



Angel Investing 201: Assessing Impact investing Risk



Agenda

- Introduction to angel investing
- Risk factors



The Network

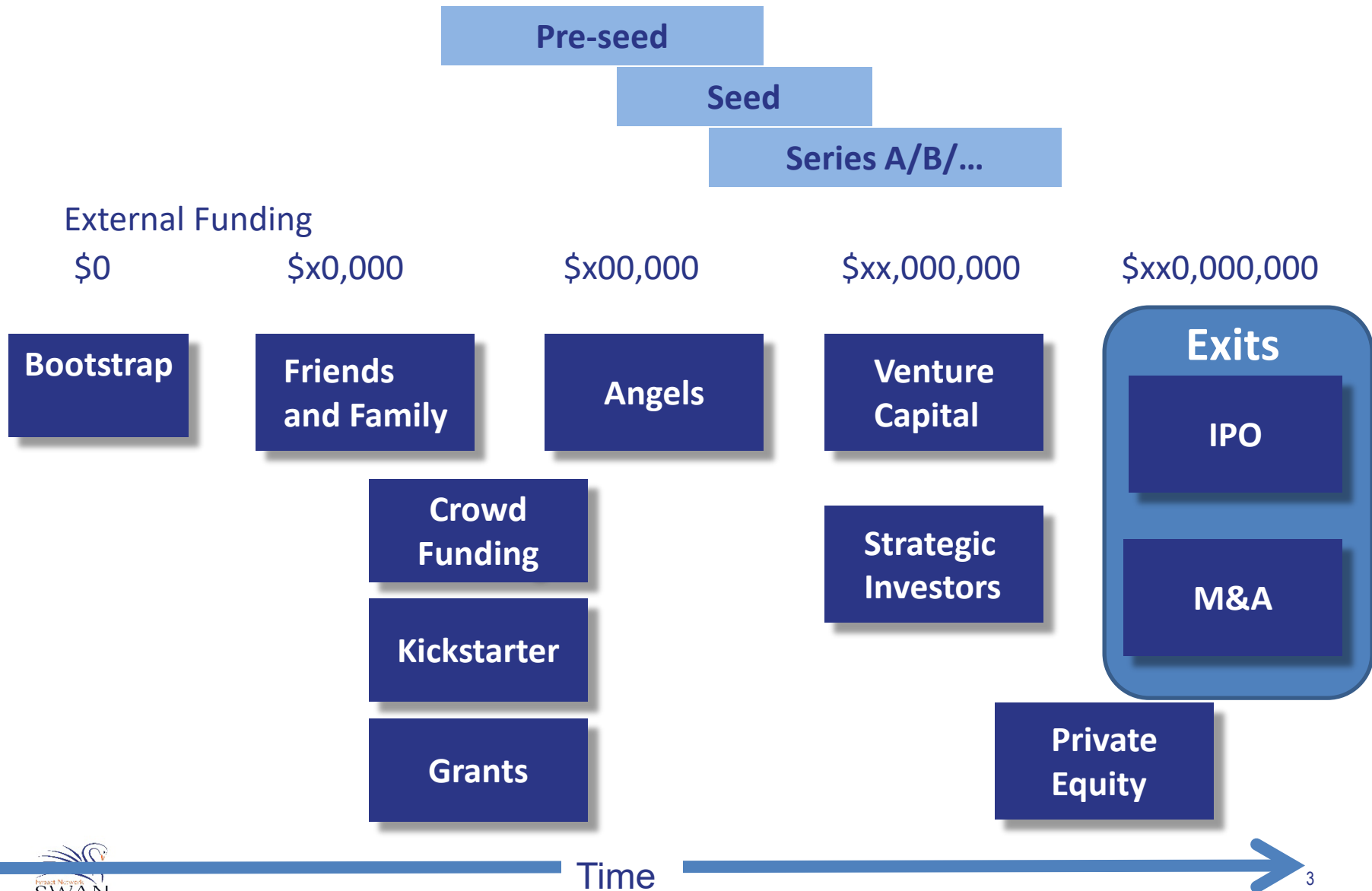
About

- First investment in 2016
- Primarily pre-seed investments
- 85 angel investors
- Chapters in Austin, Dallas and Houston
- We fund companies from across the US
- Also has a Philanthropic sidecar fund

Investments

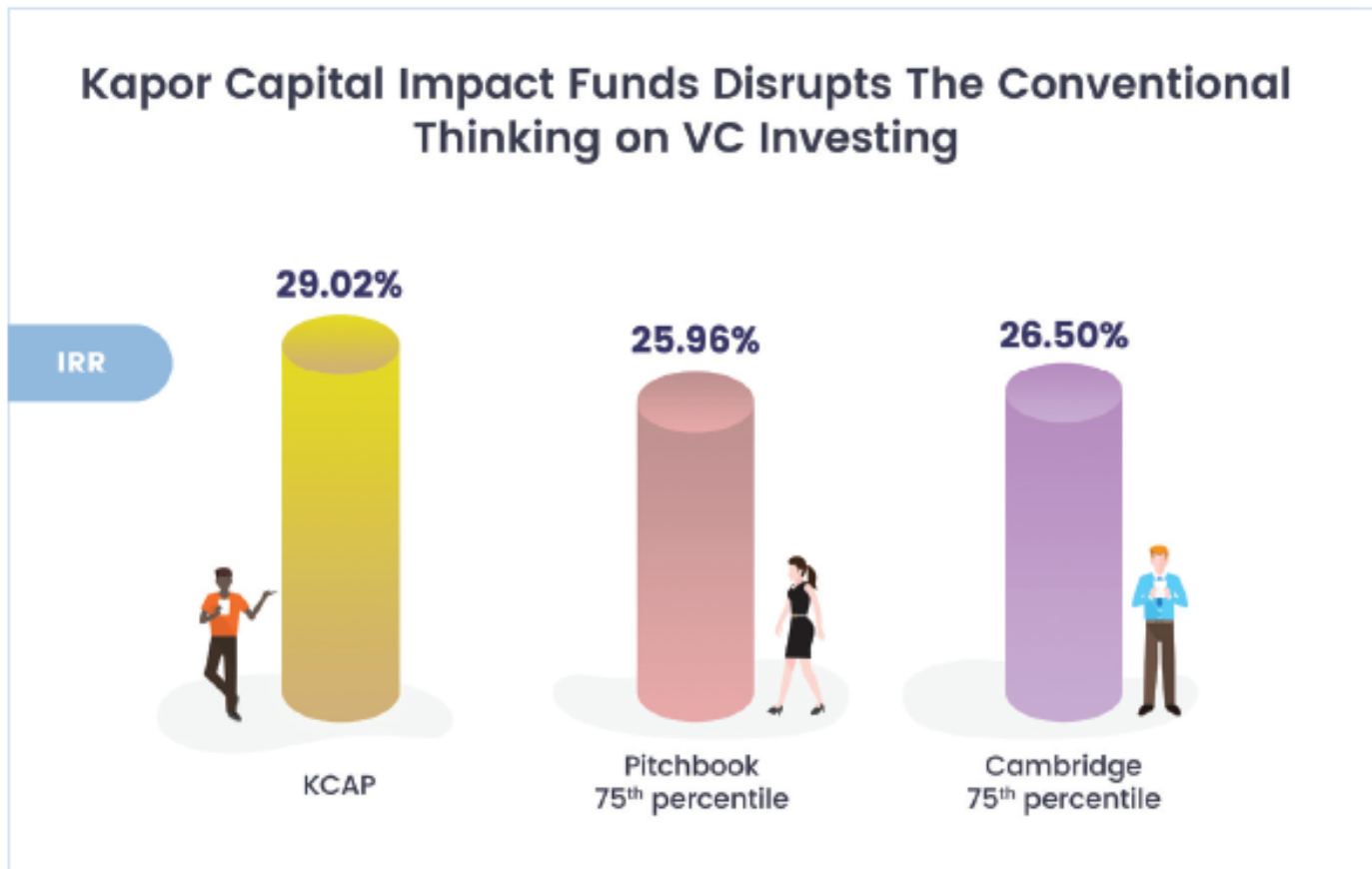
- Have invested \$14M in 40 impact companies
- Per year
 - ~350 company apply
 - ~ 6 companies get initial funding
 - ~6 portfolio companies get follow-on funding

Stages of Investing

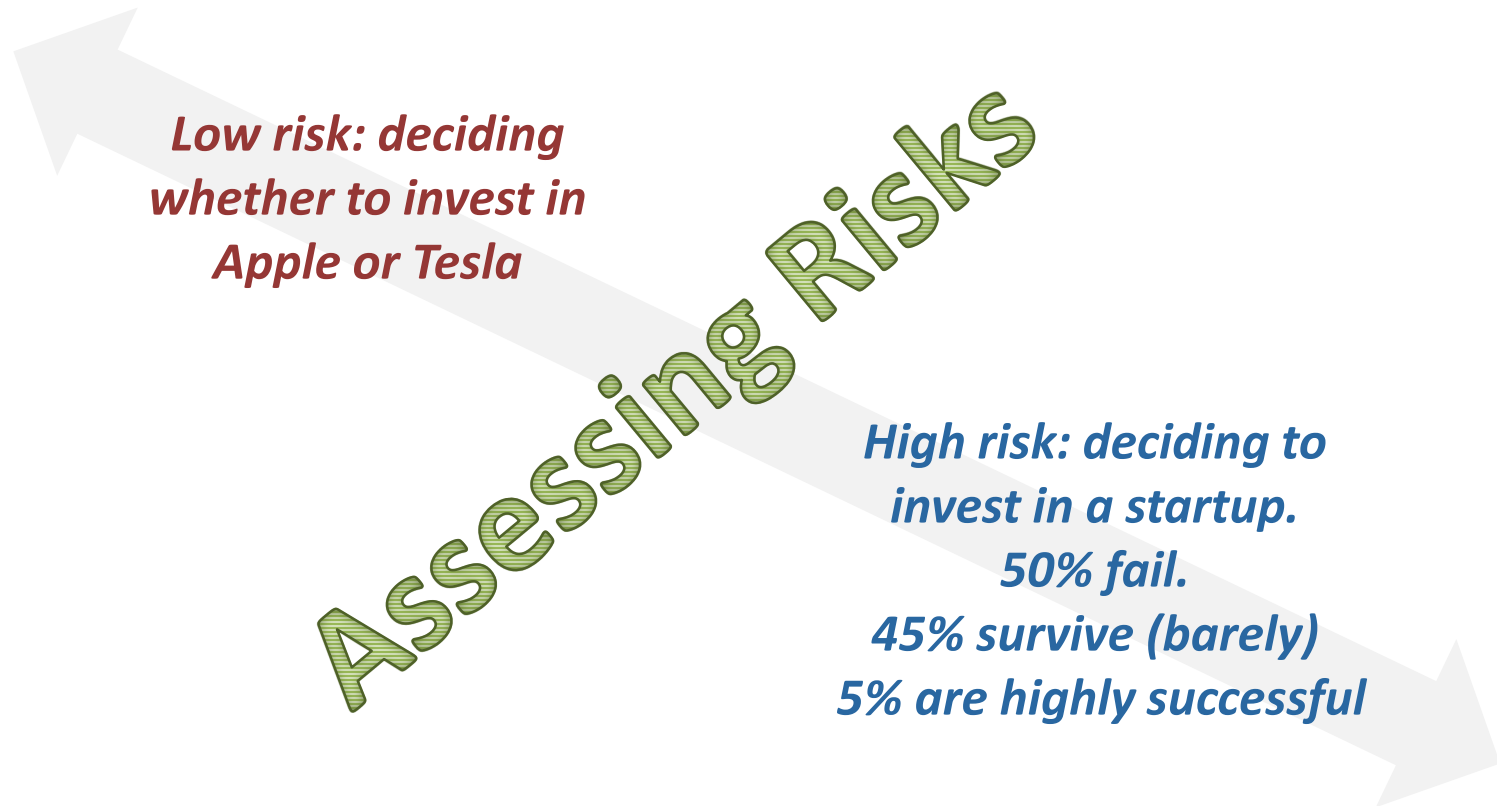


Impact investing provides good returns

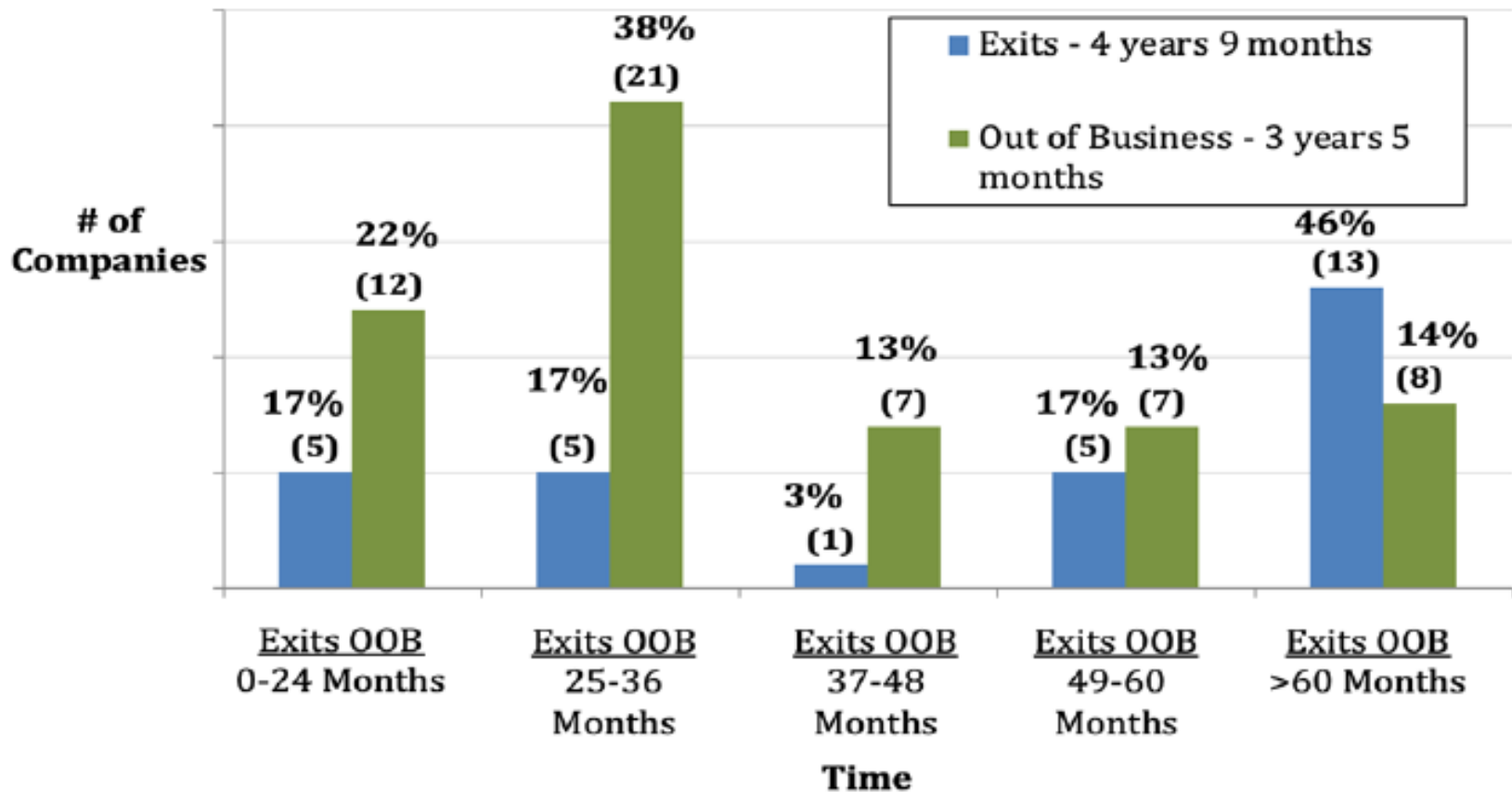
Impact Fund's IRR compared with 75th percentile benchmarks as of 9/30/18



What is early-stage angel investing all about?



Typical Time to an Exit or Going Out of Business



Early-stage startup investing

Some Key Risks

- The Team
- Companies are just past the ideation stage
- Product-market fit may still be in the process of being refined
- The companies are early in establishing a sales process
- Financial models for years 3+ are speculative

On the other hand

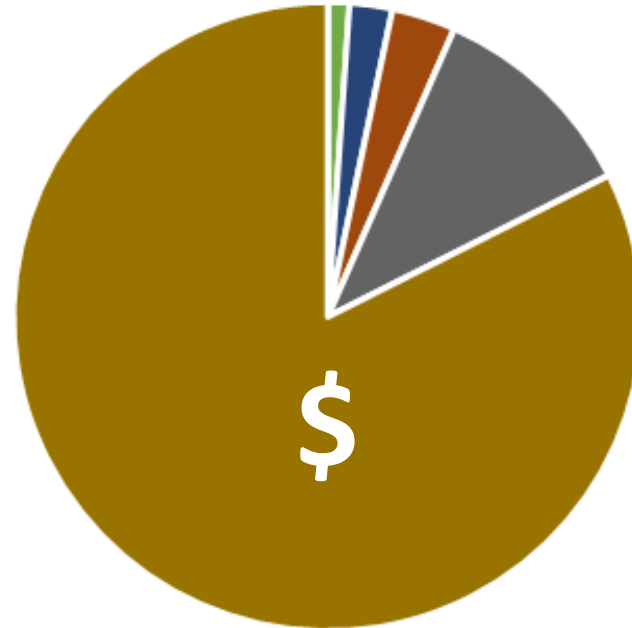
- Founding teams can be inspiring
- The product offerings can be disruptive in the marketplace
- It is rewarding to help young companies succeed
- You can make a return while helping to make the world a better place

How is it possible to make a return?

Make a bunch of investments

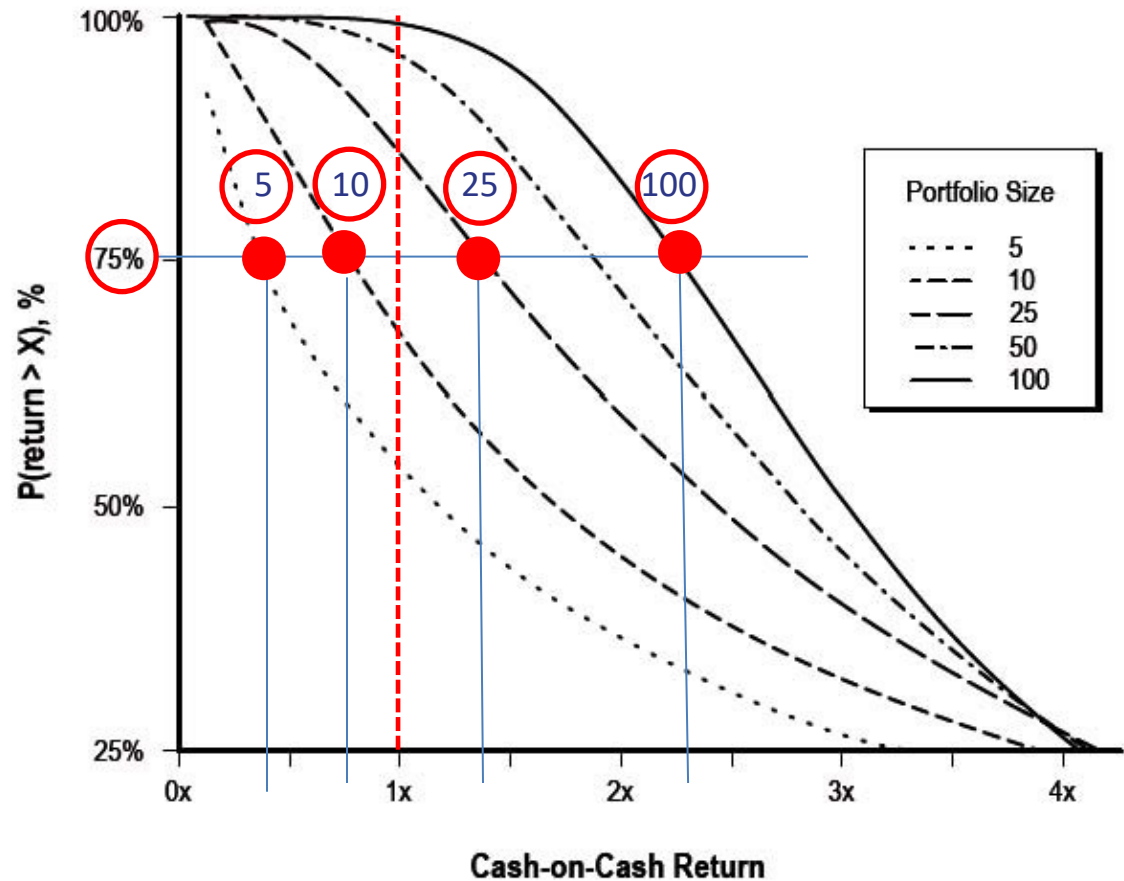


One company will provide a total return on your total investments



How Big a Portfolio?

Probability of Return by Portfolio Size



- Minimum of 10
- 20 is better

Decide how much to invest in total

What percent of your assets do
you want to put into this asset class,
and over what period of time?

| | Number of Investments | |
|-------------------|---------------------------|-----------|
| | 10 | 20 |
| \$ per investment | Total investment required | |
| \$5,000 | \$50,000 | \$100,000 |
| \$25,000 | \$250,000 | \$500,000 |

Reserve funds for follow-on rounds.



Risk Factors.

What to look for

SWAN Evaluates Two Bottom Lines

Primary Consideration

Financial return to shareholders

**Impact created by company's
primary business mission**

Secondary Consideration

**ESG (Environmental, Social,
Governance), DEI & other socially
responsible internal operations**

Improve Return Probability – Do Due Diligence

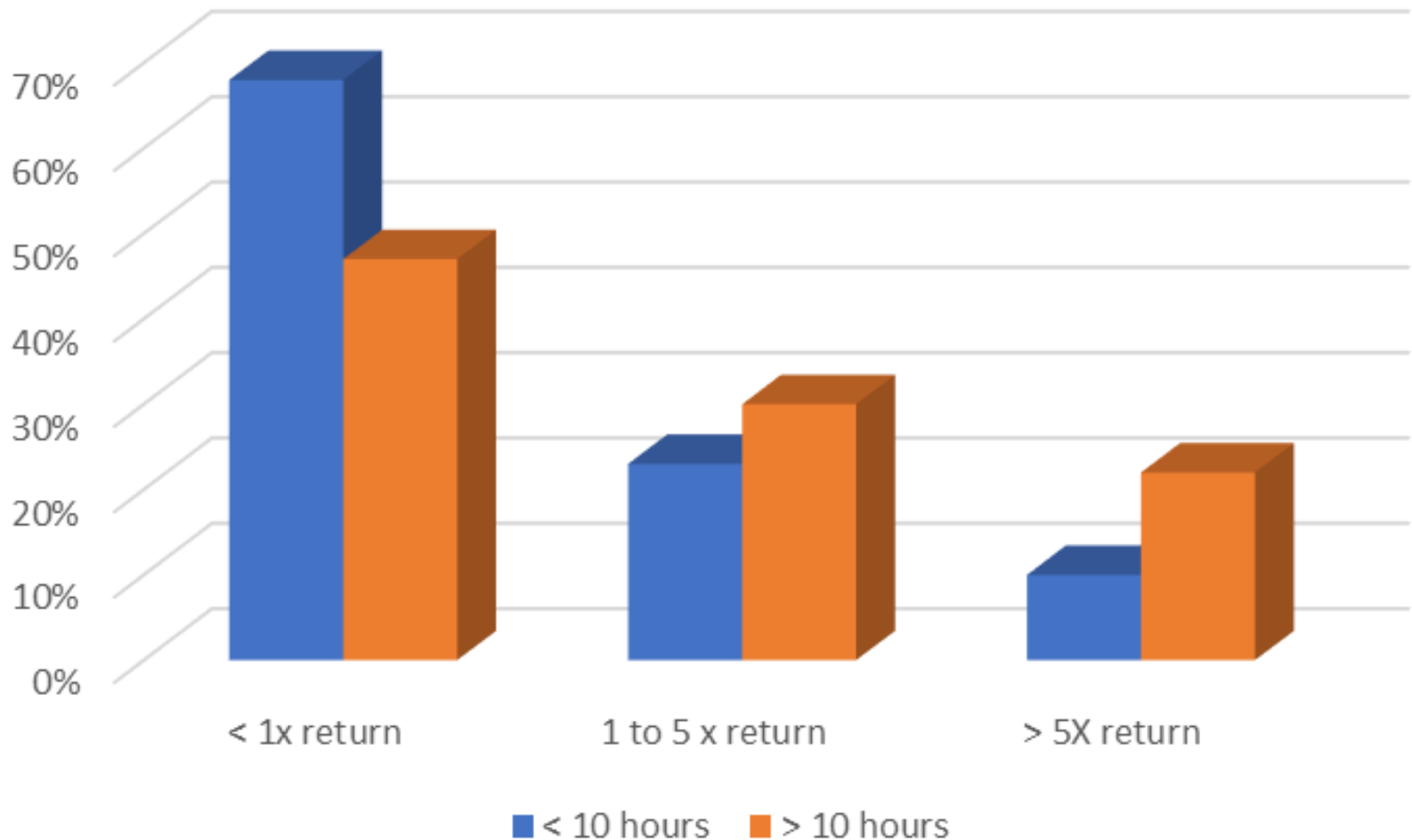


X

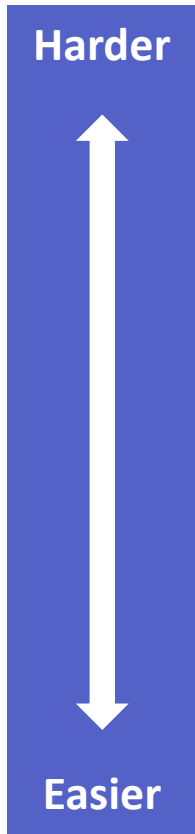


Analysis

The Due Diligence Payoff



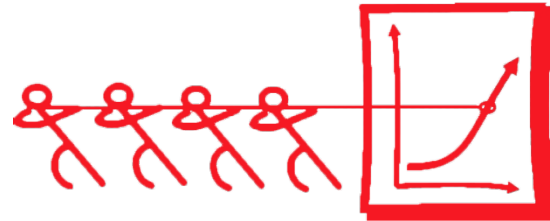
Approaches to Due Diligence



- Go solo
 - Prepare to spend a week



- Be part of a team
 - Our angels working together



- Build upon diligence reports of others
 - Maybe this is a syndication deal and another team has put in many hours



Due Diligence Considers

Team

Product,
Technology &
Advantages

Market
Opportunity

Impact
Efficacy

Sales
Approach

Finances

Deal Terms

Corporate
Structure -
Governance

Exit
Opportunity

Team Validation –Job #1



Key Risks

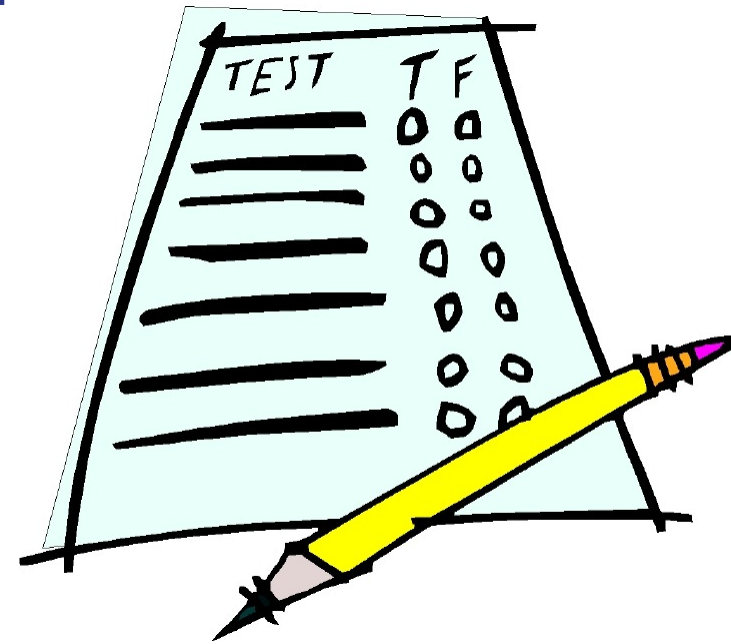
- CEO lacks emotional maturity
- CEO lacks experience in the company's marketplace
- CEO lacks startup experience
- CEO is not full time at the company

How to assess

- Interacting with the CEO and C-Levels
 - Typically, via zoom
- Reference checks
 - To direct references supplied
 - Ideally to secondary references shared by direct references
 - To former co-workers, board members, investors (LinkedIn is your friend)

Impact Risks

- The company's primary business mission is not clearly focused on delivering impact
 - Is impact part of their basic DNA?
- The CEO has no emotional connection to the impact mission
- The company's home page does not communicate their impact mission



Impact risk – Uncertain Efficacy

- What evidence is there that the company will effectively deliver significant impact?
- A must-have-impact for beneficiaries?
- Effective plan for acquiring beneficiaries?
- Long-term competitive impact advantages?
 - Higher adoption rates?
 - More significant impact?
- Direct impact?



Market Validation Risks

Risks

- Willingness and ability of customers pay for the solution
 - Must-have vs. nice-to-have
 - Person with must-have-need has budget available
 - Unpaid pilots don't establish willingness to pay
- Lack of enough of those payers to generate enough revenue (big market)?

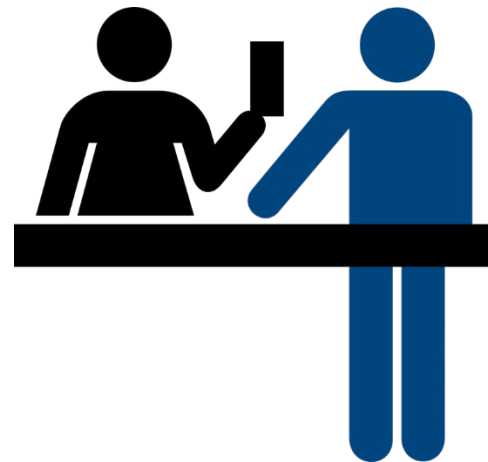
How to assess

- Phone calls with three to five payers
 - Understand their pain point and budget
 - Understand the sales channels they routinely use
- Try the product out



Sales / Go-to-Market Risks

- Lack of a credible sales operating plan for scaling to enough revenue to allow acquisition
 - What type of marketing and sales organization and partners do they need (internal and external)?
 - Not sufficient: the CEO is today talking to the CEO's friends
- No cost-effective way to connect with potential customers
 - What is the cost of acquiring one incremental customer?
- No compelling insights on:
 - Customer retention rate
 - Customer lifetime revenue



Product/Technology Risks

- Product-market fit not yet demonstrated
- Product not ready for pilots (hard tech) or sales (soft tech)
- Development priorities not being driven by customer feedback
- Industry specific
 - SAAS: platform not scalable to large number of users
 - Hardware: supply chain not established
 - Medical/pharma: animal trials not complete



Competitive Risks

- No significant competitive advantage today
- No long-term, sustainable advantage => What keeps them successful for the seven years until acquisition?
 - Critical mass of customers?
 - Sales channel lock?
 - Supply chain lock?
 - IP/Copyright/trade secret?
- Competitive analysis focused on feature comparisons rather than customer-benefits comparison



Financial Risks



- Not raising enough in this round
 - Companies take twice as much time and money to hit planned deliverables
- Financial model not built on detailed assumptions
- Company not spending enough on R&D and Marketing/Sales in out years
- Revenue model not credible
 - Must be bottom-up revenue plan based upon serviceable obtainable market (SOM)
 - Number of customers willing to pay how much to solve a must-have solution
- Red flags
 - Very small revenue ramp => life-style business
 - Incredibly large revenue ramp => team not credible

Corporate Governance Risks

- Capitalization table risks
 - Do disinterested parties have significant ownership?
 - Does the CEO have the more ownership than other co-founders
 - Is the post-funding option pool in the range of 15%?
- Post-funding, will the post-funding board of directors contain only company representatives?
- If this is a corporate spinout, who controls the cap table, C-levels or parent company?

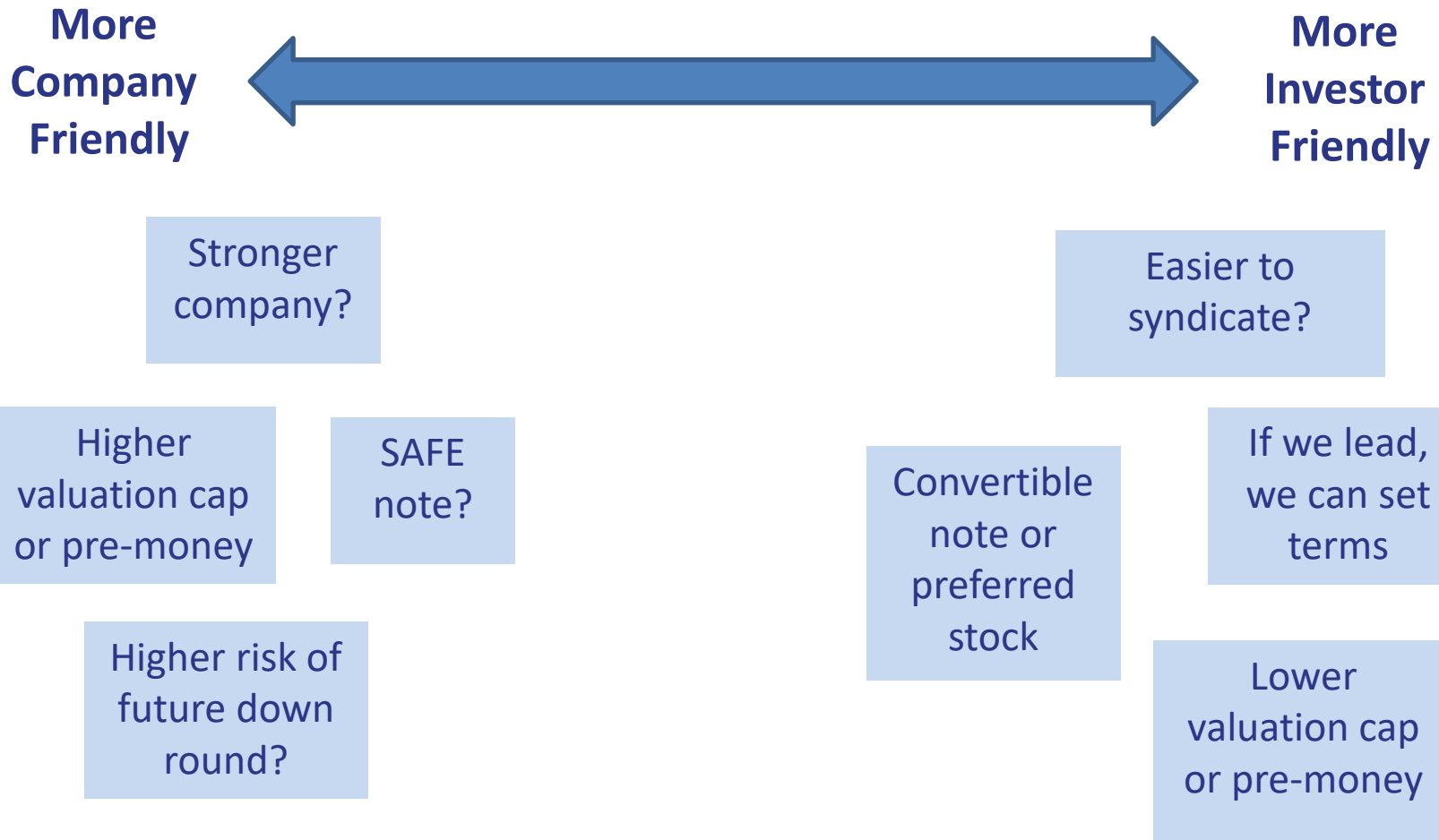


Investor Return Risks

- With this investment, can the company achieve a business result that significantly increases valuation at the next round?
- Is the company able to identify acquisition comparables?
- Is our post-funding percent ownership consistent with typical models?
 - E.g., will pre-seed investor have ~15% ownership
- Huge amount of funding is required for an exit



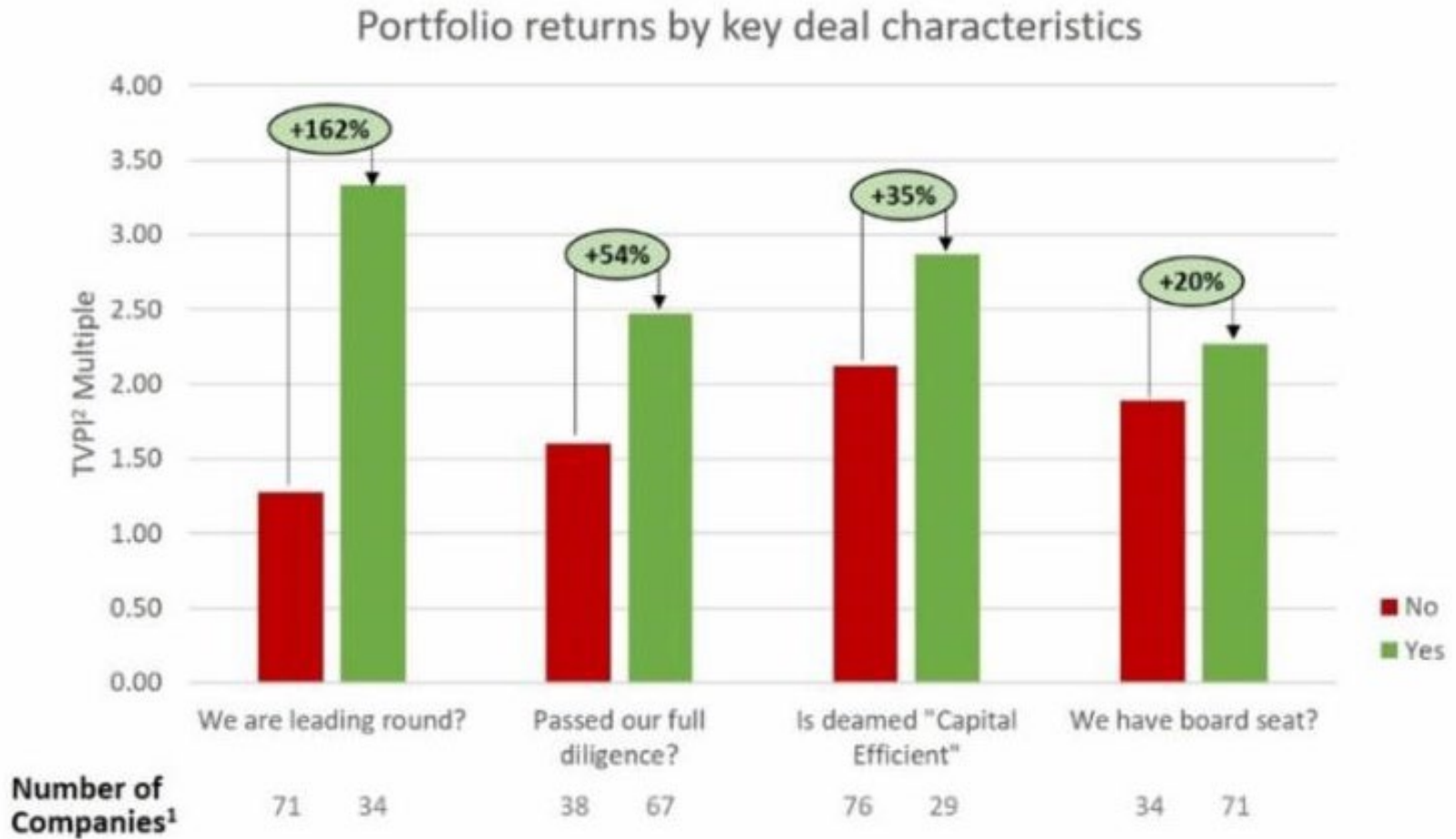
Investment Deal Terms



portland seedfund experience

- Portland Seed Fund is an early-stage venture fund in Portland and has made 70 investments.
- They analyzed what parameters best predicted a high investment ROI
- By far, the best predictor of high ROI was company-friendly terms
 - Companies with the best products, the best teams and large markets can demand the best deal terms

findings



Measured based upon valuation increase.
 Leading round = negotiated the terms.
 Capital Efficient = needs less than \$5M total.

Additional Webinars



Angel Investing 101

- The Angel Experience: What is an Angel Investor? What motivates Angels? What are examples of typical Angel investments? How does the SWAN operate?



Angel Investing 202

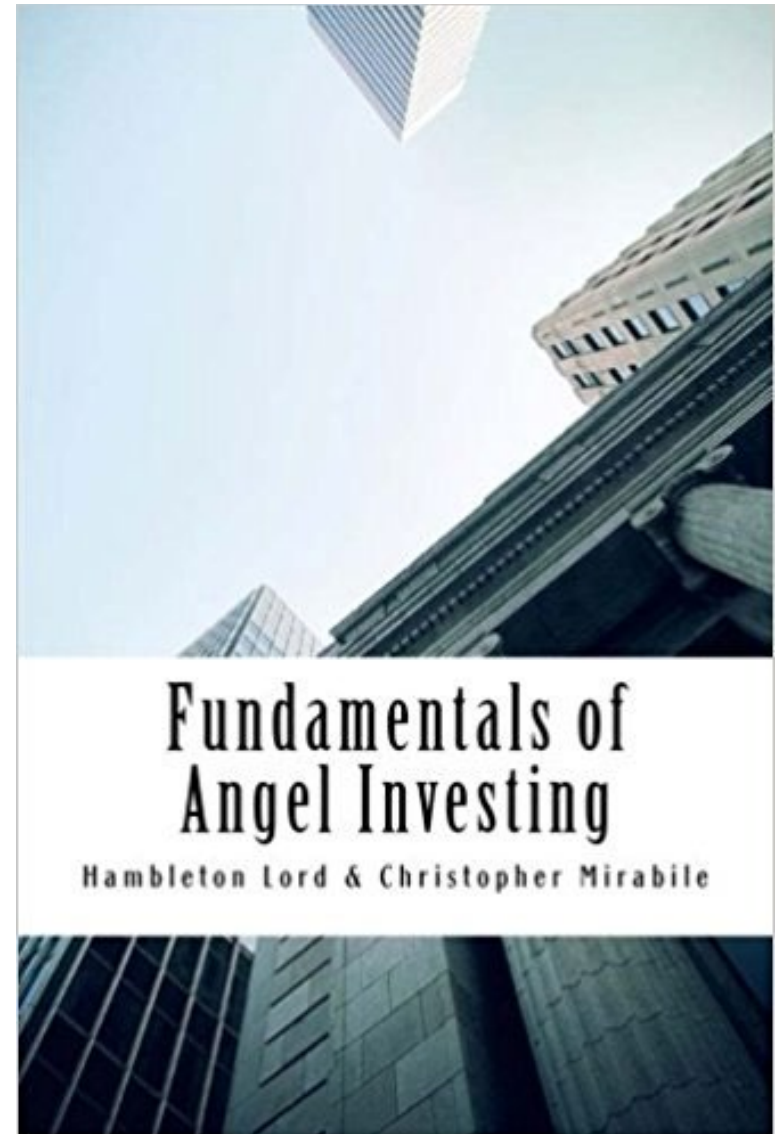
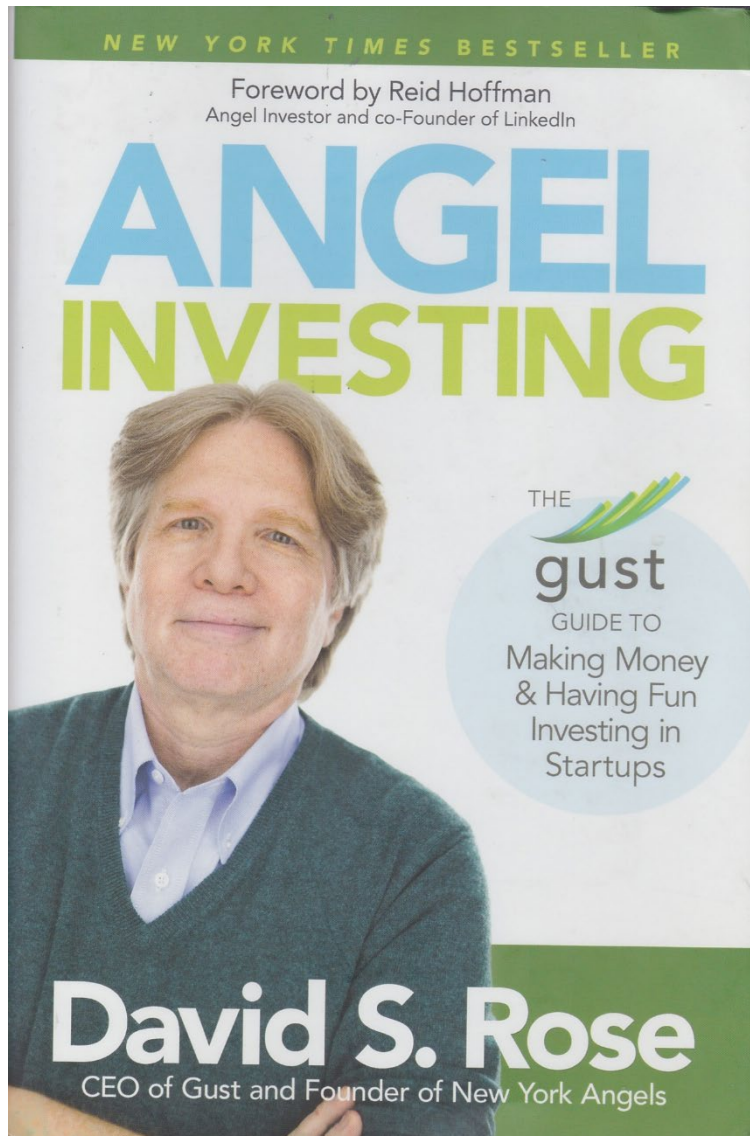
- The Mechanics of Investments: Investment instruments, company valuations, dilution across rounds, post-investment activities, and tax considerations



Angel Investing 203

- Measuring Impact and Results: A Discussion of Metrics and Tools, and examples of SWAN impact assessments

Good Resources



Webinar Feedback



Any final
questions?



What was most
helpful?



What was less
interesting?



What would you like
to learn more
about?