



Raising Money With Angel Investors

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PRESENTER
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Raising Money with Angel Investors

Marty Isaac

President, Angel Investor Forum



- ❑ CT's largest Angel Investment Group; 70+ investors
- ❑ Started in 2004
- ❑ Members source deals and perform due diligence together; each member makes his or her own decisions about whether to invest in any given deal and how much to invest.
- ❑ A subset of members participate in an investment Fund. The 4th fund launched Q123

Diversification Critical to Success

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- 50-70% of investments are losers

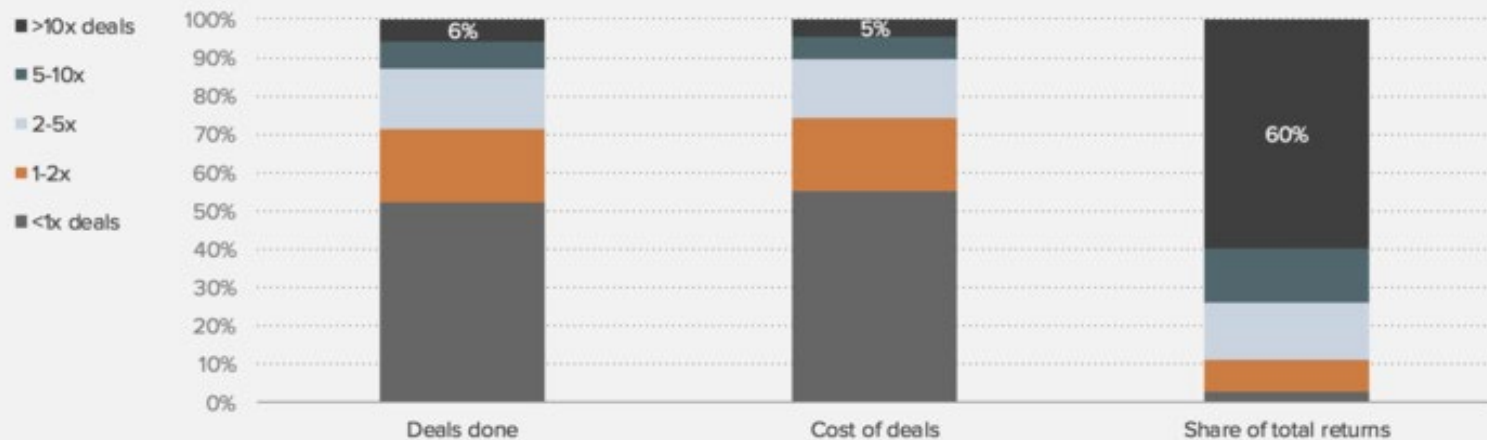
<https://venturesouth.vc/how-do-angels-avoid-losing-money/>

- A small number of winners drive the outcome

The VC power law curve

6% of deals produce 60% of returns, and half lose money

US venture investments by return, 1985-2014



Implications

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- Build a balanced portfolio (20+ over time)
- Investing in a small number of companies is very risky
- Target a high minimum rate of return
 - ▣ Can an investment return 20x – 100x?
- Entry Point (company valuation) matters!
 - ▣ Valuation and risk generally inversely related
 - ▣ Define personal criteria

Selecting Deals: Ranking the Chance of Success

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1. Target market

2. Technology/Product

3. Team

4. Traction

5. Terms

Target Market

- Big Market Problem? Big Unmet Need?
- Current Solutions = Current Problems?

METRICS

- TAM = Total Available Market
 - ▣ How big and fast growing is your sector?
- SAM = Serviceable Addressable Market
 - ▣ Which part will you play in?
- SOM – Share Of Market
 - ▣ What % can you conquer?

Look for >\$100m niches within markets with double-digit growth and double-digit penetration plan.

Technology/Product

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- Core value proposition to customer
 - ▣ Example of use by current or future client/customer
- Current vs Sustainable “unfair” Competitive Advantages?
- Patents?
- Key Relationships / Partnerships?
- Barriers to Entry for New Players?



























“Nice moat.”

Competitive Matrix

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	Effectiveness	Low Cost	Ease of use	Reliability
Startup				
Competitor 1				
Competitor 2				
Competitor 3				
Status quo 1				
Status quo 2				

Traction / Proof of Concept

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- Key Customer Milestones to date
 - Initial sales pilots
 - MRR – Monthly Recurring Revenue
 - ARR – Annual Run-Rate
 - Churn % - customers who leave
 - CAC – Customer Acquisition Cost
 - LTV – Lifetime Value of Customer
- Awards/Press/Customer Testimonials
- Patents progress



Team

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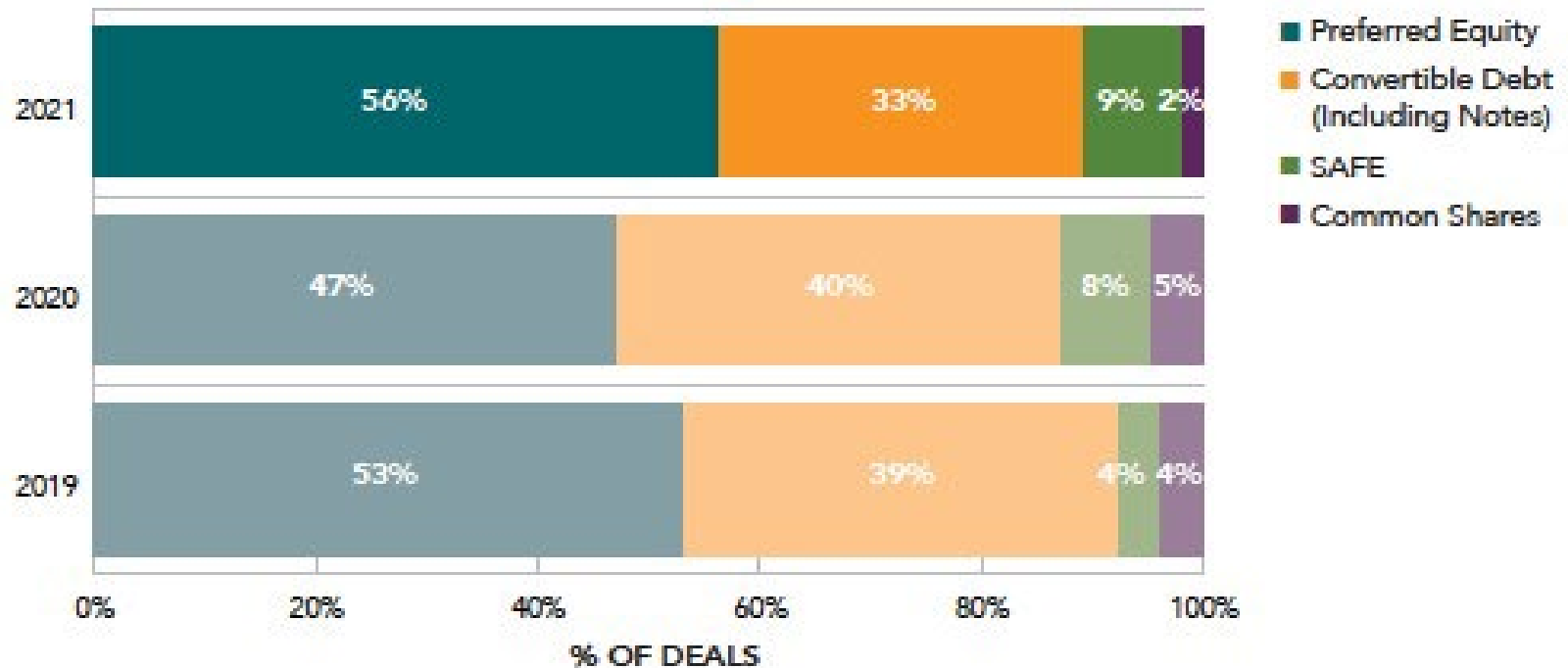
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- Core Team: The Founders & Chiefs
- Relevant Experiences / Successes (Exits?) / Failures (Good war stories?)
- Leadership Experience
- Education
- Smarts over genius
- Flexible determination
- Cost signals



Terms - Details

- Structure of investment - Equity vs Debt
- Current/future cap table - % Ownership founders
- Future salaries & Board governance



Source – ACA Angel Funders Report 2022

Green Flags

- ❏ Founders spend frugally – couch surf
- ❏ Strategic acquirers have already talked to business
- ❏ Founders have deep experience of industry
- ❏ Reference customers have been signed up
- ❏ Free media coverage has commended business
- ❏ Patent firm has expressed confidence in IP
- ❏ Passive co-investment by suppliers/customers
- ❏ Founders respond well to advice, adjust plans as needed

Red Flags

- ❖ Founders have no ability to manage cash flow
- ❖ Too much of fundraising round going towards founder salaries
- ❖ Family members in the leadership team and business
- ❖ Questionable ethics of founder
- ❖ Lifestyle-business orientation of founder
- ❖ No company website or e-mail addresses
- ❖ Too many competitors crowding in on market
- ❖ Funding will not get business to break-even

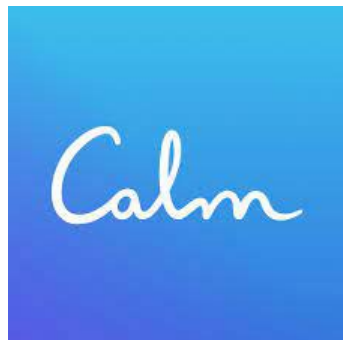
Due Diligence – what could go wrong?

- Conducting a pre-mortem (funeral avoidance)
 - ▣ If this business was bankrupt in a year, it most likely would have been caused by ...
- Risk removal = value creation
- Deal structuring protection mechanisms
 - ▣ Preferred Equity/Debt/Asset claim
 - ▣ Management salaries/bonus/distributions
 - ▣ Board governance
 - ▣ Dilution/options risks
 - ▣ Non-compete contracts

Personal Results – Total Portfolio

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- Invested in 140+ companies during past 10 years
- Power law in effect
 - Anticipate 4X investment returns
 - 7 companies represent 50% of the portfolio value
 - Most gains still on paper; taken out 0.8x
- Biggest Wins



Questions?!

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