



IBF Financial Services Seminar

The basics of Angel investment



“You’re not a very courageous investor. With your permission, I’d like to inject stem cells into your back to help you grow a spine.”



Presentation overview

1. *Quick introduction to TRINITY Finance, its team and SME philosophy*
2. *One slide on **numbers**: why getting a grip on them is so important...*
 - ... even small projects and investments can benefit from CFO level consulting and controlling
3. *Angel investment – the what, why and how*
4. *BONUS - residential development equity investment – are there still opportunities in Prague?*



Who we are



TRINITY Finance company snapshot

- Boutique financial services consulting company specialized in SME and startup sectors
- Founded in 2006 by principal partner Jarmila Rádlová, after many years spent in consulting and top management
- Works with respected experts in a variety of sectors including taxation, accounting and law, as well as marketing and communication, ensuring each transaction is competently and complexly managed in all aspects
- Partnerships with other M&A companies and Private Equity, good bank relationships
- Executes personalized approach to raising investments, auditing business needs and plans prior to commencing fund-raising
- Able to deliver complex business and communication consulting in support of fund raising / investment activities
- ***The core team has significant real world experience – having both lost (and survived) and made money over the years – this is hard-won experience that they bring to bear to their client's advantage***



The core team



▪ **Jarmila Rádlová**

- Owner and principal partner
- Commenced her career at KPMG, where she was involved with the auditing of manufacturers and businesses
- Worked at insurance companies Zurich, ČPP and AEGON as CFO
- Founded TRINITY Finance in 2006
- Significant and varied SME deal flow experience, leveraging big process company and start-up experience to benefit of clients
- The 'numbers and process' person with an out-of-the box issue management approach



▪ **Paul (Pavel) Kucera**

- New business development
- Has worked in brand management and communication for 20+ years, consulting with small and blue chip companies for their communication needs
- Has worked with start-up and SME fund raising and launching for 10+ years, in several cases having taken ideas from paper napkin to execution stage
- The 'creative opportunity management' person with a systematic issue management approach

Services offered



Selling Advisory

- We represent and advise clients selling their companies or parts thereof, playing an active role in each phase of the sales process, from due diligence, preparation of sale marketing material, identification and contacting of potential investors, through to negotiating and closing the deal.



Purchasing Advisory

- On the basis of client investment briefs we identify strategic or portfolio investment opportunities, reaching out to potential future selling sides directly or indirectly, analyzing and recommending optimal acquisition strategies
- Investments are managed from a financial-administrative, communication and controlling aspect



Investment and investment financing advisory

- We advise clients looking to finance company expansion and growth, either via purchase of new technologies, buildout etc. or takeover of competitor operations – in all cases seeking optimal variants for further business growth.
- Every effort is made to “unlock” all potential internal financial reserves

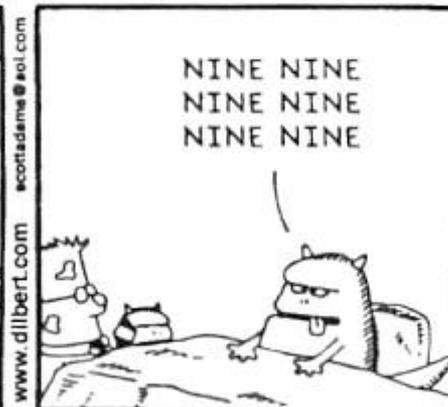
Selected executed transactions

- Advisory for the sale of a mid-sized manufacturer
- Advisory for Czech market entry of a food supplement manufacturer
- Securing financing for R^x pharmaceutical, health care OTC, gaming and financial services start-ups
- Negotiating entry of co-investors into select projects (real estate development, financial service provision), creation and implementation of shareholder agreements
- Securing of acquisition financing for purchase of various companies
- Securing financing for purchase of technologies required for business expansion
- Securing operational financing for a retailer
- Seeking out appropriate investments as per client briefs



Numbers...

DILBERT By SCOTT ADAMS



Keeping “on top of the money”

- Time + resource management – investee should concentrate on key business management activities and making “the investment happen”
 - Consider external paid consultants that actively assist in managing the company in the background in terms of certain C-suite functions: financial-administrative, controlling and, if required, communication activities (including investor relations)
 - The Angel can either assist personally or source the services and work the service investments into the ROI – however it’s done, get professionals on board
- The “external CFO” – few start-ups or SME’s seeking expansion capital can afford their own CFO, yet they almost always require assistance with:
 - Putting a real business plan together
 - Planning and interpreting their current and future accounting figures and economic results
 - Basing the right business / go-to-market strategies on facts and not dreams and suppositions
 - Ensuring timely and accurate reporting



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Passive vs. active investment



“Horses for courses”

- Though no investment is ever 100% safe, correctly selected investment profiles, experience and external advice can help mitigate risks
- When creating an investment portfolio, decide on:
 - Why you are investing
 - How personally involved you want to be
 - What your expectations are
- An healthy and mixed investment portfolio should optimally deliver security and growth – different products and tools assisting in delivering long term return-on-investment...
- ... but don't be afraid to think outside the box....



© AFP/Getty Images

There is no “one size fits all...”

- So, you can...
 - Passively invest in bonds, funds, shares, commodities, derivatives – from ultra-conservative ultra-low yielding through to high-risk and yields with very little or realistically no opportunity to influence
 - Passively or actively invest in property with low to high yields depending on investment type (buy-to-let apartments vs. developer equity investment)
 - Or... actively invest in equity in start-up or expansion capital for high yields...

To keep it simple and do the smart thing,
just put together a good portfolio
of index funds and call it a day.



Angel Investment



What is an angel investor?

- Angel investors in the United States account for 60 times more investing in businesses than venture capitalists
- An angel is a high(er) net-worth individual who invests his or her own money in startup or early stage companies in exchange for an equity share of the business(es)
- Angels are usually either current or former entrepreneurs or top managers
- Angels:
 - Make investments in order to gain a return on their money
 - (Optimally) participate in the entrepreneurial process delivering finances AND experience/wisdom
- Angels make a return on their investment when the entrepreneur successfully grows the business and exits it, generally through a sale (full or partial) or merger
- Angels are prepared to lose and can afford to lose the money they invest
- Sensible angels will insist on strict reporting and control mechanisms

Simple Angel investee questions

- What am I investing in? An idea, a pre-launch project or (almost) going concern?
- How much capital are you seeking?
- How much capital have you raised in previous rounds and from whom?
- What is the proposed valuation for the offering?
- Is your company generating revenue? If so, what is the total TTM (trailing twelve months) revenue?
- If your company isn't generating revenue, how long will it take to begin generating revenue from the time you receive funding? What are you living on?
- From the time you receive funding, how long will it take to reach positive cash flow?
- How much total funding do you need to reach positive cash flow?
- Do you have relevant experience in the field that your company operates?
- Have you or your cofounders started a company before? Who is the management team?
- Who is managing the books, what qualification do they have? How often will you report to me?
- Are you willing to run any and all creditor payments and investments via me, whatever my equity stake?

Common sense Angel investment criteria (1)

- **Investment Size**
 - What's your appetite? How much can you afford to lose? How much will really make a difference?
 - Investment size can range from 500 000 CZK to 5 000 000 CZK and can include a number of co-investors with different skill sets
- **When to invest**
 - Startups and early stage companies make the most sense and Angels typically provide the first outside money that a company raises
 - Angels can also fund expansion rounds for early stage companies or one off-projects e.g. in real estate
- **Capital Efficiency**
 - Optimally you want to look for companies that can generate (or expand) revenue with a relatively modest amount of capital injected
 - It should be a capital efficient company or willing to become one - a tight ship can take a round of capital and grow to become a profitable business within a few years
- **Industries**
 - What do you know and feel comfortable in? Where / how can you apply your knowledge and experience?
 - Industry opportunities span from high tech to low tech – optimally they should address major problems for large target markets and possess highly scalable business models
 - But, some real estate, storefront retail and franchise opportunities can be interesting
- **Industry – yeah, yeah, technology...**
 - We prefer to invest in first-of-a-kind new ideas, rather than incremental enhancements to common products and services. However, we approach highly complex, esoteric technologies with caution. The concept behind the technology must be proven and verifiable. Further, we avoid science projects that don't demonstrate a clear path to commercialization. Any breakthrough innovation must be accompanied by a strong business plan.

Common sense Angel investment criteria (2)

- Management Team
 - Invest in people – talented and hard-working people are the biggest drivers of success and should be the single most important criteria in making an investment decision
 - Relevant experience and track record is important, but passion, drive and unique insight are non-negotiable
- Competitive Advantage
 - Companies / projects should have features that distinguish them from potential competitors or provide barriers to entry that prevent other companies from capturing their customers with a similar offering
 - Companies should be able to demonstrate that these advantages are sustainable over time
- Pre-Money Valuation
 - How is the opportunity valued and is it realistic?
 - Existing revenue stream makes valuation easier
- Expected Return
 - Realistically – will there be a return?
 - Who will the exit be to?
 - Optimally you should be looking for 5-10X ROI within 3-5 years
- Can I securitize the investment?
 - *“Risk je zisk”*... You are already securitizing with an equity stake and potentially preferential dividends
 - You may decide to cut your ROI to (very) low double digits, forgo an equity stake (or keep as security only) and secure against tangible assets of the investee or management
- Prague vs. region
 - Could be important for state / EU funding / grants (e.g. for coaches or consulting services)



Real estate opportunities

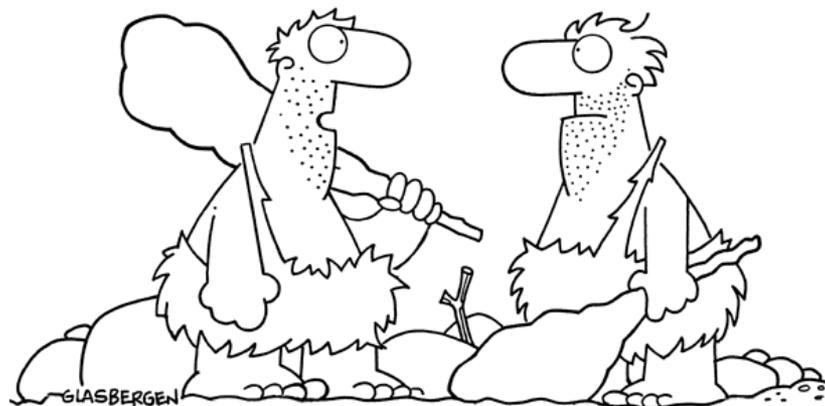
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"This home practically pays for itself. It's located on a very windy street, next to an ATM machine!"

Setting basic investment criteria, incl. for real estate

- Investment asset structure
 - Chooses the preferred investment property asset class, i.e. apartments, commercial space, loans for development and other purposes securitized by property etc.
- Benchmark setting
 - The benchmark value is set for measuring portfolio performance, e.g. conservative portfolios may have benchmarks set at the level of bank term deposits.
- Portfolio diversification
 - Involves setting investment limits for individual investments within a portfolio – the limit value usually depends on the portfolio size



**"I have 40% of my portfolio invested in fire.
I think it's the technology of the future."**

Setting basic portfolio parameters

- Prior to making an investment recommendation, it is very important to set two basic but important portfolio parameters:
- Portfolio investment period – client sets investment period
 - Short-term portfolio investment period of approx. 1 year
 - Mid-term portfolio investment period of approx. 3 – 5 years
 - Longer-term portfolio investment period of over 5 years
- Risk profile – on the basis of the clients risk expectations, we would recommend:
 - Conservative profile
 - Almost risk-free investments into term deposits, state bonds etc., low risk also attracts minimal investment portfolio returns
 - This profile is adequate for short-term portfolios and we do not execute such investments stand-alone
 - Balanced profile
 - Investment with higher risk grade than term deposits
 - This profile is appropriate for buy-to-let investments
 - Dynamic profile
 - Investments not only into property, but also higher yield investments with higher risk such as loans to select bodies securitized by property
 - This profile is more appropriate for longer investment horizons due to higher risk grade, though such risk is balanced by higher yield

Example of a more dynamic portfolio

- **Basic portfolio parameters:**
 - **Investment:** residential property investment yields, equity loans based securitized with developer property
 - **Investment period:** longer than 5 years
 - **Risk profile:** dynamic strategy
 - **Benchmark:** combination of average yields (after subtraction of fees), i.e. residential rental properties at **4.5%** (not factoring in capital growth) and non-banking sector loans at **11%**, thus the weighted benchmark, taking into account individual portfolio investments pro rata, would be **7.75%**
 - **Portfolio diversification:** each investment would be at a maximum of 50% value of the total portfolio
 - **Investment size:** 8 000 000 CZK
- **Suggested portfolio structure:**
 - Rental apartment, newly reconstructed apartment building, Prague 8, near Palmovka metro, 4 000 000 CZK
 - Equity loan to developer of 4 000 000 CZK, securitized with developer property
- **Additional portfolio information:**
 - Property suggested would be purchased directly from the developer, thus the client would not be paying commission for purchase (saving min. 3% commission)
 - Loan would be provided to a property developer with a solid history, securitized with their property maximally at 60% LTV as per an independent property valuation
- **Fee structure:**
 - Fixed annual fee of 3% of the portfolio investment up to 10 mil. CZK invested, 2.25% for investments up to 20 mil. CZK and only 1.5% for investments of over 20 mil. Kč.
 - Should the benchmark yield be exceeded, there will be a motivational fee of 20% of the amount of yield over and above the benchmark

Two development investment opportunities: Troja + Břevnov

■ Prague 7 TROJA project

- 3 apartment houses, development of approx. 21 apartments
- Equity loan of approx. 25 million CZK
- Securitized with developer assets
- Period of 2 years
- Drawdown by mid-May 2014
- Yield of 10% p.a.
- + Profit share

■ Prague 6 BŘEVNOV project

- Condominium development “Pod Ladronkou”, approx. 1090 m² of apartments
- Equity loan of approx. 25 million CZK
- Securitized with developer assets
- Period of 2 years
- Drawdown by mid-May 2014
- Yield of 10 % p.a.
- + Profit share

Contacts

We trust that our brief service overview has captured your imagination. Should you be interested in talking to us about how we can assist you in your business endeavors, please contact us on:

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TRINITY Finance s.r.o. was incorporated on 15. 3. 2006 and is registered in Section C, 112242, with its registered address at Jičínská 29 , Prague 3.