

Morgan Lewis

STARTUP & ACCELERATE

Angel Investing as a Funding Source

November 9, 2023

Benjamin David Novak and Evan McGillin

Presenters



Benjamin David Novak

**Partner
Morgan Lewis**



Evan McGillin

**Associate
Morgan Lewis**

Morgan Lewis

Biography



Benjamin David Novak

Partner

502 Carnegie Center

Princeton, NJ 08540

+1.609.919.6612

benjamin.novak@morganlewis.com

Benjamin David Novak is an active angel investor in early stage technology companies located on the East Coast of the United States. In addition to being an angel investor, Ben is a Partner with Morgan Lewis where he represents technology companies, angel investors, venture capital funds, and private equity firms. He is an active member of the venture community, serving on numerous advisory boards and regularly speaking at tech events, judging venture conferences, and lecturing on technology, entrepreneurship, and investing at colleges and universities.

Biography



Evan McGillin

Associate

502 Carnegie Center

Princeton, NJ 08540

+1.609.919.6614

evan.mcgillin@morganlewis.com

Evan McGillin advises clients on corporate matters with a focus on equity and debt financings, mergers and acquisitions, corporate governance, and securities laws. A member of the firm's emerging business and technology practice, Evan represents established and emerging growth companies and the investors that finance them in a variety of industries including technology, fintech, digital health, and life sciences.

Who are Angel Investors?

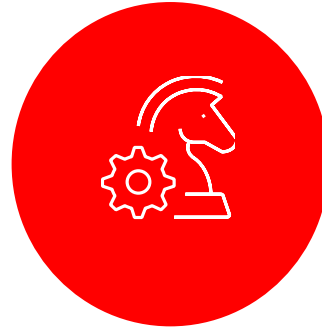
Individuals who invest their personal capital, and often other resources, in early stage private companies



Friends & Family



**Sophisticated
Professional
Investor**



Angel Network



Angel Fund

What is the Sweet Spot for an Angel Financing?

\$250,000-\$2,000,000 investment rounds

Seed Stage and Pre-Seed Stage Companies

Need a reasonably small amount of capital to significantly de-risk the business

Government grants and bank loans not available or not sufficient

Considerations in Structuring Angel Financings



**Who are the
Angels and What
are their
Preferences?**



**How Much Capital
is Being Invested?**



**What are the
Costs?**

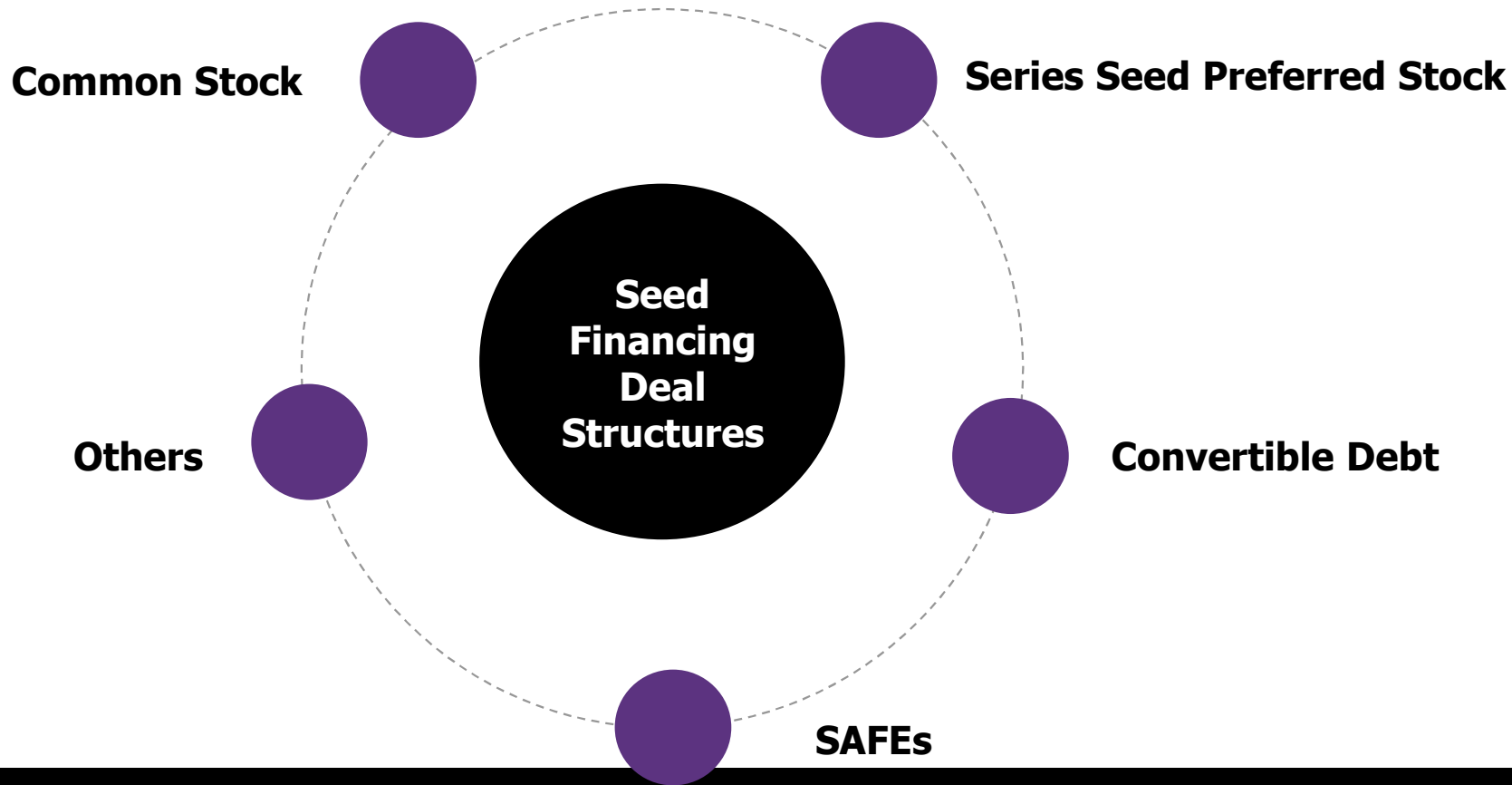


**What is the
Timing?**



**Any Specific
Considerations?**





Common Stock

What is It?

- Most basic form of equity

What are the Terms?

- Generally, to elect directors, receive any dividends, share in any proceeds upon liquidation
- Generally, no special “investor-style” rights

What are the Advantages?

- Low transaction costs
- From the company’s perspective, investors have very limited economic and control rights

What are the Disadvantages?

- From the investor’s perspective, investors have very limited economic and control rights

When is it Used?

- Founder financings
- Maybe friends and family financings

Series Seed Preferred Stock

What is It?

- A “special” form of equity

What are the Terms?

- Liquidation Preference, Dividends, Pre-emptive Rights, Board Representation, Protective Provisions, Information Rights, Access Rights, and More

What are the Advantages?

- From the investor’s perspective, a negotiated set of specific economic and control rights
- From the company’s perspective, the ability to attract smart money

What are the Disadvantages?

- Higher transaction costs
- Longer time to closing

When is it Used?

- Sophisticated angel financings

Convertible Debt

What is It?

- A debt security that may convert into an equity security

What are the Terms?

- Principal Amount, Interest Rate, Maturity Date, Discount, Valuation Cap
- Conversion Features (Qualified Financing, Non-Qualified Financing, Change of Control, Maturity)

What are the Advantages?

- Punts the valuation conversation, if no Valuation Cap
- Low transaction costs
- Shorter time to closing

What are the Disadvantages?

- From the investor's perspective, their stockholder rights are not yet set
- From the company's perspective, the debt could mature and become due and payable

When is it Used?

- Very Often (especially in smaller raises and earlier raises)

SAFEs

What is It?

- “Simple” Agreement for Future Equity

What are the Terms?

- Similar to a note with no interest of maturity

What are the Advantages?

- Theoretically low transaction costs
- Theoretically shorter time to closing

What are the Disadvantages?

- From the investor’s perspective, an irrevocable commitment of capital with a hope of fair treatment in the future

When is it Used?

- Incubator financings, very early financings, very small financings, West Coast deals

Investor Presentation

- Slides
 - What You Do
 - Problem
 - Solution
 - Market
 - Business Model
 - Competition
 - Go to Market Strategy
 - Team
 - Financials
 - Exit
 - Ask

What Do Angels Want?

- Concise Business Concept and Implementation Plan

What Do Founders Want?

- Share the Vision

Financing Terms

- Convertible Promissory Note
 - 20% discount
 - 8% interest
 - \$5 million valuation cap
 - 2 year maturity

What Do Angels Want?

- Reasonable Investor Protections to Manage Risk

What Do Founders Want?

- Not have angel investor rights impede management of the company or a larger subsequent VC round

Valuation

- Valuation
 - \$3 million
 - \$15 million

What Do Angels Want?

- Reasonable Valuation to Appropriately Reflect Risk

What Do Founders Want?

- Highest Valuation to Minimize Founder Dilution

Communication

- Methods of Communication
 - E-mail updates (monthly, bi-monthly, quarterly)
 - Investor update calls (quarterly, yearly)
 - In person meetings (annually)
 - Personal outreach

What Do Angels Want?

- Progress updates on the good, the bad, and the ask

What Do Founders Want?

- An organized way to leverage investor resources



Questions?

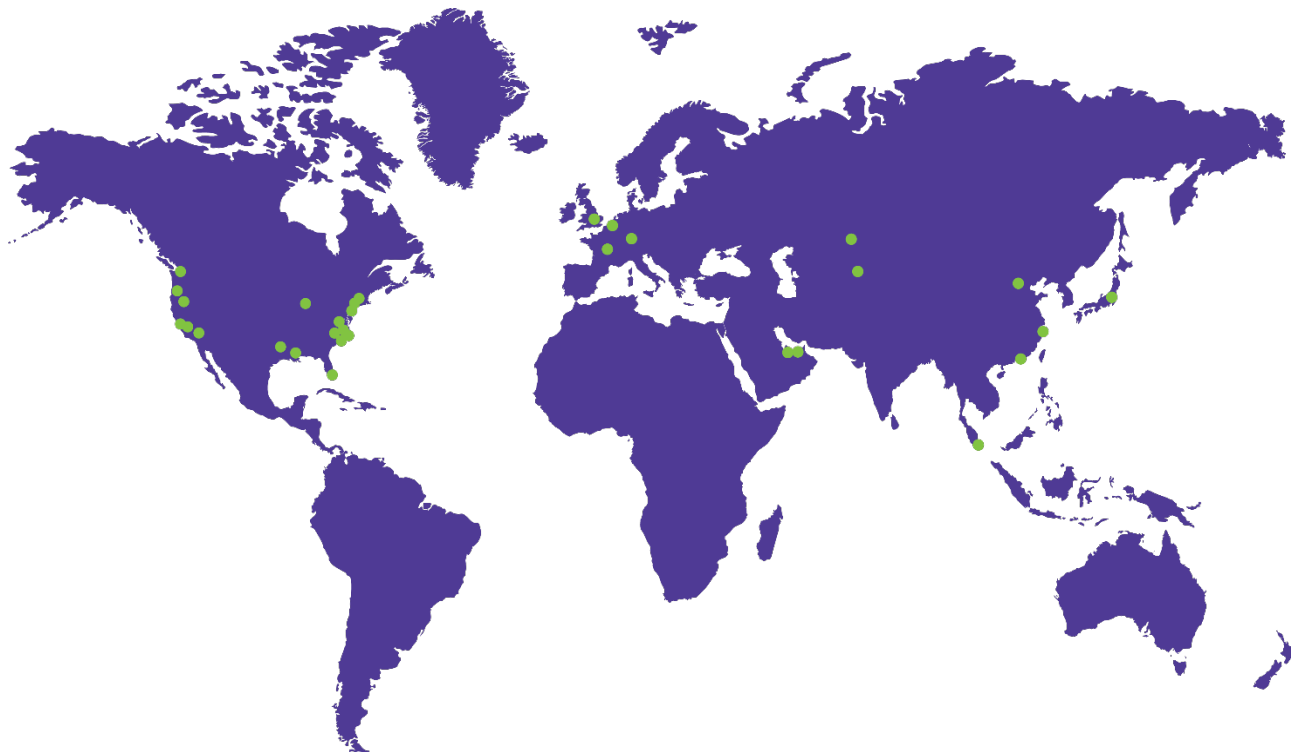
Morgan Lewis

Our Global Reach

Africa
Asia Pacific
Europe
Latin America
Middle East
North America

Our Locations

Abu Dhabi
Almaty
Beijing*
Boston
Brussels
Century City
Chicago
Dallas
Dubai
Frankfurt
Hartford
Hong Kong*
Houston
London
Los Angeles
Miami
New York
Nur-Sultan
Orange County
Paris
Philadelphia
Pittsburgh
Princeton
San Francisco
Seattle
Shanghai*
Silicon Valley
Singapore*
Tokyo
Washington, DC
Wilmington



Morgan Lewis

Our Beijing and Shanghai offices operate as representative offices of Morgan, Lewis & Bockius LLP. In Hong Kong, Morgan, Lewis & Bockius is a separate Hong Kong general partnership registered with The Law Society of Hong Kong. Morgan Lewis Stamford LLC is a Singapore law corporation affiliated with Morgan, Lewis & Bockius LLP.

THANK YOU

© 2023 Morgan, Lewis & Bockius LLP
© 2023 Morgan Lewis Stamford LLC
© 2023 Morgan, Lewis & Bockius UK LLP

Morgan, Lewis & Bockius UK LLP is a limited liability partnership registered in England and Wales under number OC378797 and is a law firm authorised and regulated by the Solicitors Regulation Authority. The SRA authorisation number is 615176.

Our Beijing and Shanghai offices operate as representative offices of Morgan, Lewis & Bockius LLP. In Hong Kong, Morgan, Lewis & Bockius is a separate Hong Kong general partnership registered with The Law Society of Hong Kong. Morgan Lewis Stamford LLC is a Singapore law corporation affiliated with Morgan, Lewis & Bockius LLP.

This material is provided for your convenience and does not constitute legal advice or create an attorney-client relationship. Prior results do not guarantee similar outcomes. Attorney Advertising.