How to Connect With Angel Investors About Your Technology and Startup:
The Real Risk/Reward Profile of Your Opportunity

UNIVERSITY STARTUP DEVELOPMENT WEBINAR SERIES
SPEAKERS

Tony Stanco, JD, LL.M.
NCET2 Executive Director
Former U.S. Securities and Exchange Commission Senior Attorney

Faz Bashi, M.D.
NCET2 Startup Development Officer and
Chair of the Angel Capital Association's
Life Sciences Syndication Group
Background on the startup development program
Commercialization Model Timeline

- 2015
  - NCET2 Congressional Commercialization Summit - Corporate Sub-committee Formed
  - First Model Proposed
  - Model Vetting Roadshows: CA; PA; NY

- 2016
  - Congressional Briefs

- 2017
  - (Pilot) First Demo Day
  - Second Demo Day
  - Startup Development Officers Pgm Announced
  - IP2 Startup Pgm Announced

Congress seeks to understand commercialization of $B137 annual R&D in Fed Labs / Universities
CORPORATE COMMERCIALIZATION CENTER (CCC)

FEDERALLY FUNDED R&D AT UNIVERSITIES ($37 Billion)
FEDERALLY FUNDED R&D AT FEDERAL LABS ($93 Billion)
OUTBOUND CORPORATE R&D

RESEARCHER-ENTREPRENEURS (UNIVERSITY STARTUP CREATION)

GLOBAL 1000 CORPORATE COMMERCIALIZATION COUNCIL (NCET2 CORPORATE MEMBERS) (COORDINATION CENTER)

GAP FUNDING
SBIR FUNDING
STARTUP R&D TAX CREDITS

PRIVATE FUNDING
UNIVERSITY MENTORING-ANGELS
CVCs
ANGELS
VCs

IPO / CORPORATE BUSINESS UNITS

Universities
Universities
Universities
Universities

UNIVERSITY STARTUP PROGRAMS
STARTUP DEV'T OFFICERS

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Startup Development Program

• Congress funds $137 billion in federal funded research at universities and federal labs
• Excellent opportunity for entrepreneurs to build a university startup around that IP
  – Universities have programs to help you
• NCET2 Fortune 500 members and SDOs who will partner with university startups to help develop and fund those startups
Startup Development Program

• NCET2 Startup Development Officer will also help university entrepreneurs, faculty, researchers, and students create, develop and fund market aligned university startups (http://ncet2.org/sdo)
SDO SERVICES

• Early management teams of university entrepreneurs, graduating students, faculty, and researchers
  • Business plan
  • Proof-of-concept
  • Prototyping, early product development
  • SBIR, Angel, and VC funding
  – “Commercialization Experiments”
  • Get to work with Fortune 500 companies, angels, VCs, and serial entrepreneurs to help commercialize university and fedlab technologies
Benefits

• Startups/Entrepreneurs/Faculty/Researchers/Students
  – Access to professional SDO talent to help create, develop, and fund your startup

• Universities
  – Moving IP to market for significant market impacts
  – Graduating students into startups and working with Fortune 500
SPEAKERS

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Many thanks to the entire NCET2 Staff:

1. Tony Stanco, JD, LLM: Executive Director
2. Glenn Vonk, PhD: Dir Business Development
3. Ria P. Ancheta-Adrias: Dir Events and Member Service

How to Connect with Angel Investors About Your Technology and Startup:

Are you a Possibletarian?

Faz K. Bashi, MD
NCET2 Startup Development Officer (SDO): Angel Investor
E: faz@possibletarian.com
Who am I?

How did I get here?
To be of use
by Marge Piercy

The people I love the best
jump into work head first
without dallying in the shallows
and swim off with sure strokes almost out of sight.
They seem to become natives of that element,
the black sleek heads of seals
bouncing like half-submerged balls.

I love people who harness themselves, an ox to a heavy cart,
who pull like water buffalo, with massive patience,
who strain in the mud and the muck to move things forward,
who do what has to be done, again and again.

I want to be with people who submerge
in the task, who go into the fields to harvest
and work in a row and pass the bags along,
who are not parlor generals and field deserters
but move in a common rhythm
when the food must come in or the fire be put out.

The work of the world is common as mud.
Botched, it smears the hands, crumbles to dust.
But the thing worth doing well done
has a shape that satisfies, clean and evident.
Greek amphoras for wine or oil,
Hopi vases that held corn, are put in museums
but you know they were made to be used.
The pitcher cries for water to carry
and a person for work that is real.

Why am I a NCET2 Startup Development Officer (SDO) ?

• I have walked in your shoes – academics, entrepreneur, etc.
• Poisonous politics and pompous power games are NOT of use in entrepreneurship!

• Choices : Tale of the Two Wolves :

Indian Chief speaking with his grandson
of the "two wolves that fight inside each of us". One is good and full of potential
and energy . The other is evil and dark ready to destroy anything that crosses
his path.

The grandson asks, which wolf will win ?
The grandfather’s response : the one that you feed.

QQ4U: Which wolf will you feed ?
What are the value-add of NCET2 : SDO Angels?

The takeaways about being a successful entrepreneur:

1. Its a 310% endeavor - Priority #1, #2, and #3 revolve around the startup!

2. It’s a team (together everyone achieves more) effort -- surround yourself with people smarter and faster than yourself!

3. Its about creating a product that the market wants and is willing to pay money for it. Technology is just one piece of the equation!

4. If you don’t need outside investors, then start your business.

5. If you need outside investors, then do your careful research, check references, and make a win-win-win deal. Everyone control-the-greed

Old saying by Bankers: “Hogs get fat. Pigs get slaughtered.”

NCET2 SDO: ANGEL INVESTORS:

- Experience, Relationships, and Value-add
- Investment criteria
- De-risking the opportunity
- Reality-based funding strategies and economics: terms, valuation,...
SDO brings a network of known relationships:

“We analyzed over 350 angel investment groups with the algorithms we use to assess VC firms. Here's how the top angel investor groups stack up.”

<table>
<thead>
<tr>
<th>Rank</th>
<th>Angel Group</th>
<th>Notable Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Life Science Angels</td>
<td>Zogenix, Nanostim</td>
</tr>
<tr>
<td>2</td>
<td>Queen City Angels</td>
<td>Akebia Therapeutics, Aerpio Therapeutics</td>
</tr>
<tr>
<td>3</td>
<td>Boston Harbor Angels</td>
<td>Smart Cells, Carbonite</td>
</tr>
<tr>
<td>4</td>
<td>Atlanta Technology Angels</td>
<td>Vocalocity, Verdeeco</td>
</tr>
<tr>
<td>5</td>
<td>Tech Coast Angels</td>
<td>Vital Therapies, Hipmunk</td>
</tr>
<tr>
<td>6</td>
<td>Band of Angels</td>
<td>Practice Fusion, CENTRI Technology</td>
</tr>
<tr>
<td>7</td>
<td>Pasadena Angels</td>
<td>AdColony, Savara Pharmaceuticals</td>
</tr>
<tr>
<td>8</td>
<td>Upstate Carolina Angel Network</td>
<td>Proterra, Selah Genomics</td>
</tr>
<tr>
<td>9</td>
<td>Launchpad Venture Group</td>
<td>Localytics, Hadapt</td>
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<tr>
<td>10</td>
<td>Keiretsu Forum</td>
<td>Carbonite, Smart Cells.</td>
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SDO : Reality Check : Current Investment Climate

- Since the Market Crash of 2008 challenging investment climate
- Especially acute in life sciences sector
- Early stage venture capital funds increasingly difficult to obtain (seed stage, A series)
- Angel investors play increasingly significant role in early stage financings across the USA
SDO’s bring Proven Track Record:

- **FUNDING**: Governance : Relationships : Experiences : Education, and more

- **VALUE ADD**: Partnership with each investment
  - Deal Lead – Termsheet, Valuation
  - Board Seat
  - Syndication network
  - Pro-rata rights
  - Exit pathways
SDO : Viable Funding sources

Great science. Customers ready to buy. A real business opportunity:

• FINANCING 101 for startups:
  1. Angels: Super Angels, Angel Groups, Angel Funds
  2. Non-dilutive sources: Grants, Foundations, OTL
  3. Strategic alliances*: Pharma, OEM partners, University
  4. Venture Capital: Where did they go? Choose wisely!
  5. IPO (??)

QQ4U: Does the next round of financing affect the investment criteria?
QA4U: YES !!!
SDOs tracking VC market:
NEWS : Limited Partners (LP): Resize VC

- Realization that 50-75% of all VCs were failing to exceed returns available in public markets
- 2008 Market Crash: decrease in size, % to VC
- Kauffman Foundation research on VC returns: only the top 25% of VCs made money...

![Pie chart showing zero return (78%) and positive return (22%) for 88 venture funds](image)
VC Model of past 20 years won’t fly anymore ...
Venture Capital (??) :

• Long term trends to be aware of:
  - capital markets are very tight
  - revisions to the traditional VC model; loss of the mega $1B funds and attrition
  - remaining VCs have moved away from smaller $1-5M investments and waiting for later rounds (de-risked)
  - many VCs have moved away from Life Sciences

• Which Venture Capital group is Angel-friendly?
  Do your due diligence! Make sure goals are aligned.

• How do Angel investments survive?
  Greater collaboration
Angels fund startups!

**Funding by Source and Stage - 2010**

- **Venture Capital**: 1,700 (Seed), 5,321 (Early), 8,583 (Expansion), 6,371 (Later)
- **Angels**: 6,231 (Seed), 9,976 (Early), 3,491 (Expansion), 6,371 (Later)

**Angel Investors 2010**
- US $20.10 billion
- ~61,900 deals
- 31% seed/startup
- 67% early/expansion stage
- 265,400 individuals

**Venture Capital 2010**
- US $21.97 billion
- ~2,750 deals
- 8% seed/startup/ 24% early stage
- 68% later/expansion capital
- 462 firms active
SDO Angels: Latest trends in collaboration

- Lean Angel investors with new operations model
- Structured Angel groups (>300 in US, >50 in Canada)
- Sharing and syndication
- New models of investment (eg. Moleculo)
- Corporate VCs
SDO + Rise of the Friendly Capitalists (FC):

- Over 1100 VC funds in 2007; today <50%
- Result:
  1) No funds for new investments (ie. Portfolio)
  2) Principal focus on late-later stages
  3) Waiting for recaps when startup out of cash
- New breed of Friendly Capitalists behaving more like Angels – willing to mentor, take early risks, operations role, etc.
SDO Angels: Ecosystem +

• Foster / Encourage Entrepreneurship
• Attraction / Retention of New Businesses
• Creation of Jobs and Wealth; Diversify the Regional Economy
• Broaden the Regional Tax Base; Accelerate the Growth of Businesses within the Region
• Locate and Support Commercialization of Available Technology
• “see around the corner” ...
SDO Angel : Experience +

• Greater syndication
• Novel syndication mixtures : FO + AG + HNW
• Novel funds and foundations involved eg MJF
• New innovation support : Incubators, Spinouts, Accelerators, etc. (Breakout, RH)
• New business models (leaner)
• Innovation in technology is NOT enough
• Reverse innovation : Faster, Better, Cheaper
SDO : Criteria for success in H/C Life Sciences

- Focused **science** and innovation
  - top scientists network
- Outstanding **management** team
  Been there. Done that.
  Complementary skill sets
  Passionate and dedicated
- **STRONG** Intellectual Property (IP) ***
- Open-minded **Financial** strategies

Science, Management, Finance : must be sync’d

“There are too many science projects masquerading as companies”  Karen Bernstein, PhD, BioCentury Magazine
... and, What about Pharma?

- Facing “innovation gap” with low drug approval rates (FDA, H/C reform) and declining R&D spending
- Buying discovery pipelines leading to increased M&A activity
- Moving $$$ into corporate venture capital
  Is Corp VC right for your startups??? Risks/ Rewards???
SDOs experience: Making D/D more effective

• Entrepreneurs cohesiveness throughout investigation.
• Entrepreneurs responded quickly (same day) for more info requests.
• Company allowed multiple site visits.
• Company set up a due diligence website.
• Investment structure simple.
SDO Insights: Due Diligence

- Unique value proposition
- Sustainable competitive advantage / IP
- Key success factors
- **Experienced management team**
- Sound business model; scalable practices
- Cost-effective marketing/ sales plan & capabilities
- Rigorous operations practices & plans
- Appropriate technology implementation/ roadmap/ scalable
- Attractive and complete financial model with funding plans
- Appropriate and fair deal terms

**DD for Health IT and Life Sciences:**
Extra emphasis on Management Team, IP + FTO, Business Model, Funding milestones, Exit
SDO Angels: A startup is seen as an Economic package

- **Investors perspective**: inherent cost of capital is high (>20%) given life sciences risks (time value of money, no return of capital)
  * Long time to market
  * Fewer than 1% drugs make it to market
  * Several rounds of capital infusion
  * Fewer exits (eg. IPO, Acquisition, etc.)

Investors need a high rate of return to make economic sense of the deal b/c cost of capital increases with risk

- **Successful financing**: Focus on the economics for win-win
SDO : Founder – Greatness !

1. Capital efficiency
2. Time to exit
3. Local champion(s) – a strong local champion that is a trusted partner
4. Coachable entrepreneurs
5. Huge underserved market: Disruptive tech
6. Strong, protected, intellectual property
7. ROI and IRR
SDO Angels: Philosophy

- Relationship, Friendship, and Trust
- Collaboration and Partnership!
- Entrepreneurship and Angel Investing is a “Contact Sport”
TEAM = Together Everyone Achieves More
Collaboration : Partnership : Syndication
Friendship + Relationship + Trust

Friendly Capitalists
Angel Groups
Incubators, Accelerators, IP Clearinghouse
Patient Advocacy
Economic Development Grants
Corporate VC Foundations
NIH & Other Grants
Friends & Family
Entrepreneur
High Net Worth, Family Offices
Think Different (new models)!

“If we pull this off, we’ll eat like kings.”
THANK YOU !!!

Questions ??
Q: Who am I?
A: Norman Vincent Peale
Definition of a Possibilitarian

• Someone who believes there are always possibilities, if you look for them

• “I challenge you to become a possibilitarian: No matter how dark things seem to be, or actually are, raise your sights and see the possibilities. Always see them, for they are always there.” Norman Vincent Peale
Are you a Possibilitarian?

• NO, if your focus is on $$$
• YES, if you’re driven by Passion, Vision, Energy, Team, Discovery, Problem solving

• Book: *Heart Smarts Guts and Luck*  
  [www.hsgl.com](http://www.hsgl.com)

Take the exam and see if you are H S G L

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>61%</td>
<td>of founders are heart driven</td>
</tr>
<tr>
<td>25%</td>
<td>of survey sample is Luck-dominant</td>
</tr>
<tr>
<td>70%</td>
<td>of entrepreneurs with an exit did not start with a formal business plan</td>
</tr>
<tr>
<td>65%</td>
<td>of founders had a childhood entrepreneurial venture</td>
</tr>
</tbody>
</table>

• Highest correlation with success? Self Awareness of decision making inputs
What about Capital?

• Not the $$ type of capital
• Three types of Capital investments for investors (and entrepreneurs):

1. Psychological Who you are
   Proactive – Problem solving – Risk taking – Resilient (fail often, fail quickly) – Results – Scan for change opportunities – Do different things – Do things differently – **Think Different**

2. Human What you know
   Education Experiences

3. Social Who you know
   Goodwill: Connections, Meaningful ‘Win-Win’
   A shared code of conduct in relationships
Startup Protocols

• Entrepreneurs and Angels are Possibilitarians! Scientific Method is ONE key ingredient for startups

• 3 AWESOME RESOURCES:

  Eric Ries, The LEAN Startup
  www.startuplessonslearned.com

  Steve Blank, The Startup Owner’s Manual
  www.steveblank.com

  Alexander Osterwalder, Business Model Generation
  www.businessmodelgeneration.com
The Lean Startup:

- Startups are NOT smaller versions of larger companies!
- **OLD WAY:**
  [Operating Plan + Financial Model]  
  Engineering (MRD-QA-Ship) ➔ Marketing ➔ Sales ➔ Bus Dev

  **NO BUSINESS PLAN SURVIVES FIRST CONTACT WITH CUSTOMER!**

- **NEW WAY:**
  Startups **SEARCH** for a business model  
  Customer Discovery + Validation  
  Scientific Method (PDSA Cycle) : Hypothesis, Test Problem, Test Solution, Verify or Pivot, New Hypothesis
Lean Startup protocol:
Lean Startup protocol:

**Lean/agile innovation loop model**

**Goals:**
- Minimize cycle time for the WHOLE loop
- Limit variability in pulse size and individual speed
- Avoid severe pulse arrhythmia (i.e., radical changes of duration between pulses)
- Resist temptation to kill a pulse mid-cycle (unless the strategic context has changed fundamentally)
- Multiple pulses can circulate simultaneously

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extended from Eric Ries—
Validate your Business Model

Product development (solution unknown) → Product/Market fit → Customer development (problem unknown)

**PARTNER NETWORK**
- Cloud hosting provider (e.g. Amazon EC2, RightScale)
- Google (search marketing)

**KEY ACTIVITIES**
- Agile development tactics
- Listen to customer
- Rapid hypothesis testing

**KEY RESOURCES**
- Service platform: Open Source (LAMP)
- User Generated Content

**OFFER**
- Minimum Viable Product (MVP)

**CUSTOMER RELATIONSHIPS**
- Bring customer in-house
- Continuous cycle of customer interaction
- Social Media collaboration tools

**DISTRIBUTION CHANNELS**
- SEM/SEO
- Continuous deployment
- Key Metrics (e.g. AARRR)

**CUSTOMER SEGMENTS**
- Early adopters/lead-users

**COST STRUCTURE**
- Low burn, customer pays for development

**REVENUE STREAMS**
- Repeatable sales model
- Revenue goals from day one
G. O. O. T. B.

• GET
• OUT
• OF
• THE
• BUILDING

Go visit customers! Lots of customers!
Develop your TEAM Skills

T.E.A.M = Together Everyone Achieves More