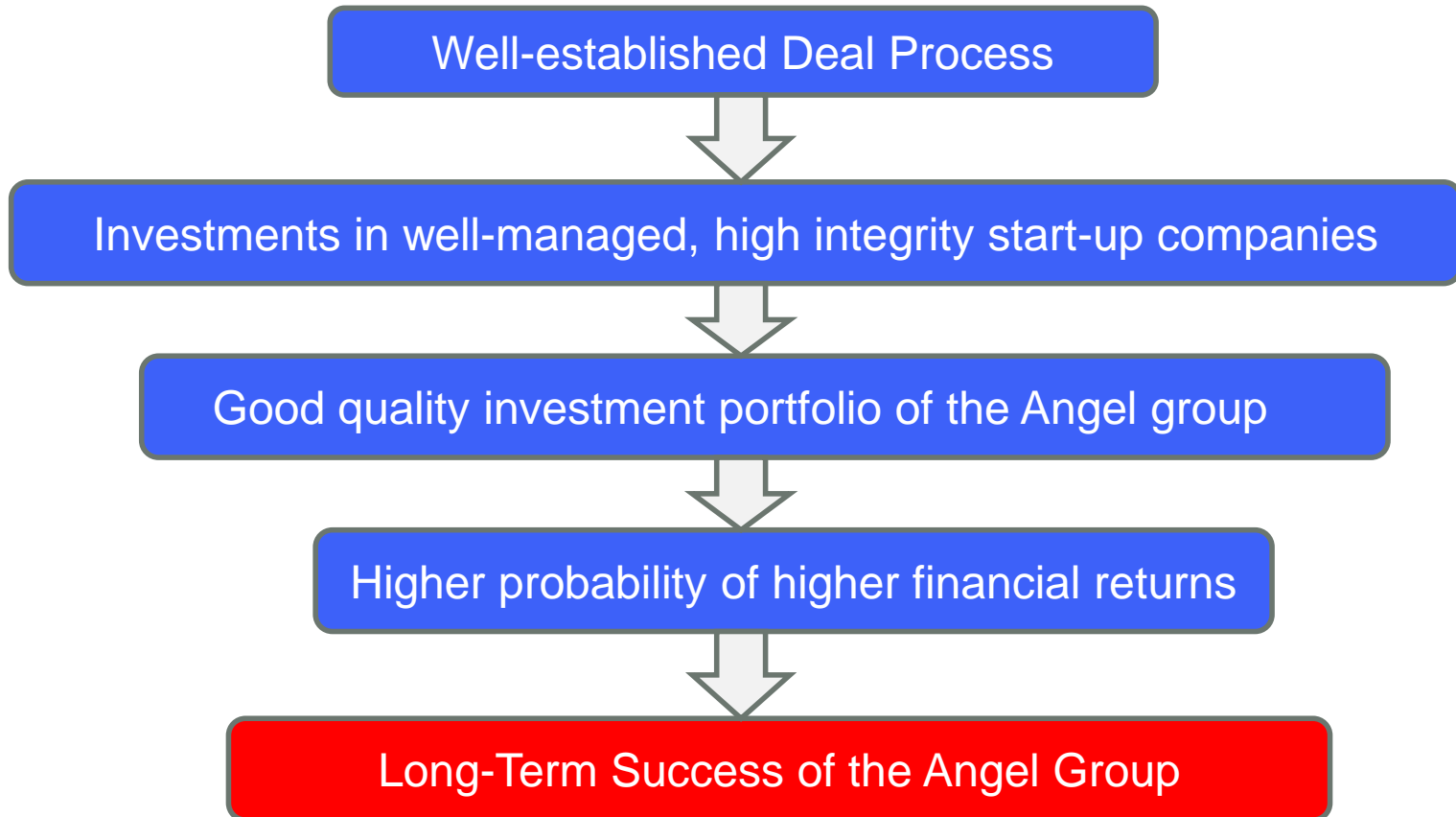




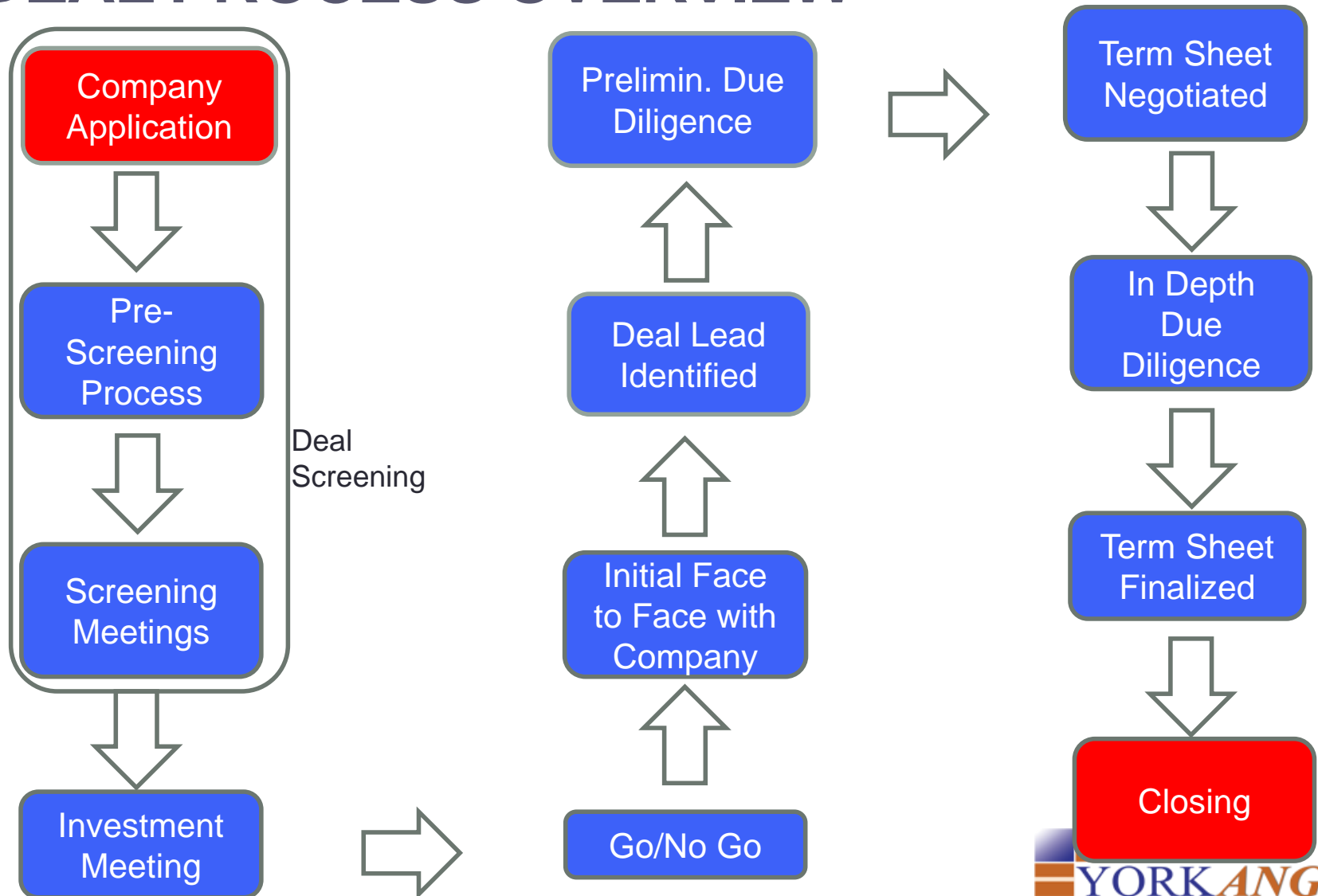
DEAL PROCESS WORKSHOP

April 30, 2015

Importance of a well-established *Deal Process*



DEAL PROCESS OVERVIEW



Seven Key Questions to Screen Investment Opportunities?

- **Question 1: Is this a good deal for our Angel Group?**
 - *Industry:* Focus on high growth industry within range of expertise offered by YAI members
 - *Stage of Product Development:* Earlier stage firms with clear protectable intellectual property may be of interest, but ideally companies should be in beta-trials, have purchase orders, or an existing customer base
 - *Geographic location of company:* Ideally, should be within 2 hours of driving radius
 - *Referral Sources:* Companies referred by those who consistently recommend quality deals should be given preference
 - *Existing Investors:* Companies with significantly raised capital from friends, family and other angels, and are bootstrapping, should be promoted

Seven Key Questions to Screen Investment Opportunities? (cont.)

- Question 2: Is this the right team to execute this business?
 - Companies with a balance of operational expertise (including financial), domain knowledge, and business acumen (including capital markets) should be preferred
 - Companies that may not be appropriate for Angel groups include;
 - “One-man-show” companies
 - Family-based businesses

Seven Key Questions to Screen Investment Opportunities? (cont.)

- Question 3: Does the business have superior proprietary products?

Emphasize on

- companies who clearly understand their competition and how they differentiate themselves from their competition
- companies with a strong intellectual property position to establish a high barrier to entry for its competition
- companies with technology developers that have a recent employment history which allows them freedom to operate, especially if they are in the same industry
- companies should have the technical ability to develop follow-on products

Seven Key Questions to Screen Investment Opportunities? (cont.)

- Question 4: Do the products address a clear need in a large market?
 - Emphasize on companies with a good value proposition
 - Market size should be large enough to support revenue projections (may not need to be venture capital industry's minimum of \$1 billion annual market)
 - Has the company identified a niche market in which there is a reasonable chance of market acceptance for the product?
 - Does the company have paying customers or beta users as a reference?

Seven Key Questions to Screen Investment Opportunities? (cont.)

- Questions 5: Is the requested investment sufficient for the company to achieve a key milestone?
 - Emphasize on companies which can achieve a significant milestone to make them attractive enough for a follow-on venture investment or bring them to cash flow break-even point

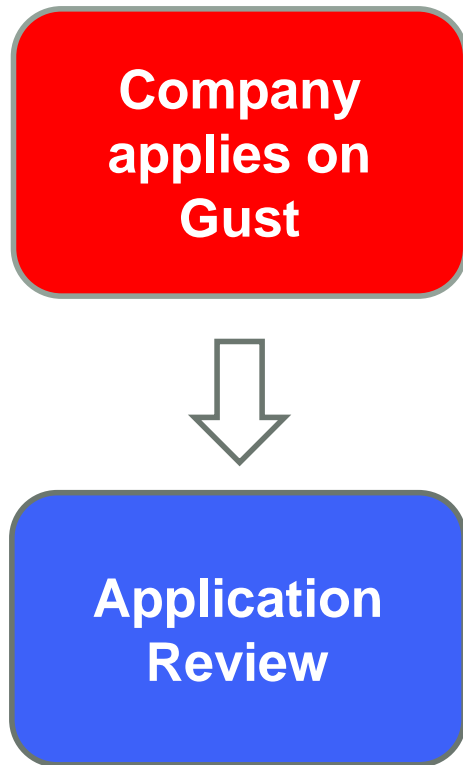
Seven Key Questions to Screen Investment Opportunities? (cont.)

- Question 6: Has this company made a compelling case for the overall attractiveness of the business opportunity?
 - Emphasize on companies which have clearly identified their strength and weaknesses relative to their competitors
 - Are the products and services being developed with resources that the company already possess or can reasonably obtain?

Seven Key Questions to Screen Investment Opportunities? (cont.)

- Question 7: Is this an attractive investment opportunity?
 - Valuation expectation of a company should not be unreasonable. It is generally unusual to have a pre-money valuation of over \$3 million across most sectors. Best practice indicates that any company with a pre-money valuation of over \$10 million should be outrightly rejected.
 - Exits of typical 10X returns should be general expectation within a time period of 3 – 7 years

COMPANY APPLICATION



- Entrepreneurs are asked to apply online using Gust Platform via York Angels website. Online application requires the following information to be provided:
 - Capital raised/Capital required/Valuation
 - Financial forecasts/run rate/burn rate
 - Products & Services/Target Market/Customer Problem
 - Business Model/Go To Market Strategy
 - Competitive Position
 - Management
- YAI members receive notification of applications but don't need to do anything further
- Upon receipt of application, YAI will conduct a brief in-house review for basic qualifications including:
 - Location
 - Amount of Capital Sought/Valuation
 - Industry/Stage of Development (i.e. Revenue/Pre-revenue)
 - Suitability for venture investment

PRE-SCREENING PROCESS



Pre-Screening Process

- If applicant passes initial qualification stage, a pre-screening phone interview is conducted by Administrative Coordinator
- YAI standard pre-screening questionnaire is used to assist in conducting the telephone interview Pre-Screening interview responses, Gust Application, and any supplementary information provided is reviewed to determine if the applicant is suitable for a Screening Meeting.
- If the company is not accepted, YAI will follow up with a call and a brief explanation; and may refer them to VentureLAB to receive further mentoring and guidance
- If the company is accepted, they are scheduled for a Screening Meeting and a follow up confirmation email is sent along with Screening Meeting Presentation Guidelines
- Company then proceeds to Screening Meeting Process

SCREENING MEETING



**Screening
Meeting**

- Screening Meetings typically occur twice a month at Insiteful Solutions in Markham where 2 - 4 companies present to a panel of experienced YAI members
- YAI members are encouraged to participate in screening meetings – annual schedule is circulated to all members
 - Bob Glandfield and Rudy Joss serve as primary screening committee members but any member can attend
- Companies are each given a 40 minute time slot - 20 minutes of presentation, followed by 20 minutes of Q&A.
- Feedback from the Screening Committee is then relayed back to the company at the meeting, with a conclusion to either invite them to an Investment Meeting or reject them
- If the company isn't accepted, YAI follows up with a call and brief explanation; they may be referred to VentureLAB for further mentoring, guidance, and advice

SCREENING MEETING cont'd



Screening Meeting

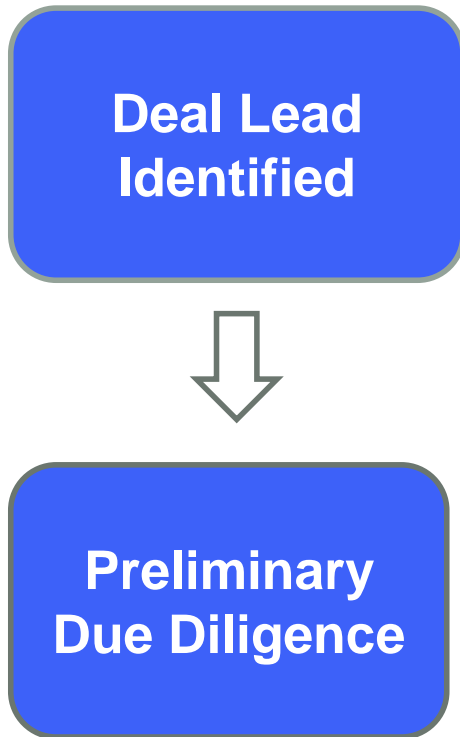
- If the company is accepted, they are invited to an Investment Meeting. A follow up confirmation email is sent along with:
 - Presentation Guidelines
 - Request for additional information to be uploaded to the Gust platform.
 - Presenting Companies form to be completed
 - Presenter Release form & Presenter NDA form are signed by the Company
 - Reminder to have a copy on a USB drive, and inform YAI of others attending/presenting/representing the company
- If the company currently seems to be too early stage for YAI, the company may also be tracked and asked to inform YAI of any progress or if they pick up traction: and they may be invited to return for an update Screening presentation, or invited to an Investment Meeting in the future

INVESTMENT MEETING



- Investment Meetings occur once a month and are usually held on the last Thursday of every month, except in August.
- The top 2-3 companies from the previous month's Screening Meetings are invited to present
- Companies are each given a 40 minute time slot; 20 minutes of presentation, followed by 20 minutes of Q&A
- After each presentation, there is a member only discussion where the group discusses the investment opportunity, share individual domain knowledge and opinions
- The group is then canvassed as to the interest level in investing and/or any request for additional information
 - If there is no interest, a follow up call and brief explanation are provided to the Company (they may also be referred to VentureLAB for further mentoring and guidance or may be asked to return at a later date to provide an update)
 - If there is positive interest, the Company is informed of the next steps. The goal is to schedule a face to face meeting with the company the following week with a focus on "Business" due diligence. This is generally done in an informal Q & A session.

PRELIMINARY DUE DILIGENCE



- If the group agrees to move forward, a Deal Lead will be identified from amongst the interested members
 - There is no formal process for choosing a deal lead and this is generally determined informally by the investor group based on domain expertise, experience, time available etc.
 - YAI has a Deal Lead workshop and mentoring program
- Preliminary “business” due diligence work is conducted by the interested group along with some assistance from Venture Lab if possible. The goal is to establish the business opportunity and flush out business issues such as viability of the business model, revenue projections, market size, competitive landscape and potential of the company
- Need to gather sufficient information in order to develop a term sheet and set a valuation for the company

TERM SHEET NEGOTIATED



**Term Sheet
Negotiated**

- The YAI standard term sheet is used as the basis of discussion with the Company to address such key issues as:
 - Valuation and/or warrant coverage
 - Share structure (i.e. Redeemable Convertible Preferred or other)
 - Board composition and participation
 - Restrictions on management decisions
 - Employment agreements, non-compete etc. for key management
- The negotiations with the Investee Company continue until a mutually agreed Term Sheet is signed or the deal is abandoned.
 - If the deal is being shared with another Angel group or investor, they are also included in this process
- Legal counsel only brought in if necessary
- Deal Lead generally leads term sheet negotiation working with the other interested investors

DUE DILIGENCE/TERM SHEET FINALIZED

**In Depth Due
Diligence**



**Term Sheet
Finalized**

- A thorough review is conducted primarily by Venture Lab (working closely with the investor group) of all of the assembled due diligence materials
- Issues such as legal structure, financial analysis, legal/financial liabilities, capital structure, sales pipeline, customer references etc. are reviewed and assessed by the due diligence team
- A due diligence issues list is shared with the investor group and, if necessary, a face to face meeting with entrepreneur(s) is organized to address all open issues
- In some cases, the outcome of the due diligence meeting may impact the terms of the Term Sheet and negotiations may continue
- Final investment commitments are then gathered from YAI members and a final term sheet is issued to the Company in preparation for closing

CLOSING PROCESS



Closing

- Upon signing of the final term sheet, legal counsel is appointed and the signed term sheet is sent to the lawyer
 - Legal expenses are paid by the Investee company out of the closing proceeds
- The Deal Lead provides the liaison work with the lawyers, members and entrepreneurs to complete the transaction
- Deal Lead works with the lawyer to facilitate preparation of the key legal documentation including:
 - Share Purchase Agreement
 - Subscription Agreement and Shareholders' Agreement
 - Management Employment Agreements including non-compete/non-disclosure and proprietary rights covenants.
- At the appropriate time, participating members are asked to provide required investor information such as exact name, address, contact info., shareholding entity etc..

CLOSING PROCESS cont'd



Closing

- Prior to closing, wire transfer instructions are sent to each participating member
 - Funds are wired directly to the YAI lawyer's trust account where they are held in trust pending completion of the transaction
 - Funds are not released unless the deal closes
- YAI Board Representatives are appointed at time of closing
 - Board members are chosen by mutual agreement of the investing members
 - D & O Insurance for directors is put in place
 - Typical involvement is quarterly board meetings and review of ongoing reporting by company
- Participating members receive the 'final' version of the Agreements directly from the lawyer for review and final signatures..
- After the 'closing' a final closing package including the share certificates and all key agreements are sent to the participants.

Questions?