RAISE YOUR ROUND

AN ENTREPRENEUR'S GUIDE TO FINDING, CLOSING, AND ENGAGING ANGEL INVESTORS

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ANGEL FUNDRAISING: THE BASICS

As the **Series A crunch** gets worse, angel investment is becoming a standard step on a company's fundraising ladder. The Angel Capital Association estimates that angel investors invested almost $25 billion in over 70,000 early-stage companies in 2013. **The Angel Capital Association report** also shows that angels invested nearly as much capital as venture capital firms (VCs) in 17 times as many companies. Over the past four years, our company, P2Binvestor, raised more than $8 million from angel investors, and as a result I've spoken to hundreds of angels since the start of my journey.

This ebook is designed to provide you with some actionable insights and tips that will be helpful in your fundraising journey. I will share with you the steps I've taken, mistakes I've made, and lessons I've learned. If you are a first-time founder, entrepreneur, or CEO and you feel trepidation about fundraising, let me also say that I am a first-time entrepreneur and CEO. When I started raising my first round I was in a new city with no contacts to speak of and had to start from scratch.

Successful angel fundraising is about understanding what angel investors are looking for and being prepared to address their questions and asks. It's also a numbers game, because most angel investors are investing $25,000 - 50,000 at a time so to raise even $500,000 takes a group of 10-30 angel investors. If you're not one of those CEOs who likes to get out and network, deliver numerous presentations, and talk to people, don't worry, you will be one by the end of this process (full disclosure: you may also end up with a tequila problem).

What I outline in this ebook is very hard work. The bad news is that there is no silver bullet for raising money. That said, there is a proven path—a path I know you can follow to be successful. I have spent invaluable and countless hours preparing for fundraising; all of it gave me the confidence to speak to investors and convince them to invest in our company, but it also gave me a better understanding of my business and made me a better leader.

I offer one caveat: If you can get to market and get to revenue by **bootstrapping** (without needing to raise capital), I encourage you to seriously consider that as an option. Otherwise, this resource is for you.

Before I dive in, let me preface this advice by saying not all companies are a good fit for angel fundraising. It's not a hard and fast rule, but typically the sort of company that attracts angel investors has the following characteristics:

- A team rather than a sole founder
- A working beta version and early revenue (ideally)
- Demonstrable traction
- A clear path to exit within 3-7 years

I raised my first round of $1 million in 2013—pre-revenue with very little traction. However, it is becoming rarer to see pre-revenue companies raise a successful angel round. The exceptions are advanced technology companies that typically have a longer go-to-market cycle.

> **THE BEST ANGEL CAPITAL GOES TO THE INNOVATIVE COMPANIES THAT HAVE THE POTENTIAL TO GROW TO HUNDREDS OF EMPLOYEES AND $50 MILLION IN SALES WITHIN 3 TO 7 YEARS OF START UP.**

- ANGEL CAPITAL ASSOCIATION

There are plenty of companies that do not necessarily fit the mold highlighted in the quote above, and there are many new kinds of fundraising options today that include crowdfunding, small business loans from online lenders and traditional lenders, friends and family, and sometimes government programs and grants. I recommend getting in touch with your **local Small Business Development Center (SBDC) office**; the SBDC often has great resources for early stage businesses.

GETTING STARTED

This ebook has five chapters:

1. PROFILE OF AN ANGEL INVESTOR
Raising angel money is ultimately a sales job, and the key to success is to truly understand your customer. Angel investors, like angel-funded companies, share many of the same characteristics.

2. PREPARING FOR YOUR RAISE
There is a standard set of documentation you need to have ready to raise funding. You must also mentally prepare to raise successfully.

3. FINDING ANGEL INVESTORS
Angel investors can be found in predictable places, and there are many things you can do to get in front of them.

4. CLOSING THE DEAL
Raising angel funding is often about deftly corralling many people in one direction. It's also about putting together the right deal structure that will appeal to angel investors.

5. ENGAGING YOUR INVESTORS
Raising the money is only the first step. Once you have angel investors they are going to expect certain things from you.

Think of this ebook as a toolbox of ideas and suggestions that will get you started. My first angel round took six months to close, but my subsequent rounds took about half the time. The good news is that the work you do in your first round will serve you well through all your fundraising rounds.

CHAPTER 1

PROFILE OF AN ANGEL INVESTOR

Angel investors are hugely important to the entrepreneurial ecosystem and provide 90% of outside equity for early-stage companies. The Angel Capital Association estimates that there are approximately **300,000 active angel investors** in the U.S. who have made an investment in the last two years.

Contrary to popular belief, not every wealthy person is an angel investor. There are an estimated **12.4 million households in the U.S.** that qualify as accredited based on the **SEC definition**. So, of the total number of people in this country who theoretically have enough income to do some risky early-stage investing, less than 2.5% actually consider themselves angel investors.

Why? Honestly, many simply do not know how, which is why so many angel groups are forming and becoming popular. Investing in early stage companies is extremely risky, and good angels are comfortable with those risks. Just because a person has the money doesn't mean they find it easy to write a $25,000 check to an entrepreneur who is most likely going to lose it. This is the sad, but true reality about entrepreneurial endeavors.

The good news for entrepreneurs is that angel investing is gaining in popularity, and the rise of angel groups is providing more and more individuals the confidence to invest in early stage companies.

SOME COMMON CHARACTERISTICS OF ANGEL INVESTORS

- They are often entrepreneurs who have had a **successful** exit or **retired** business professionals who want to help new businesses succeed.
- They are **accredited** investors.
- They invest **their own money** (less than 10% of their wealth) and are not money managers for other people.
- Generally, they invest in **local companies** because they want to support businesses in their community.
- They are often **time-poor**; angel investing is usually a part-time activity.

Angel investors are sophisticated and understand the risks of investing in early stage companies. I can almost guarantee that any angel investor who gives you money knows full well that you have a high likelihood of failure. And that's a good thing. You never want to take money from someone who doesn't understand the risks and may be in bad shape if you don't deliver.

Angel investors are usually men. Only a tiny percentage of my investors over the years have been women. The good news is that **one in four angel-funded companies are women-led**, so the fact that most angel investors are men has not been detrimental to female founders. I also know that more and more women are getting into angel investing, so the ratios are changing. The next step is to increase the number of women-led, VC-backed companies, but that's a topic for another day.

Angel investors think about investing as a portfolio-diversification strategy—they're likely to invest a set amount of money per year and per deal. For example, an angel may invest $25,000 into four deals per year. Active angel investors are typically invested in at least 10-30 deals at a time, but only make 2-5 investments per year.

Is it possible you're going to find an angel investor who can write you a check for your entire round in one fell swoop? Yes, definitely. Are they likely to do it? No, almost never. I always smile when entrepreneurs tell me they're meeting a billionaire who could easily write them a $1 million check. I smile because I've said it myself, and I can count on one hand the number of $250,000 checks I've received.

It's important to understand the following:

TIMING IS A HUGE FACTOR, AND IT IS USUALLY BEYOND YOUR CONTROL.

Angel investors are dealing with many things in their own lives, both professional and personal, and sometimes these things may conflict with (or benefit!) your fundraising timeline. In our first round we were having trouble getting our first big commitment when our lead angel sold his business and was in a perfect position to write a big check. It might be tax season, or they may have just bought a house or invested in two other deals. You can ask prospective angel investors about timing and their recent deals to get a feel for whether the timing is right or wrong for your deal.

THEY DON'T LIKE TO INVEST ALONE OR BE THE FIRST ONE TO INVEST.

Angels do not have a lot of time to do diligence, and they feel more comfortable when other people invest in the same deals—a big reason angel groups are so popular. In the same way you need confidence to raise money, angels need confidence when it comes to making investment decisions. It's usually a big investment for them, so they worry about making the wrong decision.

THEY LIKE TO INVEST IN WHAT THEY KNOW.

Finding at least your first few investors in a relevant sector gives other angels a lot of confidence. It really helps when someone who is knowledgeable about your market invests and can then say with confidence that there is market need, the idea is good, and the team is strong.

THEY REALLY LOVE RESULTS.

The best thing you can do is to take their money and actually deliver results in terms of revenue and growth. I know that sounds obvious, but I also know **firsthand how easy it is to raise $1 million and spend it all** before getting to revenue. If you raise a small round and then prove that you can grow your business, your angels will be much more likely to help you with your next round as well as tell their friends about you.

This post does a great job of describing how angels think about investing. In terms of what they are actually looking for, we'll cover that in **chapter 2: Preparing for your raise**, but two things stand out for me and they are true for all investors, not just angels:

1. INVESTORS WANT TO KNOW YOU ARE COMMITTED.

They want to know that you are going to do everything you can to give them a return on their money and not give up when the going gets tough.

2. INVESTORS WANT TO SEE THAT YOU HAVE TRACTION — IN REVENUE, PRODUCT, AND YOUR INVESTMENT ROUND.

The first point will come through in your perseverance and preparation, which I will cover in **chapter 2: Preparing for your raise**. The second point is covered in **chapter 4: Closing the deal**.

CHAPTER 2

PREPARING FOR YOUR RAISE

Being prepared for a round is critical to successful fundraising. The good news is that it isn't hard. The bad news is that it requires time, effort, and attention to detail, and the work often rests on the shoulders of the CEO who is busy and thinking about a hundred different things. I have spent countless hours working on pitch decks, executive summaries, and financial projections. If you, like me, are building a company that requires outside funding to cover the losses that come with significant investment in sales, marketing, and technology development, then it's just part of the job.

Funny enough, those hours I've invested in preparing for fundraising have also made me a better CEO. They force me to think about what is really important, what my plans are, and why I've made certain assumptions. My ability to speak credibly about my business has increased a hundredfold over the years because of my fundraising preparation. It's given me a much greater chance of success at closing not just new investors, but also new customers, new partners, and even new employees.

FIRST THINGS FIRST: YOUR FUNDRAISING MATERIALS

You should prepare a core set of fundraising documents before you start raising money from angel investors.

Here it is in order of importance:

+ Pitch deck
+ Term sheet
+ Five-year financial projections
+ Demo video
+ Executive summary
+ FAQ

Before we dig into each item in the list, let me be clear: The point of having these materials prepared is to secure an investor meeting, similar to using a customer facing brochure to attract a prospective customer. Your materials will never answer all of their questions, and there are very few angel investors who will invest without having a conversation with you to better understand the concepts you will present in your fundraising materials.

Do not try to put everything in your head into these documents. Think of them as marketing tools that are designed to get investors excited enough to take that important first meeting with you.

PITCH DECK

In my humble opinion, your pitch deck is the most important tool in your fundraising toolbox. A good deck gets you meetings and introductions, and it shows investors that you know what you're doing. If you can tell your story in a compelling way in 10 slides, you demonstrate that you understand your business and how to sell it succinctly and effectively. Spend your time developing a great pitch deck. Spend hours, days, and weeks working on it and refining it. I promise you it will not be wasted effort if you are raising money.

This is also not something you can outsource easily. A pitch deck tells the story of your business, and as the CEO, you are always the best person to tell that story in the most compelling way. At any one time I usually have two versions of my pitch deck, an overview (10-12 slides) and an in-depth (15-20 slides) version. The in-depth deck is the master version that I am constantly updating and the overview deck contains the 10 most critical slides from the in-depth version.

In terms of style, I try to keep my pitch decks as visual as possible, but I'm not one of those people who espouses the benefits of a large picture and no words on the slides. I do, however, try to keep the use of bullets to a minimum and favor images, charts, and statements backed up by numbers. When it comes to template design, you

VISUAL ELEMENTS OF A KNOCKOUT PITCH DECK

A few extras will make your deck better:

+ **A SHARP LOGO AND BRANDING.** You can get a very affordable cool-looking logo from 99Designs. We took this route; **read our story here**. You'll get a lot of designs from numerous designers, and then you can vote on all the options you receive to narrow the field to the best logo.
+ **A HOW-IT-WORKS DIAGRAM.** Work with a designer to create a visual representation of your offering. You can even put this design in your demo video.
+ **PROFESSIONAL, CONSISTENT TEAM PHOTOS.** Hire a photographer or have someone on your team who is handy with a camera (or even a smart phone) take professional-looking photos for your team slide. Team slides with photos that don't match or are inconsistent can seem sloppy and draw awkward attention to an otherwise amazing deck. Have some basic rules about dress and background, get everyone into the same place with decent light, and take some nice photos that match.

can use one of the free designs that come with your presentation program or create your own, but I recommend that you purchase a PowerPoint or Keynote or other kind of presentation template from a site like **GraphicRiver**, or work with a designer to create a custom template. You can find affordable designers on freelance sites like **Upwork**. Take the time to make your deck look polished and professional; it makes you stand out and it shows that you are taking fundraising seriously.

In terms of content, I won't go into too much detail here. There are **a lot of great resources** out there on **how to put a pitch deck together**. I always start with the problem, go into the solution, talk about the market, and then move into the details of product, go-to-market, financials, exit strategy, and terms. The further along you are, the more detail and data you should have to help illustrate your traction.

WHAT TO COVER IN A PITCH DECK

I always include a slide on each of the following topic areas:

- Problem
- Solution
- Market
- Product
- Go-to-market
- Financials
- Team
- Exit strategy
- Terms

Getting started is probably the hardest part. Personally, I recommend that you start by spending considerable time **looking at various decks**. Write down notes and take screenshots of slides you like, and then open up PowerPoint (or whatever program you prefer to use) and start drafting slides. I also find it incredibly useful to write out my script for each slide - or at least the key points of my message.

Once you have a draft you're happy with, send it to some people and ask for feedback. Stand in front of someone you trust and actually present it. Presenting your pitch deck out loud to another person will always give you insight into changes that will make it better. Once you think it's really good, go present it at a local pitch opportunity such as **1 Million Cups** (a fantastic weekly gathering of entrepreneurs around the United States started by the Kaufman Foundation). Presenting to strangers will give you confidence and allow you to receive feedback that will really help you as you refine your deck and presentation. Here's a video of me **presenting an early version of my pitch deck** in front of 300 people in Kansas City. And here's one from a year later **presenting at the World Cup Tech Challenge**. You can see how much my pitch changed over time. That's normal.

Once you're feeling good about your deck, it's time to start sending it to investors. However, in the early days, you will often edit your pitch and deck substantively after every investor meeting like I did. So, just because your presentation is ready doesn't mean it's finished.

The truth is that your deck is never done. I have hundreds of versions of my deck. As your business grows and changes, so will your pitch deck. You will also get better and better at telling your story, which will make it easier to raise money from various kinds of investors: Angels, VCs, and even strategic investors.

TERM SHEET

In a venture capital round you expect to receive a term sheet. In an angel round, you almost always bring your own term sheet to the table. An angel group or lead investor may negotiate with you, but they want you to make the first offer. We'll cover deal structures in a little more detail in section four, but I recommend working with a good start-up attorney to help you put together a term sheet that is balanced and straightforward.

FIVE-YEAR FINANCIAL PROJECTIONS

If you're raising money, you need to have good financial projections; it's also important that you are comfortable talking through them with investors. What you don't necessarily need is a complex financial model developed by a CFO. For the most part, an early stage projection model is all about **customer acquisition costs and lifetime value assumptions** based on what you know so far.

YOUR FINANCIAL PROJECTIONS SHOULD ANSWER THE FOLLOWING QUESTIONS:

- How many customers are you going to close?
- How much revenue will that bring your business?
- How much do you need to spend to get those customers?
- How many people do you need to hire?
- How much cash will you spend before breaking even?

Focus on the short term, and worry less about accuracy in the out years (although you will want to show the hockey-stick growth curve). Your answers will almost certainly be wrong. Angel investors know they are going to be wrong. What they want to know is that you have a plan that seems reasonable. For example, it's unreasonable to assume you'll get to a million customers with social media activity alone and no real marketing spend.

With the right evidence, however, it might be reasonable to assume you'll get to 50,000 customers paying $10 per acquisition over the next 12 months.

When I put together fundraising projections I always have the following tabs:

+ Summary P&L for the next five years
+ Month-by-month P&L for the next 18 months
+ Key drivers and assumptions

Of course all the assumptions you make—especially at an early stage—should be backed by research and comps wherever possible. Transparency is becoming increasingly common, and more and more companies are publishing their statistics (love those **folks at Buffer**) and with the help of **Quora** and Google you should be able to pull together some rough assumptions that will let you put a financial model together.

From a financial perspective, the number one thing angel investors are concerned about is when a company will run out of cash. Running out of cash is a huge risk for every startup and **the reason many fail**. Always know how much money you have and how much runway that money buys you at your current burn rate. That's the real reason you do a financial plan—to understand what you need to spend to hit revenue.

Roughly speaking, the amount of money you raise should be about 12-18 months of cash burn. If the round will get you to cash-flow positive, that's always a bonus for angel investors.

Demo video

In the next section (chapter 3) we'll talk about how to find angel investors. One of the most popular ways is to use platforms like **Gust** and **AngelList**. These platforms are designed to help showcase your company and a video adds a lot to your profile. The video should ideally outline the problem you're solving and how you're going to execute. It should be no more than one minute long and easy to understand. A good rule of thumb is to think about grandparents: If your (or someone else's) grandparents understand what you are doing after watching your video, you've done it right.

Our first demo video cost almost nothing to put together. We wrote the script ourselves, recorded the sound on a laptop, and found a freelance video producer on Upwork to create the video. There are also **a ton of do-it-yourself video creation tools** and with a bit of determination and creativity you can produce something very effective.

EXECUTIVE SUMMARY

An executive summary is a two-page document that summarizes your business plan. However, you probably noticed I didn't list business plan as one of the documents you need in your fundraising toolbox. When I first started fundraising, I had a 60-page Private Placement Memorandum (PPM). No investors ever read it. I will admit it was a good exercise to put our plans down on paper, but it was never something required for fundraising. At most, I would suggest a 10-page business plan if you want to have one.

On the other hand, a two-page executive summary that summarizes your business, target market, go-to-market strategy, competitive advantage, traction, and team is a document many investors will ask for and actually read. I now embed charts and images from my slide deck into the executive summary to make it more visual. There are **a ton of articles** on how to write a good executive summary. Do some research, put together a draft, and then start sharing among trusted advisors to get feedback and refine it.

FREQUENTLY ASKED QUESTIONS (FAQ)

As you start talking to investors, they are all going to ask the same questions. Early on I pulled together a list of these common questions and turned it into an FAQ document that I found very useful for fundraising, especially when going through diligence with angel groups.

I suggest you keep your FAQ document to no more than 2-3 pages, and list the questions with a short 1-2 paragraph answer for each question. I often attached it to the back of my executive summary which was my substitute for a business plan.

Once you have all these documents together, you are ready to start finding angel investors. Finding angels is a lot easier than you think, especially if you've put the time into creating compelling materials to get them interested. You want your materials to stand out among the hundreds of other pitch decks that are vying for the attention of these investors.

MENTAL PREPARATION

It's no secret that entrepreneurship comes with **more than its fair share of ups and downs**. I would argue the fundraising process is even more of a roller coaster than your normal day-to-day activity because you usually have so much riding on success. All you want is to launch your round, have it fund immediately, and then get back to running your business. But it's almost always a slog, and the constant rejection makes it hard to stay positive. You will hear "no" a lot.

Positivity is so important. Projecting an air of confidence to potential investors makes a huge difference. No one wants to miss out on a deal. Your job is to **create a fear of missing out (FOMO)** through your actions and communications.

Are you always going to feel confident? No. Of course not. Can you fake it? Yes, you can, and you must. If you haven't watched **Amy Cuddy's TED talk**, now is the time. I am not ashamed to admit I have stood in countless bathrooms practicing confidence poses in the mirror during my years of fundraising, and I promise you it works. Find whatever it is that gives you confidence and inspires you to keep pushing until you finally get that last dollar.

CHAPTER 3

FINDING ANGEL INVESTORS

Angel investors are everywhere. Active angel investors often network with each other, so if you can find your way to one, you can often find your way to others via that connection. Once a few angel investors start to like your deal, they'll share it with their friends.

Before you get going, start a database or list of people you know or have met who are angel investors. As you start fundraising your list will get longer and longer, and being organized in this way will serve you well in future rounds. I met a lot of investors while fundraising in my first round who didn't invest until my third round. They only invested in my third round because I updated them on our progress once or twice a year even though they hadn't invested yet. The contacts you meet during your fundraising journey can also be helpful in your next startup. One last tip: Investors are very private, so as you build your list, also guard it with your life. The worst thing you can do and the quickest way to alienate investors is to share your list openly.

There are three key channels for finding angel investors:

- Your network
- Angel groups / seed funds / crowdfunding platforms
- Pitch competitions / tradeshows

GROWING YOUR NETWORK

The best place to start with your round is within your own network. Ask your friends, parents, cofounders, and anyone else you know if they might be willing to start making some soft introductions to people who may invest in early-stage companies. As we discussed back in chapter 1, just because someone is wealthy doesn't make them an angel investor, but it doesn't hurt to ask them for feedback and advice regardless. They may be willing to introduce you to some good contacts in their network.

The easiest thing to do is to provide the person making the introduction with a short paragraph about your company that they can easily cut and paste into an email. Think about that person and write a paragraph that sounds like a reasonable thing they would say about you to a new contact.

Fundraising is selling so it's always going to feel a little uncomfortable when you start asking for introductions and meetings, but also remember that you are asking someone to give you money so you can make them a big return on that investment. It's a business deal; it's not personal. Asking investors for money is going to be just as hard as asking potential customers to buy your product or service or whatever you're selling, so you may as well get comfortable with it now.

Growing your network means you will be out taking meetings with anyone and everyone who will speak to you. Even if you meet with someone who may not be able to directly help you, it's beneficial because these meetings help you practice your pitch. After 30 coffee meetings I promise that answering the common question "Give me your elevator pitch" will become natural for you.

PAYING TO PLAY

While you are networking as part of your fundraising journey, you will likely meet people who will offer to raise money on your behalf in exchange for a fee. I have yet to hear about one of these arrangements working well for early-stage companies. If you decide to go this route, make sure you check references and realize that you will still need to put a lot of your own personal effort into your raise regardless of who is helping you get in front of investors.

ANGEL GROUPS / SEED FUNDS / CROWDFUNDING PLATFORMS

The difference between angel groups and seed funds usually comes down to structure. Most angel groups are networks in which members make their own investment decisions. Whereas a seed fund is often structured more like a venture capital firm in which investors have pooled their funds into one entity that is making the investment. Be sure to educate yourself about **all the different types of investors** you may run into during early stage fundraising. My experience is that angel groups are easier to find success with because every individual in the group can decide they like your deal whereas in a seed fund there are far fewer decision makers.

Because this is a resource about angel fundraising, I won't get into the topic of seed funds, but I will say that the materials you provide to a seed fund will be almost identical to the those you prepare for angels (discussed earlier in chapter 2). If you're looking to get into one of these funds, there are some **great resources online**.

The Angel Capital Association has over 400 registered angel groups. Many angel groups have a website they use to educate entrepreneurs and handle their applications to pitch, so often the best place to start is to set up profiles on **Gust** and **AngelList**, and make sure they are as complete as possible. Update these profiles often. There are various **strategies for success**, but in my opinion it all comes down to being prepared with compelling, well-designed materials that appeal to investors.

Next, start researching which groups are a fit for you. There are angel groups focused on backing women-led companies, specific industries, and—more commonly—certain regions. Angels like to invest locally, so the faster you can get plugged into your local angel network the better. Gust has a search feature to find relevant angel groups, and the Angel Capital Association has an **awesome directory of groups**.

Typically, an angel group will have a screening committee that vets the applications. It really helps to be introduced into these groups, so use the network you've been building to try and find a way in. If you pass the initial screening, the next step is usually a pitch to the broader group, and then if there is interest, you'll move into a diligence phase. Angel groups are becoming more and more procedure-oriented, so the process is often very clear and syndication is becoming more common. If you have one group involved, they will often collaborate with other groups to complete larger rounds.

This report lists the most active angel groups in the country. The average deal size is well over $1.5 million with a typical valuation of $3 million. This is increasing, however, as angel investors are funding more later-stage companies.

With the passage of the JOBS Act, **equity crowdfunding platforms** have received a lot of attention. Many of them are effectively online angel groups with accredited investors who review diligence materials and participate in deals. Back to the point I made earlier, the thing to remember is that there is no silver bullet to fundraising, especially in the first round. It is unlikely that a single platform, angel group, or individual will make it easy for you. Success is about putting in the work to make it easy for them to say yes.

PITCH COMPETITIONS

There are so many pitch competitions open to startups these days. While the prizes aren't that significant, there are often investors in the audience. The same goes for tradeshows, conferences, and anywhere else you can showcase your company to relevant people. We pitched early on at a big financial technology conference, and the momentum we gained from that event helped us get our first round closed. Be creative and willing to travel. Getting out of your own backyard can really expand your network.

You may notice I haven't mentioned **accelerators or incubators** up until now. Obviously these programs are hugely popular, and demo days for programs like **Techstars** and **500 startups** attract a lot of angel investors. Does joining an accelerator program make it easier to get angel investment? Yes, it can. Does it make it a sure thing? Definitely not. Especially if you're not in one of the top programs which are very competitive.

In the end, if you believe an accelerator is going to add value to you as you build your company, go for it. However, I would discourage anyone from joining an accelerator simply because you think it will make it easier to get funding. If your idea is good and you are well-prepared, you can raise angel funding.

Suffice it to say there are a lot of places you can find investors when you're ready to start looking.

CHAPTER 4

CLOSING THE DEAL

Opening your round is surprisingly easy (yes, even with all of that preparation you had to do). Closing your round is surprisingly hard. You would think that because you have prepared sufficiently and are getting in front of investors successfully, it's only a matter of time before you close that round.

Sadly, that is not true. There are three key parts to closing a round:

- Deal structuring
- Completing diligence
- Building momentum

DEAL STRUCTURING

The key to closing your angel round is to keep your deal as straightforward as possible. As I discussed earlier, angel investors are typically time-poor, and complex deals mean they need to put more time than they likely have into understanding not only your company, but now your deal.

WATCH OUT!

Watch out for angel investors who want to put uncommon terms into your deal. Be cautious before agreeing to any of these terms, and speak to your attorney to make sure you understand the motivations of the investor. The following are some examples of uncommon terms:

- **HIGH LIQUIDATION PREFERENCES**. The standard is 1x which means investors get their investment back first. Anything else really has no place in an early stage deal.
- **VETO POWER OVER FUTURE DECISIONS** like fundraising rounds, sale terms, or any other critical items. Ideally the entrepreneur should still have control in an angel round.
- **BOARD SEATS**. Many angel investors will ask for a board seat. Try to keep your board small, and be very judicious about who you allow on the board.

Also, if you are planning to take a subsequent round from a VC or other institutional investor, they generally do not like to see an angel or seed round with non-standard terms. It's in your best interest to keep everything simple.

In a typical angel deal, a company usually brings their own term sheet to the table. In each round I raised, my team and I worked with our attorneys to structure a fair deal and then negotiated the key points like valuation and preferences with our lead investor or angel group. At this point, you may be wondering why angel investors will not typically give you a term sheet. Most are going to invest less than $100,000 in your round and for that amount they don't want to spend ages negotiating the finer points. They also want to know that you, as CEO, have a good understanding of what your company is actually worth.

Most angel rounds are going to be structured as **preferred stock or convertible debt**. Selling preferred stock involves more legal work than convertible debt, but to be honest with you, convertible debt will eventually convert into stock anyway, so it's only a temporary time and cost savings. I have heard that angel investors prefer stock over debt, but I believe there is place for both, and it doesn't really matter as long as your **convertible debt is structured correctly**.

A good startup attorney will have term sheets you can work with to get started easily. A great book on the subject is **Venture Deals** by Brad Feld. However, let me give you my perspective on how to think about valuation because that's the thing both you and your angel investors care about most, and it often sets the tone for the deal.

All entrepreneurs want to get the highest valuation and give up the least stock possible. My general rule of thumb is that if you are pre-revenue or early-revenue when you raise a round, you'll give up about 30% of your company for the first $1 million you take in (this lines up with **Angel Capital Association data** which says angels typically invest $1 million at a $3 million pre-money valuation). Now, that's not exact science, but remember you always need to be thinking about the exit for your angel investors when pricing your round.

For example, if you sell 20% of your company for $1 million, that implies a post-money valuation of $5 million and a pre-money valuation of $4 million (the post-money is simply the pre-money valuation plus the amount of cash raised). Now, remember that an angel investor is looking to get 10 times (10x) their investment back in 5-7 years. So, that automatically means you need to sell your company for no less than $50 million to deliver that return to them (10 X $5,000,000 post-money valuation).

The chances of you taking your first $1 million and turning that money into a company worth $50 million without any additional investment is not impossible, but it's definitely unlikely. If you take Series A and Series B rounds before you exit, your angel investors are likely to get diluted down to under 10% ownership if they started at 20%. All of a sudden, you need to sell your company for over $100 million to give them that 10x return based on their new ownership percentage. Considering those numbers, it's not unreasonable to give these early investors who took a huge risk in investing in your business a higher stake so they will do well if you end up being successful and hopefully go on to invest in many future entrepreneurs.

Wondering how much to raise? Consider this advice from **PETER ADAMS**, executive director of Rockies Venture Club, who has worked with many entrepreneurs (myself included):

MANY ENTREPRENEURS HAVE A HARD TIME FIGURING OUT HOW MUCH TO RAISE IN EACH ROUND. THERE IS A LOGICAL WAY OF COMING TO THE RIGHT NUMBERS:

FIRST, don't even think about trying to raise all the money you need in your first round—you'll do better to raise a smaller amount and add value, then raise more at a higher valuation 12-24 months later.

SECOND, work up a believable proforma with a growth curve that is supported by comparable growth curves from other companies that have preceded you in your industry.

NEXT, figure out what your total "burn" is until you achieve your next key milestone. A milestone is a key value inflection point such as hitting a $1 million run rate ($83,333 per month in revenue) or getting an FDA or CE Mark approval. Give yourself a little buffer to help make it through bumps in the road, and raise enough to get you to those key milestones where you will be attractive to investors for the next round of funding.

COMPLETING DILIGENCE

Diligence is the process by which any investor (or lender for that matter) determines whether everything you've told them in those initial meetings is, in fact, true. Unfortunately for all of us, there are bad actors out there who are trying to take investor money for nefarious purposes.

You may have heard that you need to **find a lead investor**. Some people argue a lead investor should have the most money in your deal or that they should sit on your board, and those things may indeed be true of this person. Ultimately, however, a lead investor is the person who puts their hand up to undertake diligence. They vouch for you to other investors—they state that you are who you say you are and that you have done what you say you have done.

Taking into consideration the fact that many angel investors are putting a small amount of money into your deal, they don't usually have time to put in the extra hours to do the diligence on you and your company. With the professionalization of many angel groups, I believe lead investors are becoming less important as the process is now more often undertaken by a diligence committee organized by the angel group. Regardless of who does it, getting prepared for diligence and making it easy on your investors is a critical part of getting your deal closed quickly.

Given the nature of our business model, we needed a good law firm and were lucky enough to become **Cooley** clients early. When we went out to raise our first round, they suggested we put together a **data room** (also known as a deal room or diligence room). They sent me a list of standard items that I needed to post there, and off I went. We started by putting everything in **Dropbox**, but over the years we migrated everything to **Lightserve** to avoid accidental deletion and controlled access to information. Since we started early, it's been easy to keep our data room updated over the years.

Having a well-organized data room has made all of our rounds smoother. When an angel groups asks us for information, we simply invite them to our data room where they can find everything they need. On more than one occasion I've invited an investor to our data room, and they decided to invest almost immediately.

THE CONTENTS OF A DATA ROOM

What should you put in a data room? Here is a sample structure you can use to set up your data room. Go ahead and add or delete sections as they suit your business. Make it your own!

- General company data
- Financial information
- Corporate agreements
- Intellectual property rights and product information
- Legal documents
- Insurance coverage
- Litigation history and documents
- Employee and human resources (HR) information
- Tax filings and documents
- Marketing and sales materials
- Current fundraising materials

A data room shows that you understand what investors need and care about making their lives easier. It demonstrates your commitment to transparency. It shows them that you will treat their money with respect and do your utmost to give them that 10x return they're all hoping to see. It sets you above your competition (which, in this context, are many, many other startups that are also out raising money). It's also common to incentivize an investor to take on that diligence role. It's reasonable to provide your lead investor with compensatory warrants for work performed. Note that these cannot be success-based.

BUILDING MOMENTUM

Momentum is everything when you're building a startup company, but especially in fundraising.

As discussed earlier, you're always trying to create a fear of missing out (FOMO) for potential investors. In a well-structured fundraising round there comes a tipping point, and the round goes from about halfway subscribed to complete in no time. Closing the first 50% is about 100 times harder than the second 50%.

WHY? Well, remember that angel investors like to invest in packs—no one wants to be the first to raise their hand and write a check. It's very common for an entrepreneur to have spoken to a bunch of investors and hear a lot of maybes. So how do you close all of those potential investors? Here are my three tips to closing your round:

+ Communicate regularly with your investors
+ Gather your angels
+ Provide last-minute incentives

REGULAR COMMUNICATIONS

Even if you are working with an angel group that sends out regular communications to their membership, you still want to have your own communication strategy. Remember that list of potential investors you started building at the beginning of your process? Use it.

Send out a biweekly communication with updates about the round, milestones you're hitting, new clients signed, and whatever else you can tell them that demonstrates momentum and progress. We'll talk about engaging investors in the next section, but by providing transparent, regular communications during your raise, investors will gain confidence in you and look forward to regular communications after they invest which is something they all care about.

GATHER YOUR ANGELS

Our first round was really hard to close. We'd been working hard at it for six months, we had numerous of investors interested, but couldn't get enough people over the finish line. So we brought them all together. We asked our attorneys if we could use their conference room, sent out invitations to all the investors we'd been speaking to, and invited them to come to a "closing meeting." We spent the first 10 minutes giving them a quick update, made sure everyone knew each other, and then we left the room so they could discuss. It worked like a charm, and we closed the round within the next six weeks.

The thought of putting investors in a room together might be scary because you worry they'll talk each other out of it. But it generally doesn't happen that way; talking to other interested investors gives them confidence and reminds them that they are not alone. These meetings go really well if you have your lead investor or at least one or two supporters in the room.

LAST-MINUTE INCENTIVES

Everyone likes a deal. Even an angel investor. It's not a bad idea to give something up toward the end of the round to push people over the edge and get them to sign. For example, you can decide to lower your valuation slightly as a concession and tell your investors it was negotiated down. This can encourage them to move fast and help you close your round sooner.

In our first round, we offered the investors warrants to purchase additional stock at the same price 12 months later. It was a sweetener that wasn't too costly for us, but gave investors a bonus they weren't expecting.

You can use all or some of these tips to help get your round closed faster. In the end you want to do whatever it takes to get things closed quickly so you can get back to running your business.

CHAPTER 5

ENGAGING YOUR INVESTORS

Now that you have the money in hand, you probably want to get back to work and forget about the seemingly endless fundraising.

For the sake of your fellow entrepreneurs, however, please remember that getting the money is only the first step. As you continue forward in your startup journey, it is equally important to engage your angel investors (this is true for future investors, too).

The number one complaint I hear from angel investors is that they have no idea how their investments are progressing. Regardless of how little or large the investment, your investors' investments entitle them to a semi-regular update.

The worst-case scenario is not a loss of their money. The worst-case scenario is that they lose their money and have no idea why. Was it a product issue? A management issue? An error in go-to-market strategy? Communicating what's working and not working to your investors will teach them. It will encourage them to make future investments because they'll know what went wrong.

Knowledge is power, and as entrepreneurs it is our duty—yes, duty—to educate our angel investors about their investment so that they will go and invest in other companies after us. That's how we keep our **startup communities** thriving.

And let me tell you, engaging your investors has great benefits. After three angel rounds, we have upwards of 150 people who hold shares in our company. All those people receive a communication every six-to-eight weeks with information about our progress, issues, and asks. An engaged investor base will help you with things like introductions, referrals, and advice.

Sending out shareholder communications is also good CEO training. I have learned so much from writing to our investors about how they think, what worries them, and how to address those concerns. Understanding how to communicate any bad news along with the good to people who have given you money will serve you well in all your future endeavors. A commitment to transparency will benefit you in ways you may not yet realize.

Lastly, good communication with your shareholders will make your next raise much easier. I assure you that your local angel community is a small one. Word travels fast. If you're known as a CEO who treats your angel investors with respect and engages them regularly, they will tell their friends. And those friends will invest in your next round. Let me tell you, good karma is an entrepreneur's best friend.

TIPS FOR WRITING EFFECTIVE SHAREHOLDER COMMUNICATIONS

Put together a great shareholder communication with these suggestions:

+ **Start with the bad news** and always **end on a positive note**.
+ Remind them of anything you said you would achieve last time and **own up to whether or not you delivered**. Explain why or why not.
+ **Share exciting news** like product releases, big deals signed, new hires made, editorials published, and news articles about you or your company.
+ **Share quarterly numbers**, and then give some context around the good and the bad as it relates to those numbers.
+ **Share strategic objectives** to help your investors understand where you're going.
+ **Ask for help** if you need it! Angel investors want to see your company succeed, and you'll often be surprised by how they can help.

CONCLUSION

TIME TO GET STARTED!

It's time. Just do it. You're already an entrepreneur. You've already done the hardest part—you started a business, built a product, gained some traction, and recruited a team. Fundraising is nothing compared to that. Take all that passion you have stored up and channel it into a creating a beautiful pitch deck, some reasonable financial projections, and an introduction email you can start sending to potential investors.

I'd like to share a few final thoughts before you head out on your journey:

+ **YOUR EQUITY IS PRECIOUS**. Use it wisely. It is much easier to spend money than it is to raise money. Spend what you need to achieve growth, but be smart about it.

+ **EQUITY IS THE MOST EXPENSIVE MONEY YOU CAN TAKE**. If you can take on debt financing to make your equity go farther, it's worth considering. More and more entrepreneurs are opting to avoid dilution now that there are so many more reasonable debt options available today. (We know a thing or two about debt here at **P2Binvestor**, and we're happy to talk to you about it anytime.)

+ **ONLY A FEW OF US TRULY UNDERSTAND HOW HARD FUNDRAISING IS**. If you can provide a helping hand to someone else on their journey, then take a moment to do so. Pay it forward.

Successful fundraising is a repeatable process that anyone can do. There nothing like the amazing feeling you get from closing a round and knowing you've enabled your company to grow to the next level. This is what all entrepreneurs really want. Fundraising is a means to an end, but if you're doing it right, the process will make you better and the result will allow you to scale and reach for your goals.

ONWARD!

A few final tips for success:

+ **FOCUS ON LISTENING, NOT SPEAKING**—remember, it's not about you, angels have egos too, and they want to feel like you hear them. They want to know they can honestly offer you advice. Sometimes you'll take it, other times you won't, but always listen.
+ **AVOID GETTING DEFENSIVE**, but don't be afraid to disagree when appropriate. If I disagree, I tell people. Or I admit I had never thought about it, and I tell them I'll think about it.
+ **TRACK WHO YOU SPEAK TO AND WHEN**. Keep records of every pitch, every diligence request, and every meeting. It's really useful to go back and see what and how you pitched a month ago and track the questions someone else asked you.
+ **TREAT FUNDRAISING AS YOU WOULD A PRODUCT LAUNCH**, a campaign, or any other important project. Manage it well and be highly organized.
+ **DON'T TAKE IT PERSONALLY** when someone says "no." Instead, seek to understand why. Angels say no for many reasons, and they often have nothing to do with you. Take the time to understand and listen carefully to the answers you receive.

RAISE YOUR ROUND

AN ENTREPRENEUR'S GUIDE
TO FINDING, CLOSING, AND ENGAGING
ANGEL INVESTORS

BY KRISTA MORGAN

CEO AND COFOUNDER OF

P2Binvestor

A marketplace lender dedicated to
providing capital to good businesses
with big ambitions

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