



CONNECT Funding Prep 101

Medical Devices

CONNECT Funding Prep 101

Objective

- Provide basic information, vocabulary, and realistic expectations on valuation to Springboard clients prior to graduation

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- Development Stages
- Funding and Valuation at various stages
- Funding Vehicles
- Funding Phases and Capitalization Table

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STAGES OF MEDICAL DEVICE DEVELOPMENT

<u>Technology</u>	<u>Progress toward Market</u>
Concept	Basic market idea
Develop concept	Basic market plan
Proof of concept	Regulatory plan
Prototype, patent	Complete bus./mkt model
Efficacy trial results	Completed 510(k) or PMA submission.

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MEDICAL DEVICES

<u>Staff</u>	<u>Stages Completed</u>		<u>Investors</u>	<u>Pre-money Valuation</u>	<u>Funding Received</u>
	<u>Technology</u>	<u>Progress toward Market</u>			
Founder (unpaid)	Concept	Basic market idea	Friends, Family,	\$0.5-1M	\$50-250K
Founder (unpaid)	Develop concept	Basic market plan	Grants	\$0.5-1M	\$100 - 350K
Founder (unpaid)	Proof of concept	Regulatory plan	Angel Round 1	\$1.0-1.7M	\$500-750K
Founder + Bus. exec. (stock compensation)	Prototype, patent	Complete bus./mkt model	Angel Round 2	\$1.5M-3.2M	\$0.5-1.5M
Experienced CEO, CTO, Mkting exec (modest salaries)	Efficacy trial results	Completed 510(k) or PMA submission.	Venture A Round	\$6M +	\$3.5M +

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Selected Valuation Factors

Environment:

Funding climate for industry sector
Funding climate for companies at this development stage

Valuations of other companies with similar:

Attractiveness of concept
Management track record
Target market size, growth, reachability
Sustainable competitive advantage
Profit potential
Success record so far
Ease, profitability of exit

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PRE- AND POST-MONEY VALUATIONS—DERIVING A GENERAL RANGE

Use investor ownership % and investment amount you need.

Most new vc's/angels expect 25-40% ownership of post-money valuation.

Post-money valuation = pre-money valuation + new investment

\$1.5M post-money valuation = Pre-money of \$1M + \$500K investment

Pre-money valuation = $\frac{\text{new investment}}{\text{post ownership \%}}$ - new investment

\$1M pre-money = $\frac{\$500K}{33\%}$ - \$500K

Range of pre-money, given \$500K investment needed:

25% ownership = \$1.5M pre-money

40% ownership = \$ 750K pre-money

Note:

Investor starts by determining pre-money. It's rarely negotiable.



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FUNDING SOURCES AND THEIR CHARACTERISTICS

<u>Sources</u>	<u>Approachability</u>	<u>Approx. Funding</u>	<u>Pitch-to-close</u>
Friends and family	easy	\$50K-250K	1-2 months
Grants	moderate	\$100-350K	2-4 months
Individual angels	easy/moderate	\$50K-250K	2-months
Angel funds	moderate	\$500K-1.5M	3-6 months
Venture capital	thru 3rd parties	\$3M (+)	6-9 months (+)

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FUNDING SOURCES AND THEIR CHARACTERISTICS

	Interest in control and/or <u>Board seat</u>	Advice, <u>Connections</u>	Willingness to let founder <u>cash out partly</u>
Friends and family	low	few	some
Individual angels	low	few/moderate	none
Angel funds	moderate	moderate	none
Venture capital	great	varied	none

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FUNDING VEHICLES

Common Stock: Standard share. Issued to founders, friends, family. Basic unit of valuation.

Preferred Stock: Priority over common for anti-dilution, dividends, proceeds from sale. Converts to common shares (called common equivalents) at negotiated conversion price. Required by institutional investors (angels and venture capitalists) to compensate for their risk.

Convertible debt: 3-5 year term. Interest and balloon payment at end. Converts at lender's discretion into preferred shares of next equity round.

Warrants: Certificates allow holder to buy common at specified (low) price. Sweetener with convertible debt and services by outside parties (equipment lessors).

Bridge loan: Money from investors, usually convertible debt, for a fast cash infusion, usually before the first venture round. Often done without a pre-money valuation.

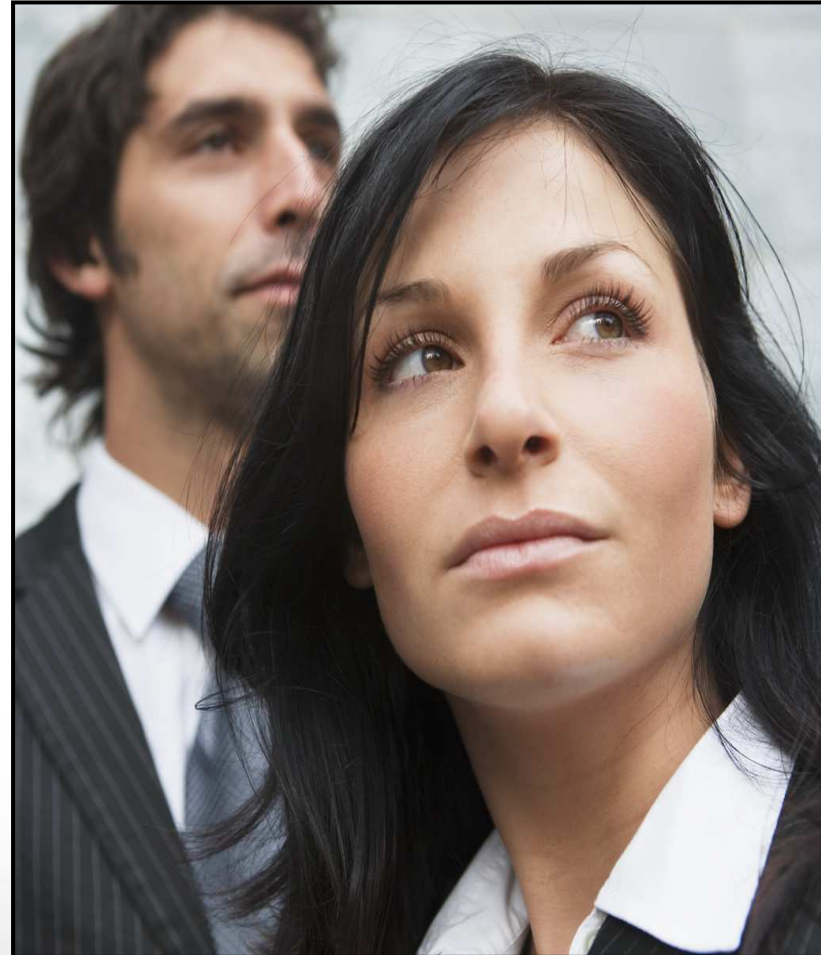


Funding Device Startups

Sample Funding
Rounds

Start: Your Own Money

- Founders Capitalize
- \$1,000
- Common Stock
- Incorporate



Friends & Family, too

- \$150,000
- Proceed at Your Own Risk



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AFTER THE CONCEPT AND BASIC MARKETING IDEA
WE NEED MONEY.....

<u>Investor</u>	<u>Founders Common</u>	<u>Friends, & Family Common</u>	<u>Total Common</u>	<u>Ownership (Dilution)</u>
A. Founders	1,000,000		1,000,000	77%
A. Friends, Family		300,000	300,000	23%
Total	1,000,000	300,000	1,300,000	100%

Valuation Information:

B. Pre-money valuation	0	\$ 500,000	<u>Total Raised</u>
C. Pre-money shares	0	1,000,000	
D. Price per share	\$0.001	\$ 0.50	
E. Amount raised	\$ 1,000	\$ 150,000	\$ 150,000
F. Post-money shares	1,000,000	1,300,000	
G. Post-money valuation	\$ 1,000	\$ 650,000	

Calculations:

Negotiated
= Prior F
= B/C
Negotiated
= C+A
= DxF

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WHILE DEVELOPING THE CONCEPT AND BASIC MARKETING PLAN
WE NEED MONEY.....

<u>Investor</u>	<u>Founders Common</u>	<u>Friends, & Family Common</u>	<u>Total Common</u>	<u>Ownership (Dilution)</u>
Founders	1,000,000		1,000,000	77%
Friends, Family		300,000	300,000	23%
Total	1,000,000	300,000	1,300,000	100%

Valuation Information:

Pre-money valuation	0	\$ 500,000	Grant:	N/A	<u>Total Raised</u>
Pre-money shares	0	1,000,000		N/A	
Price per share	0.001	\$ 0.50		N/A	
Amount raised	\$ 1,000	\$ 150,000	\$ 250,000		\$ 400,000
Post-money shares	1,000,000	1,300,000	1,300,000		
Post-money valuation	\$ 1,000	\$ 650,000	\$ 650,000		



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AFTER THE PROOF OF CONCEPT AND REGULATORY PLAN
WE NEED MONEY.....

<u>Investor</u>	<u>Founders Common</u>	<u>Friends, & Family Common</u>	<u>Angel 1 Preferred</u>	<u>Com Equiv.</u>	<u>Total Com Equiv.</u>	<u>Ownership (Dilution)</u>
Founders	1,000,000				1,000,000	50%
Friends, Family		300,000			300,000	15%
Prairie Tech Angels			700,000	700,000	700,000	35%
Total	1,000,000	300,000	700,000	700,000	2,000,000	100%

Valuation Information:

Pre-money valuation	0	\$ 500,000	N/A		\$ 1,000,000	
Pre-money shares	0	1,000,000	N/A		1,300,000	
Price per share	0.001	\$ 0.50	N/A	\$ 0.77		<u>Total Raised</u>
Amount raised	\$ 1,000	\$ 150,000	\$ 250,000		\$ 538,462	\$ 938,462
Post-money shares	1,000,000	1,300,000	1,300,000		2,000,000	
Post-money valuation	\$ 1,000	\$ 650,000	\$ 650,000		\$ 1,538,462	



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**AFTER THE PROOF OF CONCEPT AND TECHNOLOGY PLAN
 WE NEED MONEY AND MUST TAKE A
 CUT IN VALUATION (DOWN ROUND)**

<u>Investor</u>	<u>Founders Common</u>	<u>Friends, & Family Common</u>	<u>Angel 1</u>		<u>Total Com Equiv.</u>	<u>Ownership (Dilution)</u>
			<u>Preferred</u>	<u>Com Equiv.</u>		
Founders	1,000,000				1,000,000	33%
Friends, Family		300,000			300,000	10%
Prairie Tech Angels			1,750,000	1,750,000	1,750,000	57%
Total	1,000,000	300,000	1,750,000	1,750,000	3,050,000	100%

Valuation Information:

Pre-money valuation

0 \$ 500,000

Pre-money shares

0 1,000,000

Price per share

0.001 \$ 0.50

Amount raised

\$ 1,000 \$ 150,000 \$ 250,000

Post-money shares

1,000,000 1,300,000 1,300,000

Post-money valuation

\$ 1,000 \$ 650,000 \$ 650,000

Grant:

N/A

N/A

N/A

\$ 250,000

1,300,000

\$ 650,000

\$ 400,000

1,300,000

\$ 0.31

\$ 538,462

3,050,000

\$ 938,462

Total Raised

\$ 938,462



2 Years: Angel Bridge Note

- \$1.3 million Bridge Note
- 50% Warrant Coverage



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AFTER THE PROTOTYPE, PATENT, AND BUSINESS MODEL,
WE NEED MONEY.....

<u>Investor</u>	<u>Angel 1</u>		<u>Total Com Equiv.</u>	<u>Ownership (Dilution)</u>
	<u>Preferred</u>	<u>Com Equiv.</u>		
Founders			1,000,000	50%
Friends, Family			300,000	15%
Prairie Tech Angels	700,000	700,000	700,000	35%
Total	700,000	700,000	2,000,000	100%

Valuation Information:

Pre-money valuation	\$	1,000,000
Pre-money shares		1,300,000
Price per share	\$	0.77
Amount raised	\$	538,462
Post-money shares		2,000,000
Post-money valuation	\$	1,538,462

Angel 2 Convert. Bridge

	None
	N/A
= next round's share price	<u>Total Raised</u>
\$	\$ 1,320,000 \$ 2,258,462
	N/A
	N/A
50% warrant coverage	



3 Years: Series A VC Round

- \$3.8 million new money
- Preferred Stock
- \$6 million Pre-\$ Value
- 41% of Company Sold



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AFTER THE EFFICACY TRIAL RESULTS AND FDA SUBMISSION
WE NEED MONEY.....

<u>Investor</u>	Angel 2 Bridge Loan As Converted		Venture Round A		Warrants	Before A Round: Option Pool	Total Com Equiv.	Ownership (Dilution)
	<u>Preferred</u>	<u>Com Equiv.</u>	<u>Preferred</u>	<u>Com Equiv.</u>				
Founders							1,000,000	15%
Friends, Family							300,000	5%
Prairie Tech Angels							700,000	11%
Prairie Tech Angels	852,459	852,459			426,230		1,278,689	19%
Selective Ventures			2,700,000	2,700,000			2,700,000	41%
Company employees						655,738	655,738	10%
Total	852,459	852,459	2,700,000	2,700,000	426,230	655,738	6,634,426	100%
Valuation Information:							Total Raised	
Pre-money valuation								
Pre-money shares		2,000,000						
Price per share	\$ 1.53		\$ 1.53					
Amount raised		\$ 1,300,000					\$ 6,355,962	
Post-money shares		3,278,689						
Post-money valuation								\$ 10,117,500



