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?

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

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

- 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

- 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?
Mergers/acquisition activity in the market?

- Are companies being acquired in the industry?
- Is the industry consolidating?
- What are the exit multiples on revenue?
- Can you be acquired in this industry?
- Can you IPO instead?
Intangibles
Alternative reasons to invest

• Are their 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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