How to Attract Venture Capital

UNIVERSITY STARTUP DEVELOPMENT
WEBINAR SERIES
SPEAKERS

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

Steve Socolof
NCET2 Startup Development Officer and
Managing Partner of Tech Council Ventures
BACKGROUND ON THE STARTUP DEVELOPMENT PROGRAM
Congress seeks to understand commercialization of $B137 annual R&D in Fed Labs / Universities

2015

NCET2 Congressional Commercialization Summit – Corporate Sub-committee Formed

First Model Proposed

Model Vetting Roadshows: CA; PA; NY

2016

Congressional Briefs

(Pilot) First Demo Day

Second Demo Day

2017

Startup Development Officers Pgm Announced

IP2 Startup Pgm Announced
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 Federal Lab 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
Interested?

• If you are interested in creating a startup and have the SDOs help you, contact us at support@ncet2.org
SPEAKERS

Steve Socolof
NCET2 Startup Development Officer and Managing Partner of Tech Council Ventures
• The state of the venture capital industry and some statistics on what venture capitalists are investing in

• The characteristics of opportunities that make venture capital an appropriate and timely potential source of funding

• Ideas for how best to find and approach venture capitalists

• The critical first interaction or meeting to gain a venture capitalist's interest

• The relationship-building process that will involve due diligence on both sides

• Proposal of terms by the venture capitalist on which he or she will invest in your opportunity
## Sources of Financing

<table>
<thead>
<tr>
<th>Type of Investor</th>
<th>Description</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends &amp; Family</td>
<td>Close/known relationships. Not professional investors</td>
<td>&lt;$100K</td>
</tr>
<tr>
<td>Angels</td>
<td>Local individuals or groups</td>
<td>$100K - $1M</td>
</tr>
<tr>
<td>Grants</td>
<td>Federal/State</td>
<td>$100K +</td>
</tr>
<tr>
<td>Venture Capitalists</td>
<td>Institutional</td>
<td>$1M +</td>
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</table>
VCs: >800 Firms with >$300B AUM

Distribution of Venture Capital Firms by Assets Under Management in 2016

Source: NVCA, Pitchbook
VCs: $70B in 8000 Deals in 2016

Source: NVCA, Pitchbook
Only 1/3 Are Active 1st Round Investors

Active VC Investors

Source: NVCA, Pitchbook
2340 First Financings in 2016

2016 VC First Financings By Stage and Sector

Source: NVCA, Pitchbook
Most Geographies Are Represented

Active Investor count in 2016 deals by HQ state

Source: NVCA, Pitchbook
Growing Number of Corporates Using Venture Capital

# of Active CVC Units (*)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
<tr>
<td>2011</td>
<td>348</td>
</tr>
<tr>
<td>2012</td>
<td>472</td>
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<tr>
<td>2013</td>
<td>457</td>
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<tr>
<td>2014</td>
<td>627</td>
</tr>
<tr>
<td>2015</td>
<td>801</td>
</tr>
<tr>
<td>2016</td>
<td>965</td>
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(*) Source: Global Corporate Venturing, “The World of Corporate Venturing 2017”
Corporates Represent Growing Share of Venture

Corporate Venture vs. Total VC Market (**)
CVCs Can Bring Added Value to Deals

**Why Do Corporates Partner**
- Identify and understand disruptive innovations to their businesses
- Explore new markets
- Bring new products and services to market through their channels
- Develop and leverage new capabilities
- Expand their ecosystem – support revenue drivers
- Commercialize and scale internal innovations through spinouts

**How Do Portfolio Companies Benefit**
- Exchange market intelligence and insight on industry trends and opportunities
- Develop large customers and partners
- Access resources to help with product development and commercialization
- Reach customers and markets through corporate channels and go-to-market
- Leverage corporate financial resources to scale business
- May lead to M&A
What Are VCs Looking For

• Business opportunities that can generate wealth at scale (profitable, sustainable, growing)

• Evidence of a large and growing market

• Belief in the team’s ability to execute – experience, talent, ability to learn and build

• Sustainable advantage / IP

• Signs of success – early traction that demonstrates customer interest, willingness to pay, successful business model - revenues

• Clear path to liquidity

• Ability to generate 10x return in 3-5 years
# Themes That Are Hot or Not

<table>
<thead>
<tr>
<th>Hot</th>
<th>Not</th>
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<tbody>
<tr>
<td>Autonomous Vehicles</td>
<td>Apps for Phones</td>
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<tr>
<td>AI/Machine Learning</td>
<td>ASICs</td>
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<tr>
<td>Augmented/Virtual Reality</td>
<td>Hardware</td>
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<tr>
<td>Consumer Brands</td>
<td>Pharmaceuticals</td>
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<td>Digital Health</td>
<td>Renewable Energy</td>
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<tr>
<td>Drones</td>
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<tr>
<td>Fintech/Bitcoin/Blockchain</td>
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<tr>
<td>Gaming/eSports</td>
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<tr>
<td>SAAS</td>
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<tr>
<td>Security</td>
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*Confidential*
How to Find Them

• Cold calls / mass mailings likely to be ignored

• Research to identify likely investors
  • Geography, stage, and sector
  • Look for relationship links – schools, advisors

• Research sources
  • CB Insights
  • Dow Jones Venture Source
  • National Venture Capital Association
  • TechCrunch

• Local resources
  • Local venture capital associations
  • Local angel groups
  • Venture fairs
  • Accelerators/incubators/co-working spaces
  • University startup officers

• Network through Advisors, Board Members, NCET2 SDOs
• VCs are making new investments, managing existing investments, and raising capital

• VCs will receive 100s/1000s of solicitations to make 1-2 investments per year

• Getting them to spend time on your opportunity is the first challenge

• Elevator pitch / Pitchbook is critical first step

• Need to highlight:
  • Product / market description
  • Valuable problem being addressed/solved
  • Market size / go-to-market strategy
  • Experience/strength of team
  • Signs of success – market traction, partnerships, revenues, etc.
Due Diligence Can Take Several Months

- VCs will want to test the value proposition
  - Leverage their network for perspective on the opportunity
  - Call your customer / partner references
  - Engage experts on technical aspects of product

- VCs will want to get comfortable with team and its ability to execute
  - Team references
  - Advisors
  - Interactions to build relationship, gain trust in listening/learning/team-building
  - Chemistry

- VCs will want to know where their investment takes them
  - Map investment versus spending over time
  - Map investment versus key milestones / value inflection points

- Having guides like the SDOs involved to prepare you for due diligence can be very helpful
Finally, The Term Sheet

• If due diligence succeeds, then VCs will discuss deal terms and/or present a term sheet
  • Reflects amount and terms under which they will invest
  • Determines valuation and treatment of prior ownership and investment
  • Addresses governance and risk management

• VCs may or may not be offering to fully fund the opportunity – may need to seek additional sources of capital

• There may be some flexibility to discuss / negotiate terms, which also may depend on how competitive the opportunity is

• Use experienced advisors to help navigate this part of the process – lawyers, SDOs, etc.