



CONNECT Funding Prep 101

High Tech

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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
- Example Company History

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- Stages of High Tech Development

Technology

Concept

Prototype, patent

Proof of Concept

Volume Mfg.
\$500K

Market Traction

Basic market plan

Complete bus./mkt. model

Alpha/Beta site/launch

Initial Revenues >

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Comparative: High Tech Stage of Development, Estimated Valuation, and Funding

<u>Staff</u>	<u>Technology</u>	<u>Market Traction</u>	<u>Investor</u>	<u>Pre-Money Valuation</u>	<u>Funding</u>
Founder (unpaid)	Basic concept	Basic mkt. plan	Friends, family	\$300-600K	\$50-250K
Founder (unpaid)	Prototype, patent	Full bus. plan	Angel round 1	\$1-2M	\$250-500K
Founder, bus. CEO, modest salaries	Alpha/Beta site, or commercial	Proof of concept, some customers	Angel round 2	\$2-3M	\$500K- \$1.2M
Full C-team	Production released	Revenue Generating	Venture A round	\$5-15M	\$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
Individual angels	easy/moderate	50K-250K	2-months
Angel funds	moderate	500K-1.5M	3-4 months
Corporate	thru 3rd parties	2M (+)	9 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
Corporate	significant	many	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 Technology Startups

Sample Funding Rounds

Start: Your Own Money

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



Friends & Family, too

- \$230,000
- Proceed at Your Own Risk



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AFTER THE CONCEPT AND MARKETING PLAN
WE NEED MONEY.....

<u>Investor</u>	Round:		<u>Total Common</u>	<u>Ownership (Dilution)</u>
	<u>Founders Common</u>	<u>Friends, & Family Common</u>		
Founders	1,000,000		1,000,000	68%
A. Friends, Family		460,000	460,000	32%
Total	1,000,000	460,000	1,460,000	100%

Valuation Information:

B. Pre-money valuation	0	\$ 500,000	<u>Total</u>
C. Pre-money shares	0	1,000,000	
D. Price per share	0.001	\$ 0.50	
E. Amount raised	\$ 1,000	\$ 230,000	\$ 230,000
F. Post-money shares	1,000,000	1,460,000	
G. Post-money valuation	\$ 1,000	\$ 730,000	

<u>Calculations:</u>
Negotiated
= Prior post-money
= B / C
Negotiated
= C + A
= D x F

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

<u>Investor</u>	Round:				<u>Total Com Equiv.</u>	<u>Ownership (Dilution)</u>
	<u>Founders Common</u>	<u>Friends, & Family Common</u>	<u>Angel 1 Preferred</u>	<u>Com Equiv.</u>		
Founders	1,000,000				1,000,000	49%
Friends, Family		460,000			460,000	22%
Prairie Tech Angels			600,000	600,000	600,000	29%
Total	1,000,000	460,000	600,000	600,000	2,060,000	100%

Valuation Information:

Pre-money valuation	0	\$ 500,000		\$ 1,000,000	
Pre-money shares	0	1,000,000		1,460,000	
Price per share	\$0.001	\$ 0.50	\$ 0.68		<u>Total</u>
Amount raised	\$ 1,000	\$ 230,000		\$ 410,959	\$ 640,959
Post-money shares	1,000,000	1,460,000		2,060,000	
Post-money valuation	\$ 1,000	\$ 730,000		\$ 1,410,959	



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AFTER THE PROTOTYPE, PATENT AND BUSINESS MODEL,
WE NEED MONEY AND MUST TAKE A
CUT IN VALUATION (DOWN ROUND)

<u>Investor</u>	Round:		Angel 1		Total Com Equiv.	Ownership (Dilution)
	<u>Founders Common</u>	<u>Friends, & Family Common</u>	<u>Preferred</u>	<u>Com Equiv.</u>		
Founders	1,000,000				1,000,000	34%
Friends, Family		460,000			460,000	16%
Prairie Tech Angels			1,500,000	1,500,000	1,500,000	51%
Total	1,000,000	460,000	1,500,000	1,500,000	2,960,000	100%

Valuation Information:

Pre-money valuation	0	\$ 500,000		\$ 400,000	
Pre-money shares	0	1,000,000		1,460,000	
Price per share	\$0.001	\$ 0.50	\$ 0.27		<u>Total</u>
Amount raised	\$ 1,000	\$ 230,000		\$ 410,959	\$ 640,959
Post-money shares	1,000,000	1,460,000		2,960,000	
Post-money valuation	\$ 1,000	\$ 730,000		\$ 810,959	



2 Years: Angel Bridge Note

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



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AFTER THE PROOF OF CONCEPT & INITIAL CUSTOMERS,
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	49%
Friends, Family			460,000	22%
Prairie Tech Angels	600,000	600,000	600,000	29%
Total	600,000	600,000	2,060,000	100%

Valuation Information:

Pre-money valuation	\$	1,000,000
Pre-money shares		1,460,000
Price per share	\$	0.68
Amount raised	\$	410,959
Post-money shares		2,060,000
Post-money valuation	\$	1,410,959

Angel 2 Convert. Bridge

	None
	N/A
= next round's share price	<u>Total</u>
\$	1,300,000
\$	1,940,959
	N/A
	N/A

50% warrant coverage



3 Years: Series A VC Round

- \$3.7 million New Money
- Preferred Stock
- \$6 million Pre-\$ Value
- 38% of Company Sold



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AFTER VOLUME MFG. AND REVENUES OVER \$500,000
WE NEED MONEY.....

<u>Investor</u>	Angel 2		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							460,000	7%
Prairie Tech Angels							600,000	9%
Prairie Tech Angels	878,033	878,033			439,016		1,317,049	20%
Selective Ventures			2,500,000	2,500,000			2,500,000	38%
Company employees						675,410	675,410	10%
Total	878,033	878,033	2,500,000	2,500,000	439,016	675,410	6,552,459	100%
Valuation Information:							<u>Total</u>	
Pre-money valuation							\$ 6,000,000	
Pre-money shares		2,060,000					4,052,459	
Price per share	\$ 1.48		\$ 1.48					
Amount raised		\$ 1,300,000					\$ 3,701,458	\$ 5,642,416
Post-money shares		3,377,049					6,552,459	
Post-money valuation							\$ 9,701,458	



