



# *How To Successfully Engage Private Capital Investors*

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# AGENDA

- Sources of Private Capital – Capital Ecosystem
- About Angel Investors
- “Fundable” Companies – Angel’s Perspectives
- Pitching to Angel Investors
- The Angel Investment Process
- Due Diligence
- Company Valuation
- Brief Pitch Deck Template



# ENTREPRENEURIAL CAPITAL ECOSYSTEM



# STAGES OF A COMPANY

- **EARLY STAGE**

- Idea – in the head
- Proof-of-Concept – reduced to bench model; drawing, prototype
- Seed – minimum viable product released to establish a scalable, repeatable, profitable business model
- Start-up or Launch – commercial product released

- **LATER STAGE**

- Growth – company past start-up hurdles, beginning to grow rapidly
- Maturity
- Decline



# WHY RAISE MONEY?

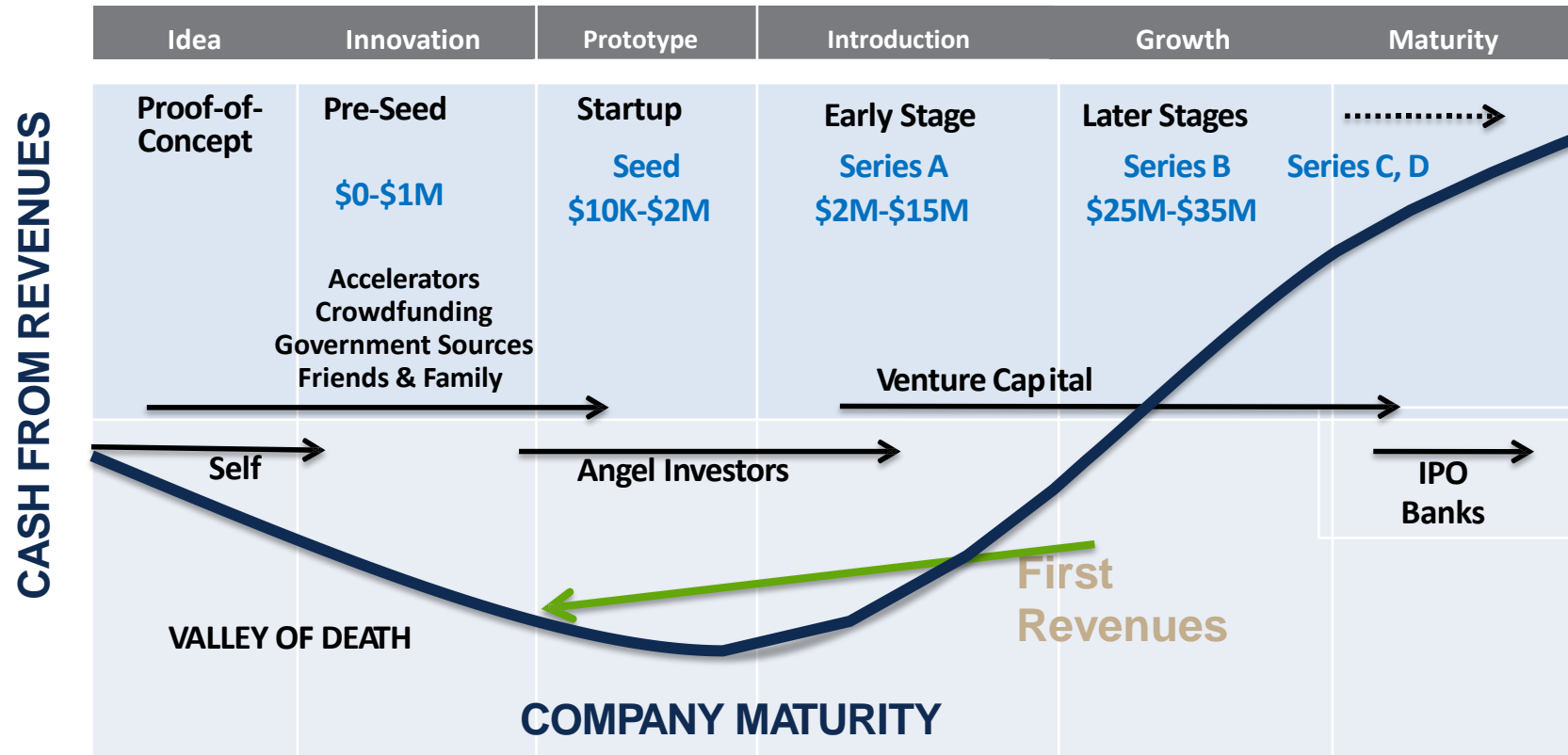
## POSITIVES

- Can't be viable with personal resources
- Need advice/counsel of committed, experienced businesspersons
- Need to grow faster
- Need access to a network of partners, clients and employees

## NEGATIVES

- Loss of ownership – investors share equity
- Loss of control – expect an independent board
- Investors need an exit – not building a venture for your estate
- Your getting married!

# CAPITAL SOURCES OVER THE STARTUP LIFECYCLE



# KEY CAPITAL SOURCES

## ORDER OF DECREASING RISK

Source of Capital	Why Invest	Company Stage	Risk	Investor Return (IRR)
Founder	Commitment	Concept	Infinite	Infinite
Family & Friends (Fools) (Perhaps the “Crowd”)	Belief	Concept - Seed	Nearly infinite	100%
Angels (Perhaps the “Crowd”)	Help>Returns	Seed – Startup	Very High	50%
Venture Capital/Private Equity	High Returns	Startup – Growth	High	25%
Public Stock Markets	> Inflation	Growth – Stability	Moderate	10%
Bond Markets	Stable Return	Growth - Stability	Moderate	6%
Banks	Stable Low Risk Return	Growth - Stability	Low	4%



# CAPITAL AMOUNTS INVESTED

- Founder, Friends, Family \$0-\$200K
- Angels \$50K-\$2M
- Venture Capital \$1M & up
- (Crowdfunding) up to \$50M
- Bank (Debt) Any Amount





# ANGELS vs VENTURE CAPITAL

- **Angels** – high network **individuals** who **invest their own capital** (& usually their experience) with the intent to create value & help the local economy
- **Venture Capital** – **investment funds, managed professionally** with intent to create value greater than available through traditional investments



# INVESTMENT VOLUMES, US (2016)

## Venture Capital

- 898 venture capital firms
- \$77.5B
- 7,750 deals
- \$10M average round

## Angel Capital

- 297,880 individual investors
- \$21.6B
- 64,360 deals
- \$337K average round



# WHO ARE THESE ANGELS?



# WHAT IS AN ANGEL INVESTOR?

- An angel investor is a high-networth individual who invests time & money in early-stage companies
- Accredited investor
  - To comply with securities laws (in most cases) angels must be an “**accredited investor.**”
    - **Net worth** (investor & spouse) of at least \$1M excluding the value of one's **primary** residence, or
    - **Income** at least \$200K/year for the last two years (or \$300K combined income if married) & have the expectation to make the same amount this year



# ANGEL INVESTORS (\$25B/year)

- Wealthy – investing personal funds, usually working part-time
- Often invest as members of angel groups
- Invest time & money in their portfolio companies
- Typical individual investment: \$25K in a round of \$750K
- Invest in seed/startup stage & later
- Understand the need for follow-on investment
- Strong interest in exit strategy & total investment needed to get to exit



# HOW TO FIND ANGEL INVESTORS

Angel Capital Association  
[www.angelcapitalassociation.org](http://www.angelcapitalassociation.org)

## Angel Capital Association - *Connections and Ideas That Drive Returns*

### Imagine the Power of 13,000+ Angels

The North American professional association of active [accredited investors](#) provides unparalleled access to trending ideas and professional knowledge to help improve returns and promote effective public policies for angels and startups. Although not a funding source, ACA provides entrepreneurs an inside view into how angels think.

**ACA's Data Analytics initiative includes two reports: *Angel Funders Report* (angel group investments) and *The American Angel* (individual investments). Watch ACA Executive Director, Marianne Hudson, highlight key points at The FUND Conference.**

- ✓ 13,000+ angels
- ✓ 260+ angel groups, accredited platforms & family offices
- ✓ Ideas. Returns. Connections.

Find Angels

Join

Stay Connected



The initial ACA report on angel group investment and the startups they support.

Download ACA's new report here and see new insights for the startup ecosystem



# HOW TO FIND ANGEL INVESTORS

[www.angelcapitalassociation.org](http://www.angelcapitalassociation.org)

## Angel Group Regions:

- Accredited Platforms
- California
- Canada
- Great Lakes
- **Mid-Atlantic**
- Midwest/ Great Plains
- National/ International
- New England
- New York
- Pacific Northwest
- Southeast
- Southwest
- Texas
- West
- ACA Affiliates

### Mid-Atlantic

- 757 Angels Network - Virginia Beach, VA
- Baltimore Angels - Baltimore, MD
- Berg Capital Group - McClean, VA
- BlueTree Allied Angels - Pittsburgh, PA
- Blu Venture Investors - Vienna, VA
- Broad Street Angels - Philadelphia, PA
- CAV Angel Network - Charlottesville, VA
- Charlottesville Angel Network - Charlottesville, VA
- Dingman Center Angels - College Park, MD
- Delaware Crossing Investor Group - Doylestown, PA
- Hivers and Strivers - Great Falls, VA
- Jefferson Corner Group - Charlottesville, VA
- Jumpstart New Jersey Angel Network - New Brunswick, NJ
- Keiretsu Forum - MidAtlantic, Philadelphia, PA
- MI-12 Ventures - York, PA - email
- Mid-Atlantic Angels Corporation - Frederick, MD
- Mid-Atlantic Bio Angels - (Scotch Plains, NJ & NY)
- Next Act Fund - Pittsburgh, PA
- NJIT Highlander Angel Network - Newark, NJ
- New Dominion Angels - Warrenton, VA
- Pipeline Angels - Pittsburgh and Philadelphia, PA, Baltimore, MD; Washington, DC
- Private Investors Forum - Philadelphia, PA
- Robin Hood Ventures - Philadelphia, PA
- SoundBoard Angel Fund - Morristown Township, NJ



# HOW TO FIND VC FIRMS

National Venture Capital Association

<https://nvca.org>

The screenshot shows the homepage of the National Venture Capital Association (NVCA). On the left is a vertical navigation menu with the following items: ABOUT NVCA (circled in red), PUBLIC POLICY, NEWSROOM, RESEARCH, ECOSYSTEM, RESOURCES, JOIN NVCA, and MEMBERHUB. The main content area features a banner for the "NVCA-Deloitte Human Capital Survey" with the tagline "Measuring Impact in the VC Industry" and a prominent "TAKE THE SURVEY" button. The banner also includes the Deloitte logo and the NVCA logo. At the top right of the banner area, there are social media icons for LinkedIn and Twitter, and the tagline "Funding innovation. Empowering entrepreneurs." is visible.





# HOW TO FIND VC FIRMS

<https://nvca.org>

The screenshot shows the NVCA website interface. On the left is a vertical navigation menu with the following items: ABOUT NVCA (circled in red), PUBLIC POLICY, NEWSROOM, RESEARCH, ECOSYSTEM, RESOURCES, JOIN NVCA, and MEMBERHUB. The main content area is titled 'MEMBERS' and contains a paragraph: 'NVCA has a diverse membership base of venture capital firms and corporate venture groups that work with America's entrepreneurial community to transform groundbreaking ideas into high-growth companies. Please visit our **membership page** if you are interested in exploring all the benefits that come with membership to NVCA.' Below this text is a list of member categories, with the first five items circled in red: .406 Ventures, 1315 Capital, 4490 Ventures, 500 Startups, LP, and 5AM Ventures. Other visible items in the list are ABB Technology Ventures and ABS Capital.

# FORMS OF ANGEL INVESTING

- Alliances – individuals work together but invest individually
- Loan Wolf – individual who works alone, invests alone
- Platforms – on-line portals which curate deals & gather investors
- Fund – pool of capital invested in one or more deals
  - Member managed: members make collective investment decisions
  - Professionally managed: a professional makes investment decisions
  - Side car: fund that invests along side angels
  - Special Purpose Vehicle (SPV): formed to invest in one company



# WHY DO THIS?

- **Impact:** understand the economic impact of job creation, economic diversity, economic inclusion & impact
- **Fun/interesting:** find great ways to have fun, build additional ventures & exercise intellectual curiosity
- **Return:** understand risk & invest with the expectation of a return on investment

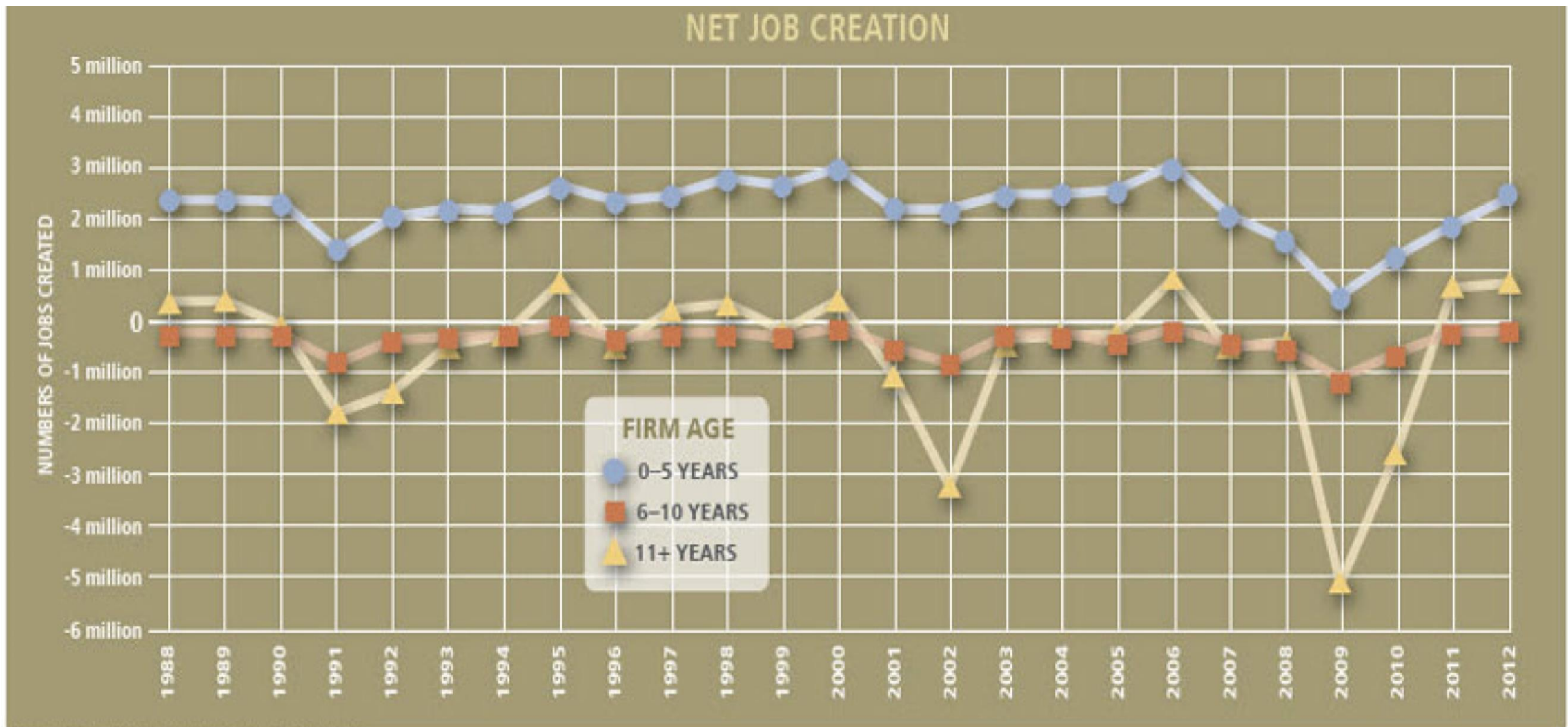


# WHY BECOME AN ANGEL INVESTOR?

- A growing economy includes a vibrant entrepreneurial ecosystem
  - Angel investors are a significant component of entrepreneurial economies
- Studies show that small, young companies create the majority of US jobs
  - A Kauffman Foundation study showed 90% of net new US jobs are created by companies less than five years old
  - These companies match the profile of startups funded by angel investors
- Successful entrepreneurs create significant net worth for themselves & their investors
  - A majority of angels were (or are) successful entrepreneurs



# JOBS CREATED BY NEW BUSINESSES



SOURCE: U.S. CENSUS BUREAU BUSINESS DYNAMICS STATISTICS



# RETURNS TO ANGELS

- High risk investments deserve high returns: 20%/year
- 20%/year equates to 2.5X multiple of capital in 5 years
- Angel investors (as a group) achieve this goal
  - Based on 3 studies, 2 in the US & 1 in Europe
- But:
  - 50% of angel-funded startups fail to return any capital
  - 9 of 10 fail to return the capital invested in the 10
  - All of upside comes from 1 in 10
- To achieve 2.5X multiple for portfolio, 1 in 10 must give a 25X return (assuming all others fail, pessimistic)
- All angel-funded companies must have potential to scale



# RETURNS TO ANGELS

- 2.5X, 22% IRR
- But...
  - 70% return < the investment
  - 19% return 1X-5X
  - 6% return 5X-10X
  - 5% return >10X
- Implications...
  - Invest for home runs!



# RETURNS - LESSONS LEARNED

- Returns can be quite good
- But 50% of investments fail
- Two very important strategies:
  - Develop a portfolio approach, invest in many companies
  - Each investment must demonstrate an opportunity to scale
- Another key tidbit
  - There is no relationship between risk & scalability: Restaurants with potential for scalability & a 3X return fail about as frequently as software startups with a potential for a 30X return





# ANGEL INVESTING STRATEGY

- 10% of deals provide > 80% of the returns
- Angels must be diversified
- All deals are high risk
  - Due diligence only eliminates “stupid” risks
- Angels must invest for home runs
- Angels must invest for exits



# ANGEL PERSPECTIVE ON FUNDABILITY OF INVESTMENT



# NON-DISCLOSURE AGREEMENT (NDAs)

- Most angels & VCs will not sign NDAs
  - See too many deals
  - Integrity is key to continuing business
  - Not motivated to steal technology
- May sign NDA in certain circumstances
  - During due diligence, not earlier
  - Covering a very narrow set of issues
- Business Plans - no proprietary information!



# WHAT DO ANGELS LOOK FOR?

- **Unique product or service** that...
- **Solves a problem** (relieves a pain) that is...
- **Worth solving** (>\$100M market) and can be...
- **Reached** (distribution strategy) with a...
- (Experienced) **team** that can execute & is...
- **Capital efficient** with...
- **Exit** potential

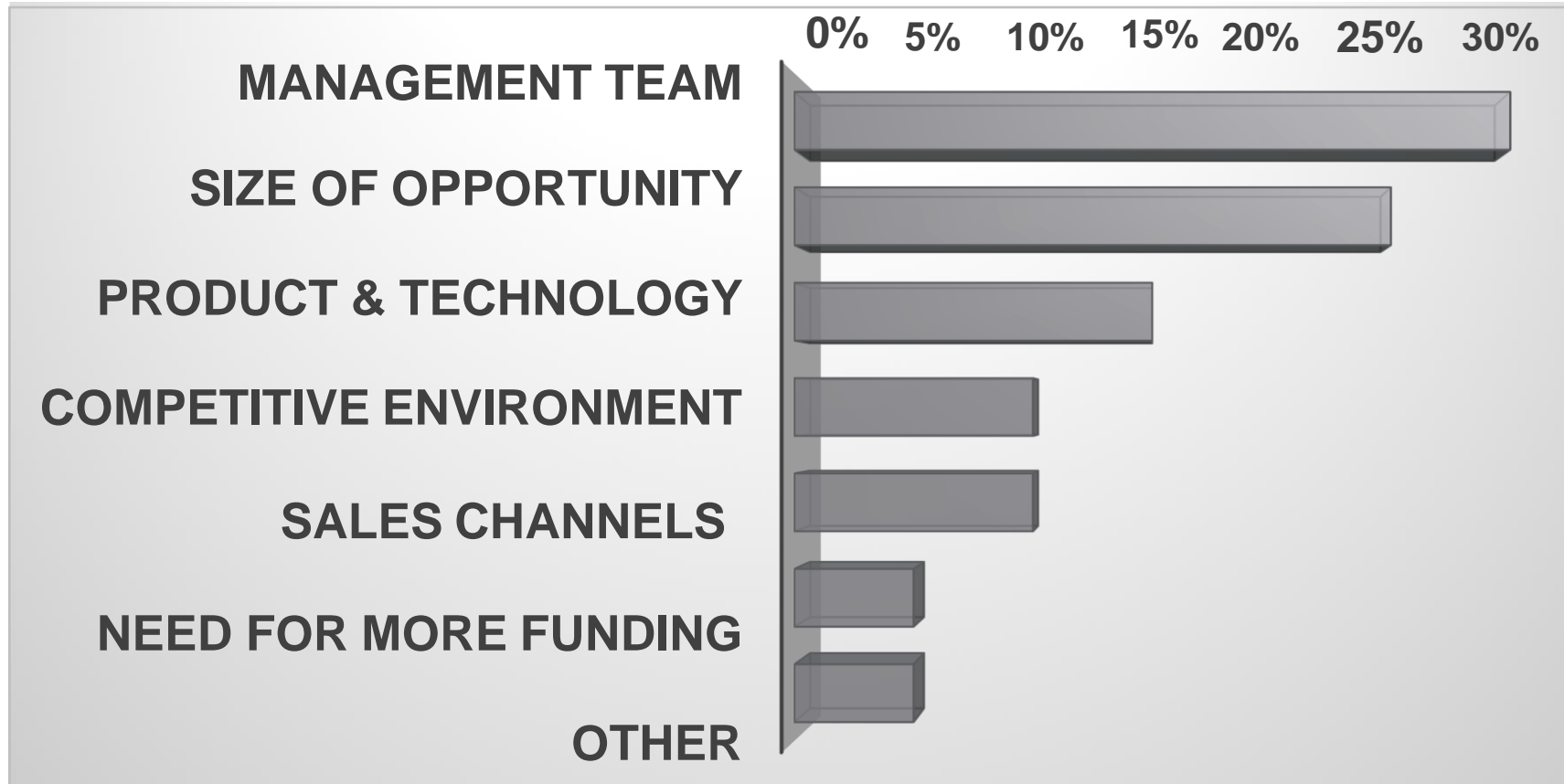


# WHAT DO ANGELS LOOK FOR?

- Complete, skilled & experienced team
- Important problem
- Working solution
- Good value proposition
- Customer traction
- Sustainable competitive advantage
- Solid go-to-market strategy
- Adequate raise based on solid financial plan
- Exit strategy



# ANGEL RATING SYSTEM



# FUNDABLE MANAGEMENT TEAMS

- CEO
  - Coachable (very important)
  - Integrity
  - Prior C-level experience, leadership
  - Vertical experience
  - Team members identified
- Team
  - Balanced & complete
  - Experience working together



# SIZE OF THE OPPORTUNITY

- Scalable
  - \$20M (minimum) in revenues in 5 years
  - (VCs look for >\$100M)
- Large niche market
  - Achieve high revenues
  - With minimum competition
- High gross margins
  - Growth with internally generated cash
  - Requires less investment capital





# PRODUCT & TECHNOLOGY

- Product available for customer validation
  - Prototype
  - Beta test stage
- Unique technology
  - Patents, trademarks
  - Trade secrets
  - IP protection underway
- Manufacturability in quantity validated



# INTELLECTUAL PROPERTY

- Patents, trademarks, trade secrets
- Competitive advantage is a “must have”
  - Competition with resources cannot just reverse engineer & compete
  - But, IP does not bring great value to startups because they do not have resources to defend
- Intellectual property primary value at exit
  - Acquiring companies insist on IP
  - Great IP adds substantial value at exit



# MARKETING & SALES

- Customer validation is available
  - Investors need to verify with customers
  - Essential to investment
- Marketing/branding issues addressed
- Reasonable sales channels defined
- Some partnerships established
- Competitive advantage identified
  - Small competitors, fractured marketplace



- Capital
  - Size of this round
  - Subsequent funding required
    - Small (angels) or large (VCs)
    - Raising money off-shore
    - Substantially increases risk
- International
  - Sales and marketing off-shore
    - Direct or landed presence

# SUMMARY

- Angels fund companies with market validation
- Angels provide \$150K to \$1M in startup capital
- Angels look for startups with a
  - Highly qualified team
  - A venture with a large opportunity
  - A product/technology with an unfair competitive advantage
- Angels can anticipate returns of 20%/year if....
  - Invest only in scalable ventures
  - Invest in a significant number of companies



# LIFE SCIENCE DEALS UNIQUE

- Most startups do not ever plan to sell a product
- Major pharma filling pipeline from small companies
- Special attention to patients' needs
- Big public interest in medical breakthroughs
- Fear that product could cause serious harm
- Science takes years to validate in form of product
- Research cost is high
- Qualified entities to run research tests are costly
- Likely to require 3-5 rounds of capital investment
- Hoping the company is acquired before \$\$\$ needed



# COST OF DRUG DEVELOPMENT

REPORT: 2014 Tufts Center for Drug Development

**AVERAGE COST FOR ONE THERAPEUTIC  
\$2.25 BILLION**

- Includes “opportunity cost”
- Out of pocket cost = \$1.3B
- Spreads all R&D over the cost of all approved drugs (includes cost of “failures”)



# PITCHING TO ANGELS





# ADVICE ON SEEKING ANGEL CAPITAL

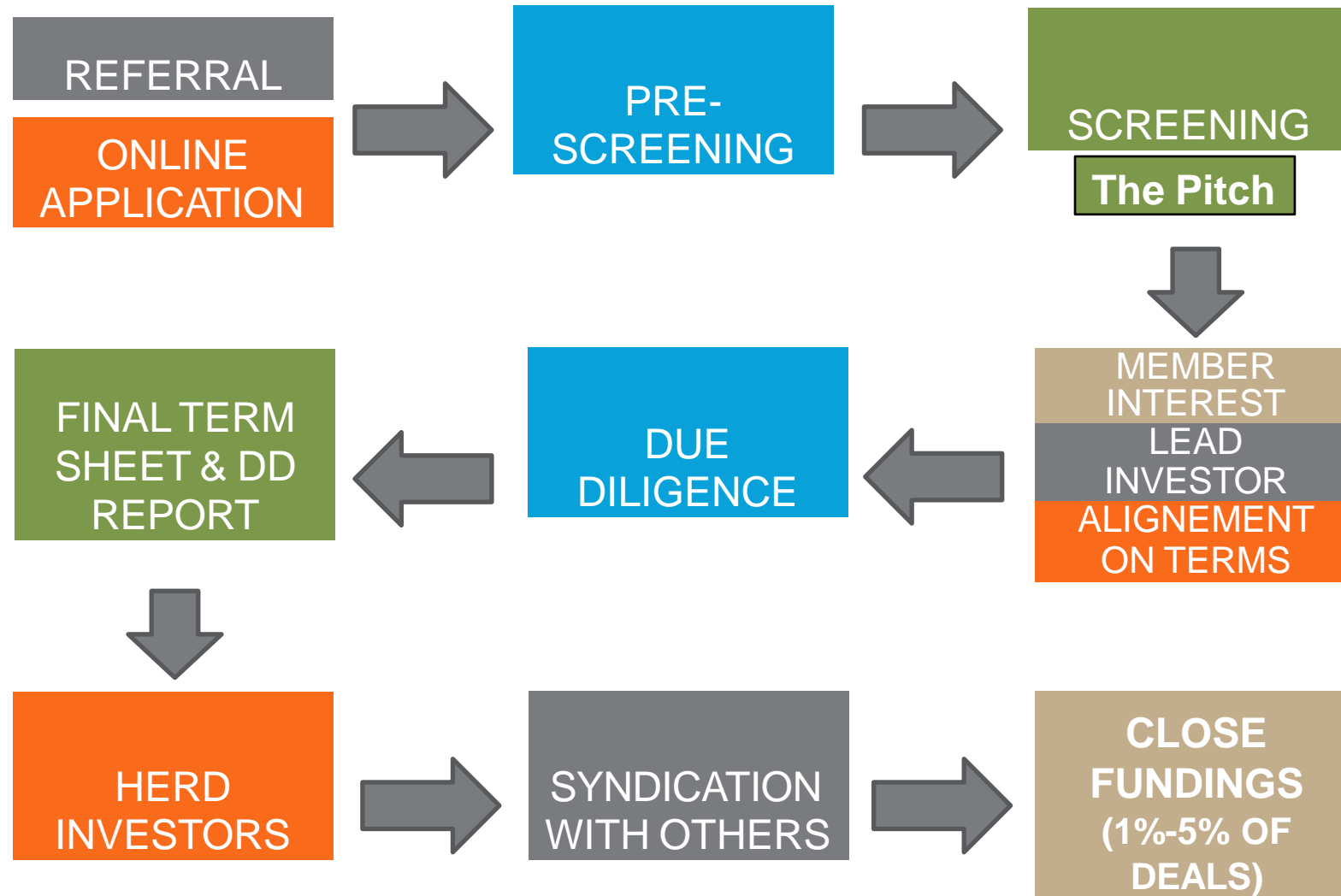
- Raising capital is a long & frustrating experience
- Understand the angels' process & follow it
- Set a reasonable value; everyone must have the possibility of making money
- Approach investors as late as you can
- Prepare & practice, practice, practice
- Get a mentor
- Never build a model on 1% of China
- Never say you don't want to give up control, you are taking on partners, not silent investors



# ANGEL GROUP DEAL FLOW PROCESS



# DEAL FLOW PROCESS



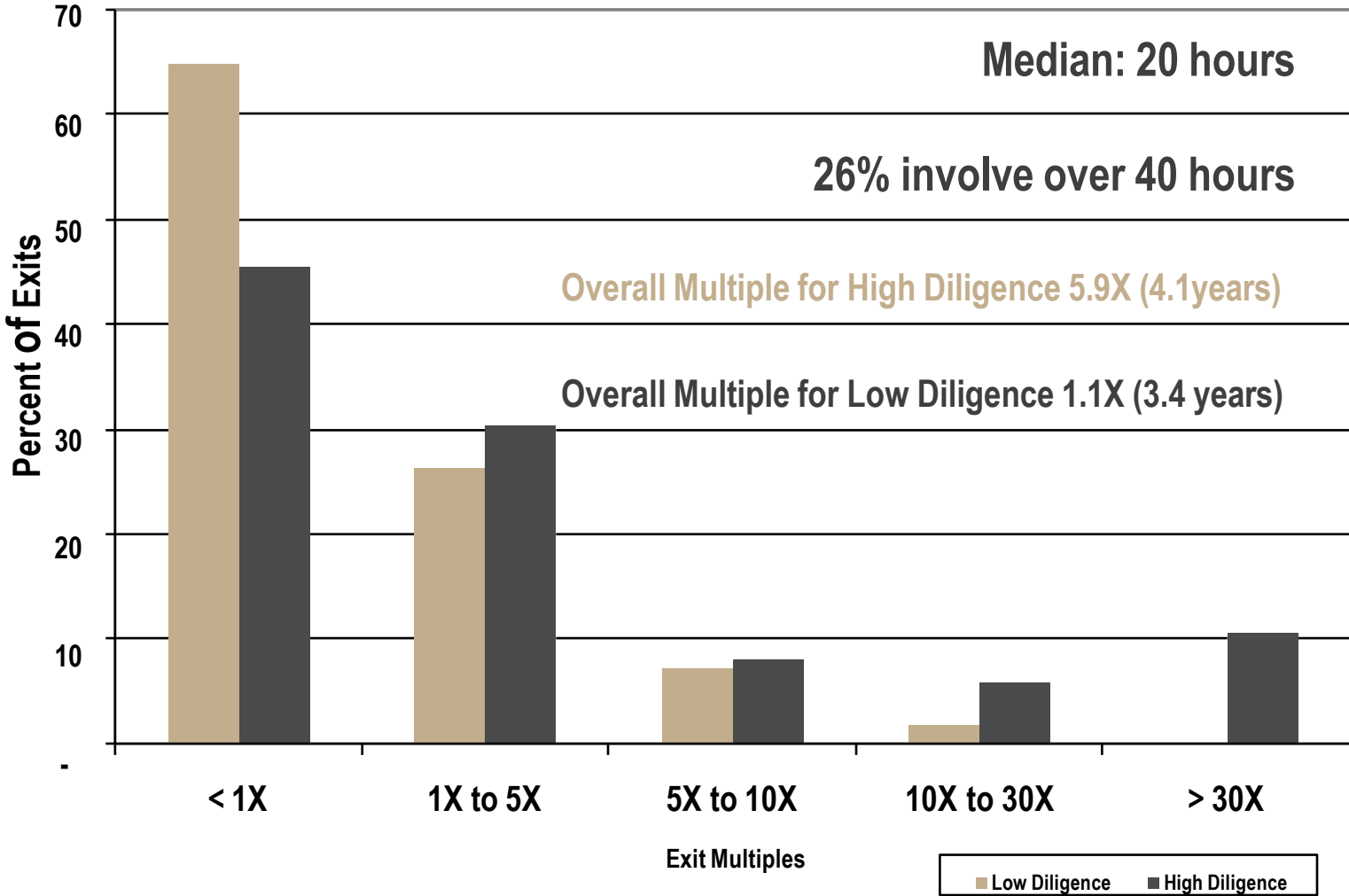
# DEAL FLOW PIPELINE



# DUE DILIGENCE

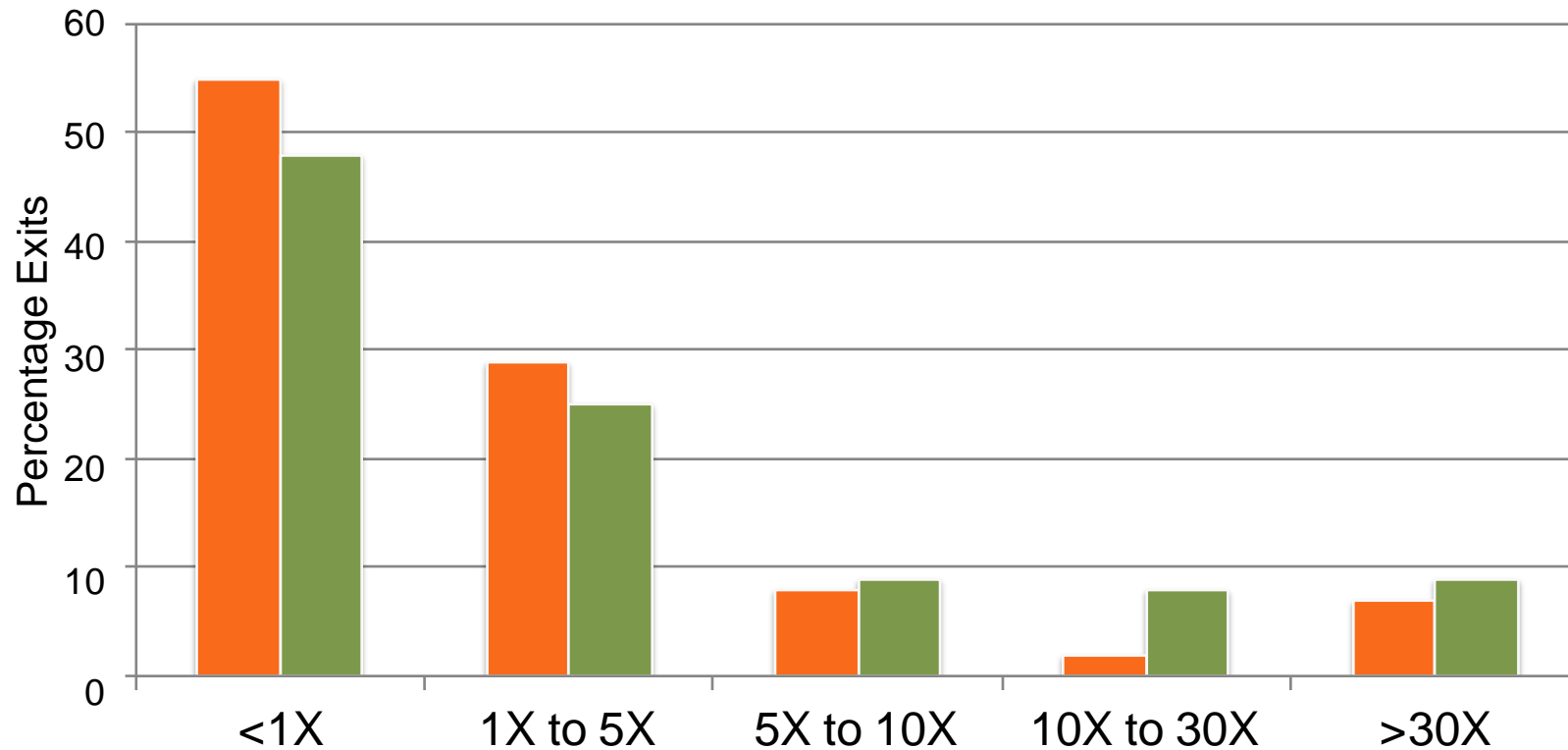


# WHY DUE DILIGENCE?



# ENGAGING WITH COMPANIES

- 1-2 interactions per year = **1.3X** return
- 1-2 interactions per month = **3.7X** return



# PREPARING FOR DUE DILIGENCE

- Review all materials company has already provided – be prepared to answer any question & justify any data
- Have all corporate filings ready for submission/review (agreements, contracts, company charter, board meeting minutes, regulatory filings, grant filings, business transactions)
- Be prepared to use a virtual vault – all docs ready (scanned & organized)
- Cap table organized & easy to understand
- Financial statements/balance sheets clear & easy to understand – consider paying for audited docs
- All IP disclosed, organized & assigned to company
- All information in data vault to support syndication of deal
- One employee with proper authority assigned as company data coordinator
- Be prepared for investors to talk directly to employees
- Be organized, clear & provide timely resolutions of all questions





# TERMS OF INVESTMENT



# TERMINOLOGY

- **Rounds** – friends & family, seed, Series A & beyond!
- **Instrument** – SAFE vs convertible debt vs equity
- **Cap table** – shows capitalization or ownership stakes in a company by type of security, investor & prices paid
- **Term sheets** – outlines the terms by which an investor will make an investment
- **Valuation** – how much is the business worth before new investment & what (if any) science is behind it
- **Exits** (what we all hope for) – what are the chances?



# TYPICAL ANGEL DEAL TERMS

- Average investment round size - \$750K
- Typical individual check size - \$25K
- Typical pre-money value of companies angels invest in - \$3-5M
- At deal close – angels own 20-25% of company
- Looking for 10-20X return on investment within 3-5 years



# ANGEL (& VC) EQUITY MODELS

- Limited Liability Companies or Common Stock – unlikely to be attractive
- Most seek preferred shares ownership
  - Gives investors a preference on control & returns
    - A voice in the board room
    - Requires approval of investors for major events (fundraising, exits, etc.)
    - Provides some downside protection in case of less-than-lucrative exit
- Convertible note, SAFE, KISS - option to convert to preferred shares



# COMMON INSTRUMENTS

- **Convertible Notes:** a loan which may be converted into equity in a future priced round
  - Get your money plus interest back or convert
  - Typically converts at a discount from the price of the next “priced” round
  - Avoids setting a pre-money value on the company at this time
  - Insist on a “cap” - the maximum price at which the note will convert
- **SAFE** (“Simple Agreement for Future Equity”): a convertible security without a maturity date or interest rate
  - Will convert into equity in a future “priced” stock round
- **KISS** (Keep It Simple SAFE) – simplified version of SAFE
- **Stock:** ownership share of company



# STOCK (A “PRICED” ROUND)

Has a **price** per share based upon valuation of company divided by number of shares

- Common: no special rights
  - typically issued to founders & used for stock options
- Preferred: “preferential” rights before common, e.g.
  - Preferential return
    - Non-participating
    - Participating
  - Right to elect a director
  - Right to consent to new stock

# POST INVESTMENT

- Investment round is now closed
- Member assigned to follow each company
- Companies exit
  - They go out of business
    - Losses are distributed to investors
  - The company is acquired
    - Proceeds are distributed to investors
  - Initial public offering (IPO)
    - Investors' stock converts to common & can be sold on the public exchange (at hopefully a substantial increase in value)



# COMPANY VALUATION





# MAJOR DETERMINANTS OF VALUE

- Market forces of the industry/sector
- Relevant management experience
- Maturity & momentum in the business
- Uniquely positioned & highly differentiated offering
- Entrepreneur's desperation level when looking for money
- Investor's willingness to pay a premium to get the deal

# VOCABULARY & ARITHMETIC

Term	Dollar Amount	Percentage Amount
Pre-money valuation	\$1,000,000	66.67%
+ Investment	\$500,000	33.33%
= Post-money valuation	\$1,500,000	100%

Valuation models are hard to apply to startup companies

- Projections are a guess
- Time to exit is arbitrary



# POPULAR VALUATION METHODS

- Venture Capital Method
- Scorecard Method
- Risk Factor Summation (RFS) Method



# SCORECARD METHOD

- Compares to similar companies
- Determine median value for similar companies in given industry or region
  - Consider recent local deals (at same stage)
  - Consider regional & national valuation trends
- Determine critical issues affecting value
- Assign % weighting for each issue
- Calculate the weighted average of issues
- Multiply median value by weighted average



# SCORECARD METHOD

- Valuation issues & weighting
  - Management 30%
  - Size of Opportunity 25%
  - Product/Service & Technology 15%
  - Marketing/Sales Channels 10%
  - Competitive Environment 10%
  - Other Factors 10%



# SCORECARD METHOD

ISSUE	ANALYSIS	WEIGHT	FACTOR	INPUT (WT x FACTOR)
Management	On board, except sales	30%	120%	0.360
Opportunity	Enormous	25%	130%	0.325
Product	Disruptive, prototype OK	15%	130%	0.195
Sales	No channels, all foreign	10%	50%	0.050
Competition	No big players, messy	10%	110%	0.110
Other	Need partners, selling costs	10%	80%	0.080

**Weighted Average Multiple (sum of input) = 1.12**



### Calculate Pre-Money Valuation

Median Value		\$2.5M
Weighted Multiple		X 1.12
Pre-Money Valuation	=	\$2.8M

# RISK FACTOR SUMMATION (RFS) METHOD

- Compares to similar companies
- Determine median value for similar companies in given industry or region
  - Consider recent local deals (at same stage)
  - Consider regional & national valuation trends
- Determine critical risk types affecting value
- Assign positive or negative values to each
- Sum starting point value & risk values to get pre-money valuation





- Types of Risk
  - Management
  - Stage of the business
  - Legislation/political
  - Manufacturing
  - Sales & marketing
  - Funding/capital raising
  - Competition
  - Technology
  - Litigation
  - International
  - Reputation
  - Potential lucrative exit

- Assign a value to each risk type
  - Assign in increments of \$100K as -1 or +1
- Example: “Stage of business risk”
  - “0” for beta testing/working prototype
  - ”+3” for initial paying customers
- A “+1” adds \$100K to the pre-money value & a “+3” adds \$300K
- Maximum for each risk is +3/-3 or \$300K in each direction of value

# RFS METHOD

## EXAMPLE

RISK	FACTOR
Management	+2
Stage of the business	+1
Legislation/Political risk	0
Manufacturing risk	-1
Sales & marketing risk	-3
Funding/capital raise risk	-1
Competition risk	+1
Technology risk	+2
Litigation	0
International risk	+1
Reputation risk	0
Potential lucrative exit	+1



# RFS METHOD

## EXAMPLE

Base Valuation	\$2,500,000
Total Value of Plusses (8)	+800,000
Total Value of Minuses (5)	-500,000
	<hr/>
Pre-Money Valuation	\$2,800,000

# The Pitch Deck



# TITLE SLIDE

***NewCo, Inc.***

***Short tagline relaying what the company does***

Presenter's Name  
Title in the Company  
Contact Information



# PROBLEM

- Explain the problem/unmet clinical need
- What is the current standard of care/protocol?
- Highlight inefficiencies, gaps or suboptimal outcomes, process, safety or market access your technology will overcome

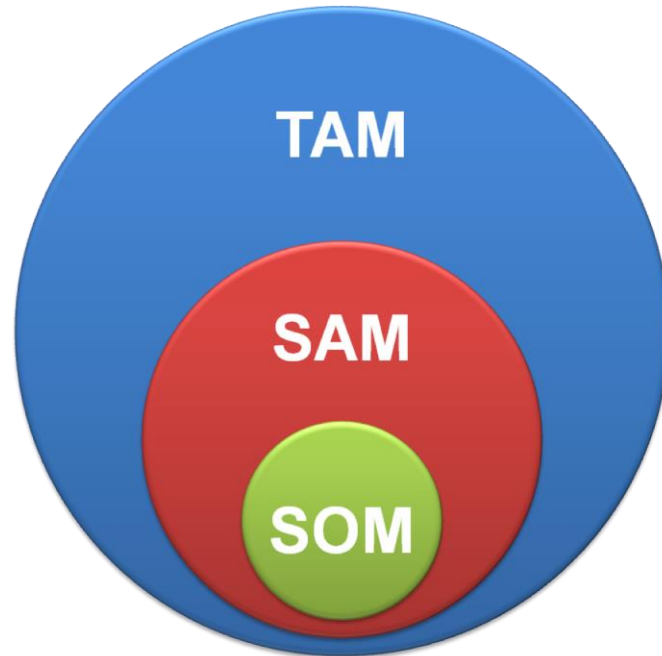


# YOUR SOLUTION

- How does your technology solve the problem?
- Data: Use no more than 2-3 slides to explain
  - How your technology works
  - Any proof-of-concept data (*in vitro*, *in vivo*, preclinical or human) to support this assertion
  - No jargon terminology – keep it simple
- For healthcare: reimbursement plan & healthcare economics
- Do not include any confidential information



# THE MARKET OPPORTUNITY



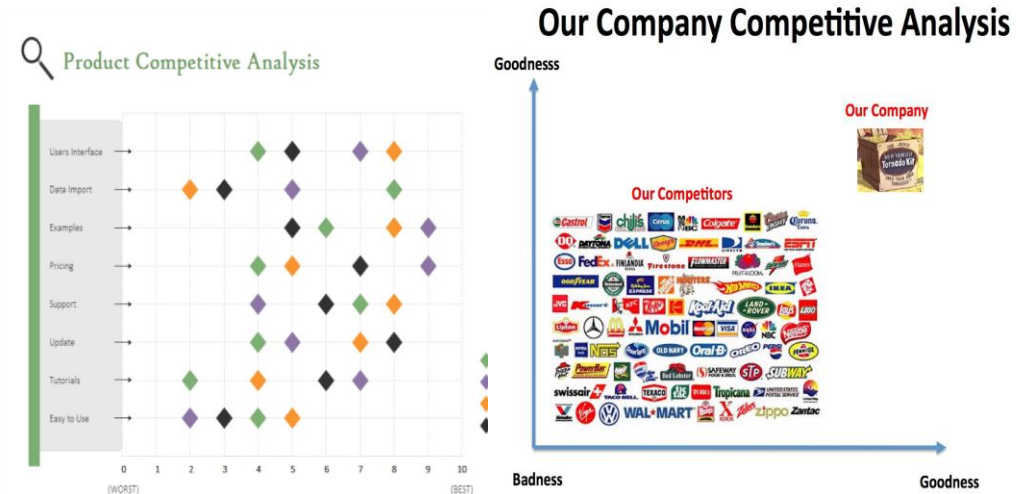
- TAM/SAM/SOM
  - **T**otal **A**dressable **M**arket = the entire world or wherever the technology can be used
  - **S**erviceable **A**vailable **M**arket = the market you will likely reach either geographically (eg. first world populations) or selected patients
  - **S**erviceable **O**btainable **M**arket = the % of the SAM that you will likely capture (e.g. “10% of SAM”)
- All values should be currency (not size of population); assumptions made to arrive at numbers should be presented or available in a backup slide, along with your financial model and other assumptions

# COMPETITIVE LANDSCAPE

- Ways to highlight your solution's or company's value proposition

**Table 4: Competitive Analysis Matrix**

	Trait 1	Trait 2	Trait 3	Trait 4	Trait 5	Trait 6
Competitor 1	✓		✓		✓	✓
Competitor 2		✓	✓			✓
Competitor 3	✓			✓		
New Organization	✓	✓	✓	✓	✓	✓



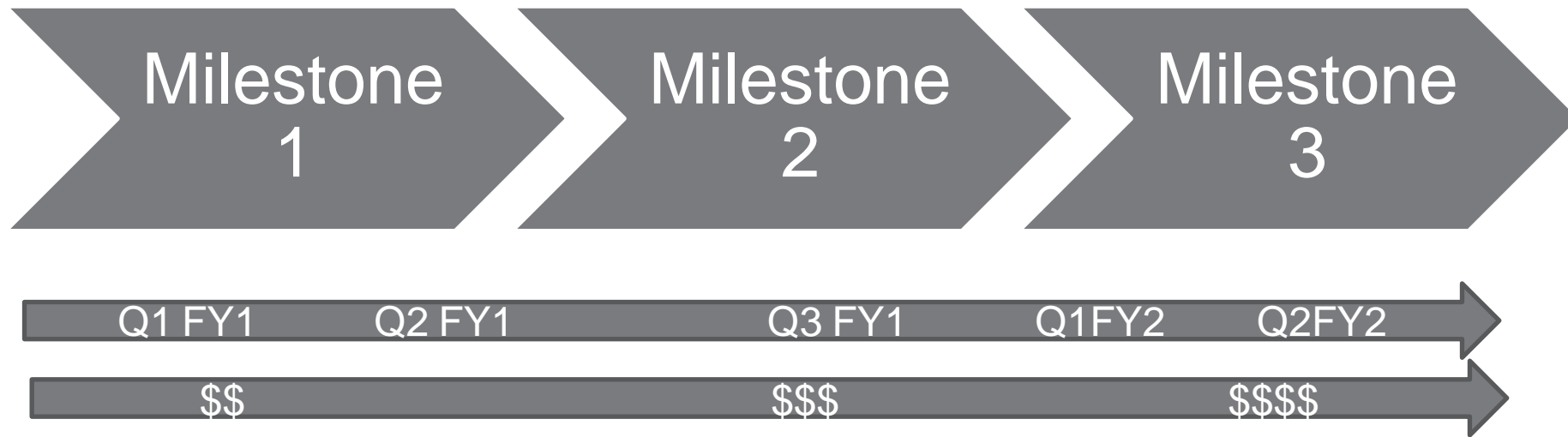
- Focus on properties or characteristics that differentiate your product and/or company from the competition
- Competitive intelligence comes from many sources; keep track of references in notes where possible

# BARRIERS TO ENTRY

- This is primarily your IP strategy
- Present your IP portfolio
  - Patent applications & PCTs including numbers & dates
  - Patents granted & date
  - Country(ies) covered
- Differentiate composition-of-matter from method patents
- Provide only high-level summary of information on provisional patent applications
- Other potential barriers:
  - Specific know-how
  - Trade secrets or other secret sauce you own or have developed
  - Stated without details
- Freedom-to-operate (FTO) assessment – informal or formal



# PROJECT PLAN TO EXIT



- Major milestones in the development plan
- How much time & money (costs) will it take to execute plan
- How & when will you likely exit? (show *recent* comps, if any)
- Avoid a "public solicitation of funds" – talk about costs, not fund-raising when audiences are NOT 100% accredited investors

- Include key players from:
  - Management team
  - Founders
  - Advisors
  - Board of Directors
- Headshots, title & brief (1-2 sentences or few words) bio or description (e.g. ex-Pfizer or ex-Medtronic); include logos if possible
- Aggregate into 1 sentence (eg. “Combined 150 yrs experience in drug development from top 10 biotechs including Amgen, Celgene & Genetech with over 2 dozen products on the market”)

# SUMMARY

(projected during Q&A so gets the most air-time)

- Bullet list of major points made during the pitch
- .....
- .....
- .....
- Last bullet is your “ask”

**Company Name**

Presenter Name

Title/Position in Company

Contact Information





# *How To Successfully Engage Private Capital Investors*

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# APPENDIX





# VENTURE CAPITAL METHOD

- Establish Personal Anticipated ROI (e.g. 20X)
- Determine Terminal Target Value At Exit
- Calculate Post-Money Valuation (formula)
- Calculate Pre-Money Valuation
  - Post-money valuation minus investment

$$\text{Post-Money Valuation (after investment)} = \frac{\text{Terminal Value (year n) at exit}}{\text{ROI (year n)}}$$

**Assume No Dilution**

# TERMINAL VALUE

- Estimating Terminal Value
  - P/E ratio in terminal year (most useful)
  - Multiple of revenues in terminal year
  - Multiple of subscriptions or other metrics in a few verticals (publications, etc.)
- Don't Agonize Over Calculation
  - Calculating pre-money valuation within 30% is as good as you can expect to be



# TERMINAL VALUE

(P/E Ratio Method)

Revenue (at year n)

X Earnings after taxes (as a % of revenue)

X P/E ratio

= Terminal Value



# VENTURE CAPITAL METHOD

$$\text{Post-Money Valuation (valuation at investment)} = \frac{\text{Terminal Value (year n) at exit}}{\text{ROI (year n)}}$$

Pre-money valuation = Post-Money Valuation – amount of investment

**Assume No Dilution**



# VENTURE CAPITAL METHOD

$$\text{Post-Money Valuation (valuation at investment)} = \frac{\$30\text{M (at year 5)}}{20 \text{ (at year 5)}}$$

$$\text{Pre-money valuation} = \$1.5\text{M} - \$0.5\text{M}$$



# EXPECTED RATES OF RETURN

	RATE OF RETURN	5-YEAR ROI
SEED/STARTUP	82%+/YEAR	20X
EARLY STAGE	60%	10X
GROWTH STAGE	40%	5X
LATER STAGE	30%	4X
NEAR EXIT	25%/YEAR	3X

**ANTICIPATE ROI OF 25%**

