Lagniappe Angels

**Group Investment Thesis and Screening Criteria**

For Discussion – 6/8/16 (Approved 6/29/16)

Lagniappe Angels is currently composed of 13 "Members" with the capability to invest approximately $500,000 in committed capital. The group seeks to develop an investment strategy to yield an internal rate of return of roughly 20% per year with a target of returning capital to investors in 8 years. To achieve this rate of return the group needs to return roughly $2.2M or 4.3x capital invested across the portfolio of investments.

The group expects to make between 8 and 12 investments, based on the current level of committed capital, at and average <u>total</u> investment per deal of $50,000. The group expects to provide additional follow-on capital to up to 50% of the companies that the group invests in, ideally resulting in larger positions in more successful deals and smaller positions in less successful deals.

The group expects to build the group's operational capacity up to 4-5 investments per year yielding an expected deployment cycle of 2-3 years. This is followed by 3-4 years of focus on portfolio management and 2 years of focus on liquidation. Due to the amount of time required to do due diligence and develop independent syndications and limitations on the contributed bandwidth of Members, the group expects to invest in 3-4 deals per years originated through NO/LA Angel Network (NO/LAAN). The group expects to screen the 1-2 opportunities pursued outside of NO/LAAN more aggressively, and to seek opportunities to participate in established rounds led by other trusted investors.

The group will initially target "Series A" stage deals, generally involving other investors, based on the following key criteria (Ranked in order of importance):

1. A differentiated and technically proven product with validated customer demand
    a. The group seeks companies at the stage that they have minimized technical risk (aka working, ready to ship product), and have a strong, clearly articulated, preferably already in process, "go to market strategy."
    b. Companies are addressing "a top 5 pain point" for their customers and have a clear understanding of, and respect for, behavioral barriers to entry (status quo) that they must overcome to gain traction in the market. Companies have "evidence" of the <u>enthusiastic</u> un-met customer demand.
    c. Companies can erect a moat once the market is entered through intellectual property or other business strategies.
2. A management <u>team</u> that blends a strong vision with traits demonstrating "coach-ability" and flexibility.
    a. Management teams have a track record of execution and understanding of how to build a scalable process.
    b. Management team understands customer needs, can talk to customers, and close sales.

    c. Incentives are aligned within the management team sufficient to retain the diversity of skills sets needed to scale. This is reflected in the cap table and the founder's expectations. Culture is a focus.
3. Business has strong financials
    a. Strong unit economics reflected in gross margin
    b. Company understands its financial levers and breakeven drivers
    c. A strong plan exists for how investment capital will be deployed and company understands its burn rate and runway
    d. Books are clear and consistent
4. Exit Potential
    a. Company has a defined exit strategy, understanding of the required scale to exit backed by a reasonable plan, and understands the triggers for a potential sale
    b. Industry has players active in mergers and acquisitions.
5. Terms match the deal and provide a strong incentive to invest
    a. Investment is made at a reasonable valuation with realistic exit math
    b. Term sheet provides adequate controls or investor protections appropriate to company stage and valuation
    c. Milestones are reasonable and tied to execution and financial levers

To the extent possible, group members, and each individual Member considering a vote on an investment will look for any of the following red flags as reasons not to proceed with an investment during due diligence:

- High/unreasonable valuation
- Obvious character issues
- Unexplained inconsistencies between pitch and information provided in due diligence
- Evidence that the entrepreneur intends to run the business as a "lifestyle business" or that incentives are not aligned for an investor liquidity event
- Undesirable geography defined as the ability to get there and back in a day
- The presence and disclosure of harmful and irreconcilable pre-existing agreements affecting investors, management team, customer, or suppliers
- Evident fractures or misalignment within the management team
- An initial exit plan that greatly surpasses the group's targeted 8 year time horizon

This is for discussion only and does not supersede the investment objectives laid out in the PPM.