



The Association for
Accountants and
Financial Professionals
in Business

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Creating Jobs...the Importance of Investor Groups

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September 18, 2012



What we will cover

- Introduction
- A little about jobs
- What it takes to grow a business
- Money
- Implications for job growth
- Suggestions
- Questions



Introduction

- Education:
 - CCSU – BS Business Administration
 - U of Hartford – MBA Finance
 - UTC – Management Development Program
 - UofM – Corporate Financial Management
- Emhart/Black and Director – 1980 – 1992
 - First Turnaround Experience
- Zygo – 1993 – 1999
 - First Public Company CFO Position
- Axsys – 1999 – 2002
 - President and COO Role
- Retired March 2002
 - Consulting and Board work – 2002 – 2005
 - Formed Angel Investor Forum to Finance Startups in CT
- American Bank Note Holographics – 2003 to 2005 BOD and Audit Committee Chair; 2005 to 2008 CFO; Sold to JDSU (1000% Return) 2008 to 2010 GM
- Direct Brands, Inc. – March 2010



BACKGROUND Cont' d

- Current Board Work
 - Sigma Designs (SIGM – NASDAQ) – Activist In Conjunction With Hedge Fund Investor
 - Community Health Centers, Inc. (Non-profit)
 - Chairman of the Board; Audit and Finance Committee; Compensation Committee; Executive Committee
- Angel Investor – Direct Investments
 - Evergreen Solar (Big Win)
 - ThreeCore (Small Loss)
 - Heath Management Online (Small Loss)
 - Design2Launch (Big Win)
 - Apollo Solar (Still Going)
 - Iconical Systems (Big Loss)
 - Angel Investor Forum – 30 Deals/25 Companies
- Philanthropy
 - Time to Give Back



Jobs

- There are many ways to measure jobs:
 - Employment in the Bush years – lost 2M+
 - Bush will focus on the 3.8M jobs added during the first 7 years of his administration
 - Employment in the Obama years – lost .5M
 - Obama will focus on the 3.4M jobs added from the low point in his administration
 - Net new jobs added from the beginning of Bush until June 2012 – less than .4M



Jobs Cont'd

- Jobs stimulus added 3M of Obama's 3.4M jobs – Deficit Spending...many were not sustainable



Jobs Cont'd

- In Connecticut we lost approximately 120,000 jobs in 2008
- Since then we added approximately 40,000
- UConn analysis published yesterday indicates it will be 2018 before the remaining 80,000 jobs are added

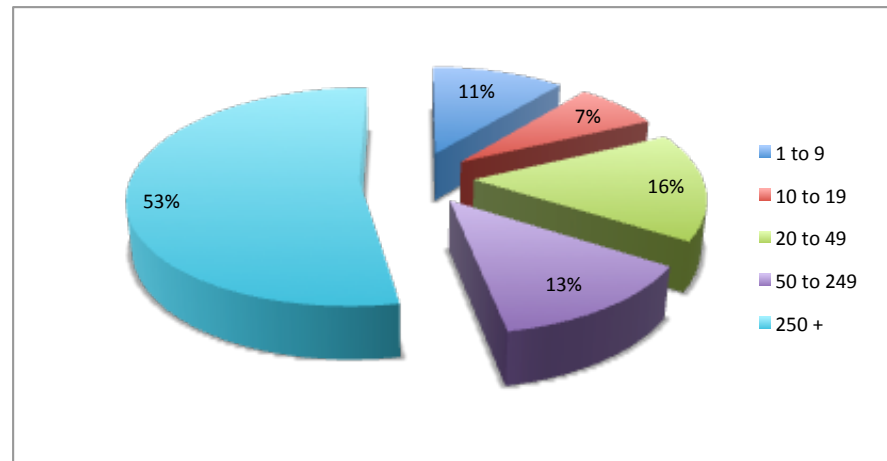


Jobs Cont'd

- Politicians talk about job creation but can't create long term sustainable jobs without increasing taxes
- Companies don't exist to create jobs they exist to make a profit and that includes non-profits

Jobs Creation

- How Many Times Have you Heard “Most Jobs are Created by small business”?
- It may be true but it is also true that most people are employed in bigger businesses





Real Wealth is Created When

- An idea is turned into a small business and then the small business is grown into a big business
 - Apple, LinkedIn, Facebook, PriceLine, eBay
- Solved a problem
 - Motorola, Intel, Seagate, Hilton, WalMart
- Developed expertise
 - Accenture, KPMG, McKinsey, Goldman Sachs



Small Business Needs

- An idea and a catalyst (sometimes called an entrepreneur)
 - An **entrepreneur** is an enterprising individual who builds capital through risk and/or initiative.



Small Business Also Needs

- A supportive environment
- Talent
- Money



Environment

- Top U.S. locations for start-up activities
 - Silicon Valley
 - New York City
 - Chicago
 - Boston
 - Austin



Commonalities

- Universities with strong research capability and/or entrepreneurship
 - Stanford, Harvard, MIT, UofChicago, UofTexas
- Supportive programs
 - AngelPad (SF), DogPatch (Palo Alto), MIT Media Lab (Boston), NYU Accelerators (NYC), Founders Institute (26 Locations)



Commonalities Cont'd

- Wealthy individuals
 - Serial Entrepreneurs, Angels
- Established VC Community
 - Kleiner Perkins, Polaris, Draper Fisher, General Catalyst, Northbridge, CT Innovations

Brains + Community + Money = Business



Money

- Sources:
 - The three F's
 - Angels
 - VC's
 - Banks



The Three FFF's

- Friends
 - Family
 - Fools
 - The first money in
-
- This group is growing exponentially as a result of successful start-ups



Angels

- Individuals
- Significantly more sophisticated and much wealthier than when I started
 - Definition: Someone with a deep understanding of the needs of entrepreneurs and a willingness to spend time and capital to help grow a business.
- They invest their own money!



Angel Organizations

- Groups of individuals who pool their intellectual and financial capital to vet and invest in early stage rounds.
- CommonAngels, TechCoast Angels, RobinHood, Angelvine, Hub Angels, [Angel Investor Forum](#)



New Fund Raising Alternative

- Crowdfunding is raising money from individuals in small amounts:
 - Crowdfunding had direct mention in the JOBS Act signed into law in April 2012 - legislation that allows for a wider pool of small investors with fewer restrictions
 - Organizations driving Crowdfunding:
Kickstarter, Indiegogo, wefunder, MicroVentures, EarlyShares, CircleUp, SoMeLend, Fundable, Crowdfunder



Venture Capital

- VC's invest other people's money
- Often do not invest in true start-up rounds but prefer that the company has proven themselves to have the potential for significant growth
- Generally are experts in an industry and have deep connections that often facilitate an exit



Typical Start-up Funding

- \$100,000 FFF's to prove concept, develop prototype (1-2 employees)
 - May use Crowdfunding at this stage
- \$500,000 to \$1M Angels to finalize prototype, beta test and launch (5-10 employees)
- \$2m to \$5M first round to develop sales channel and launch manufacturing or distribution (25-50 employees)



Typical Start-up Funding Cont'd

- \$2m to \$5M second round to further develop sales channel and begin scale production and/or distribution (35-75 employees)
- Further rounds or exit
- Exit is preferred by almost everyone at this point



Exit Preferred

- FFF's get founders shares and own 100% with founder
- Angels get 30-40% of common; founders reduced to 60-70% ownership
- VC's in round one get Preferred Stock worth 40-50% of the company; founders reduced to 10-30% ownership
- The founder's equity is nearly gone before the final VC rounds



Implications for Jobs Growth

- Prior slides show that many companies grow to less than 100 employees at the time of their exit
- IPO's get the press but most exits are sales to a strategic acquirer
- Strategic's pay more, eliminate redundant jobs to make higher returns
- Result – Often fewer than 50% of the jobs created by the start-up exist within 12 months of the exit.



Other Factors Limiting Job Growth

- Technology – companies can start-up with an idea and outsource everything
 - Pinterest, Four Square, Gilt Groupe, GrubHub, HopStop, Open Table, Groupon, Zooba
- Technology costs have come down so far that technology outsourcing firms can grow exponentially with little change in headcount
- New Service businesses are recycling talent from each other not growing
- The world has become much more collaborative – talent is very transportable

Tech Outsourcers





Other Factors Limiting Job Growth

- Due to economic realities fewer people view retirement as an option
- Cost of retirement is exacerbated by life expectancy
- Baby Boomers are holding jobs that our kids need



Implications and Suggestions

- Fewer new jobs will be created in the future
 - More new jobs will exist in scientific, environmental, medical and technology fields
- Stress levels will continue to increase
 - There will be a need for more counselors and therapists
- More personalization will exist in consumer areas
 - Data Crunchers and analysts will be needed



What to Do

- Come up with a great idea
- maintain your network
- Prepare to work forever
- Exercise
- Teach your children to be independent and marry well
- Take all of your vacation days
- See America first



What to Do

- Pay all your taxes
- Be an educated voter
- If you can, buy your children a house – interest rates will never be lower --- make it a nice one, you may be living in it one day!



Questions
