TECH COAST ANGELS

ANGEL INVESTING WITH TCA TODAY

October 1, 2021
@tcasandiego

Thank you to TCA member and founding father, Bill Payne, for developing and delivering the original version of this content based on his decades of research and experience as an angel!

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Agenda

- Introduction to Angel Investing
- Post-Investing Engagement and Outcomes
- Q&A / Break
- TCA – San Diego Orientation
- Deal Structure Legal Panel
- Wrap Up Q&A

Setting the Stage: What is an Angel Investor?

- Individual who puts their own money (and time) into startups
- First “outside” money in an early-stage company
- Often invest in groups or syndicates
- Typical backgrounds:
  - Successful entrepreneur
  - C-level executive
  - High net worth professional
- Strong interest in exit
- Invest $25B annually in the US

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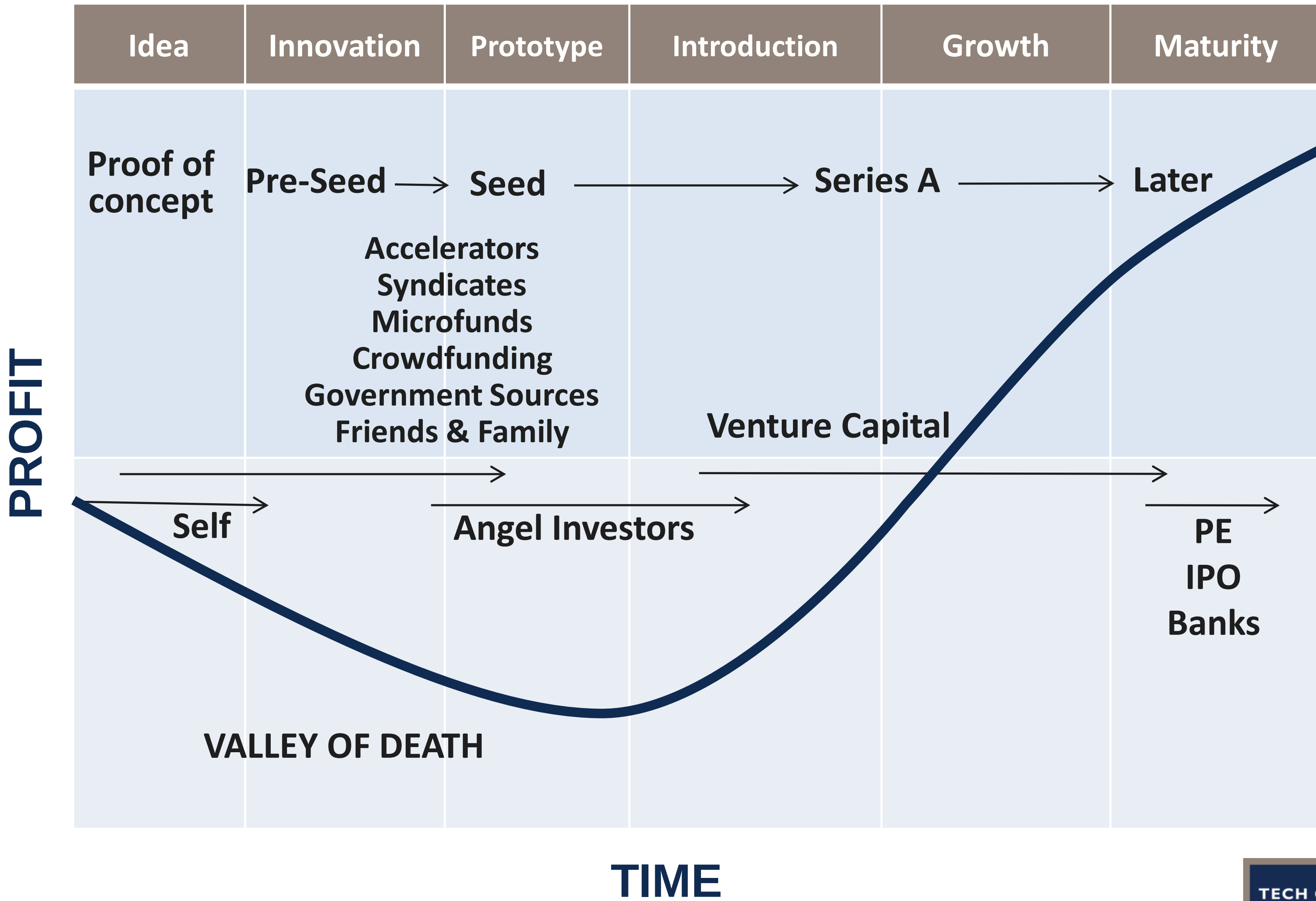
Capital Sources Over Startup Lifecycle



Founders, Friends, Family (and Fools)
($70 billion annually in the US)

- Entrepreneurs should have “skin in the game”
- Others in inner circle are generally unsophisticated
  - Investing in entrepreneur, not business
- Clarify – gift, debt or equity
- Put terms in writing

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Grants
($3 billion annually in the US)

- US Government (some from states and local governments)
- Many US government agencies
- Grants or contracts – is there a deliverable?
- Alignment with company is important

Crowdfunding
(equity $1+ billion annually in the US)

- Many varieties
  - Donation, real estate, debt, rewards, equity
- Rewards crowdfunding (e.g. Kickstarter) can be market validation
- Equity crowdfunding
  - Accredited investors (e.g. AngelList, Funders Club, etc.)
  - Accredited AND Non-accredited (SeedInvest, WeFunder, StartEngine, etc.)
- Early crowdfunding may preclude interest from later investors

Accelerators

- Y Combinator, TechStars, 500 Startups, and many others
  - Classic model is rigorous, three-month program
  - Limited capital ($10K - $150K per company)
  - Intensive mentoring
  - Lean startup (get to market quickly, pivot, go again)
  - Direct engagement ends at Demo Day
- New crop growing of vertical-specific and corporate accelerators, e.g. Indie Bio, Acceleprise, Illumina Accelerator
- Opportunity for angels to engage as mentors/investors

Venture Capital
($150+ billion annually in the US)

- Limited partnership model
- General partners – raise capital, invest, manage portfolio
- Limited partners – passive – endowments, corporations
- Most invest in growth stage companies (but growing number of pre seed/seed VCs)
- Invest $3+ million in Series A rounds of $10+ million (could be $100 million for growth stages)
- Nano/Micro VCs may invest $100K+ in earlier rounds of $500K+
- Many look for angel vetted deals

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Non-Linearity of Capital Availability

- Rational assumption would be that
  - The less capital required, the more available sources
  - And, the more capital required, the fewer sources
- However… few capital sources available for rounds sizes of
  - $50K to $100K
  - $1M to $3M

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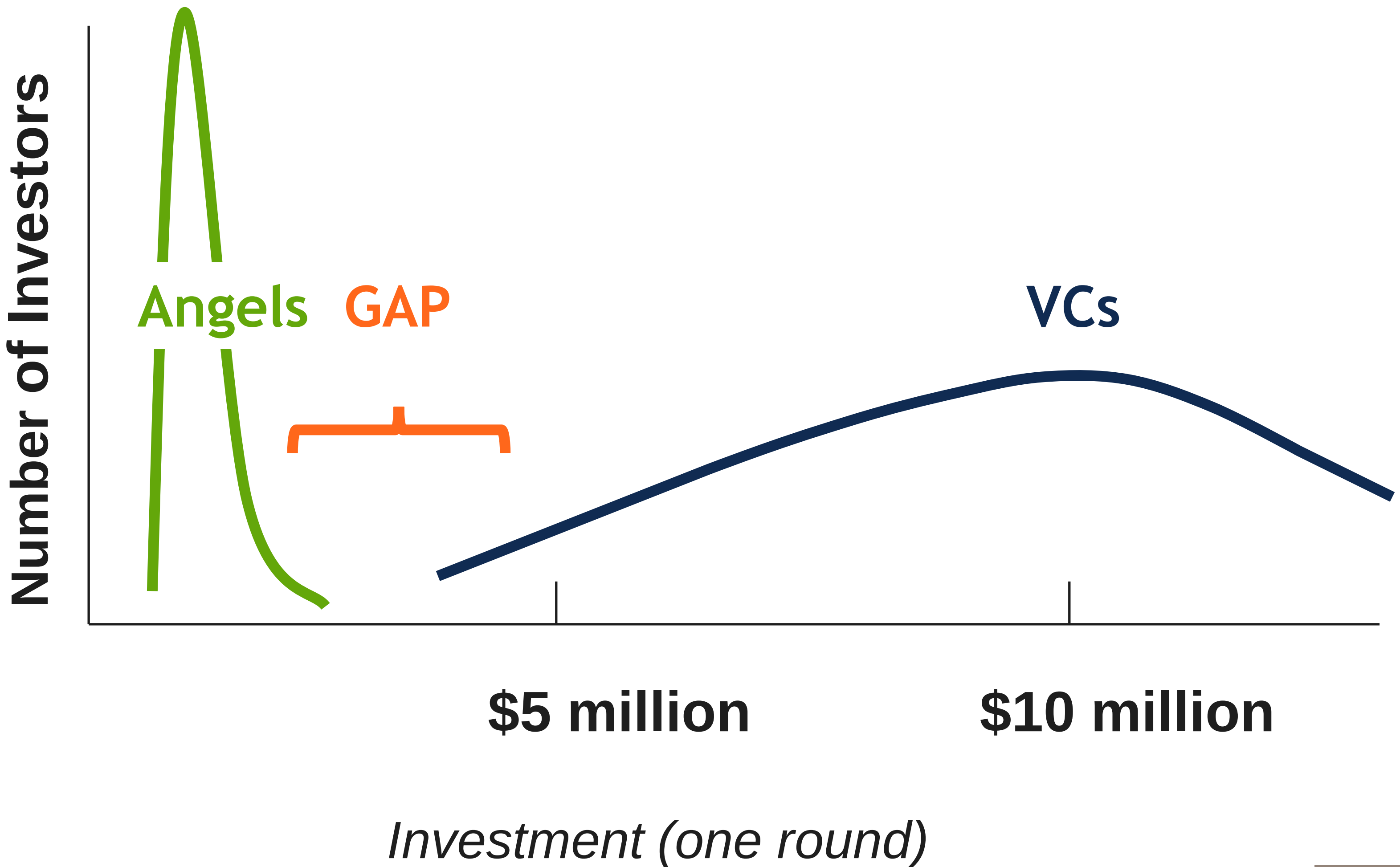
Series Seed - Series A Funding Gap



Why the Non-Linearity

- $50,000 - $100,000
  - In most cases, too large for Friends and Family
  - Generally too small for angels to justify the expense of due diligence and legal documentation of the deal
- $1 million - $3 million
  - "2-and-20" VC model is not financially viable for smaller funds
  - $200+ million VCs cannot justify small investments
  - Yes, there are some small VCs, but the number is relatively small
- **Note: This void is TCA's opportunity!**

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Implications of the Gap to Angels

- Angels are filling the gap through multiple rounds and forming as groups (TCA, etc.)
- Consider following-on rounds for deals meeting milestones for companies you missed or passed on the earlier (good diversification strategy)
- Save dry powder
  - Assume multiple rounds
  - Make smaller individual investments in the earliest stage

Summary – Capital Sources

- Entrepreneurs should right-size their funding to capital source
- TCA plays an important role in filling the “gap”
- New sources can help in the early stage
  - Crowdfunding, accelerators, micro-VC

Angels: Motivation and Returns

Angel Investor Motivations

- Angels invest time and money in potential high growth companies
- Primary motivation for investment: ROI and IRR
- Staying in the business game…
  - Finding deals
  - Performing due diligence on deals
  - Negotiating the deal
  - Mentoring and serving on boards (post-investment)
  - Participating in investment groups
  - Lifelong learning
  - “Seeing the future”
- Typically, the return on time spent is mostly intrinsic (i.e. enjoyment, fulfillment, paying-it-forward, etc.)

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Wiltbank Studies of Returns to Angels

- High risk investments deserve high returns: 20% IRR?
- 20% IRR equates to 2.5X ROI in 5 years
- Angel investors (as a group) achieve this goal
  - In the US and in Europe (three studies by Wiltbank)
  - Since 1997, TCA has returns of 5.3X and 26% IRR on all exits
- But:
  - 50% of angel-funded startups fail to return capital
  - All of upside comes from one in ten (or two in ten if you are REALLY good or lucky)
- What does it take to get a 2.5X ROI?

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We Don’t Know Which of our Investments Will Prove to be Home Runs

Therefore:

- All angel investments must have a potential for high returns **(10X+)**

Moreover:

- Angels need a large portfolio: 40 to 50 lifetime investments
- Multiple individual investments per year, or diversification through 3 to 5 angel funds

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Mitigation of Risk through Diversification

- Diversification drives returns and lowers risk!
- Probability of returns based on a Monte Carlo simulation of Wiltbank data:
  - 6 investments – 50% of return of capital (1X)
  - 12 investments – 75% probability of 2.6X return
  - 24 investments – 90% probability of 2.6X return
- Diversification by industry
- Diversification by stage
  (seed, expansion stage, etc.)
- Diversification of founder background, geography, etc.

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Diversification Strategy

- 10 x $25,000 x 2 = $500,000
  - Ten invested companies (probably more)
  - $25,000 per investment
  - At least one follow-on investment per deal
- Some deals will take more follow-on rounds
  - But…some will fail early, before a follow-on round
- Or… your fast-track to diversification…EASY!
  - Invest $10,000 or more each year into an angel fund that invests in 10–15 companies per year
  - Follow-on directly with your favorite fund investments to increase exposure

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How long will this take?

- Time to exit for failures: ~3 years
- Time to exit for 10X returns: ~5 years
- Time to exit for 25X returns: ~8 years

Patience is required!

Angels in Groups

Why Do Angels Join Groups?

- Deal flow
  - Larger groups have better deal flow
- Best practices
  - Screening deals
  - Due diligence
  - Deal terms
- Expertise
  - Wisdom (and experience!) of the crowd
  - Due diligence know how and business segment expertise
  - Engaging with companies after investment (mentors, directors)
- Dividing the work eases the pain
- Leverage!
- Fun ☺

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Angel Deal Flow Process

- Referral & application – Inbound introduction of company to group
- Committee screening – Does the deal meet the group's criteria for investment?
- Member meeting – Group hears formal pitch with Q&A
- Due Diligence – Deeper dive into the business
- Funding – Legal negotiation and financing
- Syndication – Fill-out round by sharing with trusted groups

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Angel Investing Statistics

- Median seed round size: **$1M ***
- Median seed pre-money valuation: **$6M** ***
- 2/3 of angel group average investments in seed rounds: **$100K - $499K**
- Priced equity structures accounted for **54%** of deals and **46%** were convertible notes or SAFEs **(up 8% YoY) *****
- Size of individual Angel checks: **median of $25K / mean of $35K** **
    - **Angel syndicates and angel funds reduce minimum check size to $1K - $10K**

** ARI 2020 Halo Report*

*** The American Angel Campaign, 2016 Wharton Business School*

**** ACA Angel Funders Report 2019*

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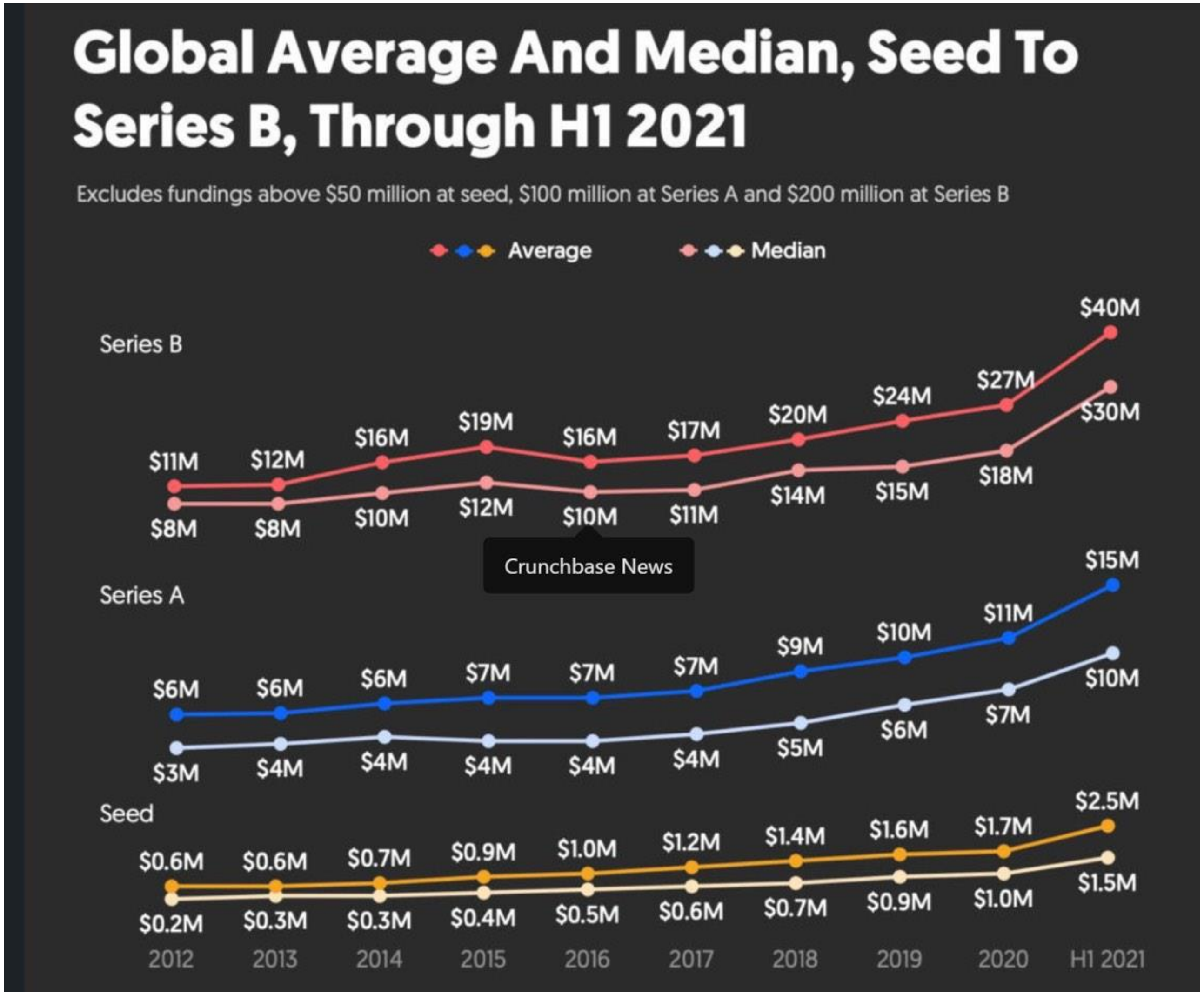
Venture Inflation?



*Crunchbase Global VC Report 2021

Fundable Companies

Killer Management Team

- CEO
  - Coachable
  - Integrity
  - Leadership and management experience
  - Founder-market fit (i.e. vertical experience)
- World-class Team
  - Balanced and complete
  - Experienced
- The “IT” Factor
  - Can you visualize success with this team???
  - *Be aware of bias when relying on your gut*

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Compelling Opportunity

- Scalable
  - $20M+ revenue in 5-7 years
  - Serving a $1B+ total market (TAM)
- High gross margins
- Ready for customers (or the clinic for life science)
- Other investor-specific interests
  - Social impact, down-side protection, industry, etc.
- Unfair competitive advantage

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Competitive Advantage

- Formidable founders (execution-focused!)
- Time-to-market
- Network effect
- Brand
- Innovation
- Intellectual Property
- Capital efficiency
- Information arbitrage

Intellectual Property

- Patents
  - Could be important, but difficult to defend
  - Seed/startup investors do not assign great value
  - Acquiring companies might!!
- Trade Secrets
- Copyrights and trademarks
- **Does not apply to all deals**

Funding Considerations

- How much funding?
  - Risk of needing to raise too much or die on the vine
  - Dilutive effect of raising too much and washing out early investors
- Can we project a VC follow-on investment?
- Are there “hair and warts” that could jeopardize future funding
  - Cap table
  - Accumulated debt
  - Founder/board toxicity
  - Licensing, IP, other legal

Valuation of Early Stage Companies

Valuation Determines Investor Ownership

- Negotiating valuations can be easy or contentious
  - Some entrepreneurs underestimate the importance of funding
  - Others know what to expect
- Angels groups typically invest $300K to $2M in seed stage deals
- For this investment, angels typically purchase 15% to 30% ownership
- Investors typically negotiate pre-money valuation, but ownership is based on post-money valuation
  - Pre-money Valuation + Investment = Post-money Valuation
  - Investor ownership (%) = Investment **/** Post-money Valuation
- Beware a bulging post-money valuation!

What Determines Pre-Money Valuation?

- Quality of the team?
- Value of IP?
- Size of market?
- Traction?
- YES - all of the above! But, also
  - Location
  - Economic (financial) cycle
  - Business sector
  - Other investors
  - FOMO
- End of day: Valuation is a supply/demand function in the capital market

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Valuations Methodologies
(For establishing the pre-money valuation of pre-revenue startups)

- Discounting exit valuation or proforma financials
- Comparing target to typical funded startup
  - Scorecard Method
  - Dave Berkus Method
  - Risk Factor Summation Method
  - Gatto Method

Using Comparables

Appraising target startups using comps

- Starting point: Median valuation of similar startups
  - Similar stage of development
  - Similar business sector
  - Similar location
- Comparing features of target to the norm
- Adjust median by your appraisal of the target

Using a Scorecard

Criteria	Weighting	Comparison	Adjusted Weighting
Entrepreneur, Team, Board	30%		
Size of Opportunity	25%		
Product/Technology	15%		
Competitive Environment	10%		
Sales/Marketing	10%		
Need for More Financing	5%		
Other	5%		

Hypothetical Example

Criteria	Weighting	Comparison	Adjusted Weighting
Entrepreneur, Team, Board	30%	120%	
Size of Opportunity	25%	100%	
Product/Technology	15%	140%	
Competitive Environment	10%	80%	
Sales/Marketing	10%	60%	
Need for More Financing	5%	100%	
Other	5%	75%	

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Hypothetical Example

Criteria	Weighting	Comparison	Adjusted Weighting
Entrepreneur, Team, Board	30%	120%	.36
Size of Opportunity	25%	100%	.25
Product/Technology	15%	140%	.21
Competitive Environment	10%	80%	.08
Sales/Marketing	10%	60%	.06
Need for More Financing	5%	100%	.05
Other	5%	75%	.04

Sum of Adjusted Weightings: 1.05

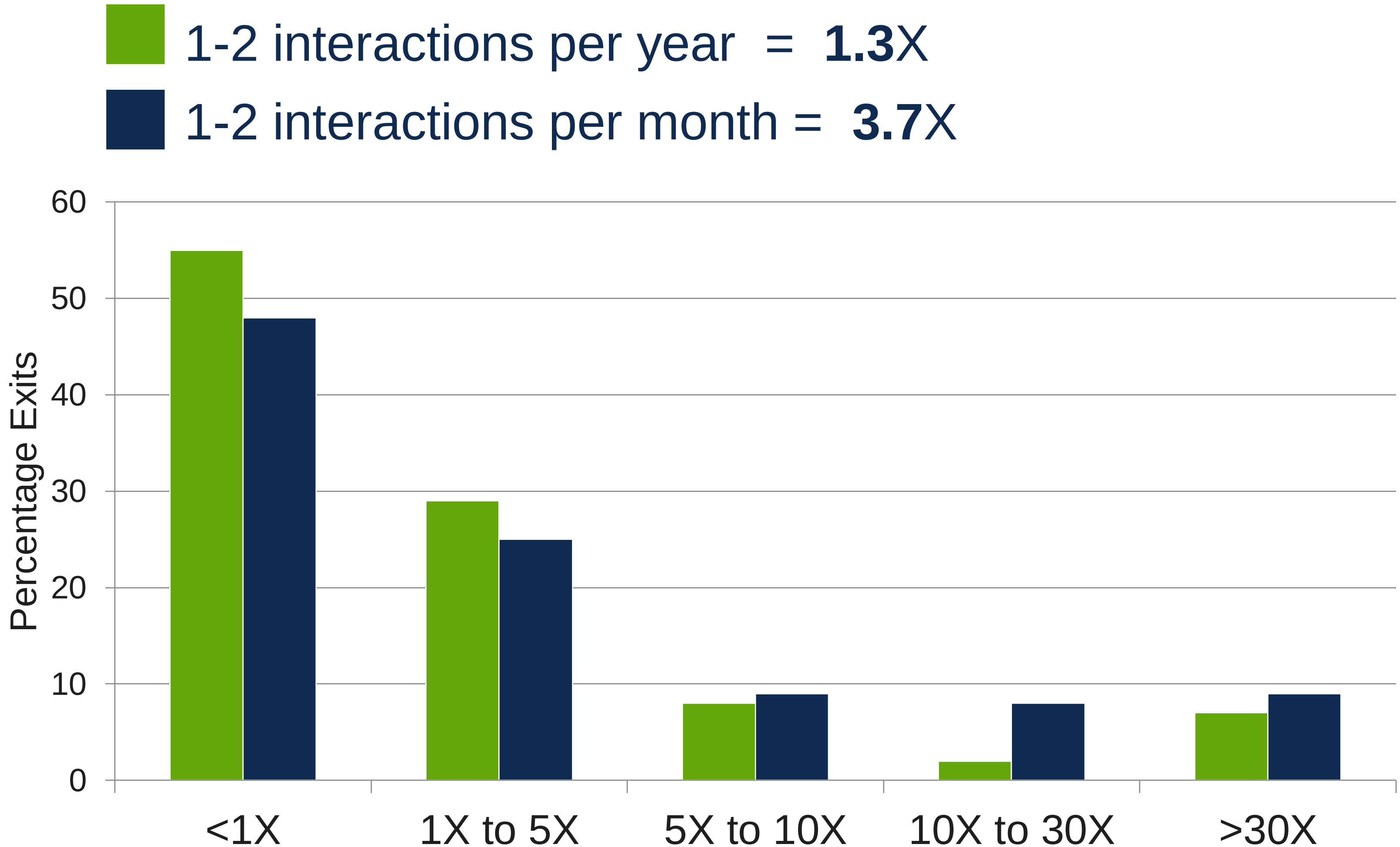
Calculate Pre-money Valuation

- Add up Adjusted Weightings **= 1.05**
- Determine median pre-money valuation for startups in your area for startups in the same business sector
- Let's assume the US median from the ACA Report
- Then:

  $6 million multiplied times the adjusted weighting = $6.3 million

What Happens After the Investment?

Why Engage with Portfolio Companies?



Returns to Angels in Groups Study (2007)
(Kauffman Foundation/Wiltbank/Angel Resource Institute)

Mentoring

- A key to successful returns
- Can you actually help?
- Commitment from both sides
- Mentors don’t operate, they inspire
- Listen first!

“Sometimes a founder just needs you to be there when no one else is…” @HarryStebbings

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Startup Boards

- Board make-up
- Follow-on funding
- Management transitions
- Exits

Make-up of Startup Boards

- Sweet spot is 3 - 5 directors at time of seed round
- At least one angel director (or observer)
- Consider an independent director for balance
- Chemistry is important – toxic boards can kill companies
- **Make sure active D&O insurance in force**

Independent Directors

- Usually elected by Board after the funding round closes
- Special skill sets
  - Business sector expertise
  - Startup board experience
  - Small private company M&A exits
- Must be willing to be engaged
- May expect compensation
  - Stock options
  - Cash as company matures
- Is a TCA angel an independent director?

Multiple Employees on Board?

Just say "no"…if you can

- CEO performance is judged by the Board
- Board assists CEO in evaluating mgt team
- Board helps CEO build and train the team
- None of these are best accomplished with other employees in the room
- Invite employees into meeting as needed

Board Observers

- Non-voting board attendees
  - May or may not actively participate
- Increasingly popular for angels and micro-VC
- Avoids personal liabilities
  of serving on Board
- Increasing Board size can impact agility
- Consider interpersonal “chemistry” with observers as well (not just directors)

Board Committees

- Consider forming a Compensation Committee immediately
- Compensation chair works with CEO on cash and equity compensation of management team
- Audit Committee chair (if applicable) works with CFO on finance and accounting issues.
  - Board selects auditor
  - Compensation chair meets independently with auditor
- Chairs chosen from among non-operating directors

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Directors' Duties

It's simple **if** a Director follows these duties –

- Never, never, never run out of cash!
- Mentor/Remove/Replace the CEO
- Sell the company
- Insist on regular communications with shareholders
- Do the right thing…for ALL shareholders

Shareholder Communications

- Most common complaint by investors
- Set communications expectations prior to closing of funding (we have leverage then!)
- (At least) quarterly summary reports
  - What is working?
  - What's not going so well?
  - What can investors help with?
- CEO and Chair share responsibility
  - Investors should direct inquiries to CEO or chairperson

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Managing CEO Transitions

Plan For The Future From The Beginning

- Board structure
  - Shared and balanced governance
- Redemption clause or founder vesting
  - For all founders, e.g. 75% of stock vested 3 years *after closing*
  - Especially the CEO
  - Will need shares for successor CEO

Frank Discussions with CEO

- Part of due diligence before funding
  - When will company size exceed skill sets of CEO?
  - Do not want growth limited by CEO
- Regular performance discussion
- How/when to make a change?

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Recognize Symptoms

- The CEO is not performing
  - Dysfunctional team
  - Sales have plateaued
  - Milestones unmet
  - Poor communications with board
- Board decides to make change
  (usually 6 months late)

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Lessons Learned

- The good, the bad, and the ugly happen
- Written/legal documents are a must
- Ignorance is not bliss
- …Or avoid all of the pain by picking founders wisely

Follow-on Funding

Director's Mandate: Don't Run Out of Cash!

- Helping CEO with cash management discipline
- Early recognition of the need for more cash
- Start fundraising early
- Identify follow-on investors

Capital Sources for Follow-on Funding

- Existing Investors
  - If milestones met, planned round and higher valuation
  - If progress/cash insufficient, “down round” … or worse
- New Angels (Seed+)
  - Existing board and investors should participate
  - Who sets valuation?
- VCs
  - Critical decision for timing of exit
  - Engage before need
- Strategic Investors

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Syndicating Angel Rounds

- Usually with trusted groups
  - Angel groups, family offices, seed VCs, Super Angels
- Rolodexes are key
- Shared due diligence

Sharing Due Diligence

- Necessary for syndication
- Expedites speed of closing
- Less entrepreneur’s duplication of effort
- Building mutual respect for future co-investing among investors
- May want/need indemnification (DD Treaty/Hold Harmless)
    - Some investors still will not share

Board Funding Issues

- How will the Board change?
- Will investors demand board participation?
- BOD seat:
  - Who gets a seat?
  - Impact of VCs on board
  - New power dynamics?
- Will D&O insurance need change?

Planning Your Exit

"Until we enjoy an exit, we angel investors are just donors!"

– John Huston, OTAF

Why Plan Your Exit

Entrepreneurs, investors and the Board have to agree upon the answers to these questions:

- Are we building to keep or to sell or IPO?
- Are we building a 4X in four years or a 25X in eight years? Both have a 60% IRR

    (More time to exit = more risk)

- Exits take months to negotiate
    - Start the process early, if not day one
- All stakeholders need to be on same page

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Consider Exit Options

SCENARIO ONE

- 1-3 rounds from angels
- Prove the business model with key customers and partners
- Tee up the company for \$20M - \$40M exit with a proven business model
- Exit timing: 2-5 years from first round of angel funding

SCENARIO TWO

- Initial funding angels
- Move into growth/ expansion phase by raising \$5M - \$25M in venture capital
- Understand that VCs will be looking for exit above \$100M or more
- How much longer will this scenario take?

Exit Planning is Important

- Wait until an offer comes over transom?
  - Companies are sold, not bought
- What is the value of an Investment Banker?
- Auctions optimize returns
  - …but cost time and money
- What about IPO/SPAC?

Alignment is Critical

- Stakeholders must agree on exit timing:
  - Misaligned directors can kill any deal
  - Exits require significant time and effort
  - Engaging professionals thoughtfully
  - Avoiding partnership contracts that could foul an exit opportunity

Traditional Steps to an Exit

1. Build alignment on exit strategy
2. Engage the best professionals
3. Clean up the corporate structure
4. Prepare for buyer (M&A) / Analyst (IPO) due diligence
5. Build the buyers funnel (list) or road show plan
6. Manage the auction (multiple bidders for M&A)
7. Negotiate and close

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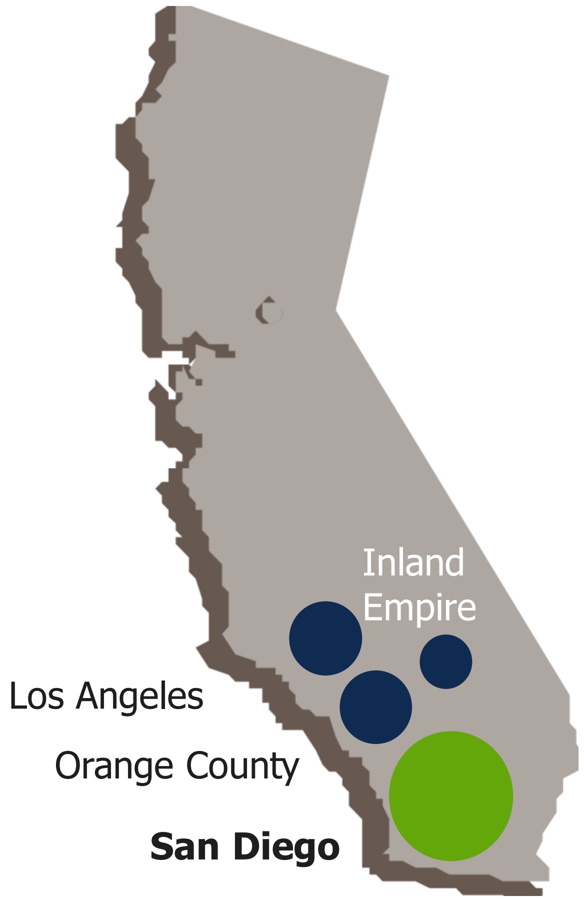
Exits Summary

- Investors need to be proactive on exits
- All stakeholders must be driven to harvest
- Run a disciplined process, if possible
- Are you batting for a double or home run?
- It can take a long time – start early!

Welcome to TCA – San Diego: #TCAtoday

About Tech Coast Angels (TCA)

- Founded in **1997**
- One of the **Largest** and **Most Active** Angel Investors Organizations in the world
- Invested **$255M+** in **415+** Startups
- **500+** Members in **4** Networks
- TCA - San Diego (TCA-SD) is the biggest network with 300+ 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 2020
  - Additional life science and "hard tech" core competence

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Membership Benefits

- Company screenings
- Membership meetings & social events
- Web-based collaboration platforms
  - Zoom, Flock, Drive, Airtable
- 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

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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!

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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. CONNECT, EvoNexus, JLABS, BioLabs, universities
- TCA events, e.g. Quick Pitch
- Over the transom
- Deals typically begin with an introductory pitch deck and/or call with TCA

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Where Do Deals Go?

- Start with sharing pitch deck/summary with ED and submitting **Deal Referral Form**
- ED reviews with relevant committee members
- Companies submit **online application**
- Companies meet with TCA in one (or more) forum:
  - Committee meeting
  - General Membership Meeting (GMM)
- Companies with significant member interest go into due diligence

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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 chat
- Vote to move companies forward to due diligence
- Participate in due diligence and lead deals
- Invest!

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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. term sheet, financials, cap table, IP, competition, exit analysis

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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)

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Deal Killers (Show Stoppers)

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

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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 TCA staff prior to meeting, e.g. term sheet, cap table, financials, IP, financing docs, TCA company survey
- ✓ Do we sign NDAs?

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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

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Deal Leads Make DD Work!

- ✓ All deals require a Deal Lead or co-Deal Leads
- ✓ Leads streamline DD, approve financing and represent the group for governance
- ✓ Coaches (experienced members) are available
- ✓ Why lead a deal?
  - ✓ Interact more with the CEO
  - ✓ Work more closely with TCA colleagues (members, staff and analysts)
  - ✓ Champion companies you believe in
- ✓ See TCA-SD's **Deal Lead Guide** HERE

DD Takes Place in 30 Days (Or Less)

- Roles for Deal Leads
  - Recruiting interested members
  - Preparing for and running DD meeting
  - Conducting DD meeting follow-up based on punch list
  - Communicating Flock discussion with CEO and interested members
  - Negotiating terms (if applicable) with TCA staff/lawyer support
  - Completing DD package
  - Coordinating ACE Fund recommendation form
  - Transitioning to financing stage

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Kick Off Meeting

- ✓ Scheduled in advance by TCA staff
- ✓ 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)
- ✓ Internal discussion (up to 30 mins)
- ✓ If advancing to funding, discuss outcome and next steps with CEO (15 mins)
- ✓ Zoom recording posted by TCA staff

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After the DD Meeting – Week 1

- ✓ Provide company questionnaire (full track deals only) to CEO to complete
- ✓ Delegate follow-up items (punch list) for Deal Team (members and analysts)
  - ✓ 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

- ✓ 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 TCA staff
- ✓ Finalize financial deal terms
(full track deals only)

Preparing for Closing

- ✓ Complete legal documents (more on next slide)
- ✓ 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 and 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
- ✓ Generally no TCA legal review for deals with trusted syndication partners

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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!

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The ACE Annual Fund: Diversification, Deal Flow & ROI

Why We Launched An Annual Fund in 2018

- We were **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 wanted it to make it easier and **more fun** for members to lead deals and engage in our due diligence process
- To **drive better investment returns** to our members!

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Snapshot of ACE 19, 20, 21 and 22

- $2.26M capital raised from 112 members for ACE 19
- $3.75M capital raised from 164 members for ACE 20
- $4.7M capital raised from 213 members for ACE 21
- $7M capital raised from 245 members for ACE 22

- 53 total investments
  - $100K - $500K checks
  - 33 Life Science (8 digital health), 20 Tech
  - 27 Southern California, 26 outside SoCal
  - 4 exits, 1 failed, 48 still in business
  - < 3% of reviewed deals were funded

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Summary of ACE 19, 20 and 21 Performance

- ACE 19 TVPI: 1.72 & unrealized IRR of 26.26%
- ACE 20 TVPI: 1.65 & unrealized IRR of 38.37%

- PortCo Follow On Rounds: GoSite ($40M Series B), Atlazo ($4M Series A), DTx ($100M Series B), BlueNalu ($60M Series A+), Mercato ($26M Series A), New Age Meats ($25M Series A), Casana ($14M Series A), Brius ($15M Series A), Maxwell Biomedical ($5M Series A), Healionics ($5M Series A), Labviva ($8M Series A)

- ACE 21 Press: Zigazoo, New Age Meats, Crafter, Iridia, Meallogix, MediPrint

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Benefits of the ACE Annual Fund

- **Diversification** in 10+ 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 **EASIER** for the entrepreneur and our due diligence teams, and fund investors (before it was hard)
- **Inclusion for ALL members** to have skin in the game
- Real-time **portfolio tracking & reporting** on Seraf investor platform

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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

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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 $250K or 6% of fund (whichever is less)
4 or more	67%	Full Track	Up to $500K or 25% of fund (whichever is less)

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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
  - Single funding tier, e.g. $250K
- Full Track
  - Led by TCA
  - Full 30-day DD process
  - Company completes our 20-page DD Questionnaire
  - TCA has board visibility
  - Two funding tiers, e.g. $300K & $500K

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How To Invest

- Be an active TCA-SD member
- Purchase any amount in the Fund greater than or equal to $10K. One unit = $10K
- Get one full vote per unit purchased (fractional units = fractional votes)
- Fund invests for approximately 12 months
- Target investment in 10-15 companies each year

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Fees And Expenses

- The Fund is mostly volunteer-managed, allowing us to keep fees very low
- **Up to 3% expense allocation for life of fund**
  - For CPA, legal, 3rd party manager, etc.
  - NOT an annual fee
- **$1,800 annual TCA-SD membership fee collected through fund investment**
  - Includes all TCA benefits (tech, events, admin, etc.)
- **5% carried interest**, paid to TCA only after 100% of member capital is returned to members

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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

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Frequently Asked Questions

- When can I invest?
  - We hold a 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 and only TCA-SD members can participate in the Fund.
- How do I vote for deals?
  - Every vote will be posted on flock and emailed to members. **Voting concludes 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

- Who gets the carried interest?
  - **Carried interest is paid to TCA-SD**. 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 3rd 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 legally managed by Assure, a 3rd party fund manager. It is organized and advised by a volunteer Fund Executive Committee composed of 3-5 members from the TCA-SD 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** to make real-time reports available to all Fund members, on demand. The Fund also issues a formal Fund Report once it is fully invested.

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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.
- 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.
  - Note that the Fund Manager, Assure, is responsible for the timing and distribution of K1s.

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Thank You!

- This fund is largely volunteer driven. Special thanks to…
  - Our fund executive committee: Caitlin Wege, Mary Temple, Sergio Gurrieri, Dean Rosenberg, Ashley Mullen
  - Sponsors First Republic Bank (bank), Moss Adams (CPA), Assure (Fund Manager)
  - TCA-SD staff: D.J. Anderson, Ashok Kamal
  - All of you who have put your faith (and money) with us!

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What's Next?

- Bookmark the TCA-SD Member Education site for new content: **www.tcasandiego.com/knowledge**

- **Contact Ashok Kamal, TCA-SD:**
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  - @tcasandiego

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