

Session 6: An Overview of the Financing System For Technology Ventures

A brief introduction to the players

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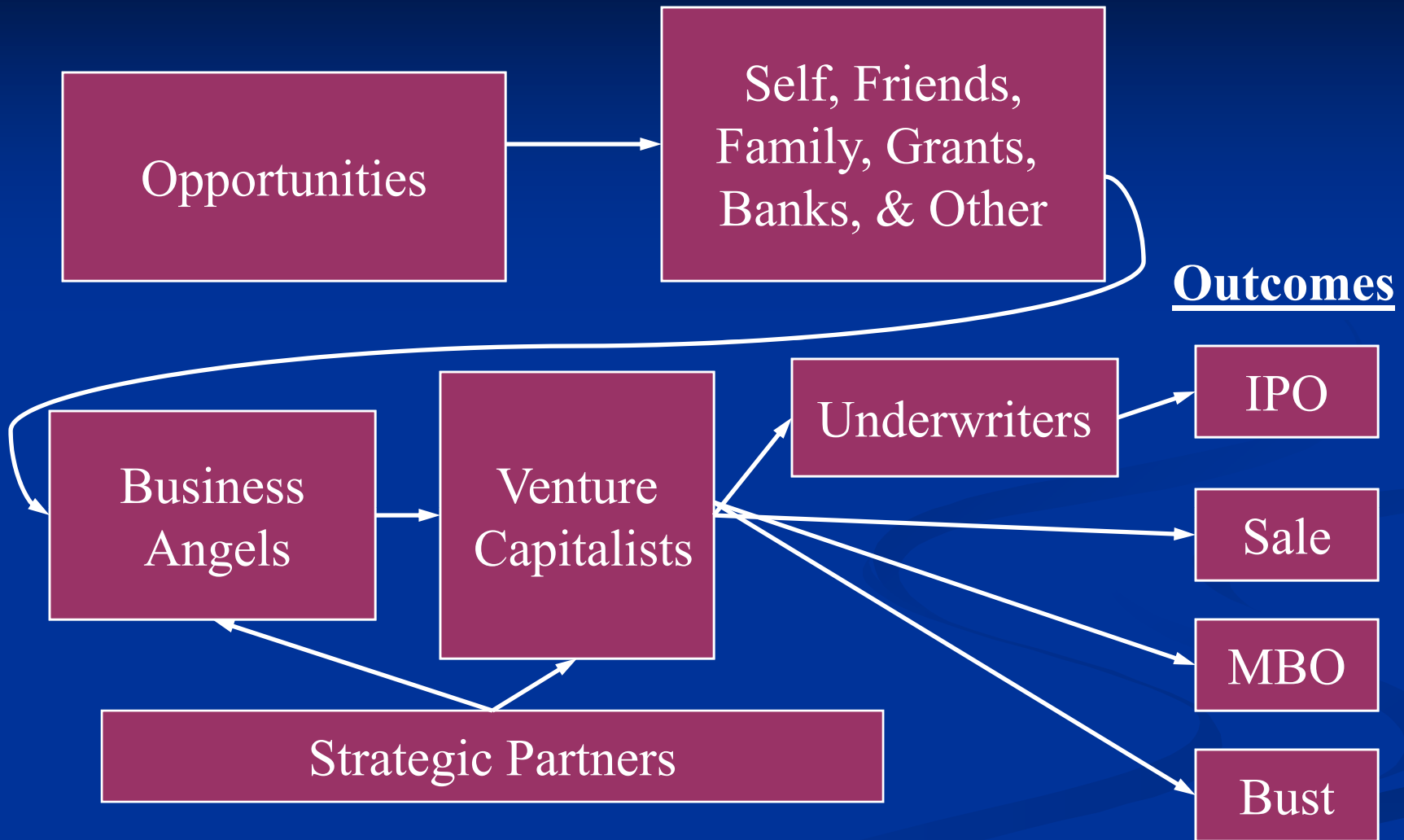
The Challenge of Financing Technology Ventures

- Huge Burn Rates Before a Product Exists
- High Levels of Complexity & Ambiguity
- High Levels of Risk (e.g., technological, regulatory)
- Bigger Gap between science discovery and a fundable, commercially relevant milestone
- Evaluation Demands Detailed Technological Knowledge
- Unproven Market in some cases

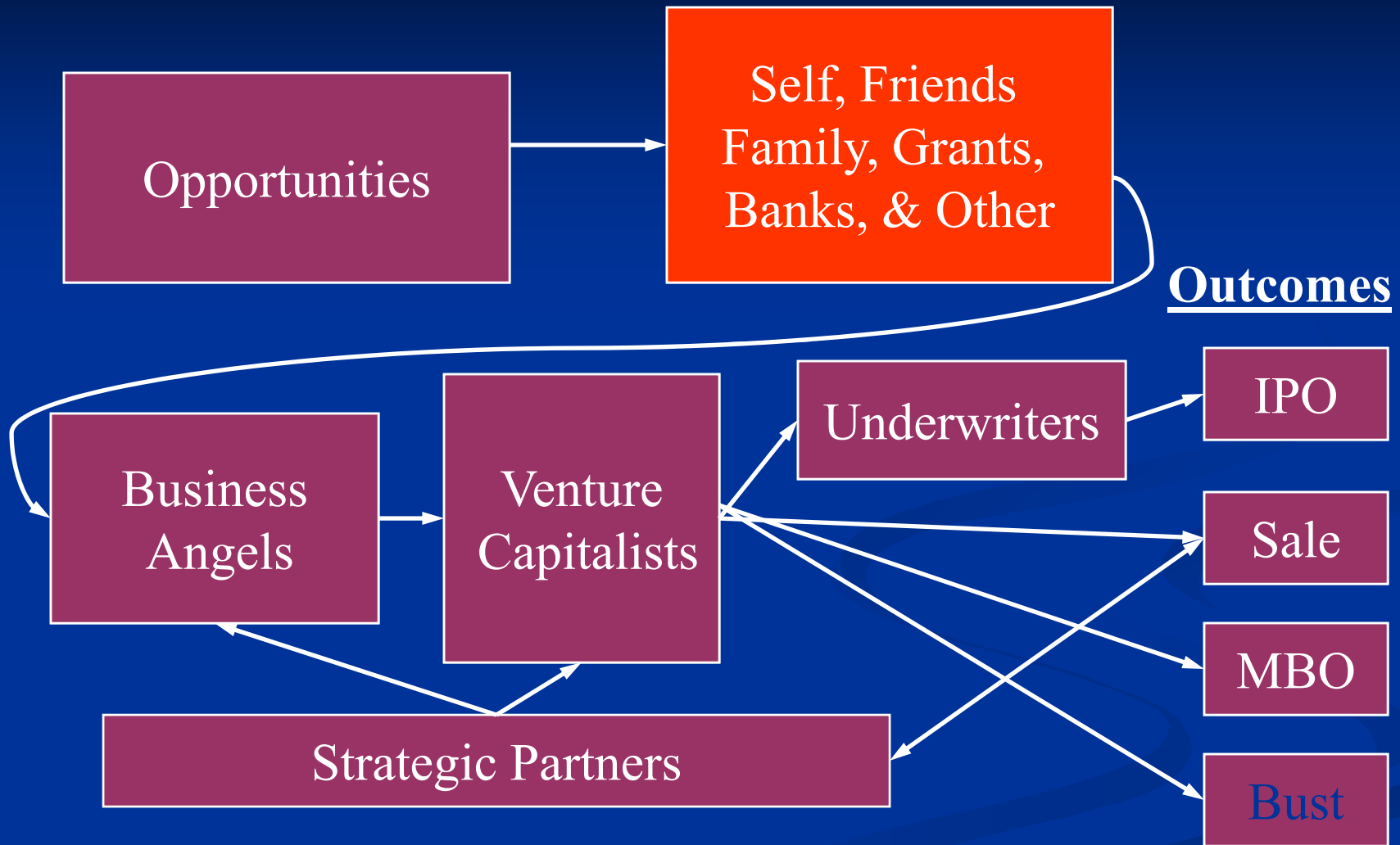
Sources of Capital

- Bootstrap, “Guerilla” Financing
 - Personal
 - Government Funding
 - Debt Financing (e.g., SBA)
- Equity Financing
 - Angels, Venture Capitalists, Investment Bankers

A Model Of The Venture Financing System



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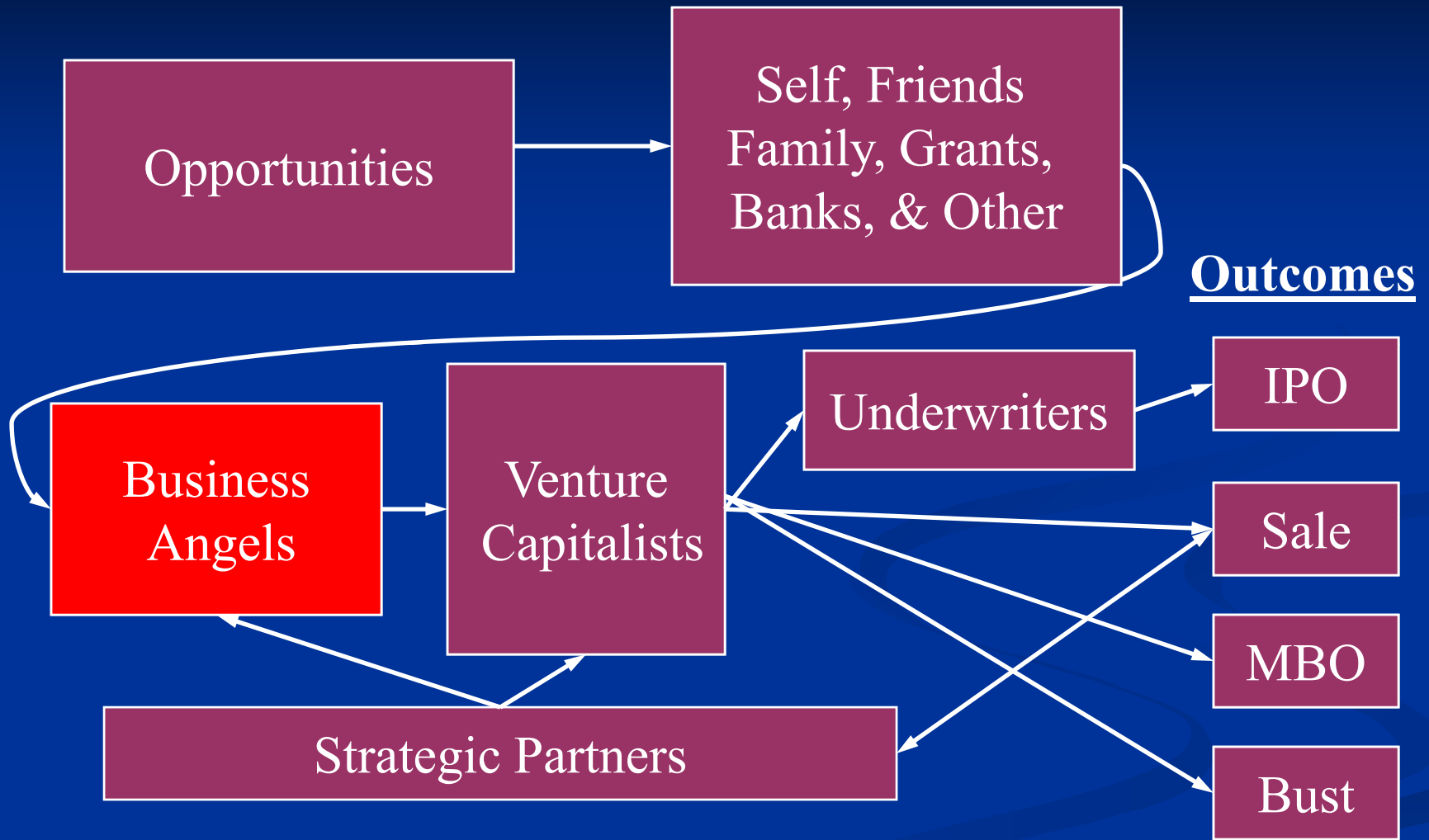
Bootstrap: Self, Friends, Family, Banks

- Typical Size of Investment - \$5K to \$250K+
- Personal Sources
 - Savings, IRA's, 401K's, etc.
 - 2nd Mortgage, Personal Loans, etc.
 - SBA
 - Credit Cards, etc.
- Friends, Family, and ...
- Suppliers, Distributors

“Bootstrap”: Grants and Other

- Typical Size of Funding - \$25K to \$1M+
- City/County/State/Government Funds
 - Government Research Grants (NIH, DOD, DOE, etc.)
 - Economic Development Funds
 - SBIR, STTR grant programs
 - Texas Emerging Technology Fund
- Contact: Government Agencies, Economic Development Players, Technology Transfer Offices

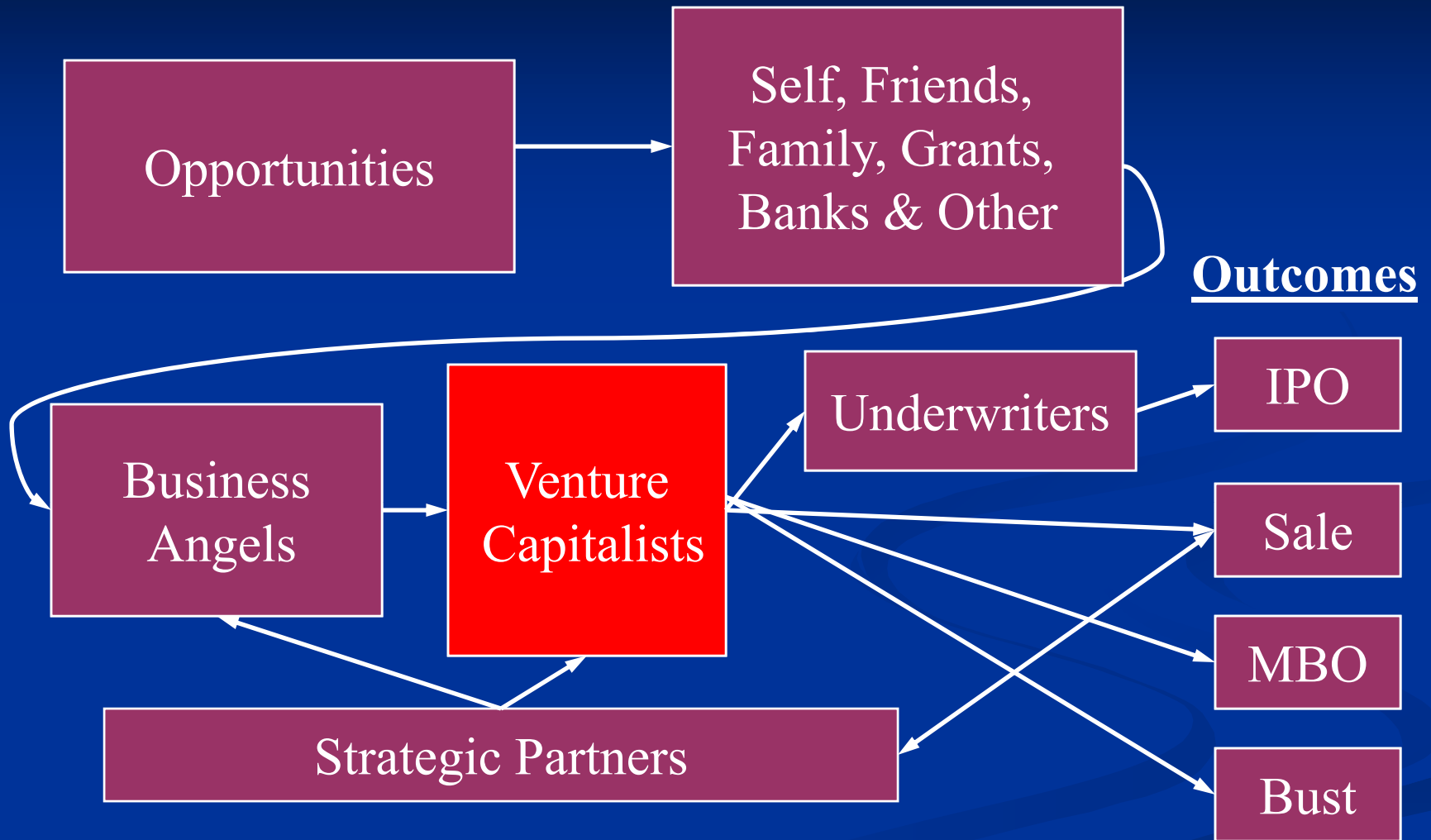
A Model Of The Venture Financing System



“Angels” and Their Investments

- Size of Investment --\$20K to \$2M+
- Private, high net worth investors
 - Successful Entrepreneurs, Doctors, Lawyers, Corp. Leaders,...
- Regional but with national networks
- Invest more capital than VC's (\$25.6B in 2006 vs \$25.5B vc's)
- Angels may invest in VC funds or along side them (caveat)
- Many are sophisticated and informed investors
- Invest in groups, typically, \$200K- \$300K

A Model Of The Venture Financing System



Venture Capitalists

- Size of Investment - \$200 K – \$30+ Million
- Professional Fund Managers
 - Agents for Investors Pension Funds, University Endowments, Insurance companies, & Financial Firms
 - Fiduciary Responsibility to Maximize Return
- Require Large Markets (>\$100 Million)
- Exit – Public or Corporate Sale
- 3-5 year time horizon
- Contact – Lawyers, Accountants, Business Angels, Economic Development Players, Technology Transfer Office
- Reality: <1% of deals seen get funding

Where the VC money went in 2006

- \$25.5B in 3416 companies—2006
- Early stage—\$5B in 1176 companies (11% increase)
- First time financings
- Q4-2006
 - \$1.12 in 195 deals in software industry
 - \$1.10 in 106 biotech deals
 - \$696M in 72 medical device deals
 - \$2.16B (260) Silicon Valley (37.7%), \$695M (96) New England (12.15%), \$186 (30) Texas (2.96%)

Pricewaterhouse Coopers Money Tree Report

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