



# ANGEL INVESTING WITH TCA TODAY

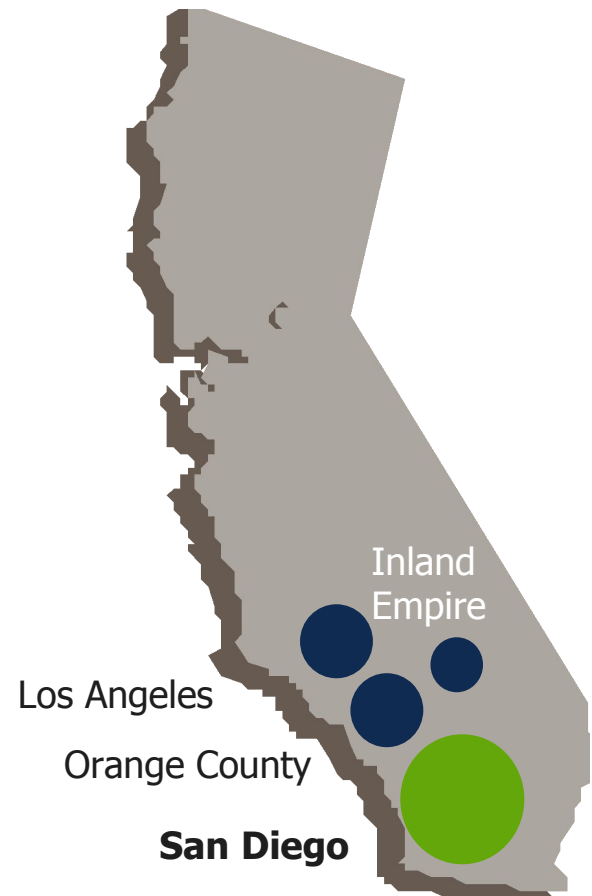
May 29, 2020  
@tcasandiego



# Welcome to TCA – San Diego: #TCAtoday

# About TCA

- Founded in **1997**
- One of the **Largest** and **Most Active** Angel Investors Organizations in the world
- Invested **\$225M+** in **400+** Startups
- **450+** Members in **4** Networks
- San Diego is the largest network with 200+ members



# About TCA-SD (cont'd)

- We aim to be the BEST place for the BEST companies to raise their seed financing
- 501(c)6 non-profit “trade association”
- TCA doesn't do deals – our members (and funds) do deals
- TCA-SD is actually a separate entity
  - San Diego Angels, Inc. dba TCA
  - \$12M invested in 2019
  - Additional life science and “hard tech” core competence

# Membership Benefits

- Membership meetings & dinners
- Company screenings
- Web-based collaboration platforms
  - Zoom, Flock and ProSeeder
- Education sessions
  - Angel Investing 101, Women in Angel Investing, Wednesday Power Hours, Quick Pitch, domain expert presentations, etc.
- Friendships/networking
- Deal flow, diversification, and **ROI**

# Requirements Of Membership

- Accredited investors only
  - \$1M in liquid net worth or \$200K/\$300K per year income
- Commit to \$50K per year in investment, or participate in our annual ACE fund at ANY level (minimum \$10K)
- \$1,800/year dues
- Adhere to our rules of conduct
  - Disclose conflicts
  - No comp for fundraising
  - Don't be a jerk

# How To Participate

- Refer companies and members
- Attend meetings
- Participate in due diligence
- Invest in ACE Annual Funds
- Lead deals
- Join governing boards
- Evangelize to ecosystem/spread the word!

# TCA - SD: Screening Companies



# Where Do Deals Come From?

- Referrals from members, service providers, other entrepreneurs and other investor groups
- Relationships with local incubators and organizations, e.g. SDVG, EvoNexus, JLABS, Bio-Labs, universities
- TCA events, e.g. Quick Pitch
- Over the transom
- Deals typically begin with an introductory pitch deck and/or call with TCA

# Where Do Deals Go?

- Start with sharing pitch deck/summary with ED
- ED reviews with relevant committee members
- Companies submit online application
- Companies meet with TCA in one (or more) of 3 forums:
  - Committee meeting
  - General Membership Meeting (GMM)
  - Dinner meeting
- Companies with significant member interest go into due diligence

# How Do Members Participate?

- Attend committee and membership meetings
- Meet with companies that match your expertise to help review investment opportunities
- Share your analysis of a company on Flock
- Vote to move companies forward to due diligence
- Participate in due diligence and lead deals
- Invest!

# TCA - SD: Due Diligence & Closing

# What Is Due Diligence?

- ✓ Validating the investment opportunity
- ✓ Assessing risk
- ✓ Building a relationship with management
- ✓ Executing a time-efficient yet comprehensive process
- ✓ Creating a shareable, organized report and/or deal room composed of key documents, e.g. financials, cap table, IP, competition, exit analysis

# Why Due Diligence?

- ✓ Increased ROI - Wiltbank Study\*
  - ROI for all deals: 2.6X
  - Median Hours in DD per company: 20 hours
  - < 20 hrs DD □ 1.1x ROI
  - > 20 hrs DD □ 5.9x ROI
  - > 40 hrs DD □ 7.1x ROI
- ✓ Effective fundraising starts with a solid DD process
- ✓ Deal sharing with other TCA chapters and groups
- ✓ Larger \$\$ raised
- ✓ Mitigate risk

• *\*Returns to Angel Investors in Groups, Robert Wiltbank, (2007)  
(539 Angels, 1137 exits, 20 years)*

# Deal Killers (Show Stoppers)

- ✓ Unreasonable terms, especially valuation
- ✓ Excessive debt or current liabilities (including accrued salary)
- ✓ Any deception; false or misleading statements or reports
- ✓ Harmful pre-existing agreements
- ✓ Disruptive management team or shareholder issues
- ✓ Inappropriate use of proceeds
- ✓ Inadequate IP protection or ownership issues
- ✓ Unreasonable executive compensation

# Getting Started

- ✓ Due Diligence (DD) is initiated once a company has a critical mass of interested TCA members including at least one Lead (or co-Leads)
- ✓ The process differs between fast track and full track deals
- ✓ The 30-day shot clock begins with the DD Kick Off meeting
- ✓ DD documents are collected and shared by ED prior to meeting, e.g. cap table, financials, IP, financing docs, TCA company survey



# TCA Company Questionnaire/Survey

- ✓ Comprehensive checklist
  - ✓ Corporate and Deal Structure
  - ✓ Technology/IP and Product
  - ✓ Sales and Marketing
  - ✓ Finance
- ✓ 20-pg questionnaire for full track deals and 5-pg survey for fast track deals (see templates)
- ✓ Completed by company with support from TCA

# Volunteer Analyst Program (VAP)

- ✓ Unique feature of TCA-SD
- ✓ Analysts are a volunteer group of MBAs, Postdocs, researchers and early-career professionals who help with due diligence
- ✓ Benefits include learning and networking
- ✓ VAP is managed by ED
- ✓ Analysts join DD efforts and produce documents such as exit analysis, competitive analysis, market research reports and scientific review
- ✓ Recruited on a rolling basis and referrals can be made to ED by sharing resumes

# DD Takes Place In 30 Days (Or Less)

- ✓ Recruiting interested members
- ✓ Preparing for DD meeting
- ✓ Running DD meeting
- ✓ Conducting DD meeting follow-up based on punch list
- ✓ Communicating with CEO and interested members
- ✓ Completing DD package
- ✓ Completing ACE Fund recommendation form
- ✓ Transitioning to financing stage

# Kick Off Meeting

- ✓ Start on time!
- ✓ Optional brief internal discussion (10 mins)
- ✓ Overview with company team (5 mins)
- ✓ Detailed Q&A informed by survey/questionnaire and Flock channel discussion (up to 2 hours)
- ✓ Optional bio break (10 mins)
- ✓ Internal discussion (20 mins)
- ✓ If advancing to funding, discuss outcome and next steps with CEO (15 mins)
- ✓ Zoom recording posted by ED

# After The DD Meeting – Week 1

- ✓ Provide company questionnaire (full track deals only) to CEO to complete
- ✓ Delegate follow-up items for Deal Team (members and analysts), e.g.
  - ✓ Term sheet / financing docs
  - ✓ IP review
  - ✓ Financial analysis
  - ✓ Marketing/sales plan
  - ✓ Customer reference calls
  - ✓ Exit analysis
  - ✓ Competitive analysis
- ✓ Gather additional questions on Flock

# After The DD Meeting – Weeks 2 & 3

- ✓ Send status update to CEO each week
- ✓ Post Flock update each week including CEO's answers to additional questions
- ✓ Confirm DD punch list items are in progress with the Deal Team
- ✓ Determine based on Deal Team dialogue whether deal is likely to progress to funding
- ✓ Communicate to CEO if deal is being turned down and provide 2-3 key reasons

# After The DD Meeting – Week 4 (Deal Lead)

- ✓ Post Flock interest poll, if necessary
- ✓ Send final decision to CEO and post to Flock
- ✓ Complete ACE Fund recommendation form if company is seeking Fund investment
  - ✓ At least four Deal Team members required
  - ✓ At least one Deal Team member must be identified as Deal Lead for the Fund recommendation form (can be same or different person(s) from overall Deal Lead)
- ✓ Complete DD report package
- ✓ Initiate 48-hr DD Review period via ED
- ✓ Finalize financial deal terms (full track deals only)

# Preparing For Closing

- ✓ Complete legal documents
- ✓ Submit ACE Fund recommendation form to ED, if applicable
- ✓ Call for individual investment via Flock, live meetings and individual polling
- ✓ Consider syndicating to other TCA chapters, if applicable
- ✓ Consider Angel Syndicate Network (ASN) and other co-investor groups, if applicable



# How We Do Legal Review

- ✓ TCA has no budget for lawyers
- ✓ Legal costs are taken out of the raised funds
- ✓ TCA lawyers agree to a fixed fee only if the deal closes
  - ✓ In return, we agree not to engage them unless there is a 95% probability of closing
- ✓ Fees vary based on who is originating documents and complexity of deal
- ✓ No TCA legal review for deals with trusted syndication partners

# How Members Invest

- ✓ TCA-SD has two funding mechanisms: individual investments (if permitted by CEO) and ACE Fund
- ✓ ACE Fund investments are based on a vote by ACE Fund members only
- ✓ Individuals invest by:
  - ✓ Informing Deal Lead of their intention to invest so Deal Lead can keep track
  - ✓ Accessing financing documents from Deal Lead, ProSeeder or Flock during closing period
  - ✓ Signing financing documents and sending wire/check directly to company

# After The Closing

- ✓ Execute board participation rights docs, if applicable
- ✓ Work with ED on PR
- ✓ Encourage CEO to provide quarterly updates to investing members
- ✓ Pop champagne like you won a championship!



# The ACE Annual Fund: Diversification, Deal Flow & ROI

# Why We Launched An Annual Fund

- We had been **missing out on the best companies** due to our funding process
- We were **losing members** who didn't want to build a diversified venture portfolio at \$25K to \$50K per company
- We needed to **make it easier for members to lead deals** if we are going to be able to engage with the best companies

# Benefits Of The ACE Annual Fund

- **Diversification** in up to 15 companies a year for as little as \$10,000
- Our Fund model delivers on our commitment to be the **BEST place for the BEST teams to raise their seed funding** – resulting in better deal flow and ROI
- Our funding process is **EASY** for both the entrepreneur and our due diligence teams. (before it was hard)
- **Inclusion for ALL members** to have skin in the game

# How It Works...

- New Fund “every” year
- Existing screening & DD process doesn’t change
- Company gets money from Fund if they inspire at least four members of the Deal Team to recommend **and** at least 67% of all voting member units to vote YES
- Members can still make individual investments alongside the fund
- Fund only invests in US-based C-Corps (no exceptions)

# Here Are The Rules...

# of DD Team Members	% of Member Unit YES votes	Deal Type	Maximum Funding Provided
4 or more	67%	Fast Track	Up to \$200K or 10% of fund
4 or more	67%	Full Track	Up to \$500K or 30% of fund



# Fast Track vs. Full Track

- Fast Track
  - Typically a syndication, led outside of TCA
  - We rely on a trusted group for primary DD
  - Accelerated DD process (typically 2-3 weeks)
  - Company completes our 5-page DD Survey
- Full Track
  - Led by TCA
  - Full 30-day DD process
  - Company completed our 20-page DD Questionnaire
  - TCA gains board visibility

# How To Invest

- Purchase one or more units of the Fund at \$10K per unit
- Get one vote per unit purchased
- Fund invests for ~12 months but schedule subject to change
- Target investment in 10-15 companies each year

# Fees And Expenses

- The Fund is volunteer-managed, allowing us to keep fees very low
- **Up to 3% expense allocation for life of fund**
  - For state fees, CPA, legal, etc.
  - NOT an annual fee
- **5% carried interest**, paid to TCA only after 100% of member capital is returned to members

# Our Goal Is 100% Member Participation

- With the Fund, **you meet your TCA investing commitment** and ensure that you are invested in the **strongest TCA companies for as little as \$10K per year**
- **WE WANT EVERYONE** to participate to ensure that we can deliver on our vision...and bring in those strong company teams that have previously avoided us
- Our group is stronger if all members have a vested interest in the companies we screen

# Frequently Asked Questions

- When can I invest?
  - We hold a 30-day Capital Call for the new ACE Annual Fund after the prior year's Fund is fully invested. This period is the **only** opportunity to join the Fund.
- Will I get a K1 at tax time?
  - Yes. You will get a **single K1 for each annual Fund you participate in**. Since the annual fund will not invest in pass-through entities (LLC's, partnerships, etc.), your K1 will typically show "zeros" unless we have an exit in a specific year.

# Frequently Asked Questions

- How do I vote for deals?
  - Every vote will be launched with an email notice to all Fund members, and post on Flock. **The email notice is the official vote start time and votes conclude after 48 hours.** Votes are submitted via a Google Form linked in the notice.
- What about follow-on investments?
  - Since these are annual Funds, every company signs a side letter assigning any current or future follow-on rights to the then-current annual Fund, which can vote to exercise follow-on investment rights in the same manner as any Fund investment.

# Frequently Asked Questions

- Can all TCA chapters participate?
  - Yes. **Any TCA member from any chapter is welcome to participate in any chapter Fund.** Each chapter Fund has its own management, structure and rules and operates independently.
- Do you have to be a member to invest?
  - Yes. Since we will be using member-only tools like ProSeeder and Flock to engage in deal-screening, we are **restricting Fund investment only to members.** We also hope that the Fund will serve as an incentive for new members to join us.

# Frequently Asked Questions

- Who gets the carried interest?
  - **Carried interest is paid to the chapter.** A portion of the carry is shared with our Executive Director as an employment incentive.
- Can I invest through my retirement fund?
  - We prefer that you didn't, since the Fund will not be providing any formal correspondence to any 3<sup>rd</sup> parties, and many plan administrators require annual valuation and other certifications.
- Will I get the IRS 1202 benefit?
  - We expect that our members will receive the tax benefit for any investment we make that meets 1202 criteria.



# Frequently Asked Questions

- How is the Fund managed?
  - The Fund is administered by a volunteer Fund Executive Committee composed of 3 - 5 members from the chapter's Board of Directors. **The Executive Committee does NOT make investing decisions**; it only sets and administers rules and processes.
- What is the Fund reporting policy?
  - The Fund uses an online platform called **Seraf Investor** to make real-time reports available to all Fund members, on demand.

# Frequently Asked Questions

- What happens when a company exits?
  - We will distribute funds from company exits or distributions as soon as practical after they are received. In the event of an IPO, we will liquidate shares in the public market and distribute to members as soon as any lockup period elapses.

# Thank You!

- Questions & Comments & Ideas?
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