

PitchPlus Clinic Startup Funding

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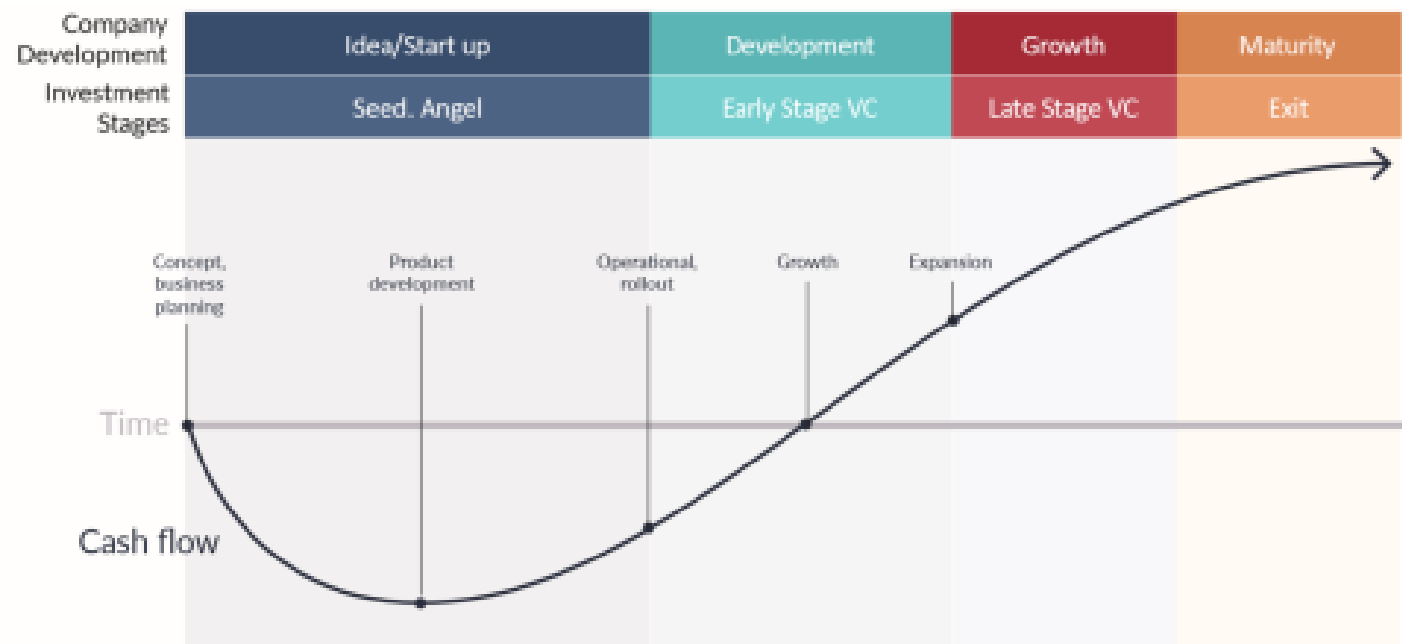
Presentation Objectives

Overview:

- Role of Venture Capital
- Capital Stack and Sources by Stage of Development
- Non-dilutive Funding Sources – SBIR/STTR Program
- U.S. Angel Investor Market
- U.S. Venture Capital Market
- Current Trends in Valuation & Terms
- Q&A



Venture Capital Plays a Vital Role in a Startup's Growth



Sources of funding: VCs, angel investors, incubators, accelerators, strategic investors (corporate groups), growth equity investors, private equity firms, debt investors

Source: NVCA



Capital Stack & Typical Sources



Sources of Funding by Stage



Family & Friends

Angels

Venture Funds

SBICs

Banks

Corporate & Strategic Investors

Cash Flow

	Seed/Startup	Early stage to Expansion	Mature	Various	Mature		
\$ Availability	Low	Low	Medium	Low	Medium	Low	
Cost	High	High	High	Medium	Medium	High	
# Quantity	Low	Low	High	Medium	High	Low	
Level of Co. Maturity	Low	Low	Med/High	Medium	High	Medium	
Risks	<ul style="list-style-type: none"> Typically no value beyond \$s Hard to manage Relationship risks 	<ul style="list-style-type: none"> Herding cats Time consuming with little visibility on \$ amount Generally limited strategic value 	<ul style="list-style-type: none"> High return expectations Loss of control Down rounds can be punitive 	<ul style="list-style-type: none"> Subject to high reporting Long application process Typically follower May require current coupon 	<ul style="list-style-type: none"> Company must be CF+ Debt terms can be restrictive Regulated 	<ul style="list-style-type: none"> Slow investment process Trojan horse problem Change of guard 	<ul style="list-style-type: none"> Insufficient to fund growth Dilutive to core business Inconsistency



SBIR/STTR Grants - “America’s Seed Fund”

Program: Competitive grant program coordinated by the SBA to encourage small businesses to engage in Federal R&D with potential for commercialization. 11 Federal agencies participate in SBIR program, and 5 of these also participate in STTR.

SBIR = Small Business Innovation Research

STTR = Small Business Technology Transfer

Mission:

The mission of the SBIR/STTR programs is to support scientific excellence and technological innovation through the investment of Federal research funds in critical American priorities to build a strong national economy.

Program Goals:

- Stimulate technological innovation.
- Meet Federal research and development needs.
- Foster and encourage participation in innovation and entrepreneurship by women and socially or economically disadvantaged persons.
- Increase private-sector commercialization of innovations derived from Federal research and development funding.
- Foster technology transfer through cooperative R&D between small businesses and research institutions.



SBIR/STTR - Eligibility, Phases, Assistance

General SBIR/STTR Eligibility Requirements:

- Must be U.S. small business (13 CFR 121.702)
- Organized for profit
- > 50% owned and controlled by one or more individuals who are citizens and permanent U.S. residents
- 500 or fewer employees, including affiliates
- For STTR grants, must partner with a qualifying research institution
- STTR requires:
 - Intellectual property agreement between partners
 - Small business must perform minimum of 40% of the research and single partner institution 30% minimum
 - Principal investigator allowed to be employed by partnering institution

Phases:

- **Phase I:** Establish technical merit, feasibility and commercial potential – generally \$50-250k for 6mos. (SBIR) to 1 year (STTR)
- **Phase II:** Assuming success in Phase I, continuation of research of R&D effort to further technical merit and commercial potential – awards are typically \$750k for 2 years
- **Phase III:** Primary objective is to pursue commercialization stemming from Phase I/II efforts – some federal agencies may fund phase III, – e.g., production contracts for products, processes or services intended for the U.S. Government

Assistance

- technology@sba.gov
- Robert Brooke, Director Federal Funding Programs Robert.Brooke@virginiaipc.org
- SBDC



U.S. Angel Market

Fast Facts:

- 250+ angel investor groups, family offices & accredited platforms report to ACA (“Angel Capital Association”)
- 2022: 1,424 transactions; down 29% from 2021
- Shift in \$’s from Seed (1,001) to Series A (423)
 - \$2.3B in Seed / \$4.9B in Series A
- Revenue based financing increased to \$3.3B
- SE #2 in transactions (17%) behind California (21%)

Top Industries for Angel Group Investments

IT (33%)	Consumer Products & Services (23%)	Healthcare (20%)	Business Products & Services (15%)	Financial Services (3.5%)
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Source: ACA Angel Funders Report 2022



U.S. Angel Market

Investment criteria and norms:

- often have geographical boundaries, valuation limits, and stage preferences
- like to see core management team in place, especially CEO with previous startup experience
- scalable business with low to moderate capital intensity
- proprietary product with IP protection
- early customer adoption proving value propositions, product/market fit and depth of market
- deal structures vary by region, in SE region ~ 89% structured as either convertible notes (51%) or preferred stock (38%); SAFEs 6.5%
- about 30% of deals included angels assuming a board seat; ~2x round size when this occurred



Regional Angel Groups Reporting to ACA

Group Name	Location	Year Est.
757 Angels	Virginia Beach, VA	2015
Charlottesville Angel Network	Charlottesville, VA	2015
RTP Capital	RTP, NC	2010
The Angel Roundtable	Johnson City, TN	2012
The JumpFund	Chattanooga, TN	2014
The Launch Place	Danville, VA	2012
Triangle Angel Partners	Chapel Hill, NC	2011
VentureSouth	Greenville, SC	2016

Source: ACA Angel Funders Report 2020





COMMON WEALTH ANGELS

Management Team and Founders

- Full-time commitment
- Domain/industry experience
- Record of high achievement
- Coachable

Investment Stage

- Seed, A Round

Investment Securities

- Preferred stock
- Convertible debt

Investment Range

- \$50,000 to \$500,000

Return Expectation

- Potential for > 5x multiple on investment

Investment Time Horizon

- 3 – 7 years depending on stage of investment

Previous Investment

- < \$2,000,000 dilutive investment received

Proprietary Advantage

- Unique technology
- Defensible IP position
- High barriers to entry and proprietary know-how and solid business model

Scalability

- Large market opportunity with buying power
- Potential for leading market share position
- > \$25 million in revenues within 5 years of investment

Other

- Require board formation and observation rights

Preferred Industries

- Software
- Healthcare (IT, medical devices)
- Agtech
- Edtech
- Cleantech

Geographic Focus

- Western Virginia primary
- Rest of Virginia secondary

Decision Making

- Executive summary starts process
- Members make individual decisions following presentations and completion of due diligence



U.S. Venture Capital Market

Structure:

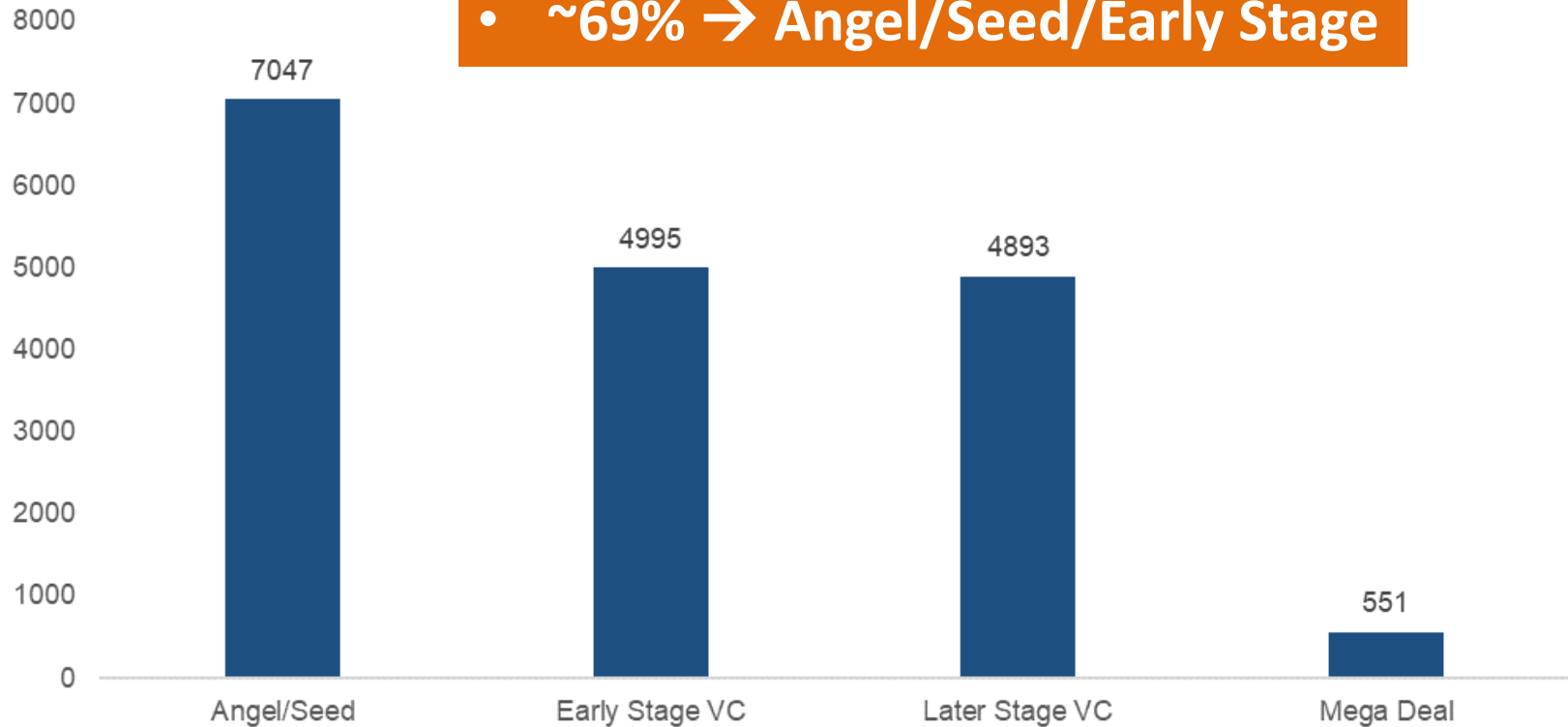
- 1,342 professional firms operating in U.S.
- > \$1T in assets under management
- U.S. market represents ~51% of global VC capital (~83% in 2004)
- Median VC fund was \$272 million



VC Transactions by Deal Stage - 2022

17,496 completed in 2022

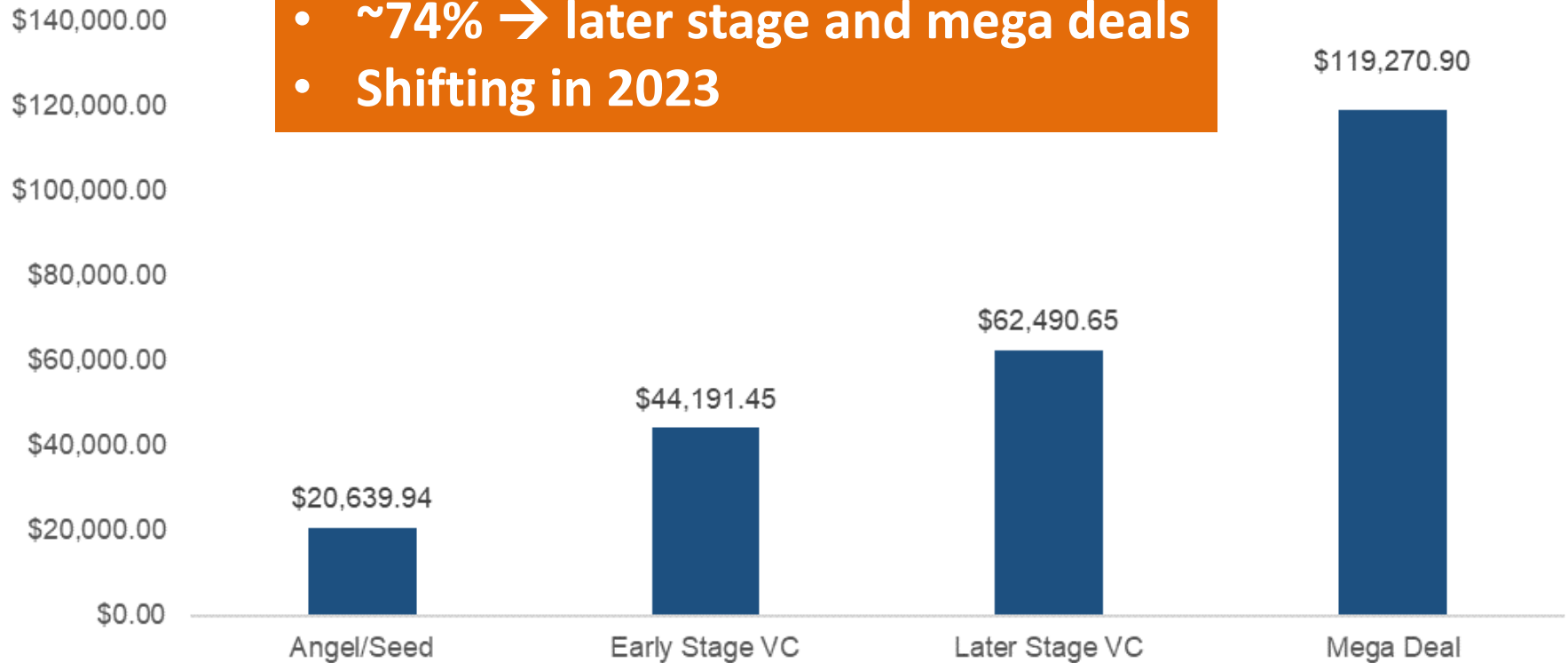
- ~69% → Angel/Seed/Early Stage



VC Investment \$'s by Stage – 2022

\$247 billion disbursed

- ~74% → later stage and mega deals
- Shifting in 2023



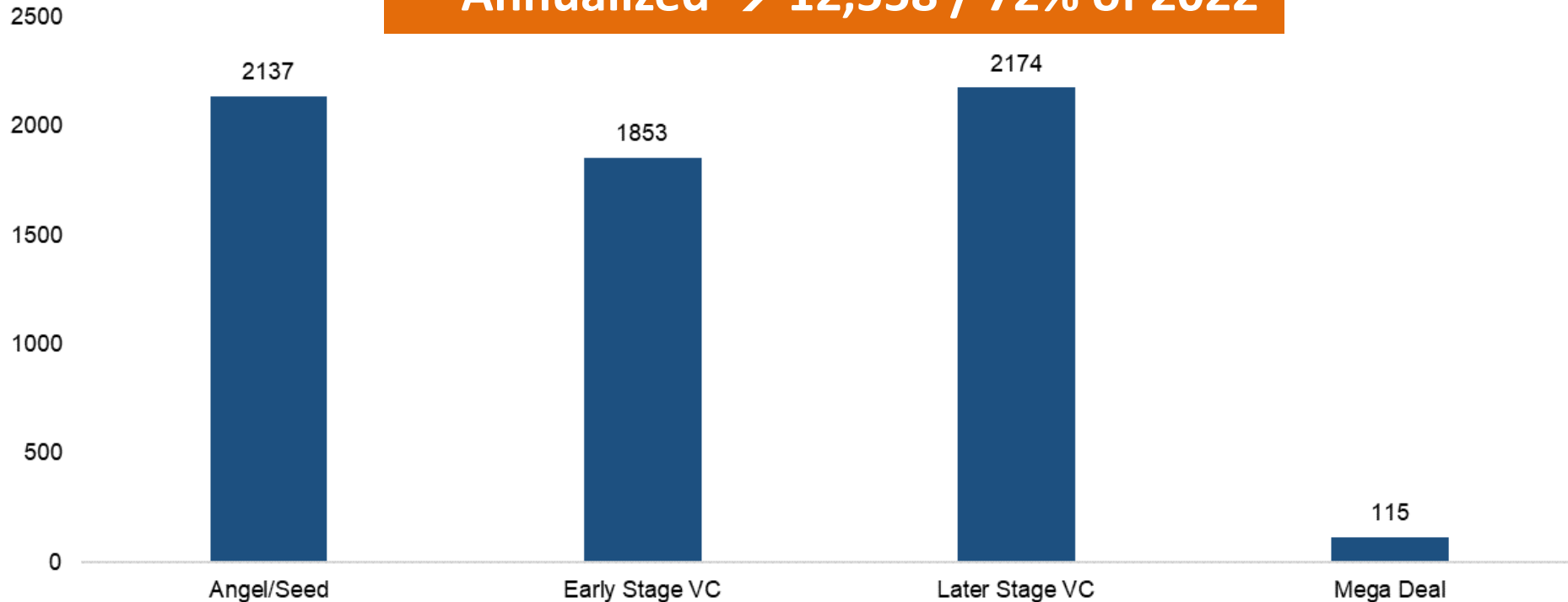
Source: PitchBook



VC Investment Deal Stage – 2023 YTD

6,279 reported through 6/27

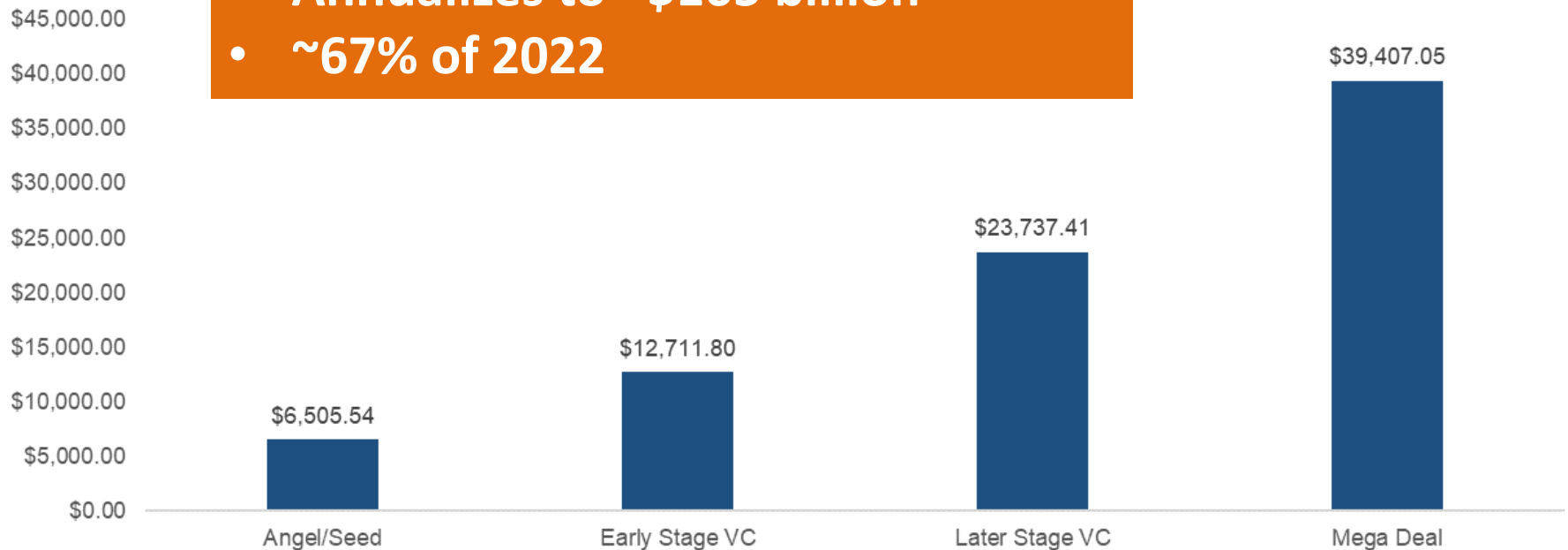
• Annualized → 12,558 / 72% of 2022



VC Investment \$'s by Stage – 2023YTD

\$82.4 billion committed through 6/27

- Annualizes to ~\$165 billion
- ~67% of 2022



VC Investing by Industry - 2022

Leading sectors:

- Software
- Pharma & biotech
- HealthTech
- Commercial products & services
- Healthcare devices, supplies and services

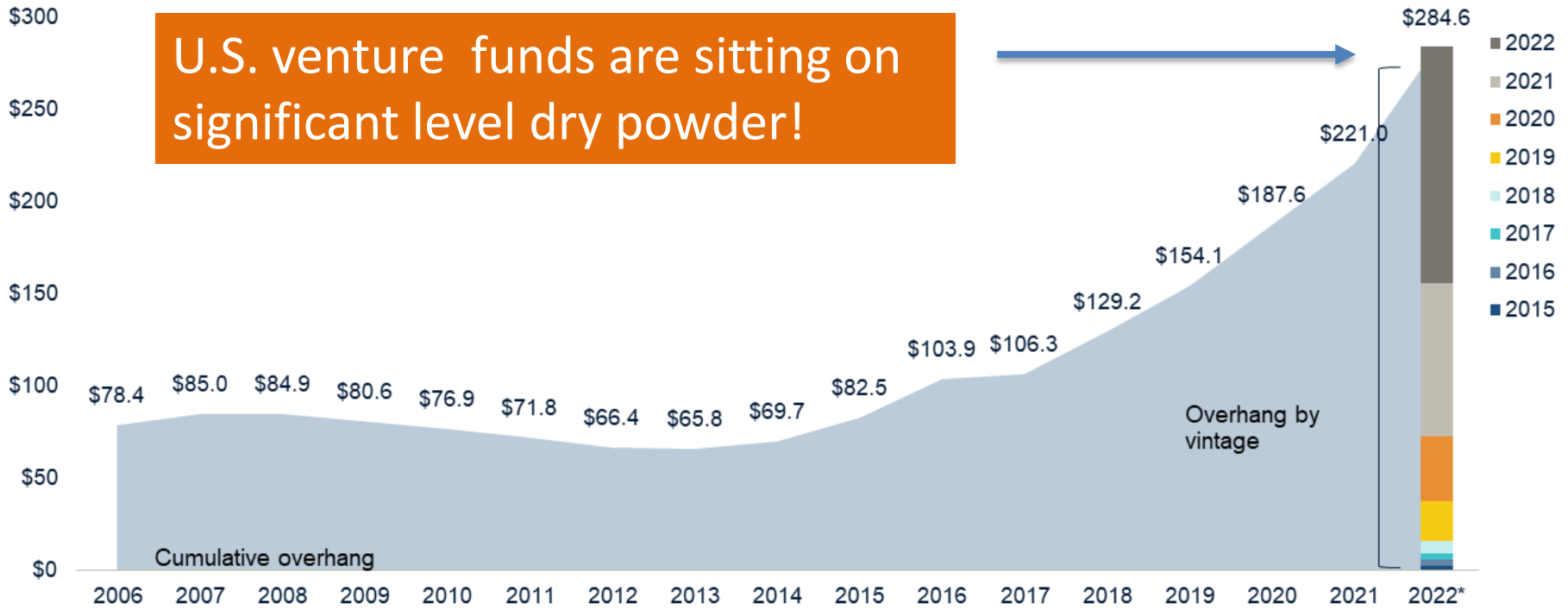


VC Investing by Industry – 2023 YTD



Cumulative VC Overhang - ~\$285B!

U.S. venture funds are sitting on significant level dry powder!



Trends in VC Valuation & Terms



Pre-money valuations fell in Q1 and Q2:

- Liquidity crunch
- Declining economic conditions
- Market volatility
- Investor focus on profitability
- Survivorship bias
- IPO window largely closed

T&C

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Investment terms & conditions more investor friendly:

- Most favorable environment in 10 years
- Uptick in downside protections
- Cumulative dividends increasing
- Proportion of flat and down rounds up



Questions

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