Partnering for Success

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2021 HHS Small Business Program Conference: Diverse Perspectives SEEDing Impactful Innovations

Stephen L. Flaim: Okay. Thanks, Vicky. So welcome, everybody, to the final session of the final day of the meeting. It's wonderful to have you here. We are glad to be able to participate in this session. My name is Steve Flaim. I'm a Senior Special Advisor to the Innovation Office at the National Heart, Lung and Blood Institute, also known as the Investor in Residence. So, again, thanks for joining us for this session. I'm honored to be the moderator for this panel and let me introduce the panelists. And I just want to say up front that I recognize that we have panelists that represent three different sectors of company development. The earliest sector is the sector where companies are just formed and are probably interacting with an accelerator, and so joining us today we have Teddy Johnson. He's Director of Technology Development at the Institute of Translational Health Sciences at the University of Washington in Seattle, and he is involved there in that accelerator program. The next stage, as I view it, are angel investors, and we have with us today Eli Velasquez. He is Managing Partner at Investors of Color Network, and he is based in Boston, Massachusetts. And the final and more advanced stage of company investment are the venture capital firms, and with us today we have Lebone Moses. She is CIO of Chisara Ventures, and she is based in Durham, North Carolina. So welcome, everybody, and it's really a pleasure to have you all here, and I'm going to start this with a question for Teddy, and then we'll go to Eli and then to Lebone. And the first question is, what are the top characteristics that investors from your sector are looking for in early stage and medium-stage technologies? So, Teddy, what do you think?

Teddy Johnson: Well, I think it's actually a little misleading. A lot of people, specifically in the university settings, want to think about the technology, the science, but when you think about what technology is going to actually make it out the door, out of the university, off the bench, however you want to think about it. It really comes to technologies that fit a market. That they've done their customer discovery work, and that they've pulled together a team that is interested. A lot of times with these early, early stage projects, these university projects, we see that there might be a few grad students who are attached to kind of a principal investigator's project, and the graduate students might graduate and go on, so you don't really know what the team is until you've really kind of thought about the technology and pulled together a fully functioning team that in their mind, they're thinking about, hey, maybe I want to be an entrepreneur.

Stephen L. Flaim: So do you .. . At your stage of looking at companies, do you place more emphasis on companies that have a team that have a lot of experience doing early-stage work? Or is that not so important?

Teddy Johnson: Well, I appreciate that question so that I can clarify. We are really in a role where we're trying to support everyone, and it's more that we're trying to support everyone, but I think we have an eye to who's actually going to make it more so than we are screening or as selective. We're really trying to just kind of prime the pump so that people can make their way. I guess it will be around the wheel on the screen.

Stephen L. Flaim: Yep.

Teddy Johnson: We're really trying to prime the pump in that way.

Stephen L. Flaim: Okay, great. Well, let's go to Eli. Eli, what's your view of this?

Eli Velasquez: Sure. So I look at this from three different sectors: the team, technology and the market. All right? So from the team's side, we want those founder issues kind of sorted out by that point. You're committed to the cause. You're really on this team full-time, and you have a nice diverse set of expertise within your team. Again, you don't have to have a fully fledged-out team, but at least you've thought carefully that you're not just that solo founder. Those are very difficult with science and tech ventures. When you see the solo founder, it raises a lot of red flags. You really want to be thinking about how you're building out these different sectors and expertise within your team. You're also thinking about an advisory board or by this point possibly already a fiscal board, maybe even incorporated, so you've also got additional kind of adult oversight, if you will, that's helping you advance the cause of your company. From the technology side, I've been on Teddy's side. I've been in the Tech Transfer Office, so I want to see the technology wrestled away from the university. Right? And those terms are kind of already established. You know where the university sits or doesn't sit within your company, so that helps me understand who else I might be dealing with from a technology side. And then you move that technology development along a little bit where maybe you've got some pilot. You've got some proof of concept already under your belt. I don't have to worry about a lot of the IP issues that revolved around that, and then on the market side, you are still kind of possibly framing out which potential market you want to go to, but you've identified at least that beachhead market, that first customer segment that you want to go after. Maybe have some pilot programs that you want to get under way, and that's where you want to possibly utilize the angel dollars to go subsidize and invest and fund those pilot programs. So those are kind of the three sectors that I look at it from the angel side.

Stephen L. Flaim: Excellent. That's really a great answer. Lebone, what do you look for at the venture side? Whoop, you're on mute, Lebone.

Lebone Moses: Sorry about that. I'm really happy to hear that both Teddy and Eli mentioned the team as well as the technology in the market. I'm going to start with team. When it comes to the team, it's very important that the cohesiveness of the team, the coachability of the team is there, and really three ways that I break that down, IQ, EQ and CQ. IQ is more looking at the technical and business acumen of the team members. It's very important to make sure that that's there and that be supplemented where it's not. EQ being the coachability of the team, their ability to manage through stress and stressful situations, how they interact with investors and advisors, particularly in those intense moments. And then their CQ, which is their cultural competence and intelligence. Really that sounds like an obvious thing. Okay. Well, can you deal with diversity? It's actually much bigger than that. It's about adaptability and your ability to pivot, your ability to see that the market has shifted. Can you shift with the market? And how quickly can that happen? Your ability to see that you're in a circumstance that you may not have planned for. Can you adapt to that? Can your company adapt to that? And so those three areas, IQ, EQ, CQ, when it comes to people - really critical. And the cohesiveness of the team when they come together is important. I like to know the backstory. How did you meet? How do you know each other? When it comes to the market, it is very important, absolutely important to make sure there's market demand, and as the company grows, you need traction. I oftentimes tell start-ups that you may have tested your product in the market initially, but you should be testing it all along. So there should be periodic markers that you have to refresh and ensure that there is still demand for your product in the market. Technology changes so quickly, and making sure that not only is your technology up to date, but that the market still wants it, absolutely critical.

Stephen L. Flaim: Fantastic, great answer. So there's a question coming in. The question is, "How can a company identify a good university to partner with? And what qualities should they be looking for when seeking an academic partner?" Maybe, Teddy, could you speak to that?

Teddy Johnson: Yeah, absolutely, and I can really speak back to my prior experience when I was an engineer, and I would be looking for universities to partner with. Quite often I would start with a lot of literature searching, just quite frankly reading the literature that's out there, trying to find the researchers or scientists who are focused on a specific area just to make sure that you're pulling in the expertise and that there's a lab behind, you know, whomever that is that can support whatever projects you might want to take to the university. And then at the same time kind of getting to Eli's point that he was making earlier, you do want to know what you're getting into with the Tech Transfer Office. Hopefully things will go well. If and when they do, you know, who are you going to be working with? And, you know, every different Tech Transfer Office, different university, they kind of develop reputations. So you can, I guess, to some degree shop around because there is a little bit of crossover in the work that's being done across the different universities.

Stephen L. Flaim: So do you have any advice for a team that's looking to collaborate with an institute on how to get involved with them to do a start-up?

Teddy Johnson: Mm-hmm. Yeah, so it's interesting because the universities, of course, want to have a stake in the intellectual property, and so all the resources are really geared towards helping the university faculty or graduate students or postdocs developing that state. And so as long as there's an opportunity, you know, in the terms of developing technology, it's generally pretty easy. I talk to a lot of researchers who say, yeah, I get e-mails. I get calls from companies all the time, and they ask me if I can do this. It really is as straightforward as sending an e-mail or picking up the phone. I hadn't realized that before, but that happens all the time, and these researchers all the time are just running projects out of their labs, and they make money this way. So it's not too hard to do. Once you've found the one you want to work with, it's not too hard to do.

Stephen L. Flaim: So there's another question, and it's related to a therapeutic development or therapeutic technology. And the question is, "What stage of development does a therapeutic need to be attractive to investors? And does this relate specifically to small-business awards or more to the drug itself?" So let's start with Eli on that one.

Eli Velasquez: Yeah, I think that depends. I will say that there's a pretty niche group of investors in the angel community that look at therapeutic because it does take so long, because it is expensive. And so generally the more nondilutive funding that you have built into the development of your technology of your therapeutic that helps you get through as far along in that regulatory process as you possibly can on the tech development side. Again, a lot of angel groups that we work with, they will outright say, no therapeutics whatsoever. And so you want to be very mindful when you're doing your research to ask, what is the industry that you invest in? If you are in therapeutics, at what point do you like to engage? Because from the angel community, you're going to start to see very spotty kind of group that will be willing to engage with you. You'll see that more on the venture side, where you have specific funds that have more capital to deploy on that level, and so, again, it's going to be a little bit of a challenge with therapeutics, but not impossible.

Stephen L. Flaim: So if a .. . And then I'm going to ask Lebone that question as well. But, Eli, if the company is already, like, in Phase IIb clinical trials on a therapeutic, is that something that angels would be interested in? Or what do you think?

Eli Velasquez: Yeah. I think once you're getting past that Phase I into that Phase II, you're really demonstrating a lot more traction with the technology. You also want to make sure that the angel that you're working with has some expertise in that space where they would be able to help you further along with some of the customer traction, maybe some additional investors. Because ultimately, you're going to be with those angels for a period of time, and they also have to help you find kind of that next level of whether it's funding or, ideally, customers to help get you through the regulatory pathway. But I would say in that Phase II level is kind of where angel .. . At least you can start attracting more of their attentions.

Stephen L. Flaim: And, Lebone, how do you view this situation?

Lebone Moses: Yeah. I agree with Eli. And the one thing that I would add there is that it doesn't hurt to network with the angels and the VCs, even if you think you're early. Because there's feedback and advice that they can give you. There are connections they might be able to introduce you to that can help you along the process, and it's good to kind of get in their purview. On the VC side, a VC interested would likely have an expertise in that area, and so even if you're not ready for them, which they're not going to waste time if you're not, you may be able to get some really good direction and guidance as to what it would take to get ready. So that's the only thing I would add to what Eli said is not to shy away because you're too early.

Stephen L. Flaim: Very good, thank you, and I'm going to circle back to Teddy and the first question that we talked about, and there's a question coming in here. "In addition to US collaborators, is it useful, beneficial to have collaborators from other countries on projects?" Is there any benefit to that?

Teddy Johnson: I would say it depends on the technology. In America, we like to think we're first in everything, but that's not always the case. It's really not. There are some technologies that start in other countries, and sometimes you can get a jump on the American companies because they think that way, and you can get started. I'm always amazed by the intellectual property I see coming out of Israel. I don't know what's going on but prolific. Right?

Stephen L. Flaim: Yes.

Teddy Johnson: And there's .. . Because of regulatory culture and tendencies, parts of Europe are sometimes easier to start certain technology, so you might see more development going on in different parts of Europe, maybe before you'd see it in the US as well. And then I remember a while back .. . This is in the beginning of stem cell research. I remember it was illegal to do stem cell research in the United States, so I knew of people going over to Sweden, and that's where they were starting their stem cell research. So it's great to look around, but it really does get back to if you can find the researchers doing the type of work you want, that's usually a lead. But keeping your eye to the conferences around the world, and hopefully on your team getting some people who speak a few different languages, that's helpful. Getting back to that diversity, that cross-cultural diversity piece, it helps.

Eli Velasquez: Yeah, I .. .

Stephen L. Flaim: Yeah, absolutely. Go ahead, Eli.

Eli Velasquez: One of the .. . The devil is in the details. Right? And so whenever you're looking at those university partners, whether they're across the nation or across the country, one of the things that I'm always looking at is, do these collaborators have a stake in the IP? What is the university policy, IP policy? What's their track record with licensing technologies? Do they have specific research strength in the area that they want to embark on? And so what it really comes down to when you're dealing with this at the angel level is, remember what I said earlier is, you kind of want some of those things already squared away. I don't want to learn after the fact that you're setting up a company here, and you're also setting it up in another country, and the IP kind of has this bifurcated approach where that collaborator is going to do something at that university or in that country, and we're going to do something here. That then raises the level of risk, and so you really want to package it all up, and you want to be very clear on not only how you engage with the university or a collaborator, but how do you get out if you need to? Okay? A lot of times universities may not and say, sorry, we're going to be in this with you for a while because we've invested in the patent. We've invested in lab space, so we're along for the ride, and so you want to also be wary and cautious of how you off-ramp if you need to on any one of these particular relationships.

Lebone Moses: Yeah. And I'll just add one last thing. One benefit on the international collaboration side is, if you understand that the goals of your business are to scale globally, that is a strategy that you can employ in bringing on an international collaborator who can help you get through the barriers of entry in other countries. So you need to also keep in mind what your end goal is for your business in planning and who you're going to collaborate with, and whether or not it's worth taking the risk of international collaboration because of the risk that Eli has described.

Stephen L. Flaim: Great, great, and basically the other thing I just want to add to this conversation from the NIH perspective is that if you are funded by an SBIR, STTR, it's difficult to use that money outside of the US. But if you've got your own money as a result of that, or if you've raised money from a venture or an angel, then that's a different story so just want to point that out. Eli, I have a question. How is it .. . What's the best way to reach angel investors that might be appropriate for your start-up?

Eli Velasquez: Finding angel investors, Steve, you know this. It's like hunting for vampires. Right? You got to go out late and night and find out where they hang out, and angel investors don't walk around wearing name tags saying, I'm an angel investor. Very rarely will they put it on LinkedIn, so you really have to start navigating your way into it, but the first recommendation I make is, start with the Angel Capital Association. That's the professional society of accredited angel investors. There's 14,000 members in the group, 250 angel network, family offices and platforms, and they post their directory online. So you can start there, and you can start researching angel investor groups close to your hometown or your region, and then reverse engineer your way into it through a LinkedIn connection. Ask for advice, don't ask for money, ask for advice, ask for some time. Right? Slowly start working what your business case is, and then that introduction begets another and another and another. And I will tell you. Me as an angel investor, I'm always looking for angel investors. I just found Lebone like 2 weeks ago, and we've been circling each other for years, and now we're on 20 webinars together. We'll be in another one on Friday. Right, Lebone?

Lebone Moses: Yeah.

Stephen L. Flaim: Fantastic, fantastic. Yeah, I just .. . Let me just highlight that. For those .. . I get this question a lot as well, and I just say, go to the Angel Capital Association website, so it's angelcapitalassociation.org, and if you go on the opening page, there is a .. . I think there's a member button that you can push, and it lists all of the angel groups that are members of the ACA around the country, and you can go look for them by region, and basically go to the ones in your region, and then go to their website and see if they invest in your type of technology. So that's usually the way I answer that question.

Eli Velasquez: Yep.

Stephen L. Flaim: Fantastic. Okay, so I've got another question, and the question is, "We don't really have enough money to hire people. How do we build a good team to be attractive to early-stage investors?" Anybody want to take that one?

Lebone Moses: Sure, I'll start. So number one, it's important to assess what skill sets you do have on the team. One of the biggest mistakes I've seen is recruiting a team without understanding what the gaps are in your skills, so you end up recruiting a whole bunch of people just like you. And your deficiencies never change as an entrepreneur and so, number one, it's important to understand what you have on the team versus what you need. Then you can assess, what am I willing to give up in order to attract what I need? Oftentimes with early-stage companies, you don't have the cash. And so, but you do have other things. You have equity. Right? You have other arrangements that you can make that may be beneficial to the person you're bringing on board. You also have the ability to bring on advisors, and Eli talked about advisors early. Advisors are absolutely critical to your start-up business, and really the way you utilize them can make or break your start-up. Creating a board of advisors, people who have expertise that you don't have that can help fill gaps in areas that you need can help offset resources that you can't necessarily afford. Again, advisors, you're probably utilizing equity to compensate them for their time and for their information and social network, whatever they're providing you. But there are many creative ways to do it. It doesn't have to be cash, but if you have the cash, you may do cash. You may do cash and equity. I've seen arrangements where it's neither of that, but it's a promise to pay down the line. And so I've seen commission arrangements for business development individuals brought on to start-up teams. There are a lot of creative ways to package how you build out the talent in your team.

Stephen L. Flaim: Of course, volunteers are highly sought after as well. Right?

Lebone Moses: And of course volunteers are highly sought after, although I do advise that if you're bringing on talent and not paying them, that there is a written agreement that they have agreed to not be paid in order to protect your company. There needs to be something in writing that says I'm agreeing to not be paid for what I'm providing to the company.

Stephen L. Flaim: So, Eli, when you get a deal that is looking for angel capital, and they've got a board of advisors, and they've promised a huge amount of equity to the advisors, how do you look at that? What's your recommendation for a percentage or the level of compensation for an advisor?

Eli Velasquez: Yeah. Fortunately, I haven't seen anything super-outrageous in recent past, and maybe a lot of these webinars and learning sessions are making an impact. But, you know, it's not uncommon if that advisor is really solid, you know, you give them a few percentages of a point, a quarter point, half a point, maybe a point. And so you're really looking at a very small number. If I see an advisor, and he or she is at 10 percent, I start wondering. Well, I hope that came with a check also, because 10 percent is going to eat into a lot of that equity that I want. Right? And I'm putting in hard-earned cash for myself. So, you know, you can incentivize with advisors. I think it's very clear. You should be very clear on what the advisor will be doing for you. Put it in writing. Right? One of those key components is, you've got to put everything in writing. Make sure all the expectations are clear and up-front. And it's very, very common. It's very common with early-stage start-ups. "Hey, look, we've been working together for a long time. You know, I trust you. You trust me. We'll deal with the paperwork later." Or maybe somebody with a little bit more scientific clout, right, or reputability, "don't worry, trust me. You know, I won't take more than what's needed." And then it turns sideways. So just put it in writing. They're hard conversations to have. They can be hard conversations to have, so it's better to have them now than later. I have dozens of horror stories that I can share, so you're better off putting that in writing and giving out a little bit of that equity in exchange for actual milestones, and set those milestones very clearly. In the next 3 months, 6 months, this is what I expect you to accomplish, and if you don't, you take that back, or you fire the advisor.

Stephen L. Flaim: Right. So, Teddy, let me ask you a question here. Are these any tips for financing pre-seed or concept-stage companies?

Teddy Johnson: Beg, there's a lot of begging. I say this. I've been working on a start-up for the past 3 years, and we've gone through these stages, and it starts friends and family. And people say, well, what if my friends aren't rich? Nobody is that rich, really. It really is, you start to think about, you know, getting back to, you know, Eli's point about the milestones, what do I need to do now? How much money is that? You know. And if you can make a real just granular budget, you also have a really good sense of what you need to do and when you need to do it. So part of the exercise of fundraising is really getting granular about what you need to do. And then the other part about it is finding the money. And so it is also an opportunity for you to kind of do your first pitching, share your vision. If people don't believe in it, they're not going to find the money, but people who do believe in it, even if they don't have the money, they'll recommend you to someone who does. It's always this sort of choose-your-own-adventure game, sort of you go this way, or you say this, and this happens, or that happens. If you're saying the right things, the right things happen. If your story is solid, and your plan is solid, people will feel comfortable introducing you to someone who could support you financially. Or, you know, sometimes it's going to companies to say, "hey, this is kind of a future sort of thing, but would you potentially be interested in this? Maybe you could invest." Or it might be applying for various grant sources, or just talking to more people. But having that plan as a foundation for those conversations is really important, because it gives you that credibility such that the people you're talking to will want to help you to that next step.

Stephen L. Flaim: So, Teddy, what's the best way in your view for a university spinout to find a CEO that is investable?

Teddy Johnson: This is interesting because I was just recently .. . I'm trying to keep a list of CEOs for companies that are spinning out, and so what I do .. . I don't know if it's the best way, because I'm not going to claim it's the best way. I'm just going to say what I do is, I try to find people who investors would invest in. Okay? And so that might mean that they're scientists who became investors. Or it might mean that they are former CEOs of startups in a similar-ish field. It might mean that maybe it's a first-time CEO, but it's a first-time CEO who, when you talk to them, you're just, wow, this person really sounds like a CEO to me. There is a lot of this. How does this person read? And it has to look normal. Kind of getting back to the points Eli is making about, how much stake does each advisor have? There is a normalcy to the things that get invested in, and investors will tell you, "That looks normal, that doesn't look normal." Investors will tell you, "I would invest in that CEO, I wouldn't invest in that CEO." And even though no investor wants to say something bad about someone, if they're not saying good things, they're saying, don't go with that.

Stephen L. Flaim: Right.

Teddy Johnson: They're really saying, try something else.

Stephen L. Flaim: So what is a reasonable equity range to give to a CEO for a startup? Let's say it's an experienced CEO. Eli, what do you think?

Eli Velasquez: I've seen 10, 15-ish. Once it gets into the 20s, I'm like, "Mmm." I've seen the 10 to 15 to .. . Maybe it vests over time for additional amounts, so .. .

Stephen L. Flaim: So 10 to 15 percent of the kept equity of the company. Is that what you're saying?

Eli Velasquez: Right, right. Those are some ranges that I've seen at those early stages where they're really out there hunting for that CEO that's going to put in a lot of sweat equity into it.

Stephen L. Flaim: Lebone, what are your views on that?

Lebone Moses: Yeah, and I actually wouldn't go higher than 10 percent with a vesting schedule. And this helps with some of what we're speaking about here is. Is it going to work? Is it not? Is this person someone that investors would look at and say, I'll invest with that CEO? Or I wouldn't? A vesting schedule allows for all that to play out, and so you have 10 percent of the company, but it vests over 4 years. Well, then year one, you have 2.5 percent of the company vested. If you don't perform in year one, you may not be there in year two, and only 2.5 percent of the company has been written out to you for a check. Right? So when you leave, the company is only writing a check for that amount. The key here is to be strategic about it, because you really don't know with startups, particularly early-stage startups, how things will progress, even in leadership. And so I would say 10 percent and with a vesting schedule. That might even have a cliff to it. A cliff basically means that your vesting doesn't happen right away. It waits for a period of time such as a year, so maybe it's a 1-year cliff and then 4 years after that a vesting. So now you have time to test out this new executive. Is the CEO able to raise funds? Is the CEO able to help the company reach their benchmarks? If not, okay, you didn't lose everything. You didn't lose the whole 10 percent. You lost what happened within that period.

Stephen L. Flaim: Great. And so let's talk a little bit about investment vehicles. Explain the difference between equity investment and convertible note investment. Who wants to take that one?

Lebone Moses: I can. I can start.

Stephen L. Flaim: Okay.

Lebone Moses: And then for sure my colleagues can jump in. So an equity investment means that in exchange for the investment dollars, the investor is given shares of the company. They are part owners of the company to whatever extent that percentage of equity is. There are different types. There's common stock, which typically is what's given to the founders as well as many times angel investors will get common stock. That is the .. . That particular type of investment means that you are paid out after all of the company's debts and obligations have been paid, and you're not really entitled to anything unless there's money left over, at which point you're paid out according to the percentage of the company you own. There is preferred stock, where angels and VCs often get this stock also. Advisors sometimes get shares of this. That comes with some preference to it. That might allow you to get paid out prior to all of the obligations getting paid. It might secure you a particular amount of payout regardless of the company's situation. And then convertible debt. Convertible debt is a debt loan. It's a debt note, and essentially it says that for this investment on a particular date or via a particular event that happens, my shares, my debt note converts to equity, or I am paid back the money that I lent into the company with an interest rate tied to it. So I'm paid back my money plus interest, or my investment converts into equity. And the beauty of that for startups is that if you don't have the cash to pay out the investor at that maturity date, you can convert them to now be equity owners in the company.

Stephen L. Flaim: So, Lebone, do venture investors prefer equity or convertible debt? Or do they have a preference?

Lebone Moses: It depends. It really depends on the stage the company is in and how the trajectory that is projected for the company. I don't think that there is a defined preference in the VC market. It literally is case by case, and I've seen the gamut. I've even seen, which Eli can probably speak better to these, but I've seen the SAFE notes and the KISS investments, which VCs typically are more likely to lean towards for companies that they see as billion-dollar companies. Right? Because they know that the payout in the long run will be greater. And so it really depends on the circumstance. I don't think that there is a defined vehicle that you must be looking for in order to work with VC.

Stephen L. Flaim: Eli, what are your views on convertible notes?

Eli Velasquez: Yeah. I think those have been very popular, I think with the onset of the accelerator industry kind of line. So 2007 to 2008, we started really seeing a lot more of the convertible notes in the industry. I will tell you. It does kind of vary. On the East Coast, angel investors are more adverse to convertible notes. They want to see more of the priced round like Lebone was saying. Here is the equity that you get. Here is the price of the company, and here is the shares that you get. On the West Coast, where Steve is at, a little more fast and loose. Maybe they tend to kind of lean more towards, "hey, you know what? Let's figure this out. We see a lot of startups. You know, let's figure out where this company is going to land on its valuation and where it's going to land on its .. . " And then in the Midwest, you get a mix. Right? You get a mix of different groups that are maybe a little bit more on the conservative side, if you will, and others who are willing to kind of work with their founders. I think you find the convertible notes more prevalent in startup ecosystems that, again, have a little bit of repetity to them. They're cranking out startups. They kind of know how to structure these. They have legal infrastructure in the geography, so you definitely want to get legal advice on how you want to be structuring those terms and those agreements. What's going to be the best mechanism for you? Especially as you're looking at the, let's say the angel groups in your network, right, like we talked about earlier. Ask them, what do you prefer? How do you prefer to invest? In the last 10 deals that you guys have done, what is the preferred investment mechanism for it? So that you can start to structure your investment vehicle in the same fashion.

Stephen L. Flaim: Great.

Lebone Moses: And if I can just say really quickly to Eli's point on that. That conversation is absolutely critical to have with investors or potential investors, because a lot of times, the mistake startups make is, they come in saying, this is my investment vehicle. They haven't taken the time to understand, hey, as an angel investor, I don't even want to talk about SAFEs. And they're coming in saying, "I'm looking for investment on a SAFE." Well, now you've shut the room down. They're not listening to you. Right? So I just wanted to hone in on that because that conversation is critical. You have to understand what the investor is willing to do.

Stephen L. Flaim: So I have another question about compensation for consultants, advisors, board members. Are there any norms, any literature that people can look at that would give them some guidance on this? Let's start with advisors. Like Science Advisory Board members, what percent of the company in terms of stock equity would you offer an advisor? Let's say with 3 or 4-year vesting, any numbers? Eli, thoughts?

Eli Velasquez: Yeah. Again, I'll go back, Steve, to what I was referring earlier, very small amounts, quarter percent, half a percent, perhaps. I really want to defer that conversation as much as possible, and I really want to get the advisor to commit to volunteer and say, "look, I understand that this is valuable, but I want to make sure I get this company off the ground, and I don't want to set it up for failure by sending the wrong signal to investors." But if you absolutely think this advisor is going to help get you to that next level, can bring in customers, advance the technology, you really shouldn't be having conversations where the advisor says, "I want 3 percent. I want 5 percent. I want 10 percent." Those are showstoppers at that point.

Stephen L. Flaim: Yeah.

Eli Velasquez: You really want to keep that down to that quarter-percent, half a percent.

Stephen L. Flaim: Great. Okay, that's pretty consistent with what I've seen. I'm going to move on to a little bit of a different tact on the questions here, and the question I want to ask is, how can innovators strengthen the business aspects of their companies in parallel with their technology? How's the best way to improve their business aspects as they develop the technology?

Teddy Johnson: I can start with that one.

Stephen L. Flaim: Yeah, go ahead.

Teddy Johnson: I think the most important thing is, they have to .. . They can't believe that business is evil, and this might sound crazy, but a lot of engineers, researchers, scientists, they think that business is the last thing they want to do. But at the same time, they're starting a company. And so it really is to say that they have to find people who .. . At first it can be just focused on understanding the market, the customer discovery. But they do have to get into the market sizing, market opportunity assessments to be able to get a really good, clear sense of what the competition looks like and to put together a plan. If they can actually make the product that they're saying they're going to make, what's that going to look like in terms of a business? Because, you know, any investor needs to know. I'll say it this way. They're not going to believe the numbers that you put out in terms of your 10-year forecast, even if you have a 5-year forecast, but they do need to know that it's possible for your business to make money. And then they're going to have their own perspective on how they would do this or that, but you need to demonstrate that it's possible for you business to make money because an investor is investing money to get money back. It's not the NIH. It's not a humanitarian thing. They support you. They believe in you. They want this tech to be, go out in the world to help the world, but at the same time, they need to get a return. So that return is going to come based on what the business looks like.

Stephen L. Flaim: Okay. We're almost out of time. Eli, Lebone, do you have any additional comments on that question?

Eli Velasquez: A little, briefly, good .. . Know your customer. You have to know your customer. You have to know the pain point that they have, and you have to solve that paint point. That's the value proposition. I always use the example of an iPhone. Right? There's over 900 patents or 700 patents that make up the iPhone. Nobody cares. They want the e-mail to work. They want to post to social media. Right? That's the problem that it solves. So don't lead with the technology. Lead with the value proposition, and that's a problem that it solves for a very specific customer segment.

Lebone Moses: Yes, and the one thing I would add to that is, you have to be able to ask yourself and answer the question, how do we make money? If you can keep asking yourself that question as you build the technology, as you create your business, how do we make money? And you will begin to be able to articulate that as part of your value proposition to investors, to new team members, to advisors. But if you can't answer that question, you don't have a business. You have a project.

Stephen L. Flaim: Fantastic. Thank you. Thank you so much, so we are out of time. I just have a few closing remarks that I need to make here. If you have .. . I know we didn't get to all of your questions, by far. There's a lot of questions that were asked that didn't get answered. If you have additional questions, take the opportunity to meet with small-business program expert for a 15-minute appointment available during the next 2 days, and visit the HHS and NIH hub on the conference site in order to get started. And if you need any assistance, go ahead and click the information desk tab for help. And a final reminder, please provide your feedback to this session below the video stream and complete the overall conference feedback form in your navigation bar. Thank you all very much. Thanks to the panel, and thanks to the audience. I hope this was useful to everybody. Thank you.

Eli Velasquez: Thank you.