



DEL DUCA / AUDDINO
& ASSOCIATES

iBoost

Educational Seminar

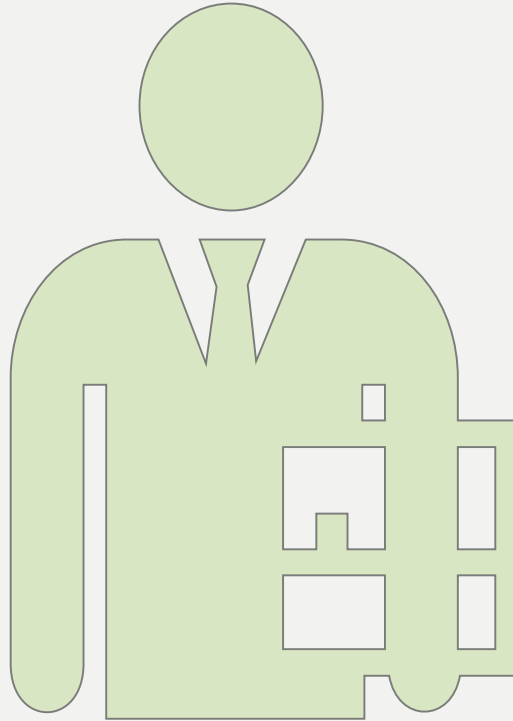
THINK LIKE an ANGEL!

Valuation. Pitch Deck. Due Diligence

October 9, 2019

Who are Angel Investors?

- Typically successful **cashied-out or retired entrepreneurs** and **corporate executives**
- **Invest their own money into a business**, usually in exchange for ownership equity or as a loan (convertible debt)



- Angel investors are an integral part of the start-up ecosystem with **many government funding and granting agencies** (i.e.: FedDev, OCE, IAF, BDC)
- Financially sophisticated with **specific industry experience**
- Invest between **\$10,000 to \$1 million**

Source: National Angel Capital Organization Canada

Angel Group Canadian Landscape

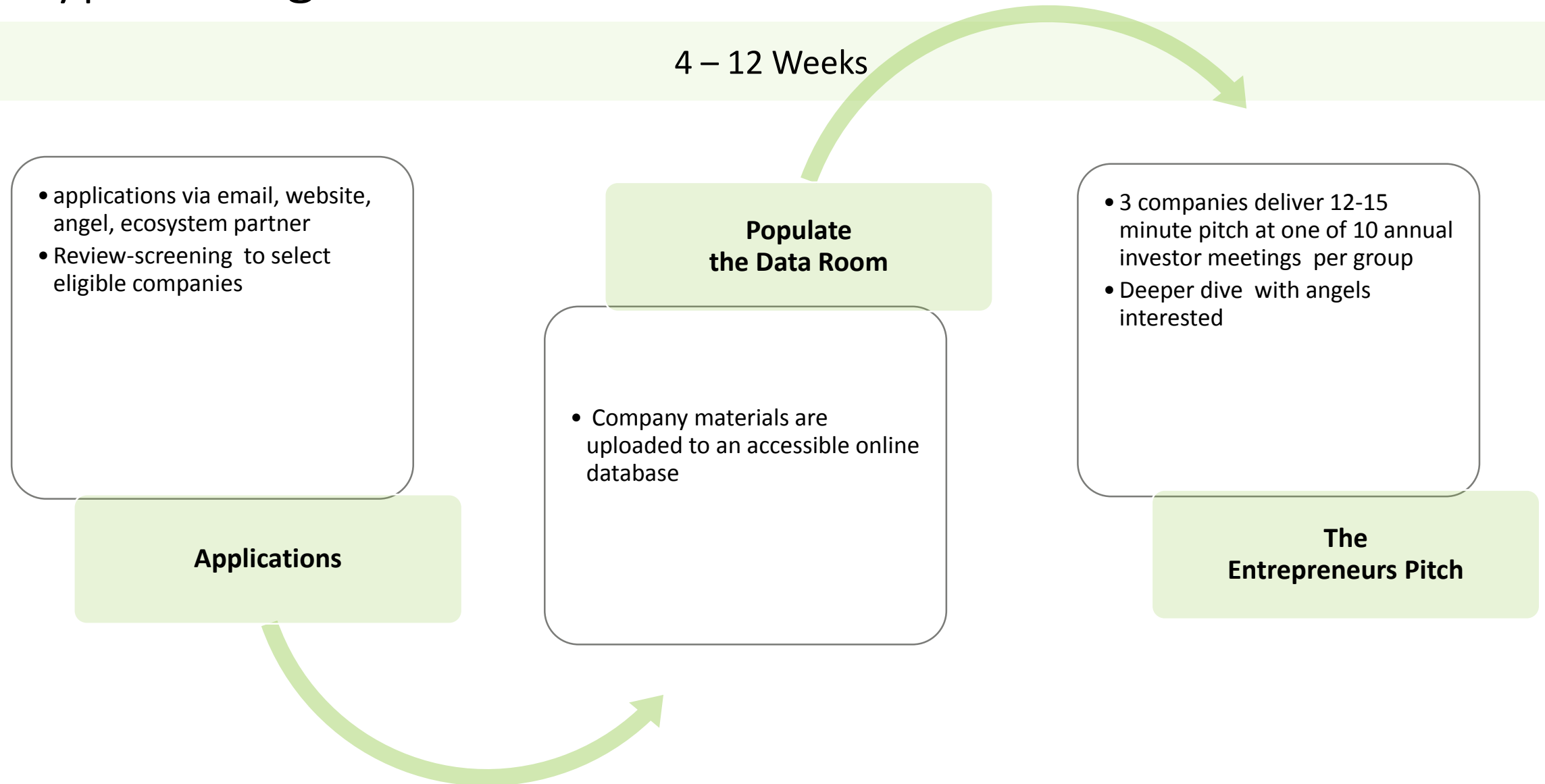
- **40+ angel groups in Canada, 13 angel groups in Ontario:**

NOA, GTAN, SWO Angels, MLA, York Angel, Spark, NAN, PRAN, GAN , Capital, WECAN, Investors and many informal angel clubs

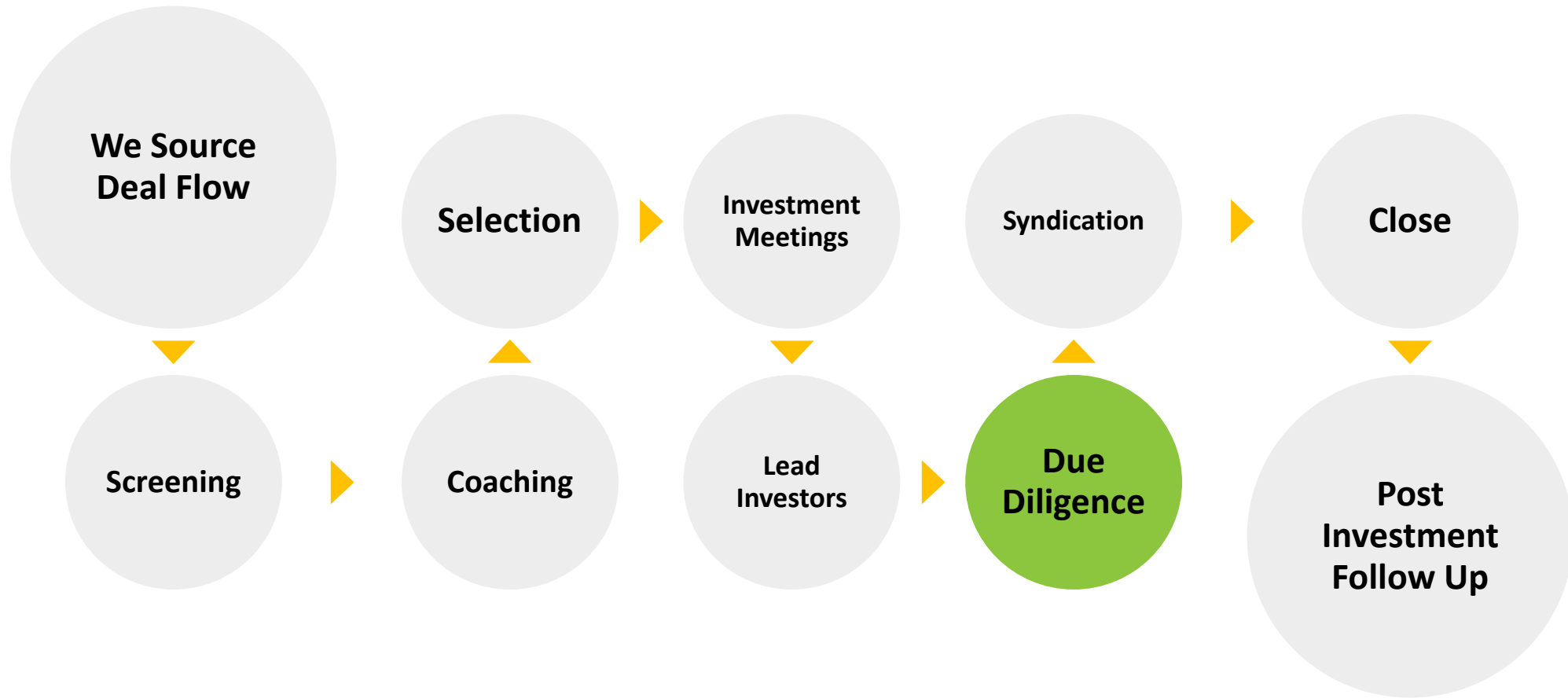
Angel groups do not compete on deals, they syndicate

- 60% of Angel One deals are syndicated
- Groups borrow expertise from each other
- Opportunities not a good fit for one group can be referred to another group that might be a better fit

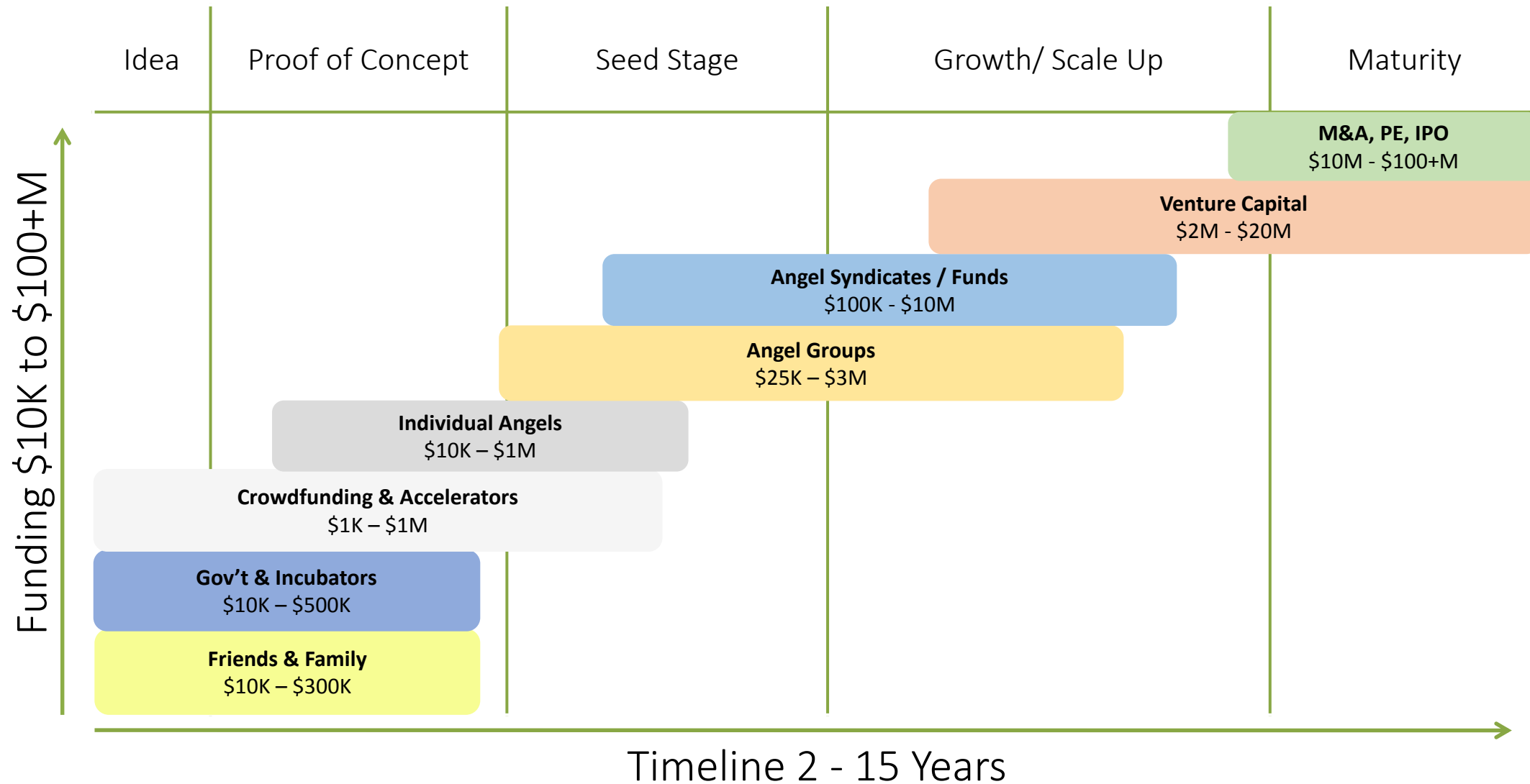
Typical Angel Network Process YOU WILL GO THROUGH



YOUR Angel Group JOURNEY



YOUR Funding Sources





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Valuation

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Valuation



Valuation in Early Stage Companies is a Negotiation

- Very few pre-revenue start ups are worth more than \$1M
- In past few years, we have seen early revenue generating companies claiming valuations of \$5 to \$10 million
- 53% of all investments reported to NACO in 2018 were valued at \$2 to \$6 million
- The average for new investments was \$3.8 million



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PITCH DECK

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WHAT SHOULD BE IN YOUR PITCH DECK ?

Lay IT Out using PACES system

Problem

Answer

Credibility

Evidence

Steps

[ANGEL THREE PAGER \(handout\)](#)

sparkcentre.org/3-pager-application/



Microsoft
Word Document

Company Pitch Expectations - KISS

- **Promoting not selling:**
Pitching to Angels is not selling to customers; you should be promoting company, not selling
- **Knowledgeable and prepared:**
Company should know more than investor about market, competition and opportunities
- **Concise presentations:**
Companies are encouraged to be concise and stick to the 10/20/30 Rule
Typically a 12-15 minute presentation, and 10 minute question period

Source: http://guykawasaki.com/the_102030_rule/

Company Pitch Evaluation Checklist Angel Uses

-
- What is **the opportunity**?
 - **How big** is the opportunity?
 - What is **the solution**?
 - **How unique** is this solution?
 - What is the **business model**?
 - How do I get **my money back**? (How much? When?)
 - Has this **team** got what it takes?

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Due Diligence – Step by Step

October 9, 2019

Due Diligence Defined

Due diligence- the process investors take of investigating a business to understand its assets, liabilities and potential. They are thinking about investing in your startup and want to know everything about your company before they write that cheque

For you, being organized throughout the process will demonstrate you have deep knowledge of the business and its executive capabilities. It is in your best interests to fully cooperate and provide as much information as you can to help them come that decision to invest in YOU.

Due Diligence Objectives

- **For the Company**

- Verify the company situation
- Educate the entrepreneur, and identify 'coachability' of the team
- Set expectations of what investors will expect
- Find a balance between "the numbers" and "the stories"
- Understand the issues, warts, and skeletons-in-the-closet

- **For the Investors**

- Set expectations of what the company expects
- Analyze and many times help set valuation of the company
- Bring sufficient information for investors to make a decision
- Identify key assumption and opinions of the main bet by both sides to mitigate risk

What Do Investors Look For?

Business opportunity in superior product

Business model they understand

High growth potential

Global prospects

Sustainable competitive advantage

Quality management team

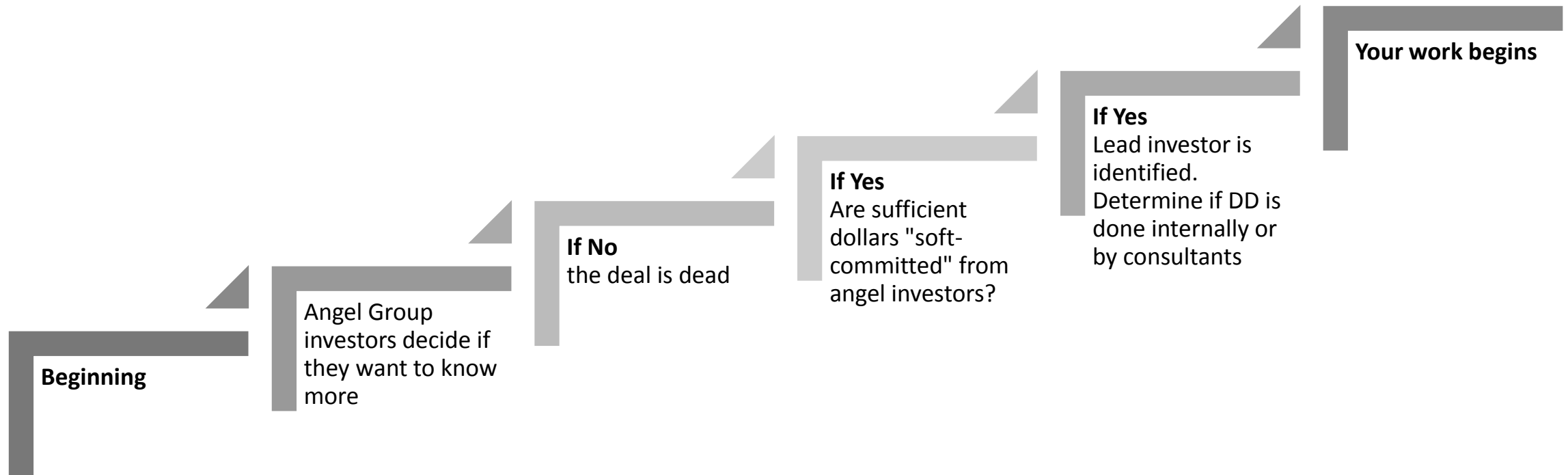
Previous investors/raised funds before and used wisely

Existing customers and partners

Realistic and alternative exit strategies

Professional business practices

How Due Diligence Starts



Due Diligence

What Angels Seek From You

- Open and honest communication
- Angels want to share in the fun and excitement of the companies success!
- They want a return on investment... 1x, 2x is okay, they are hoping for 10x – 20x!

How Angels Help

- They're willing to share their time and their network
- On average Angels create 4.4 jobs per deal
- Companies are more likely to be approved for debt financing, receive future rounds of funding, realize higher success than bootstrapping

Overview of the Process

Week	Objective from Angels
1	Gather key information and volunteers
2	Perform initial DD and frame term sheet if key areas are okay
3	Lead Investor initiates negotiation of terms and valuation with founder(s)
4	Prepare DD folder and term sheet
5	Angel Investors asked to confirm interest and investment size
6	Engage legal counsel
7	Get cheques to lawyers
8	Close the deal

Due Diligence Key Factors

Product/ Solution	Legal
Competition	Alignment
Funding Strategy	Technology
Deal Terms-Valuation	Go-to-Market Strategy
Management Team	Financials
Intellectual Property	Key Risks
Market Opportunity	Exits

9 Key Elements

- Governance / Business structure
- **Financials**
- Market
- Competition
- **Management/People**
- Intellectual property
- **Products / Services**
- Operations
- Critical Risks and Problems

Governance

- Company incorporated? Where?
- # of shares issued and authorized?
- Who owns the company? (Get a fully-diluted capitalization table, i.e. including options, warrants, promises and debts)
- Does the company own other companies? Is it a subsidiary?
- Is there a shareholders agreement?
- Who are their advisors? Who's on their Board?

Financials

- Founders' investment
- Summary projected financials (one and three to five years)
- Funding needs for this round and subsequent rounds along with use of funds
- Key assumptions and variables
- Business milestones for next six months and next two years
- NOTE: Everyone shows a “hockey stick” – more important are the assumptions behind the numbers

Market

- Size, definition, and trends
 - Addressable market
 - Identify the type of market
 - Need/want for products/services
 - Customers – permission to interview
 - Necessary partnerships and status
– current agreements
- **Sales**
 - Sales and distribution plan
 - Sales cycle and length
 - Costs associated with plan
 - Pipeline- sales funnel

Competition

- Comparative analysis, including key features and benefits
- Competitive advantages and market differentiators
- Barriers to entry for competitors-the “mote”
- What are customer doing now?

Management-People

KEY Element – Invest in the People-YOU

- Experience of all senior management, including previous start-ups – get resumes and references
- Previous experience working together
- Key hires
- See employment contracts and non-competes
- Ask about their ambitions
- Are they self aware?
- Find out if they are viewed as trustworthy – this is important!

Intellectual Property

- Patents, Trademarks and Trade Secrets
- If no patent, do they have freedom to operate?
- Licensing Arrangements
- Does the team have experience with Patents?
- Defensibility?
- Make sure all IP has been assigned to the company!
Or understand why not.

Products

- Description of products/ services/ operations
- Unique attributes and opportunities
- Stage the product is at: Minimum Viable Product?
- Timing of, and process to, full commercialization
- Product roadmap
- Platform of products?
- Manufacturing and infrastructure – current and required

Operations

- Visit the site if one exists
- Inventory
- Practices (car leases, office equipment)
- HR: skill sets and compensation strategies
- Too cheap or spending too much?

Critical Risks and Problems

- Identify the risks and propose solutions/work arounds
- Competition
- Key hires
- Can this company scale?
- Export potential

Red Flags ANGELS LOOK FOR

What investors watch out for within the company team during due diligence

- Founder does not understand company's weaknesses or strengths
- Is the Founder willing to step aside for the good of the company
- Immaturity in dealing with criticisms or questions
 - Very defensive or emotional
 - Constant resetting
- Lack of transparency
- How well does the team know their numbers?
- How Due Diligence time is spent

Key Takeaways for both company & investor



Additional Resources



Professional Development Modules for Angel Investors

- NACO Common Docs – Repository of standard templates for deal documents
<https://www.nacocanada.com/commondocs/>
- ACA Podcasts for New Angels
<https://www.angelcapitalassociation.org/new-angels/>

***“VISION WITHOUT
EXECUTION IS
HALLUCINATION!”***



Thomas Edison

Q and A?

Thank You!

WISHING YOU GREAT SUCCESS!

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