The Rising Tide Program

Conduct Due Diligence Like the Pros

February 23, 2016
▪ 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

Golden Seeds
Desert Angels
Houston Angel Network

Tech Coast Angels
Nashville Capital Network
Alliance of Angels
Launchpad Venture Group

Ohio Tech Angels
TiE Angels
New Dominion Angels

Sierra Angels
Common Angels
Uncommon Expertise

Life Science Angels
Sand Hill Angels

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

- Management Team
- Product and Technology
- Competitive Analysis
- Market Opportunity
- Go to Market Strategies
- Financial Projections

Chair
Skeptic
Market Knowledge
Tech Knowledge
Financial Analyst
Background Checks

The Rising Tide Program
Angel Group Due Diligence Process

1. Management Presentation to Angel Group
2. Create Due Diligence Plan
3. Site Visit (if applicable)
4. Reference Checks
5. Product and Market Analysis
6. Financial Analysis
7. Create written summary and document list
8. Report to the Group
9. Negotiate a Deal
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

The Rising Tide Program
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

<table>
<thead>
<tr>
<th>Proof of Concept Stage</th>
<th>Getting First Customers</th>
<th>Scaling up</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Development stage</td>
<td>▪ Sales cycle</td>
<td>▪ Repeat customers</td>
</tr>
<tr>
<td>▪ Complexity, risks</td>
<td>▪ Selling message</td>
<td>▪ Margins</td>
</tr>
<tr>
<td>▪ Market feedback</td>
<td>▪ Channel partners/Marketing</td>
<td>▪ Levers toward profitability</td>
</tr>
<tr>
<td>▪ Entrepreneur’s history</td>
<td>▪ Other investors</td>
<td>▪ Board/Advisors</td>
</tr>
<tr>
<td></td>
<td>▪ Management team</td>
<td>▪ Other investors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Time frame to exit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Milestones</td>
</tr>
</tbody>
</table>

The Rising Tide Program
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/programscalender.aspx

Angels Capital Association Summit
http://www.2016acasummit.com/
Speakers Contact Information

Barbara Clarke – Barbara@astiaangels.org
Astia Angels – http://astia.org/

Wendee Wolfson - wendee.wolfson@brickworksadvisors.com
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

Marianne Hudson
Executive Director
Angel Capital Association

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

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/](http://www.angelcapitalassociation.org/events/)