

Boston Redevelopment Authority

Business Development Division

present an

ACCESS TO CAPITAL

WORKSHOP

November 22, 2013

District Hall,
Innovation District, Boston MA



OBJECTIVE

- Help entrepreneurs and early stage companies navigate the sometimes complex world of capital access.

AGENDA

- Introductions
- Speakers
 - Rich Pellagrini
 - Mark Allio
 - Ben Littauer
 - Shereen Shermak
 - Ted Acworth
- Quick general Q&A
- 9:45-10:30 Breakout tables for Q's with speakers

THE PANEL

Mark Allio

Regional Director
Massachusetts Small Business Development Center
At UMass Boston

Ben Littauer

Boston Harbor Angels
Walnut Ventures

Shereen Shermak

CEO
Launch Angels

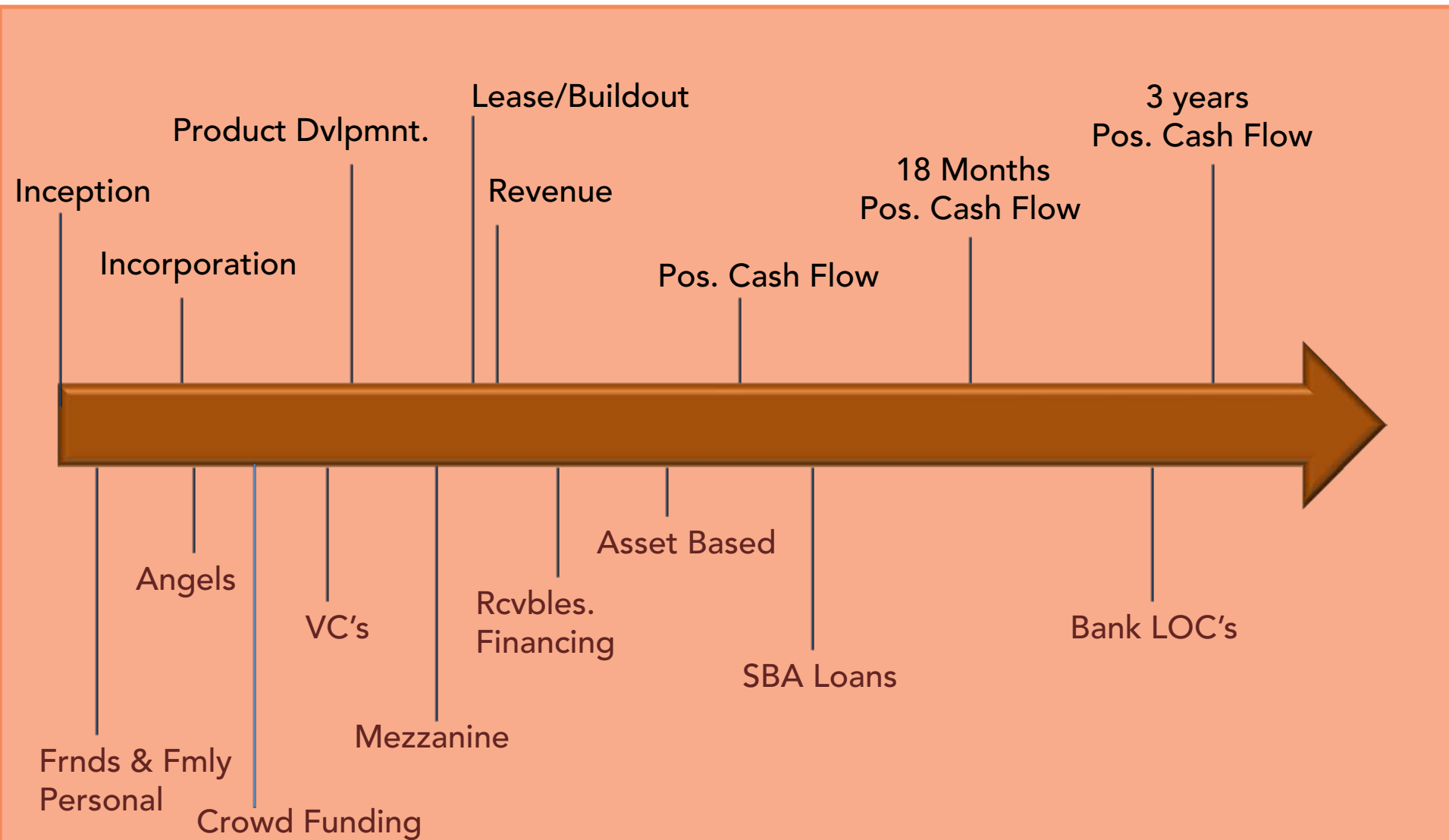
Ted Acworth

Founder and CEO
Artaic Innovative Design

FIRST STEP

Where you are,
Where you're going,
Where do you want to be.

WHERE ARE YOU?



THE HARD QUESTIONS

- Am I willing to put up personal collateral?
- Are my revenue projections realistic?
- Under what conditions will I give up a piece of my company?
- And more....

Mark Allio

Regional Director

Mass. Small Business Development Center

UMass Boston



MASSACHUSETTS SMALL
BUSINESS DEVELOPMENT
CENTER NETWORK
BOSTON REGIONAL OFFICE &
MINORITY BUSINESS CENTER



Capital Access Forum

November 22, 2013

Mark Allio, Regional Director

*MA Small Business Development Center Network
Boston Regional Office & Minority Business Center
at UMass Boston*

U.S. Small Business Administration



BOSTON PRIVATE BANK
& TRUST COMPANY

MSBDC: 617-287-7750 www.sbdc.umb.edu



MSBDC Overview

The MSBDC Network comprises three collaborative lines of business:

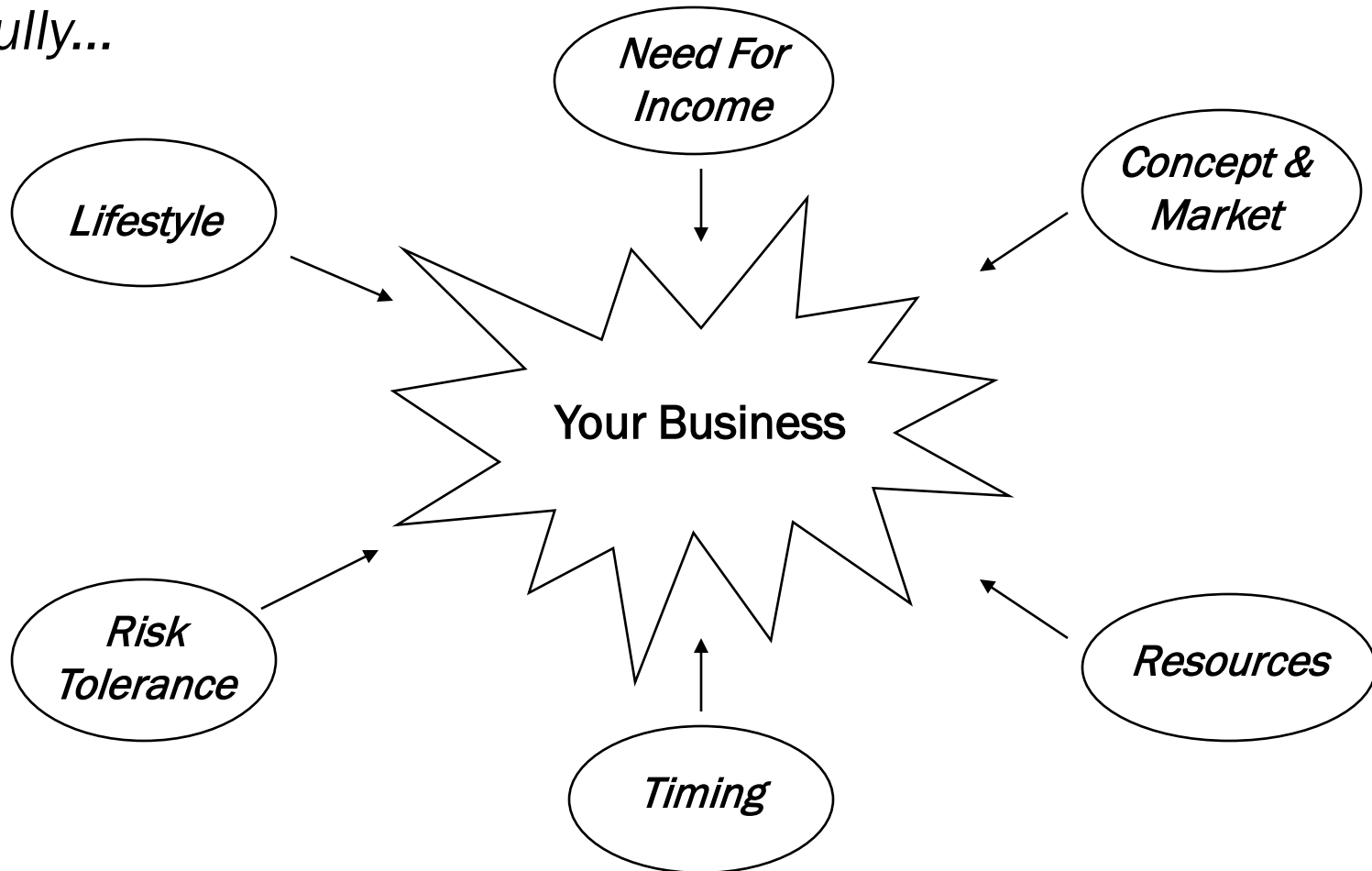
- Business advisory services (6 Offices)
- Government contracting (PTAC)
- International trade (Mass Export Center)

We provide FREE one-on-one, confidential services focusing on:

- Business growth and success
- Strategic, marketing and operational analysis
- **Financing and loan assistance**

The Big Picture

Whether your business is large or small, consider each of these carefully...





Funding Prospect Questions

- Who are you?
- How much do you need?
- What is the money for?
- What is the collateral - and/or guarantees?
- What is the business benefit?
- How will the money be repaid?
- What is my return on investment?

Funding Sources

Internal cash flow from the business

- Run the numbers to determine whether financing is needed

Self-funding

- Savings, credit cards, home equity, and other resources
- Full-time or part-time job
- Friends and family

Debt

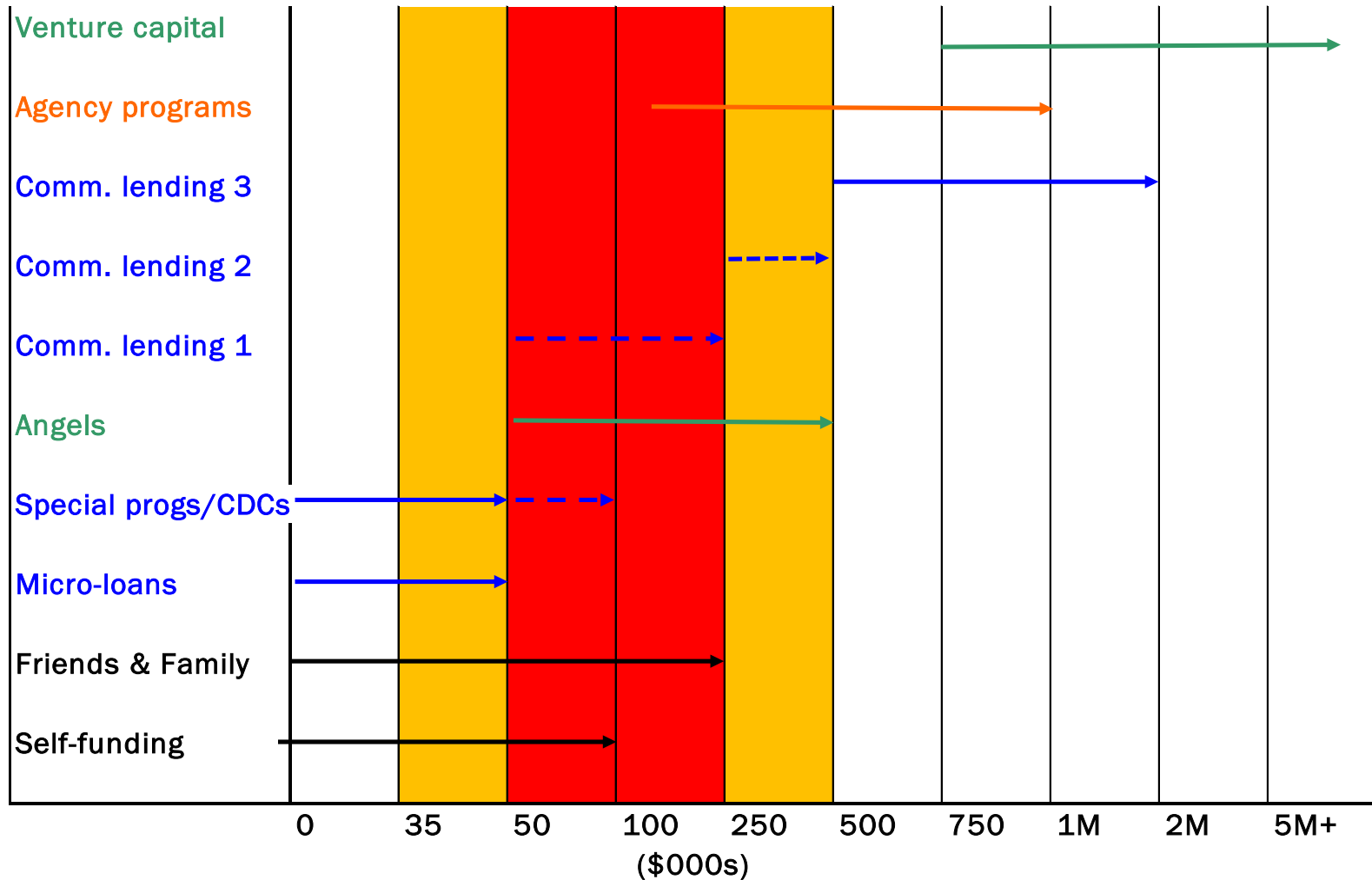
- Banks and alternative lenders e.g. Accion
- SBA and loan guarantees
- Specialty finance- agency, factoring, leasing

Equity

- Friends and family
- Venture capital or angel funding



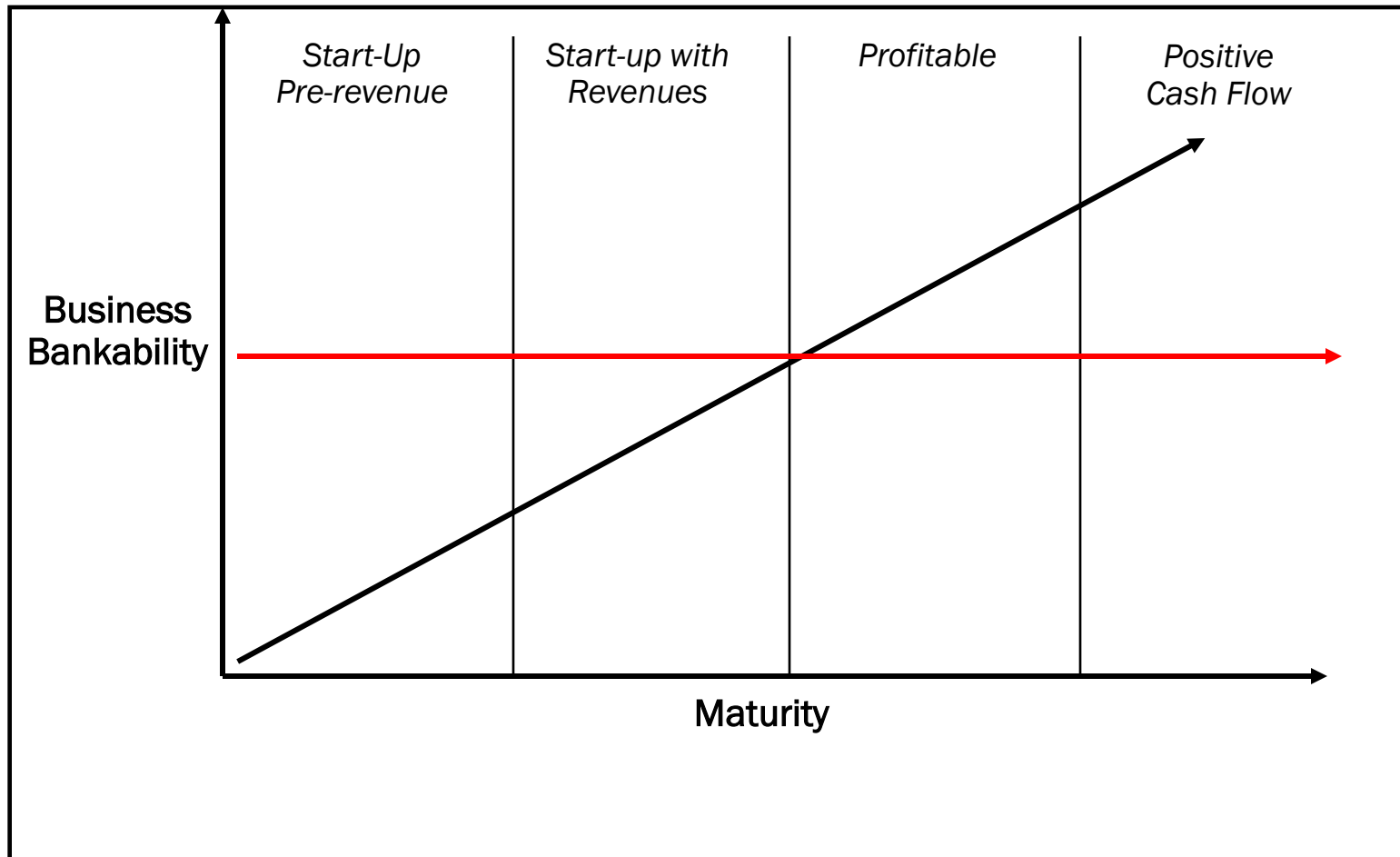
The Funding Gap





Traditional Lenders look for collateral and ability to service debt...

Ability to Cover Debt Service





“C”s of Credit

- **Capital**- how much capital is already invested in the business? The 80/20 Rule.
- **Collateral**- how much and what type to secure the loan? Land, equipment, home equity, etc.
- **Cash Flow**- is the business cash flow positive? If not, when? 12-24 month projections. Capacity to repay the loan from earnings?
- **Credit History**- borrower’s credit and background? Skeletons in the closet?
- **Character**- who is the borrower and what is their background? Are they experienced? Honest? Integrity?
- **Conditions (Economic)**- general economic conditions and those specific to the industry and business?



Equity Investors

- Angels are individual high net worth investors looking for more active investor role with opportunity for 5-10X ROI in 5-10 years. Average investment ranges anywhere from \$25K-\$250K.
- Venture capitalists are organized professional groups who raise funds that invest in portfolio of ventures expecting 10-20X ROI in 3-5 years. Average investment typically \$1M or more.
- Equity investors typically seek hockey stick revenue growth business models found in technology, e-commerce, life sciences, and other industries that can grow and be sold quickly- not Main Streets types of businesses.
- Trends include more formalized angel groups, syndications, socially-conscious/sustainable business investor groups
- Understanding of valuation techniques e.g. discounted cash flow is critical in effectively negotiating sale of equity stake; requires 3-5 year forecast including estimated balance sheet
- Timing, salesmanship, network, luck and chance may play important roles in connecting with the right investor
- In considering the allocation of time between fundraising and gaining market traction, strategic partnering can serve as a potent alternative



Special Programs (Partial)

- Small Business Administration (SBA)- loan guarantee programs
 - 7A- flagship guarantee program
 - 504- financing involving property and fixed assets
 - Patriot Express Community Advantage, Express, Caplines
- MassCap Program- Mass Business Development Corporation (BDC)- community based business loan program- I- average loan size \$51K
- Quasi-public programs
 - City Of Boston, Boston Redevelopment Authority
 - Mass Office of Business Development (MOBD)
 - Mass Growth Capital Corporation (MGGC)
 - Mass Life Sciences Center
 - MassDevelopment (special funds, bonds, other)
 - MassVentures (high-growth, technology)



Other Sources

- **Grants-** generally no grants for start-up businesses but some specialized programs exist e.g. SBA SBIR/STTR programs
- **Business plan competitions-** generally have offered contributions in-kind (e.g. legal services) but some now offer real money (e.g. MassChallenge \$50-\$100K)
- **Crowdfunding-** largest entrant is Kickstarter- contributions considered donations
- **PO/Factoring/receivables financing-** specialty providers- typically charge 1-2% per month; can work for short-term needs or contract fulfillment
- **Micro-lenders-** AccionUSA, Kiva and Kiva.zip
- **Community Block Grants (Loans)-** City of Boston and other municipalities)- small loans from economic development authority
- **Industry-specific-** e.g. Food & hospitality- Whole Foods Loan Fund, New Delta Partners (restaurant & hospitality)



Suggestions

- Understand type and maturity of business and how it will be perceived by a funding prospect; temper your expectations accordingly
- Run the numbers and preparing complete package **before** knocking on doors- the decision will be made based on the numbers
- Understand your need and calibrate your proposal to different audiences- lenders vs. equity investors vs. strategic partners
- Utilize reasonable assumptions in preparing forecasts and be prepared to provide back-up or explanation
- Consider timing in deciding when to make the ask
- **Remember that getting outside funding is only the start of the race- goal is to realize internally generated positive cash flow**

Ben Littauer

Boston Harbor Angels

Walnut Ventures



THE Capital Network

Access to Capital

November, 2013

Agenda

- Company Types
- Equity Capital
- Convertible Debt
- Angels v. VCs
- Funding Options
- Other Funding Sources
- Company Stages

Types of Business

SOCIAL VENTURE COMPANY

- Goal is to fulfill a social need
- Has mission orientation
- Team needs to support mission
- Growth profile often one resource at a time
- Exit ...much harder to find fit

NORMAL GROWTH COMPANY

“Small & Profitable”

- Includes all service businesses
- Exploiting a local market need
- Team has ‘great jobs’
- Growth by adding resources one by one
- Exit will be based on value of cash flow (mature biz.)

HIGH GROWTH COMPANY

- Company can grow fast (on-line) or has a scalable system
- Team often motivated by exit
- \$7-10M revenue in 5 yrs & market size allows significant additional growth
- Capital efficient total investment \$2-4M
- Exit by M&A

EXTREME HIGH GROWTH COMPANY

- Growth profile ultra-scalable
- Team focus is exit
- Revenue \$40M+ with lots of room for growth (5 yr.)
- Based on \$20M+ investment
- Exit targeted to IPO or by ‘large’ M&A event

Typical Funding Sources

SOCIAL VENTURE COMPANY

- Friends family, founders
- Charity\$\$
- Crowd funding (Kickstarter, etc)
- Impact Angels
- (Future) Crowd funding (portal style)

NORMAL GROWTH COMPANY

“Small & Profitable”

- Friends, family, founders
- Debt, Bank, and other
- (Future) Crowd funding (portal style)

HIGH GROWTH COMPANY

- Angels
- Angel Groups
- Angel Group Syndication
- Angel List
- Micro-cap Funds
- (Future) Crowd funding (portal style)
- Increasingly Strategic Corporate VCs

EXTREME HIGH GROWTH COMPANY

- Early on
- Accelerators
 - Individual Angels
 - Micro Cap VCs
 - Seed from VC
- Later stages
- Venture Funds
 - Strategic VCs
 - Angel Syndication

Equity Capital

- “Risk Capital”, shared upside
- Equity Capital requires an exit:
 - IPO & Private Equity
 - M&A (most)
- VCs invest other people’s money (from pension funds etc.)
 - Returns are measured on a per fund basis
 - Focus on finding the best & adding resources to aid success
 - ~\$26.5B annually, ~ 3,700 new investments 2012
- Angels invest own money
 - Prefer capital efficient / early exit opportunities
 - ~\$23B annually, ~ 67,000 new investments 2012
 - Angel groups (a dozen greater Boston, two dozen NE), Informal networks & one-time-investors, Super angels, Family offices

Convertible Debt

- Equity Investment in the guise of debt
- Typical terms: 6% interest, 1-2 year term, 20% discount on next round
- Current trend: capped conversion valuation, governance & protective provisions
- If the investor gets the debt + interest paid off, it's NOT a winner
- Disfavored very vocally by most angels, especially angel groups
- Regularly used anyway! Even uncapped!
- Useful for seed stage and “bridge” rounds – to big sale, further funding, or exit

Angel v. VC

- We both want:
 - Great team
 - Great idea / innovation
 - Large market
 - Scalability
- Angels prefer:
 - High returns in 3-5 years (capital efficiency, early exits)
 - Involvement
- VC's need:
 - Incredible returns in 5-10 years
 - The ability to put large sums of money to work and gain those returns

Alternate Sources of Funding

- **Business Plan Competitions and Accelerators**
 - Many firms gain enough for some product completion steps
- **Vendors, partners and customers**
 - Including NRE to build joint product
 - Great source of quick capital for marketing or sales collaboration
- **SBIR Grants**
 - ~\$2 Billion department specific funding
 - 2 or 3 ‘research’ calls from each department each year, must be used for research ... then you commercialize with other funding
 - Check out SBIRSource.com (or many others) for more information
- **Other government funding, lots of “detailed” sources**
 - Mass Life Science & Sustainable Energy – loans or convertible notes
- **Crowdfunding**
 - Pre-sales or (coming soon?) equity

Funding Options

- The choice of funding can be cut two ways:
 - Position your company based on preferred funding/exit
 - Choose your funding based on preferred outcome
- Your business model affects this
 - Early revenue, e.g. software license or SaaS
 - Later revenue, e.g. advertising models, 2-sided markets
- Understand your **entire** funding trajectory before taking \$
- Steps you take today affect your ability to raise \$ tomorrow
- One hint: “Stealth.” Just Say NO! Network and Socialize you business

Funding by Stage

Stage	Crystallize Idea and Early Demonstration	Demonstrate Product & Market Interest	Market Entry and Early Growth	Early Scaling Growth	Repeatable Growth
Capital Source	Founders, Friends, Family, Grants, Kickstarter, etc.	Accelerators, Individual Angels, many others now “exploring”	Angel Groups, Angel Group Syndication, Micro-Cap Funds	VCs, Angel Group Syndication, Micro-Cap Funds	VCs
Investment	\$25K - \$100K	\$100K - \$500K	\$500K - \$1M	\$5M – as needed	as needed

↑
This is the stage where advice can make you eligible for outside funding later

↑
Accelerators and a few individual angels play here ... unless it is a big idea

↑
This is where Angel Groups do most 1st investments
....

↑
These 2 need sophisticated growth plans

Shereen Shermak

CEO

Launch Angels

Top **5** Things to Know About Angel Investing via Launch Angels



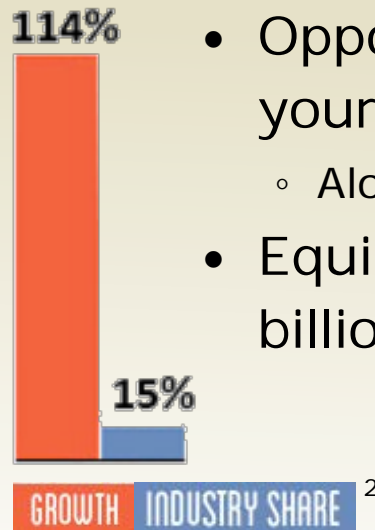
The Easiest Way to a Venture Portfolio

Crowdfunding has likely been around since the dawn of time

- When Statue of Liberty ran out of funds to finish, Pulitzer used newspapers to raise \$100,000 in six months
- In 1997, fans underwrote tour for rock group Marillion
- Over next decade+, more commonly known artist and project sites arose
 - IndieGoGo (2008) and Kickstarter (2009)
- 2013: Rise of equity crowdfunding portal



What is equity crowdfunding?



- Entrepreneurs (“issuers”) use services of intermediary—either broker or funding portal registered with SEC
- Opportunities to invest outside your local network
 - Alongside leading investors
- Equity crowdfunding in 2013: \$3-4 billion ¹

1

Angel investing greatly contributes to US economy

For US in 2012...

- Angel investments created nearly 275,000 new jobs: 4.1 jobs per deal³
- Over 67,000 ventures were angel funded⁴
- Total angel investments reached nearly \$23 billion⁵
- Angel-backed startups less likely to fail vs. other types of financing⁶

Total angel investment in 2012⁷

2011	\$22.5b	
2012	\$22.9b	▲ 1.8%

Ventures backed

2011	66,230	
2012	67,030	▲ 1.2%

Active investors

2011	318,480	
2012	268,160	▼ 15.8%

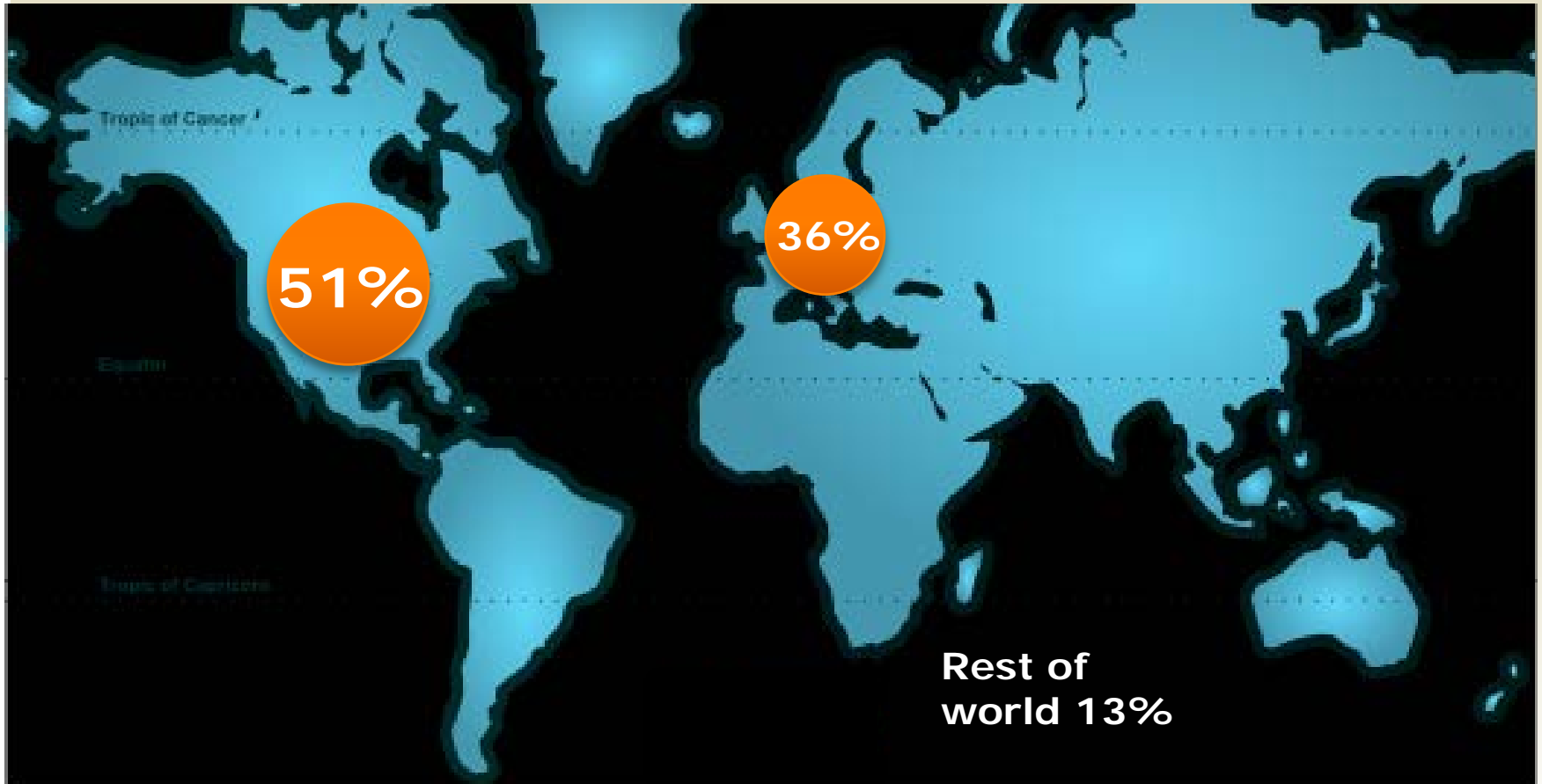
Jobs created

2011	165,600	
2012	274,800	▲ 66%

Average investment size

2011	\$70,690	
2012	\$85,435	▲ 20.9%

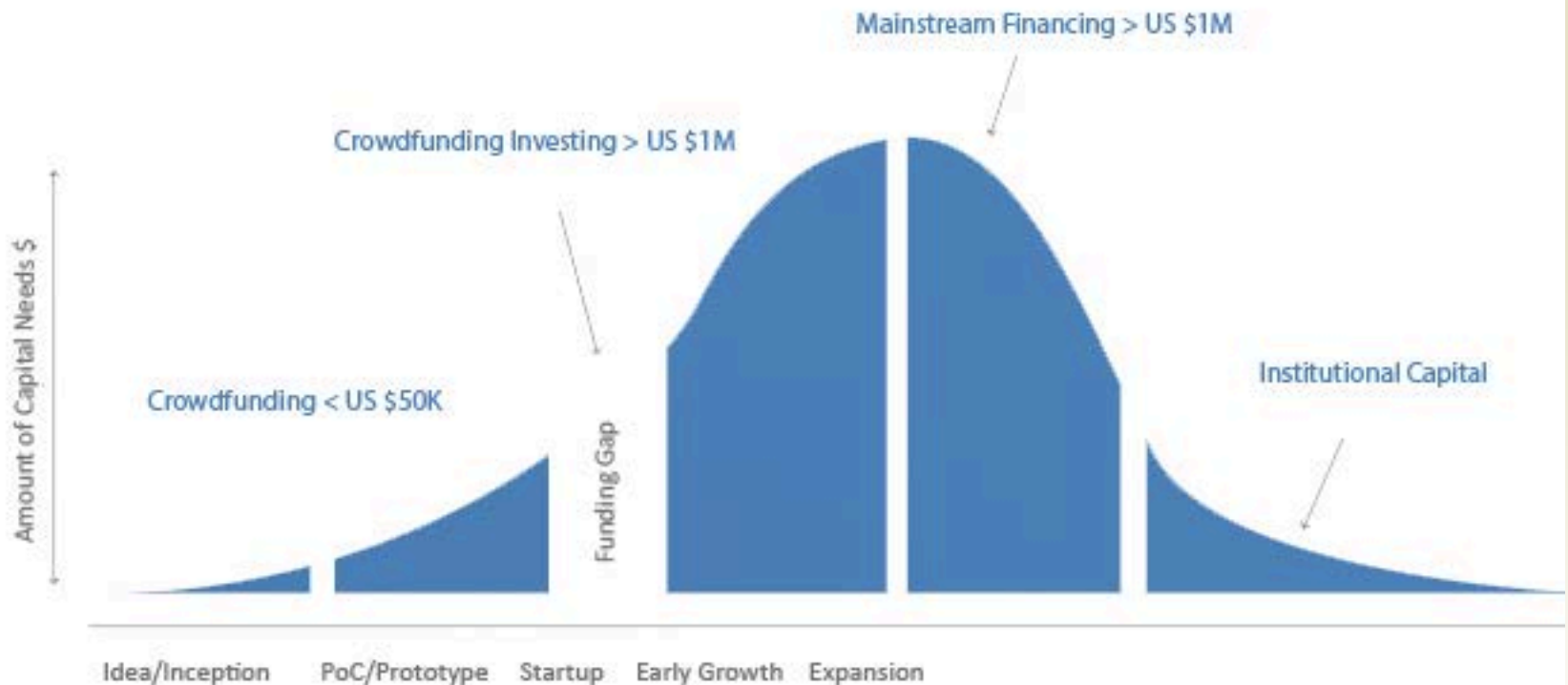
Half equity crowdfund platforms in US⁸



Equity crowdfunding projected to raise \$6.3B by 2018⁹

Equity crowdfunding fills key gap

Where Crowdfunding Fits on the Funding Lifecycle ¹⁰



Angel investing and crowdfunding are growing—
venture capital is not ¹¹

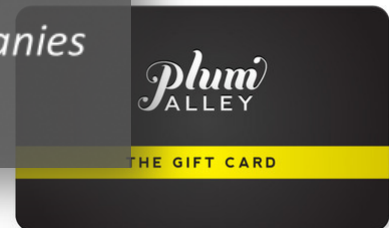
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Crowdfunding sites have removed some barriers for undercapitalized groups

- Indiegogo successful campaigns: 42% female-led ¹²
- Indiegogo women raise more than men: higher amounts, more contributions ¹³
- More women serial backers than men ¹⁴
- CircleUp notes 2/3 of their ventures are women-led



"The most fascinating companies want me on board."



3

Individual angel investing on crowdfunding sites is growing, but terms still settling

- Sites fractured, untested, founders can be inexperienced
- Active equity-based sites take 20% of carry—but should come down to 5% as competition increases
- Launch Angels: a VC firm that primarily uses crowdfunding sites to identify deals

\$7,000 ¹⁵
avg. equity
campaign size

\$1MM successful
campaigns to date ¹⁵

Entrepreneur's ¹⁶
investing trend
of 2014

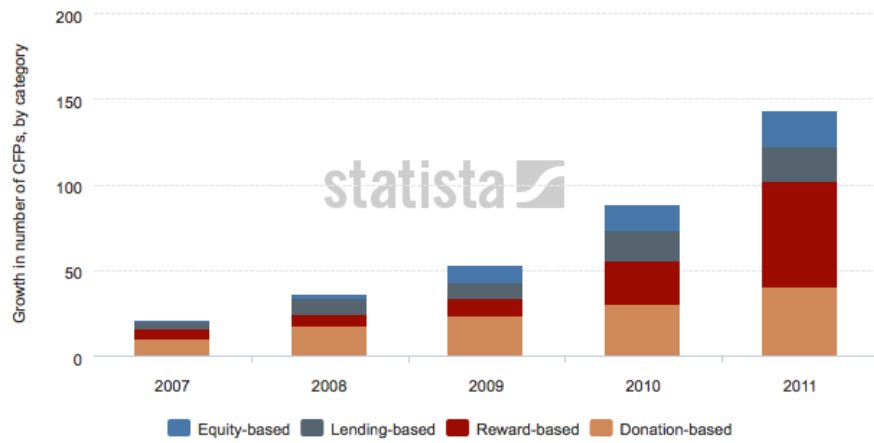
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Wealthy (accredited) investors allowed to invest under JOBS Act

- Equity crowdfunding limited to high income or net worth
- Changes limited to marketing and verification, so far
- Opens up access: tale of two sisters
- New accreditation verification businesses springing up

Equity fastest growing type of crowdfunding

Growth in the number of crowdfunding platforms, by category between 2007 and 2011 ¹⁷



Worldwide; Massolution; 2007 to 2011

Source: Crowdsourcing.org

5 The ecosystem is still settling

- Target is more moderate investment—limitations may be about 5% of wealth or income
- Holdup is ensuring investors protected and monitored



The screenshot shows the SEC website's newsroom page. The header includes the SEC logo, the text "U.S. Securities and Exchange Commission", and a search bar for SEC documents. A navigation menu lists categories like ABOUT, DIVISIONS, ENFORCEMENT, REGULATION, EDUCATION, FILINGS, and NEWS. The main content area features a "PRESS RELEASE" section with the title "SEC Issues Proposal on Crowdfunding". Below the title is a social media sharing bar with 18 shares. The release is dated "FOR IMMEDIATE RELEASE 2013-227" and dated "Washington D.C., Oct. 23, 2013". The text states that the SEC voted unanimously to propose rules under the JOBS Act to permit companies to offer and sell securities through crowdfunding. A "Related Materials" section on the right lists "SEC rule proposal" and "Submit public comment". A sidebar on the left contains a "Newsroom" menu with options like Press Releases, Public Statements, Speeches, Testimony, Spotlight Topics, Media Kit, and Events.

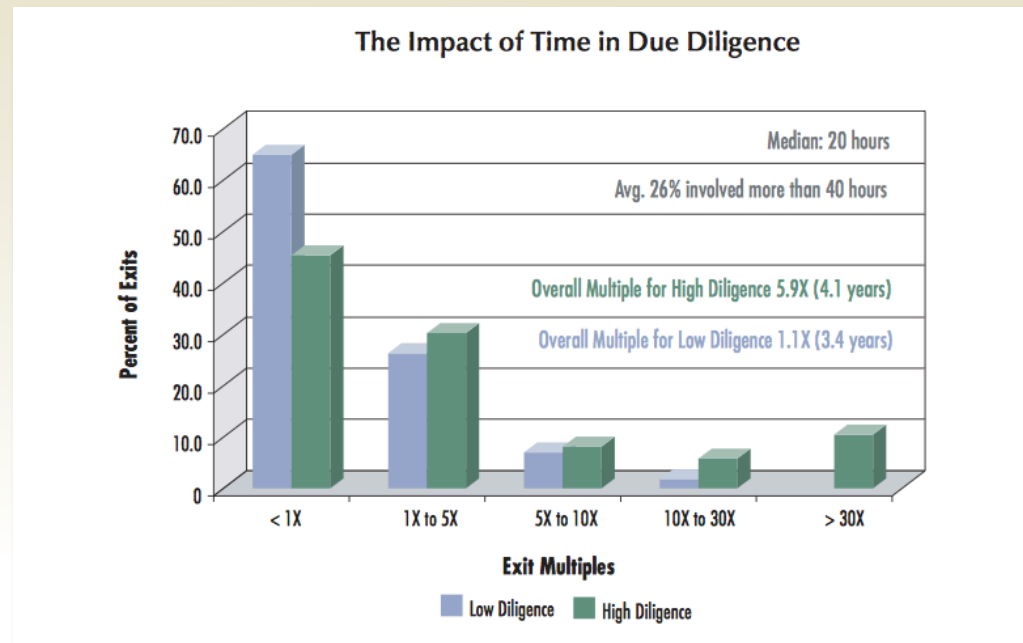
Need for intermediary on investor side is apparent

Entrepreneurs Provide	Platforms Provide	LaunchAngels	Investors Provide
<ul style="list-style-type: none">• Ideas• Track records• Company info	<ul style="list-style-type: none">• Access• Promotion• Focus 	 <ul style="list-style-type: none">• Deal vetting expertise• Deal tracking• Accreditation help• Paperwork assistance• Tax reporting	<ul style="list-style-type: none">• Money• Support• Buzz 

Particularly acute is need for good due diligence ¹⁸

- <20 hours = 1.1X avg. return
- 20+ hours = 5.9X avg. return
- 60+ hours = 7.1X return

Angels say
their median
is 20 hours



Launch Angels can help accredited investors understand and invest in equity crowdfunding

- We do the due diligence, provide access, handle paperwork
- Greater portfolio diversity than most individual angels
- More transparency post-investment
- Modest fees
- Variety of funds:
 - Early Traction
 - Women-Led
 - Bespoke

Launch Angels

Home Launch Angels + Team Companies Investor Inquiry Contact Us

The Easiest Way To Build a Venture Portfolio.

More investors now have access to early-stage venture deals due to equity crowdfunding growth and recent legislation. But who has time to scour all the deals to find the best?

Contact Us To Learn More

Why Equity Crowdfunding?

- Equity crowdfunding is attracting hot deals
- Top institutions invest in venture deals
- Lower minimums than in VC deals

Launch Angels Benefits

- Best venture deals selected for you
- Expert selection and deal diversity
- Low fees, one-time sign-up

How It Works

- Set your investment budget: \$50k-\$250k
- Your money is pooled with 10-20 investors
- We do a deal a month; 10 deals total



The Easiest Way to a Venture Portfolio

Shereen Shermak

Phone: 917-592-3729

Email: shereens@launch-angels.com

www.launch-angels.com

Twitter: [@Launch_Angels](https://twitter.com/Launch_Angels)

Ted Acworth

Founder and CEO

Artaic Innovative Design

Boston Redevelopment Authority
Business Development Division

THANK YOU

Questions:
Richard Pellagrini
rich.pellagrini@boston.gov
617-918-4375

