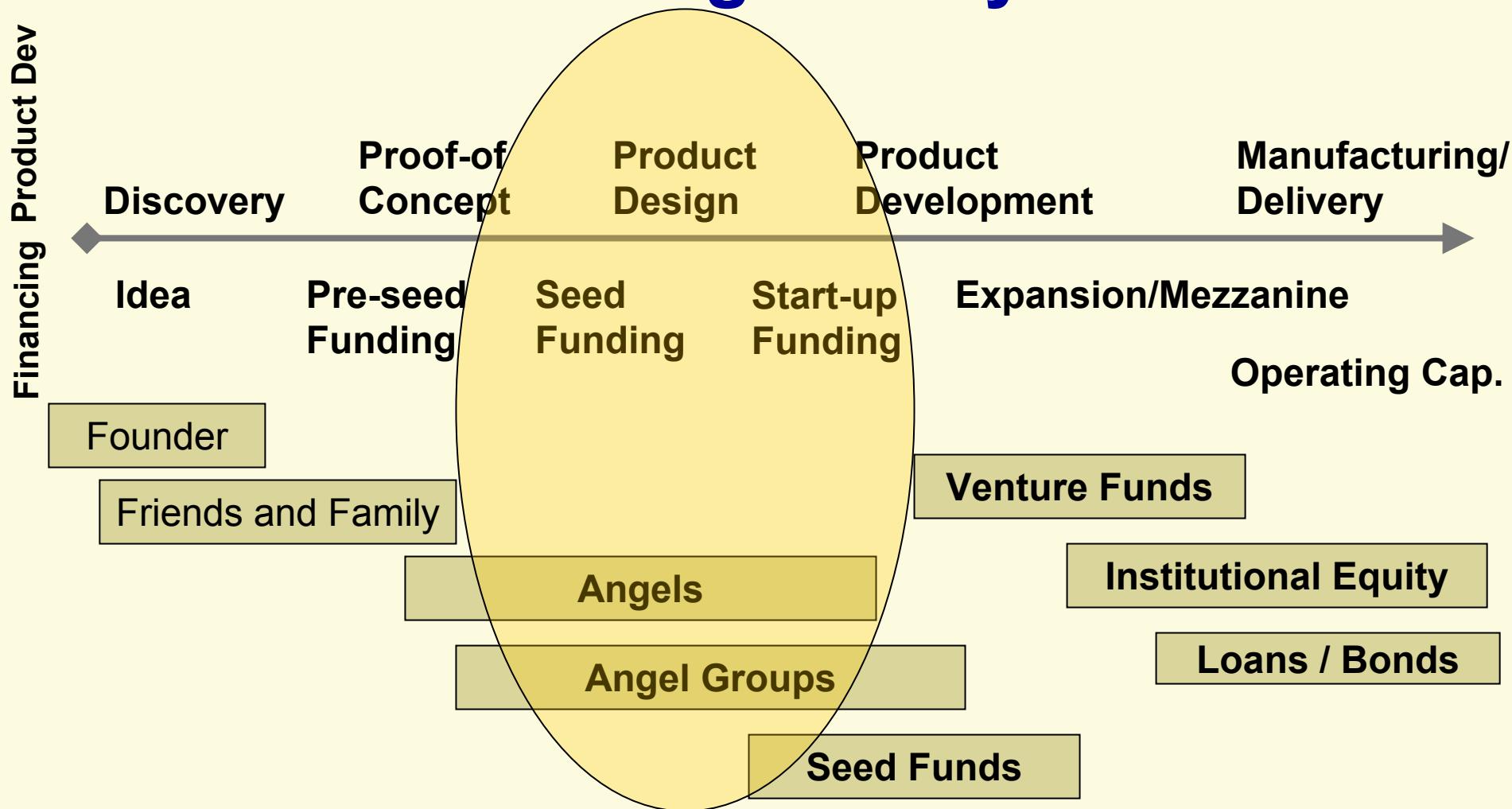
# Financing Life Cycle



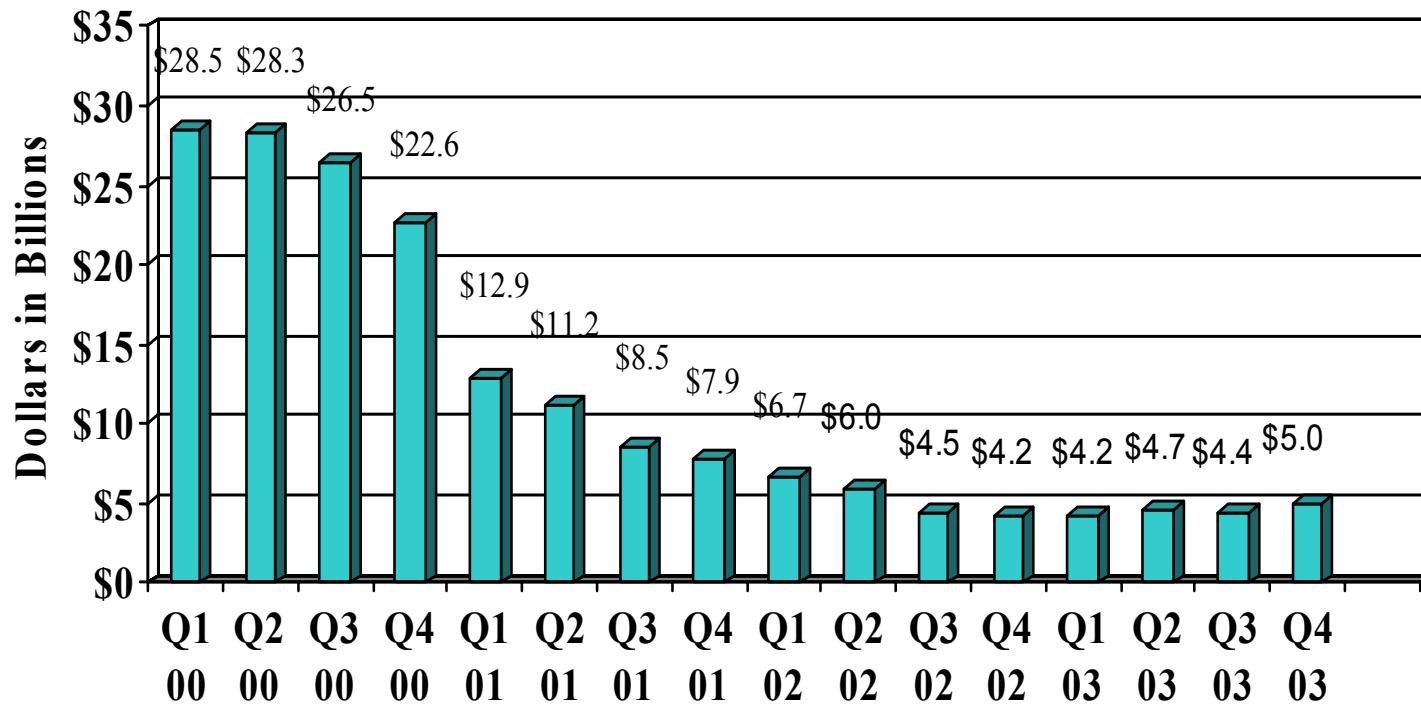
# Financing Life Cycle



# Financing Life Cycle



# National Venture Capital Investments 2000 – 2003



Source: National Venture Capital Association

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# Venture Capital: Seed and Early Stage Financing

1999	\$3.3 Billion	809 deals
	6.1%	14.4%
2000	\$3.0 Billion	672 deals
	2.9%	8.3%
2001	\$767 Million	251 deals
	1.9%	5.4%
2002	\$352 Million	155 deals
	1.7%	5.1%
2003	\$354 Million	166 deals
	2.0%	6.1%

# U.S. Investment Statistics

- **Venture capital invested a total of \$18.3 billion**
  - ❖ Only \$354 million in seed and start-up
  - ❖ Only 2.0% of total investments in seed and start-up
  - ❖ Only 166 deals in seed and start-up
  - ❖ In US, only 1/3<sup>rd</sup> of Fortune 500 companies ever received venture capital funds

Source: National Venture Capital Association

# U.S. Investment Statistics

- Angel invested approximately \$18.1 billion in 2003 (basically the same as venture capitalists)
  - ❖ In 42,000 ventures
  - ❖ Primarily in seed and start-up rounds
- Historically: angels annually invest \$30 billion in 50,000 ventures
- 7 to 1 nascent to active angel investor ratio

Source: University of New Hampshire, Center for Venture Research

# **What Any Investor Needs**

- **Scalable business**
- **Novel (new) or disruptive business concept (may be regional)**
- **Opportunity for financial return**
- **Good management**
- **Realistic business concept and plan**
- **Technical superiority**
- **Realistic valuation**

# Attributes of Angel Investors

- Often successful entrepreneur
- “Accredited Investor” – regulatory assumption of financial sophistication and risk tolerance
- Expectation of financial reward
- Role in entrepreneurial process
- Involvement in entrepreneurial company: wisdom and expertise
- Community involvement
- Social responsibility
- Local businesses; regional investment

# Angel Investing Preferences

<u>Sector</u>	<u>Preference</u>	<u>Deals</u>
• Manufacturing	8.6%	8.1%
• Software	34.2%	39.8%
• Telecommunications	8.0%	2.6%
• Electronics/Hardware	9.5%	4.8%
• Life Sciences	10.6%	14.0%
• Biotechnology	10.8%	5.5%
• Other High-Tech	10.8%	15.8%
• Retail	4.6%	5.4%
• Other	4.6%	3.9%

Source: University of New Hampshire: Center for Venture Research

# **How to Prepare for Angel Investors**

- Same as for any other funding source
- Well prepared business plan and due diligence documents
- Know your market! Size, competition, distribution, verticals, etc.
- Solid management – know your limitations and needs
- Advisors and/or board of directors
- Professional advisement and support – legal, accounting, etc.

# How to Prepare for Angel Investors

- **Realistic investment terms**
  - ❖ Remember this is the highest risk **third-party** money
  - ❖ Keep in mind follow-on funding needs
- **Realistic valuation**
  - ❖ If you have no sales or customers, your business has not been validated
- **Realistic funding needs**
  - ❖ Always more than you think
  - ❖ Projected financials
    - Use of funds
    - Future rounds