

5 Things Angel Investors Want to Know Before Investing in Your Startup



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Angel investors are high-net-worth individuals who invest their money in startups and early-stage companies. Unlike venture capitalists, angel investors fund startups in their very early stages, making these unproven investments riskier – and potentially more lucrative if they pay off. Many angel investors also provide mentoring and guidance in addition to their financial assets. According to ACA Angel Founders Report, in 2020, Angel-funded companies raised \$2 billion in total capital from multiple sources, multiplying their initial angel investments about seven times.

Angel investors are often your first investors. Their

investments may be as small as \$25,000 or as large as \$200,000, but they are essential to the success of a young company. In addition, once a business receives an angel investment, it is easier to convince others of the value of the business and then convince them to invest as well.

Angel investors know that startups have a high failure rate. Nearly one in five U.S. businesses fail within the first year, according to the latest data from the U.S. Bureau of Labor Statistics (BLS). In the end, an angel investor must be confident that the potential upside/rewards of investing outweigh the downside risks. Before investing in a startup, angel investors review several vital issues and conduct due diligence. Below are the top five things angel investors look for before deciding whether or not to invest in a startup:

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1. Founder/management team

The management team behind a startup is often considered more important than the idea or product. Investors want to know that the team has the skills, drive, experience and temperament necessary to grow the business. The investor must decide whether the founder and team will be enjoyable to work with. How confident is the investor in the team? Does the CEO have experience, and is he/she willing to listen? How trustworthy is the CEO? Involving experienced advisors can also be very beneficial in the early stages to help bridge an early-stage team that is still growing.

Along with showing commitment to the company and the ability to bring value, investors want to see smooth and risk-free interaction among members of the startup team, to ensure long-term success.

2. Business potential and return

Angel investors are looking for businesses that are scalable and able to grow. Make sure you explain upfront why your business has the potential to be significant. Avoid small ideas. Investors will want to know how much of the addressable market you plan to capture over time. The investor must believe that the opportunity has a clear value proposition, there is a large and growing market (TAM, Total Addressable Market), that your solution is unique, the time to build it is now, that you and your team are the ones who can build it, and that you will make lots of money doing it. A good rule of thumb is the 7-to-1 rule: a seven (after-tax) dollar return for every dollar of capital an angel investor invests within seven years.

3. What makes your product/ service great?

Angel investors aren't afraid to invest in high-risk ventures as long as they believe the idea is excellent. First, demonstrate your product's uniqueness. Having an Minimum Viable Product (MVP) is important when pitching to angels – or at least a very good framework of what it will look like once you use the funding to build it.

Describe the unique problems it solves and why users care about it. Is it a game-changing piece of technology? And what makes it stand out?

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4. Positive early momentum

Angel investors are looking for early signs of traction or

customers. Companies that have achieved early traction will likely be able to obtain better terms with investors. In addition, investors will probably ask how early traction can be accelerated. Is there a particular reason for the traction? Could this traction be scaled?

5. A viable exit strategy

Making sure you have a variety of sound exit strategies can help mitigate their risk and forecast how they will be paid out. Regardless of the venture's success or failure, an exit strategy provides the investor with security. They should be informed of when they can expect returns, and more importantly, how they can minimize their losses.

Angels do not want to invest in companies that cannot guarantee returns. As Allan Riding, Professor at Carleton University, put it, "For every dollar that an angel puts into a company, he or she would like to take seven dollars out, after taxes, in seven years."

Related: Exit Strategy Through the Eyes of an Angel Investor

Even though almost every angel investor will consider the above factors at least partially, you must also realize that each angel investor will be unique – they will all have different goals, values and priorities. Angel investors may find something that appeals attractive to one, but may turn off another. A financial plan that appeals to one may seem overly ambitious to another. Therefore, while you can optimize your business to be as appealing as possible, you should also prioritize finding the right fit.

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