



The Rising Tide Program

Conduct Due Diligence Like the Pros

February 23, 2016

Support by:

KAUFFMAN
The Foundation of Entrepreneurship

Founding Members:

NEXT WAVE
Driving Diversity in Entrepreneurship
and Angel Investing

portfolia

Education Partners:

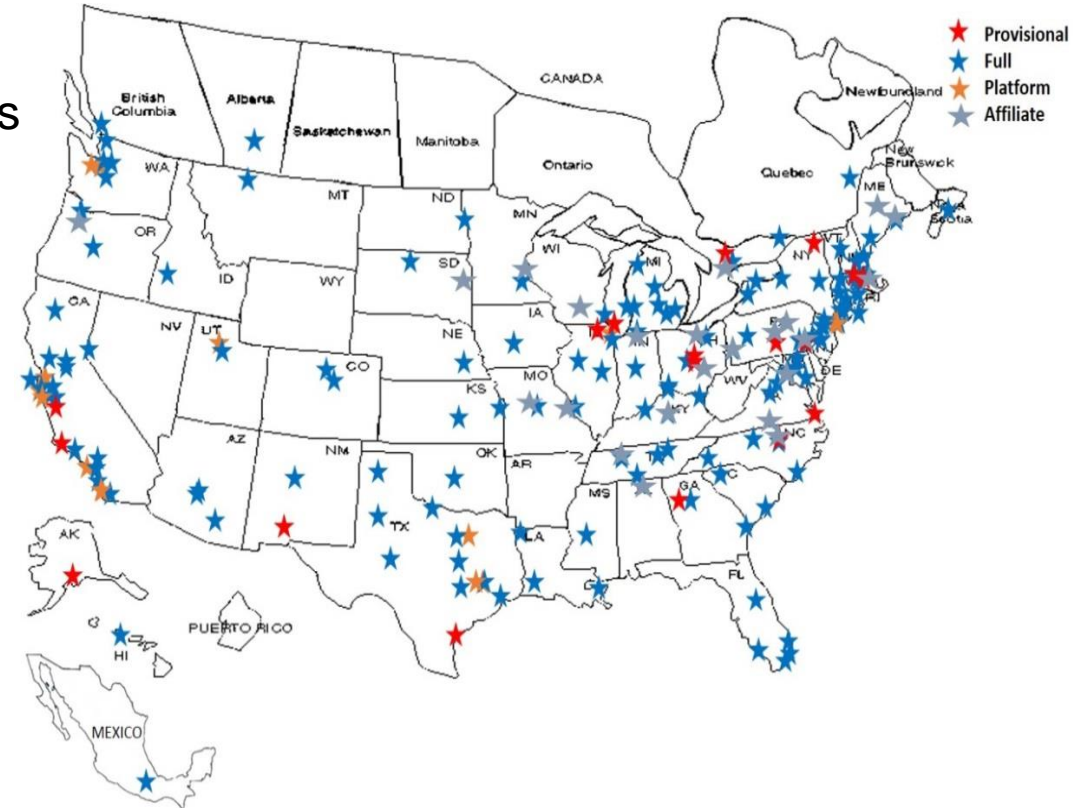
ACA
ANGEL CAPITAL ASSOCIATION

GO BEYOND
EARLY STAGE
INVESTING



- Use chat to submit questions
- Yes, you'll get the slides
- We're recorded, so come back and listen again

- Mission: Fuel the success of angel groups and accredited individuals active in in the early-stage landscape
- World's largest trade group for angel investors
 - 220+ angel groups
 - 13,000 accredited investors
 - Voice of accredited individuals, portals, and family offices
- 50 US states + Canada
- Research/ education partner



ACA Member Groups



Houston Angel Network



The Rising Tide Program

ACA Member Platforms



The Rising Tide Program

ACA Partners



The Rising Tide Program

Rising Tide Education Program

Founding Members:



Education Partners:



Support by:



The Rising Tide Program

OUR SPEAKERS



Barbara Clarke

Founding Member and Angel Investor

Astia Angels

- Recently served as the Chair of the Board of Trustees for Schools for Children
- Former President of Tufts University's Alumni Association
- Former CFO for Cradles to Crayons
- Specialized in IP valuations as a senior manager for both PWC and KPMG
- Boston, MA

OUR SPEAKERS

Wendee Wolfson

Angel Investor

New Dominion Angels

- Leadership coach and consultant to entrepreneurs, corporate executives, non-profit directors, and family business leaders
- Co-founder and part of the management team of both WomenAngels.net and Women's Growth Capital Fund
- Has served on the board or as board advisor to several portfolio companies
- Co-chair of the ACA Summit International Exchange
- Washington D.C.



OUR SPEAKERS



Ron Davis

Founder and CEO

Tenacity

- Worked at Fidelity National Financial, where he broke all sales records, drove several successful strategic initiatives, and was known widely for his consulting and coaching program
- Spent a year traveling the world with his wife and wrote a book about it
- Holds degrees from Harvard Law School, Oregon, and George Fox University
- Taught political philosophy under Michael Sandel at Harvard
- Seattle, WA

Topics We'll Explore Today

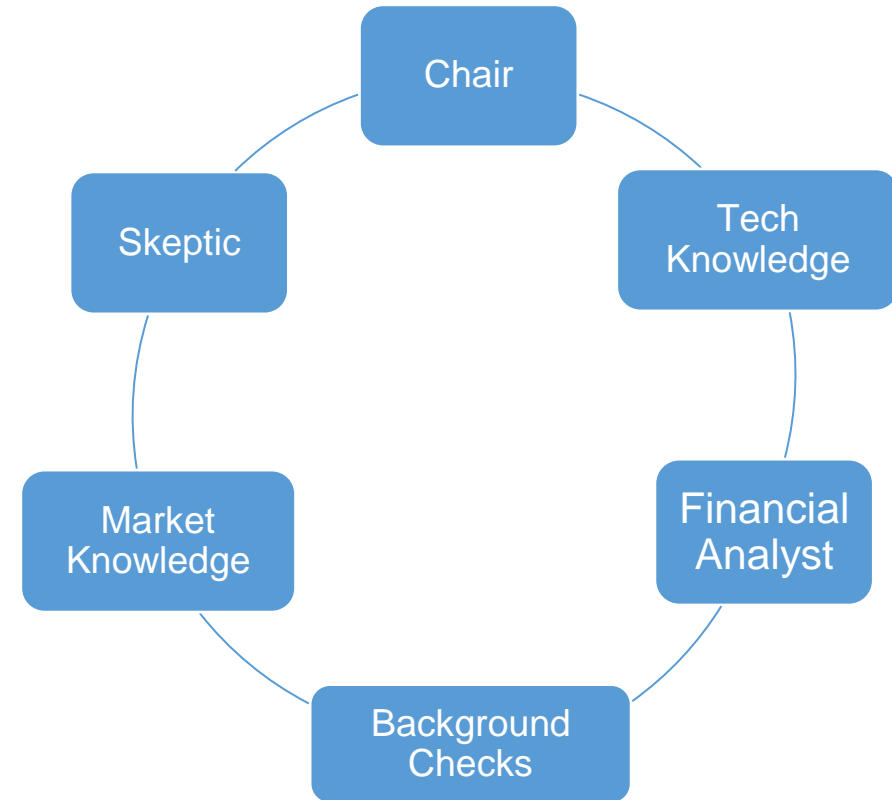
- The Impact of Good Due Diligence
- Six Key Diligence Areas
- Common Mistakes
- Appropriate Diligence Based on Company Stage
- What Entrepreneurs Should Expect

Why conduct Due Diligence?

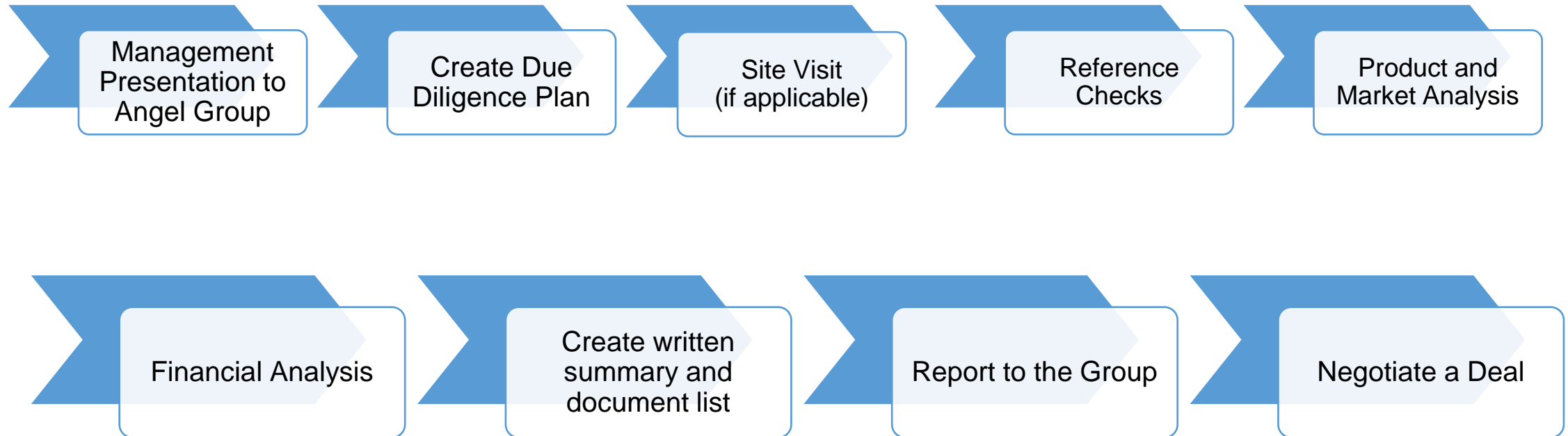


- “Returns of Angels in Groups” Study
 - 3000 + investments, 1100 exits, overall 2.6x
 - Outcomes varied by amount of time on due diligence
 - Study showed big jump in return when DD exceeded 20 hours
- Considerations in doing Diligence:
 - Quality of DD team – industry experience, varied skills (finance/accounting, IP)
 - Time available prior to deal closing
 - According to Angel Resource Institute, groups spend 50-100 hours and 30-90 days doing DD
 - Entrepreneurs’ willingness to give access to enough information without an NDA or with a limited NDA

Six Key Diligence Areas and Due Diligence Team



Angel Group Due Diligence Process



Create Due Diligence Plan

- Identify and prioritize key questions to answer or items to explore
- Compose DD team with skills to address those items, identify gaps
- Responsibilities of each team member
- Time frame

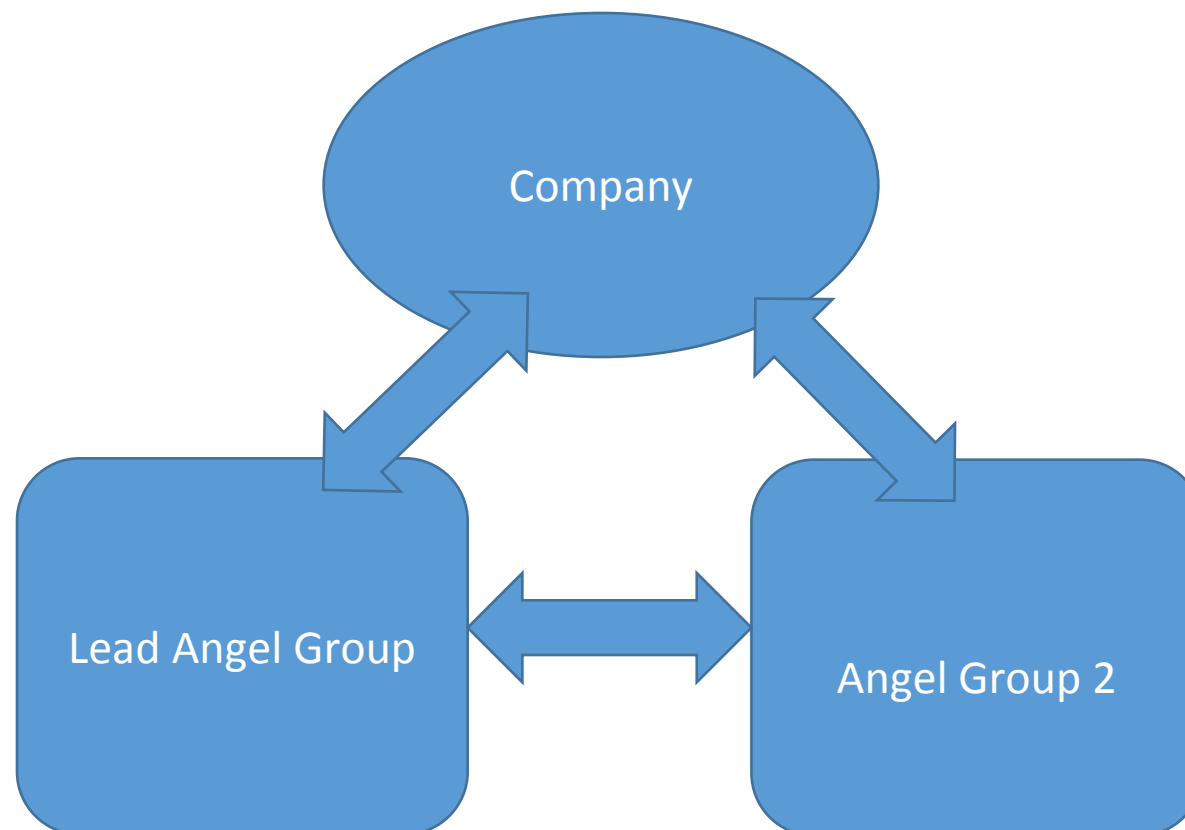
Term Sheet

- Sometimes DD team is responsible for negotiating deal terms
- Sometimes group leaders negotiate
- Parallel with due diligence
 - If can't come to terms then no need for DD
 - DD results may affect deal terms



What Role Does Syndication Play?

- Expands knowledge base and potential members for due diligence team
- Local group usually takes lead role in the DD and term sheet negotiation
- Lead group should provide comprehensive due diligence package to syndicate participants



Common Mistakes

Angels

- Neglect to conduct DD at all or short cuts in process
- Halo effect *“I like this entrepreneur”* Or *“I like this technology”*
- Not exploring other investors in deal
- Not exploring entrepreneurs’ past exits

Entrepreneurs

- Lack of preparation
- Poorly thought out assumptions
- Focus on cool new product, not on investor objectives



Key Diligence Areas

Management Team

- Includes Leadership, Board of Directors, and Advisors
- Experience in industry, startups, leading teams
- Key roles to be filled? When?
- Qualities of CEO
 - Integrity, resilience, flexibility,
 - Willingness to listen to advice, share equity
 - Vision and execution
 - Strategic and tactical
 - Strengths, skills (is CEO the tech person as well?)
- Board Composition (Investors, Outsiders)
- Team
 - History together
 - In what capacity
 - Family relationships/personal relationships (any red flag?)



Key Steps:

- Reference Checks
- Document Checks
- Company Site Visit

Document Checks

- Credit reports
- Criminal reports
- Contracts, employment agreements
- Patents issued and filed
- Insurance (Including D&O)
- Customer contracts
- Previous financing agreements
- Leases
- Potential litigation
- Tax matters
- Other



Site Visit

- First impressions of the work site
- Organizational culture
- Casual conversation with employees

Reference Check (authorized, unauthorized)

- Executive Team
- Board members, advisors, consultants
- Service Providers – lawyers, accountant, financial analysis
- Interview customers (former, current, prospects)

Market Opportunity

- Market size, segments, share potential
 - Is this a product or a company
 - Existing business model in industry
 - Regulatory issues/environment
- Competitive analysis
 - Industry leaders, barriers to entry, patent protections
- Acquisition activity in industry



Go to Market Strategy & Competitive Analysis

- Target customer
 - Who is the buyer/ decision maker
 - What are the characteristics and length of the sales cycle
 - What is the cycle for repeat purchase
 - Potential for growth within existing customers
- Strategic partners, distributors
- Branding, marketing campaigns
- Who are the competitors? Why is this offering different or unique from theirs?
- *Would you buy this product at this price?*



Product and Technology

- Pain in the market?
- Differentiator
- Stage of Development
 - (Complexity, Manufacturing, What could go wrong?)
- Value Proposition
- Proprietary
- Manufacturing



Financial Analysis

- Business model – clear, straightforward
- Current
- Projections
- Bottom up projections
- Revenue goals and unit sales – realistic
- Expense projections – margins, SGA
- Cash flow projections
- Capitalization
- Exit analysis



Diligence Areas By Company Stage

Proof of Concept Stage

- Development stage
- Complexity, risks
- Market feedback
- Entrepreneur's history

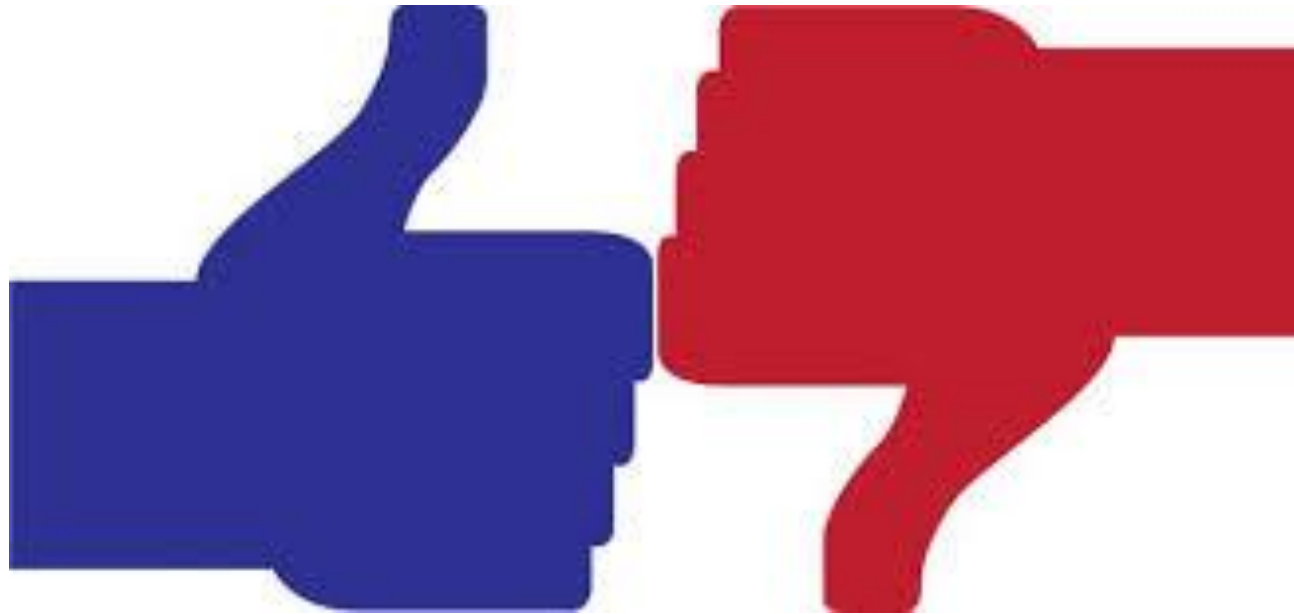
Getting First Customers

- Sales cycle
- Selling message
- Channel partners/Marketing
- Other investors
- Management team

Scaling up

- Repeat customers
- Margins
- Levers toward profitability
- Board/Advisors
- Other investors
- Time frame to exit
- Milestones

What Entrepreneurs Should Expect



How Entrepreneurs Should Prepare

- Anticipate the tough questions
- Have assumptions ready to explain
- Key documents in place
- Professional appearance, no typos or math errors

Final Takeaways

- Use the data you uncover
- Follow the thread in reference checks
- If something seems amiss, it probably is
- Be willing to walk away at any point in the DD
- Company Feedback
 - Consider what and how it gets delivered and by whom (entrepreneur, angel group, syndicate)



Additional Resources



Angel Resource Institute Courses

<http://www.angelresourceinstitute.org/education/programscaledar.aspx>



ANGEL CAPITAL ASSOCIATION

Summit

<http://www.2016acasummit.com/>

The Rising Tide Program

Speakers Contact Information

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Astia Angels – <http://astia.org/>

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New Dominion Angels - <http://www.newdominionangels.com/>

Ron Davis – ron@gotenacity.com
Tenacity - <http://gotenacity.com/>

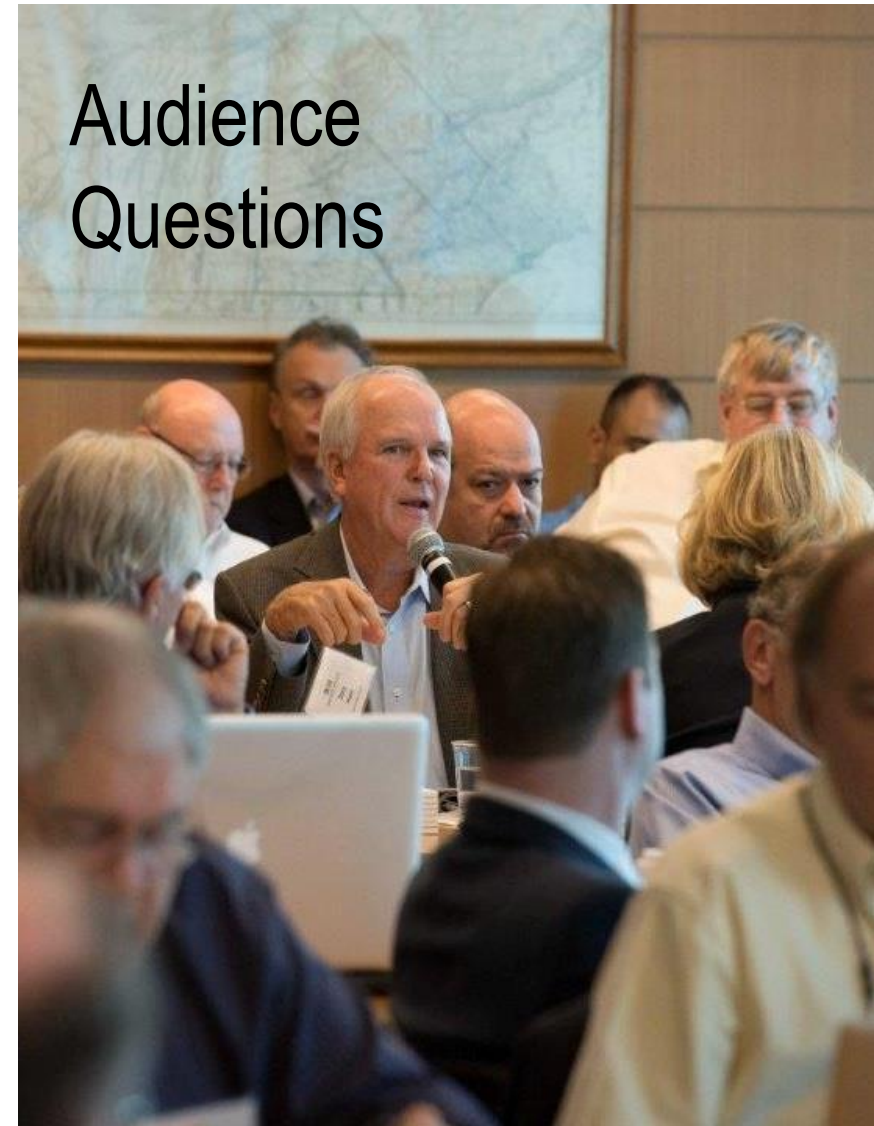
Thank you!

Upcoming Webinars

March 9, 2016: Building Great Boards with Super Angel Dave Berkus

March 23, 2016: Beginner's Guide to Term Sheets with Foley Hoag and Karr Tuttle

Webinar programs archived
at: www.angelcapitalassociation.org/events/webinars/



Additional Resources



Forbes

Marianne Hudson
Executive Director
Angel Capital Association



<http://www.angelcapitalassociation.org/news-forbes/>



Inc.
Handbook of the American Entrepreneur

Christopher Mirabile
Managing Director, Launchpad;
Board Chair, Angel Capital
Association



<http://www.angelcapitalassociation.org/news-inc/>

Upcoming ACA Events

- February 25, 2016, Western Syndication Meeting, Irvine, CA
- March 9-10, 2016, NW Regional Meeting, Seattle, WA
- May 9 – 11, 2016: ACA Summit, Philadelphia, PA
- <http://www.angelcapitalassociation.org/events/>



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