

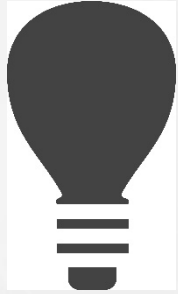
Funding Pathways



Topics

- Funding in the pre-investor stages
- Angel investors
- Typical funding sequence

Stages



Idea



Discovery



Proof of Concept



Development

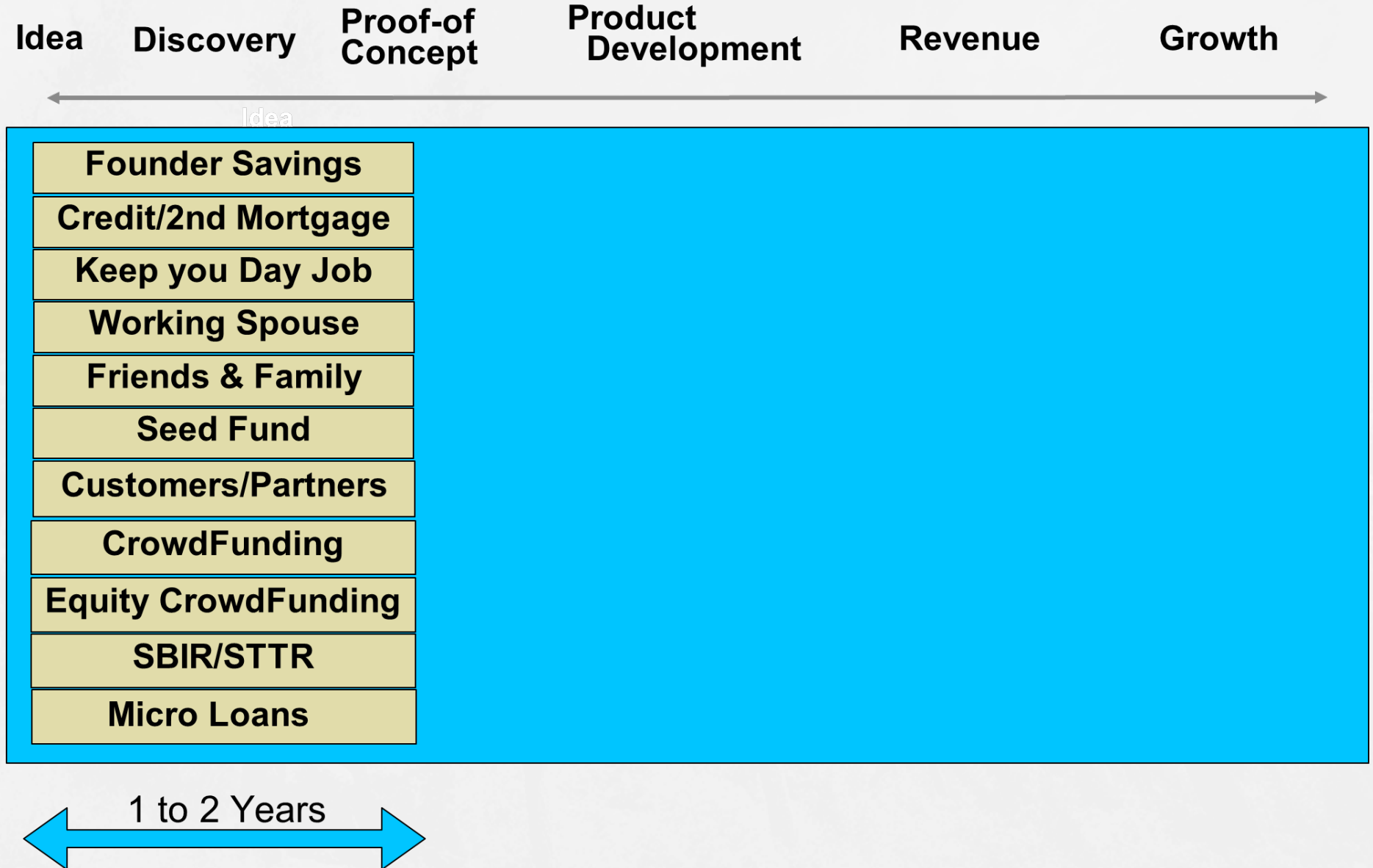


Revenue



Growth

Stages & Sources of Funds



Founder Savings & Credit

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Track what you invest, but...
- Don't expect back-pay
 - “sweat equity”
- Be careful with retirement savings

Keep Your Day Job

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Work on the company as a side project
- Drawbacks
 - Much slower headway
 - At some point you have to be “all in”
 - Be careful about IP ownership

Working Spouse

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Reduce expenses to fit one income
- Clearly requires a partnership at home!

Friends & Family

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Be very careful to set expectations
 - Risk is high!
- Loans safer than stock
 - Many small shareholders becomes a pain
- Get legal help!

Accelerator Seed Funds

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Typically \$20K-\$250K
- Length of programs vary
- Positives:
 - *Great networking opportunities*
 - *May include mentoring*
- Drawbacks:
 - *Can be expensive (% of your company)*
 - *Only a few companies are accepted*
- Examples:
 - *Portland Seed Fund, Beaverton Challenge, TechStars, VertueLab*

Customers/Partners

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Revenue is an excellent source of funds!
- Develop an early product quickly and sell it
- Get customers to pre-pay early orders
- Do consulting work*
- Develop a product under contract with another company*

*But be sure you retain rights to the IP!!!

CrowdFunding - Traditional

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Positives:
 - *Combines market validation with funding*
 - *Creates fans and evangelists*
- Drawbacks:
 - *Negative PR if you don't hit your goal*
 - *Very public exposure of your plan*
 - *May not be a fit for your market*
 - *Oversubscription can be a challenge*

CrowdFunding – Equity (non-accredited)

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Investment by non-accredited investors
- Oregon Law
 - *Community Public Offering*
 - *Up to \$250,000; up to \$2,500 per person*
 - *Startups can only solicit Oregonians*
- Federal Law
 - *Up to \$1 million*
 - *Must register and do annual reporting*
- Both result in non-accredited investors
 - *Can create issues with angels/VCs*
 - *Public solicitation issues*

SBIR Grants (sbir.gov)

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

Small Business Innovation Research

- 2.5% of federal R&D funds
- Qualifications
 - *American-owned and independently operated*
 - *For-profit*
 - *Principal researcher employed by business*
 - *Company size limited to 500 employees*
- Awards granted in 2 phases
 - *Phase 1: feasibility study*
 - *Phase 2: R&D*

STTR Grants

Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

Small Business Tech Transfer Research

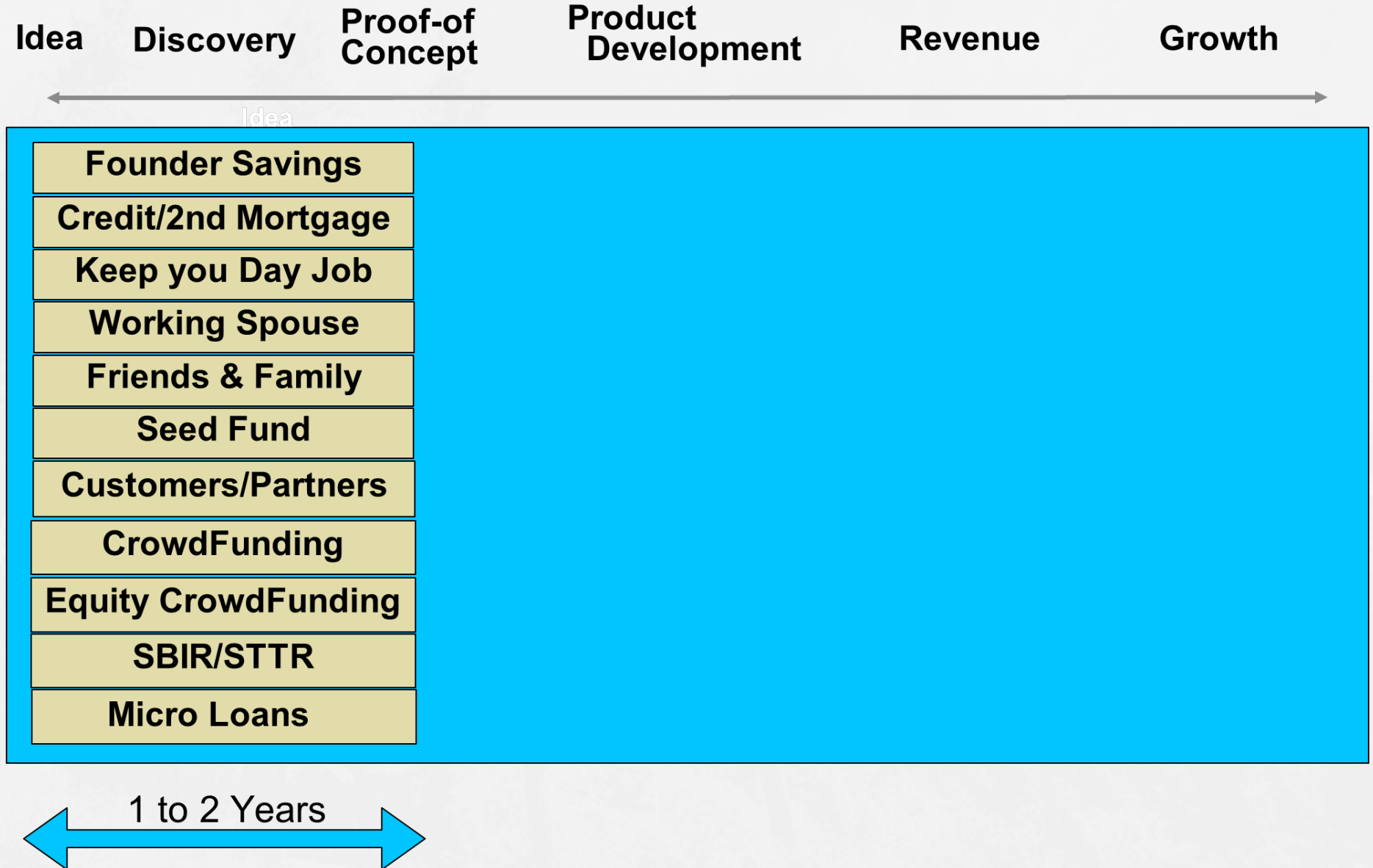
- Similar to SBIR, except
 - *Principal researcher need not be an employee*
 - *At least 30% must go to research institution in US*

Micro Loans

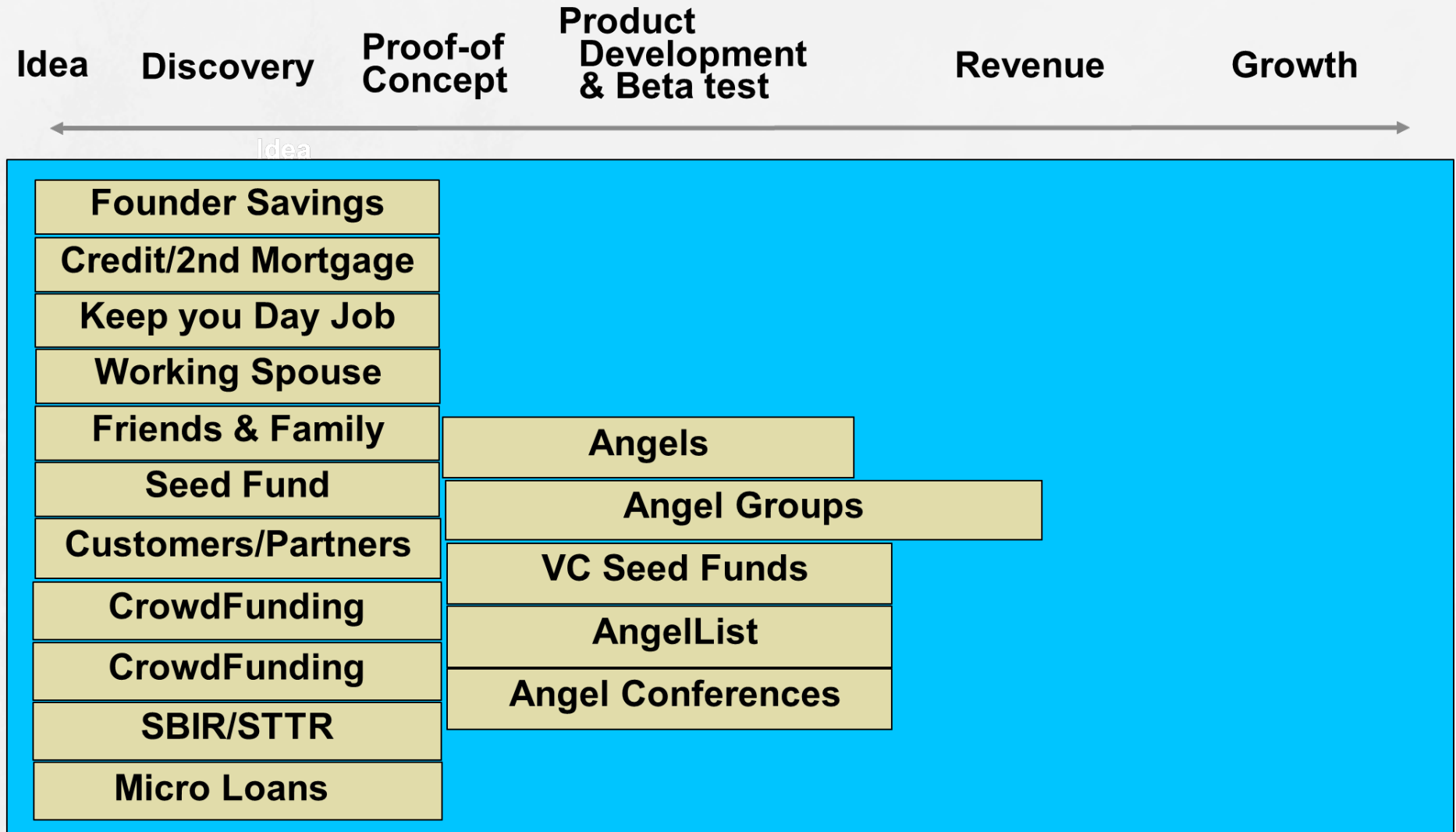
Founder Savings
Credit/2nd Mortgage
Keep you Day Job
Working Spouse
Friends & Family
Seed Fund
Customers/Partners
CrowdFunding
Equity CrowdFunding
SBIR/STTR
Micro Loans

- Typically \$5,000 to \$50,000
- They are loans – not investments
- Typically require personal guaranty
- Sources:
 - *Mercy Corps Northwest*
 - *Oregon Entrepreneur Development Loan Fund (Business Oregon)*
 - *Oregon Micro-Enterprise Network*

Stages & Sources of Funds



Stages & Sources of Funds



Angels



Angels

- High net worth individuals
- Goal: 10x to 30x return
- Investment may be structured as:
 - *Loan (typically convertible to Stock)*
 - *Stock purchase*
- Should be accredited investor
 - *\$1M net worth or \$300K income in the last 2 years*

Finding Angels

- Individual angels – networking!
- Angel websites (Angel list, etc.)
- Angel groups
- Angel conferences

Angels – Are You Ready?

- More than an idea
- You're working full time
- More than an idea and a business plan
(You've made significant headway)

Angels – Are You Ready?

- You have a prototype
- You have some market validation results
- You have a team

Angels – Are You Ready?

- You have a credible exit plan
- Defensible 5 year financial projections
- Potential for 10x return (or more...)

Venture Capital

- VC invest funds from limited partners
- They often specialize:
 - Company stage
 - Markets
- Typically are looking for very big wins
- Finding VCs is easy - they have websites
- Most like to fund growth - not development

Investor Dollars are Costly

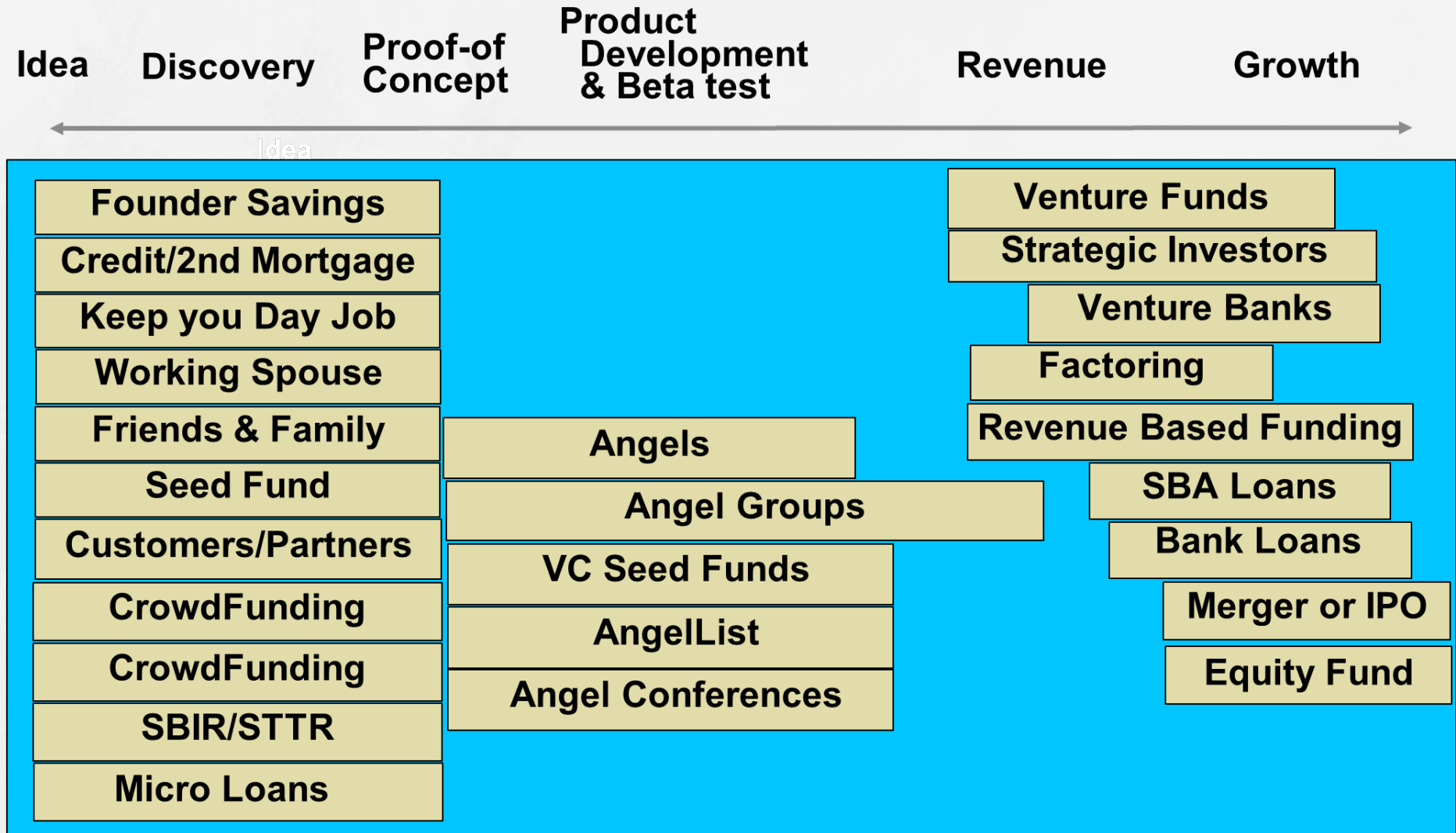
- You will spend many months of effort raising money
- You will have to “manage” your investors
- You will have investors on your Board
- You will give up equity
- You will give up considerable control

But Investors can Add Value

Look for investors that can help

- Industry knowledge
- Domain expertise
- Introductions
- Help with follow-on rounds

Stages & Sources of Funds



Source vs. Amount

<u>Source</u>	<u>Typical Amount</u>
Savings & Credit Cards	\$10K - \$50K
Friends & Family	\$50K - \$200K
Grants (SBIR/STTR)	\$150K - \$1.5M
Angel Investments	\$200K - \$2M
VC seed round	\$200K - \$2M
Venture Capital Investment	\$4M - \$15M

Hypothetical Funding Sequence

You get the idea	Idea Stage
\$20K of founder savings	Customer Discovery
\$100K of Friends/Family	Proof of Concept
\$300K from Angels	Technology Development
\$500K from Angels	Production Product; Launch
\$6 million from VCs	Ramp Revenue
\$10 million from VCs	Ramp Revenue

Thoughts on Fund Raising

- Early on – be very miserly!
- Don't raise too much
- Don't raise too little
- Don't agonize over control
- Expect multiple funding rounds
- Expect raising money to take a lot of time
- Get advice from mentors!

Funding Pathways

