Investment Process

Angel Investing is a risky endeavor. Most angel investments, like most new companies, fail. Many need additional funding before we can see any return. That is why we tend to be picky about what companies we invest in. We also do a lot of due diligence before we invest. The process may take from three to six months. Here's how it works.

THIS IS NOT SHARK TANK

Step Zero – Preparation

As an entrepreneur you should learn about angel investing. Get some help to determine if your company is right for this kind of financing (most aren't) and talk to your network of advisors to see if you have any connections with any members of the Angel Investor Forum. If you do have someone make an introduction.

Here's an article from TechCrunch you might find useful called How to Raise a $1M Seed Round.

Step One – Application

Submit an online application. This will upload your application to a site that only our members have access to.

- Explain in simple terms without using jargon what your company sells and how it makes money. Remember our members come from various backgrounds so many will be unfamiliar with your industry.
- Explain how investors will get their money back, and what kind of return you believe is reasonable based on what other companies in your industry have done.
- You may submit additional documents including video. Keep them devoid of hype.
- It helps to include information about what other investors you h are talking to as we know many of them and often work together on syndications of deals.

Step Two – Screening

Our screening committee meets regularly to review the new applications. The committee's goal is to invite two or three companies each month to present to our membership in person. When your submission is reviewed you will receive one of three responses:

- **Pass.** We pass on companies that don't seem to fit our member's investment criteria. In many cases these have potential to become very good companies, just not good investments for us.
- **Follow Up.** You may be asked to do a follow up by phone or in person by one or more members of the committee. This is to learn more about your team and your opportunity than can be gleaned from the application. You also may receive some coaching or suggestions about how to make your company or your presentation a better fit for AIF. Remember this is just the opinions of the people involved and in no way is a promise or guarantee of anything.
- **Invitation.** Rarely do we invite companies to present just on the basis of the application without any follow up, but it does happen. Invitations are usually given two weeks before the monthly meeting.

Step Three – Presentation

We hold a monthly meeting for our members and invite two or three companies to present. You'll have 15 minutes to give a demo, powerpoint or other presentation. (We provide a laptop, projector and screen). Then there will be 10 minutes for Q&A.

After the entrepreneurs present, our members discuss their impressions and decide if there is enough interest to form a due diligence committee and look into the company further.

There are actually two meetings with the same companies presenting so our members have the choice of which one to attend. They happen on the 2nd Tuesday of the month. You'll be asked to present at a noon meeting in New Haven **and** at a 5PM meeting in Stamford. Meals are provided at both meetings.

If there is not enough interest in your company, you'll be notified and usually given some feedback as to why. Again, this is just the opinions of the people involved and in no way is a promise or guarantee of anything.

Step Four – Deep Dive

If there is interest in your deal, usually the next step is a "deep dive" meeting. We would like to spend a couple hours with your team and any of our members who are interested. This is an unstructured meeting with lots of questions from members, some of whom may dial in by phone.

Step Five – Due Diligence

A formal due diligence committee will want to look into the background of your team and company, your deals with prior investors, all your contractual obligations etc. We'll also want to talk with key suppliers and customers (or potential customers) and pick a part the assumptions behind your financial projections. This can be enlightening to entrepreneurs as well as daunting. It generally takes 6 – 15 weeks and ends in a report to our members. We like to share (with your permission) due diligence reports with investors we might syndicate your deal to.

Step Six – Deal Negotiation

As the due diligence progresses, and assuming it's positive, someone will start negotiating the terms of the deal. This someone may be a member of AIF, another investor you've lined up or another investor group we are syndicating with. We start with a standard term sheet and work from there. You can be best prepared by learning the many terms of these negotiation.

Step Seven – Investment

Based on the due diligence report and the negotiated term sheet, our members will decide individually if and how much they want to invest. You'll be given their names and the amount that is “soft circled”. Your attorney can forward them the final paperwork and arrange for closing.

Step Eight – Follow up thru Exit

Usually the terms of investment give at least one member of the syndicate that invests a board seat. There may also be a spot for a board observer. You’ll be expected to submit quarterly reports to the investors. However our investors (and sometimes other members who didn’t invest) are usually willing to help with advice, introductions and connections. It will help if you stay in touch with them beyond the quarterly reports for these reasons. Many of our members are consultants and may want to offer their services for a fee or for options or warrants. You are free to negotiate these contracts as you would with any other vendor, keep in mind they do not represent or speak for AIF in this capacity.

Often a company needs to raise additional funds before an exit. Having good communication with the investors in the first round makes it easier to approach them and other AIF members in the future. We often bring companies in to present to our members when this happens – depending on what other presentation we have lined up at the time.

Stats & Overview

Since we usually syndicate deals with other investors or investor groups, AIF may or may not take the lead in the Due Diligence or Deal Negotiation. We’ll keep you in the loop of who else we’re talking to about this and expect you to do the same with us.

Deal Size & Type

The typical company we look at is raising between $750K and $1.5 Million. Our members typically put in between $150K and $350K as a group. The individual investment is typically 25,000 but ranges from 10,000 (if the deal permits) to 100,000. So you can see that we often co-invest with other groups or individuals.

The companies are generally pre-revenue but further along than just an idea or a prototype. We like to see some product in the market place and some customer response.

Our members have invested in a number of industries from tonic water to software that analyzes large data sets. We look for companies that can reach cash flow break even with minimal investment, grow quickly and be acquired in 3-7 years. We want to be able to see the potential for getting 5 to 10 times our investment back. Many of the deals that fit these criteria are web-based, as you might expect. But our members have also invested in medical devices and energy plays.

We also want our investment to buy a significant part of the company. That means we aren't likely to consider deals like pharmaceuticals which take a lot of time and a lot more money than we typically invest.

We generally take equity in the form of preferred stock. This comes with significant provisions that give investors more control than is indicated by percentage of ownership. We want your interest (as founders) to be aligned with ours. That generally means no one gets wealthy till the company is acquired.

We are willing to consider royalty deals – revenue based investment which is different from the above. We have looked into some but to date have not invested in any.

Our deals are not limited to Connecticut companies, but they have an advantage due to the investor tax credit available to AIF members who live in Connecticut (and most due). Regardless, most members prefer to invest in companies that are in the northeast region.

Numbers

We get 5-10 submissions a week (about 300 per year). About a third are rejected out of hand for being everything from scam-like to not appropriate for our group (too large, too small etc). The screening committee looks at the rest.

We are following up on 10-15 deals pre-presentation at any given time.

We invite 20 – 30 companies per year to present to our members.

We do a deep dive or due diligence on about half of those.

Our members invest in about 5 deals per year.

As mentioned at the start, angel investing is risky and we tend to be picky about the kinds of deals we do.

Submit A Business Plan Event Calendar