Friends & Family, Angels & Institutional VCs

Investor Profiles

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TELUS Ventures

Presenter - Jay Crone

With 15 years of experience as a venture investor, investment banker, economist, and entrepreneur, Jay leads the sourcing, execution and post investment support of TELUS Ventures' investments in ag tech and digital health, while also providing strategic insights into the growth and M&A strategies for the TELUS Health and TELUS Agriculture business units.

Jay's experience as an investor, operator and founder informs how he evaluates investment opportunities and works with portfolio companies. He plays an active role as a board observer for a number of companies including Taulia, Acorn, GenXys and Hummingbird.

Before joining TELUS Ventures in 2018, Jay worked in corporate finance and M&A at Scotiabank, corporate and business development at Hootsuite and was a founder and product lead for BreakingBayStreet, a subscription-based online course serving the capital markets community.

An Ontario-transplant living in Vancouver, Jay likes to spend his time outdoors skiing, running, cycling, playing hockey, and hiking with his wife and two young kids. Even when he's off the clock he has a passion for innovative startups and entrepreneurs and enjoys advising and making angel investments in early stage companies.

Jay has a Masters in Financial Economics from the Rotman School of Management and an economics degree from the University of Ottawa.

TLDR: Venture capital investor for TELUS with background as an operator, advisor and investor

Gut Check - Do You Want to Build a Start Up?

- All new companies require capital to get started, buy equipment and software, hire people, rent space, pay for permits, certifications etc.
- While all (most?) new companies aspire to make a profit eventually, a **startup** is a new company that prioritizes **growing fast** over making a profit in the near term
- This means that **startups need outside capita**l and will typically need to raise multiple rounds of financing from external investors
- For an entrepreneur, being the CEO of a new startup means that for the next couple of years you will be in a constant state of running out of money - **you're on a cash burning treadmill**
- This means that until you have an "exit" **you will be highly dependent on your current and future investors**
    - The expectations will be high for you to move fast - you will be "on the clock"

Still want to build a startup?

Choosing your Investors - Why You Need to Care

- Different investor types have different motivations and expectations for investing
- It is important to consider how each will impact your company in a number of important ways including ownership, valuation, control and reporting and mentorship/growth

Ownership & Valuation

- How much of the company will I have to give up?
- How will each investor type think about the valuation of my company?
- How do the ownership & valuation implications of this round affect my ability to raise capital in a future round?
- How does taking on capital from this investor affect my own return profile under various exit scenarios?

Control

- Will the investor impose limits on my actions as an operator as a condition of investment?
- Will the investor require a board seat?
- How will the investor controls impact my ability to raise capital, make acquisitions, exit, etc.

Reporting

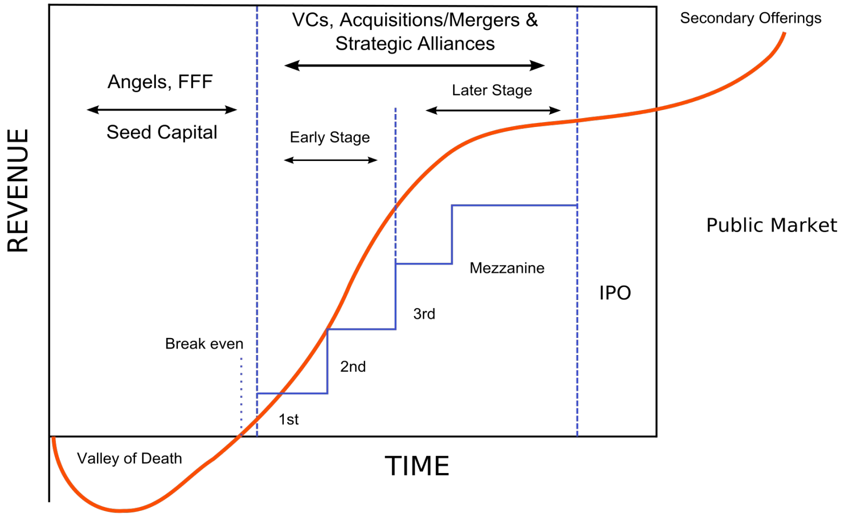
- What are the investor's expectations around reporting detail and frequency?
- How much of my time will this eat up?

Mentorship / Growth

- How knowledgeable/connected is this investor and how much time will he/she dedicate to helping me?
- What can the investor do to help me grow and do they have a track record of driving growth with other startups

Where does investment capital come from? (Up to 1st institutional financing)

The Startup Financing Cycle



Not discussed today

- Crowdfunding
- Incubators/accelerators
- Private Equity

Investor Types - The Basics

- Friends & Family (FFF)
  - **Who:** Mom, Dad, Aunt Susan, etc.
  - **Why they invest:** They love you
  - **Return Expectations:** 100% loss
  - **Timeline to exit:** Infinity
- Angels
  - **Who:** High Net Worth Individuals of all varieties
  - **Why they invest:** Fun/Interest + ROI
  - **Return Expectations:** Varies significantly
  - **Timeline to exit:** Varies
- Institutional Venture Capital Funds
  - **Who:** Professional investors investing $ for their LPs
  - **Why they invest:** ROI
  - **Return Expectations:** 5x+ ROIC, 15%+ IRR for portfolio
  - **Timeline to exit:** Likely 3-7 years; firm on <10 years

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Friends & Family

- Friends and family are actually the largest suppliers of capital to startups
- Entrepreneurs typically get started with capital from friends and family because:
  - You already know them!
  - Trust is assumed (normally it's expensive to build)
  - It's cheap! Minimal legal fees and Mom & Dad think your idea is worth something
  - Founders keep full control (and this is good because the founders know more about the business than Uncle Dave)
- Raising capital from friends and family is often more of an ethical decision than a financial one
  - Do your investors understand that there is significant risk to their capital?
  - Are they prepared to lose their entire investment?
  - What does Thanksgiving dinner look like 5 years from now?

Friends and Family Round - Summary

- **Investor Sophistication:** Low
- **Cheque Size / Investor:** $10-150k
- **Total Round Size**: $25-150k
- **Pre-Money Valuation:** <$1M
- **Security Types**: Common shares
- **Transactions Costs:** Very Low
- **Effect on Control**: Founders will typically maintain full control of the Company and Board
- **Investor Relations Burden:** Very Low
- **Pros:** Easy money, cheap, little/no impact on control
- **Cons:** Impact on relationships if risks not understood

Angels

- Angels are defined as High Net Worth individuals that invest in startups
- They are a highly diverse group that can vary considerably on a number of important qualities
  - Sophistication, motivations, expected involvement with the Company and expected returns
- Entrepreneurs seek out capital from angel for a combination of reasons that can include:
  - Capital needs exceed what friends and family can provide
  - Engage someone who can make intros/ provide advice
- Angel investors typically expect to have an ongoing relationship, so you need to do your own due diligence
  - Can you see yourself meeting this person on a regular basis for 5+ years?
  - Will they deliver on commitments to make introductions, provide advice, etc.?

Angel Round - Summary

- **Investor Sophistication:** Medium to High
- **Cheque Size / Investor:** $20-150k
- **Total Round Size**: $0.3M-1M
- **Pre-Money Valuation:** $0.7-3.0M
- **Security Type**: Common Shares, SAFEs/Convertibles, Preferred Shares
- **Transactions Costs:** Low
- **Effect on Control**: Investors may have veto rights over certain actions; may ask for board seats etc.
- **Investor Relations Burden**: Low to High
- **Pros:** More $, advice, introductions, support
- **Cons:** Lose 100% control, “start the clock” to an exit

Institutional Venture Capital

- Institutional VC funds are funds managed by professional investors called General Partners who invest the capital of their Limited Partners
- VCs will have different investment mandates, but will typically have commonalities including a target IRR, a specified fund life and a target allocation of fund capital to initial vs. follow on investments
- Entrepreneurs seek out venture capital in order to:
  - Bring on an industry expert with deep domain expertise, and well-established industry relationships
  - Bring on a partner that will support and accelerate the company's growth and progression to exit
- The avg lifespan of a VC/entrepreneur relationship is longer than the avg. marriage and can involve weekly/ daily interactions; also you can't always get a divorce
  - When choosing a VC you are choosing a long term partner, make sure you do extensive due diligence and ensure your visions for the company are aligned

Institutional Seed Round - Summary

- **Investor Sophistication:** High
- **Cheque Size / Investor:** $0.1-1.0M
- **Total Round Size**: $1.5-3.0M
- **Pre-Money Valuation:** $4.5-10M
- **Security Type**: Preferred Shares
- **Transactions Costs:** High
- **Effect on Control**: Protective provisions will be standard; 1+ board seat(s) likely required
- **Investor Relations Burden**: Medium
- **Pros:** More $, professional advice, follow on capital
- **Cons:** Give up more control, 100% commitment to an exit on a specified timeline

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Conclusion

- Deciding to build a startup implies a dependency on raising capital and you should be fully aware of the implications of this before starting your journey
- Choosing an investor is not just a financial decision, you are choosing people to have intensive multi-year relationships with you that will influence your company, your lifestyle and your sanity
- Different types of investors have different motivations and expectations; choosing to seek capital from friends and family vs. angels vs. institutional VCs requires you to clarify your own vision for the company and bring on the investors that best map to that vision
- As a company matures the amount of capital and level of support an entrepreneur needs from his/her investors typically increases and therefore there will be a natural progression to investors with more capital and expertise

Questions?