

Heuristics – Your Ante to Play

How to get in front of your competition for funding



The Filter

10% of all angel deals in the market get funding

- **Multiple deals!**
- **Fast No's or Yes's**
- **No slow maybe's**
- **Use a set of heuristics (5 – 15 minutes)**
- **Decides if we spend 2 – 4 hours researching**
- **This is what your mentors have told you!**



Is the product/service/business model NOVEL?

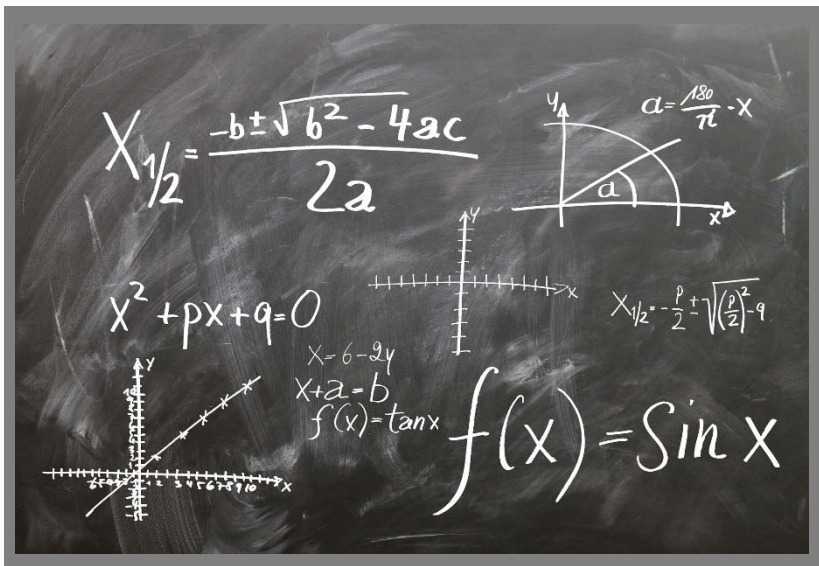
Novelty shows imagination

- **Have we seen 3 of these already?**
- **Does it solve a real problem?**
- **Imagination**
- **Intelligence**
- **Creativity**
- **Willingness to disrupt**



Does it violate any laws of man or nature?

Sales job!



- Don't sell me a time or perpetual motion machine!
- The laws of physics have not changed in a long time!
- People don't change unless acted upon by an external force either!

Traction. Traction. **Traction!**

Scale.



- **Do a lot with a little!**
- **Good stewards of resources**
- **Understand marketing and sales**
- **Understand your clients**
- **Willing to make the hard calls**

The #1 question from investors = the easiest answer to justify a “no.”

Projections

Where we catch the cheaters

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- **Are your financial projections rational?**
- **How is the sales mode constructed?**
- **Robust financial model?**
- **Detailed model?**
- **Does the model account for growth?**
- **INNOVA, MSC, JIT see these all the time!**



Does this make me say "WOW?"

Know and lead with your WOW

- **Is there something here that gets me excited?**
- **Can you sell yourself, your team, your company?**
- **Fluff sells...combined with substance = winner!**
- **Form and function!**
- **WOW not WHOA!**



Timing

Timing is the hardest to control

- **Timing is out of your hands**
- **One of the biggest problems in product/market fit**
- **Too early = day dream**
- **Too late = nightmare**
- **Incumbents in the market?**
- **State of the market?**



Team!

Create resilient communities

- **Can this team win?**
- **Startup is a patient on the table!**
- **Can you cure its problems before it expires?**
- **Experience counts**
- **Diversity of skills counts**
- **Winners keep winning**



| Margins

Room for error!

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- **Product margins = room for error**
- **Large margins = make mistakes and survive**
- **Small margins = you have no room for error**
- **30% gross margin is the floor**
- **70% margins are excellent**
- **Local, regional, national – all look for the same margins!**



Market Size and Growth Rate

Size matters

- **Looking for \$1B+ markets**
- **Markets where 10x is a realistic option**
- **Looking for fragmented or unconsolidated markets**
- **Capturing 1% of any given market.....**
- **Double digit CAGR is the sweet spot**
- **Geometric growth is hard**



Barriers to Entry/IP

Anything to protect your market position?

- **Do you have a way of slowing down fast-followers?**
- **Can you protect your market position?**
- **Do you have novelty that makes you an acquisition target?**
- **Trade secrets?**
- **Subterfuge?**
- **Patents/Trademarks/Copyrights**



Terms of the Offering

Never be clever with offering terms

- **Are you using industry standard terms?**
- **Are you trying to be clever with your terms?**
- **Are the terms investor friendly?**
- **Have you taken capital before and how?**
- **Are your prior investors reinvesting?**
- **Do you understand the implied contract?**



Size of your round and valuation

Size still matters

- **Are you raising the appropriate sized round for your BP?**
- **Is the valuation reasonable?**
- **Are you using the right investment vehicle?**
- **Will this valuation get us to a 10x at exit?**



Intangibles

Alternative reasons to invest

- Are there other aspects that make you valuable?
- Do you have good will, knowledge, a brand?
- Community/social impact?
- Intangibles won't replace a solid BP
- Can encourage investors to invest/mentor
- Local lead investors are critical!





Questions

Have a nice day!

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