Venture Capital Basics

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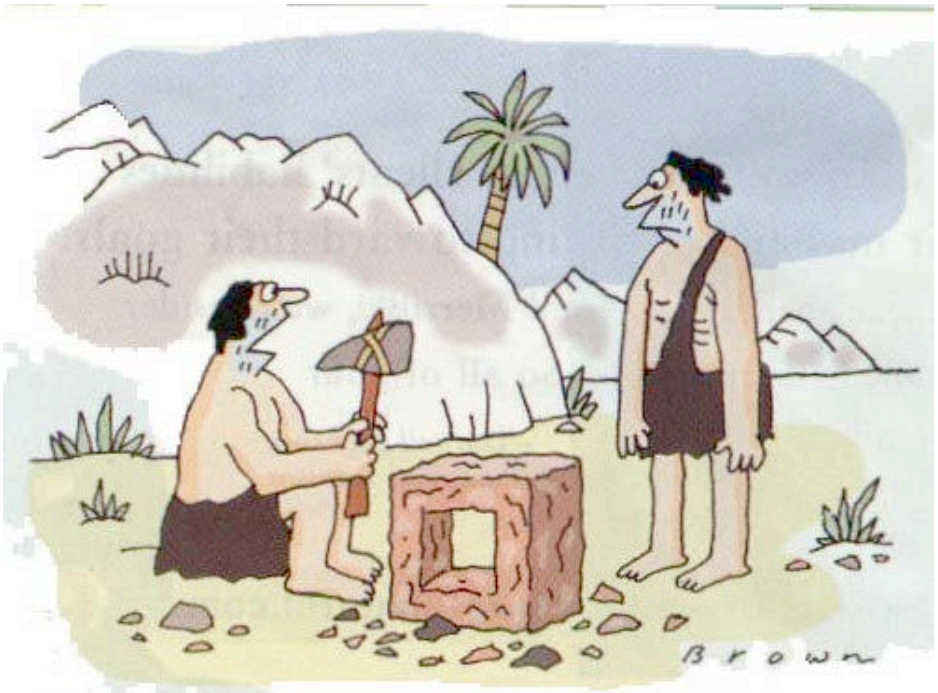
June 24, 2014



"I call my invention 'The Wheel,' but so far I've been unable to attract any venture capital."

36 F O R B E S ▪ November 1, 2004

Venture Capital:
What it isn't:

2014 Nobel Prize =
8,000,000 Swedish Kroner

As of Jun 23, 2014 that = US $1,193,352.80 (not including exchange fees)

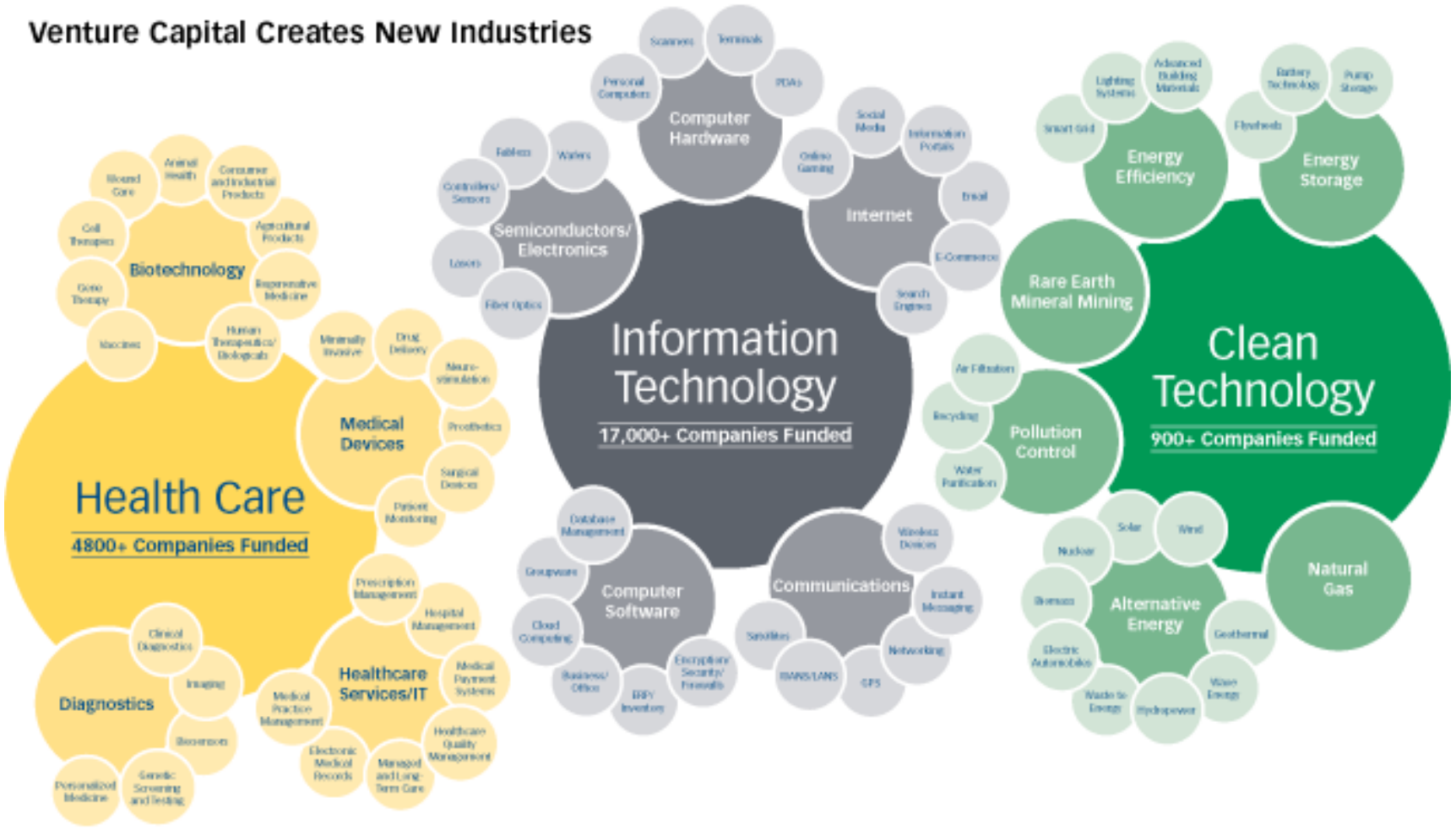
Venture Capital is not about supporting the development of the coolest, most ground breaking, innovative, earth shattering, mind blowing technology or even the best science.

Venture Capital: Is about investors making money through buying ownership in Fast Growing-High Potential Startups.

Companies Founded With Venture Capital:

*Graphic Courtesy of NVCA

Venture Capital is about investors making money through disrupting current markets or creating new ones



*Graphic Courtesy of NVCA

Venture Capital is about High net-worth individuals and multi $1M partnerships investing in Privately Held Startups

- Individual or groups of individuals investing in startups of are usually called Angel Investors.

HYDEPARKANGELS
ADVANCING GROWTH OPPORTUNITIES

CommonAngels™
Uncommon Expertise

TECH COAST ANGELS

band OF ANGELS

- Partnerships which invest on behalf of large pension funds, universities, banks etc., are called venture funds

MENLO PARK VENTURES

DRIVE CAPITAL

MOHR DAVIDOW

SEQUOIA CAPITAL

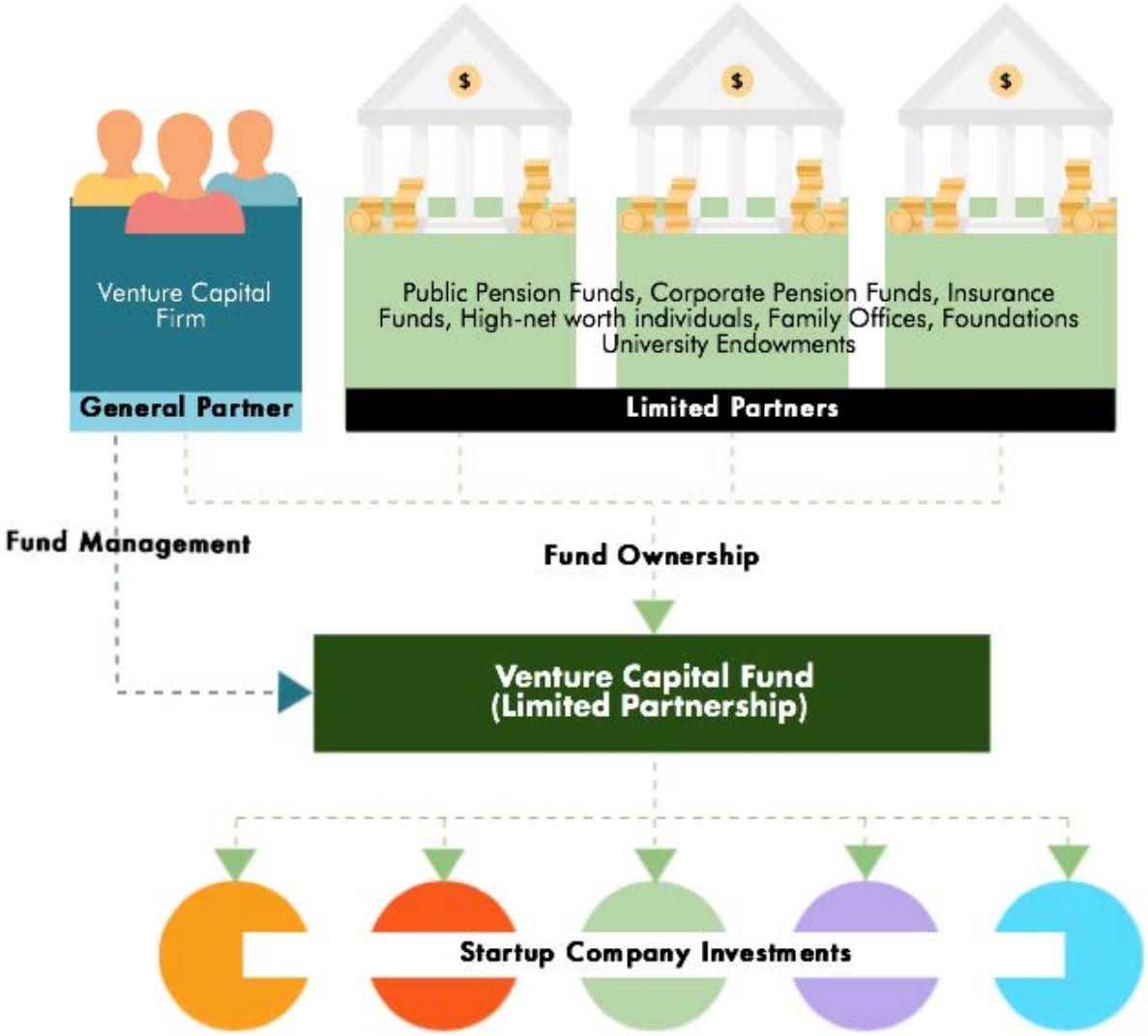
ARCH Venture Partners

What Is Venture Capital?

Venture capitalists:

- Raise pools of capital from institutional and individual investors
- Finance new and rapidly growing companies;
- Purchase preferred equity securities and take board positions;
- Add value to the company through active participation;
- Take higher *risks* with the expectation of higher rewards;
- Have a long-term orientation
- Make $$$ via M&A or IPO liquidity events

Venture Capital Fund Common Structure



How Venture Firms Make Money

Management Fees (typically 2%)

- Charge a management fee to cover the costs of managing the committed capital.

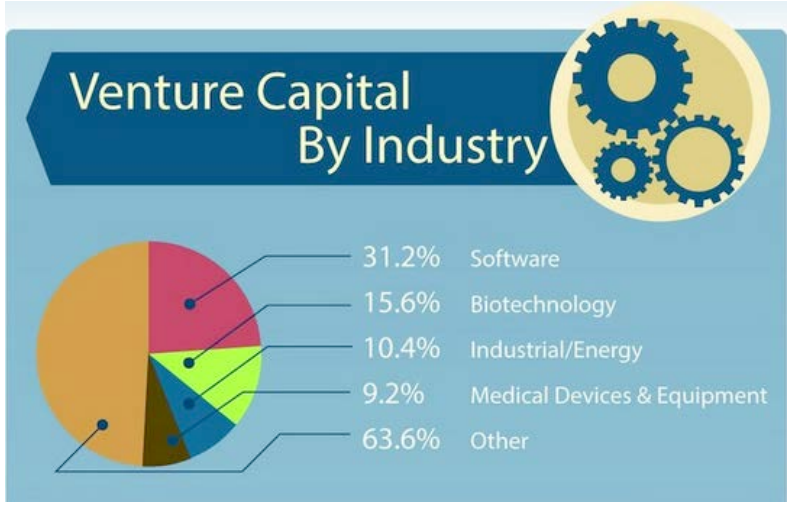
Carried Interest (typically 20%)

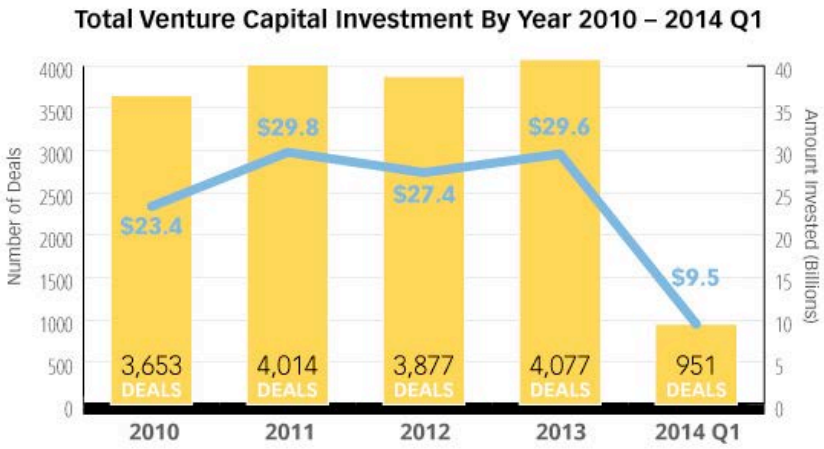
- "Carried interest" is the term used to denote the profit split of proceeds to the general partner.

Example $100M fund

- 10x return and 2 and 20%
- $2m per year in management fee
- (($100m x 10) - $100M) * 20% = $180M in carried interest

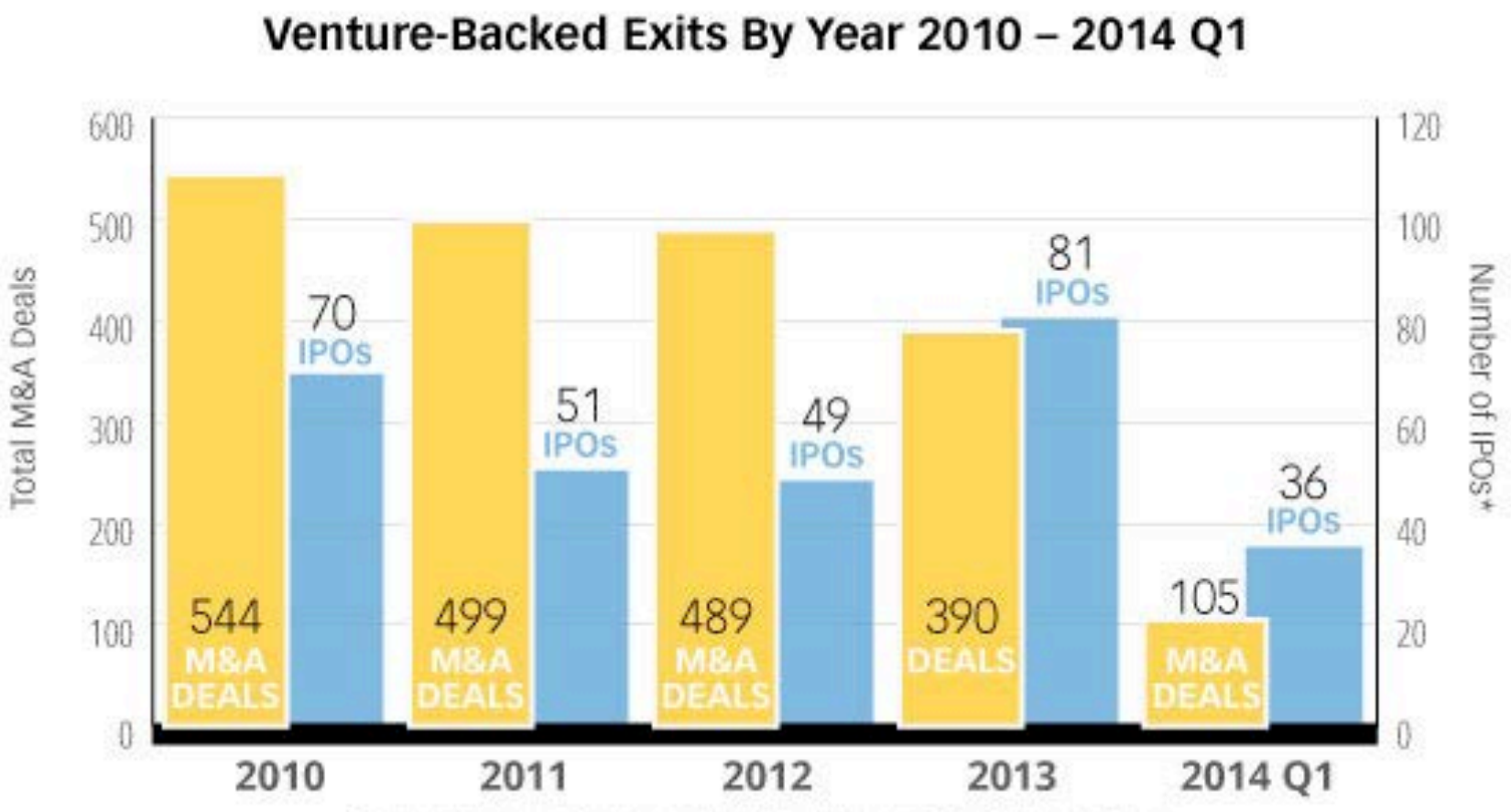
Snapshot of the Venture Industry





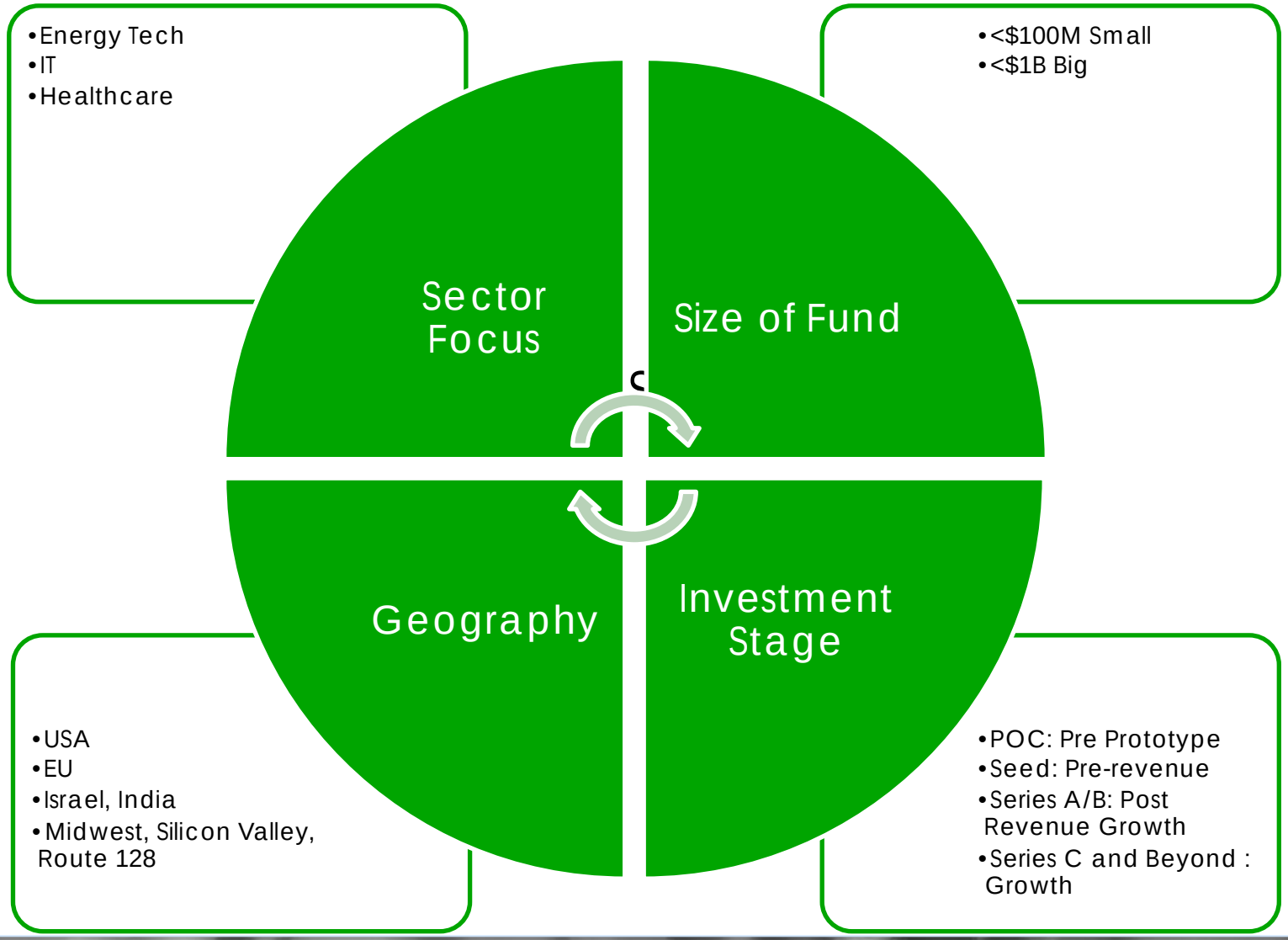
**Graphics Courtesy of Entrepreneur.com & NVCA*

What Everybody Cares About: Exits!
(aka getting your money out)



**Graphics Courtesy NVCA*

VC Funds can segment investment focus in several ways



Some thoughts about approaching VCs

① This is a relationship based business
- VCs want to know about the opportunity
- Spam Sucks – if you are going in cold use the channel identified on their website.
- Get a warm introduction. (Linkedin, AngelList, Gust)
- Talk to their portfolio companies
- Find someone who can make an introduction

② Sector Fit
- Don't waste time chasing the wrong VCs
- Have some ideas about how they might be able to help beyond providing capital

③ Presentation/Pitch
- Focus on market opportunity
- Why your PRODUCT can exploit this opportunity like no other. Could be because of technological advantage
- Know how you will use the money.

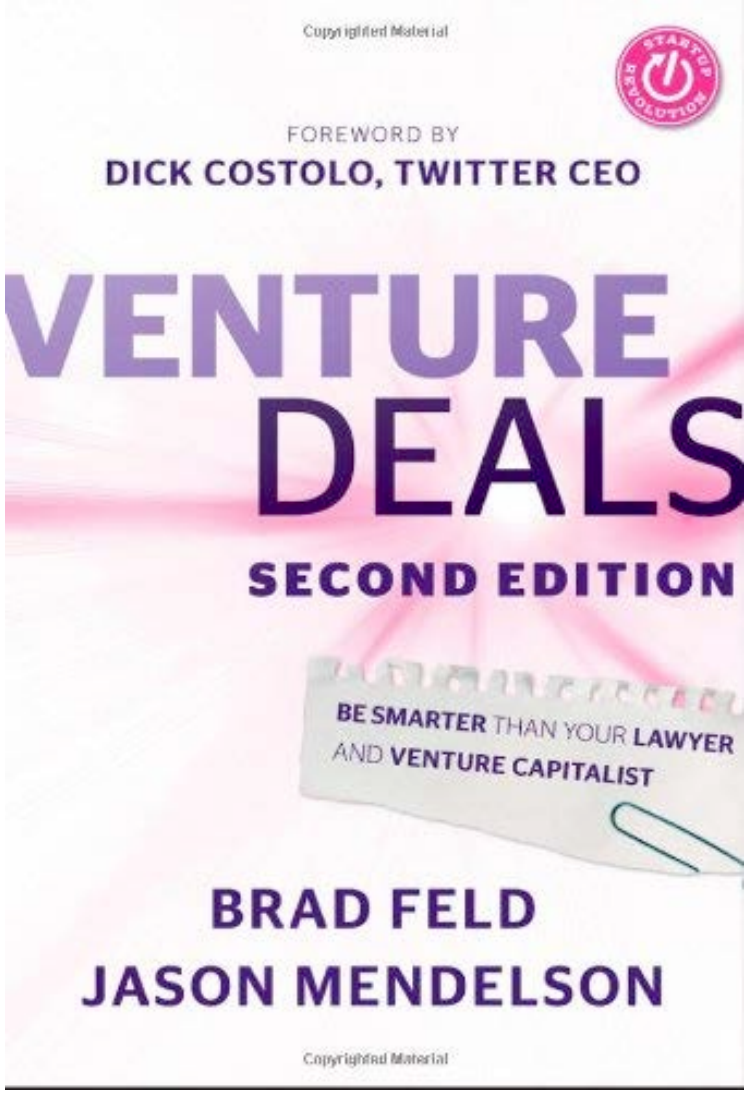
Consider if and why you really need Venture Capital to Grow your business

① VC is expensive relative to other forms of capital
- Investor syndicate will want 20% - 50% of your business
- Can you boot strap?
- What about customers?
- Consider the added value you need to grow your company (i.e. expertise, strategic value, network)
- What else is out there…

② Corporate Investors
- Acquire company with the hopes of someday adding it to their portfolio of operating companies
  - Generally companies find this type of environment better for developing small businesses
- Corporations may also purchase targets directly and integrate them into their company

③ SBIC
- Firm may augment its own fund with funds from the federal government
- There are strict rules surrounding the uses of these funds, the government is the first equity investor to get repaid, but the government requires a lower rate of return

If you want to know about deal structure…read this:

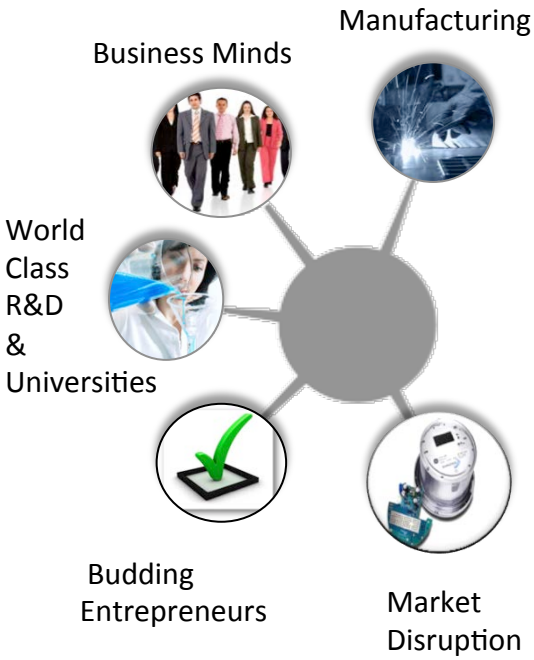


ENERGY FOUNDRY
Company Overview

June 24, 2014

Illinois has the foundation for success in early-stage energy, momentum for innovation is building

Illinois & the Midwest have the foundation for success….

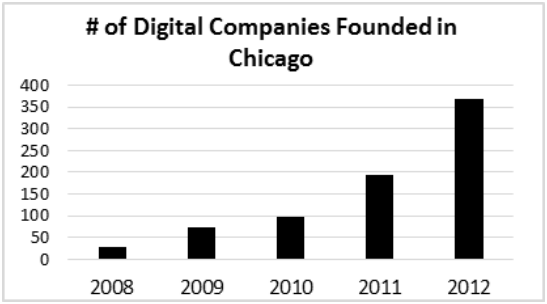


Market Opportunity

Missing capital and support

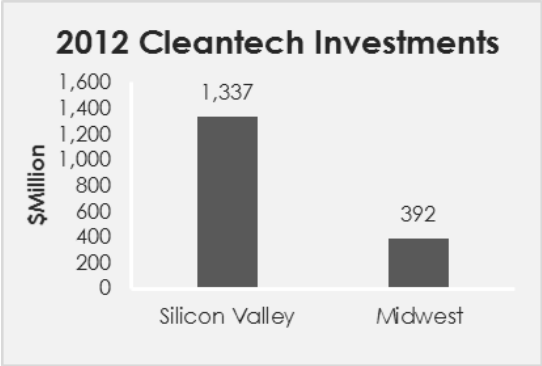
… lack of capital and support have hindered Midwest energy startups, but other sectors are taking off

Chicago – Growth in digital fueled by spaces like "1871" and prior successes



Source: Built in Chicago

Midwest invested a fraction of cleantech venture dollars compared to West Coast



Source: PricewaterhouseCoopers Moneytree Report, Jan 2013

Energy Foundry takes an integrated investment approach to help grid and energy ideas achieve success

ENERGY FOUNDRY

Impact Investment
(Evergreen Venture Fund)

Launching game-changing grid and energy businesses

Develop tools to support our companies and the community

- Capital
- Mentor / Advisor Board
- Test beds
- Turnkey Support
- Smart Grid Cluster

Investment portfolio and strategy

ROOT3

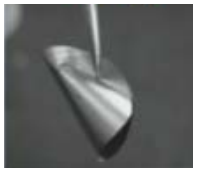
- Integrated software decision tool to help Central Utility Plants with $1M - $10M in energy spend save energy
- Software delivers savings through better operational dispatch of equipment
- Developed on U of C campus, with IP from Stanford
- Integrates into "Smart-Grid" for demand response

Chicago Tribune "Energy Fund to Help Root 3 Stay Put"

TWO TIERS OF INVESTMENT RANGE

Seed	Early Stage
Investments of $50K to $150K	Investments of $500K to $750K

We will invest up to $1.5M into a company



SiNode SYSTEMS

- Silicon-graphene anode technology, developed with funding from Argonne
- SiNode spun out of Northwestern
- Won National DOE Business Plan Competition

intellihot

- Tankless water heater for commercial properties; saves water and natural gas
- Technology developed by two Caterpillar engineers
- Design and manufacturing in Galesburg, Illinois
- Grew sales by over 250% and distribution in over 20 states

"…bringing high quality manufacturing jobs back to our shores."

MENTOR / ADVISOR BOARD: Accelerating a company's time to market and build the ecosystem

MENTORS / ADVISORS POSSESS SUBJECT MATTER EXPERTISE, A DEEP RESERVOIR OF PERSONAL EXPERIENCE & THE NETWORKS TO MOVE YOUNG COMPANIES DECISIVELY FORWARD

ENTERPRISE
Corporate, Utility, Real Estate

TECHNICAL
CTOs
Lab Directors

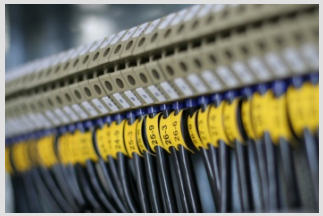
Gov/NGO
State, Local, NGO

NEW VENTURE
Entrepreneurs, Angels, VCs

TESTBEDS: Resources to test, validate and advance innovations at all stages of development

LEVERAGING UNIQUE ILLINOIS ASSETS TO ADVANCE GRID COMMERCIALIZATION

VIRTUAL GRID
UIUC grid simulation lab



CLOSED LOOP MICROGRID
IIT infrastructure

ON-GRID INFRASTRUCTURE
Ameren test facility and smart substation

RESIDENTIAL TESTBEDS
ComEd innovation corridor w 120K meters

IN ADDITION TO PROVIDING STRATEGIC MARKET AND TECHNICAL BENEFITS, THE PROVING GROUNDS REPRESENT PLATFORMS THAT CREATE VALUABLE ILLINOIS NEXUS

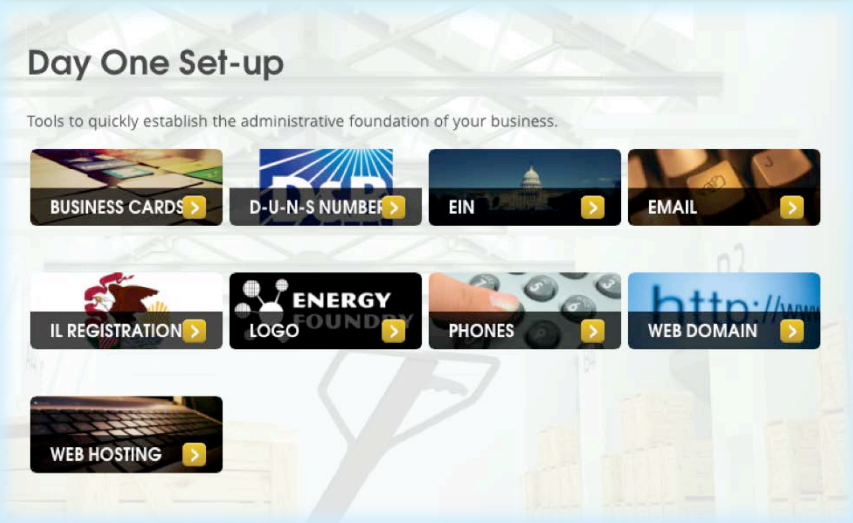
MARKET AND STRATEGIC VALUE

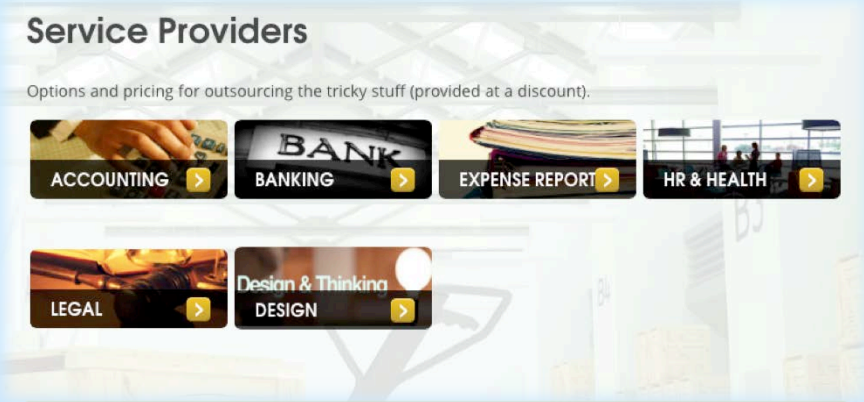
- Diversity in geographic locations (urban vs. rural), load profiles/user types, and electricity markets (PJM & MISO)
- Gain insight into market challenges and unique pain points
- Capture first-mover advantages
- Early contact with prospective customers

TECHNICAL VALUE

- Generate credible performance data
- Optimize product designs and services to fulfill market needs and requirements
- Measure and test assumptions related to value proposition
- De-risk technologies through pilot and demonstration projects

TURNKEY: Pre-packaged back office support so that startups can focus on growing their core business





BENEFITS TO ENTREPRENEURS

- Maximize an entrepreneur's time so they can spend time on value-add activities
- Provide access to a network of skilled teams that have experience and interest in working with startups
- Pre-negotiated and discounted service offerings for entrepreneurs in both startup & growth modes
- Build the ecosystem for energy-related entrepreneurial support

BENEFITS TO ENERGY FOUNDRY PARTNERS

- Pipeline of future clients and network exposure
- Support the growing entrepreneurial ecosystem

Coalition : Energy – A Chicago hub for energy entrepreneurs, innovators and the community

We worked with Coalition to create a downtown hub for the energy community

- ✓ Creates collisions points
- ✓ Get feedback on ideas
- ✓ Tap into a strong peer network
- ✓ Meet new people & build relationships
- ✓ Low-cost & flexible resource

This co-working environment has:

- ✓ Reserved desks
- ✓ Private offices
- ✓ Meeting rooms
- ✓ Event space
- ✓ Access to unique electricity testbeds
- ✓ Access to labs and maker space via partnerships

Covered by: Chicago Tribune, built in chicago, MIDWEST ENERGY NEWS, CRAIN'S CHICAGO BUSINESS, Green TECH CHICAGO

The space is 95% full 2.5 months after the Feb 26th launch & has created a center of gravity for the community

LARGE COMPANIES
e.g.
- ComEd
- Schneider

RESEARCH
e.g.
- Argonne
- IIT

INVESTORS
e.g.
- Manisota Capital
- Energy Foundry

ENTREPRENEURS
20+ Companies

>2,000 Visitors

Industry Groups
e.g.
- YPE
- SOFI

Accelerators & Business Plan Competitions
e.g.
- GMA
- Cleantech Open

NGOs
e.g.
- EDF
- OXFAM

SMART GRID CLUSTER: Helping the overall energy innovation community

CLUSTER MANAGERS

ILLINOIS INSTITUTE OF TECHNOLOGY

ENERGY FOUNDRY

O-H COMMUNITY PARTNERS

ILLINOIS SCIENCE & TECHNOLOGY COALITION

GROWTH

- ~$20 Million in contracts & investment to cluster accelerator startups
- 9 new accelerator companies in 2013
- 28% employment growth for participating startups

PARTNERSHIPS

- Korean and French Smart Grid Partnerships
- Over 70 corporations and other organizations participating
- 113 Startups have received mentorship and support

COMMUNITY

- More than 1000 organizations engaged over almost 3 years
- Shedd Aquarium Master Energy Plan
- New co-working space for Energy Startups

CLUSTER ACCELERATOR COMPANIES

RedWave ENERGY, INC.

nucurrent GOLD STANDARD INDUCTORS

ROOT3

EFFORTLESS ENERGY

SiNode SYSTEMS

inbalance buildings

ALTIUM ENERGY, INC.

intellihot intelligent hot water.

ALLCELL

AGENTIS energy

CITYSCAN

SoCore Energy

XERION ADVANCED BATTERY CORP

Green PSF PER SQUARE FOOT

INVENTEK CORPORATION

IG Intelligent Generation LLC

hevt

POWER 2 SWITCH