BINF6399 – Principles of Team Science

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RAW Lab
Lecture 12 - Tuesday April 13th, 2021

Learning Objectives

- Funding timeline

- Angel investors

- Venture capitalists

- Angel vs. Venture

- Review

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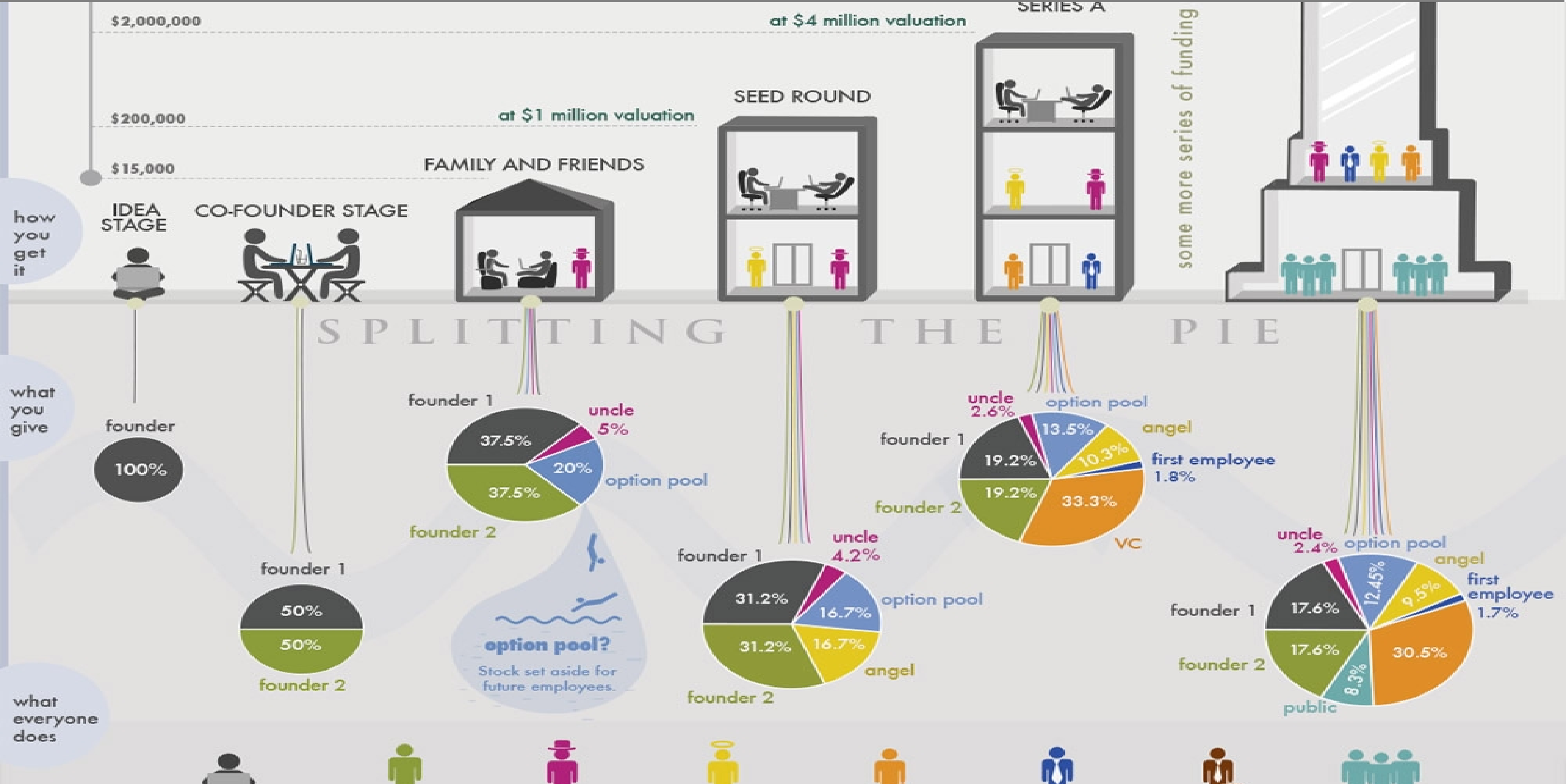
Funding timeline



Types of funding

1) Internal Financing: Accounts Receivable, Inventory, Fixed Assets, Vendor Payments, Evaluating Expenses

2) Co-op: Joint Ventures, Strategic Alliances, Deal-making

3) Customers

4) Commercial Lenders: Banks, Finance Companies

5) Equity Investors: Private Individuals/Angels, Employees (ESOPS), Corporations, Venture Capital, Institutional Investors

6) Government: Small Business Admin., SBIC's, MESBIC, SBIR

7) Private Placements: Sale of equity through an agent

8) IPO

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SBIR and STTR

You need to have appropriate numbers (DUNS/Fastlane)

Get them at least 1 month IN ADVANCE (preferably >2 more)

Every agency has different deadlines
- NSF (Dec, June)
- USDA (October)
- DOE (LOI, Dec/Apr, Feb)
- DARPA
- NIH (Apr, Sep)

Talk to the grant manager prior to submitting!

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Importance of Angel Financing

An Angel investor plays a vital role in the development of the economy by providing the risk capital which contributes to the economic growth and technological advances.

They are more focused on the commitment and passion of the founders and the larger market opportunities that they have identified.

Early financing of the start-ups to some extent has become more dependent on angel investors, as they provide loans on relatively easier interest rates, unlike venture capital. The venture capital funds demand aggressive revenue growth quickly and are not able to accommodate a large number of small deals. The traditional source of start-up and early-stage financing-bank lending is limited due to its risk level and handling costs.

Angel investors make a prominent difference with a startup’s success as well as its failure. Most of the times, they are the first and foremost investors.

Further, professional angel investors look for defined exit strategy or acquisitions or initial public offerings (IPOs). Due to the least interest in giving their money back or generate any return

The effective internal rate of return Internal rate of return for a successful portfolio investor ranges from 20% to 30%. This is beneficial for the investors and for entrepreneurs, who are the primary sources of financing. Hence makes angel investment perfect for entrepreneurs who are financially struggling during the initial phase of their business.

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Advantages of Angel Financing

1) One of the biggest advantages of the angel investor is that financing from angel investment is much less risky than taking loans. Unlike loans, investment capital does not have to be paid back even if the business fails.

2) Capital needs of startups can be met by angels

3) Angel-funded companies generate a large number of jobs.

4) Often angles reinvest the returns from the portfolio.

5) The wealth created out of angel investing is spawning in a greater number of companies.

6) Angels bring portfolio expertise such as business acumen, vertical expertise, director service, and financial experience

7) They differentiate between job creation and wealth creation

8) Angel-funded firms are likely to survive at least four years and raise additional financing outside the angel group.

9) These firms are to showcase improved venture performance and growth in web site traffic and web site rankings. This improved gain ranges from 30 to 50%.

10) Angels do not demand high monthly fees and are located practically in all industries

11) Further, angels can bring vast knowledge and experience to a new company.

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Disadvantages of Angel Financing

1) The primary disadvantage of using angel investors is the loss of complete control as an owner.

2) If compared to venture capital, it is quite hard to find a suitable angel investor

3) Business Angel provides less structural support than an investing company.

4) Angels rarely make follow on the investments

5) Further, there is a possibility of malpractices in angel investing as well.

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Angel Financing amounts

1) Usually wealthy Individuals that invest around $500,000 in return for equity.

2) Usually a one time deal sometimes more.

3) Angel groups can win contests or have more more then one or groups of investors

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Angel groups in North Carolina (Charlotte)

PAN Piedmont Angel Network

VENTURESOUTH CHARLOTTE

CHARLOTTE ANGEL FUND

RTPCapital ASSOCIATES, INC.

https://www.barneslaw.com/angels

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Crowdfunding – types I

EQUITY-BASED	REWARD-BASED	LENDING-BASED	DONATION-BASED
For financial return	*For non-monetary rewards*	*For financial return*	*For philanthropy or sponsorship*
Sale of registered security by mostly early-stage firms to investors.	Donors have an expectation that recipients will provide a tangible (but non-financial) reward or product in exchange for their contribution.	Debt-based transactions between individuals. Mostly unsecured personal loans.	No legally binding financial obligation incurred by recipient to donor; no financial or material returns are expected by the donor.

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Crowdfunding – types II

Equity

- $ for equity
- Platforms: Symbid, Crowdcube, GrowVC, FundedByMe, AngelList, Seedrs, Equity Net

Donation

- $ as charity
- Platforms: Crowdrise, Kickstarter, Indiegogo, 33 Needs, Rally, OpenIDEO, StartSomeGood, GiveForward

Rewards

- $ for rewards or pre-orders
- Platforms: Kickstarter, Indiegogo, RocketHub, FundedByMe, Springboard, iPledg

Debt

- $ for financial return
- Platforms: Prosper, Lending Club, People Capital, Kiva, Funding Circle, SoMoLend

Crowdfunding – some platforms

Venture Capital is NOT Philanthropy

Advantages of Venture Financing

1) Business expertise. Aside from the financial backing, obtaining venture capital financing can provide a start-up or young business with a valuable source of guidance and consultation. This can help with a variety of business decisions, including financial management and human resource management. Making better decisions in these key areas can be vitally important as your business grows.

2) Additional resources. In a number of critical areas, including legal, tax and personnel matters, a VC firm can provide active support, all the more important at a key stage in the growth of a young company. Faster growth and greater success are two potential key benefits.

3) Connections. Venture capitalists are typically well connected in the business community. Tapping into these connections could have tremendous benefits.

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Disadvantages of Venture Financing

1) Loss of control. The drawbacks associated with equity financing in general can be compounded with venture capital financing. You could think of it as equity financing on steroids. With a large injection of cash and professional – and possibly aggressive – investors, it is likely that your VC partners will want to be involved. The size of their stake could determine how much say they have in shaping your company’s direction.

2) Minority ownership status. Depending on the size of the VC firm’s stake in your company, which could be more than 50%, you could lose management control. Essentially, you could be giving up ownership of your own business.

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Venture vs Angel

Venture vs Angel - metrics

Metric of comparison	**Angel Investor**	**Venture Capital**
Type of entity	Individual (or group)	Registered firm
Source of money	Personal	Borrowed from limited partners
Stage of Investment	Early stage (late tech dev. or early market entry)	Later stage (Post initial revenue & launch mostly)
Size of Investment (1 round for early stage)	500k USD typically	1-10 Mill. USD typically
Non-financial benefits	Mentoring - informal	Mentoring - formal
Due Diligence	Often not done, a lot of emphasis on teams when done	Done strictly, emphasis on team and financial health
Expectations-Financial	Moderate level of returns	High level of returns quickly
Tendency to control startup	Depends on case to case, generally modest	Modest to High generally

Venture vs Angel – metrics II

	Angels	Venture Capitalists
Personality & Behavior	Entrepreneurial	Financial managers
Invested Funds	Own money	Fund investors' money
Investees	High poential for start-ups and early-stage	Medium-sized to large growing companies
Geographical Proximity	Important	Less important
Form of Contract	Simpler deal structures with emphasis on fairness	Complex and demanding
Post-investment Monitoring	Active, hands-on	Strategic
Involvement in Management	Important	Less important
Exit Route	Less important	Very important
Return on Investment	Important, but probably less demanding overall because of lower costs of the investment process	Very important

Source: EBAN