

Angel Investors separate the “good deals” from the rest of the pack by looking at the following ten criteria (listed in order of importance, with the first being the most important). The *ideal scenario* for each item is described below.

### 1. **Management.**

A complete team, functional in each critical area, with a track record of success growing companies. Ideally, the team has worked together before, with success. The team has “fire in the belly” and most importantly, has a qualified CEO. If the team is not complete, the Founders must have the credibility to launch the Company and to attract world class talent to fill the gaps.

An outside Board of Advisors or a Board of Directors is a plus. How much money has management committed to the project? How essential is their particular expertise (and are they replaceable)? Any conflicts of interest? Are they able to communicate effectively? What is the “hubris factor” (is the entrepreneur “coachable” and is she willing to provide information to investors on a regular basis)?

The team is focused on a single project (or a small number of projects). Asking the team to work on several, separate, unrelated projects simultaneously is a red flag.

### 2. **Compelling Idea.**

The business is built on an idea that reflects a deep understanding of a very big problem, and solves that problem with a very elegant (efficient) solution. 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 forecasts high gross margins.

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.

### 3. **Proven Concept.**

The Company has a prototype or a “proven concept” (i.e., the gizmo works!) that has shown revenue and can be scaled with additional funds. Investors would rather provide expansion capital, instead of development (R&D) capital.

7457 Franklin Road  
Suite 250  
Bloomfield Hills, MI 48301

Richard C. Bruder  
Attorney at Law

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’s product or service solves is felt by many, and the market is very big. Furthermore, the market will expand in the future at a very rapid rate. The Company will capture a meaningful percentage of a well defined, growing market (instead of a microscopic percentage of a huge, mature market). Annual revenue of \$30 million in five years is feasible.

The bigger the market, the better the return, but the smaller the market, the easier it is to define and address.

#### 5. **Competition.**

“No competition” is a red flag: every company has competition (if it doesn’t, the problem the company 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 (and that is not simply the “first mover advantage”). A technology, key alliance or community that is not easily duplicated does create sustainable, competitive advantages.

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 has (or 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,

7457 Franklin Road  
Suite 250  
Bloomfield Hills, MI 48301

Richard C. Bruder  
Attorney at Law

- the Investor will receive a return of 10x within five years (or, will yield 20% IRR for a “current pay” deal),
- the Company will have some liquidation value (equal to the amount of the Investors’ investment) if the idea is unsuccessful.

**7. Exit.**

The Company has identified several candidates (possibly including management) who can buy the business in five to seven years at a multiple of ten to twenty times today’s valuation.

Relying on an IPO for exit is a red flag in today’s economy.

**8. Production.**

A source for production has been lined up; 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.

**9. Marketing Plan.**

The Company has strategic alliances with others to assist with marketing (or with technology / R&D). The cost of reaching the potential customer is reasonable, as is the amount of time necessary to reach the target market.

**10. Risks.**

The Company has sufficiently addressed risks from government regulation, pending litigation, the need for future capital, etc.

Management has experience successfully overcoming risks.