

Business Angel Forum November 2018

Peter Cowley

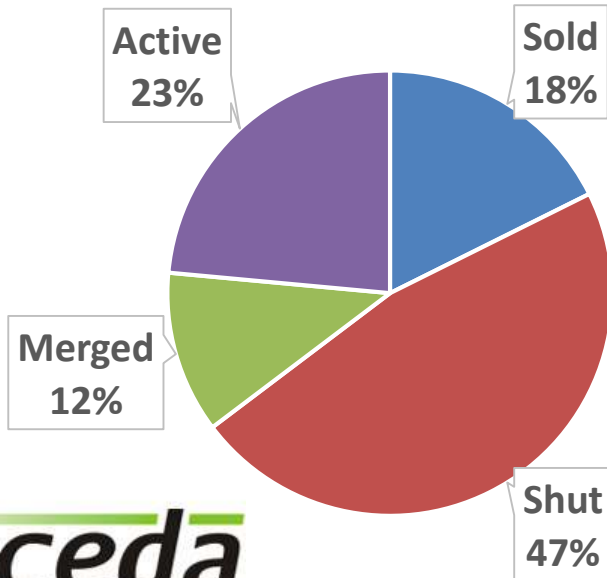
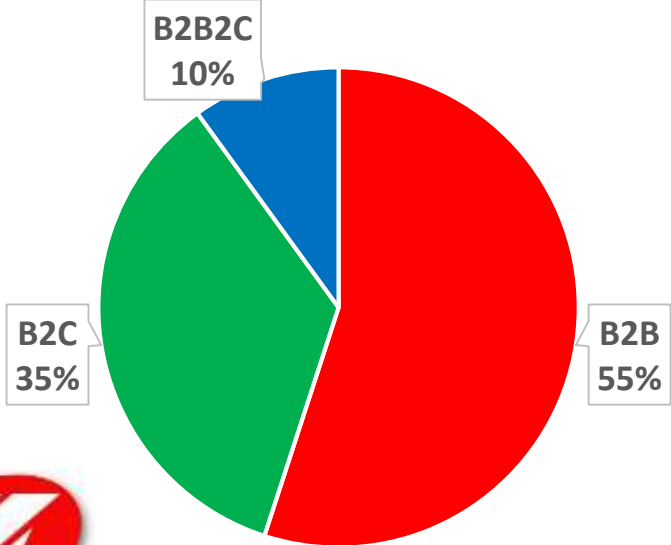


Invested
Capital



Big Cambridge 48871 for
**BRANCHILO
 DISCOTHEQUE**
 with
 Lights, UV, Sirobe etc.
 in addition:
 Pat. Sirobe Fitzwilliam College
 Chris. Sirobe Trinity College
 Guy. Sirobe Trinity College





The Invested
Investor

Eluceda

JAMES
AND
JAMES

Artfinder

Closed
Loop
Medicine

Undo

CAMBRIDGE
CMOS
SENSORS

ARACHNYS

Audio
Analytic

axol

CCS

CAMBRIDGE
MASK CO

transparent
choice

CONTROLLIS

patient
sourc@

VANTAGE
POWER

Cambridge
Nutraceuticals

Camstent

LIBERTINE
LINEAR POWER SYSTEMS

Exonate

ieso
digital health

converge

Focal Point
POSITIONING

Plumis

LIGHT BLUE
OPTICS

LUNGFISH

Dogtooth
technologies

OXFORD
SPACE
SYSTEMS

Paragraf

SPECTRAL
EDGE

SYNDICATE
ROOM
Intelligent Equity Crowdfunding

Psyomics

PSY

RPS
RADIO PHYSICS SOLUTIONS

ROVCO
CORP

REPOSITIVE

sensilia

SOREXSENSORS

Myrtle

5 positive exits, 9 failures, 53 living

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tripism

How a country benefits from Angels

IP generation

Job creation

Wealth creation

International trade

Commercialise university and other institutions' research

Potentially increase tax income

“Buzz”

How can a government help?

Tax reliefs (providing not too generous):

- For angels on investment, on exit and on failure

- R&D tax incentives

Encourage the formation of groups, networks and syndicates

Train angels, angel group leaders – deal leading, NEDs

Equity capital (but do NOT dominate)

Encourage later stage (VC) money

Centres of excellence – eg Fraunhofer, Catapults

Coaching and mentoring schemes

Visas for entrepreneurs and employees

Grants – technical, market entry

What can a government do wrong?

Provide tax reliefs where the risk is low (eg asset-backed)

Provide > 50% of equity capital

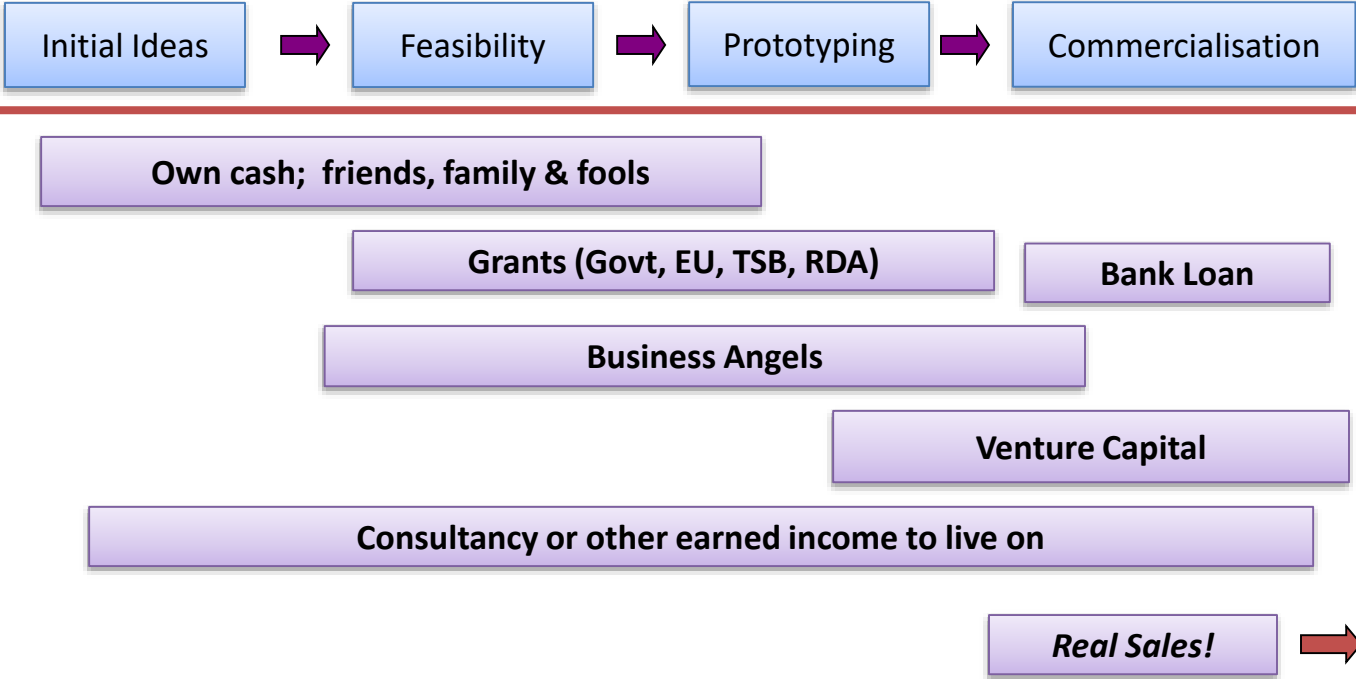
Provide on-going grants, so startups take little risk

Imbalance between free market and governmental control

Not encouraging “smart” money – ie Invested Investors

Do NOTHING!

Where do angels fit?



Typically Angel syndicates invest £300K-£800K for 20-30% equity

Image courtesy of D Gill

Motivations of an active Angel Investor

They're comfortable with risk.

They have money they're willing to lose.

They are willing to work hard to help entrepreneurs launch and grow their ventures.

They have experience and contacts that are useful to the entrepreneurs they support.

They recognise that it will probably take more than one round of funding

They know that companies often fail.

They never regret the big one that got away.

They act in an open and transparent way with founders and fellow investors.

They are emotionally intelligent and can see things from the entrepreneurs' point of view, even when they don't agree with them.

They don't blame others when an investment is lost.

They see good exits as providing more money for them to invest in start-ups.

They never stop learning.

An VC or very active angel invests in less than 1% of incoming opportunities


**KEEP
CALM
AND
DO YOUR
RESEARCH**



Shawna Chen

Snail mail
Phone
Email
Twitter
LinkedIn
Face to face
Via angel group
Via trusted investor
(or entrepreneur)

What makes a good entrepreneur?

A member of a TEAM of 2 or 3

Passion, drive and persistence

Great listeners

Intense ambition to scale

Plan, discard the plan, and re-plan (pivoting)

Believable market research

Be fun to communicate and work with

Entrepreneurs must listen



The truth from both parties builds trust



Bi-directional Due Diligence



Investment Criteria (see www.petercowley.org)

My 60+ [angel investments](#) have passed most, if not all, of the following criteria.

THE TEAM

•**High growth ambitions.** This is essential and not necessarily a given.

•You have an outstanding founding **team of at least two people (3 also works, but not 4)**. Sole founders find it difficult to get investment from Business Angels (if you're a sole founder, try the FFF route).

•UK legal structure, with **founders based in the UK, and with a very strong preference for Cambridge and the South East**. This is primarily as I like to meet the founders face to face, during due diligence and post-investment at least once or twice per year, and that is much easier for me, if the rail journey time is under an hour.

•I will not invest, unless I get to know and **trust the Investor NED** who will be representing my and others' money

•I need to know that you understand, and can justify the ratio: "**Customer Lifetime Value**" over "**Cost of Customer Acquisition**". See [this article](#) for a more in-depth explanation

THE PRODUCT

•**Evidence of a large market.** Globally at least \$/£100m, although not all businesses need to have global ambitions. Note that I don't need to see a billion+ market - angels can get an excellent return, even if the investee's revenues are less than £5M on exit.

•A level of **defensibility**, whether it is speed to market, know-how or a patent application

•I have limited life science technology knowledge, but strong experience in **software, electronics, RF comms, sensing** and related areas. Please look through my [portfolio](#) to get a feeling for my comfort zone

•**Business model: B2B and B2B2C.** Never B2C unless I already personally know the entrepreneurial team

•**Deep product technology.** I do not invest in web or mobile apps, nor service businesses. I will invest in a platform, provided there is a clear understanding of the costs of sourcing and supporting both sides of the platform - see CCA/CLV (see above)

THE FINANCES

•**Early stage income**, probably pre-revenue and pre-grant income, although evidence of valid (even if a one off trial) customer sales traction will help

•**Pre-money valuation**, mostly under £1m and with an upper limit of £2m (unless exceptional). Valuations have been going upwards, due to the over-supply of early stage money (particularly in London) and NOT because exits are at a larger multiple nor more frequent,

•Like most Angels, I look for a **minimum 10X valuation increase within 5 to 10 years**, so if you are asking for, say, a £1m post-investment valuation, what does your company look like? and who will buy it for £10+m in a few years' time?

•**Syndicated.** I never invest alone. Although I can connect and/or build a syndicate, if I like your proposition. Angels (although very rarely those who invest through online platforms) want and expect to add value with connections, advice, governance and future funding. I do not invest in deals that either have been, or are, on any equity crowd-funding sites except [Syndicate Room](#)



LTV > CAC = 😊
CAC > LTV = ☹️

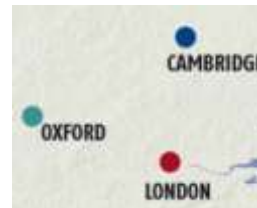
>£/\$/€100,000,000 market



No to
ICO



DEEP TECH



**CAMBRIDGE
ANGELS**

Coffee break

Advice for newcomers

Research!

Register and invest via a crowd equity platform (if you can)

Make friends with angels, and shadow them in deals

Allocate a € sum/% of your portfolio – usually 5% to 15%.

Mine is ~30%

Prepare to:

- Follow on, up to 3X initial investment

- Build up a portfolio of 15 to 25 investments

- Join syndicates (essential)

Join an angel group

Be patient! The failures occur first

Cambridge Angels process

Deal sourcing

Mentoring

Informal pitching

Formal pitching

Deal leading – build book, negotiate, due diligence

Investor Director

Recycle any exit cash

Exited entrepreneurs become angels?

Questions an entrepreneur should ask an Angel

Take references from previously backed entrepreneurs and others

How much time have you available to help us?

How much more money, do you think we need?

Can and will you personally follow on?

Can you connect us for follow-on funding?

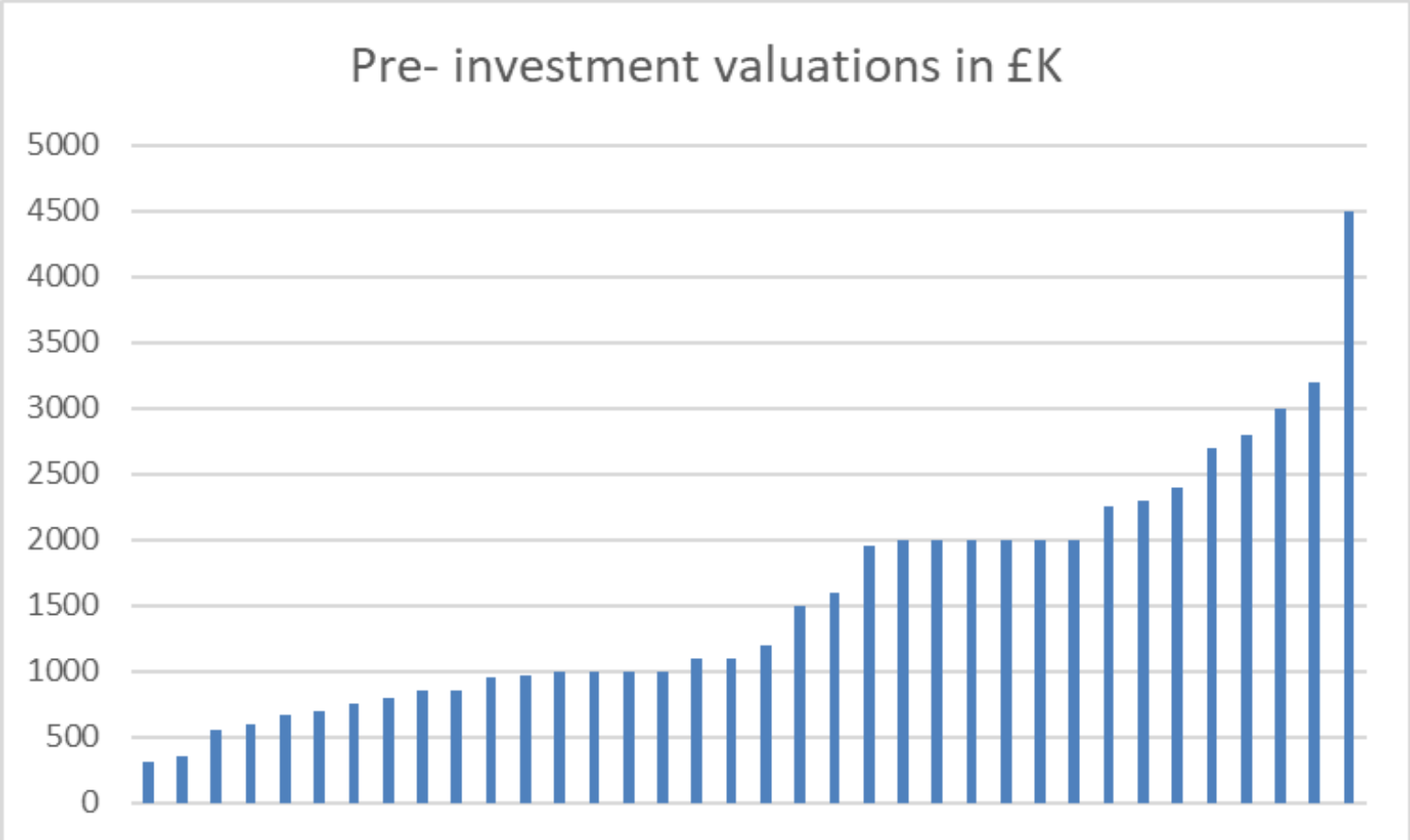
What other investments do you have in our space?

How else can you help us?

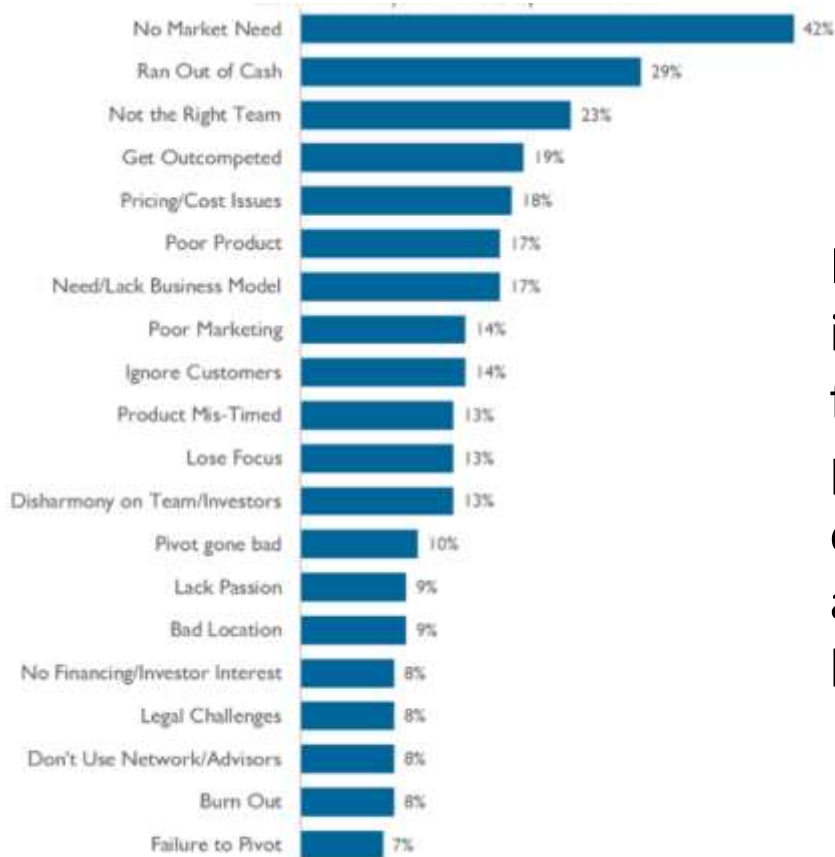
Valuation – an art + negotiation

			My	Comparison	
		"Risk"	Weighting	with existing	Multiple
Entrepreneurs		Execution	25%	150%	0.38
Size of opportunity		Market	15%	110%	0.17
Product/technology		Technology	15%	200%	0.30
Defensibility		Technology	10%	150%	0.15
Competition		Market	5%	25%	0.01
Route to market		Market	10%	75%	0.08
Future financing		Finance	15%	50%	0.08
Exit potential		Finance	5%	200%	0.10
			100%		1.25
Existing portolio company pre-money valuation				£750,000	£939,375

Pre-money valuations for first round for 35+ from my portfolio



Top 20 Reasons Startups fail



Primarily (71%) due to insufficient equity cash to find sufficient product/market fit to allow either:

- a) An exit, or
- b) Reliable profits

My stats (to late 2018)

Founding team size average: 1.85

95+% with degrees, 65% from the top four UK unis, 8% have MBAs

Average age: 38.4 years. 20% born overseas, only 7% female

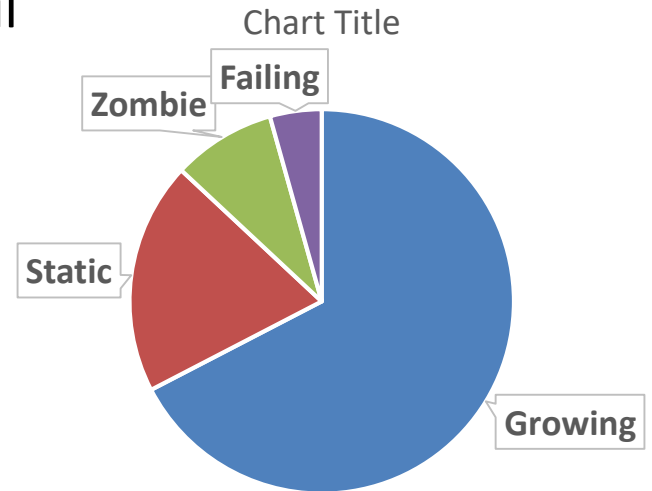
45% are repeat entrepreneurs, not all successful

Contact to close: 5.2 months

Close to failure: 5 to 68 months

Close to success: 15 to 46 months

54 still alive in portfolio, of which:



The ones that got away



My key learnings in 10+ years

Back teams, **not** technology **nor** markets

Entrepreneurs must:

Be in teams of 2 or 3 (but not in an emotional relationship)

Listen and be truthful

Be prepared to “walk through walls” or find the hidden door

Invest early and add value

Be prepared to allocate 2 or 3 times my initial investment

It's a numbers game – 15, 25, 45, 90 ?

75% of failures caused by equity drying up before break-even or exit

Choose your co-investors with care

Form a strategy, refine and stick to it

Enjoy the many journeys you join

Remember: it is easier to get divorced than sell illiquid angel shares!

THE INVESTED INVESTOR



PETER COWLEY



The Invested
Investor