





The SWAN Impact Network

About

- Focus: for-profit, pre-seed, US, social and environmental impact companies
- 80 angel investors
- Chapters in Austin, Dallas and Houston
- We also have a Philanthropic sidecar fund

Investments

- Have invested \$15M in 44 impact companies
- Per year
 - ~350 company apply
 - ~ 6 companies get initial funding
 - ~6 portfolio companies get follow-on funding

SWAN Evaluates Two Bottom Lines

Primary consideration

Financial return to shareholders

Impact created by company's primary business mission

Secondary consideration

ESG (Environmental, Social, Governance), DEI & other socially responsible internal operations



The Big Picture

Foundational Concepts



The percent ownership the investor receives for their investment is set by the valuation of the company.

When making an investment, an investor is pre-paying for a future business result that should increase the value of both the company and their investment.

Some Drivers of Valuation Increases



Letters of Intent



Full production release



Key additions to company leadership



An accelerating revenue ramp

Example of a Funding Life Cycle



Year 0:
Employees get
common stock

Years 1-2:
Angels make loan
(convertible
debt) to company
or buy preferred
stock

Years 3-5:
VCs buy
multiple rounds
(A/B/C..) of
preferred stock.
Angel debt
converts to
preferred stock.

Years 7:
Investors and
employees can
cash out

Ways Investors Can Make a Return

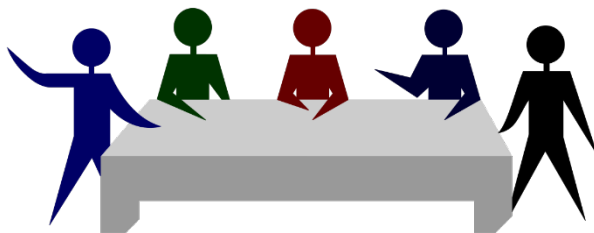


The most typical

M&A – Merger and Acquisition



Loan: Revenue-based Financing or Venture Debt



Become Partner in an LLC



IPO – Initial Public Offering of stock

Key Concept - Valuations



Result: Investors own 1/3 of the company

- “pre-money valuation” is used for equity investments, e.g., Series A
- “valuation cap” defines a maximum pre-money for convertible-debt conversion and can be different (lower or higher) from the equity pre-money.

Funding Stages



Stage	Pre-Seed	Seed	Series A
Traction	Customer Validation	Product-Market Fit	Expansion
Growth Rate	0 - 20% MoM	15% - 30% MoM	25%+ MoM
Monthly Revenue	\$0 - \$75k	\$75k - \$200k	\$200k+
Team Size	2+	10+	20+
Product	MVP	Robust	Commercial
Investors	Friends & family, Seed Accelerators, Angels, Pre-Seed/ Micro VC Funds	Seed Accelerators, Angels, Seed VC Funds	Series A/ Growth VC Funds, Existing Investors
Round Size	\$25k - \$750k	\$750k - \$4m	\$4m+
Company Valuation	\$1m - \$5m	\$5m - \$12m	\$30m - \$60m
Investment Vehicle	SAFE/ Convertible Note	Priced Round	Priced Round



Common Investment Instruments

Equity based

- Convertible Debt
- SAFE Notes
- Preferred Stock

Loan based

- Revenue Based Financing

Typical Investment Instruments

Stage	Bootstrap	Pre-Seed/Seed	Series A > B > C ...	At IPO or M&A
Founders	Common stock	Few additional shares		Shares become liquid
Employees	Common stock option grants.			Options convert to liquid common stock
Equity Investors		Mostly Angels Typically: convertible debt, or SAFE	Mostly VCs: preferred stock	Preferred stock converts 1:1 to liquid common stock

Instruments used by ACA Angel Groups

Preferred Stock and Convertible Notes are predominant

FIGURE 4: % OF ANGEL DEALS BY DEAL STRUCTURE

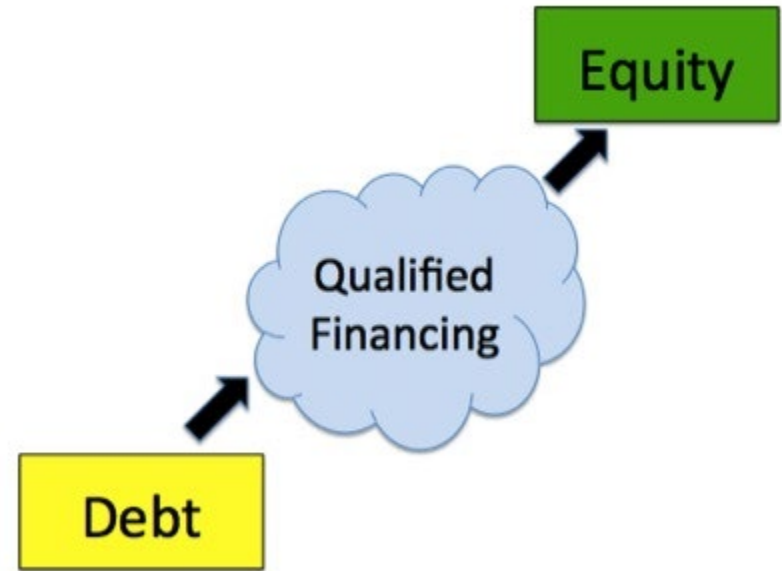
% of Transactions by Security & Year



Source: Angel Funder's Report, 2022

Convertible Note

- The loan automatically buys series A preferred stock when A is issued, at better terms than the series A investors receive
- Debt is unsecured (unrecoverable) if the company fails
- No pre-money valuation is set



How Convertible Debt Works

(Convertible Debt \$ + Interest \$ earned)

typically
5-8 percent

buys Series A preferred Stock at a discount

typically a 15-20% discount
and with a
pre-money valuation cap



Example: Yotta note holders bought Series A at \$0.35/share
vs. Series A investors at \$0.44/share

Convertible Debt – Key Terms



- **Valuation cap**

- Impacts the number of shares issued at conversion
- Example:
 - If series A investors offer a pre-money of \$8M, then \$1M of their money buys 1/9th of the company
 - But if the Notes's Cap is \$4M, then \$0.5M (the angels' prior convertible note amount) also buys 1/9th of the company when series A occurs

- **Discount** on series A price (~15%)
- **Interest** rate (~ 3 to 8%)
- **Conversion trigger**
 - A series A of a certain \$ size (e.g., \$2M)
- **Maturity date**
 - Investors can ask for repayment at that date
 - Or sometimes, a forced conversion at that date using the valuation cap

What Convertible Debt Valuation Cap makes sense for a soft-tech company?

Investor Cap Objective: apply standard rules of thumb

Pre-revenue	Annual Rev < \$100k	Annual Rev < \$500k	Annual Rev > \$1M
\$2 to \$3M	\$3M to \$6M	\$5M TO \$9M	\$10M to \$1xM

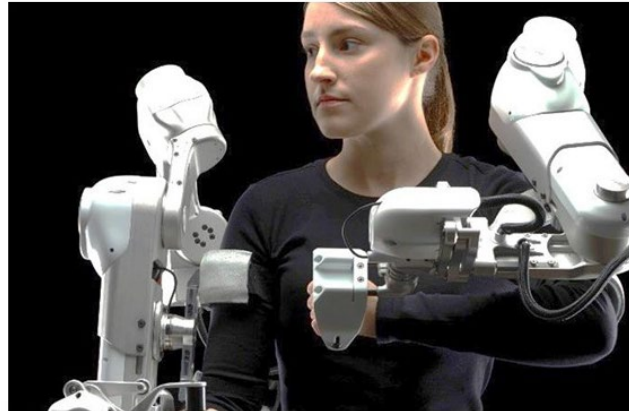
Ideally satisfy both objectives: A pre-revenue company raises \$500k and offers a valuation cap of \$3M. (Post of \$3.5M. ~15%).

Company Cap Objective: Give pre-seed investors no more than ~15% ownership

Conversion Example – Harmonic Bionics



Chris Prentice
CEO



- 2019 Convertible Note
 - SWAN invested \$140k
 - \$8M valuation cap
 - 10% interest
 - 20% discount
- 2021 Preferred A Raise
 - \$13.5M pre-money valuation
 - \$0.9217 per share for new investors
- We converted our \$140k at \$0.5462 per share, resulting in:
 - \$264k valuation
 - \$124k unrealized gain
 - 1.9x increase in valuation
 - 68% unrealized IRR

More Convertible Debt Terms

- **Use of Proceeds:** Allowable uses. Includes: cannot be used to pay off prior debt
- **Closings:** Is there a minimum \$ amount for 1st closing?
- **Change of Control:** Payout protections
- **Most Favored Nation:** If future Conv. Debt has better terms, then we get those also
- **Pre-Payment:** allowed only if investor agree
- **Information Rights:** Details are specified
- **Protective Provisions:** Actions by company that conv. debt investors must approve
- **Board of Directors:** Do we get a seat?
- **Key Person Clause:** E.g., CEO will continue full time for 5 years
- **Conditions to Closing:** List of required steps, e.g., conversion to C-Corp
- **Fees and Expenses:** Who pays legal transaction fees



In Summary, the three most important Convertible Note terms

1. Valuation Cap
2. Interest rate
3. Discount



SAFE
notes



Convertible
notes

SAFE Notes

- Simple Agreement for Future Equity
- Popular with accelerators
- **Is not a loan**, rather is a warrant of acquire stock at a certain price
 - No interest accrues
- Can include:
 - A valuation cap, or
 - A discount, or
 - A valuation cap and a discount
- Typically converts at any size of preferred stock financing

What a Convertible Note has that SAFE lacks

- **Is a loan**
 - Interest earned (Yes!!!!!!)
 - Maturity date (Yes)
- Always a Cap and a Discount
- Multiple conversion triggers
 - Equity round of a certain size
 - Maturity date
 - Exit
- Other investor rights
- Possible Board of Directors participation
- Other terms from previous slide

Preferred Stock



- Successive priced rounds: Named Series A, Series B, Series C,
- Typically: VC-led and a Delaware C-Corp is required
- The marketplace sets the price/share
- Price/share can be higher or lower than in previous round
 - “Down” rounds are terrible for prior investors

Why is it call “Preferred”?

- Preferred stock holders have rights that common stock holders lack
 - Most notably, upon acquisition investors have the option to get 1 to 2 times their investment back before common gets anything
 - If a company raise \$3M and get acquired for \$2M than common stockholders may get nothing
- The preferences are why investors pay more per share than stock option strike prices



Preferred typically get to approve: *(Protective Covenant provisions)*



- Change the primary business of the company
- Annual budgets, business plans, and financial plans
- Hiring of all officers
- Compensation for officers
- A merger or acquisition
- Liquidation, wind-up or dissolution;
- Increase or decrease the number of directors
- Standard company employment agreements
- Equity incentive programs as well as issuance of all stock and stock options
- Paying of dividends
- An increase in the authorized number of shares
- Real estate transactions
- Capital equipment purchases greater than \$500,000
- Debt in excess of \$500,000

Two Important Preferred Stock Terms

Terms

- **Participation (Pro-rata) Rights:** Investors have the right to participate in future rounds of financing, to maintain their ownership percentage in the company.
- **Pay To Play:** requires stockholders continue to invest in future stock issuances of the corporation, to avoid losing certain benefits of their stock positions



How it can work

- **Specific Example:** Previous preferred stock gets converted to common if a pro-rata investment is not made in the new round
- **Impact on an LLC investor:** A multi-member LLC that previously held preferred will need to agree whether to make a pro-rata investment. If the members agree to invest, a capital call goes to every member, even those who voted against participating

Additional Preferred Stock Terms

- **Pre-Money:** Sets how pre-money valuation is calculated. Includes unallocated option pool.
- **Anti-Dilution Protection:** if the company sells additional securities at a price less than the price paid by current investors
- **Board Composition.**
- **Most favored nation:** no other investor receives better terms
- **Drag Along:** Investors may require common shareholders to vote in favor of a company sale if it is approved by preferred shareholders
- **Dividends:** Accrued dividends are paid upon a sale of the company





- **The most significant question:** Can company grow to ~\$x0,000,000 in revenue and have an exit?
 - Deal terms don't matter if a company never exits
- Percent ownership at the exit is also important
 - Small slice of an enormous pie?
 - Big slice of a small pie?

Non-Equity Revenue-based Funding:

Loan repaid with % of revenue



Amount loaned	25% to 33% of annualized revenue
Repayment rate	4% to 8% of gross revenue
Total repaid	1.5x to 3x the amount loaned

Benefits to company

- Company does not give up equity [non-dilutive]
- No M&A pressure from investors [no exit required]
- Repayment amounts scale with revenue [no fixed monthly payment]

Typical funding criteria

- \$300k+ annualized revenue
- 40%+ gross margins
- Repayment is projected to occur in 3 to 5 years
- Product-market fit is established
- Funding will be used only for growth
- Company has no high-interest debt
- Often, comes after series A, and helps company increase value before B

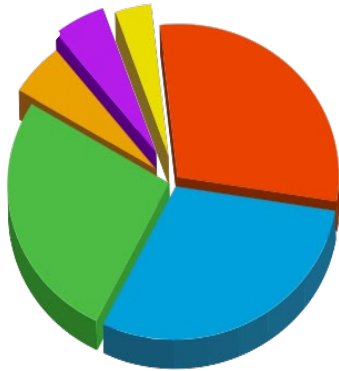


Valuing Startups



First, two definitions

Cap Table



Capitalization table. Who owns what part of the company. Considers future ownership: stock options, warrants

Valuation



Total value of the company. If stock has been issued, valuation equals the number of shares time stock price.

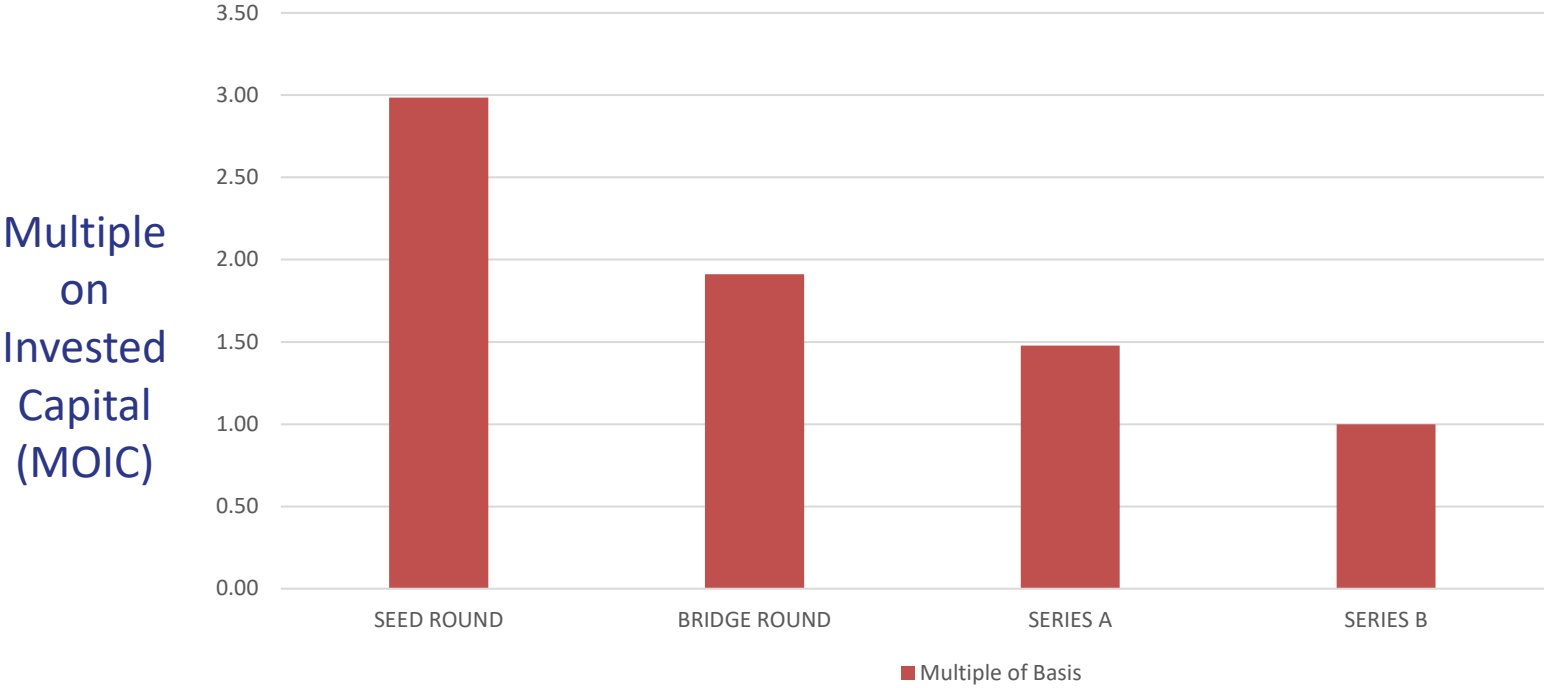
Example of a Cap Table



Common stock	CEO	2,000,000	44%
	co-founder	1,000,000	22%
Stock Options Granted	CTO	100,000	2%
	CFO	80,000	2%
Preferred Stock	Investor	200,000	4%
	Investor	400,000	9%
Unallocated stock options		800,000	17%
Total - Fully Dilluted		4,580,000	100%

- What we like to see:
 - Option pool of 15% for new hires
 - Vesting schedule for all founders
 - CEO has more shares than each individual co-founder

SWAN Portfolio Company Case Study



	Investment type	Investment \$	Current valuation	MOIC
SEED ROUND	Preferred Stock	\$420,000	\$1,253,586	2.98
BRIDGE ROUND	Convertible Note	\$360,000	\$688,119	1.91
SERIES A	Preferred Stock	\$275,000	\$406,276	1.48
SERIES B	Preferred Stock	\$657,487	\$657,487	1.00
		\$1,712,487	\$3,005,468	1.76



SWAN Valuation Results

Flow Below – Acquired, 36% IRR



Josh Butler
CEO/Founder



Curb – Merger, unrealized 5% IRR



Erik Norwood
CEO/Founder



Acadeum – Conversion, unrealized 13%



Josh Pierce
CEO/Founder



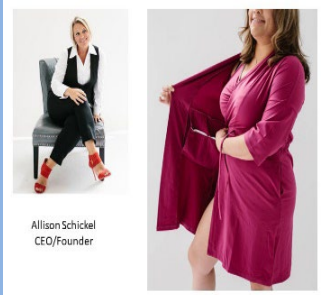
Yotta – Conversion, unrealized 17% IRR



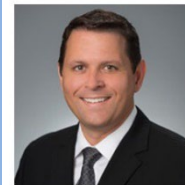
Omeed Badkoobeh
CEO/Co-Founder



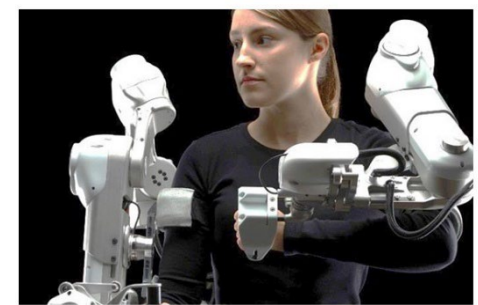
Brobe – Repaid loan, 10% IRR



Harmonic – Conversion, unrealized 69% IRR



Chris Prentice
CEO



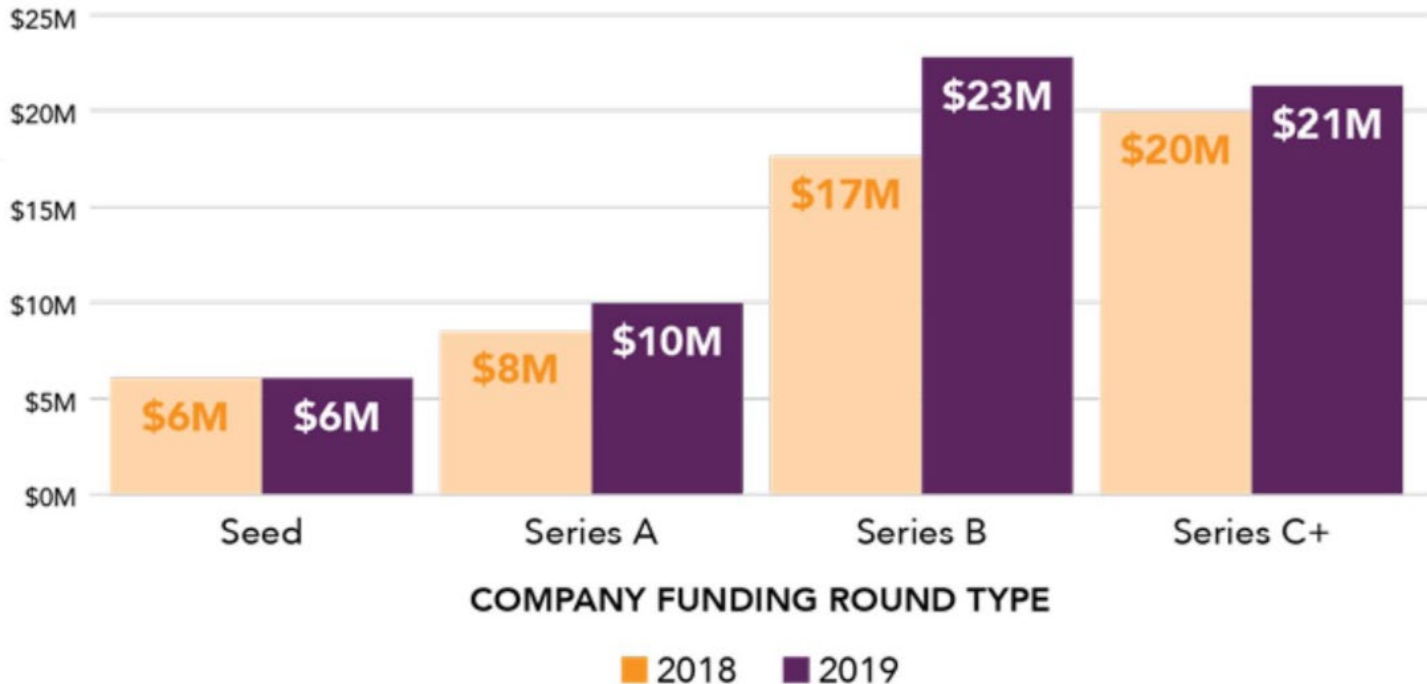
A company's valuation in a new round is determined by the marketplace



- A negotiation between the buyer (investor) and the seller (the company)
 - What valuation will the lead investor agree to?
- Companies shop around to get the best terms
 - A valuation that is higher than market norms can set a company up for a valuation decrease at the next round (a painful down-round)

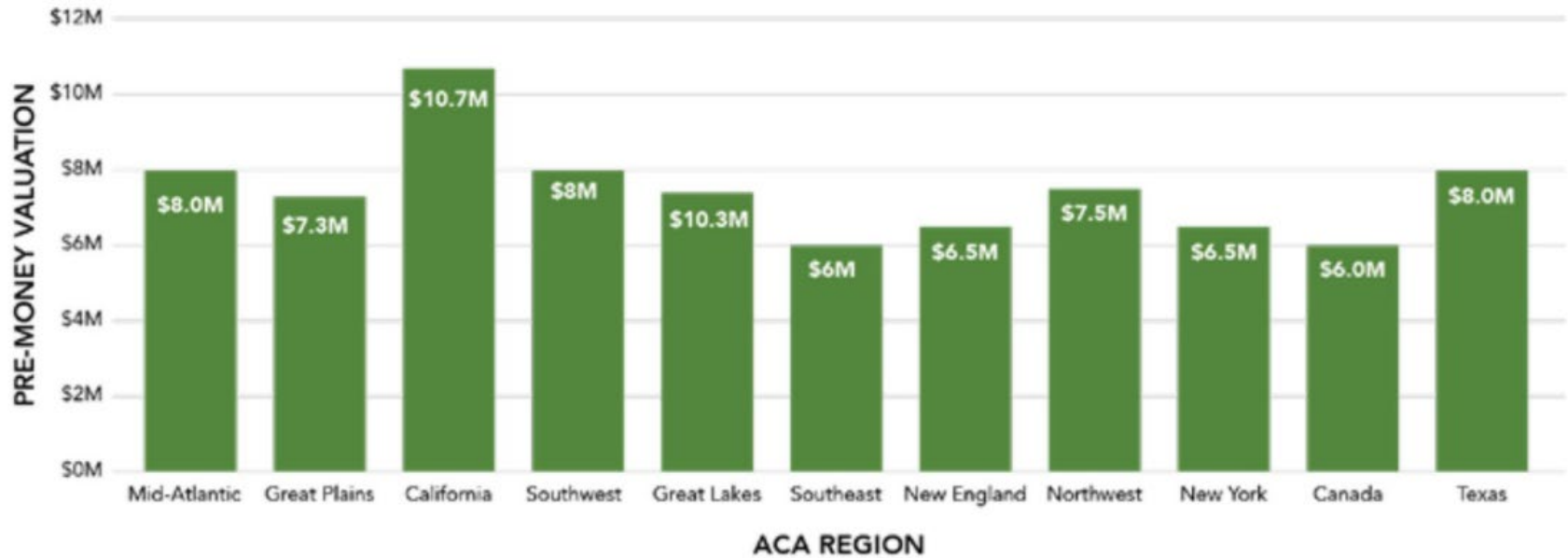
Median Valuations

(what the company is worth)



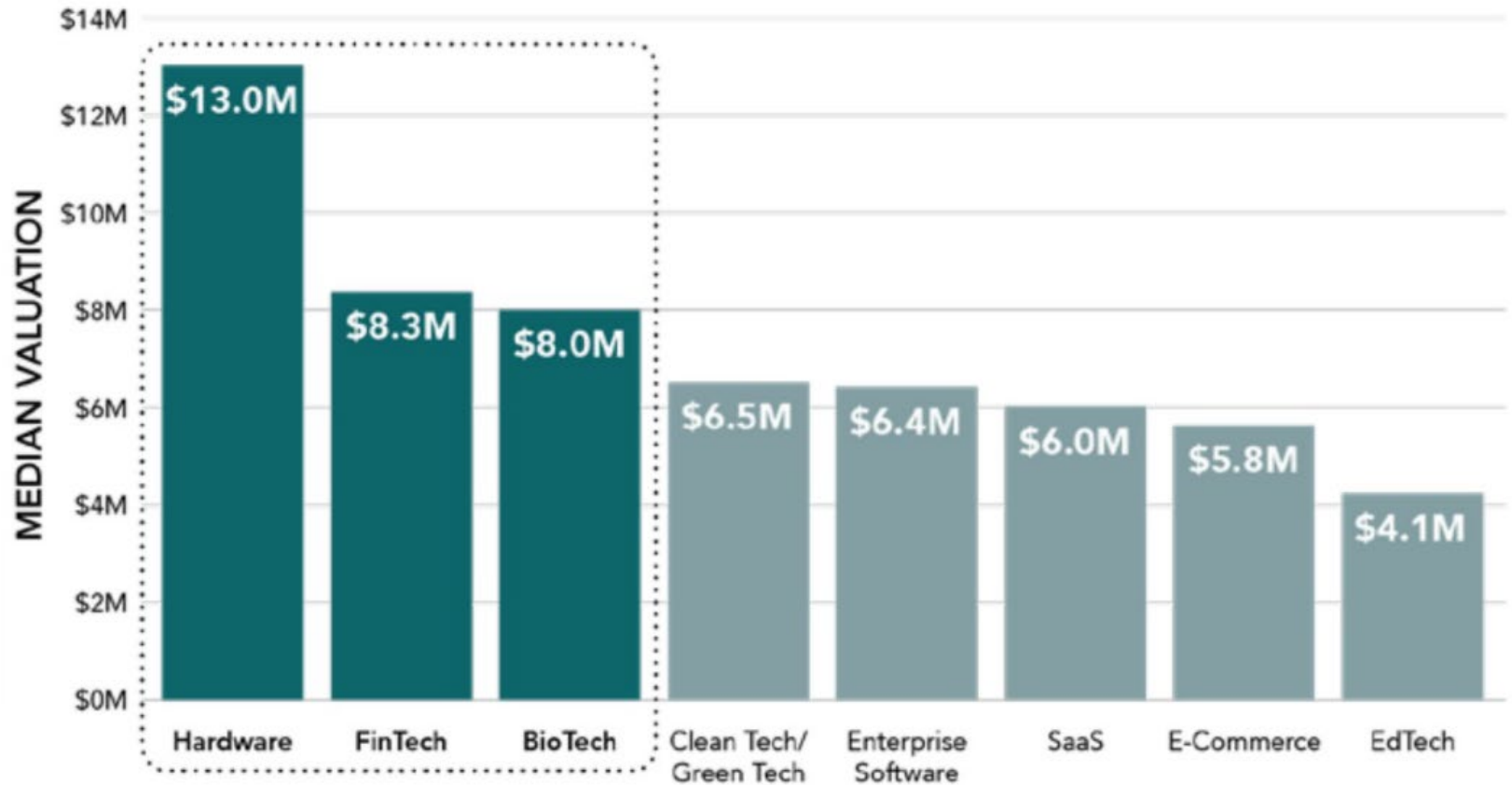
Source: ACA

Valuations Vary by Region



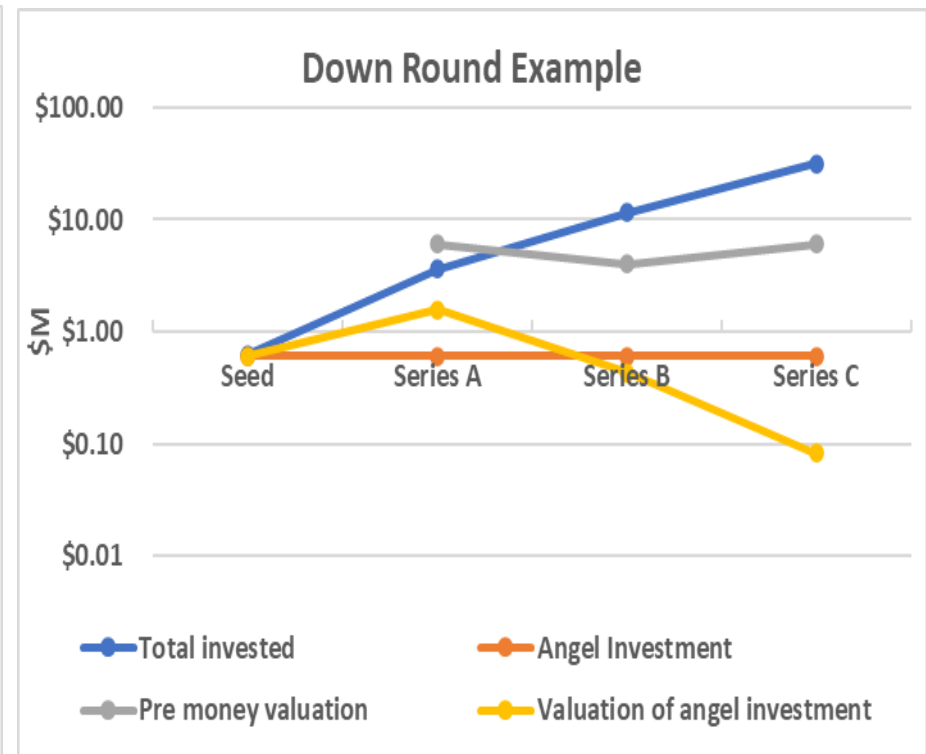
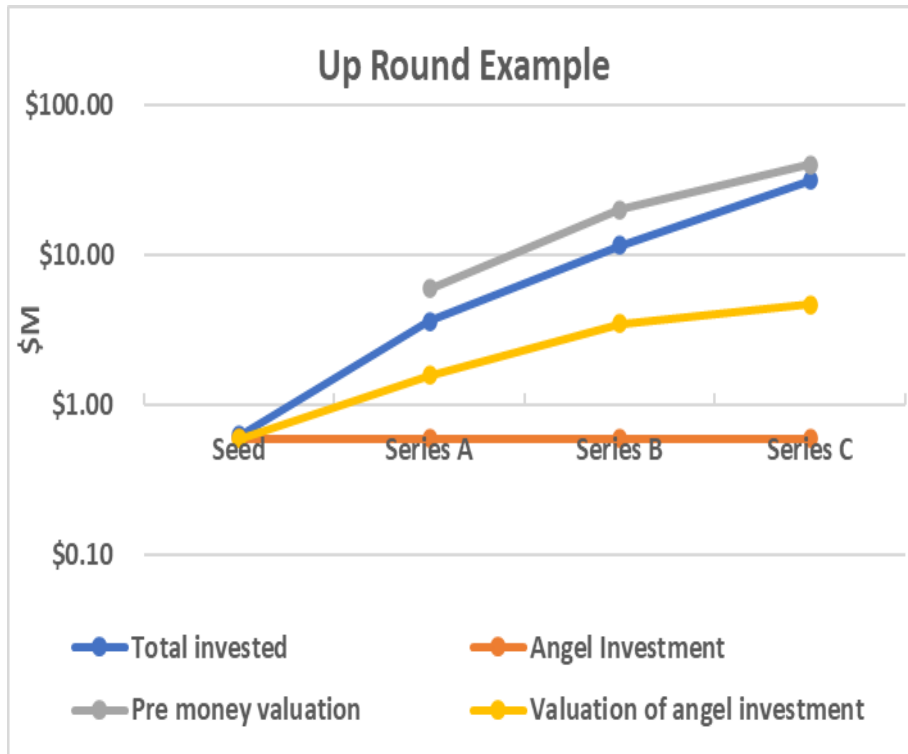
Source: ACA

Initial Valuations by Industry



Source: ACA

Valuations can go Up or Down



Valuation, Dilution, Return Example: Angel 7x return.

Every round has a higher stock price (up rounds)

Invested (\$M)	Bootstrap	Seed
VC Series C		
VC Series B		
VC Series A		
Seed (Angel)		\$ 0.60
Employees	\$ 0.03	\$ 0.03
	\$ 0.03	\$ 0.63

Valuation	Bootstrap	Seed
Share price		
Pre-funding Valuation (\$M)		
Post-funding Valuation(\$m)		

Shares	Bootstrap	Seed
VC Series C		
VC Series B		
VC Series A		
Seed (Angel)		
Employees	1,000,000	1,000,000
	1,000,000	1,000,000

% Ownership	Bootstrap	Seed
VC Series C		
VC Series B		
VC Series A		
Seed (Angel)		
Employees	100%	100%

Angel Bottom Line	
Angel Post valuation (\$M)	
Multiple on investment	

In this example: Seed round is led by angels (\$600k) using convertible debt

Angels have no ownership

No valuation is set

Valuation, Dilution, Return Example: Angel 7x return.

Every round has a higher stock price (up rounds)

Invested (\$M)	Bootstrap	Seed	Series A
VC Series C			
VC Series B			
VC Series A			\$ 3.00
Seed (Angel)		\$ 0.60	\$ 0.60
Employees	\$ 0.03	\$ 0.03	\$ 0.03
	\$ 0.03	\$ 0.63	\$ 3.63
Valuation	Bootstrap	Seed	Series A
Share price			\$ 4.04
Pre-funding Valuation (\$M)			\$ 6.00
Post-funding Valuation(\$m)			\$ 9.00
Shares	Bootstrap	Seed	Series A
VC Series C			
VC Series B			
VC Series A			742,574
Seed (Angel)			389,851
Employees	1,000,000	1,000,000	1,100,000
	1,000,000	1,000,000	2,232,426
% Ownership	Bootstrap	Seed	Series A
VC Series C			
VC Series B			
VC Series A			33%
Seed (Angel)			17%
Employees	100%	100%	49%
Angel Bottom Line			
Angel Post valuation (\$M)			\$ 1.57
Multiple on investment			2.6

In this example:
Series A equity investment by VCs (\$3M and \$4/share)

Pre-money of \$6M and post-money of \$9M

Conversion with 20% discount & 5% interest

Option pool increased

Debt converts with discount and interest and angels own 17% of \$9M, valued at \$1.57M

Valuation, Dilution, Return Example: Angel 8x return.

Every round has a higher stock price (up rounds)

Invested (\$M)	Bootstrap	Series B	Series C
VC Series C			\$ 20.00
VC Series B		\$ 8.00	\$ 8.00
VC Series A		\$ 3.00	\$ 3.00
Seed (Angel)		\$ 0.60	\$ 0.60
Employees	\$ 0.03	\$ 0.03	\$ 0.03
	\$ 0.03	\$ 11.63	\$ 31.63
Valuation	Bootstrap	Series B	Series C
Share price		\$ 8.95	\$ 12.05
Pre-funding Valuation (\$M)		\$ 20.00	\$ 40.00
Post-funding Valuation(\$m)		\$ 28.00	\$ 60.00
Shares	Bootstrap	Series B	Series C
VC Series C			1,659,751
VC Series B		893,855	893,855
VC Series A		742,574	742,574
Seed (Angel)		389,851	389,851
Employees	1,000,000	1,100,000	1,300,000
	1,000,000	3,126,280	4,986,032
% Ownership	Bootstrap	Series B	Series C
VC Series C			33%
VC Series B		29%	18%
VC Series A		24%	15%
Seed (Angel)		12%	7.8%
Employees	100%	35%	26%
Angel Bottom Line			
Angel Post valuation (\$M)		\$ 3.49	\$ 4.69
Multiple on investment		5.8	7.8

Series B and C have higher price per share

Series B & C have a pre-valuation which is higher than previous round's post-valuation

Option pool is increased to keep employees engaged

After series C, angels own 8% of \$60M, valued at \$4.7M

Angel 0.1x return example.

Company survives
but struggles
during A and B.
Series B & C are
down rounds.

Employee option
pool increased to
retain employees.

Angel's \$600K
investment now
valued at \$80k

Invested (\$M)	Bootstrap	Seed	Series A	Series B	Series C
VC Series C					\$ 20.00
VC Series B				\$ 8.00	\$ 8.00
VC Series A			\$ 3.00	\$ 3.00	\$ 3.00
Seed (Angel)		\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60
Employees	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.03
	\$ 0.03	\$ 0.63	\$ 3.63	\$ 11.63	\$ 31.63
Valuation	Bootstrap	Seed	Series A	Series B	Series C
Share price			\$ 4.04	\$ 1.10	\$ 0.21
Pre-funding Valuation (\$M)			\$ 6.00	\$ 4.00	\$ 6.00
Post-funding Valuation(\$m)			\$ 9.00	\$ 12.00	\$ 26.00
Shares	Bootstrap	Seed	Series A	Series B	Series C
VC Series C					94,339,623
VC Series B				7,272,727	7,272,727
VC Series A			742,574	742,574	742,574
Seed (Angel)			389,851	389,851	389,851
Employees	1,000,000	1,000,000	1,100,000	2,500,000	20,000,000
	1,000,000	1,000,000	2,232,426	10,905,153	122,744,776
% Ownership	Bootstrap	Seed	Series A	Series B	Series C
VC Series C					77%
VC Series B				67%	6%
VC Series A			33%	7%	1%
Seed (Angel)			17%	4%	0.3%
Employees	100%	100%	49%	23%	16%
Angel Bottom Line					
Angel Post valuation (\$M)			\$ 1.57	\$ 0.43	\$ 0.08
Multiple on investment			2.6	0.7	0.1

How SWAN Helps to Increase Valuations

Helps company close the round

Helping the company raise enough to meet milestones. Introductions to syndication partners.

Board of Directors seat

If we led the deal and invested significant amount.

BoD Observer

Attend board meeting but don't vote on board resolutions.

Formal Advisory Board seat

May include stock options

Mentor / informal advisor

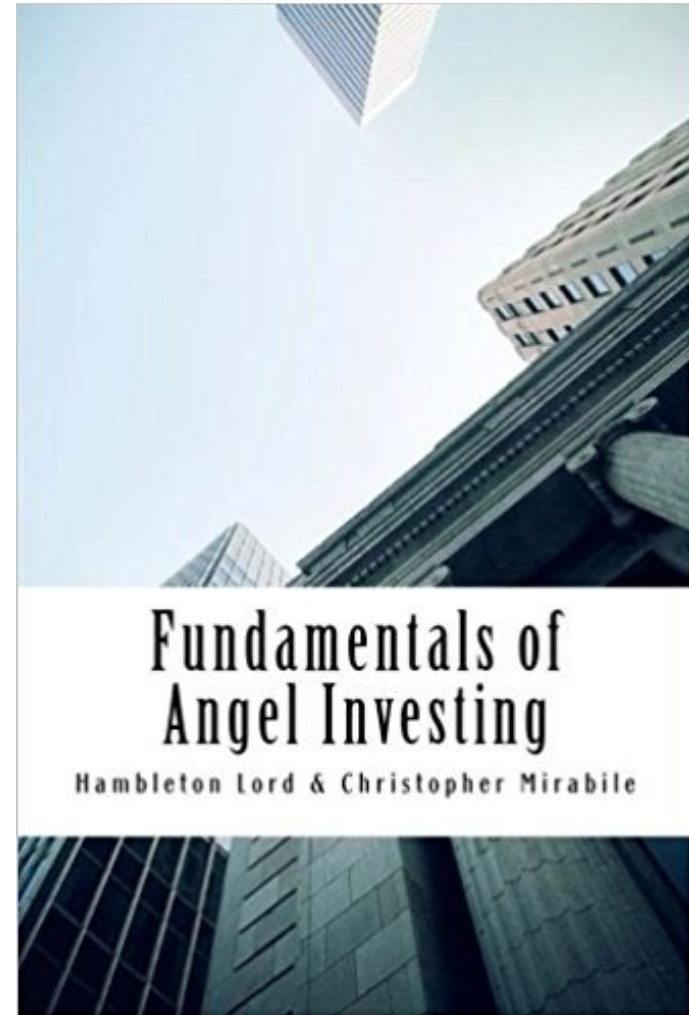
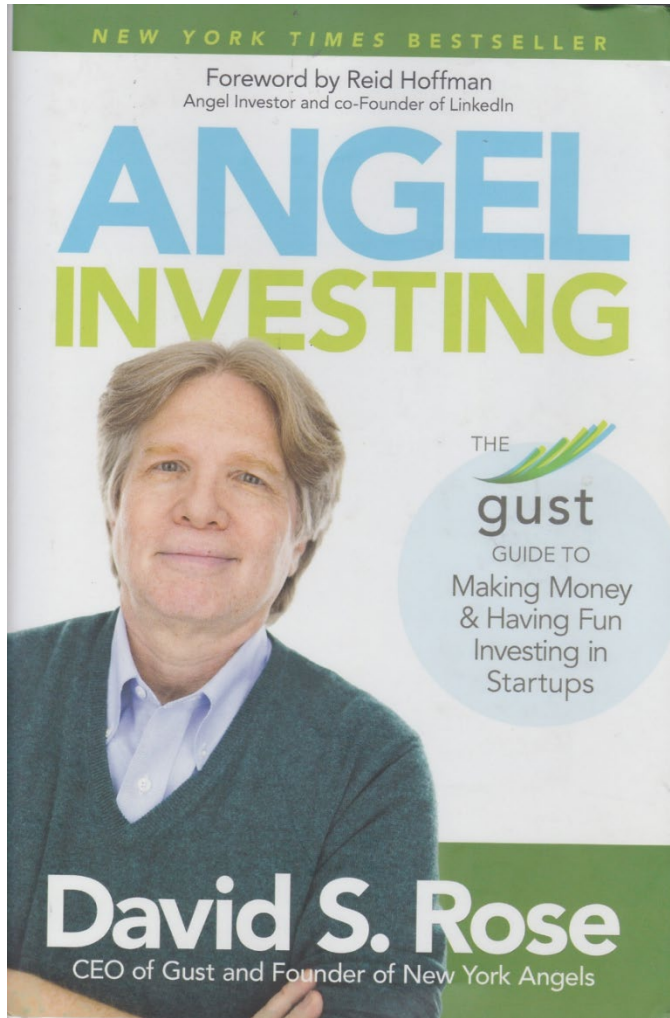
Not compensated

Paid Consultant

Not typical



Helpful Resources



Angel Capital Association web site, “Education” tab

Additional Webinars



Angel Investing 101

- Introduction to angel investing



Angel Investing 201

- Assessing and mitigating Angel Impact investing risks



Angel Investing 203

- Assessing and measuring Social and Environmental Impact

Ways to Connect with SWAN



**Become an
Angel.**

[https://swanimpact.org/
become-an-impact-
angel/](https://swanimpact.org/become-an-impact-angel/)



**Apply for
funding.**

[https://swanimpact.org/
obtain-funding-for-
impact-startup-
companies/](https://swanimpact.org/obtain-funding-for-impact-startup-companies/)



**Become an
Associate
member.**

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become-an-impact-
associate/](https://swanimpact.org/become-an-impact-associate/)



**Become a
Sponsor.**

[https://swanimpact.org/
sponsors/](https://swanimpact.org/sponsors/)

Speak with our Executive Director.

<https://calendly.com/bob-bridge/15-minute-zoom-call>

Webinar Feedback



Any final questions?



What was most helpful?



What was less interesting?



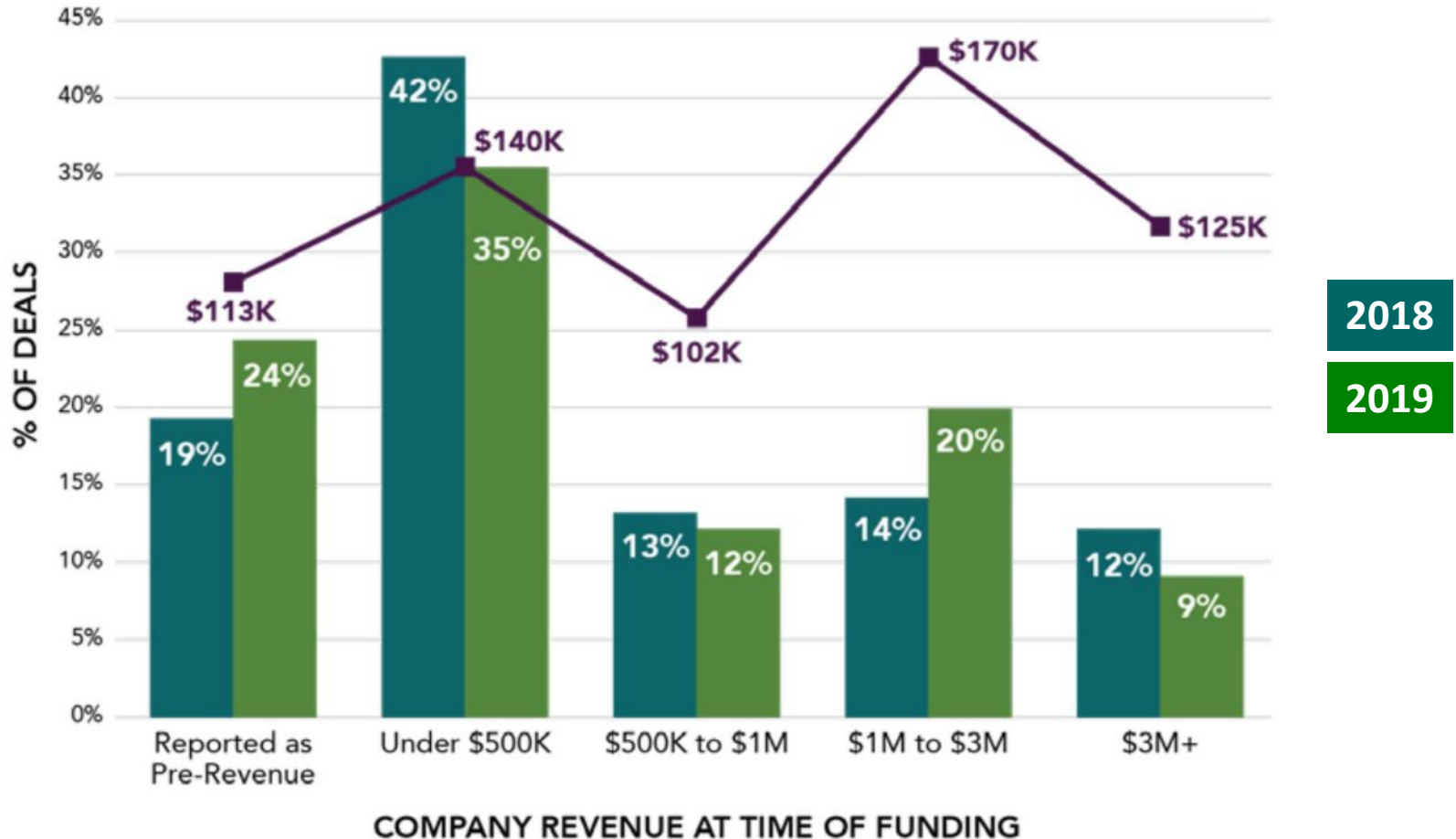
What would you like to learn more about?



Angel Investing Norms

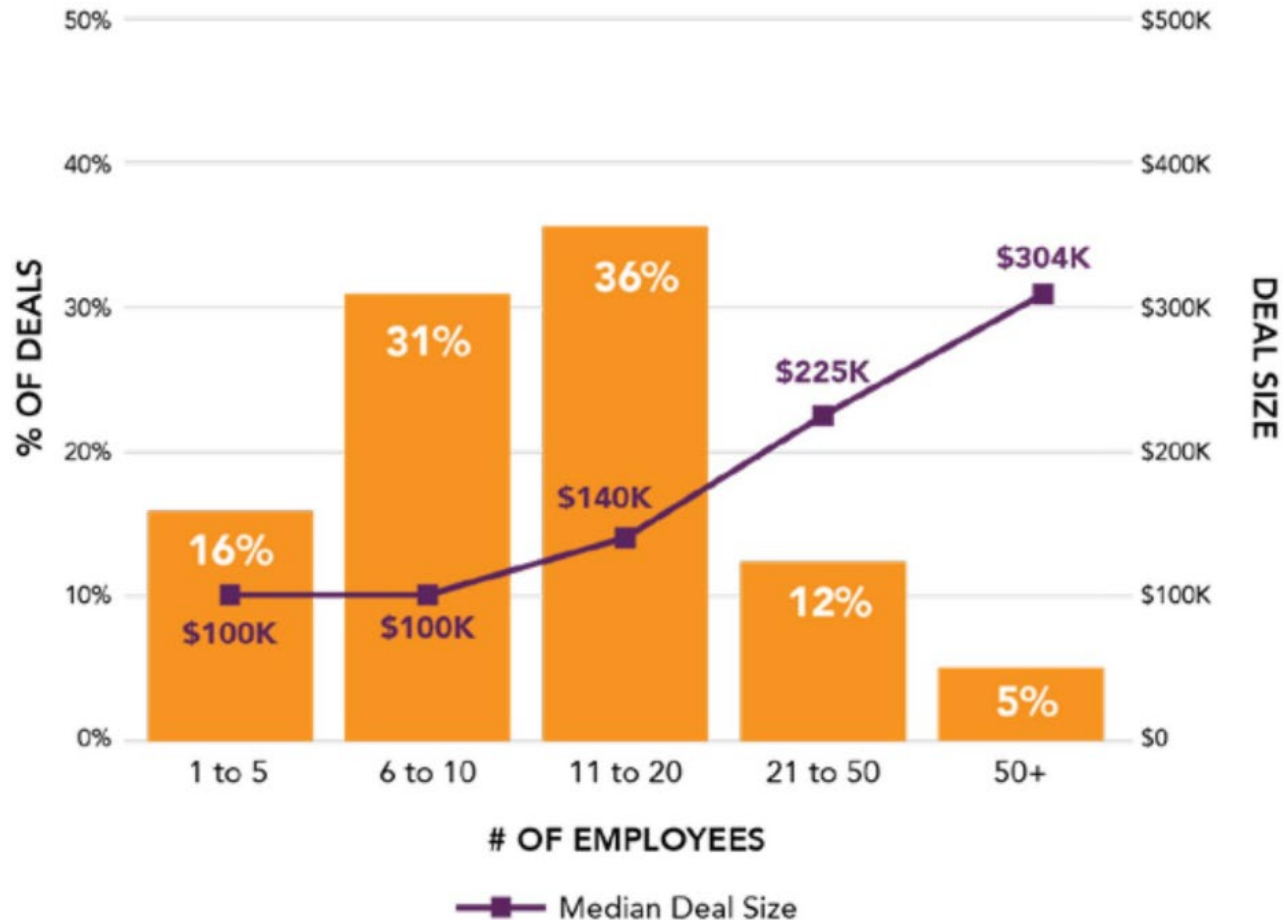


Angels typically invest early in revenue cycle



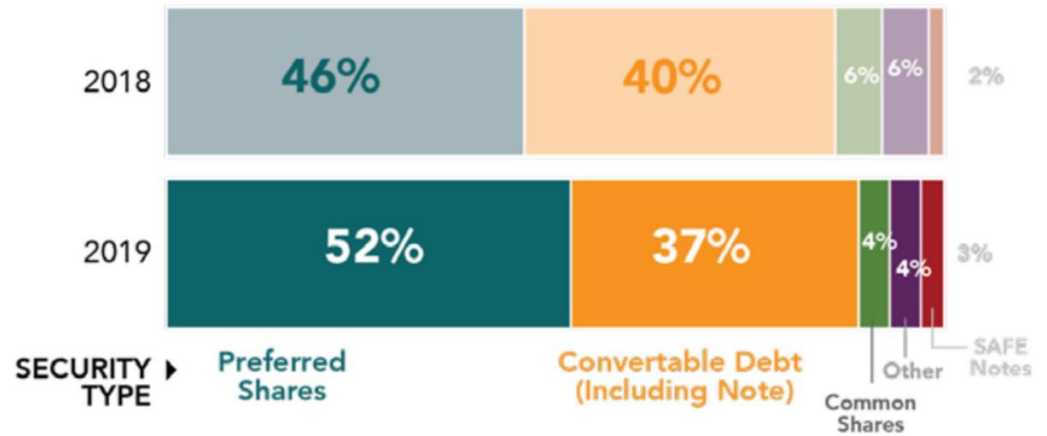
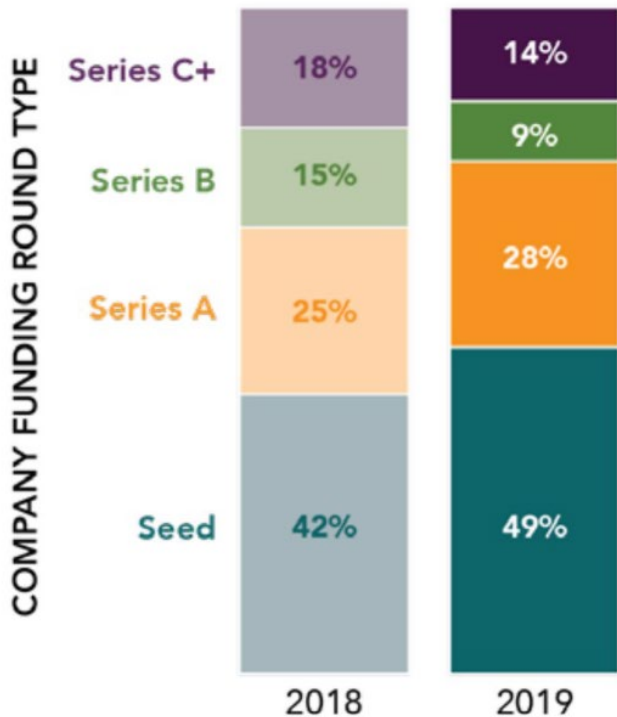
Source: ACA

Angels typically invest when Companies have less than 20 employees



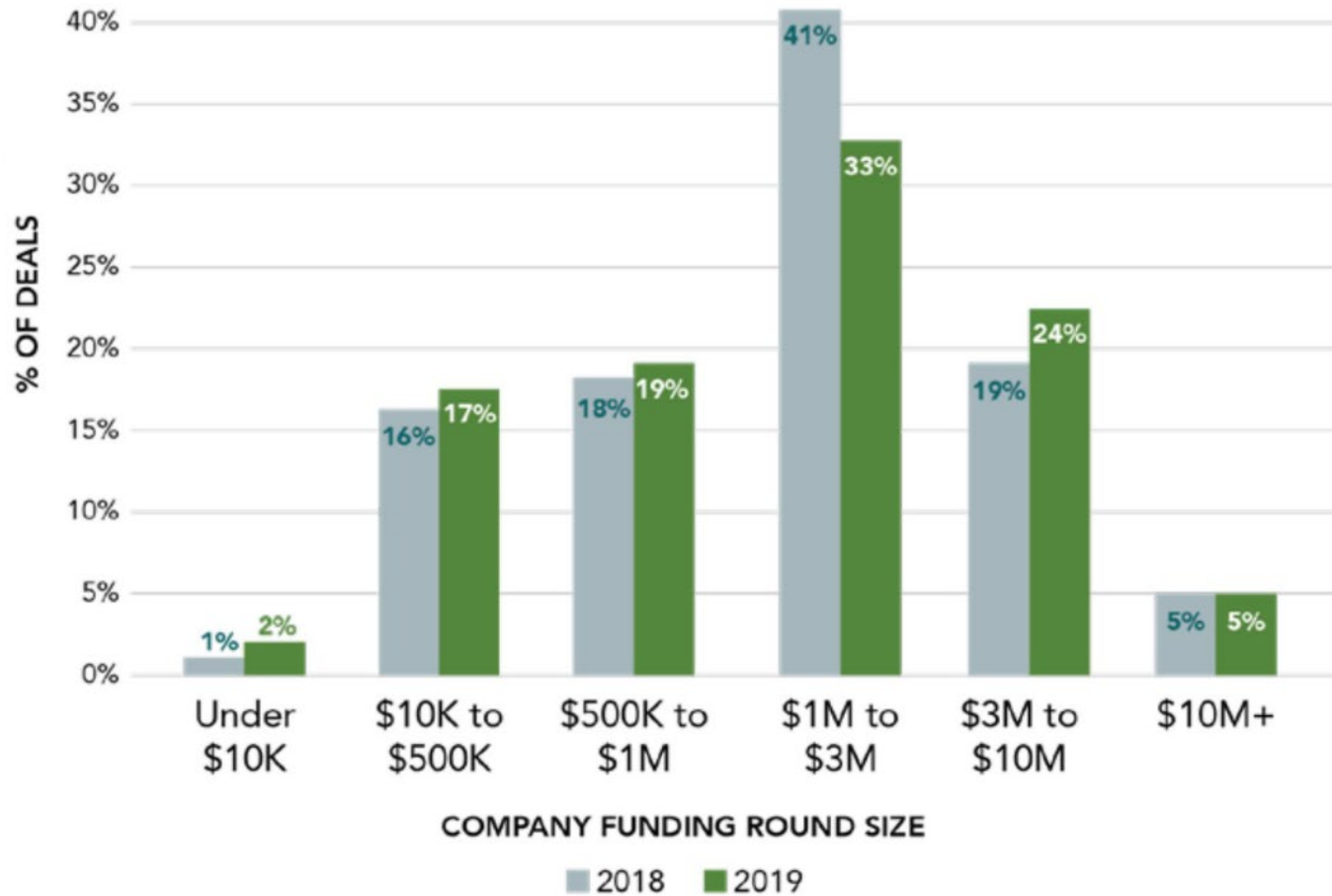
Source: ACA

Angels typically invest at Pre-Seed, Seed & A Stages



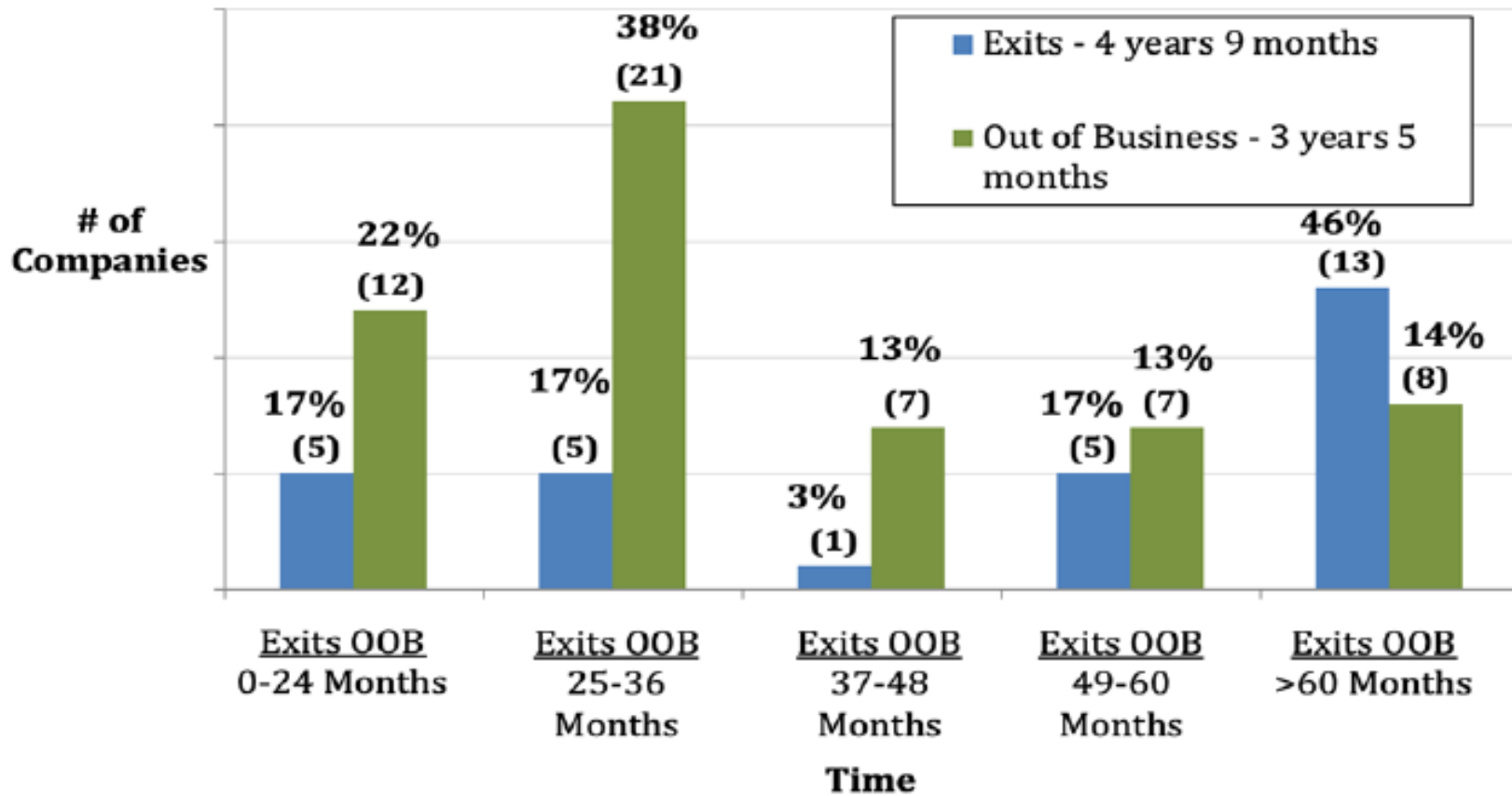
Source: ACA

Total Funds Raised When Angel Participated



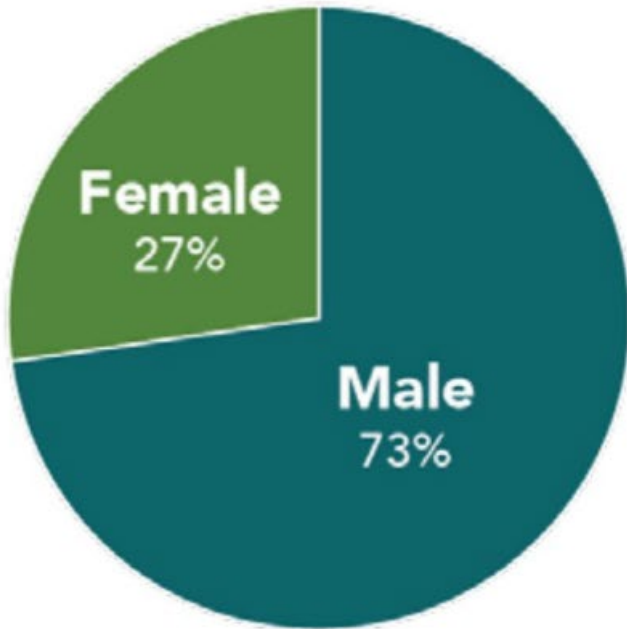
Source: ACA

Angels are Patient Investors

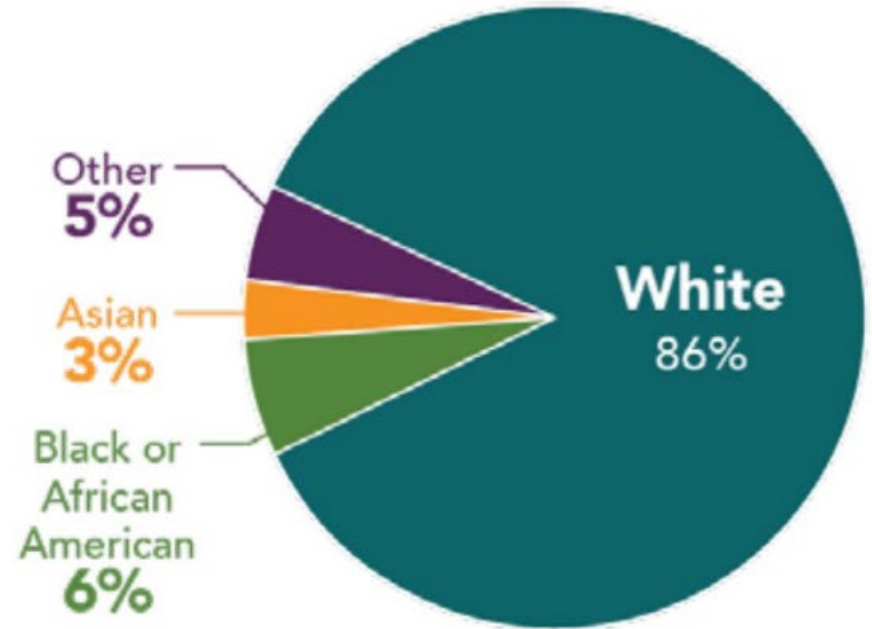


Angels typically invest in white male CEOs

GENDER BREAKDOWN



RACE BREAKDOWN



Source: ACA

SWAN: ~50% of investments to under-represented teams