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Hosts:



Financing Fast Growth

Manchester, NH

June 22, 2006

Today's Speakers



Northeast Angels



Agenda

- Background
 - Purposes and sources; Debt v. Equity
- Angel Investors (Northeast Angels)
- Venture Capital
 - Process and Valuation
- Government Funding (NH SBDC)
- Near Equity (Vested for Growth)
- Regional VC Funds
 - Borealis Ventures
 - CEI Community Ventures
- An Entrepreneur's View

Growth requires capital

Operational capacity

- Management
- Sales and distribution
- Support and service
- Administration

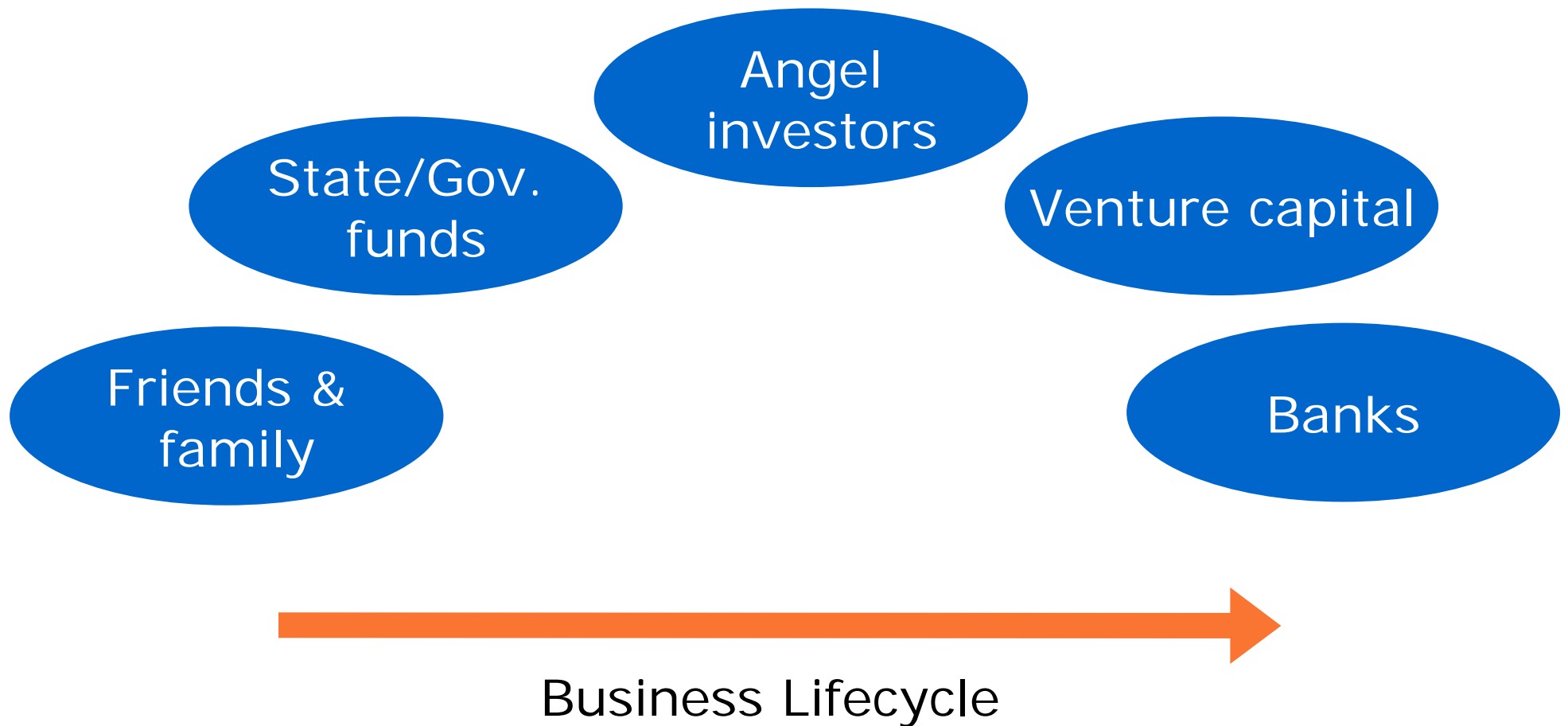
Working capital needs

- Accounts receivables
- Inventory

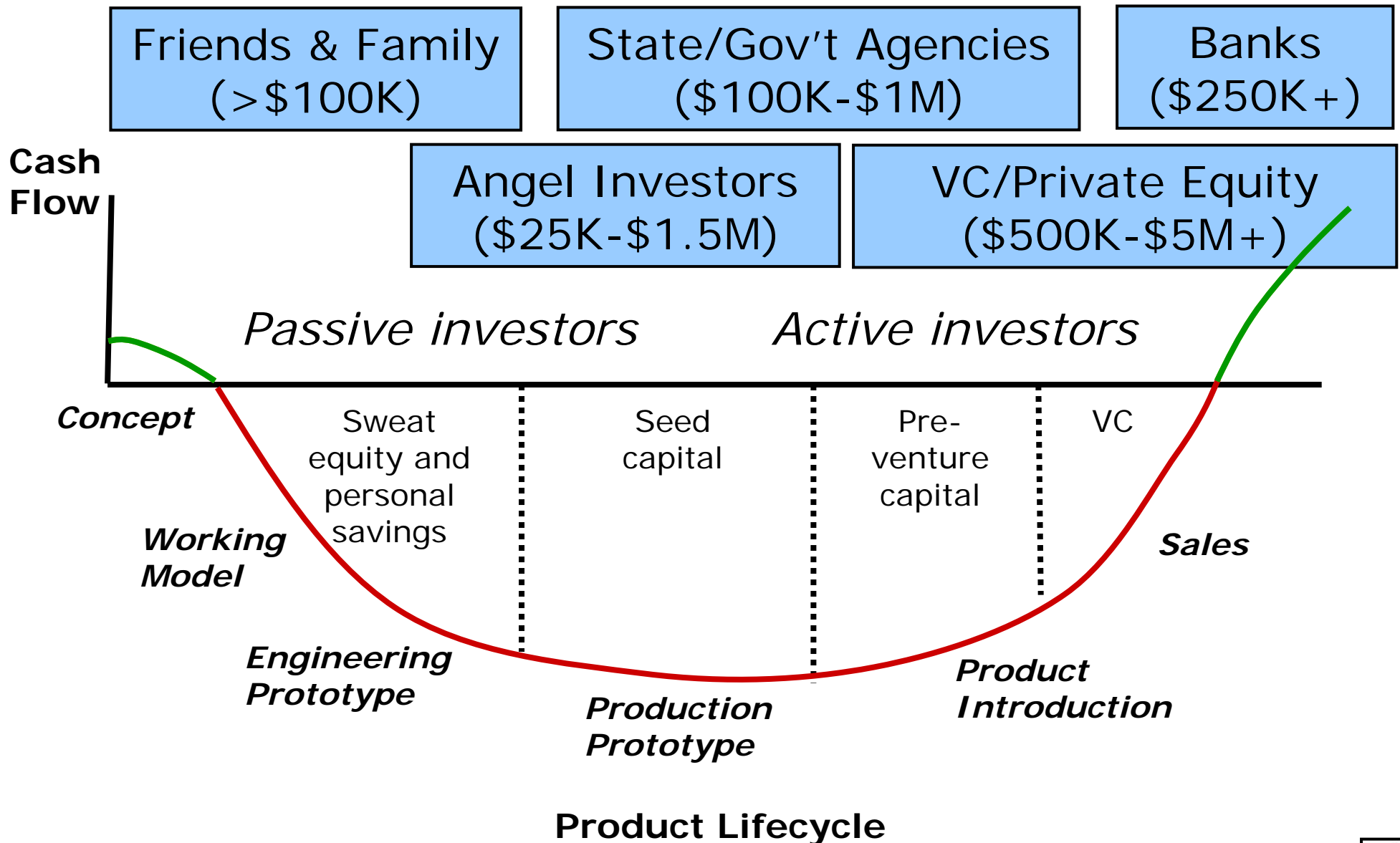
Capital expansion

- Technology
- Equipment
- Leasehold improvements

Think about the sources of funding across the life of your business



Capital sources vary according to where you are in the "Valley of Death"



Debt and equity are very different

Debt

- Emphasis on collateral and cash flow to reduce risk
- Repayment starts after funding
- Return not based on company performance
- Lower risk for lender, higher for borrower
- Lower cost for borrower if business is successful
- No ownership dilution
- Supports short-medium term expansion
- Monitoring relationship
- Boilerplate issues and documents

Equity

- Emphasis on future opportunity and return on investment by assuming risk
- Deferred repayment
- Repayment dependent on company performance
- Higher risk for investor, lower risk for investee
- Higher cost if business is successful
- Ownership dilution
- Supports long term expansion
- Involved partner relationship
- Complex issues and documentation

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Contact Information

Hollis McGuire

603-897-8587

hmcguire@rivier.edu

Northeast Angels



Nashua Region

Agenda

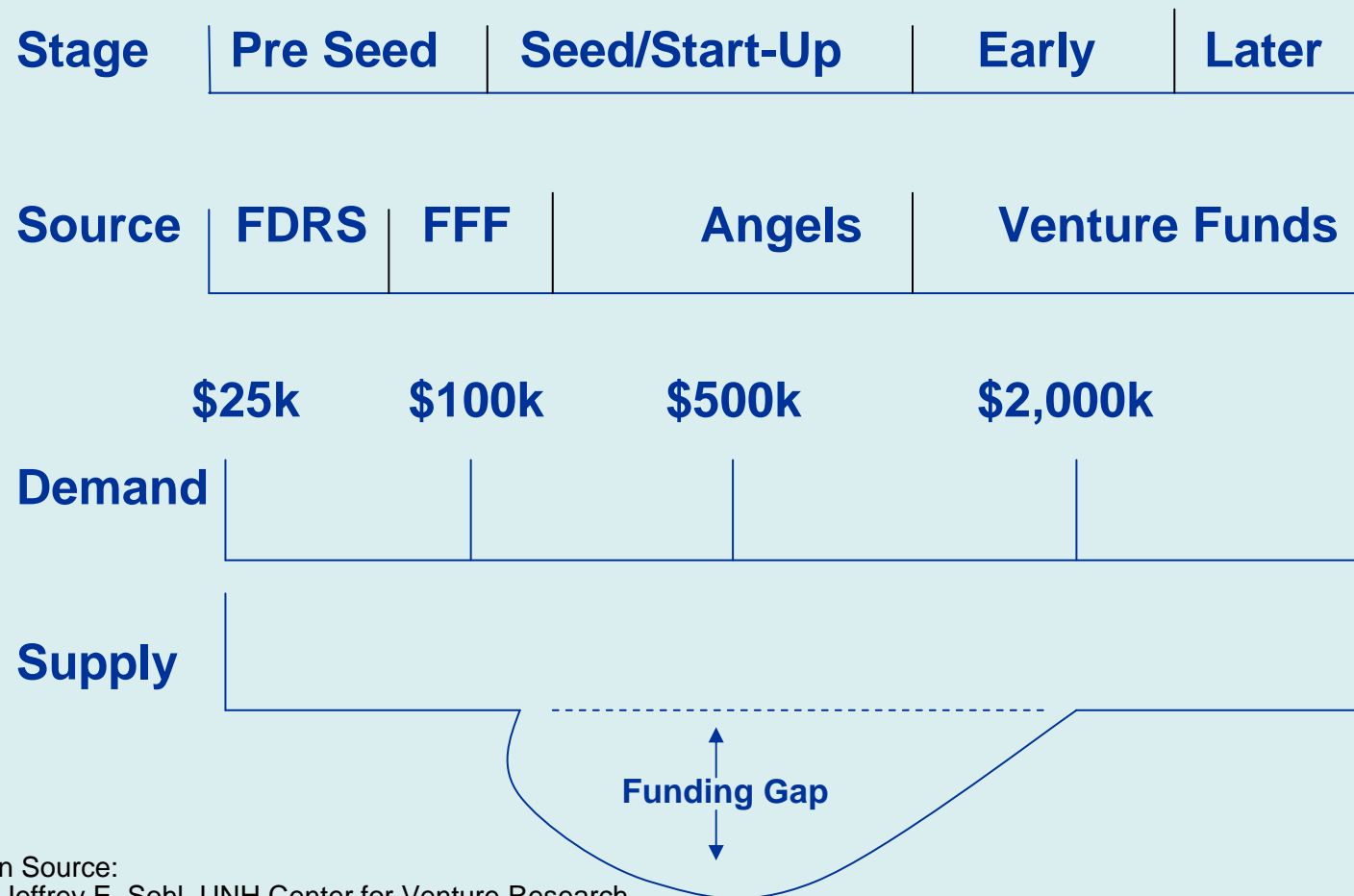
- Angel investment environment
- NH Angel environment
- Northeast Angels
- Preparing for angel funding

- 
- What is the Angel investment environment?

Attributes of angel investment

- **Private investment**
- **Accredited investors**
- **Stage of investment – generally early**
- **Investment range ~ \$25k - \$1.5m**
- **Typical range - \$300 - \$500k**
- **2005 total investment – \$23.1 Billion**

Equity Capital for Entrepreneurs



Information Source:
Professor Jeffrey E. Sohl, UNH Center for Venture Research

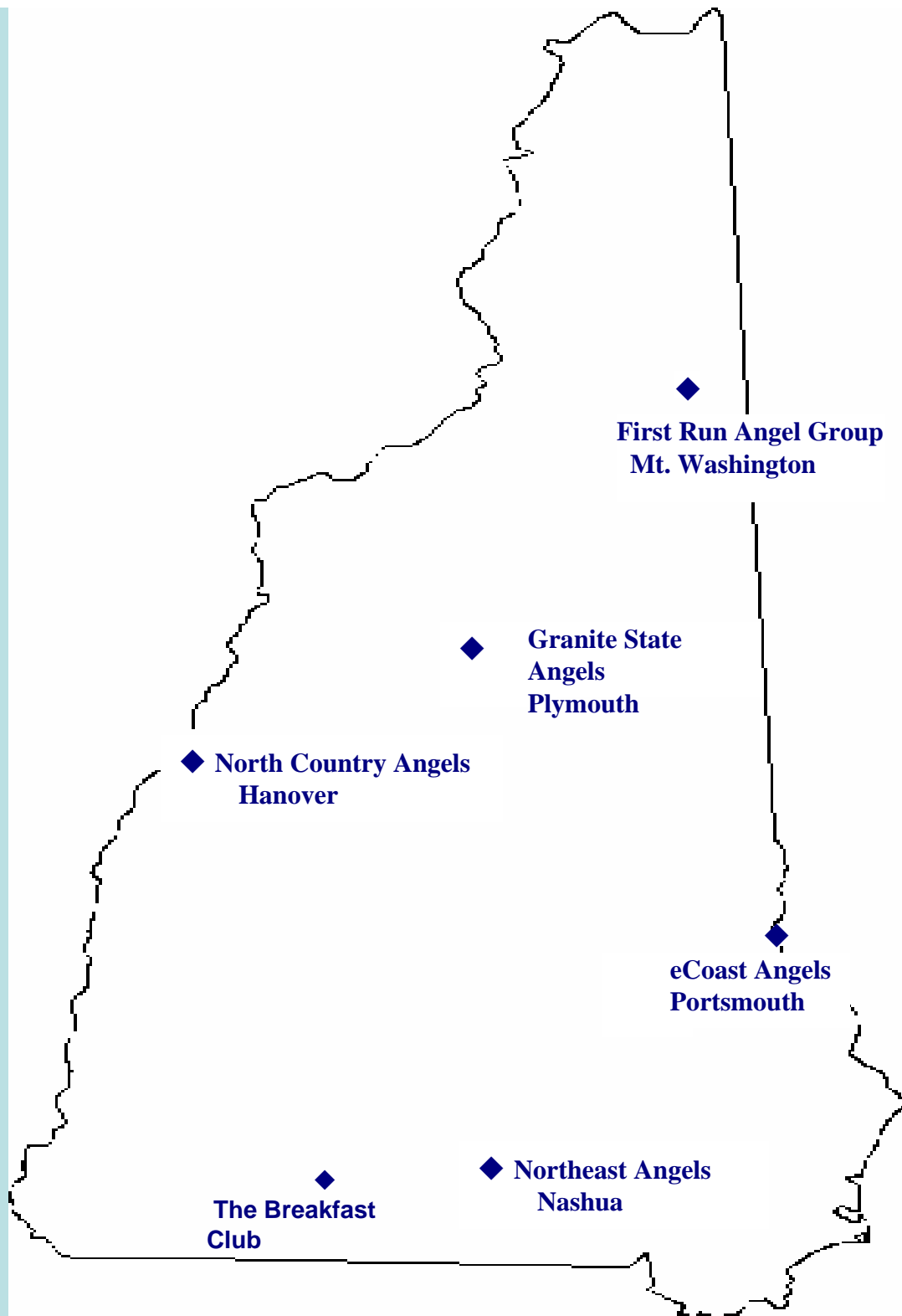
- 
- What is the New Hampshire Angel environment?

Attributes of NH angel investment

- **Private investment - individual, in groups, & in syndicates**
- **Accredited investors**
- **Stage of investment – generally early**
- **Investment range ~ \$25k - \$1.5m**
- **Typical range - \$100k - \$500k**

New Hampshire has a rich & growing capital landscape

- **35+ lending institutions**
- **6 angel investment groups**
- **Significant private equity below the radar**
- **Regional VC funds**
- **Government funding sources**
- **SBA programs**



◆ Angel Groups

Angel Contact Information

Northeast Angels	www.neastangels.com	info@neastangels.com
eCoast Angels	www.ecoastangels.com	ecoastangels@comcast.net
Granite State Angels	www.granitestateangels.com	wainwright@granitestateangels.com
North Country Angels	www.northcountryangels.com	info@northcountryangels.com
First Run Angels Group	www.firstrunangelgroup.com	jac@mwvec.com
The Breakfast Club	No website address	info@barn.org

Additional Resources for Angel-Stage Companies

- **Small Business Development Center**
www.nhsbdc.org
- **SCORE**
 - www.score.org
- **Women's Business Center**
 - www.womenbiz.org
- **SBA – SBIR**
 - www.sba.gov/nh/

Additional Resources for Angel-Stage Companies

- **Amoskeag Incubator, Manchester – 1997**

- www.abi-nh.com

- **Dartmouth Regional Technology Center – 2006**

- (Web site not available at this time)

- **Mount Washington Valley Technology Village – 2006**

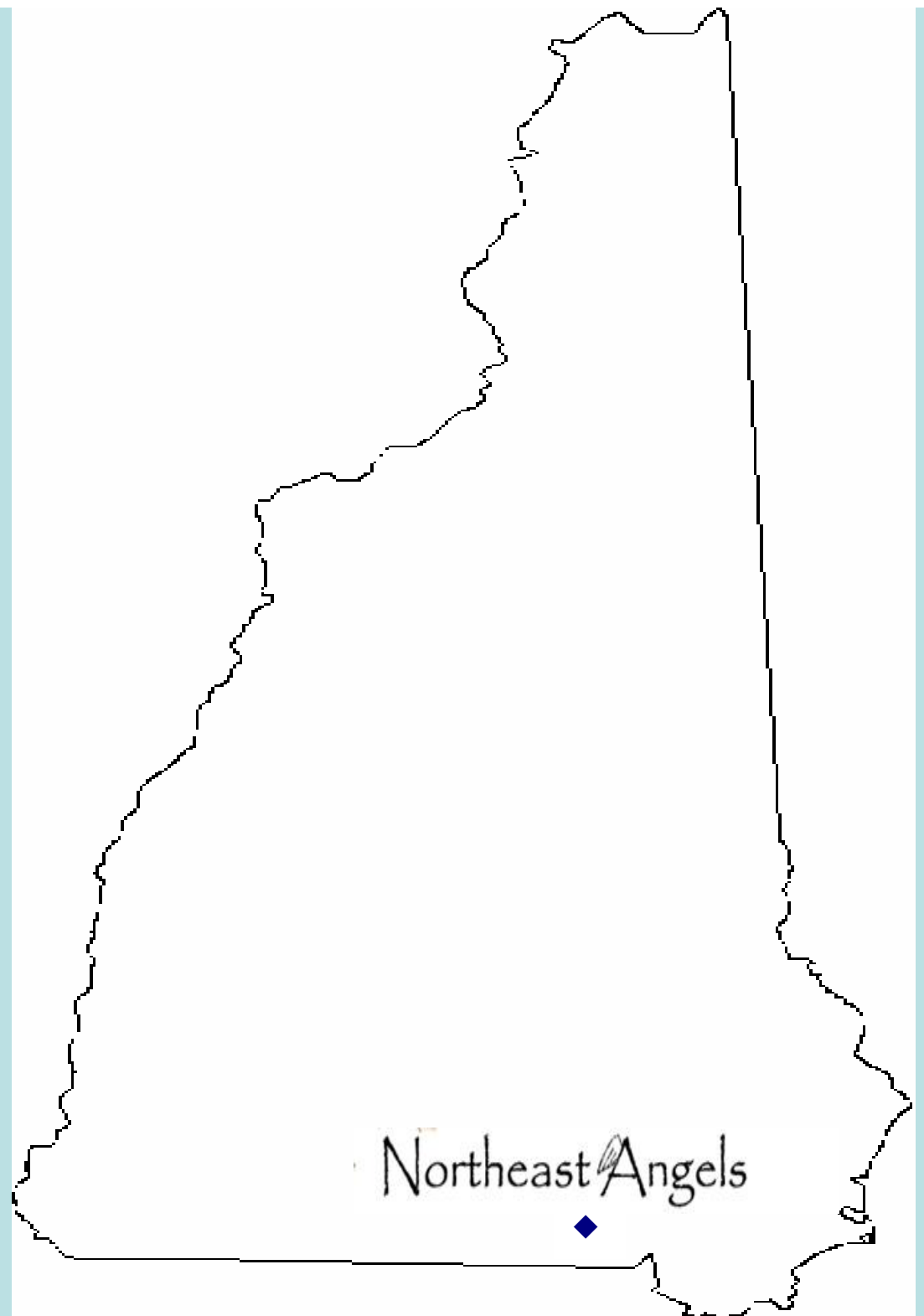
- www.mwvec.com

- 
- What is Northeast Angels ?

Northeast Angel Contacts:

Ken Steinberg, Chairperson
info@neastangels.com

Hollis McGuire , Founder
hmcguire@rivier.edu



What is Northeast Angels?

- **Early-stage investment group**
- **Focuses on opportunities located in the business corridor between Manchester and Nashua, New Hampshire**
- **Invests in opportunities regardless of technology or service class**
- **Looks for opportunities with companies that can demonstrate potential market penetration, strong leadership, organized effort and strong financial skills**

Northeast Angels Process

- **Submission of inquiry via website form.**
- **NeA internal evaluation of submission.**
- **If additional information is required, an invitation to meet with NeA is offered.**
- **Invitee presents company overview & entertains Q&A at NeA meeting.**
- **NeA, if interested, will enter into an additional period of due diligence.**
- **At completion of NeA diligence, submitter will be contacted concerning potential future involvement.**

Northeast Angels

What have we accomplished in 10 months?

- **Active pipeline**
- **Company presentations**
- **Membership growth**
- **Investments**

- 
- How does a company prepare for angel funding?

When should you consider Angel Investment?

- **After you have gained an understanding of the funding landscape**
- **When your request fits well with this type of funding**

How should you introduce your business to Angel Investors?

- **Formal groups provide the entry point to approach many angel investors**
- **Most angel investors will remain anonymous**
- **Private networks will remain an excellent source of angel investment**

How should you prepare your submission?

- **Review request carefully**
- **Answer request clearly and succinctly**
- **Proof your submission!**

How should you prepare if you get a meeting?

- Make sure you understand the process for presenting & the time frame you will have
- PRACTICE your presentation

How should you position your company?

- **Explain your business clearly & quickly**
- **Provide a clear explanation of the problem to be solved, and your solution**
- **Demonstrate customer interest**
- **Provide key information on the management team**
- **Explain market strategy, how the business will succeed, risks and competition**
- **Make a clear financial request**

What do you need to convey to an Angel Investor?

- **This team understands a compelling market & need**
- **This team can deliver the product in a highly profitable way**
- **This capital gets the company to profit, or**
- **There is a solid strategy for getting follow-on investment**

What happens next?

- **Due Diligence**
 - **Intellectual Property**
 - **Technical**
 - **Financial**
 - **Management**
 - **Other**
- **Negotiation**

**How long does the process
take?**



**When you need to
re-assess**



CONTROL

Can Control:

Understanding choices.

Being well matched to the correct choice.

Adapting your strategy to the correct choice.

Cannot Control:

The overall economy.

The specific decision that a funder may make.

CONTROL

Although you cannot control a
funder's decision,
you can influence a funder's
decision.

Top 10 reasons why a business is not funded

- 1. Failed to capture the interest of investor**
- 2. Management team does not impress investor**
- 3. Outside area of investor expertise**
- 4. Market size too small**
- 5. Time to profitability too long**
- 6. Business requires more funding than group can provide**
- 7. Stage of funding needed does not match investor criteria**
- 8. Market timing is too early or too late**
- 9. Business plan is weak**
- 10. Funding environment is tight**

Other actions you can take

- 1. Get as specific feedback as possible from the investor**
- 2. Understand risk from investor perspective**
- 3. Integrate learning from unsuccessful attempts for funding prior to seeking funding again**
- 4. Consider traditional funding sources**
- 5. Re-scale plans**
- 6. Understand partnering aspect**
- 7. Accept joint responsibility**
- 8. Strengthen financial projections**



Funding is a Beginning –

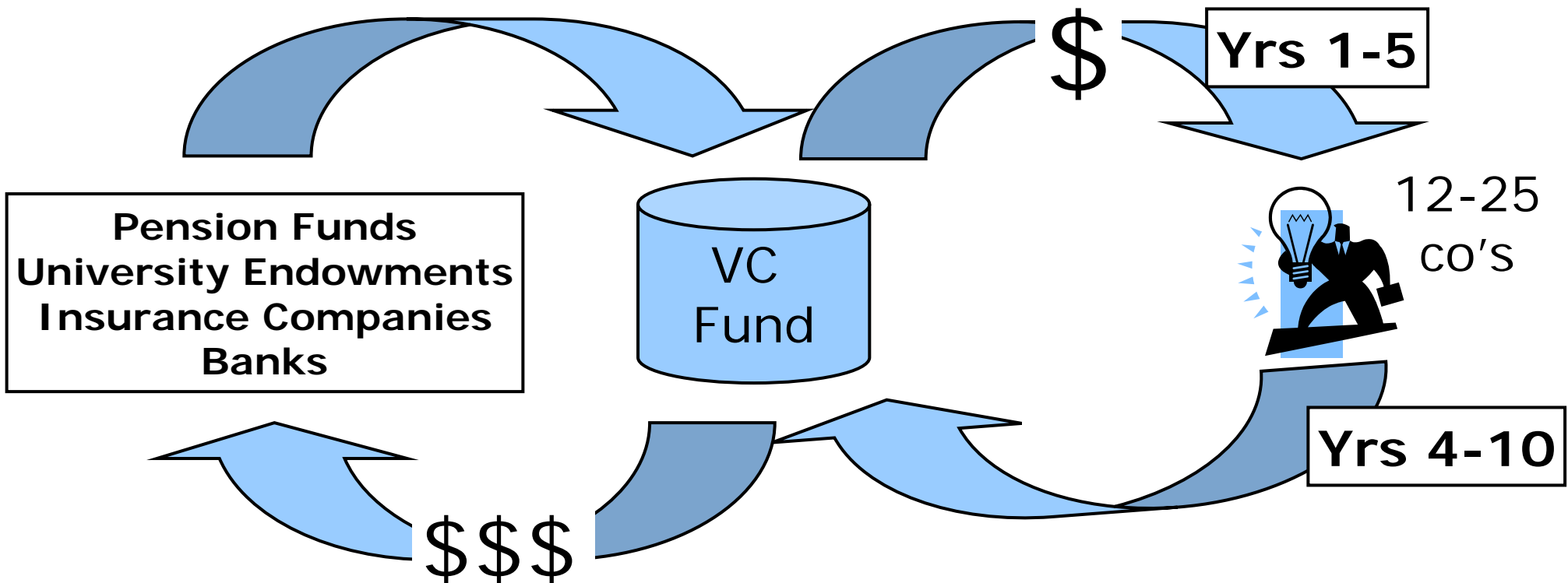


Not an End!

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Investors support VC funds that can consistently manage high risk capital



Venture capital managers must plan for losses as well as gains

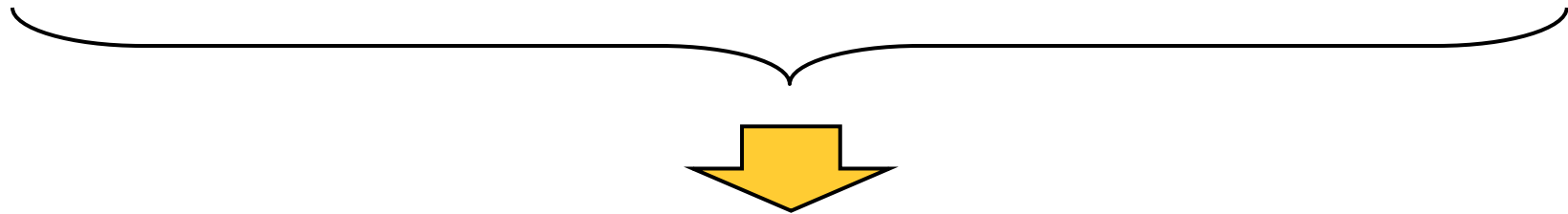


12-25
Investments

$1/3 = 100\%$ loss

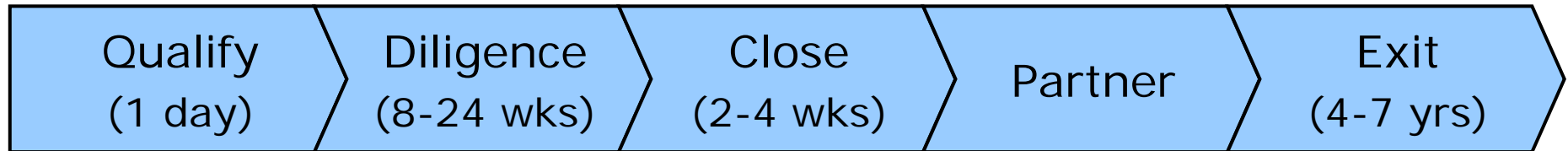
$1/3 =$ return of cap.

$1/3 =$ profit



**VC pricing/evaluation must
accommodate expectations of
portfolio loss**

The venture capital/angel group process involves several distinct stages



- Sector
- Story
- Management
- Margins
- Growth potential
- Exit options

- Management
- Market
- Competition
- Technology/
Barrier to entry
- Strategy/
plan

- Terms
- Legal/
Accounting
- Investment

- Active partnership
- Board of Directors

- Sale/
merger or
IPO

Breaking down business risk

- Management
- Market
- Product
- Technology
- Financial
- Legal



**Focal points
of due
diligence**

VCs assess your business' situation against the ideal

Management

- Made money for investors
- Successful startup, ideally in same sector/space
- Complete team in core areas (sales, marketing, finance, etc)

Market

- Large, fast growing with few competitors

Product/ Tech.

- One-tenth cost or 10X performance of nearest competitors
- Proprietary position (barrier to entry such as established market position and/or intellectual property, patents)

Business Model

- Scalable: make once, sell many times
- Appropriate for venture capital financing--no real estate

Financial

- Sustainable gross margins > 50%
- Limited financing risk (future rounds likely)
- No financial liabilities that affect value or equity position

Legal

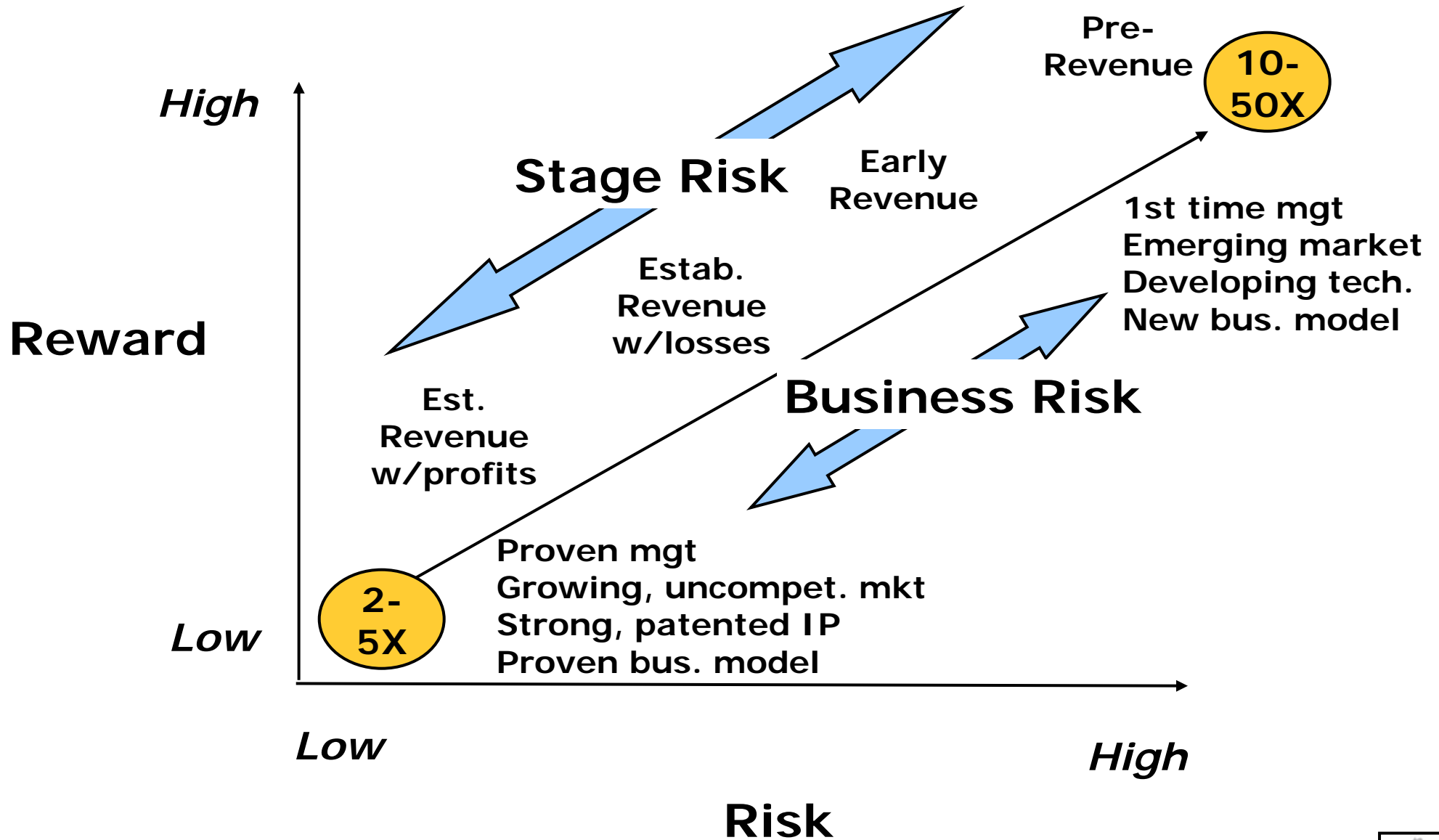
- No legal contracts that affect value or equity position
- No outstanding litigation around intellectual property or other assets

Stage risk overlays weighted business risk

- **Early stage:** Pre-revenue; early revenue with losses
- **Development stage:** Established revenue with losses
- **Later stage:** Established revenue with profits

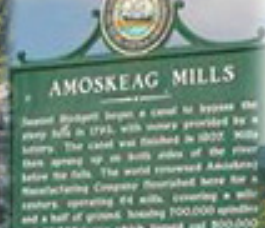
Stage	Risk	Return multiple
• Early	• Highest	• 7 + X
• Development	• Medium	• 4-7X
• Later	• Lowest	• 2.5-4X

Reward follows risk



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SBIR Support in New Hampshire

Mary E. Collins
2006

Small Business Development Center
Whittemore School of Business &
Economics

862-2200

www.nhsbdc.org

NH SBDC

A National Partnership Program

Hosted by UNH & the
Whittemore School of Business
and Economics

A cooperative venture: US SBA;
State of NH; University System
of NH and the Private Sector



What is the SBIR Program?

- A set-aside of federal research and development grant dollars targeted to small businesses
- Purpose: Meet federal R&D needs by providing early stage funding to small companies.

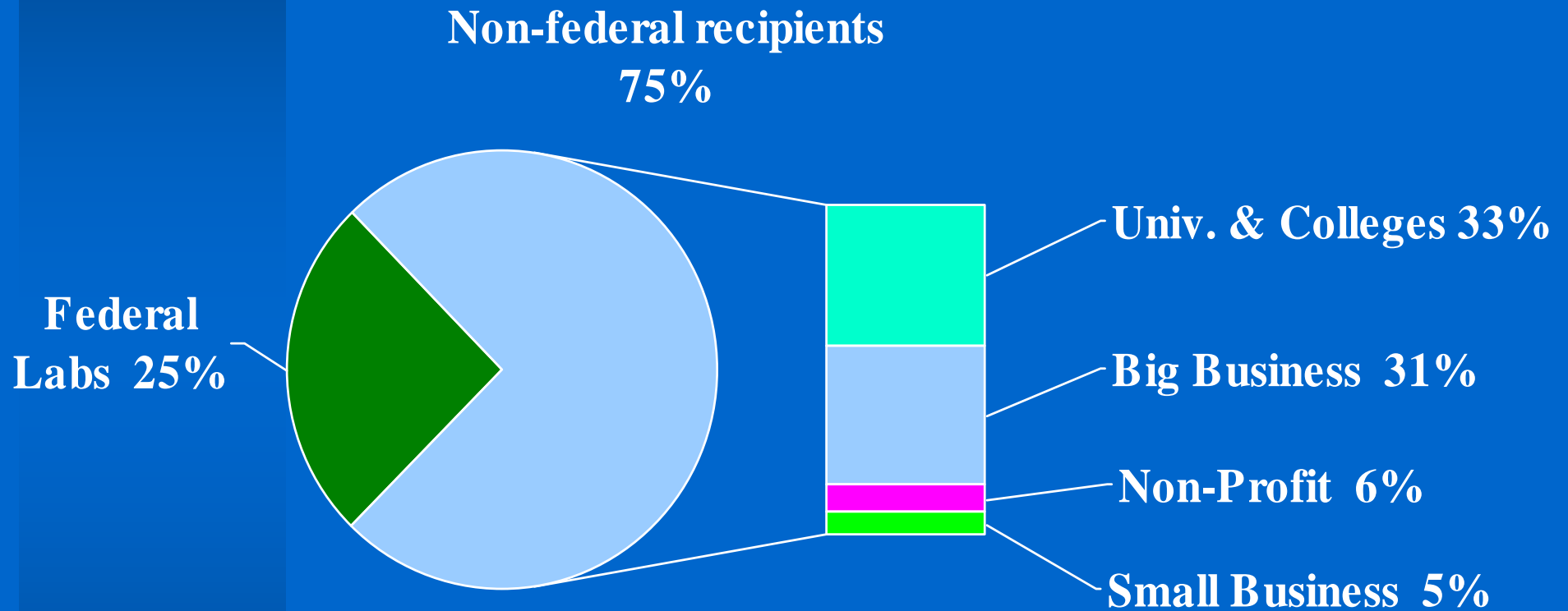
Participating Agencies



TOTAL ~ \$2.3B

- DOD Defense
- HHS Health
- NASA Space
- DOE Energy
- NSF Science
- DHS HomeLand Security
- USDA Agriculture
- DOC Commerce
- EPA Environment
- DOT Transportation
- DoED Education

Federal Research Expenditure



Where's the money?

- **Phase I Feasibility Research**
 - SBIR – 6 months – up to \$100,000
 - STTR – 12 months – up to \$100,000
- **Phase II – Concept Development –**
 - SBIR/STTR – 24 months up to \$750,000
- **Phase III – Commercial Application Private Funding**

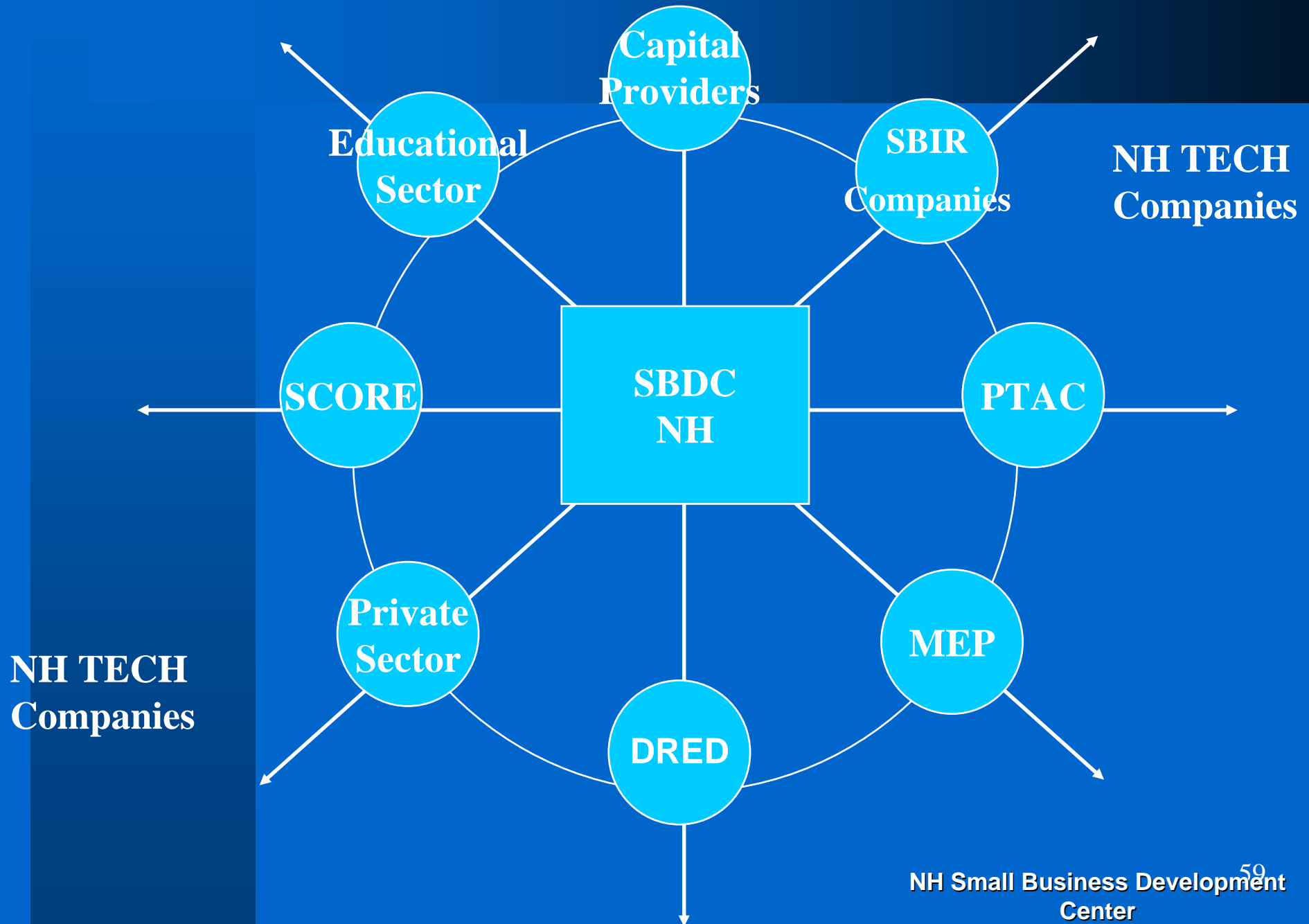
Who is Eligible?

-  **For- profit U.S. business**
-  **At least 51% U.S.- owned**
-  **Small Business located in the U.S.**
-  **P.I.'s primary employment with small business during project**
-  **500 employees or fewer**

Questions to Consider

- Is there a need for the technology?
- Has the necessary team for a successful program been assembled?
- Who will benefit from this technology?
- Who are the customers and who will invest?
- Has ownership of intellectual property been addressed?

Outreach/Delivery System



Contact Information

**NH Small Business Development
Center**

603-862-2200

www.nhsbdc.org

www.zyn.com/sbir/

www.sba.gov/sbir

www.ssti.org

www.sbirworld.com

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Vested for Growth

Capital for Business Development

Risk Tolerant and Patient Capital for Long-Term Growth

Introduction

- Purpose
 - Provide risk tolerant and patient capital to help businesses to grow and take root in NH
- Market Opportunity
 - Fill the capital gap between senior debt and equity
 - Mezzanine Financing - Sub Debt and Royalty

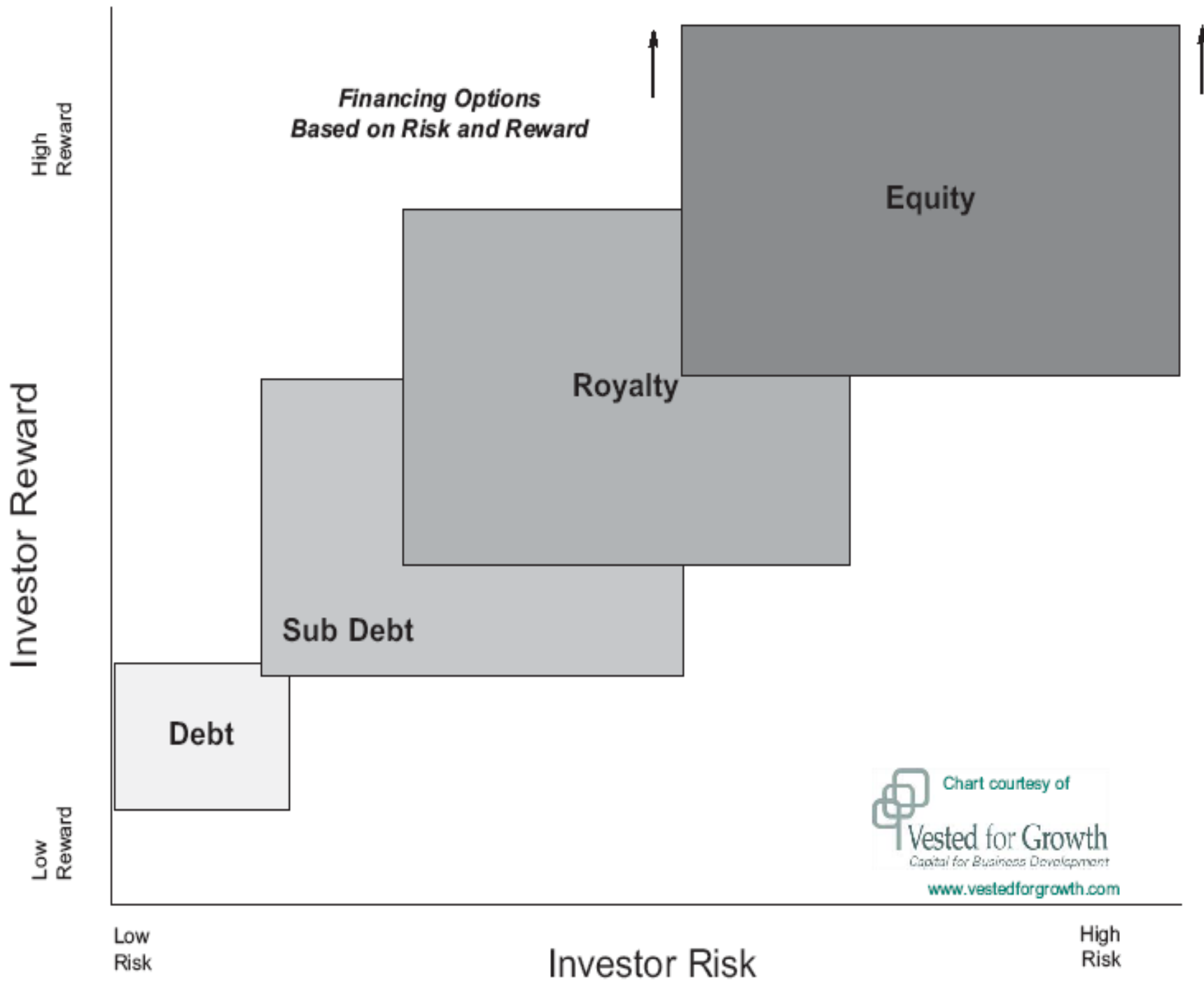


Chart courtesy of
Vested for Growth
Capital for Business Development
www.vestedforgrowth.com

Types of Finance

Debt

Wild Things

Risk →

Equity

y

Banks

Angels & VC

→ **CREDIT ENHANCEMENTS (BFA/SBA)**

Past

Collateral

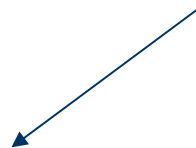
Formula

Future

Growth Proposition

Flexible

VfG = Hybrid



Sub-Debt Financing

- Risk Tolerant
- Cash Flow
- Management & Expertise

Sample VfG Deals by Risk

Debt

Alternatives to
Debt & Equity

Equity

Wild Things, Inc.

Conway

Structure

----- *Debt behind bank with
other partners*

**Use of
Funds**

----- *Working capital for
military contract*

Company

----- *18-year-old clothing
designer and manufacturer*

Investment

----- *\$150,000*

Outcomes

----- *\$5 million contract with 30
new jobs in the North Country*

Lower Risk

Higher Risk



Types of Finance



Banks

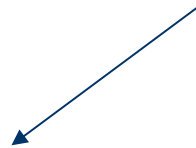
Angels & VC

→ CREDIT ENHANCEMENTS (BFA/SBA)

*Past
Collateral
Formula*

*Future
Growth Proposition
Flexible*

VfG = Hybrid



Sub-Debt Financing

- Risk Tolerant
- Cash Flow
- Management & Expertise

Sample VfG Deals by Risk

Debt

Alternatives to
Debt & Equity

Equity

Bortech, Inc.

Keene

Structure -----

Debt with royalty

**Use of
Funds** -----

*Finance acquisition
preventing out of
state sale*

Company ----

*10-year-old manufacturer
with patented arc welder*

Investment ----

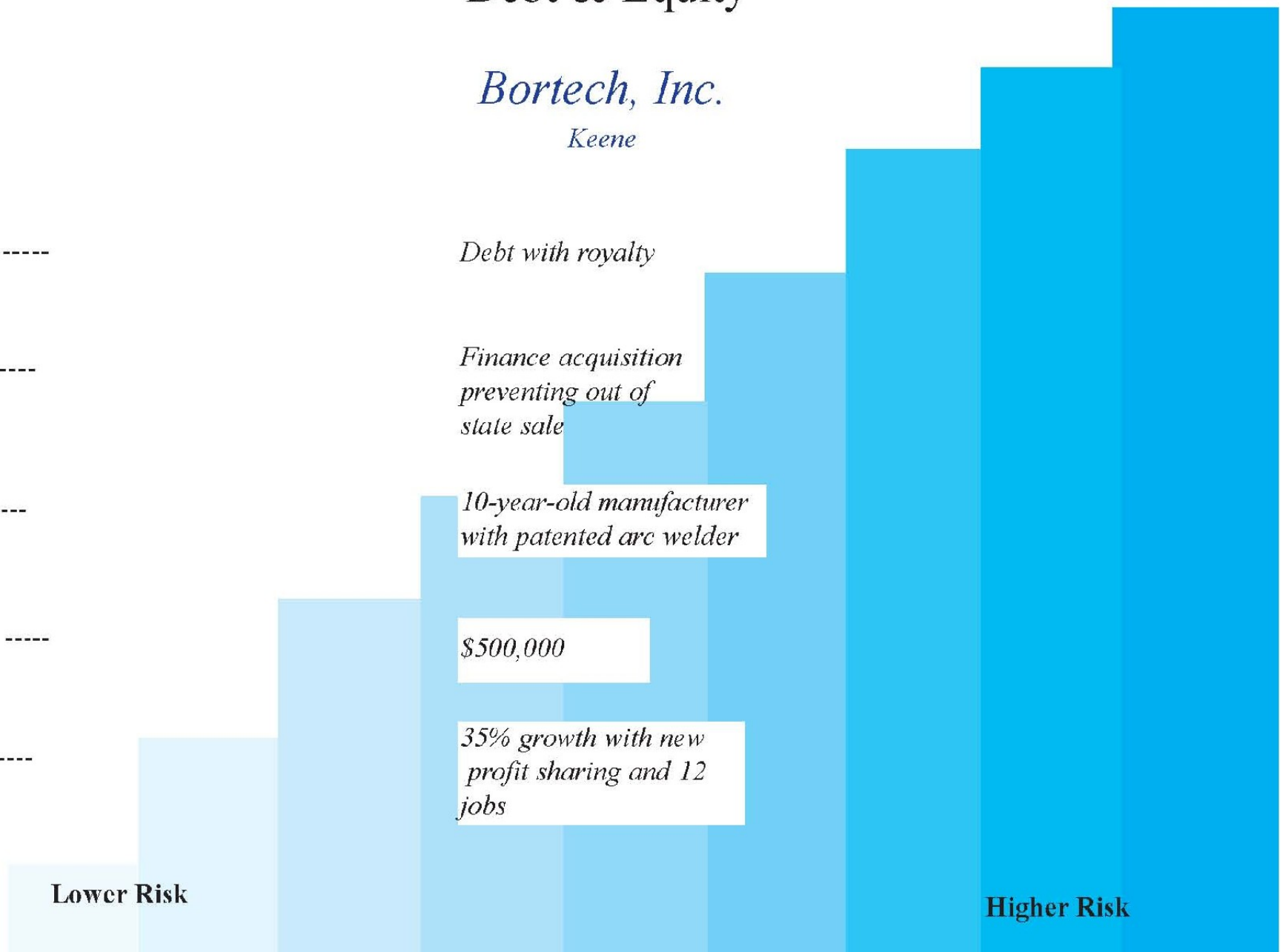
\$500,000

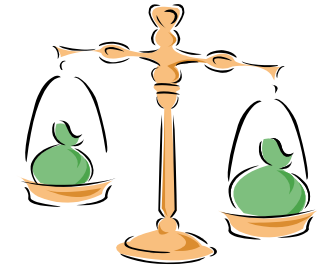
Outcomes -----

*35% growth with new
profit sharing and 12
jobs*

Lower Risk

Higher Risk





What is Royalty Financing?

- Return is a % of future revenue, not a % of ownership
 - No fixed cost obligation – repayment flexibly adjusts to actual revenue
 - No ownership dilution
 - Provides a known exit - no “cash-out” event required
 - Can work with less than venture grade companies

Types of Finance

Debt

Wild Things

Bortech

Risk →

SyAM Software

Equity

Banks

Angels & VC

→ **CREDIT ENHANCEMENTS (BFA/SBA)**

*Past
Collateral
Formula*

*Future
Growth Proposition
Flexible*

VfG = Hybrid

Sub-Debt Financing

- Risk Tolerant
- Cash Flow
- Management & Expertise

Alternative to Equity

- No Dilution
- Solid Growth
- Management & Expertise

Sample VfG Deals by Risk

Debt

Alternatives to
Debt & Equity

Equity

Structure -----

Use of
Funds -----

Company -----

Investment -----

Outcomes -----

SyAM, Inc.

Nashua

*Debt with royalty and
warrants*

Growth capital

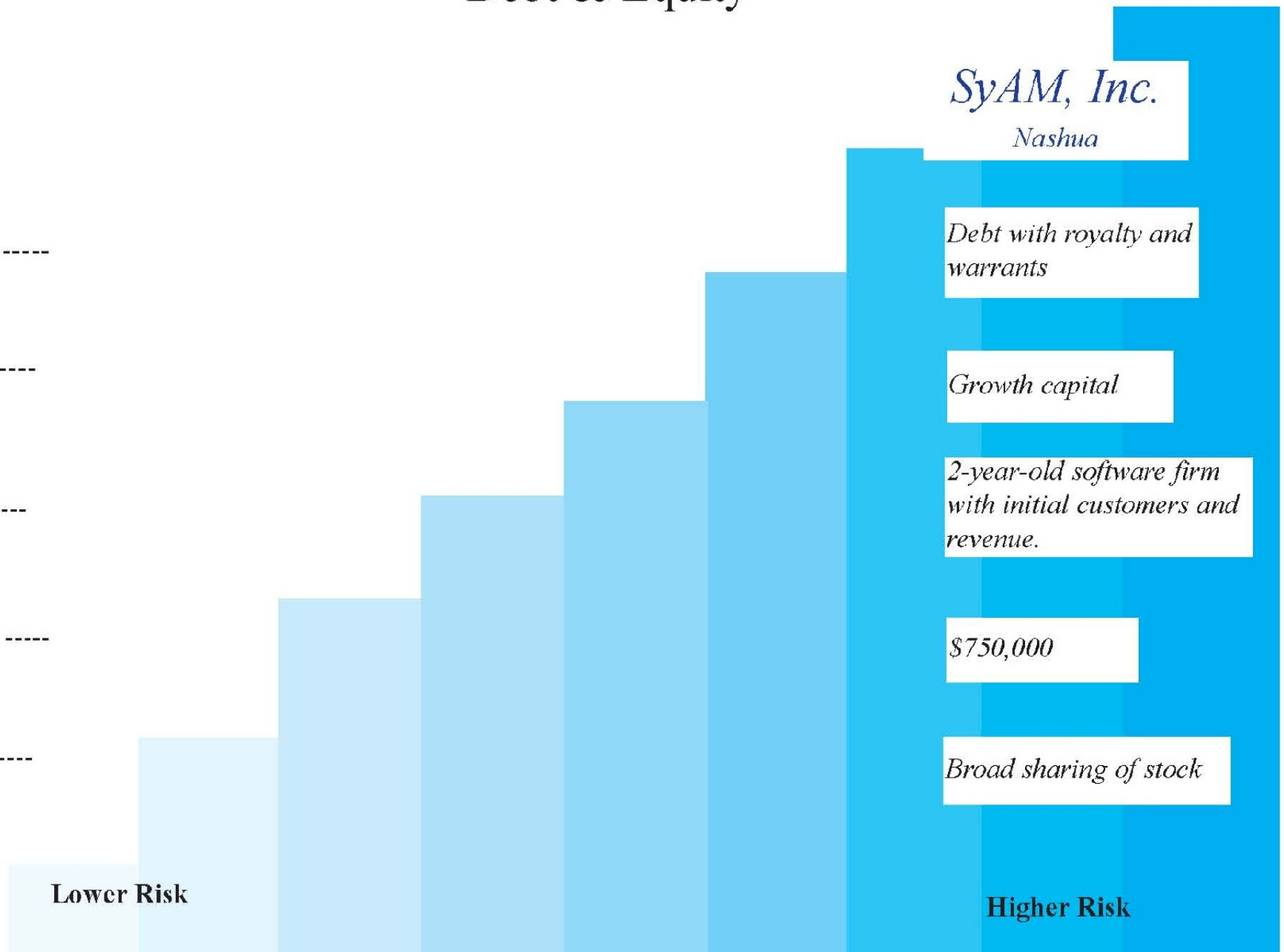
*2-year-old software firm
with initial customers and
revenue.*

\$750,000

Broad sharing of stock

Lower Risk

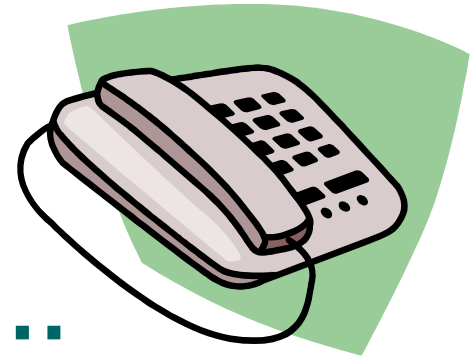
Higher Risk



VfG Portfolio

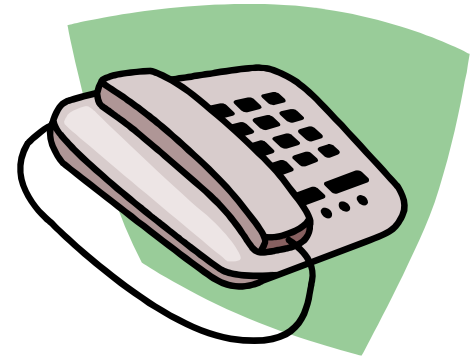
- Six investments in three years
- VfG seeks to partner with other sources:
 - To share risk, expand capacity, and add value
 - Sub debt and royalty deals with RDCs
 - Royalty deals with Angels

Criteria for VfG Prospects...



- NH based
- Typically \$100k-\$500k
- Development and later stage
- Value-added product or service
- GPM better than 25%

Contact VfG ...



Email: Jhamilton@vestedforgrowth.com

Web: www.vestedforgrowth.com

Phone: (603) 856-0729

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BOREALIS VENTURES

*Venture Capital Uniquely Focused
on Northern New England*

*Building the Next Generation of Great
NNE Companies*

Investment Focus

Sectors: Application Software, Internet and Mobile Services, Technology Commercialization (incl. life sciences)

Primary Market: Northern New England (NH-VT-ME-MA)

Stage: Seed and early-stage (\$0-\$10M revenues)

Role: Active; typically lead or co-lead

Investment Size: Up to \$5M over life of investment; initial investments of \$250k - \$1.5M



Portfolio Overview

- Strong, balanced portfolio:

Application Software

Google @Last Software
 Newforma
 Scribe Software
 SpaceClaim

Internet Services

Handmark
 Icovia
 Flurry



Technology Commercialization

Avedro
 GlycoFi
 Magenta Medical
 Medical Metrx Solutions

 Bio NEWCO (*pending*)

- Borealis led or co-led 10 out of 12 deals.
- Syndicates built with quality co-investors:



Requirements

- TEAM
 - relevant industry, passion, execution.
- MARKET
 - large, timing, customer behavior.
- PRODUCT/SERVICE
 - painkiller, product growth, proof points.
- BUSINESS MODEL – make money?
- DEAL - good for all?



Borealis Ventures

www.borealisventures.com

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HANOVER, NH

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matt@borealisventures.com

FORWARD PLANS TO info@borealisventures.com 80



Financing Growth
Manchester, NH
June 22, 2006

CEI is a Maine-based non-profit CDFI with two for-profit VC subsidiaries

Coastal Enterprises Inc.

CEI Ventures, Inc.

Community Development Venture Capital

(CVI)

- Founded in 1994



**COMMUNITY
VENTURES**



(CCVI)

- SBA licensed as of 2003

Both CEI funds share some common threads

Financial and
social returns

Multi-
sector,
multi-
stage

Capital
Gap

But the funds are different and are managed separately



Fund size

- \$20M

- \$10M

Avg. investment

- \$1M

- \$500-750K

Geographic focus

- Eastern Seaboard
(Primarily New England)

- ME, NH and VT
(with geographic and size constraints)

Contact info

- Nat Henshaw
(nvh@ceimaine.org)

- Mark Kaplan
(mdk@ceimaine.org)

- Michael Gurau
(mhg@ceicommunityventures.com)

- Michael Burgmaier
(mcb@ceicommunityventures.com)

Equity plus...

Private
Investors

SBA

OA Funders
Cash,
In-kind



\$5M

\$5M

\$1.5M

\$1.5M



\$10M Equity
Fund

\$3M Operational
Assistance Pool



**Investments focused in underserved communities
(HUB, EC/EZ Zones, low-income areas)**

We exchange our capital and effort for the risks and opportunities of your company

Capital and Effort

- Capital
- Operational Assistance
- Board development/management
- Networking (banks, legal)
- Syndication
- Strategy



Risk and Opportunity

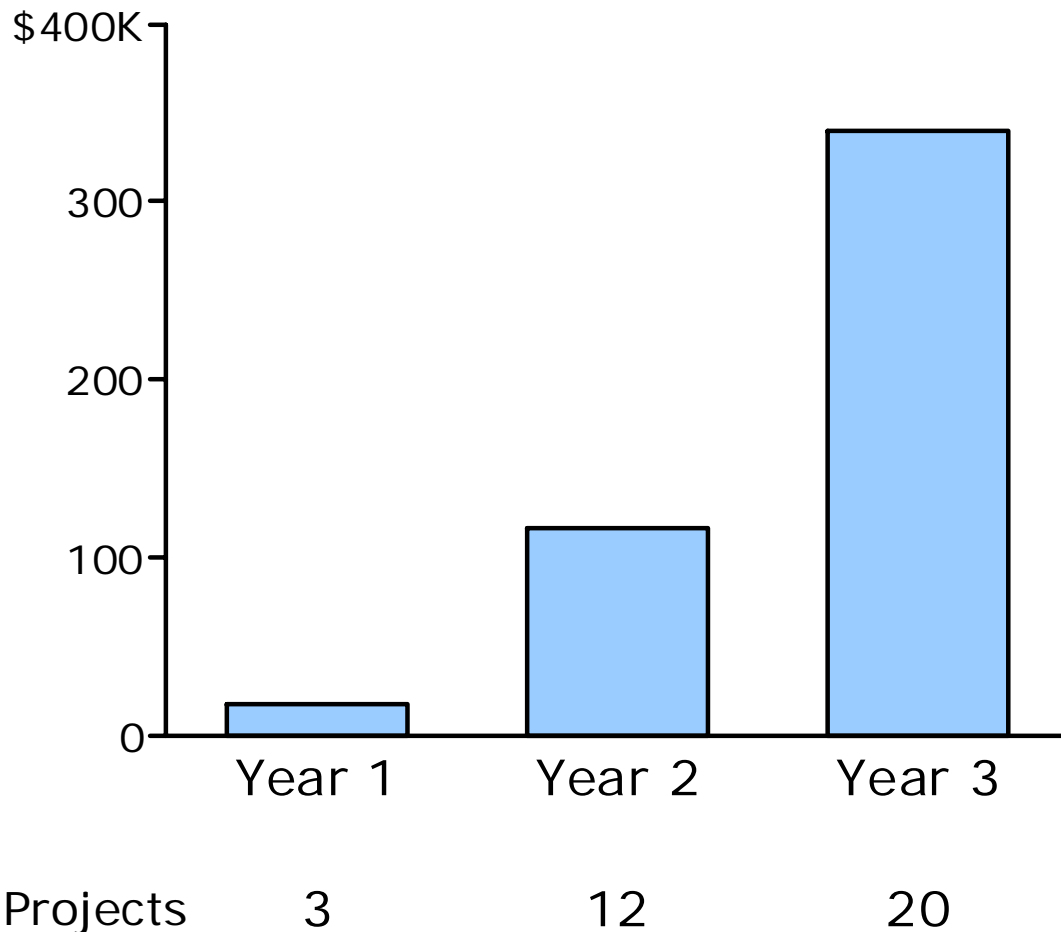
- Share in risk and upside potential
- Pricing reflects appropriate risk-reward tradeoff

OA creates better opportunities and improves likelihood of success



CEI Community Ventures has deployed close to \$1MM in Operational Assistance

Value of projects



Sample Year
Three Recipients



**7 additional projects
>\$440K already in
process for Year Four**

Current portfolio balanced across ME, NH and VT

Burlington



Brattleboro



Pittsfield

Nanotech Startup

Concord



Nashua

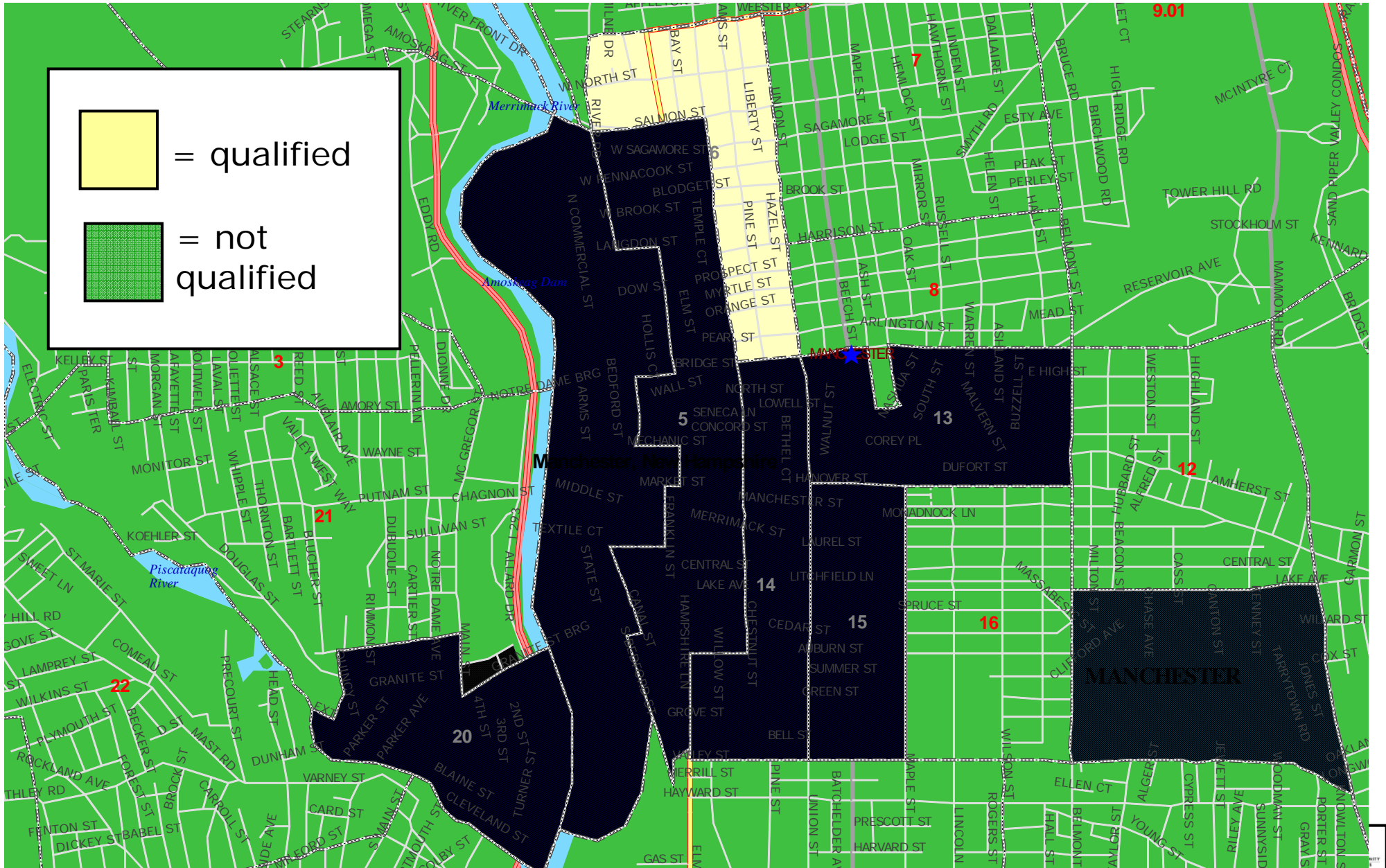


Whiting



Portland

Qualified Tracts – Manchester





Other qualified areas in NH

- Nashua
- Keene
- Concord
- Pittsfield
- Claremont
- Durham
- Littleton
- Much of Northern NH

To check your address, see:

<http://ceicommunityventures.com/criteria/maps.htm>

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Growing

Jay Borden

CEO Emeritus, Granite Systems

jay@bordenfamily.net

Random Thoughts

- Capital
- Teams
- Vision
- Metrics
- Culture
- Trust

Capital

Raising Capital: P-C-P

People-Credentials-Positioning

- Round one. It's not about valuation. It's not even about terms. It's about people.
- Round two. Credentials. Who loves you?
- Round three +. Life gets complicated.

Teams

Management Teams

- “The Transformative Hire”
- Selection: Science and Art
- Stages and Scaling
- Culling

vision

Having visions

- Simplicity works
- Define what you can dominate (“SRM”)
- Claim what is credible
- Communicate relentlessly

Metrics

The Measure of a Great Company

- Example: sales metrics
- Example: board metrics
- Example: customer metrics
- But metrics overload masks ineptitude

Culture

Open Leadership

- Open financials
- Open doors
- Thought leadership (excellence)
- Community leadership

Trust

Summary

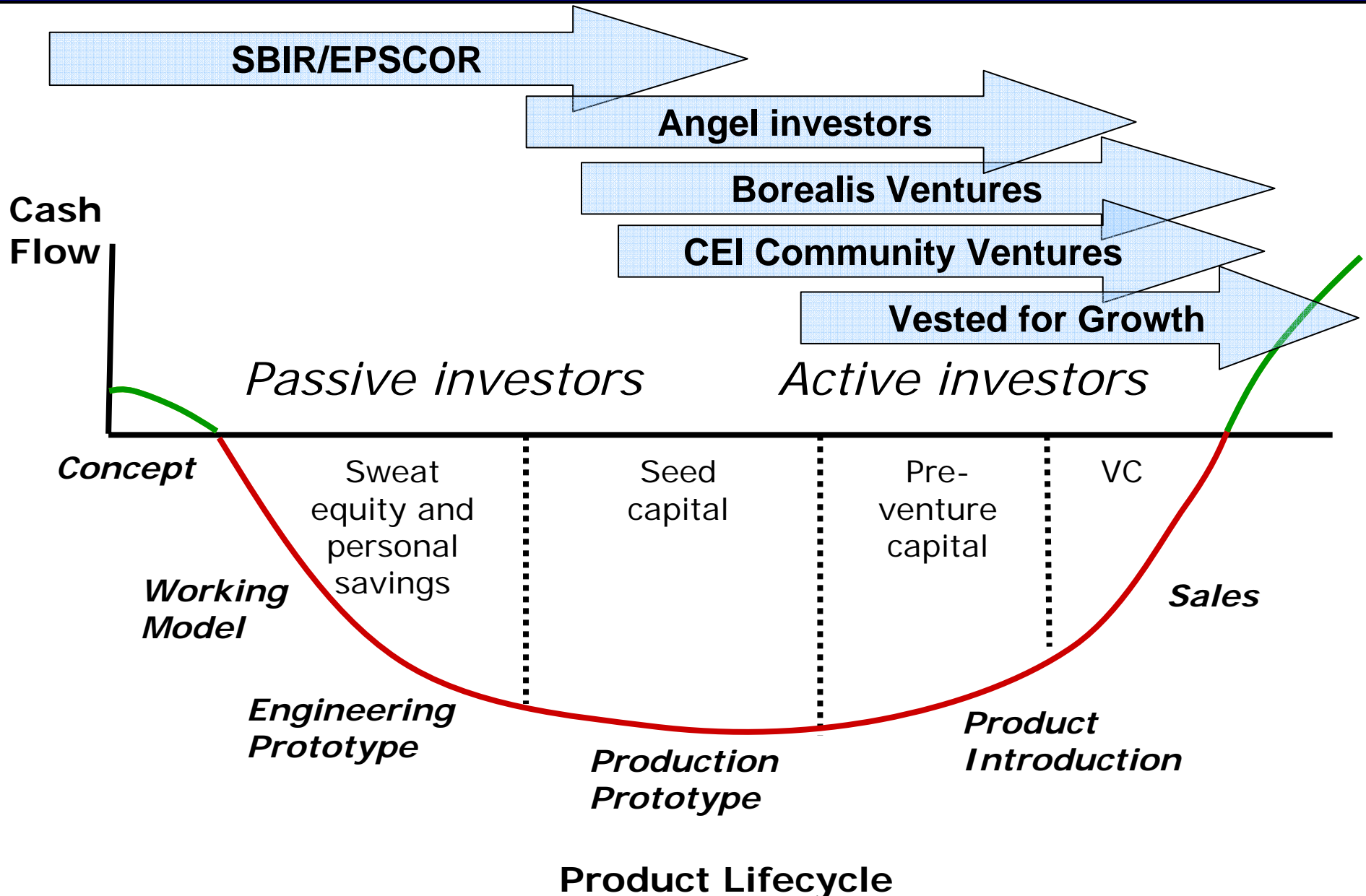
Seeking venture capital – considerations

- Personal ambition
 - Role in company over time
 - Issues around exit: lifestyle vs. the next Microsoft
- Your odds of securing funding
- Stage of development
 - Business planning
 - Pre-commercialization
 - Commercialization
 - Growth

Summary

- This list is not exhaustive
 - Other types of financing and/or support resources exist
 - Loans (Banks, State/Local economic development groups)
 - SBA and SBDCs
 - Tax credits
 - State grants (Community Development Block Grants)
- Consider your objectives when evaluating financing sources
 - Personal
 - Professional
 - Financial

Where the funds fit on the Valley of Death



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