



Where to send your plan (if anywhere....)

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Agenda

Changing Roles & Stages in the Market

Who & What are Angels Today

The Sales Pitch

Closing the Deal

Working Together



Changing Roles & Stages in the Market



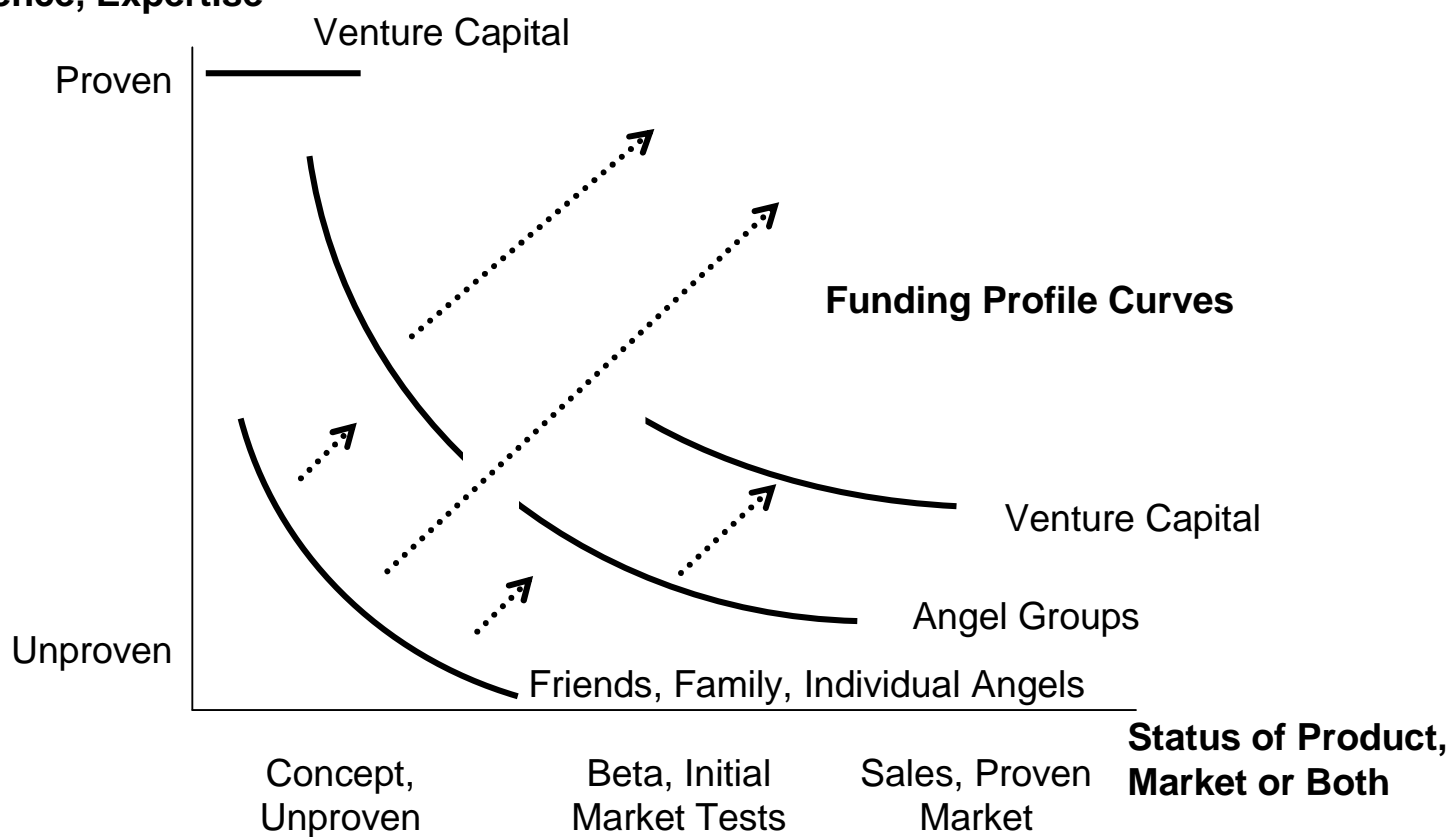
Working with Angels, VCs or Both?

- Individual “Angel” or “Private” Investor
 - Invests own money, gets full return
 - Typically industry veterans
- Angel Groups
 - Large networks of industry experts
 - Usually 2-3 with greatest skills lead + “bench”
 - Organized, institutional structure
- Venture Capitalists
 - Compensated on fees, profit share
 - Dedicated, institutional investor



Who do you call?

**Management Team
Experience, Expertise**



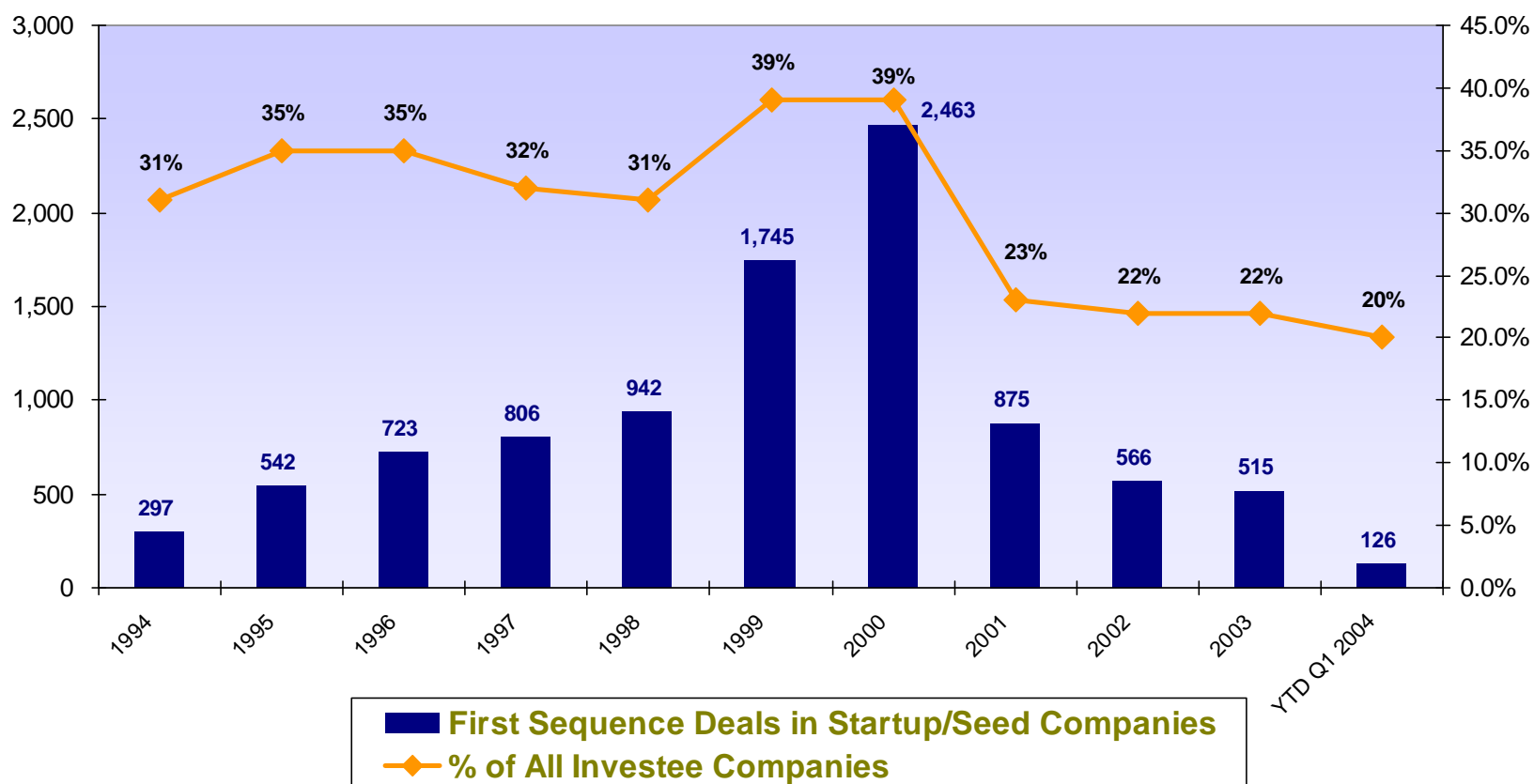


Venture Market Changing

- Angel Investment Increasing
 - \$12 billion for 1st half 2004 Source: UNH CVR
 - 31% Increase over 2003
 - \$10 billion for all VC in 1st half 2004 Source: PwC
- Next 24 Months as Pivotal as 1999
 - >\$100B in VC\$ leaving market
 - Time running out for initial investments
 - VCs seeking later stage



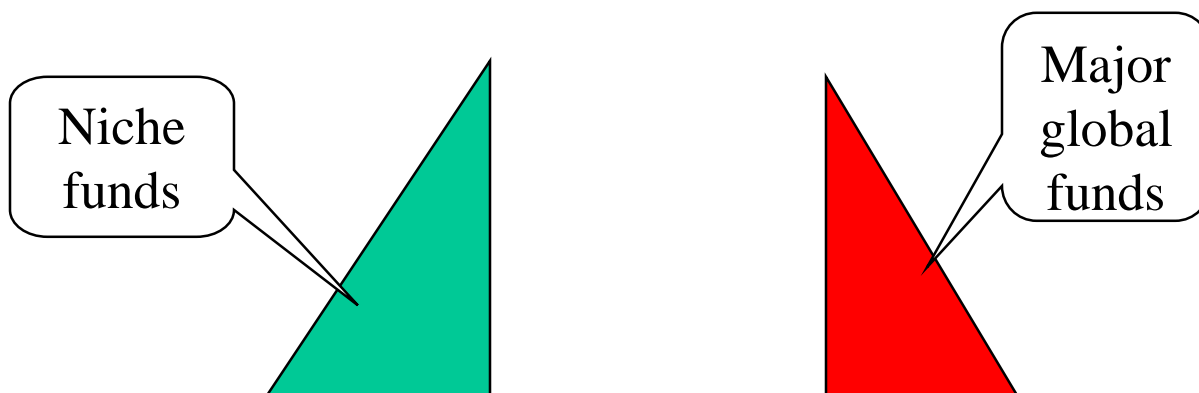
VC 1st Investment/Early Stage Falls





Prof. Josh Lerner's View

Likely market scenario





Who & What are Angels Today



From the Investor's View

- 3 Roles
 - Attract opportunities
 - Assess them
 - Assist after investment
- Angel Group Easier than Small VC
 - Attract: community leaders, relationships
 - Assess: broad expertise, recognize breakthroughs, identify new entrepreneurs
 - Assist: domain-relevant experience

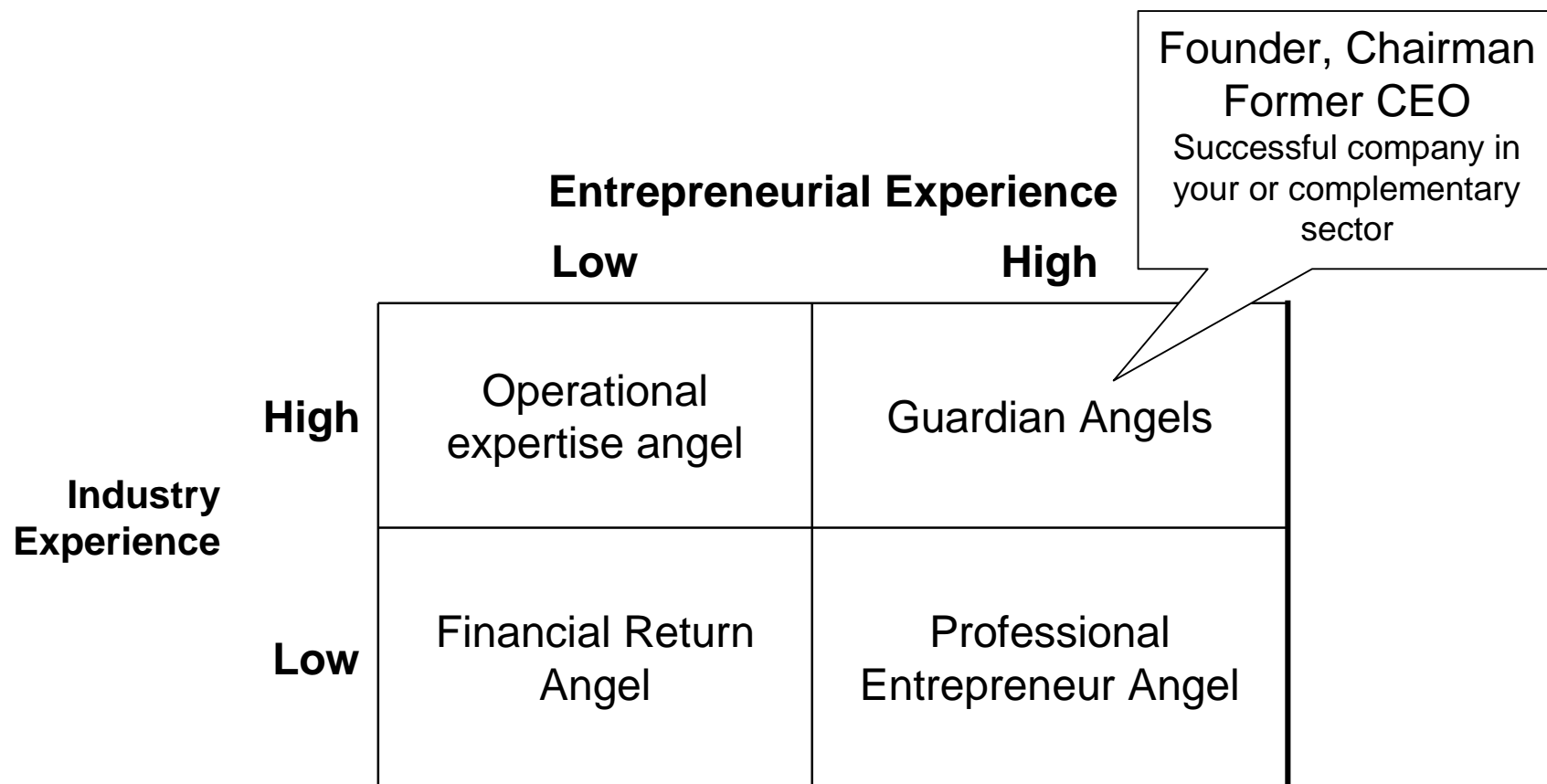


Angels Institutionalizing

- Larger Angel Groups Have Funds, Staff, Both
 - CommonAngels, Boston
 - Band of Angels, Silicon Valley
 - Dinner Club LLC, Washington, DC
 - Prairie Angels, Chicago
 - Texas Angels, Austin
- Other Boston Groups with Process, Staff
 - Angel Health Care Investors (www.hcangels.com)
 - Walnut (www.walnutventures.com)
 - Launch Pad (www.launchpadadventuregroup.com)
 - Hub Angels (www.hubangels.com)



Who are the Top Angels?



Source: MIT Entrepreneurship Center &
HBS Study on Angel Investing, Feb 2000



A Few NE Institutional Angel Groups

Group	Focus	Location
CommonAngels	Information Technology	Boston
Angel Health Care Investors	Health Care/Life Sciences	Boston
Walnut Group	Software & Hardware	Boston
River Valley Investors	Materials Science & Precision Manufacturing	Western MA
eCoast Angels	Info Technology	Portsmouth, NH
Cherrystone Angels	General	Providence, RI
Angel Investors Forum	General	Hartford, CT



Why Do They Do This?

- Already Have Money
 - Passionate about technology, industry
 - Want to help next generation, peers
 - Have some time, but not too much
 - Don't want to run company themselves
- But, Capital is at Risk
 - Rate of return => LP in VC Fund
 - Different calculation than GP
 - Want insight, help to boost returns



The Sales Pitch



Find The Fit

- Know What You Want in an Investor
 - Consider as a hire
 - Write a position description
- Demonstrate Infectious Enthusiasm
 - What, why most important
 - Flattery helps but know audience
- Listen to Feedback, Adjust
- Some Trial & Error



Winners

- Breakthrough Idea, Technology
 - Reading summary: “*That’s impossible; many people have tried and failed*”
 - After meeting: “*Give them a term sheet!*”
- Have an Investor Plan
 - Understand capital needs, risks
 - *We can live solely off your investment...*
 - *We need more \$, but will raise it together*
- Put Relationship First
 - *We want to work with you; let’s figure it out*



Losers

- Failing to Learn From the Past
 - *This is Identical to a company from 1990. Why Will it Work this Time?*
 - We just know it will....
- Clueless on the Relationship
 - *What don't you know where we can help?*
 - All aspects....(or none...)
 - NDAs: Like a prenup on the first date
- You're My Fallback
 - *Why are you talking with us?*
 - Big venture firms X, Y & Z all said to see you first and fund us, then they will think about investing.
(Why do I feel like I'm being set up....?)



Dumb Mistakes

- Thinking Entrepreneurship = Selling Equity
- No/Bad Connection: Where's Relationship?
- Forgetting this is a Relationship Sell
- Not Reading Our Website

From: mike
Sent: Wednesday, October 22, 2003
To: James@commonangels.com
Subject: Greg [XXXXXX] asked me to contact you directly

Hi [Dave](#),

Greg asked me to contact you regarding our very unique technology. He is very excited about what we have shown him so far and thought that you would be as well. I attached a brief executive summary and also an audio link for your listening enjoyment. Please give me a call when you have a moment....



The Stench of Death

- CEO can't explain in less than 2 hours
- 6 Identical Plans (e.g., SPAM)
- Too Focused: Small Market without Expansion
- Public Company Competition (esp MSFT)
- Anyone/Everyone a Customer
- We've tried this for years, it's still not working, but we only need a little more \$
- Our Current VCs aren't Participating....



Closing the Deal

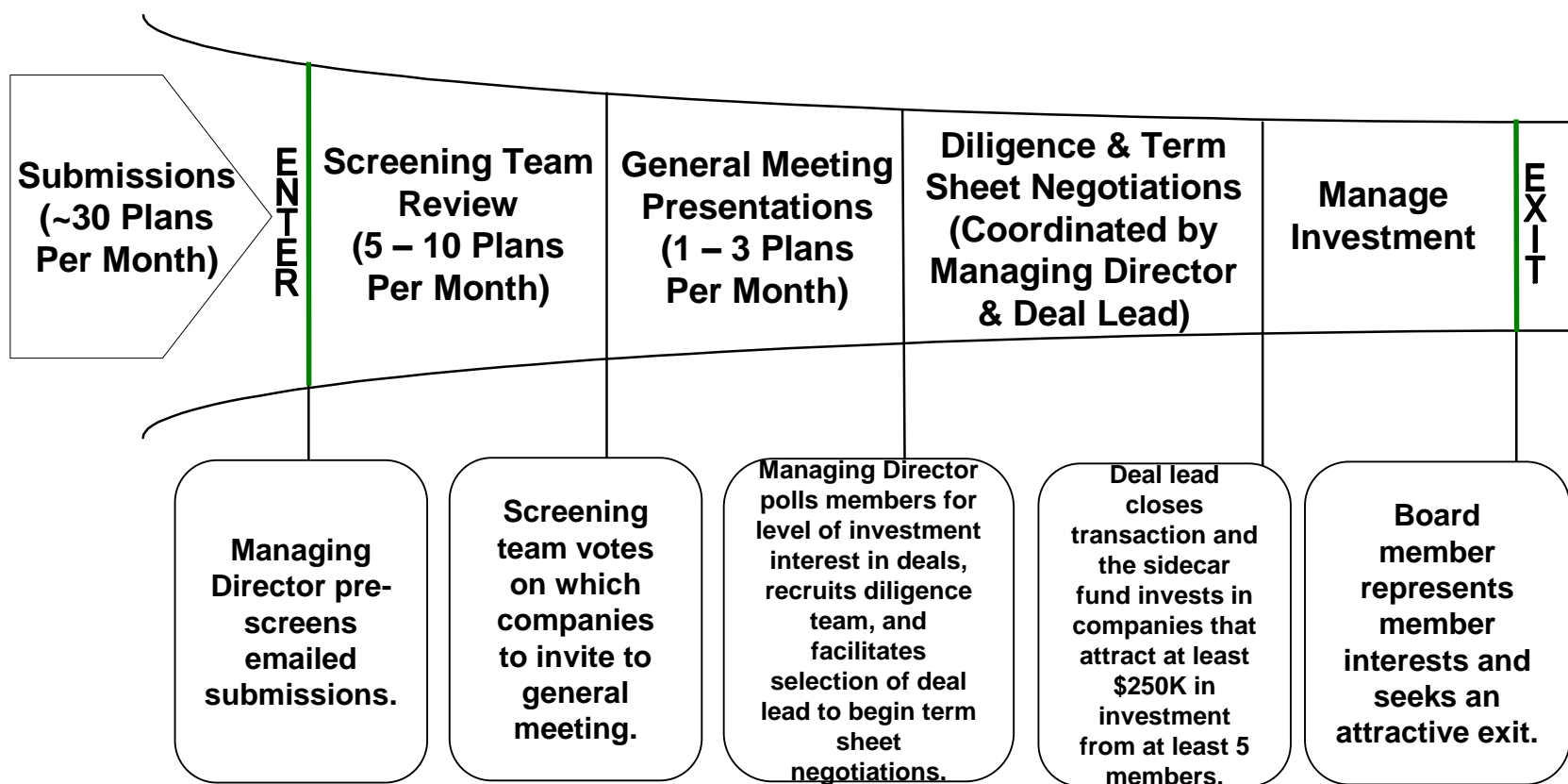


How Angel Groups Work

- Two-Five Dozen Business Plans/month
 - Staff cuts to 12-15
 - 6-member team meets 8 companies
 - 2-3 present at breakfast or dinner
- 1-2 Investments/Quarter, \$250K-\$2MM
 - Usually syndicated
 - Board seats, routine follow up
 - Goals: next stage in 12-18 months



Typical Deal Process





What You Need to Do

- Find a Champion (or two!)
- Sell the Vision, Not the Financials
- Revise Accordingly
- Request Appropriate Assistance
- Set and Work Deadlines
- Manage Expectations
- *Wash, Rinse, Repeat...*



CommonAngels Target Investments

- New Areas of Information Technology
- Passionate with CEO Capabilities
- Defined Product or Service
- Must be Scalable
- Within the Geographic Area – 1 Hour Travel
- Series A Financing of \$500K - \$5M
- Total Capital Less than \$20M
- Possibility of Liquidity Event in 5 years
- Current Expertise within the Membership



Winner: Tizor

- Security Appliance
- Catches Insiders Gone Bad
- Team from Bell Labs
- Good Relationship between Founder & our Experts
- Syndicated with 2 VCs
- \$3m Series A, Apr 2004





Winner: Sand Video

- Team Had Worked With one of our Members
- Most MIT CS/EE
- Nine Founders
- Breakthrough Video Compression Chip
- Their 3rd Company
- Identified Markets: DVD, DVR, HDTV



- \$8MM w/Baker Capital, Navigator, Oct 2002
- Sold to Broadcom for \$77.5m, April 2004



Losers

- Areas where VC\$ in Arms Race
 - Storage, Nanotech
- Large but Highly Fragmented Markets
 - K-12 ed, city/state government s/w
- Complex/Dysfunctional Customers
 - healthcare IT, education
- Massive Capital Requirements
 - Nanotech, Biotech
- Technology with Ethereal Market



Additional Questions

- james@commonangels.com
- Angel Capital Association
www.angelcapitalassociation.org
- Trade Orgs, e.g., IEEE, Software Council
- Kauffman Foundation
www.kauffman.org
- MIT Enterprise Forum
- HBR, “Gurus in the Garage,” Nov-Dec 2000
- Forbes ASAP, “Cities of Angels,” Apr 3, 2000