

## TECH COAST ANGELS BACKGROUND

The Tech Coast Angels (TCA) was started in late 1997 in Orange County California by Luis Villalobos, with the goal of helping capital formation in the region.

**One of the largest groups US** – in its first 76 months, TCA members invested \$49 million of personal capital in 74 Southern California ventures, coupled with \$499 million from co-investors. TCA members provide seed and early-stage capital in the range of \$200K to \$1 million in Series A rounds; and sometimes participate in follow-on rounds.

**More than 200 individuals** – in Los Angeles, Orange County and San Diego, mentor and coach the entrepreneurs they fund, serve on their boards, provide them contacts and assist with team building, strategic planning and subsequent fundraising.

**TCA members are individuals** – who have been founders, CEO's, venture capitalists and business leaders and who have funded and built world-class companies. More than twenty of the leading VC firms with offices in Southern California are VC Affiliate members of Tech Coast Angels.

**Mission** – to provide opportunities where members can obtain outstanding financial returns by investing in early-stage technology and life sciences companies in Southern California and accelerating them to market leadership.

**Tech Coast Angels is not a fund** – and does not invest as a group. Members collaborate on due diligence, but make individual investment decisions under common valuation and terms. Funding includes a closing with VC-like transaction documents.

## SUCCESS KEYS

The success of TCA derives from its operating model, investment process, and the quality of members that comprise the organization.

**Operating model** – TCA was founded on a simple model: present at monthly dinner meetings one or two ventures looking for financing, and fund at least half of the ones that present. Knowing their odds are better than 50% should attract the best venture opportunities in the region, which in turn attract the leading angels interested in early-stage, which should lead to meeting the funding goal. The results have worked as anticipated – with 74 ventures funded in 76 months; from an average of 1 or 2 companies making dinner presentations each month.

**Active members** – strong participation by members (attendance at dinner meetings and screening sessions, participation in due diligence and plan revision, serving on network and TCA governing bodies) have been essential to TCA success.

**Extensive effort in the funding process** – members may collectively devote 300-600 hours, to a given venture, before funding.

**Due diligence and plan revision by prospective investors** – members who are not active in working on a given deal, are more comfortable investing, knowing that those who led the deal and performed due diligence and plan revision are investing.

**TCA Website and monthly newsletter** – members make extensive use of the private side of the website; and TCA has received very favorable comments about the public

side from entrepreneurs from across the country. A monthly newsletter keeps members current on its portfolio and deal flow, and events of interest.

**Regularly scheduled meetings** – dinners at the Orange County network are on the second Wednesday of each month; the San Diego dinners the night before and for Los Angeles the night after. Screenings in OC are typically the first and third Wednesdays; LA the day after and SD two days after. A regular schedule allows members to plan in advance and increases attendance.

**Annual dues that includes dinner fees** – prepaid dinner fees have two byproducts: encouraging members to attend (“I already paid”) and having the members who miss some dinner meetings subsidize other organization costs. Moreover, is it unwieldy to collect dinner fees at each meeting.

**NO charges to entrepreneurs** – TCA has as a core policy that it does not charge entrepreneurs, not for applying, nor for presenting, nor even dinner fees when they present at a dinner meeting (whereas other TCA guests are charged dinner fees).

## FUNDING PROCESS

At the core of TCA is its formal funding process, which has three parts: pre-funding, funding, post-funding. All are important. The yield rate – number of companies funded relative to those that approach TCA – is 1% to 2%. The goal of the TCA process is to quickly cull the candidates so that the bulk of member time focuses on those likely to get funded; TCA seeks to bring value to ventures at all stages of the process.

### PRE-FUNDING

**Exploratory contact** – entrepreneurs or referral sources often inquire if a particular venture is a good candidate for funding by TCA members; many times the answer is no. The venture may be out of the geographic area, be capital intensive, lack the potential for rapid growth, or possess other characteristics that would make it unattractive to TCA members. Often the process ends, before a formal application have been submitted.

**On-line application** – any entrepreneur may, and all who want to be considered for funding must, complete an on-line application on the TCA website. TCA has admin people who can answer questions and even help entrepreneurs to complete the application (though this was not the case in the first couple of years). The 2-page application provides a terse summary of the core data that TCA members like to know about a venture: contact info; product or service; business model; current status; management, directors and headcount; key relationships; summary financials, historical and projected; cap table; use of funds; marketing channels; patents; competition; and comparables. A few applications get culled at this point as being outside of TCA member’s funding parameters. While we encourage entrepreneurs to obtain a referral to TCA member from a ‘trusted source’, TCA considers all applicants, and members have funded many ventures that applied on our website without a referral.

**Pre-screen** – within 1-3 weeks of completing the application, entrepreneurs attend a pre-screen session with 4-6 members. About 40% of the applicants survive this stage.

Those that don't may be too early (and may be invited into TCA's mentoring process), or are deemed to be outside of TCA parameters.

**Screening session** – the entrepreneurs make a 15-minute PPT presentation, followed by another 15 minutes of Q&A. There will be 20-30 members at screening sessions, which are regularly scheduled twice a month (in each network). Usually 4 ventures are screened; followed by members-only lunch, where the presenting ventures are discussed and sign-up sheets circulated. To proceed to the next step, a venture must attract sufficient member interest, and ideally a prospective 'deal lead'. A feedback sheet is given to each venture that presents.

**Due diligence** – every aspect of the plan and the team is checked, with emphasis on the key items for that opportunity; eg strategy, market, actual or potential customers, major accounts, patents and IP, contracts, etc.

**Plan revision** – this may be the most intense part of the pre-funding process (and often it is considered part of 'due diligence'). The philosophy at TCA is that we rarely expect to find great deals, rather we must transform promising opportunities into great deals. We may help reshape the strategic plan, refine or narrow the product offering, bring focus to the sales effort, expand the management team, stage the projected funding, redo the cash plan, etc. A few plans are crisp and need little refinement; but most need major revision.

## FUNDING

**Term sheet and valuation** – this is an ongoing effort, beginning with the pre-screen, where as unrealistic valuation (with no sense of flexibility) would be enough to disqualify. As the opportunity looks stronger or weaker, the perceived valuation may change accordingly, until the final valuation is negotiated at or near the end of the pre-funding process. Some of the other key terms: preferences (in liquidation or acquisition) and whether preferences are participating (ie Preferred shares get preference amount and then are treated 'as if' converted to Common for additional distribution); amount of entrepreneurs shares to be put into vesting escrow; board seats (though TCA doesn't take control); protective provisions (eg what requires board votes, or investor votes).

**Dinner presentations** – given completed valuation and terms, the deal lead introduces the company at the dinner meetings (typically held monthly, on successive nights, at each of the 3 networks), the TCA deal lead introduces the company indicating what he or she found outstanding, and then the company makes a 15-20 minute PPT funding presentation with another 10-15 minutes for Q&A. Post-dinner meetings are scheduled for interested members who had not participated in the pre-funding process.

**Deal docs** – once the term sheet is fully negotiated and due diligence and plan revision effectively complete, and given sufficient member interest, an attorney is engaged to represent the TCA members who are investing, and formal closing documents are produced. TCA has from the beginning, worked out a reduced rate and not-to-exceed fee, which the attorney includes in the closing docs; the attorneys are paid out of the closing, and all fees are waived if the deal fails to close. TCA has worked under this model, with most of the large firms in the region, and some smaller firms.

**Closing** – there is a VC-like formal signing of documents, after all checks have been collected (and sometimes only after checks have cleared).

## **POST-FUNDING**

As much success can be attributed to post-funding effort, than to finding promising opportunities and shaping them into great deals.

**Monitoring** – a key part of TCA members' role, especially when the management team may not have extensive operating experience, is to monitor progress, at least on a monthly basis; with emphasis on the net cash being consumed and the sales pipeline.

**Mentoring** – each venture offers a unique situation, and some entrepreneurs may need more mentoring than others; and TCA members are hands-on investors.

**Facilitating resources** – the entire TCA membership is available (through the TCA deal lead or board member) to help with recruiting talent, getting high-level introductions into key accounts or potential strategic relationships, providing domain expertise or operating advice, etc. The private side of the TCA website is extremely helpful, as the 200+ member database can be searched against domain expertise, operating experience, functional capabilities, and even for specific companies in member's past.

**Harvesting** – this is another ongoing process, beginning with asking the entrepreneurs to identify the more promising potential acquirers, at the screening session (if they have not already done that before). TCA members can help with contacts into the potential acquirers, or facilitating relationships with investment bankers who can help in the acquisition process. An equally important part of the harvesting process, is when things don't go according to plan, to help sell off the company or to shut it down before all the invested capital is consumed, or to sell off its technology to retain some upside. TCA worked with the entrepreneurs to shut down 7 (of the first 56) investments and recovered 50% of the capital invested – which has greatly helped to provide positive returns to the harvested portion of the portfolio.

## **MEMBERSHIP**

**Qualifications and requirements** – TCA requires individual accredited investors; who invest personal capital and understand that angel investments are high-risk and illiquid. Members are expected to have experience investing in early-stage ventures; operating experience (over 60% of members have CEO experience). Members commit to invest \$50,000 per year and to be active in TCA (many members are full-time investors).

**Recruitment** – new members come from three sources: existing members inviting others; referrals from professional firms, VCs, community organizations; and individuals hearing about TCA from publicity or from a function where a member spoke.

**Annual renewal (at year-end)** – membership is for one year, and may be terminated by a member's network or by the BoG, for failure to comply with the Rules of Membership and Conduct. Renewal is available annually, for members who meet the investment threshold and who are deemed to be sufficiently active. A network's executive committee may waive the investment requirement.

**Member training and mentoring** – TCA conducts various workshops (eg valuation, leading a deal, due diligence, etc) for its members. Workshops are led by the more experienced TCA members, or professionals (eg transaction or IP attorneys, partners in tax, audit and retained search firms), or non-profits (eg the Kauffman workshop for angels). TCA also holds other educational events; eg ‘lessons learned’ in past investments, and periodic portfolio reviews. Member are also mentored in the investing process, eg if they have not led a deal before.

**Enlisting members into TCA leadership** – each network seeks to involve new members in the network’s executive committee or to participate in subcommittees, with a natural progression to the network leadership and then participation and leadership in the Board of Governors.

**Rules of Membership and Conduct** – TCA has a formal 3-page set of rules that applicants must execute as part of becoming members, and must execute again each year when they renew their membership.

## WEBSITE

TCA has a fairly robust website with both a public side [www.TechCoastAngels.com](http://www.TechCoastAngels.com) and an extensive member side. On the private side, the core features are calendar (screenings, exec committee, BoG, and other events), deal log (with deals that were funded and all that applied to TCA), searchable member database (domain expertise, operating experience, bio), due diligence chat threads, data store for venture submittals (PPTs, Excel spreadsheets, Word and PDF files), and file cabinet (eg 10 different documents on conducting due diligence). The website is a key part of TCA processes and enhances TCA’s visibility.

## GOVERNANCE

Each network (currently three) has its local governance; and all networks operate under the oversight of the Board of Governors.

**Board of Governors (BoG)** – a 10-member body comprised of 3 network Presidents, 3 network Representatives, Chair, Vice Chair, most recent Former Chair, and the TCA Founder. The BoG oversees the operation of Tech Coast Angels, its networks, and the TCA website.

**Network governance** – each network has an executive committee – headed by a President – which develops and monitors the network’s budget, sets level of dues and is responsible for finances. Each network pays a per-head fee to the BoG to cover BoG expenses and overhead. VC Affiliates and sponsors participate across all networks, but tend to work more closely with the network that recruits them.

**Administrative staff** – TCA ran for its first two years completely with member labor. As it grew, TCA has added administrative staff for its membership database and controlling attendance at meetings, and for accounting and tax returns; and later to help in deal flow and screening administration.

## COMMUNITY SERVICE AND OUTREACH

TCA has excellent working relationships with various local business schools and universities, and community groups.

**Most screening sessions are held at local universities** – including Anderson (UCLA business school), Cal Tech, Marshall (USC business school), UCI (University of California, Irvine), UCSD (University of California, San Diego).

**Tech transfer** – TCA is active with the tech transfer departments of UCLA, CalTech, USC and is extending that program to some corporations, both as potential sources of deal flow, and to help explain the entrepreneurial and investing process to faculty, students and corporate executives.

**Mentoring process** – TCA has instituted a formal mentoring process. Individual members are encouraged to provide pro bono mentoring; but may work out equity (but not cash) consideration, if the mentoring becomes a long-term intensive effort.

**Special events** – TCA hosts various events, both to help educate entrepreneurs and to provide visibility to TCA. There is an annual Fast Pitch Competition to educate entrepreneurs in the art of the ‘elevator pitch’ and special events, like a Technology Showcase that TCA hosted for the Department of Defense. TCA members are frequent panelists and speakers at entrepreneurial events and investor conferences.