



Insights on Raising Funds at SWAN

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We work to help promising impact companies to be successful

We provide what we hope is constructive and helpful feedback to all companies that apply, independent of how far a company progresses through our down-selection process.

If the Southwest Angel Network leads the investment in your company, we will actively help your company syndicate the investment with other angel networks.

How we Think about Impact

A positive response to the statements below is a good indicator that your company meets our social or environmental impact criteria.

1. Your company **demonstratively** improves health or educational outcomes, protects the environment, facilitates financial empowerment, supports underserved groups, especially when benefits from any of these accrue to disadvantaged groups in our society. You can provide **evidence of the impact-efficacy** of your product or service, and the **magnitude of your impact** is significant in terms of the number of lives impacted and the scale of impact on each individual, or the scope of environmental impact. Your solution has greater impact compared to that of for-profit companies and/or non-profits who are competing to address the same challenge.
2. Your company's home page highlights your impact benefit or mission. If your pitch deck talks all about impact, and your home web page does not, then we get confused.

You can find the SWAN webinar on Measuring Social Impact on our web site on an education for angels' page.

Support of Under-Represented Founders

The Southwest Angel network is highly welcoming to companies with under-represented founding teams. We think of under-represented in terms of teams with a C-level, co-founder with a significant equity position, where that co-founder is from a group that historically been under-represented in terms of access to funding, typically female and/or persons of color.

Our network gives all teams equal access to funding. Having a diverse team is neither required nor sufficient to receive funding from our network. Half of our portfolio companies do not have an under-represented founder.

That said, our network aspires to have at least one team with an under-represented founder be selected to present at our quarterly dinner pitch events. On occasion, all the selected companies have had such a founding team.

Suggestions for a Successful Application

SWAN applies equal weight to two bottom lines: Business success potential and impact efficacy potential.

Impact Bottom line: Your primary business mission is to address a significant societal challenge. If impact is a secondary or optional effect, or if impact is not your primary business mission, your company is not a good fit for our investors.

Business bottom line: Your business has a convincing path to profitability. The Southwest Angel Network Impact investors strongly prefer:

- Companies with a strong management team which has significant experience in the market segment that they are attacking
- Early-stage companies that have gone to market and achieved some degree of traction or revenue. This is an important criterion since most of the other angel networks that we will work with to syndicate funding for your company will require early traction/revenue. If your company is pre-revenue, you are expected to have completed world-class market validation.
- Companies that expect to achieve significant annual revenues within the next five years.

We expect pre-revenue companies to have strong market validation

Scaling a business is all about profitability. There can be no profits without revenue. There can be no revenue without customers. There can be no customers if you don't solve problems that customers care about.

Ten tips for market validation are listed below:

1. First become the world's expert on a customer problem, and then apply technology to solve that problem. How do you go about becoming a world's expert on a customer problem? There is no magic here, just hard work. Simply, get in front of 50 to 100 potential customers and understand their problems. With that number of interviews, you should have gained a nuanced understanding of the problem, and understand that problem better than anyone else.
2. Who is a customer? Someone with both a big problem and a budget they have the authority to apply to solving the problem.
3. What is a big problem? A problem that keeps a person awake at night with worry, or a problem when solved will get the person promoted. If your company can uniquely address those kinds of pains or gains, the person should be willing to write you a check (again, if they have the authority to allocate funds).
Nice-to-have or incrementally-better rarely motivates a customer to make a commitment to you. Especially since changing vendors can be risky or a big hassle.
4. And the customer is an individual. Your customer is not a group, like an engineering department, or a company, or an agency. These types of entities don't decide to spend money with you. An individual with a name and a desk and a picture of their family on their desk can decide to spend money with you. When you find enough of these individuals willing to write you a check, then you have validated the market need and size.

In complex B2B sales environments there may be a variety of people influencing the purchase decision. But ultimately one individual makes the final decision. You need to interview that person.

5. When you interview the person, it is not productive to start off by talking about your cool product or technology and then asking the customer if your baby is pretty or ugly. No one wants to tell you that your baby is ugly.
6. And don't ask about their opinions. You don't care about their opinion. Opinions don't buy products or services. Solving pain sells products and services
7. And don't talk about the features of your product or service. No one buys features. They pay when your offering beneficially takes away their pain.
8. The more productive way to approach the customers is to start off by mentioning the general problems area that you are interested in, and then get the interviewee to talk about the pains they have in that general area.
9. Spend 80% of your time listening and only 20% of the time talking.
10. At the end of the conversation, if you have successfully identified a pain that you can solve, you can summarize your product or service offering, and ask how much they are willing and able to pay for a solution.

How we Invest

Investment decisions are made by individual investors; the network does not have an investment fund.

The network runs four funding cycles per year. We don't consider investment opportunities outside of these funding cycles.

The Southwest Angel Network is generally funding stage agnostic and has invested in the past from pre-seed through series B.

The Southwest Angel Network is open to a range of investment instrument types, including:

- Convertible debt or equity for companies that we believe will achieve a significant exit via acquisition or IPO.
- Preferred stock equity investments
- Revenue-based financing or other debt instruments for companies that we believe don't have the potential for a significant exit. The amount of investment dollars available with revenue-based financing is typically 25% to 33% of the annual revenue rate.
- LLC ownership participation, typically with a preferred partner position, although approach this is unusual for us

For foreign-resident companies to be eligible to apply, they should have specific plans for entering the US market, and agree to have a qualified, senior executive of the company heading up its US operations and resident in the US, preferably in Texas.

What we typically don't invest in

The Southwest Angel Network typically does not invest in the following. There can be exceptions, but the bar is high for getting funding for the following:

1. Investment funds. We prefer to directly invest in companies.
2. Consumer packaged goods companies unless you can demonstrate the efficacy of the social impact. For example, can you provide evidence that the CPG has demonstrably improved healthcare outcomes or reduced income inequality, and how broad-based is that impact in terms of the number of people benefiting?
3. Foods or nutritional supplements companies. A food or supplement might be highly nutritious, but we would need to understand its measurable impact on health outcomes in the general public, especially if that item is just one of many healthy food choices that are available to consumers. Said another way, must this food or supplement compete for shelf space with other healthy foods at a Whole Foods store? The product may be interesting to our network if you can provide evidence that the product's introduction demonstrably reduces the amount of less-healthy food consumed by a significant number of people. Agritech companies that produce food with demonstrably lower impact on the environment can be interesting.
4. Services-based companies, as opposed to product-based companies. Services companies face challenges in scaling significant revenue since revenue typically scales with employee headcount.
5. Consumer-focused companies serving a local market AND where many competitive alternatives are readily available to the consumers. A new fitness club or a food-delivery service might be examples.
6. Brick-and-mortar or venue-based businesses. These businesses typically require significant capital in order to scale to a level that would enable an acquisition.
7. Companies whose basic mission is to solve a problem experienced by most businesses, and where the solution can incidentally also be used for social-impact purposes. We would like impact to be the primary business mission of the company.
8. Socially responsible (ESG) companies who are not addressing a significant societal challenge as a primary company mission. We love social responsibility but that alone is not sufficient for getting funding.
9. Companies whose sole social-impact is limited to sharing a portion of their profits with charities.
10. Companies whose investor's pitch leads with blockchain, as opposed to leading with solving a customer problem. Blockchain is an underlying technology that most often is not visible or relevant to the customer experience.
11. Companies whose products require FDA approval and who have not yet completed animal studies for the specific treatment and delivery system and for the specific indication.

12. Companies where the Board of Directors, post-funding, is controlled by the founders, meaning that at the sole discretion of the founders, the outside Board Members including investor reps, can be changed or eliminated.
13. Companies whose primary mission is help non-profits raise money or donations. We have no way of knowing the impact efficacy of each non-profit that you will help, or if each of the non-profits is addressing a serious societal or environmental problem.