



Lincoln Trail Dynamic Business Accelerator

Investor Relations

Venture Capital Overview

Startup companies hope to attract both angel investors and venture capital funds. These investors provide the capital that is necessary for getting a small company off the ground. Although angel investors and venture capital funds serve a similar function, there are important differences between the two.

The key differences between angel investors and venture capital funds:

By Definition: Angel investors are affluent, private investors who invest in smaller companies. Although some angel investors organize into networks or groups and pool investments, angel investors generally invest alone. A venture capital fund is different because it is a substantial pooled investment, drawing on numerous wealthy investors.

Investment Size

The range of angel investor transactions is typically \$25,000 to \$100,000 for an individual, and up to \$1 million, or more, when acting in a group. There are no set guidelines as some have invested millions upon millions and some just invest a few thousand. Anybody willing to invest in your venture is considered an angel investor. An angel investment is used to grow the company to the size that attracts larger venture capital investments, mostly above \$1 million.

Investment Focus

The focus of angel investors is typically earlier stage businesses, and concentration on expanding the company with the angel's investment to a more attractive size for Venture capital investment. Venture capital funds prefer to invest in high growth companies capable of achieving exit strategies such as IPOs that meet the fund's return criteria within a specified time frame. VCs, depending on the deal made, either take a cash payout or continue with the investment and focus on getting a higher ROI for what they have helped create.

Attracting Investments

Since angels act privately, they vary in investment areas and take on investments on a case-by-case basis. Angel investors may allocate funds to a range of ventures, frequently tied to their areas of expertise and often prefer to invest within the vicinity of their business activities to add management value and monitor portfolio companies. VCs focus on emerging markets like technologies and software companies, and have greater amount of accountability for investments. So angels typically are easier to attract because they can be "talked into it" essentially, but VCs often have many more objectives to match and therefore harder to confirm.

Through local resources, networking, Internet searches, and references from existing contacts, angel investors may be relatively easy to identify. The difficulty may arise at the negotiation stage if the business requires funding from several investors who demand different terms. Obtaining venture capital funding is a highly rigorous process

and a firm must first meet all the investment criteria of a firm before consideration. A firm must then be prepared for a lengthy due diligence, valuation and negotiation process.

Expected Returns

Early-stage and growth businesses generally involve higher levels of risk and investors will seek a commensurate return. The cost of capital for private equity is high, translating into a high level of equity required in return for the invested funds to help offset their frequent losses. Although compared to one another, angels often expect a slower, smaller return on investments than venture capital funding but the unifying criteria is that they seek high growth companies capable of achieving exit strategies that meet the investors return criteria within a specified time frame. Sometimes angels are not only in it for the money; therefore it's the other driver that helps give the angel more patience to create something special. You must make sure of your expectations and your investors expectations before you move into any arrangement with an investor. This isn't just common sense; it's also common practice to protect you, other investors and the employees of the company.

Angel Investors

An angel investor generally wants less control of your company and a slower return on investment than second stage investors, however the criteria for investment are likely to be similar. Angel investors are looking for capital growth and revenue increases and evidence that your business can deliver continued growth over time, to provide a return on their investment. Angel investor groups are great sources of private capital and frequently invest in new companies.

Angel investors tend to invest in business startups that interest them personally. They generally want less control of your company and a slower return on investment, however the criteria for investment are likely to be similar. Angel investor groups are great sources of private capital and frequently invest angel money into new companies. Businesses of all kinds are sought by angel investors - day care, real estate, accounting, brokerage, pet supplies, dance studios, construction and contracting, entertainment, landscaping, restaurants and cafes, appliance repair, crafts, greeting cards, photography, web design, nail and beauty products, online businesses and more.

Angels tend to match entrepreneurs in ideals and goals of startup businesses. Angel investors, mostly prior entrepreneurs, understand the needs of a new entrepreneur and the start up business, and are able to provide useful expertise and assistance.

Generally:

Angels will invest in business startups that interest them, when entrepreneurs have promising ideas and goals.

An angel investor is generally an independently wealthy individual or a group of

investors and accept a risk upon investment; angels may not see returns until ten years down the line.

Angels take a vested interest in the business start up in which they invest, and may become actively involved in the company to assist in other than financial aspects of the venture start-up.

Angel investors help entrepreneurs create their businesses by supplying the funding, the office infrastructure for them to work, and the management and marketing expertise to assist them. Finding angel investors has become much easier with websites identifying types of businesses in which they would like to invest.

It follows that both venture capitalists and angel investors are looking for capital growth and revenue increases and evidence that your business can deliver continued growth over time, to provide a return on investment.

When raising money from angel venture capitalists, you'll want to meet as many as possible. They won't all invest, but each time you pitch, you get better and more confident. Each time you pitch you get asked different questions and get different opinions and ideas. It's worth it to pitch as many people as you can, as often as you can.

Some questions will get asked over and over. And you'll discover those patterns quickly enough and adjust your pitch accordingly. If you have a weak answer to a question that gets asked once or twice, it's not a big deal. But if your weaker answers are to the most common investor questions, you have a problem. Venture capitalists don't expect you to have all the answers: they know you don't. But they do want to see that you're thinking about a few critical things, namely: Business Model/Plan - Marketing Plan – Use of Funds.

With that in mind, here are some of the more common questions potential investors will ask:

So what's your business all about? The wording of this question will change, but this is the classic "elevator pitch" question. Translation: "In the shortest amount of time possible, tell me why I should take the time to listen." Sell them quickly, with something simple and powerful they can relate to and keep focusing on that message throughout your presentation.

What's the barrier to entry for competition? The question comes from angels that might not be familiar with your industry. You must be knowledgeable and conversant with a confident response because you did your analysis. Experience – unique concept - capital – location - contacts – management skills – identified experienced personnel – equipment – and other viable reasons form the basis for your response.

Why are you raising the money you want to raise? The amount you're asking for is critical. Make sure you've done your financial homework. Don't tell them your numbers are conservative; just explain to them the basis of your plan and your ability to manage the plan.

How far does that money get you? Have a good answer to this question. Couch this in product and financial terms, i.e. "This will facilitate our initial plan and support the effort for 9 months, when we expect to be cash flow positive."

Do you have any customers? Have you spoken to potential customers? Investors are looking for traction, or at least the inkling of traction. As soon as possible, try and get a few potential customers to say, "We are interested." You might even use them as references. This raises the comfort level for investors and helps answer the question, "What's the market?"

What's your marketing strategy? For early stage companies this is a very tough question. Present a timeline of events and customer acquisition numbers that you're anticipating, as supported by your Marketing Plan. Be prepared to identify strategic partners that provide an added dimension to your plan.

What's your team look like? What are your backgrounds? Investors want to know the backgrounds of the founders. If you've hired resources, they'll want to know who they are and what they will contribute to the effort. They will want to know how quickly you expect to grow the team over time as well.

Conclusion

The key message for a company is to be realistic in its goals. If a business is at an earlier stage, or growth prospects are currently modest, then angel financing may be the best option. If, however, the business has an established record, or is at an early stage but offers an exceptionally compelling opportunity with an outstanding management team, then pursuing venture capital may be viable.

LTADD Angel Investors

Angel Investors Overview

Angel investors are a private source of investment money, usually used to help a promising company in Kentucky grow and meet their potential. The angels fulfill a need for capital that cannot be met by bank loans or the private means of the current owners. Sometimes they also offer consulting and management advice.

Angels offer a unique way for a business to raise capital without making money commitments of their own in the way of loans or getting new permanent partners.

These are not regulated investments as the SEC assumes the angels are sophisticated investors and do not need government protection. They have the knowledge and

experience to do their own due diligence when making an investment decision.

This is a special area of finance that is not tapped by as many companies as it should be. Small companies in Kentucky could grow well beyond what the owners expect if they had the money and knowledge an angel or a group of angels could bring to the table.

Angel investors are typically private affluent investors who are interested in finding small companies with a potential for significant growth. The company needs capital that is not available through other means. A private investor, angel, or person that has entrepreneurship desires could make funds available. These investments are made in lieu of a public offering. An angel investor takes on higher risk investments in hopes that the company becomes profitable and could be taken public or purchased. Angels usually have sufficient risk funds that they can put up and take the chance that their investment will work or fail. The reasons they are called angels is they can provide money that would or may not be available in any other way, thereby "saving" or "helping" or "protecting" the company.

Angels are also known to be capital providers for start up businesses in Kentucky who have good ideas, but nothing to back it up. They are providing capital to get the business idea off the ground. These affluent capital providers are often people who are very successful with a company they started and sold for a substantial amount of money. They may have been lucky to be a part of someone else's company and gained a large stake from the stock options he owned. In any event, this type of investor has risk capital and is willing to take the opportunity to make money with a new company. If they like the odds of the business growing in a profitable way, they will make the investment.

Although the LTADD does not enjoy the attention of a large census of resident angel investors, there are a few individuals and organizations that are receptive to well constructed and viable opportunities for investment and initial grant funding.

Grants

LINCOLN TRAIL INNOVATION CENTER

Companies seeking guidance to commercialize a technology-based product, process, or service may contact their local Innovation and Commercialization Center (ICC) for assistance in building a business. The ICC serves as a comprehensive business resource focused on helping Kentucky entrepreneurs perfect their business strategies to build successful technology businesses. This service is free of charge to Kentucky residents.

The ICC Commercialization Process is a set of detailed steps and guidelines that help

entrepreneurs refine their business strategy, financials, investor presentation, concept, and valuation.

Rural Innovation Fund

The goal of the Rural Innovation Fund is to assist rural companies with the development and commercialization of technology with the ultimate goal of developing new or value-added companies, jobs, technology, or products.

Applicants must demonstrate their ability to develop and lead a commercially successful venture. Companies seeking capital go through a rigorous due diligence process and are judged in terms of industry fit, return on investment, and potential for economic development.

Eligible Companies

Must be Small, Rural (located outside Fayette/Jefferson Counties), Kentucky-based Company and have 50 or fewer employees. Assertion from Certified Public Accountant will be required upon receipt of an award.

Must be an LLC or Corporation in “Active” and “Good” standing with the Kentucky Secretary of State.

Must be operating in one of the following industries:

Biosciences

Environmental & Energy Technologies

Human Health & Development

Information Technology & Communication

Materials Science & Advanced Manufacturing

Guidelines

Grant: \$30,000

Limit one grant per company. Includes Kentucky Enterprise Fund.

Company must match the grant 1:1 through cash or in-kind services.

Funds must be used for approved business development activities.

Rural funds must be spent with independent third-party partners/consultants. A third party partner/consultant is a company or individual that is not an employee, board member, or equity partner with the Company.

No funds may be used for overhead expenses.

Grants must be repaid upon receipt of follow-on award from Rural Innovation Fund or Kentucky Enterprise Fund.

Contact:

Lisa Williams – Lincoln Trail Innovation Center – 270.765.1855

Regional Angel Investors

LINCOLN TRAIL VENTURE GROUP

This organization of local investors provide up to \$50,000.00 to viable companies that have presented their Business Plan as part of a presentation to the LTVG. After due diligence, the LTVG will vote to fund specific opportunities. The LTVG requires a commitment for economic development and employment within the area.

Contact:

Jim Hatcher – 270.304.6925 or Mo Miller – 270.268.2861

BLUEGRASS ANGELS

Contact:

Dean Harvey – 859.257.1930

THE VENTURE CLUB OF LOUISVILLE

Contact:

Suzanne Bergmeister – 502.589.6868

CHRYSLIS VENTURES

Contact:

John Willmoth – 502.583.7644 info@chrysalisventures.com

ALLIANCE GROUP, INC.

Contact:

Mike Pitino – 502.425.3715

COMMONWEALTH SEED CAPITAL

Contact:

Margaret C. Bell – 513.361.7956 - margaret.bell@fortwashington.com

EVERMORE FUND

Contact:

Dean Holland – 502. 292.2393 - www.evermoreinvestments.com

MOUNTAIN VENTURES

Contact:

Elmer Parlier – 606.864.5175 - <http://khic.org>

KENTUCKY SEED FUND

Contact:

George Emont – 502.569.1590

OPM VENTURES

Contact:

Chuck Woods, VP – 502.583.8892 - www.opmservices.net

RIVER HILL CAPITAL

Contact:

W. James Lintner, Jr. - 502.326.4922 - www.riverhillcapital.com

YEARLING FUND

Contact:

Dale Boden - 502.587.1860