

## Angel Investor Deal Screening

Angel Investors measure any proposed deal against the following criteria (listed in order of importance -- most important to least important):

1. **Compelling Idea;**

The business is built on a solution to a **very big problem**. The problem creates **enormous pain**, and the Company's solution **increases revenues, reduces costs, increases speed, expands reach**, eliminates inefficiency, increases effectiveness, etc.

The Company's product or service **actually solves** the problem.

Customers **do not have to change their behavior** in order to buy and use the Company's product or service.

2. **Management:**

The Company **has a complete team**, functional in each critical area, with a **track record of success** growing companies. *The team has "fire in the belly" most important, has a qualified CEO.* If the team is not complete, **the founders acknowledge the gaps**. What is the "hubris factor" – is management **"coachable"**?

3. **Proven Concept:**

The Company has a prototype or a **"proven concept"** that has **shown revenue** and can be **scaled** with additional funds. Investors would rather provide expansion capital, instead of development (R&D) capital.

**The concept is protectible** in some way (either through patent, copyright, trade secret, or a unique contractual relationship).

4. **Market Size:**

The "pain" that the Company solves, is felt by many, and **the market is very big**. Furthermore, the market will **expand at a very rapid rate**.

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5. **Competition:**

“No competition” is a red flag: every business has competition (if it doesn’t, the problem it is seeking to solve must not be very significant). The Company does have a few competitors (to validate that a real market exists).

However, the Company does have a **sustainable, competitive advantage** that can be clearly stated (not just the “first mover advantage”). The Company will survive, even if another Company with extremely deep pockets enters the marketplace.

6. **Financial Projections:**

The Company’s projections demonstrate that:

- it is asking for **enough capital to reach milestones**
- the product or service is **profitable**
- the **time frame to reach profitability** is acceptable
- provisions have been made for future capital calls
- the Investor will receive a **return of 10x within five years**
- the Company will have **some liquidation value** (equal to the amount of the investors’ investment) if the idea is unsuccessful

7. **Marketing Plan:**

The Company has a **good marketing plan** (strategic alliance or experienced VP-Sales & Marketing). The cost of reaching the potential customer is reasonable; **the “sales cycle” is short.**

8. **Exit:**

The Company **has an exit plan** (sell to a competitor, sell to management, etc.) to return investor funds in five to seven years at a multiple of ten to twenty times.

9. **Production:**

The Company **has a source for production**; that source agrees to produce at a cost which allows resales at a profit. Alternative sources are available. No special equipment is needed to produce the product.

10. **Risks:**

Management has experience **successfully overcoming risks** (litigation, government regulation, etc.).