

# Bluegrass Angels



March 2018

# Angel Investing

Individual investors who provide capital for a business start-up, usually in exchange for convertible debt or ownership equity

Angel Groups form to share workload, risks, expenses and expertise.

Angel capital fills the gap in start-up funding between “friends and family” who provide **seed funding** and venture capital funds that traditionally don’t consider investments of **less than \$2-4 million**

Angel must be “accredited investors” as defined by the SEC in Rule 501 of Regulation D



- Provides early stage equity capital to start-up and/or expanding companies
- Helps commercialize research conducted at Kentucky universities
- Promotes and enhances entrepreneurship in the Kentucky business community
- Helps create economic growth and jobs in the Bluegrass
- Provides members with an attractive financial return

# BGA Membership

## *AREAS OF MEMBERS' EXPERTISE*

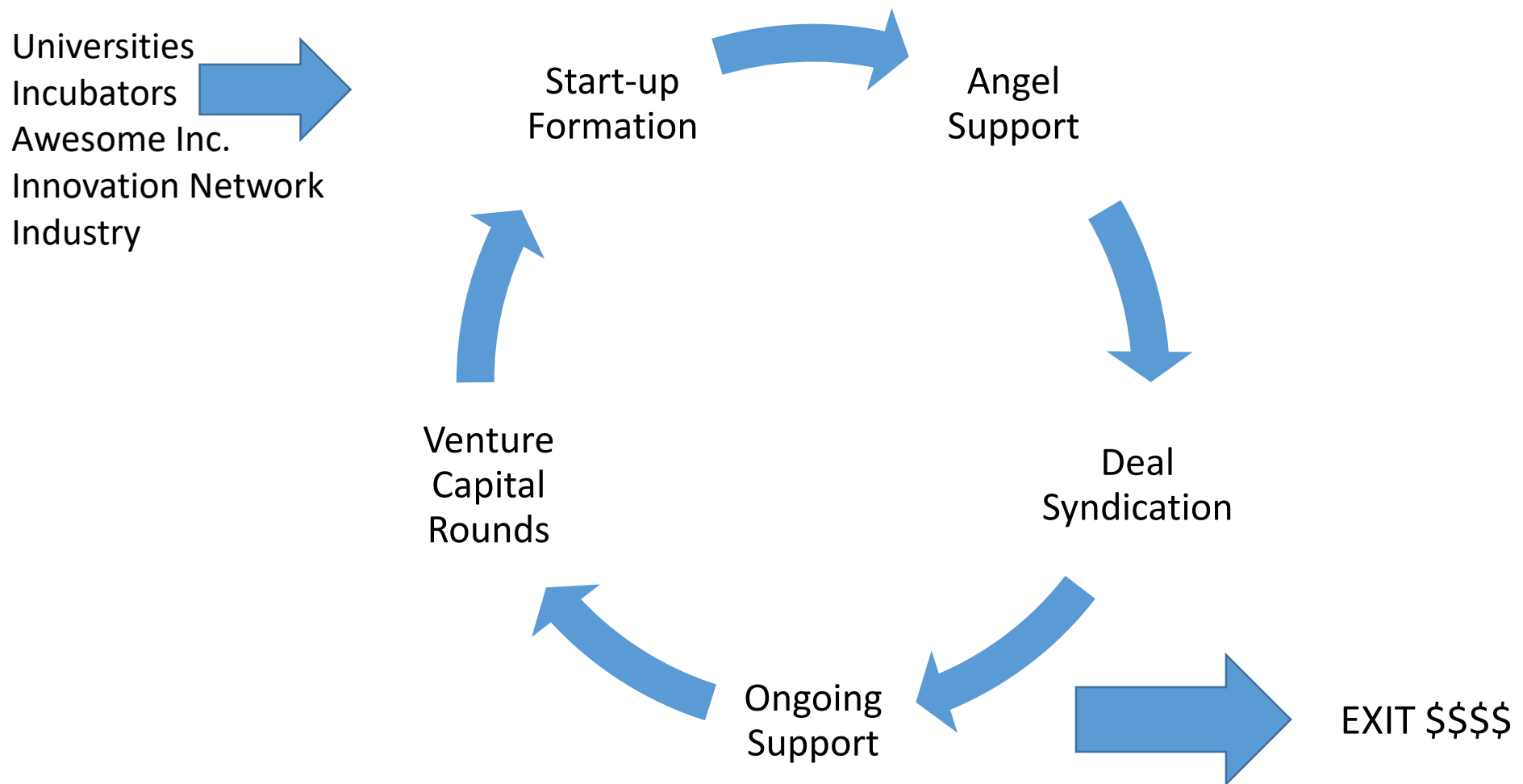
- Consulting
- Energy
- Finance
- Government
- Healthcare
- Legal
- Manufacturing
- M&A
- Real Estate
- Software
- Venture Capital

Software

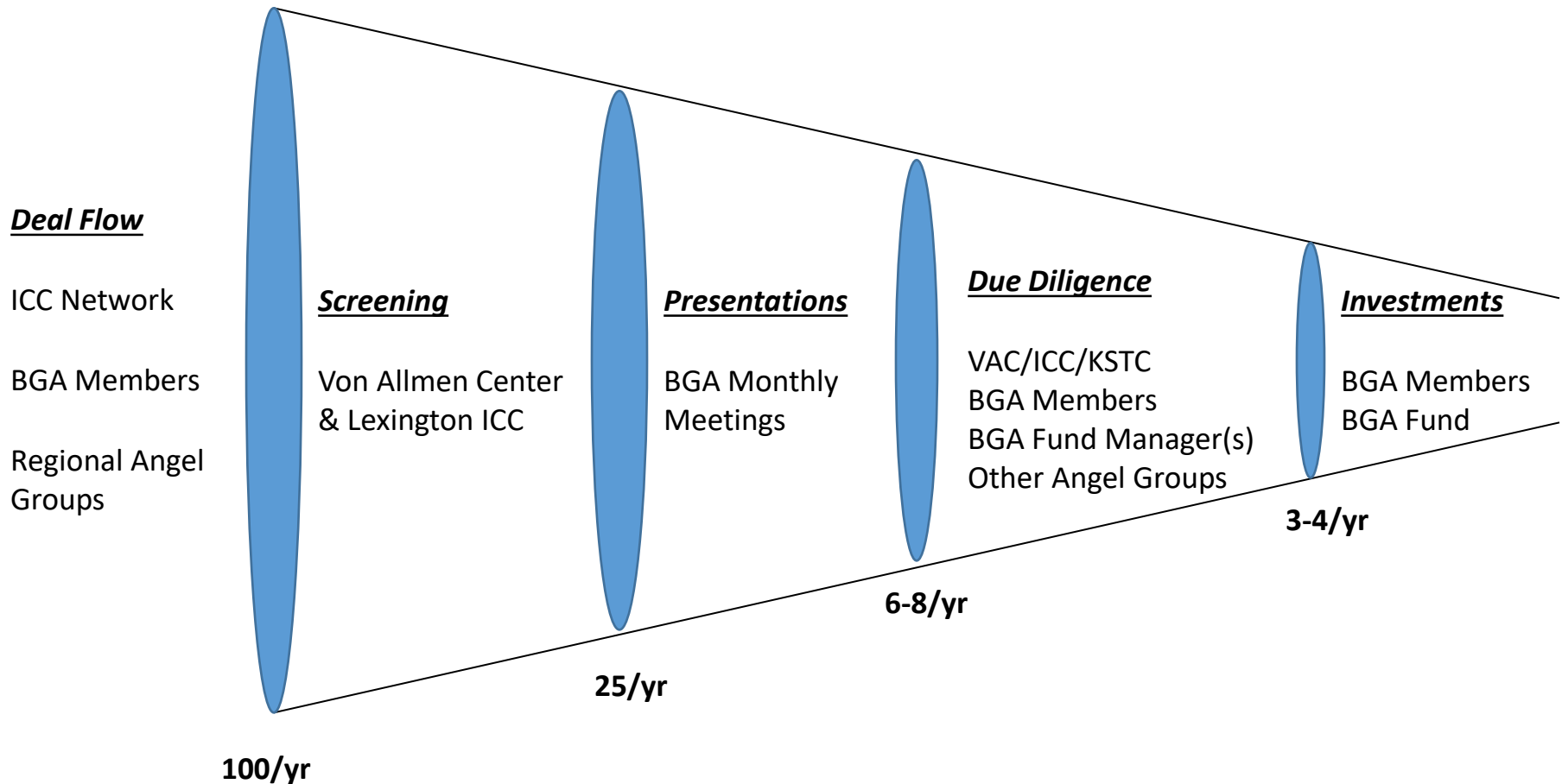


dreamstime.com

# Start-up Ecosystem



# BGA Fund Management Process



# “Typical” Angel Deal

## Terms

- Series A Preferred
- 6%-8% annual dividend
- 1X liquidation preference, participating
- Board seat
- Anti-dilution
- First rights on future rounds

## Funding

Pre-money	<u>\$1,500,000</u>
BGA Fund	\$150,000
BGA Members	\$150,000
State Funds	\$200,000
Other Investors	\$200,000
Founders	<u>\$50,000</u>
	<u>\$750,000</u>
Post-money	\$2,250,000

## Cap Table

Founders

Series A Investors

## Stock

common

preferred

## Pre-money

100%

## Post-money

66.7%

33.3%

# Regional Angel Groups & VCs

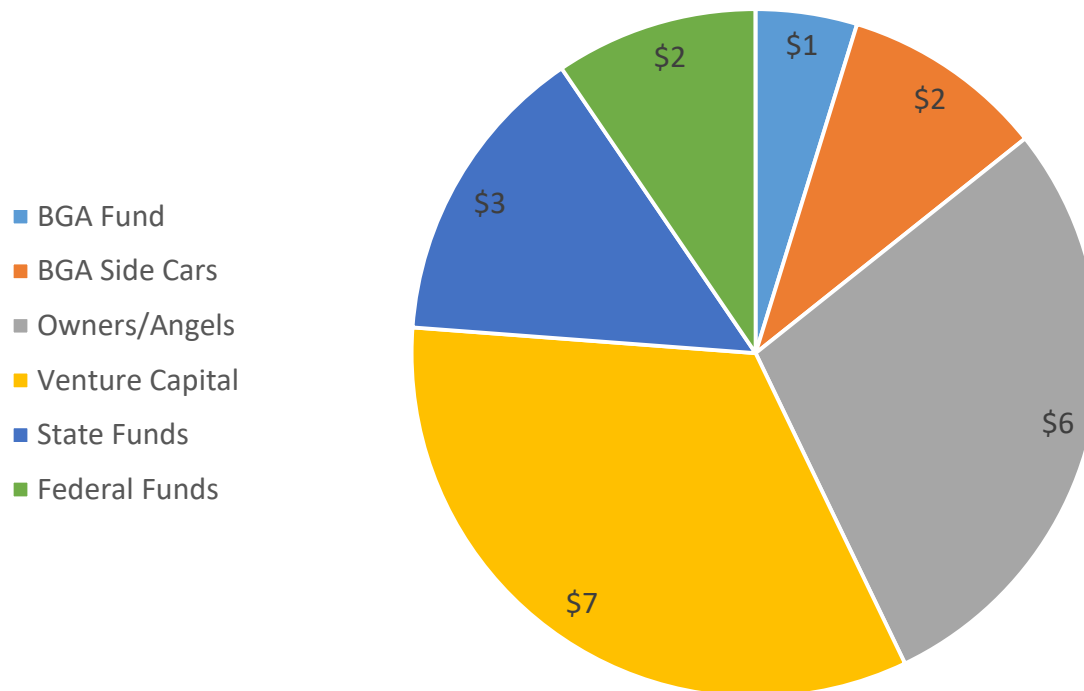
Angel/Seed	VC
Bluegrass Angels & Bluegrass Angel Venture Funds (Lexington)	Chrysalis Ventures (Louisville)
Kentucky Enterprise Fund (KSTC)	Meritus Fund (London)
Commonwealth Seed Capital (DCI)	River Cities Capital (Cincinnati)
Louisville Angels (Louisville)	Blue Chip Ventures (Cincinnati)
Yearling Fund (Louisville)	Allos Ventures (Cincinnati)
Anchorage Angels (Louisville)	Triathlon Medical Ventures (Cincinnati)
Northern Kentucky Angels (Covington)	Adena Ventures (Athens, OH)
Queen City Angels (Cincinnati)	Cultivian Ventures (Indianapolis)



# Examples of Funding Syndication

- Tax Incentives through DCI
- Matching of Federal Grants \$ for \$
- Special Angel Investment Funds (Kifa Credits)
- Commonwealth Seed Capital
- Kentucky Science and Technology Corporation
- KEF Grants
- Seed Funds
- Incubators around the state
- Angel Groups

# Deal Syndication and Total Funding



**\$1 Angel Fund  
Investment early  
creates \$20 of  
additional Funding**

# History and Fund III

- **History**

- BGA group founded in 2004
- Currently has over 50 members
- BGA Venture Fund I raised \$2mm in 2006, funded 12 companies
- BGA Venture Fund II raised \$3.8mm in 2010, funded 22 companies *(Final investment December 2015)*

- **Fund III**

- Raise \$3.7 million of a \$4.0 million fund
- Invest in regional deals with focus on large markets and high growth opportunities where we have experience
- Stimulate the regional startup ecosystem
- Focus on syndicating deals with regional funds/groups
- Utilize KIFA Tax Credit to enhance returns
- Make our investors money

# Fund II Review of Performance

- \$3.8 Million Fund
- First investments in 2010
- 22 investments through 2/2015
- 36% of initial investment returned – 3 liquidity events and KIFA tax credits
- 3 liquidity events (so far)
  - Jacob's Automation – Rockwell acquired 11/2013 \$175k invested, returned \$539k for a 3.1x return in 26-33 months.
  - Allylix – Purchased by Evolva (SIX: EVE) for 46M shares. ~\$50M purchase price.
  - Transposagen – January 2015 \$203,333 invested in 2011, \$206,666 dividend in 2015. Still retain Preferred shares.
- Projected IRR 13%-19%

# Why invest in the fund?

- Experienced, invested and committed team
- Board of Advisors setup for technical due diligence
- Ability to lead deals and negotiate terms
- Active board involvement
- No management fee and no carried interest
- Potential for locked-in KIFA tax credit
- Make money!

## Fund II Examples

- Transposagen – Poesida, Vindico, Hera
- Jacobs Automation
- SuperFanU
- Seikowave
- Gun Media
- Frogdice
- Construction Industry Resources

## Fund III Examples

- Gun Media
- Onovative
- Smart Farm Systems
- SuperFanU
- Luminari
- Seikowave Dental
- Others being finalized

# KIFA – Kentucky Investment Fund Act

- 40-50% KY tax credit
- Tax credits passed through to unit holders for the subsequent tax year
- Fund will apply for tax credits for full amount of fund
- Also available to a limited extent for qualified individuals.