



# How To Pitch To Angel Investors

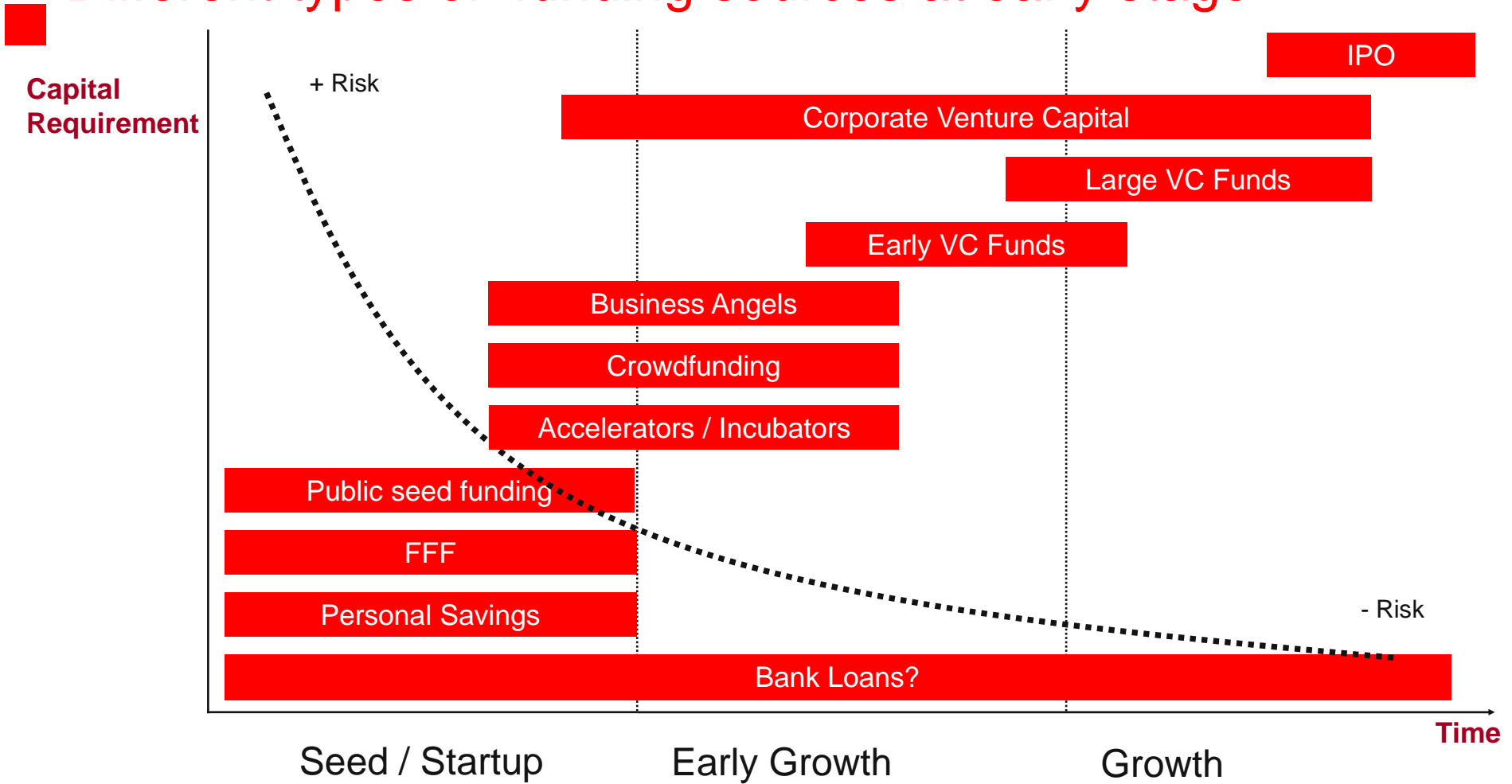
Project financed by the  
European Commission



by  **IESE**  
Business School  
University of Navarra  
**Business Angels  
and Family Offices  
Network**

# Understanding Business Angels and VC?

# Different types of funding sources at early stage



# VCs vs Business Angels

How do they differ?

|                      | VCs   | BUSINESS ANGELS  |
|----------------------|---|--|
| Capital provided     | They invest others' money                         | They invest their own money  |
| Stage of investment  | Later early stages by mainly later stages         | Seed - Startup   |
| Motivation to invest | Return. Main motivation                           | Return is important... but not always is the most important reason |
| Deal flow            | Contac network and proactive search               | Personal contact network and business angel networks               |
| Investment range     | +1.5M   | 50K – 500 K 1st round /<br>500 K – 1.5M co-inv                     |
| Geographic approach  | Regional, national o international                | Local /Regional  |
| Due Diligence        | Fund Staff with external legal advice             | The investor herself/himself + external assistance                 |
| Involvement          | Irregular. Strategic role in the investee's Board | Normally active - "Hands-on"                                       |

# How Do Investors Screen startups?



Many Projects  
Are Looking for  
Funding...





Investors are  
looking for the  
dynamic  
entrepreneurs...



Investors try to pick  
up winners...





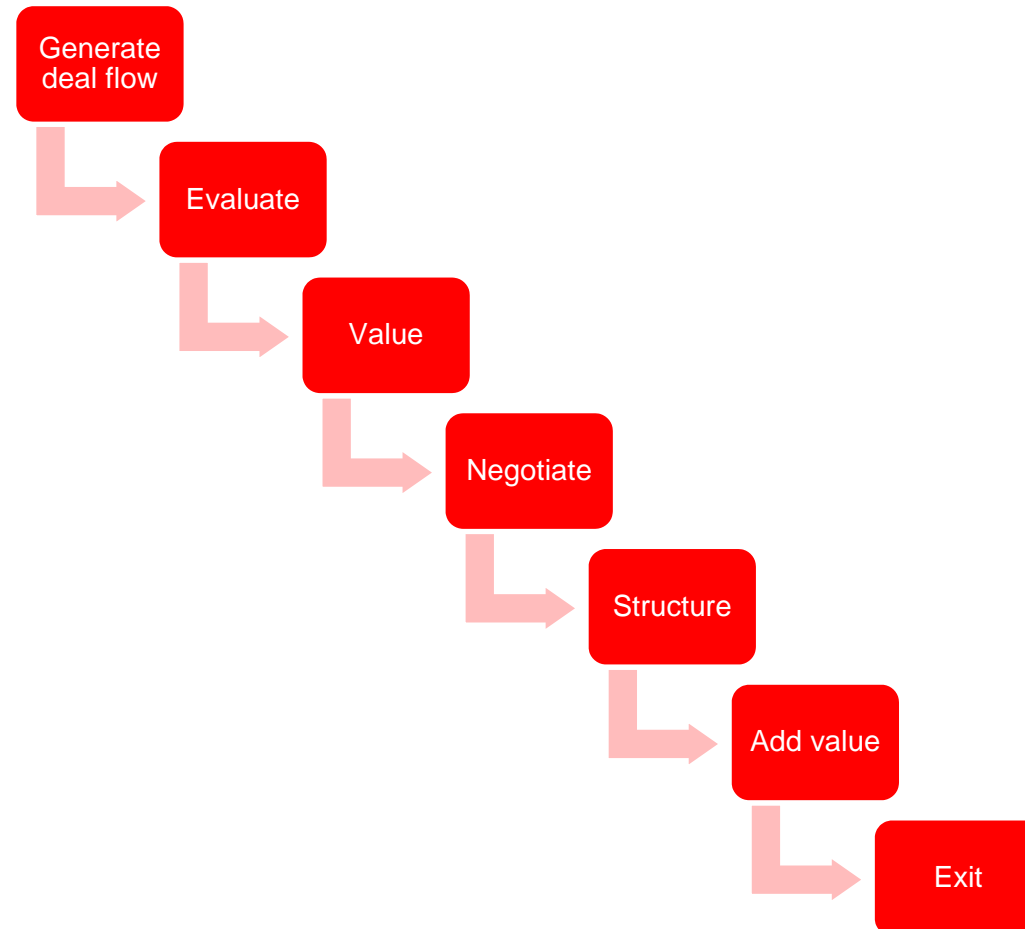
Investors know that all startups have business competitors...



There is also  
competition for the  
investors' money....

# The Investment Process

Seven foundations



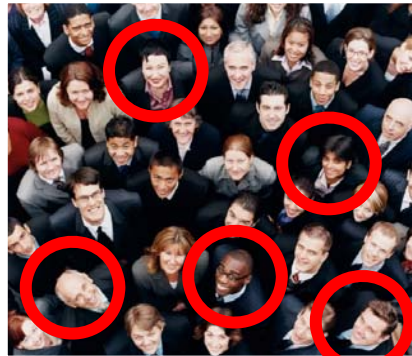
# How Do Investors Screen the Multiple Proposals They Receive?

## 1. Investment Strategy



- Industries
- Markets
- Technologies
- Location
- Stage of development
- Investment size
- ...

## 2. Initial Evaluation



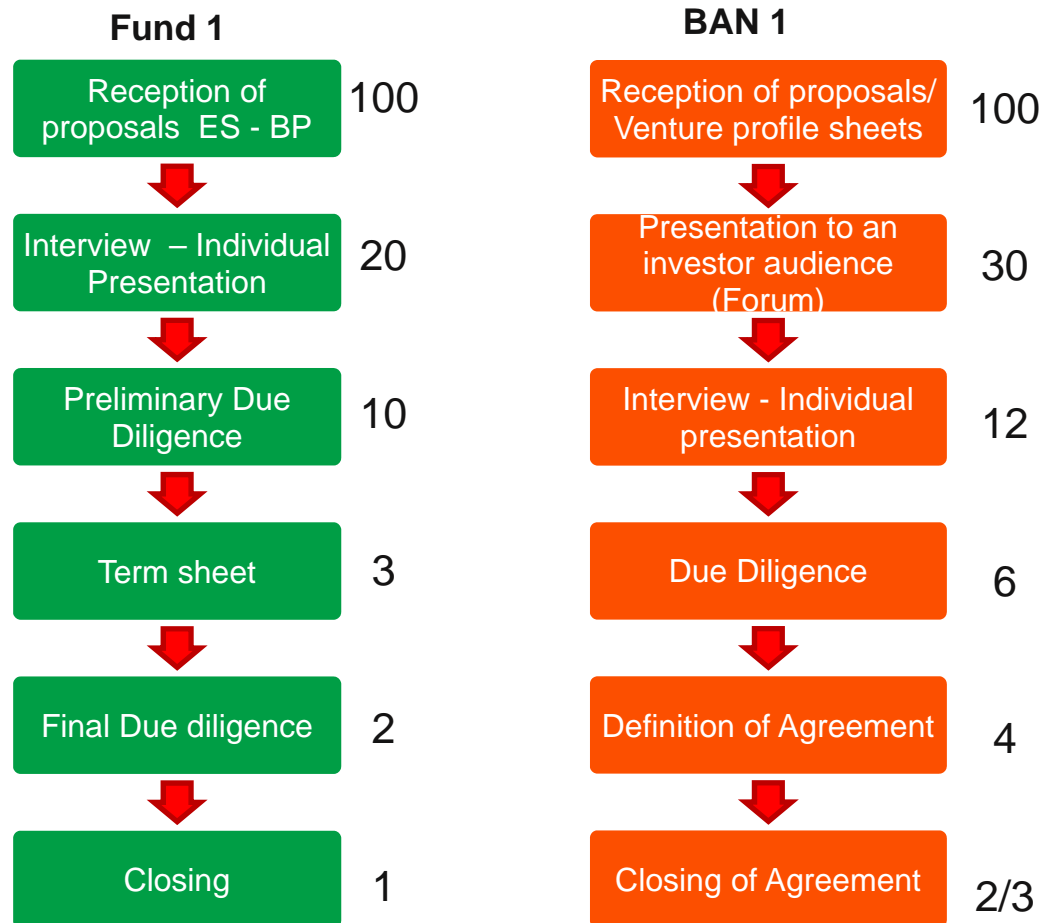
- Each has his / her own way..
- But there are some common criteria...

## 3. Initial Screening



- "I want to know more..."
- More detailed analysis

# VCs / Business Angels: Decesion Making Process



# Entrepreneurs and Business angels

## Different Perspectives

| ENTREPRENEUR                       | INVESTOR  |
|------------------------------------|---|
| An “unique” option                 | One in thousands  |
| Gollum                             | Tell me the “whole story”   |
| Ownership                          | Stake   |
| Product, Cash Flow, Other things   | Cash Flow   |
| Ex ante: Make / Demonstrate        | Ex ante: Evaluate   |
| Ex post:<br>Make / Test            | Ex post:<br>Give his/her opinion<br>(It depends on personal approach) |
| Daily basis<br>“Weather the storm” | Role:<br>“Put up with everything”                                     |
| Ongoing: Redefine / Improve        | Ongoing: Evaluate   |

# Entrepreneurs and Business Angels

## ■ Different perspectives

### The Entrepreneurs

*Evaluate **Business Opportunities***

Clarify his/her personal objectives

Establish the objectives of the venture / firm

### The Investors...

*Evaluate **Investment Opportunities***

TIR?

Revenues? Required ROI?

Role of capital and the investor in the project?

Money? For What?

Is it sustainable without money? Does it need an investor or a customer?

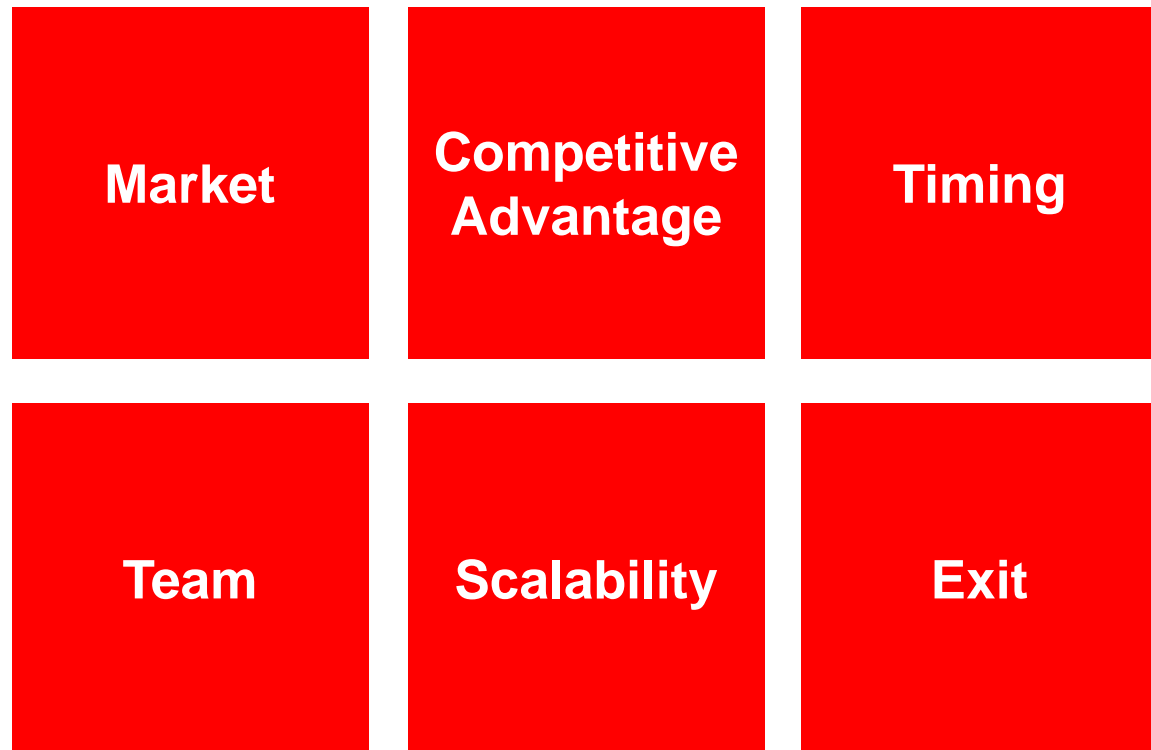
Looking for Funding or a Salary?

Pursued target size vs size of the required resources?



## ■ How Do They First Evaluate Investment Opportunities?

### Six criteria



## Is It VIABLE? / 1

### MARKET:

#### Does It Exist a Identifiable Market with an Appealing Potential?

- Does it exist already? Or must it be created? Is it a market that can be entered?
- Who are the customers? How are they attracted and retained?
- What is the value proposition for the customers?
- Can we communicate with them?
- Are there any distribution channels to reach them?
- Will they be willing to buy and pay an adequate price? Any evidence?
- Any operational advantages as a result of focusing the business?
- ...

## Is It VIABLE? / 2

### COMPETITIVE ADVANTAGE:

What Is It? Is It Significant? Is It Sustainable?

- From all the ideas that come to me... why is it that *this* will be the one that will succeed?
  - Pioneer? Unique? Any patent?
- What is / will be the competition? ... It must be evaluated.
- How (and when) will the “affected” incumbents react?
- What’s the profit potential in the industry concerned? (Porter analysis)
- How sustainable and defensible is the competitive advantage?

# Is It FEASIBLE? / 1

## TIMING

### Is It the Right Moment for this Opportunity?

- Is it the market prepared for this?
  - Why now, and not yesterday?
  - Is it too soon? Too late?
- Is the product / services ready for the market?
- How sustainable is the competitive advantage? How long will it last?
- ...

## Is It FEASIBLE? / 2

### MANAGEMENT TEAM

#### Is the Entrepreneur / the Team Capable to Build a Successful Business?

- Does the venture count on a complete, combined, committed and “compatible” Team (4 C’s)
  - Complementary skills?
  - Have they worked together before?
  - Personal objectives of key people?
  - Are they the type of people who you can get on well, and build a good relationship?

## ■ Is It INVESTABLE? / 1

### SCALABILITY

#### Is the Business Concept Scalable?

- A function of the basic economic model...

How big can it be?

While it develops and grow.... How more profitable can it be?

Can it be easily replicated?

- How much investment does this growth require?
- Can I afford it as an investor?

## Is It INVESTABLE? / 2

### EXIT

#### Is There a Way to Recover the Investment with the Expected Return?

What are the possible exit options?

Where does the value created reside in? How is it monetized?

Who takes the value created?

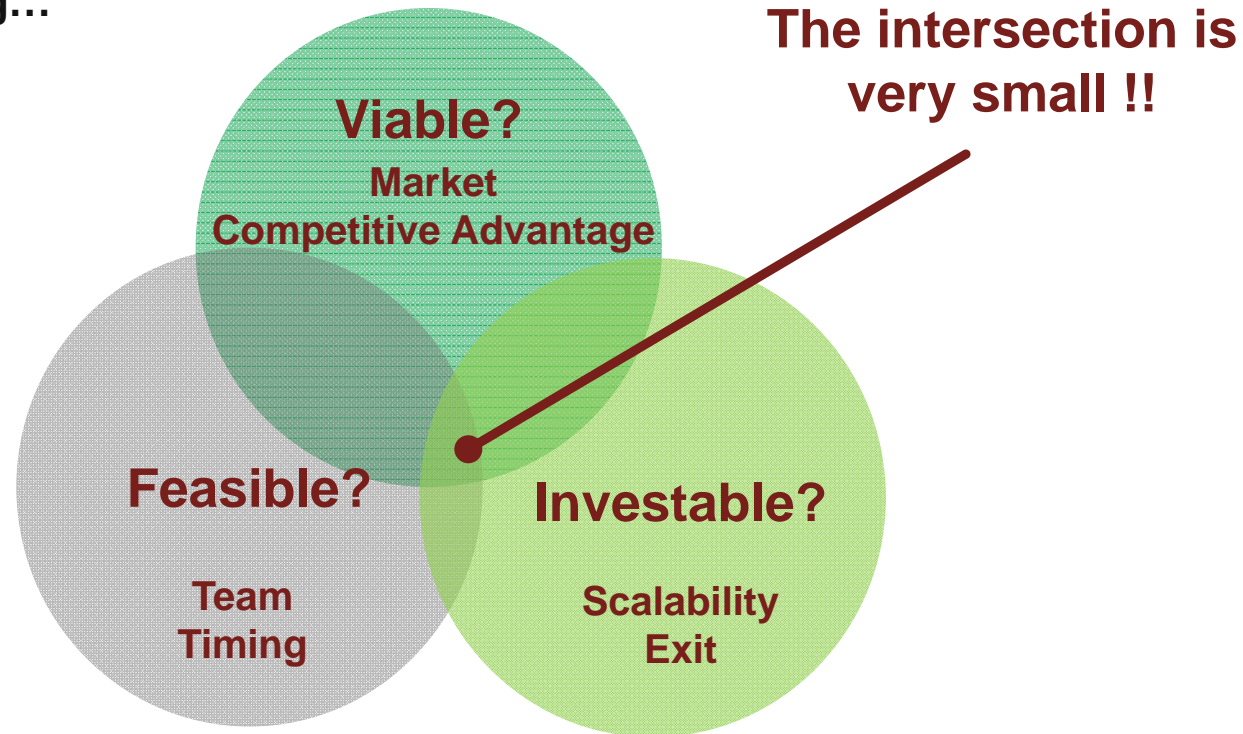
Does it provide an adequate return considering the level of risk involved?

Can other potential co-investors be attracted?



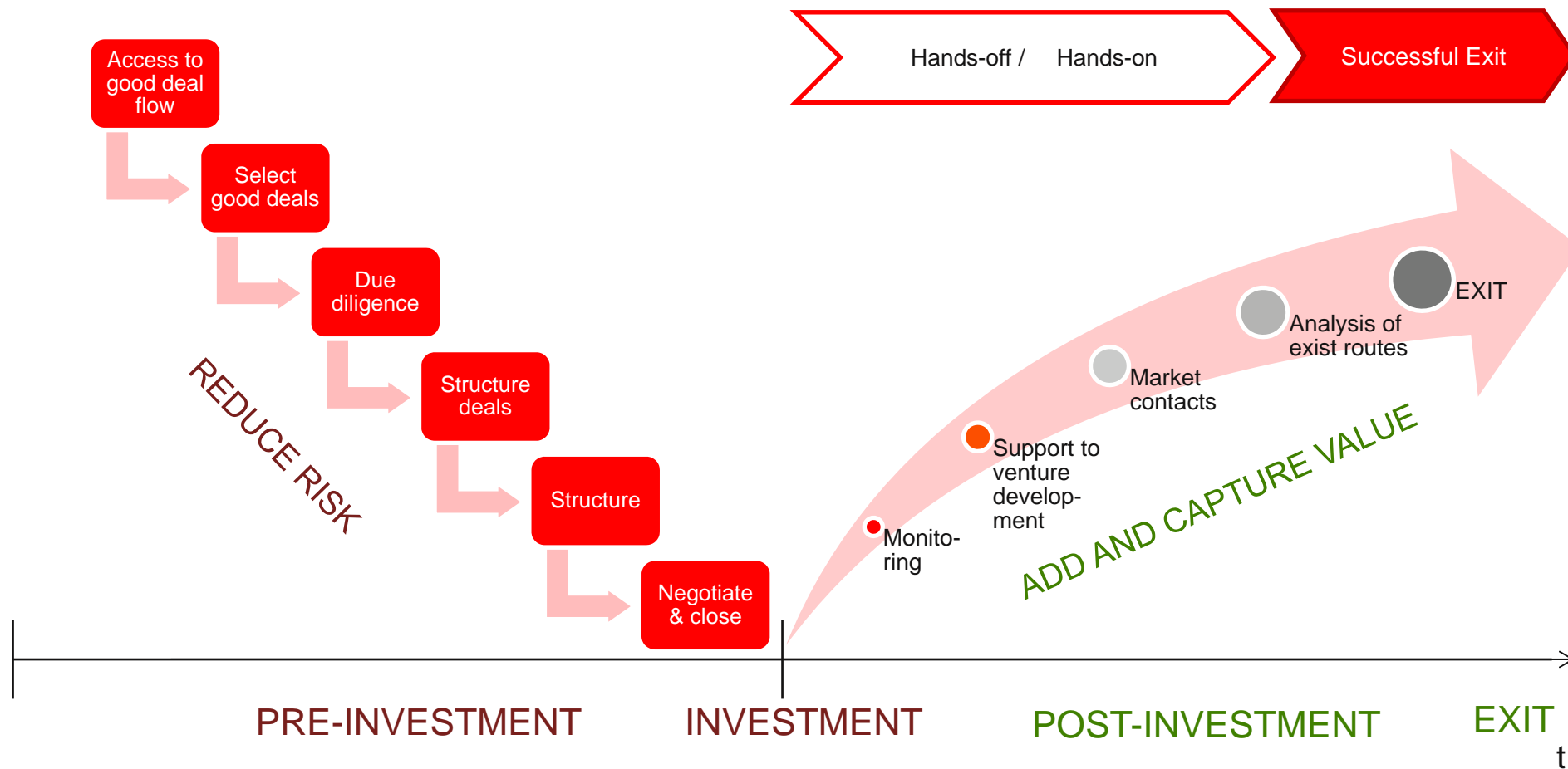
# ■ How Do Investors (First) Evaluate Investment Opportunities?

Summarizing...



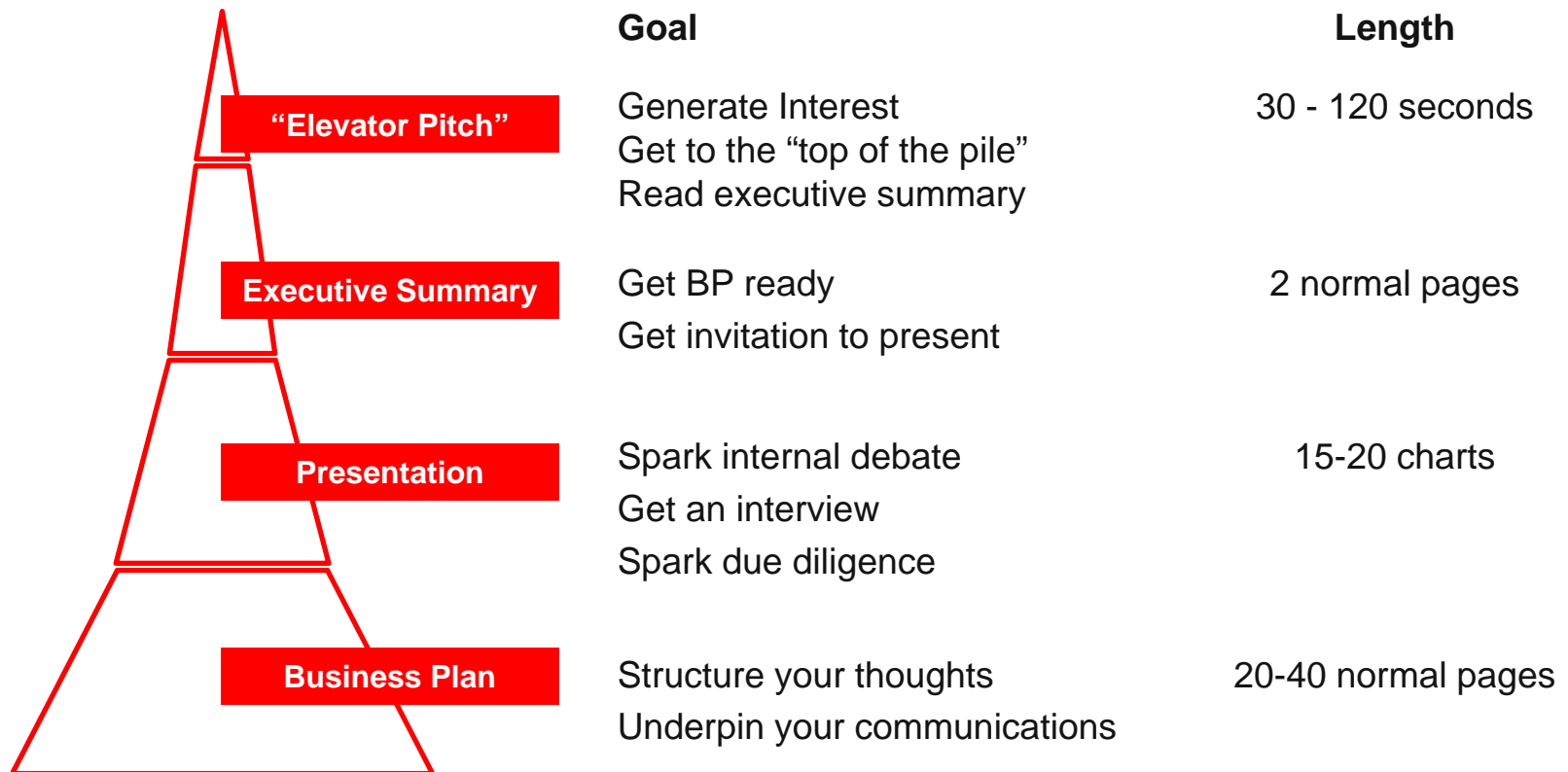
# The Interests of the Investors from Deal Flow to Exit

## ■ The Investors' Agenda!



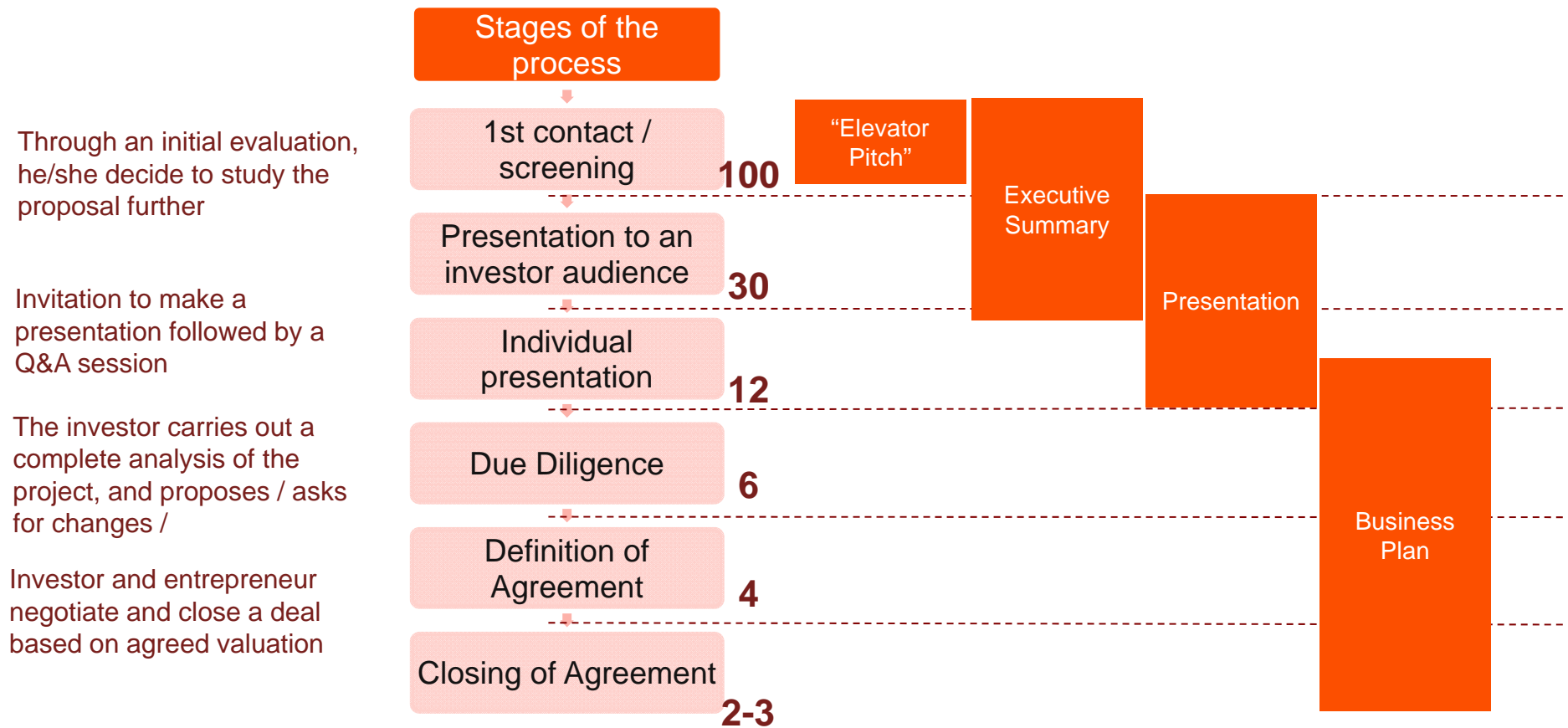
# How to Pitch

## ■ Communication with Investors



# ■ Communication Material

## How Can It Be Used?





## Preparing an Effective Pitch Deck To Investors

## Presenting to Investors:

### ■ A Possible Structure for a 10' Presentation

|  |  |                                  |                               |                                       |
|--|--|----------------------------------|-------------------------------|---------------------------------------|
| <b>1</b><br>Cover                                    | <b>2</b><br>Overview                   | <b>3</b><br>The Problem          | <b>4</b><br>The Solution      | <b>5</b><br>Target Market             |
| <b>6</b><br>The Product /<br>Service /<br>Technology | <b>7</b><br>Competition                | <b>8</b><br>Marketing &<br>Sales | <b>9</b><br>Business<br>Model | <b>10</b><br>Financial<br>Projections |
| <b>11</b><br>Financing<br>Sought                     | <b>12</b><br>The<br>Management<br>Team | <b>13</b><br>Current Status      | <b>14</b><br>Summary          |                                       |



## ■ 1. Cover

Evento - Fecha

- Name of the Venture + Logo
- Name of the Entrepreneur
- Contact information!
- Acknowledgment of whom the presentation is being made to

## ■ 2. Overview

- Brief introduction of your product/service
- Short explanation of the key points to be addressed in the presentation
- Brief introduction of the potential positive outcomes that will result from launching/developing the business
  - (Company, Societal, Financial)

## ■ 3. The Problem

- Explain the problem to be solved
  - What is the "pain"?
  - Why aren't customers satisfied with current solutions?
  - Will the problem get better or worse over time?
- Validate the problem with data/information
  - What do you potential customers think?
  - What do KOL / experts say?
- How big is the problem?

## ■ 4. The Solution

- Present your business as the solution to the problem
  - Why is different your solution? Describe how is distinctly different from others?
- Describe the degree to which your solution makes your customers lives richer or more efficient or effective?
- Talk about how you will erect the business to entry to prevent others from quickly copying your solution

## ■ 5. The Target Market

- Articulate your specific target market
  - Talk about business and environment trends that are providing your target market momentum
  - Who are your customers (willing to pay for your solutions)?
- Show, graphically if possible, the size of your target market, your projected sales (no more than 3 years), and your projected market share
  - Explain how you arrived at your sales figures
  - Be prepared to defend your numbers

## ■ 6. The Product/Service/Technology

- Talk about your product/service/technology, or unique aspects of your product/service/technology, if appropriate
  - Don't talk in an overly technical manner
  - Make it easy to understand
- Show pictures or descriptions of your product or your prototype
- Talk about any IP issues that are involved

## ■ 7. The Competition

- Discuss your direct, indirect and future competitors
- Show your competitive analysis grid
- Use the competitive analysis grid as a way to discuss the advantages you will have over your competitors
  - Talk about why you think your points of competitive advantage are sustainable

## ■ 8. Marketing & Sales

- Describe your overall marketing strategy
- Describe your pricing strategy
- Talk about your sales process
  - Explain what motivates people (companies) in your industry to buy
  - Explain how you will make your customer aware of your product and service
  - Explain how you will reach your customers
- Present your overall partnerships strategy (if any)



## ■ 9. The Business Model

- Explain how you generate money: your business' revenue model
- What is required for your business to be profitable?

## ■ 10. Financial Projections

- Show a summary of your income projections and your cash flow projections from the first 3 years
  - Condense the projections as appropriate to fit onto a single slide!
  - If the font appears to be too small, use an additional slide

## ■ 11. Financing Sought

- Show your financial plan that leads you to the funding you seek
- Define your funding needs and explain how you will use the funds
- Show the milestones you will be able to accomplish after you receive the funding you are seeking
- Describe any additional capital injection you may need, and when it will be required
- Present possible exit routes for the investor

## ■ 12. Management Team

- Describe your existing management team
  - Backgrounds and experience
  - How these factors are key to the success fo the venture
- Discuss the gaps in the management team and how you plan to fill them
- Briefly discuss your board of directors and/or board of advisors (if any)

## ■ 13. Current Status

- Highlight the milestones achieved to date
- Describe how much money the founders, the management team, and early investors have put into the firm
  - Describe how the money has been spent
- Describe the current ownership structure of the firm

## ■ 14. Summary

- Summarize the strongest points about your venture
- Summarize the strongest points about your team
- Discuss your exist strategy
- Solicit feedback
  - Set up a follow-up meeting if possible



Presenting to  
potential investors:

*Some  
recommendations*

## ■ Presenting: Some Mistakes To Avoid

- Too long introduction
- Slides plenty of images / photographs
- Complex charts / graphs
- Endless textual paragraphs
- Praying rather than telling
- Making a summary after each slide
- Using microscopic fonts for the numbers
- Telling everything about your technology / product – Engage us!
- Not saying what are you looking for and for what
- ...



## ■ Presenting: Some Recommendations

- Tell us a “business story”
- Distinguish the different types of audiences
- Expose key positive attributes up front
- Be honest about the things you do not know
- Have a credible appreciation of the competition
- 6-6-6 Rule
  - 6 words per textual block
  - 6 textual blocks per slide
  - No more than 6 textual slides in a row without a “visual” cut
- Sell with passion, enthusiasm and commitment
- **You are relevant, not your slides**

## ■ How To Get Through the ‘Eye of the Needle’

- The business concept:
  - Easy to understand!
- The business concept or the technology:
  - “Cutting edge”
- How the investment can generate substantial profit – to the investor!
  - Easy to understand too!
- The growth potential and the risks:
  - Both evident and well described!
- Management team:
  - Convincing!

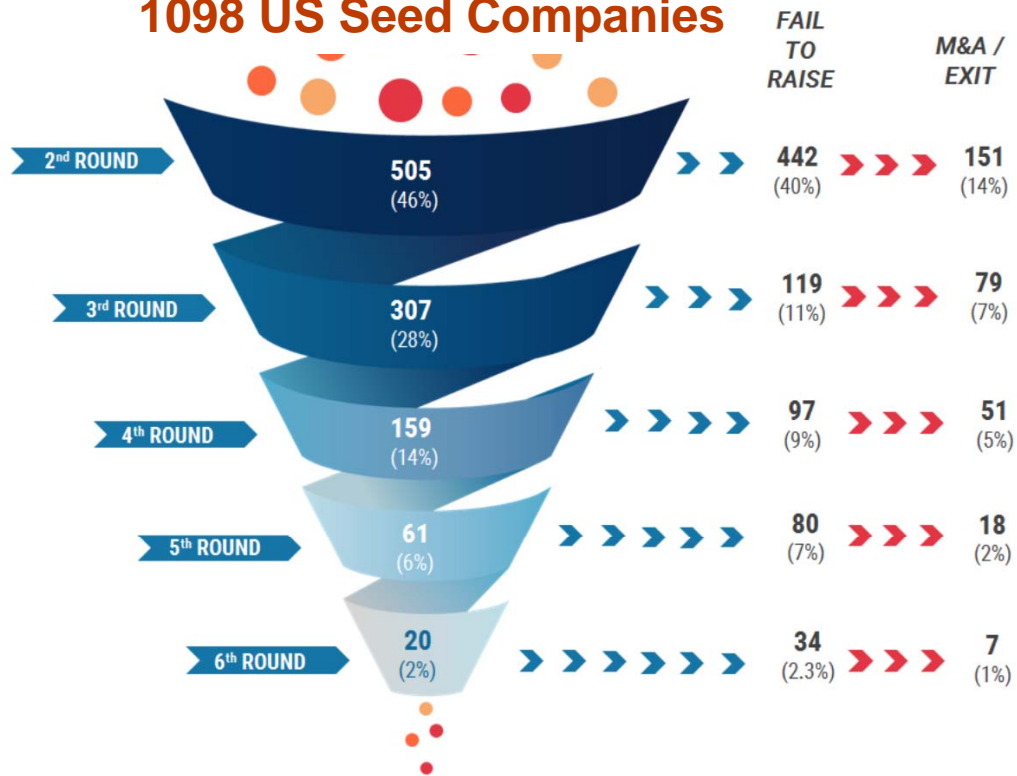
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■ Remember that There Are Different Private Investors for Each Stage of Development...



# 1098 US Seed Companies



70%  
DEAD / SELF-SUSTAINING

1% (10 companies)  
REACHED UNICORN STATUS  
INCLUDING...



And also remember that investors not always right:

They Fail Very Often...

## And that Business Angels Fail a Lot Too...

|                                   | <b>Angels USA<br/>(07)</b> | <b>Angels UK<br/>(09)</b> |
|-----------------------------------|----------------------------|---------------------------|
| # Angels                          | 539                        | 158                       |
| # Investment                      | 3097                       | 1080                      |
| <b># Exits</b>                    | <b>1137</b>                | <b>406</b>                |
| <1X                               | 52%                        | 56%                       |
| +10X                              | 7%                         | 9%                        |
| ROI                               | 2.6X / 3.5 años            | 2.2X / 4 años             |
| IRR                               | 27%                        | 22%                       |
| % of investments/<br>% of returns | 7% / 75%                   | 9% / 80%                  |

## ■ In Conclusion

**Investors does not evaluate ideas nor projects, they evaluate investments...**

The reasons for investing are always difficult to spot...

And there are always many reasons for not investing, and they are easy to see...



## How To Pitch