



Accelerate Your Business

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THE FIVE ESSENTIAL NEW RULES TO
ACQUIRE START-UP CAPITAL IN TODAY'S
ECONOMY

TODAY'S CONVERSATION

- > Current state of start-up funding
- > Bank/SBA lending
- > Venture capitalists
- > Angel investors
- > The five new essential rules

SBA LENDING

Lending standards remain tight despite a massive infusion of capital from the government. Banks unwillingness to lend is weighing down the economy

SBA LENDING

Businesses access to capital remains impaired. The forecast calls for investment to decline into 2010 but deeper business pessimism could extend the contraction

Source: Moody's June 2009

SBA LENDING

The US Small Business Administration approved 11,580 loans in Q2 2009 – a 30% reduction from Q2 2008 and a 55% decrease Q2 2007

Source: US Small Business Administration July 2009

ANGEL INVESTMENT

Angel group leaders report that average investment activity per group declined by 9% from 2007 to 2008

Source: Angel Capital Association May 2009

ANGEL INVESTMENT

As the recession lengthens a higher percentage of angel groups surveyed forecast decreases in investment activity this year

Source: Angel Capital Association May 2009

ANGEL INVESTMENT

The average number of investments per angel group in 2008 was 6.3 - equating to a 14% decrease from 2007

Source: Angel Capital Association May 2009

ANGEL INVESTMENT

Total funding per angel group in 2008 averaged \$1.77 million – representing a 9% decrease from 2007

Source: Angel Capital Association May 2009

VENTURE CAPITAL

The amount invested by venture capitalists in Q1 2009 was \$3 billion in 549 start-ups – the lowest rate of funding since 1997

Source: National Venture Capital Association August 2009

VENTURE CAPITAL

From Q4 2008 to Q1 2009 there was a
47% decline in venture capital investment

Source: National Venture Capital Association August 2009

VENTURE CAPITAL

A survey by the National Venture Capital Association shows that 96% of VCs think it will be harder for companies to get funding through the rest of 2009

Source: CNN/Money July 2009

VENTURE CAPITAL

In a recent survey 72% of venture capitalists think that the IPO and M&A markets will not open up until 2010 and beyond

Source: National Venture Capital Association August 2009

WHY THE DECLINE IN FUNDING?

Banks > losses, risk, economy

Angels > loss of wealth, illiquidity

Venture Capitalists > portfolio, illiquidity

LIQUIDITY EVENTS

The cash generated by M&A and IPOs declined substantially in 2008 as it became harder to find buyers of portfolio businesses or take them public

Source: VentureSource February 2009

LIQUIDITY EVENTS

The number of merger and acquisition events by venture capital-backed companies fell 29% in 2008

Source: VentureSource February 2009

LIQUIDITY EVENTS

Merger and acquisition deal volume plummeted by 54% in 2008 with only seven IPOs completed compared to 27 in 2007

SOME BRIGHT SPOTS

Over 30% of angel groups foresee increasing both the number and dollar amount of their investments this year

Source: Angel Capital Association June 2009

SOME BRIGHT SPOTS

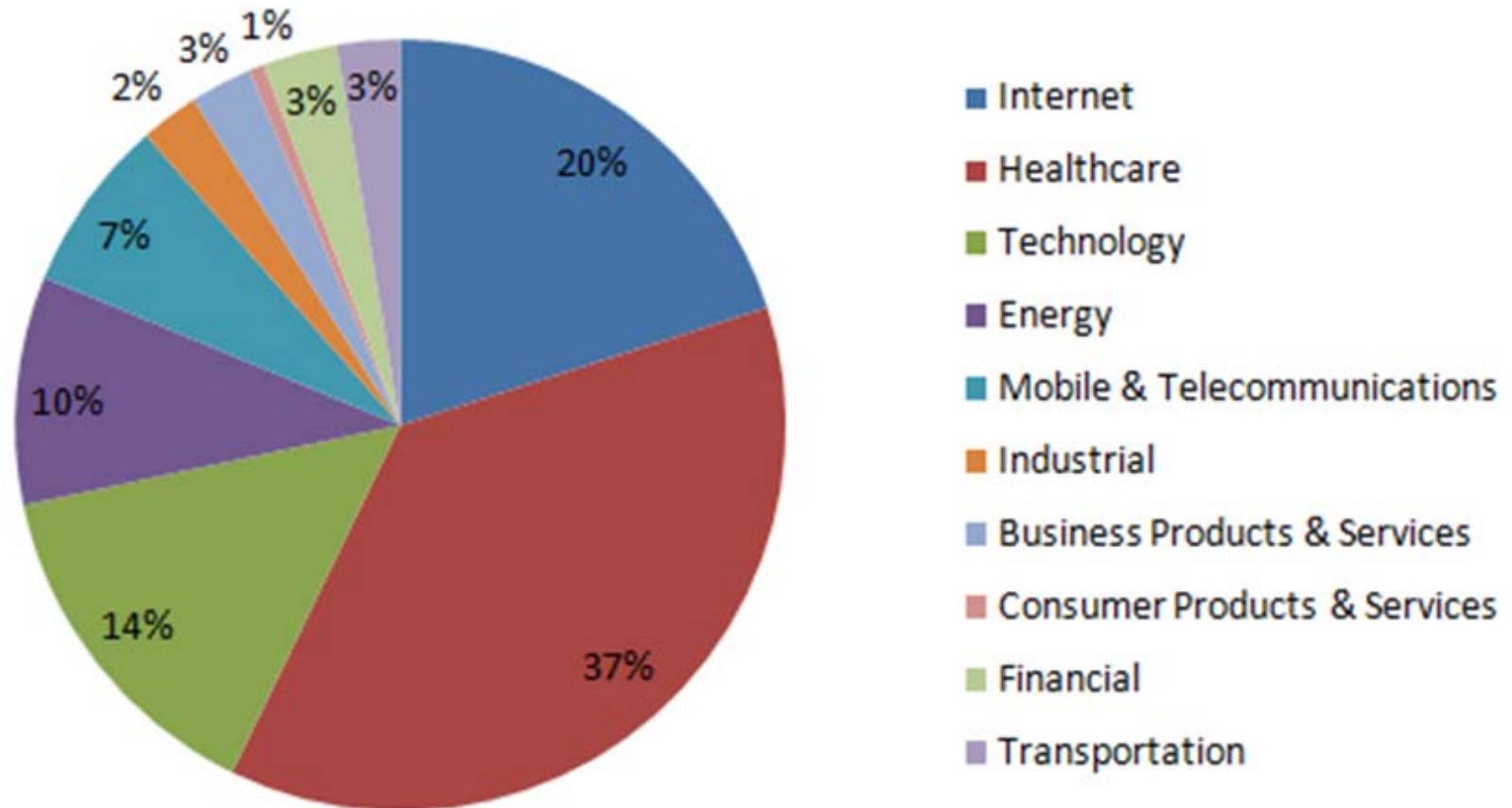
Nearly a quarter of angel groups indicate that the decline in company valuations means they will be aggressively seeking new deals

Source: PricewaterhouseCoopers (PwC) July 2009

SOME BRIGHT SPOTS

Investing by VCs skyrocketed 67% in Q2 2009 with \$1.5 billion invested in 221 deals compared to Q1 2009 when only \$885 million was invested

Sector Distribution, \$ Invested (Q2 09)



KEY FUNDING QUESTIONS

- > Do I really need funding?
- > Debt or equity?
- > How much do I need?
- > Am I willing to give up a percentage?
- > Am I ready to be held accountable?

BANK/SBA FUNDING

- > Hyper-risk averse
- > Reeling from losses
- > Economic uncertainty
- > Sources of repayment
- > Personal guarantees

EQUITY FUNDING HIERARCHY

Founders > \$1 to \$100K

Friends and Family > \$100K - \$250K

Accredited Angels/Groups > \$250K - \$1M

Early-stage VCs > \$1M - \$5M

Traditional VCs > \$5M - \$20M

WHAT IS A VENTURE CAPITALIST?

- > Professional money manager
- > Third-party investors
- > Top pedigrees
- > Small teams
- > Deep industry-specific knowledge

A VC FUNDED COMPANY

- > Novel technology
- > Generate high returns
- > M&A or IPO qualified
- > Rapid growth potential
- > Impressive management team

AT WHAT STAGE DOES A VC INVEST?

According to the National Venture Capital Association, during the past 10 years, VCs invested less than 2% of total dollars in seed-stage companies

HOW MUCH DO VCS INVEST?

The National Venture Capital Association states that the average, venture-led, early-stage deal in Q2 2009 was \$5.6 million

WHAT IS A VCs ROLE?

- > Managerial expertise
- > Follow-on capital
- > Industry contacts
- > Financial accountability
- > Path to liquidity

WHAT DOES A VC WANT?

- > Maximum financial gain
- > Significant control
- > Minimum 10X return on investment
- > Maximum reward – minimum risk
- > Above market returns for investors

ANGEL INVESTORS

> Friends

> Family

> Professional network

> Accredited individual angel investor

> Angel investor groups

WHAT IS AN ACCREDITED ANGEL?

The Securities and Exchange Commission defines an accredited angel as a person with a net worth exceeding \$1 million, individual salary of \$200k or household income of \$300k

AN ANGEL FUNDED COMPANY

- > Novel technology
- > Generate high returns
- > M&A or IPO qualified
- > Rapid growth potential
- > Impressive management team

WHAT STAGE DOES AN ANGEL INVEST?

According to the Angel Capital Association, the median revenue at time of angel investment was \$125k and 45% of funded companies had zero revenues

HOW MUCH DO ANGELS INVEST?

The Angel Capital Association states that the average, angel-led, early-stage deal in 2008 was \$450k

WHAT IS AN ANGELS ROLE?

- > Seasoned advice
- > Follow-on capital
- > Industry contacts
- > Financial accountability
- > Support spirit of entrepreneurship

WHAT DOES AN ANGEL WANT?

- > Get back in the game
- > Contribute to the team
- > Help affinity become market reality
- > Potential 10X return within 5-7 years
- > Above market returns for their portfolio

IMPORTANCE OF ANGEL INVESTMENT

According to the Kauffman Foundation,
angel investors funded 57,000 companies
in 2007 for a total dollar volume of \$26
billion – VCs funded 3,918 companies for
\$30 billion

ANGEL INVESTMENT FACTS

Fifty-two percent of all exits returned less capital than the angel had invested in the venture

Source: Angel Capital Association

ANGEL INVESTMENT FACTS

Seven percent of angel exits achieved
returns of 10X the money invested
accounting for 75% of total investment
returns

Source: Angel Capital Association

ANGEL INVESTMENT FACTS

The overall returns on group-affiliated angel investments average a 2.6X return on investment after an average 3.5 year holding period

Source: Angel Capital Association

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RULE # 1 – GREAT LEADERSHIP

- > Enthusiasm of entrepreneur
- > Trustworthiness of entrepreneur
- > Expertise of entrepreneur

RULE #2 – TARGET PRECISELY

- > Company stage
- > Geographic location
- > Industry
- > Niche
- > Funding amount

Rule #3 – GET TO BREAK EVEN FAST

Unproven business models, high burn rates, big capital bets, long breakeven timelines are history

RULE #4 – CREATE FUNDABLE MODEL

- > Superior growth potential
- > Significant barriers to entry
- > Large and growing market
- > Multi-million dollar revenue stream
- > Clear path to liquidity

Rule #5 – GREAT BUSINESS PLAN

Accel Venture Capital states, “The business plan you present to a VC firm is the single most important document in the early years of your firm.”



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