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“Angels and VCs: Collaborating with Venture Capitalists to a Successful Exit”

The Following was Delivered at a Panel Presentation – November 14, 2007

Of the Cherrystone Angel Group in Providence, Rhode Island

Barbara B. Schoenfeld, Moderator

The basic premise underlying today’s panel is that venture capitalists (“VCs”) are experienced, focused and yield results in nurturing early stage companies to grow to the point of an exit.

Angel investors often collaborate with VCs by investing in the earliest stages of companies. For the purposes of today’s discussion, by Angels, we are not referring to friends and family as sources of capital. Rather, we are referring to angel groups like Cherrystone Angels. Angel investors who invest as groups are starting to look more like Venture Capitalists.

Here is a rather extraordinary fact: the amount of capital invested in 2006 by Venture Capitalists and the amount invested by Angels was virtually identical -- \$25 Billion (shaving for rounding). A trend is occurring whereby Angel groups are starting to become more institutional, and Cherrystone has certainly moved in that direction. Professional staff have been hired. Investment criteria have been developed and due diligence process have been put in place.

But, differences still remain between Angel investors and Venture Capitalists. The MIT Entrepreneurship Center prepared a report in 2000 on Angels with 14 data points on how Angels differ from Venture Capitals. Four of the highlights are:

- Anyone with a checkbook can try to become an angel investor, but to become a VC, it takes a good track record to raise a fund.
- Passive angel investors may not have an industry focus, but most early stage VCs focus on one or a few industries.
- Angels invest very early stage because a company’s funding needs later on often become too large for angels to finance. But, VCs will invest from seed to exit. VCs usually increase their investments in winners and starve the losers.
- For many angels, the chemistry with the entrepreneur drives the investment decision, but VCs are paid to manage other peoples’ money and are measured on IRR return to their limited partners.

Entrepreneurs have choices as to who they wish to approach for funding. The panel will talk about how an entrepreneur chooses a funding source. On a website called “thefunded.com” , entrepreneurs post their evaluations of VCs and Angels they have met with. It is pretty frank. You can go online and see the comments rating what it was like to go through an angel group or a VC’s process

of being considered for funding. I looked up Cherrystone - and it's listed. No ratings or comments have been posted yet. However, comments posted for one of the other New England angel groups included :

- "They just don't get it" and
- "Like a Bad Fraternity Rush Party".

Let's turn to our panel. We are thrilled at the quality and expertise of our panelists:

STEVE WOIT – Angel, Entrepreneur and ex-VC. He has been an investor with CommonAngels since 1999. He is currently Founding Publisher of Xconomy, an exciting new online publication that covers the high tech economy in New England. Also, Steve was formerly a General Partner of IDG Ventures. Steve is a graduate of Yale University.

JEFF VOGEL – VC - General Partner, Velocity Equity Partners for the last 7 years. Velocity is an early stage technology fund investing in high tech and software companies. Earlier, at eBusiness Technologies, he led a team of 100 software professionals. In 1989, Jeff co-founded Electronic Book Technologies. He is a graduate of Brown University.

CHIP HAZARD – VC – General Partner, IDG Ventures, Boston. Chip's focus is on information technology and enterprise software. He publishes a blog on "Seeing Both Sides" – VC Perspectives from a Former Entrepreneur". He has led or participated in numerous successful investments during his career at IDG Ventures, Greylock and Bain. Chip is a graduate of Stanford University and the Harvard Business School, where he was a Baker Scholar.

JILL PADWA – Entrepreneur. Jill is President of RevCat, an early stage organizational networks solution company. Her company is in fundraising mode. It has secured commitments from large early adopters and is also in discussions with angels and VCs. Jill has an engineering background and has held senior sales and marketing positions at Hewlett Packard, and as a director at the Gartner Group. Jill's undergraduate Computer Science Degree is from the University of Vermont and her graduate degree is from Boston University.

QUESTIONS ADDRESSED BY THE PANEL:

Chip Hazard: Please talk about how, as a VC, you sell yourself to an entrepreneur? It will be helpful to set the stage by laying out the value that VCs bring to a company beyond the capital invested.

Jeff Vogel: Let's get right to the rub. From the perspective of a venture capitalist, can you please share with us some things that you have seen happen when companies had angel investors, which later prevented, or even just made it a lot harder for a VC to invest in the company? We're talking about situations where a company was funded by angels in the early stage and then sought capital from VCs...but the presence of the angel investment made it very hard for the company to get VC money. i.e. angels gone wrong.

Steve Woit: You are an angel AND an entrepreneur AND have been a venture capitalist. With perspective from so many sides, what advice would you offer to angels on being an angel? For example, you have mentioned angels not really thinking about building a portfolio or taking their time to invest the way that VCs do.

Jill Padwa: As an entrepreneur seeking capital for your company, you have choices. Who would you approach and why? What are the factors that you would consider when seeking money from angels versus VCs and why?

Chip - Your firm, IDG Ventures invests early in the life of a company and your firm usually leads the investments. Many of IDG's investment deals have angels involved in them. From your perspective as an early stage VC who has done many deals with angels, can you talk about what issues angels might reasonably expect to face when investing in a company with VCs?

Open questions for the panel:

Generally speaking, what are the metrics that our companies should have in place so it's not "too early" for an angel group like Cherrystone to invest?

How can angels protect themselves from getting crushed with dilution at later stages? Is it even possible to do so?

Advice on reserving capital – clearly, an angel investor must assume that there will be requests for follow-on financings. Are there any guidelines that can be generalized as to how much to reserve?

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