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Best Practices of Angel Investing

Dealum's guidebook for running an effective and rewarding investor group

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Introduction

WELCOME, DEAR READER!

Welcome to the guidebook of “Best Practices of Angel Investing”, a comprehensive resource for both seasoned and aspiring angel investors.

We truly believe that healthy and vibrant angel groups are the pillars of our startup economy.

Behind the boundless innovation and untapped potential of visionary entrepreneurs are angel investors – individuals who provide not only financial support but also mentorship, expertise, and a guiding hand.

Angel investor groups play an indispensable role in shaping the entrepreneurial landscape. This guidebook is a tribute to these groups, recognizing them as the bedrock upon which our startup economy stands. By participating in this community, you’re not just investing in startups – you’re investing in the future.

How to use this guidebook?

We’ve compiled a series of chapters, each exploring a distinct side of angel investing - from managing investor groups and effective co-investing to unlocking the power of the angel community. You can skim the topics you like or read it from start to finish. Whether you’re seeking actionable advice or inspiration, we’ve got something for everyone.

Here’s to an effective and rewarding investing journey ahead!

Sincerely,

Seren Rumjancevs
CEO

ANGEL INVESTMENT TERMINOLOGY

To make sure we're on the same page, we've listed the basic concepts related to angel investing and angel investment communities.
Keep in mind that the specifics may vary depending on the region, local regulations, and the practices of different angel investment communities.

Investor collaboration

- **Angel investor:** An individual, often high-net-worth, who provides capital to startups and early-stage companies in exchange for ownership equity or convertible debt. Angel investors typically offer more than just financial support, often providing mentorship and guidance to entrepreneurs.

- **Angel organization / Angel investment network / Business Angel Network (BAN) / investor group:** An association or group of angel investors who collaborate to share deal flow, conduct due diligence, and make investments. These organizations often provide networking and educational opportunities for their members. It's a quite loose term and can involve a different level of intention, organizing and collaboration.

- **Angel fund:** A pooled investment vehicle formed by a group of angel investors to collectively invest in startups. The individual members have less control over the decisions as the fund itself makes the investments. It allows investors to diversify their investments and share the due diligence process.

- **Incubator:** An organization or program that helps brand-new startups develop a product idea or a business model. Incubators offer startups resources such as office space, mentorship, and networking opportunities to help them grow.

- **Accelerator:** A time-limited program to quickly scale a startup that already has a business model and a minimum viable product (MVP). An accelerator usually provides startups with intensive mentorship, training, guidance, support and limited funding in exchange for equity.

- **Syndicate:** A group of angel investors who collaborate to invest in a startup collectively. Syndicates allow individual investors to pool resources and share risks.

- **Lead investor:** The (angel) investor who takes the lead in a funding round, negotiates terms with the startup, and often commits a significant portion of the required investment amount. Other investors then follow the lead investor's terms.

Deal structure

- **Valuation:** The estimated worth of a startup or company. Angel investors negotiate the valuation of the startup before making an investment, which impacts the amount of equity they receive in return.

- **Seed capital:** The initial funds invested in a startup to help it get off the ground. Angel investors often provide seed capital to cover early-stage expenses such as product development, market research, and hiring key team members.

- **Runway:** The amount of time a startup can operate with its available funds before needing additional capital.

- **Equity:** Ownership in a company. Angel investors typically receive equity in the startups they invest in, which represents their proportional ownership stake.

- **Cap table:** A table that outlines the ownership structure of a company, showing the percentage ownership of each investor, founder, and employee. Cap tables are used to track equity distribution and calculate ownership dilution over time.

- **Preferred shares:** Also known as preferred stock or preference shares are securities that represent ownership in a corporation that have a priority claim over common shares on the company's assets and earnings. Holders of preferred stock are also prioritized over holders of common shares in dividend payments.

- **Convertible debt:** A type of investment where the angel investor lends money to the startup with the intention of converting the loan into equity at a later specified date, often when the company raises a larger funding round.

Deal flow

- **Deal flow:** The stream of potential investment opportunities that angel investors can consider. Angel investment communities and groups often work to source a consistent deal flow for their members.

- **Deal flow management:** The process of sourcing, evaluating, and tracking potential investment opportunities.

- **Due diligence:** The process of conducting thorough research and analysis on a startup before making an investment. This includes examining the startup's financials, market potential, team, and competitive landscape.

- **Pitch deck:** A presentation created by entrepreneurs to showcase their startup to potential investors. It typically includes information about the problem being solved, the solution, market size, competition, business model, and financial projections.

- **Exit strategy:** A plan outlining how investors will eventually realize returns on their investments. Common exit strategies include acquisitions, initial public offerings (IPOs), or secondary market sales.

- **ROI (Return on Investment):** The measure of profitability from an investment. Angel investors aim for a positive ROI by receiving returns that exceed their initial investment.

- **Follow-on investment:** Additional investments made by (angel) investors in startups they have previously funded. This helps startups secure additional capital as they progress.

1.

MANAGING INVESTOR GROUPS

Laying the foundation:

WHY EFFICIENTLY MANAGING YOUR INVESTOR GROUP OPERATIONS MATTERS

Efficient management of angel investor group operations' sounds like the title of the most boring book possible. Ever. We get it. And that's why Dealum wants to give investor groups and group managers the tools to streamline their processes and get on with their lives – towards more interesting things. So they can focus on funding the future, instead of getting caught up in 'group operations management' technicalities.

We believe that the pre-seed investment ecosystem can be more efficient and connected. Streamlining the processes and connecting the ecosystem leads to better overall deal quality and faster closing, fewer resources spent on investing, more investors, and better global cooperation between investors.

The big picture of streamlining angel investment operations

Dealum's founders Rain Kivisik and Rein Lemberpuu both come from a startup and angel investment background. They know what change they want to see in the startup ecosystem and founded Dealum to support that change from the ground up – by improving the transparency and efficiency of the pre-seed ecosystem.

With enough money in their pockets from previous ventures, Rein and Raind didn't want to use that money to just make more money. They sincerely believe that the first step of pre-seed funding should be angel investors. Unlike big institutional investors, angel investors are truly invested in the success of the companies – they're emotionally tied to their values and mission.

Angels see the future and believe in the future. And dreamers are the ones who change the world

Angel investors often support ventures that might not make so much sense on paper while big institutional investors often try to push the supposedly innovative startup world into the "box" of the old economy. Institutional money tends to evaluate ideas based on the past, not the future, which limits creativity and innovation. With everyone looking for or building the next "Bolt" or "Stripe", we're missing ideas that could be just as groundbreaking but in an entirely different way.

Angels see the future and believe in the future. And dreamers are the ones who change the world. Going off the beaten path can sometimes lead to failure, but sometimes takes us closer to the future someone dared to dream of. **Angel investing is a synergy between money, mission, and ideas. Fostering a strong angel investor community is crucial for the functioning and evolution of the startup ecosystem as a whole.**

Why angel investment groups need well-defined rules and tools in place

Even though angel investing has an informal and flexible reputation, angel investment groups should still have the right tools, well-defined rules, and structured processes in place. The benefits include efficiency of operations, quality and speed of decision-making, as well as an overall more organized approach to investing. Efficient operations that match your angel group's goals and values will create a solid foundation for your group's success for years to come.

Here are the key reasons to take your angel group management seriously:

- **Consistency and transparency:** clear rules make sure that all members of your angel group are on the same page. Transparent processes and decision-making help members understand how investments are chosen and managed. You can also define membership criteria, e.g. expectations for participation, financial commitments, expertise, etc. Each member should know their rights and responsibilities, as well as the group's rights and responsibilities, fostering a sense of accountability and commitment.

- **Efficiency and professionalism:** defining and streamlining activities such as deal sourcing, due diligence, investment evaluation, and post-investment monitoring leads to quicker decision-making and reduced operational inefficiencies. A professional image can make your angel group more appealing to potential investees and co-investors.

- **Risk mitigation:** you can mitigate investment risks by minimizing conflicts of interest, setting investment caps, and establishing guidelines for diversification. Consider rules related to exit strategies, including when and how to exit investments, as well as the distribution of returns among members. Mitigate legal risks by aligning your operations with relevant legal and regulatory requirements, and consult legal experts if necessary.

- **Member engagement:** clearly defined rules and playgrounds can encourage active participation from all members, fostering a diverse range of perspectives and expertise in investment decisions. Give regular updates about the progress of portfolio companies and the overall group's performance.

The digital transformation for investor groups:

WHAT TO DO AND HOW

Digital transformation is a hot subject and has been for some time already. How can you digitally transform an investor group? Should you even do it? And how to make the most out of this opportunity?

On the one hand, digitalizing improves efficiency, enables remote participation, gives wider access to resources, and opens doors for investors and startups of all backgrounds and geographical locations. On the other hand, maintaining quality and avoiding hidden biases or other unintended consequences is more crucial than ever.

If done right, digitalizing and automation can be a driver of efficiency, innovation, inclusivity, and impact. But how to do it right? Let’s take a look.

Groundwork

One of the first questions an investor group manager must answer is – why are we doing this? What is the goal of the transformation, and what do we want to improve?

There are many advanced technologies available that sound super sexy, but there is no point in adopting technology for the technology's sake. Digital transformation must solve some kind of problem, not create a new one. So, what is the biggest problem you have as a network manager – low-quality deal flow? Capability to fill rounds? Time to close the deals? Disengaged members? Lack of perceived value? Not sure?

There is no point in adopting technology for the technology's sake. Digital transformation must solve some kind of problem, not create a new one

MIT Sloan Management Review can help out here. They claim that **executives who are on a mission to digitally transform their organizationusually focus on three areas:**

- customer experience,
- operational processes, and
- business models.

Each of these can be further divided into three areas requiring attention.

1. Customer experience

1. **Understanding the customer** – this is an area where collecting and analysing data takes the lead.

2. **Selling yourself to the potential customer** – using technology to enhance conversations will help here, e.g. giving the potential future members a taste of the deal flow with temporary, time-limited access to the funnel.

3. **Touchpoints –** in the digital economy and the ongoing pandemic situation, digital channels are increasingly important to provide support. Furthermore, if you work with a multichannel approach, the physical and digital information must both align as well as be accessible from different environments

2. Operational processes

1. **Digitizing the internal ways of working and automation –** for example, an angel group manager can set up automated emails to companies triggered by the change in their application status.

2. **Virtual enablement** allows members to investigate and evaluate investment opportunities from any location or even during the live pitching event.

3. **Performance management** is again data-focused – having access to statistics about the deal flow and members' activity or interests helps managers make better strategic decisions.

3. Business models

1. **Digitally modifying existing business models –** e.g. pitching doesn't have to be on stage only, there are multiple engaging virtual environments to hold events.

2. **The creation of new digital business opportunities** – why not create an online pitch training series that supports the founders on their funding quest?

3. **Digital globalization** means that early-stage capital can join their forces across borders, sharing deal flow and syndicating on investments… if the investors have embraced the sharing and collaborative mindset, that is.

As seen above, digital transformation is not only about technology. It can also be about data, process, and organizational or cultural change.

Execution

You have now come to a conclusion about which part of the organizationor processes you want to transform. You have done your due diligence on them and identified what currently works in the daily operations – after all, there is no sense in automating a process that doesn't work. You have a clear ROI in mind and you're up for the challenge. Now what?

'How to do' is just as important as 'what to do'. It is an important aspect to keep in mind not only during the execution but also from the very beginning of the journey. Often, change management issues are the main reason digital transformation projects fail – often, the technology dominates the human side which leads to fears and objections undermining the process. For example, in investor groups, privacy and security concerns can seriously damage the adoption of digital tools.

So once you know what to do, how to do it right?

Here are 8 key tips for successful digital transformation

1. **Be open and transparent about the goals and the processes.** Good people skills are crucial in mitigating fears and misconceptions.

2. **It's a team effort.** Harvard Business Review has listed the many, many talents required to successfully go through a transformation project. Clearly, it is not a one-man job and we suggest the manager form a team of different talents or, as a minimum, find allies among members who assist the change.

3. **You need an implementation plan**. The questions to ask are now more focused on details of these same elements – the tech, the data, and the people.

4. **The work starts with the people**. It's important to know what your network members want and what the startups are looking for. The manager must also ensure the organizational processes are transparent, sustainable, scalable, and cohesive.

5. **Be ready to adjust.** During the transformation, agility is the key. If a new discovery is made during the process, it makes sense to adjust and improve the plan.

6. **Take the organization as a whole.** In another article from Harvard Business Review, the authors concluded that successful managers focused on changing the mindset of the members as well as the organizational culture and processes before they decided what digital tools to use and how to use them. The future of the organizationdrove the technology, not the other way around.

7. **Make sure the tech works for you**. When choosing the technology, it's easy to fall victim to the buzz. AI get all the rave now, but how will it improve your business? What kind of tool do you really need? How would the new tool or technology work with the legacy tech, can it be integrated with the existing stack? Interconnectivity is crucial – every part of the process, be it technology or human, must talk to each other.

8. **Be diligent about data.** How can you collect and access quality data? How to structure and process it? How to join different sources and make them available from different access points? Who has access to what data? How to analyze vast amounts of data efficiently?

Only once all these questions have been answered, the execution will begin.

Digital transformation can have different purposes and goals – it can be about survival, reducing the costs and increasing the revenues, or it can be about improving the performance of the organization.

No matter what the goal, it provides the opportunity to reach the full potential of the business going from poor to good and from good to great, and as such, it's much more than just the latest hype in the business management and consultancy industry.

What are the potential pitfalls of going digital?

All digital solutions carry certain risks. From data protection to technical problems, it's better to be cautious and thoughtful in your digitalizing efforts. Thorough preparation, regular monitoring, feedback collection, and continuous improvement help mitigate risks and strike a healthy balance between efficiency and the human touch. Here are the most common risks of digitalizing investor group operations:

Digital processes should give accelerator staff and mentors more time and leeway to apply their expertise and insights, not replace them

1. **Handling and safeguarding sensitive data:** data protection and compliance with regulations is an ongoing challenge. Make sure you set up security measures like encryption, access controls, and regular data backups. It's also a good idea to conduct regular audits to identify and address potential vulnerabilities.

2. **Keeping the human touch:** the era of social distancing soon proved that online never replaces real-life interactions. You need a good mix of both to foster trust, collaboration, and bonding among the participants, mentors, and investors.

3. **Hidden bias:** automated screening or selection processes can foster unintended biases, e.g. due to the design of the algorithm, the way data is presented, the way the algorithm is trained, etc. To make sure your selection process is fair, keep a human eye on the results and regularly review and validate your algorithms.

4. **Technical challenges:** when choosing digital tools and platforms, make sure you understand their technical requirements and limitations. Leave room for technical errors, downtime, and compatibility issues.

5. **The learning curve for your employees and other users:** provide instructions, training, and support for accelerator staff, mentors, and startups. Collect user feedback and adapt accordingly.

6. **Overreliance on technology:** don't throw human touch and judgment out the window. Digital processes should give accelerator staff and mentors more time and leeway to apply their expertise and insights, not replace them.

Ready to embark on your digital transformation journey with confidence?

Discover how Dealum's tailored solutions can empower your investor group's evolution.

Choosing a deal flow management software for your angel investor group

Deal flow management software can be a great way to digitally transform many processes all at once. Our customers have repeatedly been surprised with how many of them have become accustomed to patching multiple systems together in order to create the end-to-end solution they crave. For example, one customer had 30+ software subscriptions in place to manage their 400-strong network of angels.

The clear downside to multiple tools is having a saturated technology stack that creates gaps in processes and ultimately leaves members forgetting log-in details or giving up on using it. And, not to mention the cost attached – both in terms of time and the subsequent (multiple) fee(s).

Yet, the process of comparing SaaS platforms and finally picking one to manage your angel or investor network is also a daunting task. In fact, one which many network managers would hope to make only once every 5 or 10 years. This choice can have consequences, good or bad, for your investors, startups and your reputation. Especially if it leads to a less-than-satisfactory outcome.

Here are some key points to start your search from.

What are you trying to achieve with the software?

It's crucial that you have a clear understanding as to why and what your angel group needs.

- Where are the bottlenecks in our current processes?
- How could software help run our network better?
- What software(s) would we like to replace, and why?
- What do our members think of our current digital set-up?
- What are the main restrictions our current tech stack has on our network?
- How can we use technology to improve the quality of our deal flow?
- What are your plans for the near future? But in the long run?

Which solutions are you looking for?

- Deal flow management
- Document management
- Communication
- Member management
- Performance reporting
- User interface
- User experience
- Deal sharing & collaboration
- Something else?

In our experience, the framework of the selection process can typically be categorized into five stages:

1. Status quo
2. Identifying the problem
3. Understanding requirements/options
4. Engaging with vendors
5. Making the decision

As you can imagine, this can become quite an elongated process. Nevertheless, when met with a complete, intuitive, well thought out solution it can be a very refreshing and rewarding experience.

THE 4 PILLARS OF INVESTOR ENGAGEMENT

BAN managers are often afraid that the members oppose changes, are not open to opportunities digital tools bring, or are simply not tech-savvy enough to use them. We've seen that members are actually much more likely to be active and engaged when using online tools because these can be conveniently integrated into their daily routines.
The onboarding process is the key when adopting new tools or processes – training, encouraging, and integrating the possibilities into existing processes will result in a vibrant community that is much more active than BAN managers could have ever anticipated.

Passive members are a challenge investor group managers often face, online or offline. Inactive angels rarely see the value in network membership and therefore are not the ambassadors to the network in a desirable way. Engagement also creates trust which is one of the cornerstones of an investor network and a prerequisite for syndication.

That's why member engagement is at the core of Dealum's solution – instead of technicalities, the investors can focus on the relationship building aspects of investing.

But how to activate and engage investor group members? There is a lot that can be done digitally to create an active virtual community. And there are a lot of reasons the members could be passive.

Draw a parallel with sales psychology, we can list 5:

- **Lack of contact –** they are strangers to each other and don't have personal relationships;
- **Lack of interest** – BAN offering doesn't match the investor's interests and needs at this specific time;
- **Lack of need –** they don't acknowledge the value provided by the BAN;
- **Lack of demand –** members are not open to change and prefer doing business the old-fashioned way;
- **Lack of opportunity –** engaging with the network is too inconvenient and time-consuming.

Although building connections in real-life is often quicker and more efficient, it is not always possible or even the most reasonable way of running an angel network. Networking is also only one of the values BANs can provide to members and there is a lot that can be done digitally to create an active virtual community. Here are a few ways BAN managers can create a positively buzzing angel group.

1. Create conditions for connecting

- **Open up the stage.** Schedule time at BAN events for the newly joined angels to introduce their background and investment strategy. Another way to encourage conversations is Open Mic where members can bring up topics that may not be directly related to BAN activities but which they would like to draw attention to (for example, how to improve financial literacy among the primary school students). This makes it easier for others to find common interests, pick up the conversation off-stage, and build deep and meaningful connections.

- **Give members something to talk about.** Relationships require a lot of upkeep to prevent them from fading away. How-do-you-do is not sufficient and does not develop the relationship further, instead, members need an object to discuss, analyze, co-invest in, etc. Being an investor group, deal flow is obviously the main object members connect over. As a BAN manager, providing a good deal flow is essential – there's nothing more invigorating to angels than a couple of exciting deals in the funnel. Discussions don't have to be limited to deals only – managers can draw members' attention to any suitable topic and allow them to weigh in.

- **Mimic physical events online.** One of the reasons physical events are more engaging is that they are more dynamic. In a standard group call, everyone is stuck to the same discussion stream which may or may not be interesting or developing in the right direction for them. It's also very difficult to find a gap in the conversation flow to step in and speak up therefore most members resort to the passive listener's role. In real life, people move around, join smaller sub-discussion groups, or even create one-on-one pairs for specific topics and are thus able to not only listen but also to weigh in with their opinion. Mimicking the same kind of dynamic, free-flowing format in an online environment has been difficult so far, but luckily now there are solutions for this – for example, Wonder or Clubhouse.

2. Provide meaning and purpose

- **Exploit the initiative (in a good way).** In every group, there are people with a sparkle in their eyes – they want to be more involved and contribute towards the common goal. Often they are newcomers, excited about being part of the group. As the BAN manager, your role is to recognize who these people are and include them in the processes. Give the initiators more responsibility, assign tasks, and allow them to get stuff done. For example, when creating industry-based subgroups (e.g. health-tech) it's important to make sure someone keeps the conversation going – a member excited about this specific vertical would be a great host. It's a brilliant way of providing more value to your group without overloading yourself.

- **Advocate for the lead investor role.** Lead investors are a BAN manager's best friends. An experienced and recognized deal lead has the ability to attract other investors to the deal, drive the conversation, and activate passive members as well as create connections with investors and groups from outside. They are also authorities from the startup company's and other members' perspectives who want to learn from them. Lead investors will appreciate the additional meaning and purpose in the community which will benefit everyone, but the BAN manager must understand the responsibility that comes with the role and find a way to incentivize deal leads appropriately.

Lead investors are a BAN manager's best friends. An experienced and recognized deal lead has the ability to attract other investors to the deal, drive the conversation, and activate passive members as well as create connections with investors and groups from outside.

3. Encourage personal growth

- **Provide educational content.** Educational content is especially important to new, novice members who want to feel like they are continuously growing as investors and can appreciate the value BAN membership will bring them knowledge-wise. Investor education is also a significant part of non-profit business angel associations' activities which often have a lighter deal flow. There are many ways to share useful information with your members. Lectures and webinars on specific subjects, guest presenters at events who are successful in their specific field, sharing articles, and writing on related topics can all help transfer valuable knowledge to your members.

A good digital tool can assist BAN managers in providing great value to the members and in the end, the more exclusively the chosen software is utilized, the more value members see in it.

- **Make knowledge-sharing easy.** Although chat is useful to manage daily activities, it is not the best way to handle meaningful discussions and experience sharing. A forum format with sub-headings and threads works much better for creating a community and a place to go for specific information. A forum where members can contribute builds a central, well-structured knowledge base for the group. It also allows members to earn visibility and credibility for themselves nurturing the growth of the future lead investors. In the future, we see that forum software should not be limited to one group only but would benefit from being shared with others for cross-group discussions on important matters.

4. Digitize

- **Make your group a focal point.** It's important your investors remember they are part of a group and a community that can benefit them daily. Good group management software serves as a communication tool that can be used to send out news, notifications, and other information members could be interested in. Frequent drip-feeding of information works well to keep your group in the picture – the only challenge is to find a balance and not overdo it (best if members can choose what kind and how much information they receive). A central platform where the community gathers to share information and cooperate on deals means more frequent visits from members and thus more opportunities for them to discover other areas of interest within the network.

- **Utilize your tools to the fullest.** Everyone knows it's important to gather feedback from members and involve them in the decision-making process. The problem is that formalized feedback questionnaires are not engaging and efficient enough – they usually come at the wrong time and feel like too much effort. With online tools, every interaction the members have on the platform – voting, discussing, indicating – or the lack of it serves as feedback and gives you valuable insight into the members' mindset. Interactions also feed directly into the group's knowledge base. Good management tools allow you to analyze information that is already existing without the need to ask for it separately every time you have a question.

Have faith!

A combination of physical and virtual environments works especially well to increase member engagement – for example, marking funding interests and voting for results during live pitching events, referring to the software to find additional info about the company, specific company or member profiles, and sharing more documents and important information. A good digital tool can assist BAN managers in providing great value to the members and in the end, the more exclusively the chosen software is utilized, the more value members see in it.

2.

INVESTMENT AND DEAL MANAGEMENT

THE LEVEL OF DUE DILIGENCE IN ANGEL INVESTING

Due diligence can sound like an elaborate legal process, but the scope largely depends on the stage of the startup. Evaluating startups is both an art and a science and the best results are achieved when combining instincts and experience with the data.

What is due diligence?

Due diligence can sound like an elaborate legal process with definitions like “investigation or audit of a potential investment consummated by a prospective buyer.” Wordy, to say the least.

What it actually means in plain English is exercising a reasonable level of care that any sensible sane person should take in their day-to-day business.

When investing in a company, due diligence usually means examining financial records and other relevant data before sealing the deal. What is reasonable – or even possible – largely depends on the stage of the company.

The scope depends on the traction

The more history and traction the company has, the more data you have, the more thorough due diligence you can exercise and the better you can predict their outcomes.

With a mature billion-dollar corporation, you have plenty of documents to drill and investigate for months and months on end. With an early-stage startup, you might not have much more than an idea and a team. Not exactly the material for rigorous detailed analysis with intricate spreadsheets.

The more history and traction the company has, the more data you have, the more thorough due diligence you can exercise and the better you can predict their outcomes.

This can be both good news and bad news. The good news is that the due diligence of a startup can be carried out quickly and efficiently. The bad news is, there's a lot more uncertainty. But you wouldn't be an angel investor if you'd be looking for certainty, would you?

The difference between angel and VC round

Angel round (pre-seed round, seed round)

In the angel round, due diligence mostly focuses on the team and founders. You might have some traction already, but you can't do very thorough calculations or predictions. You can also check out the market demand, trends, size, and competition, but it's the execution that counts, not necessarily the idea. That's not to say that you can't or shouldn't be thorough.

Focusing on the founders doesn't mean just using the information that founders provide themselves. Founders are there to sell, you are there to make a sound investment. Dig around in your own network and gather information from all available external sources.

Looking into public records is always a good idea, so if the information is easily accessible, you can take a peek at the founder's criminal, tax, or work records. But bear in mind that an informal track record can be a lot more crucial at this point – e.g. who tanked their previous startup, who fell out with business associates, etc. That's especially important when investing in foreign startups outside your usual network that you might not know as well.

VC funding round (seed+)

In a venture capital round, you already have the data, revenue, and performance to analyze – how was the previous funding spent, what went in, what came out, is there any growth, etc. The process is usually carried out by a legal or financial firm, which makes it much more costly, over €10K in general. The cost comes from involving external experts, but also from the mere load of paperwork they have to work through (documents, legal details, patents, etc.) This results in intelligence-level data that usually isn't even disclosed to the startup itself.

Should angels rely on gut feeling or data? Why not both!

Early-stage investors mostly fall into two categories – the ones who rely on their gut feeling and previous insight, and the ones who only rely on data.

- Team “Gut Feeling” – it’s important to note that gut feeling is not the same thing as emotional investing. Emotional investing means falling in love with a team or idea and diving into the investment solely based on enthusiasm – it’s more like playing a lottery. You develop a gut feeling after seeing enough founders and startups and accumulating enough experience. After a while, you’ll start seeing patterns of success and risk, e.g. in technical competence, stress tolerance, etc.

- Team “Data” – the other league doesn’t care much about intuition and only looks at hard cold numbers. As previously said, this approach is difficult to follow on the pre-seed/angel level, since there isn’t much data to start with. After all, most unicorns have been rejected by tens of investors back in their day. Some people might go as far as to say that focusing solely on numbers shows that the investor really can’t evaluate startups.

A gut feeling can give you information that doesn’t exactly come off as information. For the best result, you should combine the two approaches, i.e. instincts and experience with the data. Evaluating startups is both an art and a science.

Dealum offers a collaborative space and structured data sharing for a joint due diligence effort.

Discover how Dealum can simplify your processes and save time.

How to share the due diligence workload in an investor network

1. Share the load. Period.

We all know the saying "If you want to go fast, go alone; but if you want to go far, go together." Pulling together a diverse group of investors with different backgrounds, missions, and world views is the best due diligence you can have in angel-round investing. Ideally, you should have people who know the particular industry, people who work well with the numbers, etc. to detect and mitigate the biggest risks. This gives you the best possible insight with a reasonable division of workload.

2. Include your network

Using external experts is the main thing ranking up due diligence costs. Use all the (free) help you can get from your network. From friends and acquaintances to people sharing a similar mission – they can all share valuable insight into the strengths and weaknesses of a company. The first round of due diligence should come from the investors, the second from the industry network, and only as a third option should you turn to paid experts (in practice, they're rarely used in angel investing).

3. Make the data comparable

To make quick informed decisions, you need to make the data comparable. Using a due diligence template makes collecting and comparing company data efficient and simple. There are countless templates going around but drafting one is not rocket science. After all, early-stage companies are not that different – they all have similar basic information from company name and address to financial history and projections. You can always ask for more details later, but it's good to collect general data in bulk.Business angel networks should consider using their own templates for both the benefit of their investors and applicants. For example, in Dealum, you can collect applications with a custom multi-step online form. This makes pre-evaluation faster and automates repeat communication.

4. Assign a leader

The lead investor is much more than an honorary title. They play a crucial role in due diligence by validating opinions, managing the evaluation process, and putting together all relevant information. Experienced lead investors already know what aspects they should check in evaluating companies. This can also help other investors reach a consensus on the application.

5. Leverage the risk by voting

We've mentioned the power of investor groups before, but jointly discussing and evaluating deals helps achieve better results on average. It's no secret that the spray and pray approach works pretty well on pre-seed and seed levels (as opposed to a very detailed handpicking with a complicated due diligence process).

The lead investor is much more than an honorary title. They play a crucial role in due diligence by validating opinions, managing the evaluation process, and putting together all relevant information.

Voting is also a great tool to leverage risks and mitigate bias and emotional investing. Voting is not very common for individual rounds unless you count angels voting with their feet. If an angel investor doesn't believe in a project, they just don't invest in it.

Voting is more relevant in investment syndicates where it's important to find the best deal available. For syndicates of 5 investors or more, it's better to use a digital voting tool since discussing deals and voting over email becomes a hassle. It's a good practice to actively involve and engage members by collecting feedback and insight about the votes cast (e.g. why they were in favor or opposed to the deal).

DEAL FLOW QUALITY VS. QUANTITY

There is one major and very specific dilemma investor group managers face in their operations – should they focus on deal flow quality or quantity? Surely on quality, one might think – but we have seen that there is a lot of hidden complexity in choosing the approach, something that is not obvious at first glance. Let's discuss the two opposing camps that form when answering the question, what are the positives and negatives of both, and what can be done to overcome some of their problems.

Quality approach: “Superstars only, please”

It is clear that the more specific the business angel network (BAN) is about whom they want to see in their funnel, the more focused their search is and the more relevant startups they get in the end. Specialized groups find it easier to send their message across to the startups and also enjoy the benefit of being an expert in the specific vertical which is a great marketing message and attracts more startups from the field.

On the flip side, the higher the bar, the fewer get through the initial filter. This may result in too few deals being presented to members or even lacking the deal flow altogether, depending on how much the group is limited to their specific geography. For example, an AI-based chatbot vertical may only produce five startups a year in the whole Nordics, but globally it could be ten times more, and finding 2-3 good investment cases from a pool of 50 is much more realistic.

Focused groups usually have a rather specific and well-defined requirements list for the company and this brings along a lot of work for the manager to shift through the deal flow inbox and make sure startups meet the criteria.

Once the companies have been selected, the manager faces another barrier – focused groups, especially if geographically limited, are often small. The fewer members, the more likely the group is to fail to fill the round on their own.

Quantity approach: “The more the merrier”

Angels often join BANs not only for the deal flow but for the social element – belonging, information, knowledge exchange, experience sharing, networking, and creating connections with other investors.

Similarly, non-profit BANs may find that deal flow is not their primary purpose and value-offer to the members. They prefer to focus on growing the early-stage ecosystem in general by educating novice angels on how to invest. This means that non-profit BANs don’t always receive a very high-quality deal flow and are more of a training academy for the founders and angels before they move to bigger rounds and more professional investing – fundraising is an art that requires learning. In this real-life school, a strong knowledge base is created for young angels and founders alike who can proceed to the next level of investing after graduation.

The good news is – these kinds of BANs have a high member count. The bad news – they often have a varied deal flow where ideas are in different stages and of non-uniform quality. Raising the bar is not an option if BAN wants to continue being open and inclusive, but members often find it difficult to spot relevant deals in the busy funnel. BAN managers don’t always know what each member looks for specifically and therefore are unable to assist by connecting the right deal with the right member. This again results in rounds not being closed and, eventually, founders may prefer to turn to venture capital (VC) where they can raise faster and more efficiently.

Balanced approach

When you're chasing quality or quantity alone, BANs can get stuck in a vicious circle that goes something along these lines:

Route A: focus → higher bar → better deals → not enough deals and investors → rounds not closed

Route B: open up → lower bar → too many deals → members cannot find right deals → rounds not closed → founders go elsewhere → fewer deals

Looks like no matter what, the network would end up with an insufficient number of good deals or with difficulties closing the rounds. The manager could try to find the balance between quality and quantity, but this is a lot of trial and error which may have a negative impact on the positioning and image of the network. Therefore, we propose an alternative solution – a network of networks.

How to balance deal quality and quantity and help the right deals meet the right investors

Sharing is caring! An overused catchphrase, we know... But we believe this really does make all the difference. Sharing deals combines the positives from both, the quality-first and the all-inclusive routes. It means relevant deals meet the relevant investors by utilizing their industry experience and filling up rounds. There are some prerequisites to make this work, though.

Step 1: Create virtual investor groups

Sharing deals combines the positives from both, the quality-first and the all-inclusive routes. It means relevant deals meet the relevant investors by utilizing their industry experience and filling up rounds.

A lot of unused potential is behind the long member list of national BANs. Creating sub-groups for different purposes based on, for example, ticket size, geography, vertical, specific technology, or company characteristics (female founders, social entrepreneurship, etc) would allow the investors to find relevant deals faster. For example, in Dealum you can create private deal-specific spaces for investors with common interests. The tricky part is to find enough interested members to create synergy within the sub-group – if this is the case, creating a sub-group across different BANs might be a solution.

Step 2: Utilize the expertise

A specialized BAN that combines investors with expertise and experience in the field is more attractive to founders than big money in VC or fund. Specialized BAN also knows the industry inside-out and therefore is able to pick the strongest startups and validate their ideas. This means they serve as a perfect entry point for the founders and as a connection to other angels.

A specialized BAN that combines investors with expertise and experience in the field is more attractive to founders than big money in VC or fund

National BANs can use one of their assets, experienced deal leads, for the same purpose. A deal lead who has experience in some specific vertical and specializes in it has sufficient knowledge and experience to filter out the best startups and share these with their network of potential co-investors.

The expertise and industry network are essential for sharing to happen because the best way to find other groups to cooperate and share deals with is to know what others are doing, what they focus on, and what is their background.

Discover how Dealum can help you connect the right startups with the right investors, fostering growth and success in your network.

Step 3: power up partnerships

When a sub-group chooses a deal but is not able to fill the round, they have several options.

They can start by sharing and promoting the deal in their national BAN. There is a lot that speaks in favor of this option – a bigger audience to find more interested investors from one side and deal validation by an industry expert from the other side giving confidence to investors who lack specific knowledge.

As an alternative, the deal lead can also choose to keep the industry focus and approach their wider network which could include not only angels and super angels but also relevant VCs or even institutional investors in the sector.

The third option is for BANs to step up their game and aggregate the process which allows small ticket owners to play along. The main goal is to avoid the administrative burden of having too many investors in the company's cap table – a special purpose vehicle, side-car fund, micro fund, or collaboration with an external funding platform works well for this purpose. Equity crowdfunding may be a very reasonable choice depending on the focus of the startup – consumer products will have a lot of marketing value and visibility from the fundraising campaign and hundreds of micro-angels are great ambassadors for the product.

Step 4: the magic will happen

When founders realize where to apply for their specifics, the deal flow starts to regenerate itself as the reputation of the BAN builds itself. For founders it's not just the money they receive – what comes along is just as important. If the risk of not completing the round is mitigated then founders always prefer angels with sector experience to VCs that focus purely on the multiples and returns. At some point, angel groups start to outperform VCs in the founders' eyes. We welcome this perspective as we believe BANs should be the first choice for founders in seed rounds.

Bonus tips

Non-profit and profit-oriented BANs have very different purposes and the former is not strictly focused on producing a maximum financial return. As a BAN, it is important to clearly define and communicate who you are and for what and whom you exist.

It is also important for founders to understand what they can expect from your BAN – what steps they need to go through, when, and how. Transparency is the key, both for founders as well as your members.

Make sure it's easy for lead angels to share their deals within the group

Once the process is defined and communicated, you must also ensure you are able to deliver as promised. You need a good tool to be able to manage the processes and communication professionally and to avoid deals slipping through the cracks. There is nothing worse for founders than their application ending up in a big black hole that gives nothing back. Keeping your funnel under control is especially important when the deal flow is increasing and there are more applications coming in – the tool you use must be able to scale to the growing deal flow.

Make sure it's easy for lead angels to share their deals within the group. Yes, there is a risk that super angels in the group who can invest the whole early-stage round will contact the company directly and BAN involvement becomes redundant. This can be a positive thing, though – the founder raises the funds they need in order to grow, and as a result of a positive experience, they recommend the BAN to other founders. Super angels are usually extremely difficult to get hold of for the founders and when the rumor spreads, it adds an appeal to the BAN. Super angels often return the favor by sharing some of their deals with the group and are overall very useful to fortify BANs round closing and follow-up investing ability.

8 RED FLAGS WHEN CONSIDERING YOUR NEXT ANGEL INVESTMENT

As an angel investor, it's important to carefully evaluate any potential investment opportunities before committing your hard-earned money. Unfortunately, not all investment opportunities are created equal. You've probably heard of the rise and fall of Theranos, resulting in its founder being jailed for fraud. Similarly, the Slush and Immigram scandal reminded us how often there's more at stake than money – bad investments can damage your reputation as well.

Unfortunately, not all investment opportunities are created equal.

Theranos, a company founded by Elizabeth Holmes, promised to revolutionize the medical testing industry by developing a device that could quickly and cheaply run a wide range of lab tests using just a small amount of blood. However, it was later revealed that the company's technology was not as advanced as claimed and that many of the tests were actually being conducted on traditional lab equipment.

In hindsight, there were many red flags for the investors, including the lack of transparency, the departure of several key employees, the company's challenges with getting FDA approval, legal and regulatory troubles, and more. The investors missed the signs due to the charismatic leadership of Elizabeth Holmes and ended up losing a lot of money.

Russian startup **Immigram** aimed to help Russian citizens emigrate easier. When it won the **Slush** pitching competition and the top prize of 1 million euros, public outrage ensued. The awarding was deemed tone-deaf and inappropriate in light of Russian aggression on Ukraine. Eventually, Immigram opted out of the competition and Slush revoked the prize but the damage had already been done. This case serves as a reminder for investors to be mindful of the political and geopolitical risks associated with investing in certain countries or industries. Also, to consider the potential reputational and legal risks.

Fortunately, there are some red flags that help detect potentially risky or fraudulent investments. Based on our experience, here are the top 8:

1. Unrealistic plans or financial projections

Be wary of companies that present overly optimistic financial projections that seem too good to be true. When a startup's projected growth or revenue numbers are vastly different from industry averages or are not backed up by a solid plan, it can be a red flag. For example, a startup claiming they will achieve 100x growth in their first year without a clear strategy on how to achieve it.

2. Burned-out leader

Burnout is relatively common among startup leaders. The startup environment is known to be particularly challenging and demanding, which can take a toll on the founder(s). The stress of building a business from scratch, raising capital, hiring a team, and achieving profitability can be overwhelming and also make founders work exceptionally long hours. All of these factors can contribute to burnout, which can negatively impact the founder's ability to lead the company and make sound decisions. Pay close attention, when the founder or CEO has been through multiple failed startups or appears to have lost their drive and passion for the current venture.

3. Messy cap table

A startup's capitalization table (cap table) that is overly complex or shows a lack of organization. For example, a cap table with multiple rounds of financing and a large number of shareholders. Poorly organized cap table makes it hard for investors to accurately value their investment, can lead to dilution of ownership in later investment rounds, and subsequently bring up different legal issues or disputes. Eventually, it can also become a problem when raising additional funds or making an exit.

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4. Very limited market

If the total addressable market (TAM) is very small, it puts an obvious cap on the possible revenue. For example, a niche market with only 100 potential customers can't support significant growth. Even though a limited market doesn't necessarily mean a startup will fail, it means higher competition and limited scalability. Targeting a limited market requires very thorough market research on the founders' side. Gathering data on the size, growth, and demographics of the target market is crucial to determining if the idea is worth pursuing.

5. Founders mismatch

The founding team can have a mismatch in many ways, e.g. in their skills and experience, goals, communication, or commitment. Incompatible goals, skills, or personalities can cause conflict and keep the startup from succeeding. The more unified and aligned the founders are, the better they're able to work as a team towards one goal. And that doesn't mean they have to be similar – rather they have to complement each other. In the case of skills, it's not ideal to have a team of only developers, but when the founders include a developer, a salesperson, and a scientist, they still need complementary expertise in marketing, management, and finance.

6. Lack of entrepreneurial skills

When the founders lack entrepreneurial skills, e.g. a scientist CEO without any business experience, it can become a problem for the startup in several ways. They can have difficulty understanding the market, making adequate plans or decisions, and hiring a balanced efficient team. Subsequently, it can cause difficulty raising funds and keep the company from realizing its full potential. Even though the lack of entrepreneurial skills isn't necessarily a death sentence for the company, it's crucial that the founder is aware of their shortcomings and works actively to bring the necessary skills on board – either in the form of education, other co-founders, or hired specialists.

7. Uncoachable team

Being coachable is one of the key qualities to succeed in life. When the team is unwilling to take feedback or make changes, it means they lack the growth mindset necessary to, you know, run a growth company. Pay attention to whether the team is open to constructive criticism and willing to learn or gets defensive. Are they willing to try new approaches? To change their perspective? Or do they cling to their ideas even when old ways clearly don't work anymore?

8. No unique value prop in a crowded market

In a saturated market, a startup needs a unique selling point to position itself, differentiate from competitors, target and attract customers, and make overall smarter decisions, e.g. about product development or marketing. A startup in a highly competitive market with a generic product or service is not likely to stand out or succeed. Unclear generic value propositions often go hand in hand with unrealistic plans.

As you can see, many of these red flags are intertwined and can go hand in hand. For example, if the founders lack business skills and are also uncoachable, it also probably leads to unrealistic plans or problems with targeting the right market with a suitable value prop. On the other hand, when the founding team is inexperienced but highly coachable, there might be no problem at all. Just keep in mind, which signs to look out for and pay close attention, to when any of them comes up.

5 GREEN FLAGS FOR STARTUP INVESTORS

We have already covered the red flags of angel investing, but when considering an investment, it's equally important to notice the characteristics of the company that make it stand out from the competition. From a strong founding team to capital efficiency, we've listed the core factors to predict future success. Of course, investing in startups is always a risk, but you can't build a strong company on a weak foundation. The more boxes you can check for a startup, the higher the probability of a successful investment.
What should you pay attention to?

1. Strong founding team

The founding team is the backbone of any startup. A strong founding team has the right mix of experience, skills, and passion to help the startup succeed. Here's what to look for when evaluating a startup's founding team:

- **Industry experience:** Look for founders who have at least 3 years of relevant experience to make sure they understand the industry and the market. For example, for building a fintech startup, it's good to have experience in finance or banking.

- **Startup experience:** It's always a good sign if at least one of the founders has successfully built and sold a startup before. This shows that they can navigate the startup ecosystem and know what it takes to succeed. But a failed startup can sometimes teach as much or even more than a successful one.

- **Complementary skillset:** The founding team should have a mix of technical, business, and industry-specific skills necessary to build and scale the startup. For example, if the startup is building a new software product, the team should have a mix of software development, marketing, and sales expertise.

- **Passion and commitment:** If the founding team isn't passionate about their business, who should be? Building a startup is hard work and you don't last long without commitment and a clear vision. Although passion is hard to assess and mainly relies on gut feeling, take into account their past experiences, their level of involvement in the startup, and their willingness to take risks.

A strong founding team has the right mix of experience, skills, and passion to help the startup succeed

2. Sufficient market opportunity

Even the best team and product can't succeed if there isn't enough room on the market for it. Here's what to look for when evaluating a startup's market opportunity:

- **Market size:** To build a successful business, there must be enough demand for the product or service. This requires a large market that's on the path of growth. For example, if a startup targets a market worth $100 million, you can expect it to support a company worth about $20-30 million. If a startup targets a market worth $1 million… you can do the math.

- **Clear target market or expansion path:** The startup should target a well-defined market that is accessible and large enough to support its business. Starting on a niche market is not an essentially flawed strategy, it may be a smart route to bigger success – but the founders need to have a clear understanding in which direction and how they want to expand.

- **Growth potential:** Look for a market that's growing at a steady rate of at least 10% per year. This way the market isn't too saturated by established players yet and there's a growing demand for the product or service. This growth can be supported by market trends, consumer preferences, or regulatory changes.

- **Level of competition:** A crowded and competitive market can be challenging to penetrate, while a market with no competition indicates a lack of demand or interest.

3. Compelling and innovative product or service

A strong product or service is the main thing that provides value to its customers and sets it apart from the competitors. It should solve a real problem for its target customers and have a clear value proposition. Here's what to look for when evaluating a startup's product or service:

- **Unique value proposition:** Look for a product or service that solves a real problem or fulfills an unmet need in the market in a unique way, e.g. a distinctive selling point or strong product differentiation.

- **Scalability:** The product or service should be easily expandable to a larger customer base. This ensures that the startup has the potential for rapid growth and can generate significant revenue.

- **Demonstrated demand:** Make sure the product or service has actual market demand. For example, this can be indicated by early customer adoption, positive reviews or feedback, or pre-orders.

- **Innovativeness:** The product or service should offer something new or different to the market like a new technology, business model, or customer experience.

- **Intellectual property protection:** The startup should have a clear strategy to protect its intellectual property and core product or service. They should know and understand the basics of patent protection, including, when it doesn't make sense to file for a patent (e.g. SaaS platforms) and how feasible it is to enforce the protection (sometimes a secret kept can be a better protection than a patent published).

4. Traction

Traction is the progress the startup has made in acquiring customers, generating revenue, and building a strong brand. Here's what to look for when evaluating a startup's traction:

- **Customer acquisition:** Look for a startup that can acquire customers at a reasonable cost. Success in acquiring customers can look like a growing user base, increasing sales, or high customer retention rates.

- **Revenue generation:** The startup should have a clear revenue model already generating revenue, e.g. product sales, subscription fees, or advertising revenue.

- **Branding:** Building a strong brand is a long-term investment. Building a strong brand can look like positive press coverage, a strong social media presence, or a loyal customer following.

- **Repeatable and scalable growth:** The startup should have a clear strategy to acquire customers and generate revenue in a stable and sustainable way. Watch out for short-term or wishful thinking.

5. Capital Efficiency

Capital efficiency measures the startup's ability to generate revenue and growth with minimal investment. Here's what to look for when evaluating a startup's capital efficiency:

- **Burn rate:** A low burn rate means that the startup can operate with minimal expenses, e.g. by keeping its team lean, overhead costs low, or focusing on fast revenue generation.

Capital efficiency measures the startup's ability to generate revenue and growth with minimal investment

- **Revenue per employee:** Closely tied to the burn rate, a startup should generate significant revenue per employee, supporting growth with minimal resources.

- **Profitability:** Not many startups are profitable early on and only about 40% of startups ever turn a profit, but they should have a clear path to profitability. If the business model isn't sustainable, there's no way it can generate returns for your investment.

Even though startup investments never have a guarantee, understanding obvious green and red flags helps you make better-informed decisions and increase your chances for success.

If you're looking for a platform that can assist you in evaluating startups and connecting with promising ventures, Dealum can do a lot for you.

HOW TO EVALUATE PRE-REVENUE STARTUPS?

Before investing in a startup, angel investors should closely examine a company’s value. But how can you do that when you don’t have a track record, revenue or any other hard facts to base your calculations on? Even though valuating pre-revenue startups is much more difficult than valuating established companies, there are several ways to determine the startup’s fair value in the angel round.

First, you should remember that pricing is always competitive. It's always based on comparisons with other products and markets. The fewer comparisons you have, the greater the uncertainty about pricing.

First, you should remember that pricing is always competitive. It's always based on comparisons with other products and markets

As an example, think about a bottle of water in the middle of the desert – there are no good alternatives available which makes comparison impossible. It's likely that somebody is willing to give you everything they have for the water, in that environment. If you consider art, there are no easy comparisons either – every picture is unique. The same goes for startups. They are all different and have wildly different future perspectives. So how do you evaluate them?

And secondly, fair market value is a mere abstract. When talking about return on capital, we hear a lot about the assumption of fair market value. Fair market value is defined as "the value of the asset as exchanged by a willing buyer and seller on hypothetical fair market conditions". Regulators also use this definition to decide taxation.

Unfortunately, it's a very vague starting point, but it has to do. The actual market value will always differ from the fair market value, because not all aspects are modellable – e.g. synergies with investors or sector hype. You want to get to the value that would work in a fair market and then adjust if needed to evaluate an opportunity while still understanding the "true value" of the company.

7 key valuation methods for pre-revenue startups

All valuation methods boil down to comparing the risk to return ratio. You're trying to understand what is the actual price for this startup, given a certain return that you think the startup can do and a certain risk compared to the other products. Return is defined here as the increase in revenue and valuation in the future, and risk is the variability of that return.

Return is defined here as the increase in revenue and valuation in the future, and risk is the variability of that return.

There are two main categories of price calculations. On one side, methods that look at intrinsic value, looking at book value or cost-to-duplicate. On the other side, there are rudimentary comparisons like multiples, scorecards, or checklists, and more sophisticated methods such as DCF, the VC method, and real options methods. These are based on comparing the startup with other companies and the goal is to determine how this specific company differs from others.

1. Multiples

The method is based on multiplying any underlying metric, such as EBITDA, revenue, number of users, number of square hectares of terrain where we can grow crops for an agricultural business, number of employees etc. The multiple itself is generally calculated as the average or median of multiples of similar companies.

- Quick and easy.
- Finding comparable companies and reliable data can be challenging.
- Too simplistic for early-stage companies.

Ideally, you want to find companies with the same return and risk level. It means they are at the same stage, with the same knowledge, revenue, investment, and future potential. You need at least 5-10 similar companies to determine the multiple. At an early stage and in an emerging market it can be very difficult to find similar companies and the assumption that all other companies will grow the same way as this company, have the same risk, and are priced correctly can be misleading.

2. The scorecard method

The scorecard is more refined and suitable for an early-stage company. You decide on criteria that you want to base the valuation on, give them weight, and provide a score to the startup in each of the criteria. The resulting total score will be used as the multiplier for the average valuation of similar companies.

In simpler terms, you want to understand whether this company is better or worse than the average startup at that stage. If it's better, it deserves a higher valuation and vice versa.

\+ A detailed qualitative analysis of the company.
\+ Weights include investors' preferences.
\+ An investor's industry expertise allows a more accurate prognosis based on the experience of what is essential in a company to ensure its future success.

– Does not include much detailed financial analysis.
– Finding comparable data in the early stage is challenging.

3. Checklist

The checklist starts with a valuation that you think is the maximum for a startup at this stage, market etc, and then understanding how much the company deserves of that maximum across a variety of criteria. Is it the best team? Then it earns full points. Is the idea super engaging? Same. On the other hand, if the product rollout has been a disaster, it deserves zero points for that.

+ Gives a detailed qualitative analysis of the company.
+ Investors ‘preferences are taken into account.

– Doesn‘t have a lot of financial elements.
– Difficult to compare data.

4. Discounted Cash Flow

DCF is focused on financials and estimates the value of an investment based on how much money it will generate in the future. It belongs to the group of methods that are universal and are used for everything, from the valuation of oil rigs to management decisions and the valuation of stocks. DCF is more relevant when the startup is at a later stage and the company’s financials are reliable.

+ Allows a detailed financial analysis.
+ Puts returns in a broader context.

– Little qualitative analysis.
– Sensitive to discount assumptions.

When you are trying to understand the discount rate of a startup, you’re comparing the startup with other investment opportunities. For example, stock market, savings account, real estate – any investment that you can think of. The capital asset pricing model is supposed to value every type of asset as long as there is a risk and return. The problem is – it’s very dependent on assumptions. Also, if you’ve done DCFs in the past, you may have experienced changing the discount rate by 1%, and devaluation doubles. Not ideal.

5. VC method

This is a robust method based on multiplying EBITDA. If you want the investment to return 10x in 10 years, for example, then you can calculate the post-money valuation based on the expected exit price and the general industry metrics. The math can be done in your head instantaneously once you know your idea of a multiplier for a certain level of risk.

The VC method keeps the perspective on the end goal. A lot of the methods, like DCF, focus on annual results and profitability, but for many startups, the important thing is the end game. Are we able to reach the end game, and what's the probability?

+ Quick and easy ,can be done in the head.
+ Focuses on the big goal.
+ Little qualitative analysis.

– Very sensitive to discount assumptions ,especially with long time horizons.
– Simplistic and not precise.

One could argue the VC method takes simplicity too far. If it tells you that the valuation is between 5 and 10 million, but the proposal is 7.5 – is that high or not? The VC method is generally not the best way to understand the valuation.

6. Real options

With real options, math takes the lead. The method is made for the stock market but is also sometimes used to evaluate startups. It tries to model the startup as a series of options of what the startup can do. Each option has a probability, return, and variance, and in the end, the startup is the sum of the futures that it can have. It's a fascinating method, but when you need to set the probability and variance of each option, it gets very complicated very fast and doesn't add much information.

7. Book value and cost-to-duplicate

Book value is the value in the balance sheet, and the cost-to-duplicate is how much it would cost to duplicate the same product. They give a helpful baseline, especially when you need to value the assets that are the company's main value, like real estate. It also helps in investigating the company's past.

The problem from a startup perspective is that these methods are backwards-looking and accounting rules usually result in estimating almost the lowest value you can give to the company. Also, digital businesses create a lot of intangibles that are not measurable. If you look at the book value of a painting as buying the paint and canvas, then how much value of the painting are you actually capturing?

The accounting system often considers things that are investments as costs and these are not reflected in the balance sheet. A lot of founders have only their laptops as assets on the accounts, but every other asset – e.g. the value of the brand or the value created – is not captured with this method. If you want to capture these as assets, you need to do a DCF.

Which method to choose?

Many investors use a combination of several methods.
Why should you use more than one method? Because no method is perfect. Each of them has a different point of view, biases, focus and take on comparing risk and returns.

The qualitative methods that compare startups to other startups can be used as a baseline. The VC method is relatively stable and DCF allows you to take into account the specifics of a plan, which is helpful with the early startups because their plan can change the most. This combination of methods allows considering the baseline, assets of the startup, and the future potential of the plan.

Is it worth the effort?

Yes and no. Startup prices have not been accurate for the last 15-20 years, they have been undervalued. Now valuations are higher, and risks are more understood. At their core, startup valuations are simply comparisons against other investment opportunities.You can go from “take the given price” to the other end of the spectrum – “conduct an all-out valuation exercise”. It’s a question of how much you want to invest in terms of time and effort in understanding the valuation of the company? The more mature the startup, the more it makes sense to scrutinize valuation. Accelerators usually don’t calculate valuations at all, they just give standard offers. But when Goldman Sachs is involved in an IPO, a super detailed valuation can be expected. With more mature startups, deeper evaluation is more exciting and valuable.

However, startup valuation does offer something valuable, even at the earliest stages: as the one KPI which combines both risk and reward, it can be used to ensure that investors and founders are on the same page in terms of expectations. It is an important thought exercise in understanding the ambition of a company, and whether the present reality and future strategy are aligned to deliver on that promise.

HOW TO BUILD, MEASURE, AND MAINTAIN A HEALTHY CAP TABLE

We mentioned a messy cap table as one of the red flags to avoid in startups. But what does a healthy cap table look like. And what do the founders do right compared to the ones ending up with an un-investable cap table? Let's find out.

First off, what is a cap table? The cap table is a track record of who owns how much of the company and in the early stages of the company, it is usually a very simple and straightforward list of names and numbers that can look deceptively unimportant compared to all other information. Yet, there is much more to this humble table than meets the eye. Don't be fooled and leave the cap table overlooked.

Studies have shown that founders spend less than an hour dividing the shares when starting a company. Mostly because at that point there is not yet much to divide and it can be an uncomfortable topic. The following funding rounds, creation of the option pool, and using shares as a compensation mechanism can potentially lead to a very complex cap table. If not handled with care, it may negatively impact both the motivation of the founders as well as the fundraising ability of the company.

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Here are our three main takes on what founders need to keep in mind and which common pitfalls to avoid when discussing and dividing shares.

1. Getting off on the right foot

Before registering the company, the founders need to decide how they share ownership between themselves so that everyone feels motivated. There is no right or wrong way to do it; the shares can either be divided between all founders equally or some roles can be given more shares than others. Either way, the decision needs to have an explanation that makes sense to everyone involved. All founders should feel that they got what they wanted and understand the responsibility that comes with the shares – they are no longer an employee, and being an entrepreneur needs a different mindset.

More shares also mean more weight when voting at shareholders' meetings, but the situation where founders need to cast a shareholder's vote on something is quite rare.

The most important during this process is to keep people that shouldn't be there off the cap table. A halfhearted effort should not give a place on the cap table, otherwise, the lack of commitment and side projects will bring problems, sooner or later. **Each founder who gets company shares must be 100% committed to the startup.**

When choosing an asymmetrical division of shares between the founders then the key is to reward more effort. For example, the CEO should get at least 5% more shares because their role has the most responsibility and pressure. Also, the person whose energy drives the company should get more shares – for example, a CTO who is the author of the core technical solution but does not want to be the leader.

If the company divides shares equally then it's very important that everyone feels they're putting in an equal amount of energy and have equally good skills. If one puts in more or has much more experience than the others, things will get out of balance. In this case, the team members must have excellent relationships with each other and know how to handle conflicts to make it easier to solve the problems.

More shares also mean more weight when voting at shareholders' meetings, but the situation where founders need to cast a shareholder's vote on something is quite rare. Founders commonly get into heated arguments or conflicts during daily operations, but if things have gone so wrong that shareholder voting is the only option then the situation and relationships have gone beyond repair.

2. Keeping the table tidy

Passive founders are a common sight on the cap table as startup life is an intensive ride and a founder can feel that they are no longer interested or capable of running the business. **When someone is leaving the company, they also need to leave the cap table.**

This is not an easy conversation to have and usually requires negotiations. The leaver must either give away their shares or sell them back to the company at an acceptable price. The problem is, people are very fond of the shares they've received and don't want to give them back. It doesn't mean that the conflict is inevitable – the better the relationships between shareholders, the easier it is to solve the situation in a way that everybody wins. It helps if values and goals other than money are shared within the founding team.

The shareholder leaving by own choice is usually considered a good leaver according to the Shareholders Agreement (commonly referred to as the 'SHA', this is something every startup company should have from day one). A good leaver offers investors or other founders to buy their shares and if there are no buyers, they will keep the shares. Investors who notice passive shareholders often offer to buy their shares to fix the cap table, usually at a rate of 2-3 times less than what they would pay at the valuation price. Of course, if someone has under 5% of the shares, getting them out of the cap table is probably not worth the trouble.

To lessen the passive founder problem, it's recommended that the founders agree to earn their shares gradually over time (this is called 'vesting'). For example, if it's agreed that the full amount of shares will be received after three years and one founder decides to leave after only one year, this person will get ⅓ of the total meant for them. Even though it is difficult to talk about leaving, especially at the beginning when everyone is very motivated, it is very beneficial and can help prevent much hassle later. Talking about it only gets more difficult over time – it is a much easier discussion when there is nothing to share.

3. Planning for the future

Startups tend to make the most mistakes when bringing in their first investors. There are two extremes: they give the shares away very generously, or they are too stingy. The last one is easier to fix because you can always give more, but you cannot take away shares. What young companies usually forget is also to consider the future investment rounds. The first investment has the most significant effect on the later stages.

Giving 20% to the first investor who puts in a considerable amount of money and believes in the founding team does not feel a lot. But when you consider the amount the company needs to raise in the next round and how much is expected in return, it does not make sense anymore. **The first angel investment should not exceed 10-15% ownership. Otherwise, the valuation is either too low or the investment too small.**

The cap table needs to be balanced between the investors and the founders. Founders should own about 50% of the company when raising the A-round. If it's less, it means they have given away too much. When after several rounds the founder discovers they only have, for example, 7% of the company left, it will be difficult to keep the motivation high – what is the point of having this much pressure if the payout is not worth it? It would be much easier for them to sell the shares, but this is not in the interest of the investor. Professional investors very rarely want to run the business themselves.

Another mistake to avoid is giving shares to somebody who offers only sound advice and industry contacts but no money. This will lead to a messy cap table. **There should be only two ways to get a place on the cap table – money or full attention in the form of working hours. There is no room in the cap table for social capital.** This does not apply to accelerators who ask for shares because they have a much bigger network and can provide more support compared to individuals.

Each investment round should be kept to a maximum of 10-15% of the shares being offered. If a startup has a clear idea of how much money they need, they can calculate the required valuation and vice versa. **How successful they are in their fundraising depends on how the math adds up.**

Bottom line – maintaining a healthy cap table

Above all, the founders must have aligned values and friendships. A cap table is just a tool to divide equity, but relationships help people reach the actual payout moment. Nevertheless, it is important to be aware of the risks associated with shareholding and address the potential problems early on.

The best way to maintain a cap table is to use specializedsoftware. After several investment rounds on various terms, the investors' and employees' options form a complicated matrix that is difficult to comprehend. The cap table must include each round's investment terms and information about different types of shares. For example, some investors have the right to get their investment back in priority order and some shares are divided into preference shares and ordinary shares.

On the Dealum platform, startups can upload their cap table in two ways – together with an application or as a funding round document. The first one is visible to everyone who sees the application and the second one gives the option to restrict visibility to only those who have shown interest and joined the deal. Cap table is vital information for investors and usually there is not much point in trying to hide it, considering that investors usually know about different deals within their network and also the fact that eventually, all shareholders' names can be seen from the contract the investors sign.

Sustainable startups or greenwashing?

AN ANGEL INVESTOR'S GUIDE TO SPOT THE DIFFERENCE

Whilst it's becoming more widely recognized that the world is already in the midst of a climate crisis, there is also a growing recognition among investors that sustainability is not only good for the environment but also critical for long-term financial success. Companies that prioritize sustainability are often more efficient in their use of resources and may be better equipped to adapt to a changing regulatory landscape. Also, consumers are increasingly demanding sustainable products and services. By investing in these companies, you can tap into this growing market and potentially see higher returns on your investment.

But it can be hard to tell the difference between a truly sustainable company and one that's just using greenwashing tactics, either intentionally or inadvertently. With this in mind, the European Commission recently unveiled a new set of rules for the consumer market that will require companies to back up their green claims with credible scientific evidence. In this guide, we'll additionally show you how to spot greenwashing and invest in truly sustainable startups.

What is greenwashing?

Greenwashing is a marketing tactic used by companies to make exaggerated or false claims about their environmental practices. It is intended to create the impression that the company is environmentally responsible, even if they are not. Greenwashing can be used to mislead consumers or investors, and it undermines the efforts of companies that are genuinely committed to sustainability.

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Is greenwashing always intentional?

The short answer is no. It’s possible to greenwash by mistake or naivety. The company might genuinely believe that they are doing the right thing for the environment, but the impact of its actions is marginal or even harmful.

For example, a company might claim that their product is “100% natural” and therefore environmentally friendly, but fail to disclose that the production process involves significant resource depletion or pollution. Or it might claim that its product is recyclable but fail to mention that the recycling process itself is energy-intensive or creates additional pollution.

How is greenwashing different from green marketing?

Green marketing is a legitimate marketing strategy used by companies to promote their environmentally friendly products or practices. The goal of green marketing is to stand out, gain a competitive advantage or draw attention to their worthy cause.

Greenwashing on the other hand tries to create the impression that a company is environmentally responsible, even if they are not, mainly to mislead consumers or investors.

In short, the key difference between green marketing and greenwashing is the truthfulness and accuracy of the claims being made. Green marketing is truthful and accurate and communicates legitimate environmental benefits to consumers. Greenwashing, on the other hand, is deceptive and misleading and is intended to create a fake facade of environmental responsibility.

Real-world examples of greenwashing

Investors develop their gut feeling over time. The more greenwashing stories you see, the more you know what to look out for. Here are some real-world examples of companies accused of greenwashing.

Consider using Dealum, the leading platform for angel investor networks.
Better deal sharing can help to detect greenwashing startups better.

Take the guesswork out of your investment decisions and start supporting companies that are genuinely making a positive impact.

- **H&M** launched its Conscious Collection in 2012, claiming that it was made from sustainable materials and produced using eco-friendly processes. However, it turned out that the company was still sourcing materials from unsustainable sources and the manufacturing process was not as environmentally friendly as claimed.

- **Juicero** was a startup that developed a juicing machine that could only be used with specific juice packets. The company claimed that the packets were compostable, but it soon turned out that the packets were not fully compostable and actually created more waste than traditional juicing methods. Juicero eventually shut down in 2017.

- **Blue Apron** meal kit delivery service claimed to be committed to sustainability by sourcing ingredients from small farms and reducing food waste. On the other hand, it turned out that the company generated significant amounts of plastic waste from its packaging and had a higher carbon footprint than traditional grocery shopping.

- **TOMS** shoe company became famous for its “buy one, give one” model, in which the company donates a pair of shoes to a child in need for every pair purchased. While the company’s philanthropic efforts were admirable, critics accused Toms of greenwashing because its shoes were made from non-organic materials, thus having a high carbon footprint.

4 ways to detect greenwashing

1. Look for vague language

Using vague or ambiguous language is a common greenwashing tactic to make a product or company appear more environmentally friendly than it is. Phrases like “eco-friendly,” “sustainable,” and “green” are often used to mislead consumers and investors. So, how can you tell if a company is truly living up to these claims?

Phrases like “eco-friendly,” “sustainable,” and “green” are often used to mislead consumers and investors

First, look for specific details in their marketing materials. A company that prioritizes sustainability will be transparent about its practices and provide specific details. For example, they may mention the percentage of recycled materials used in their products or the amount of energy they’ve saved by implementing a new manufacturing process.

On the other hand, a company that’s just greenwashing will use vague or generic phrases that don’t provide any real information about their practices. They may use terms like “eco-conscious” or “green-minded” without explicitly backing up these claims.

2. Investigate and ask for hard data

Don’t just take a company’s word for it – do your own research. One way to do this is to look for third-party certifications. These certifications are awarded to companies that meet specific environmental standards and can help you confirm a company’s commitment to sustainability.

It’s also a good idea to look for specific data about a company’s environmental impact. This might include information about their carbon footprint, water usage, or waste reduction efforts. If a company can provide specific data about its sustainability practices, it’s a good sign that they’re committed to making a real difference. Also, be aware of cherrypicking – highlighting the positive while failing to disclose the negative.

3. Be wary of carbon offsetting

Carbon offsetting platforms and initiatives have an arguable impact in general. One might compare them to selling indulgences, a medieval practice of paying money to absolve one of past sins and release them from purgatory. When companies use it as a way to claim to be environmentally responsible while continuing business as usual, the positive impact is questionable, to say the least.

There are legitimate carbon offsetting programs that have been independently verified and shown to result in real emissions reductions, e.g. renewable energy projects or energy efficiency initiatives

However, not all carbon offsetting is inherently bad or deceptive. There are legitimate carbon offsetting programs that have been independently verified and shown to result in real emissions reductions, e.g. renewable energy projects or energy efficiency initiatives. It’s important to carefully evaluate all claims related to carbon offsetting and to thoroughly investigate the credibility of the solutions being used.

4. Consider the company’s overall environmental impact

Finally, it’s important to consider a company’s overall environmental impact. This means looking beyond just products or services and examining the entire supply chain and processes. For example, a company that claims to be eco-friendly but sources its materials from dirty companies is not as sustainable as they claim. Similarly, a company that uses energy-efficient lighting in their office but non-renewable energy for their manufacturing is not nearly as environmentally friendly as they could be.

Impact investing:

HOW ANGEL INVESTORS CAN DRIVE BOTH PROFIT AND POSITIVE CHANGE

Impact startups and impact investing are logical reactions to the countless global issues we're facing. As extractive capitalism has played a big role in bringing us here, more and more people realize that we need something entirely different to move us forward. We need alternative business models that not only 'do no harm', but create positive change in the process.

The rise of impact startups signifies a shift in mindset, where purpose and profit are intertwined, and businesses take accountability for their impact. The founders and investors take it upon themselves to tackle societal and environmental challenges and create innovative solutions that go beyond profit maximization.

It’s important to note that impact startups are not the sole solution to these issues, and systemic change requires collective efforts from various parties, including governments, corporations, and society in general. However, the rise of impact startups reflects a growing recognition that the existing economic models need to be reevaluated and that entrepreneurship can be a powerful force for positive change.

The rise of impact startups signifies a shift in mindset, where purpose and profit are intertwined, and businesses take accountability for their impact

What exactly is an impact startup?

Let's get one thing clear, an impact startup is definitely a for-profit company. It has a dual mission to create a positive social or environmental impact AND generate financial returns.

Here are some key characteristics of impact startups:

- **The mission is the core of their business –** their social or environmental impact is not merely nice-to-have, but a fundamental part of their business model, products, or service.
- **They have a measurable impact –** impact startups diligently measure their impact to ensure transparency and accountability, as well as constantly improve and scale their impact.
- **Their solution is sustainable and scalable –** impact startups go big or go home. They want to offer innovative sustainable solutions that you can apply fast on a large scale for maximum impact ')thus the name 'impact startups.(

Companies like Patagonia or Zipline have successfully combined their missions with financial success, proving that purpose-driven entrepreneurship can lead to both profitability and meaningful change.

The sustainable outdoor gear business Patagonia has been a leader in promoting sustainable practices, including using recycled materials, fair labor, and donating a percentage of sales to environmental causes. They've attracted a loyal customer base and shown that purpose-driven businesses can thrive financially. Recently, its founder gave away the company to make sure its annual profits of around $100 million will keep helping to fight climate change.

The drone delivery company Zipline focuses on providing medical supplies and blood products to remote areas in Rwanda, Ghana, and other countries with limited access to healthcare facilities. Zipline's impact-driven approach has gained recognition and support from investors. They recently raised $330 million in funding – an accomplishment ever the great considering the unfavorable market.

What is not an impact startup?

Not all businesses that have a positive impact fall under the category of impact startups. If the sustainability mission is not the core of their business, but rather a PR or charity project that has minimal or uncharted impact, it's not an impact startup (even if it's a startup with some positive impact).

Let's get one thing clear, an impact startup is definitely a for-profit company

For example, traditional businesses or startups may make valuable social or environmental contributions, but if the mission is not at the core of their business, their impact is minimal, or their activities qualify as borderline greenwashing, it's not an impact startup. On the other hand, nonprofit organizations that have nothing but a mission at their core, but produce no profit, are also not considered impact startups.

Top 3 myths about impact startups

1. Impact startups don't deliver financial returns

Some people think impact entrepreneurs are only driven by their cause and lack business sense. They assume that impact startups are synonymous with nonprofit organizations and don't deliver financial returns. However, as we've discussed, impact entrepreneurs combine their passion with strategic thinking and entrepreneurial skills to build both sustainable and successful businesses. Countless impact startups have shown that profitability and positive impact can go hand in hand.

2. Impact startups have limited market potential

While ethical consumerism is a significant driver, impact startups target a broader customer base through their innovative products, competitive pricing, and strong value propositions.

Many people think that impact startups only cater to niche or socially or ethically conscious consumers. While ethical consumerism is a significant driver, impact startups target a broader customer base through their innovative products, competitive pricing, and strong value propositions. As we've discussed, they aim to solve societal or environmental challenges on a large scale while meeting market demand.

3. The impact of impact startups is questionable

People often think that impact measurement is complex and subjective, questioning the effectiveness of impact startups. While impact measurement can be challenging and we're increasingly aware of different forms of greenwashing, the field is rapidly evolving. Different impact measurement frameworks and methodologies are emerging to help impact startups provide transparent and verifiable impact data.

Why investing in impact startups is a win-win

To sum it all up, investing in impact startups is not just a financial decision – it's a powerful tool to create change in the world. By investing in impact startups, you can help actively solve pressing global challenges such as poverty, climate change, healthcare access, and education. You become an agent of impact and contribute to a more sustainable and inclusive future.

By investing in impact startups, you can help actively solve pressing global challenges such as poverty, climate change, healthcare access, and education.

The beauty of investing in impact startups lies in its potential for both financial returns and the fulfillment of knowing that your investments are making a difference. It's also a great way to diversify your portfolio with entirely new industries and business ideas. One might even say, it's a win-win-win situation. So, embrace the opportunity to invest in ventures that align with your values, drive innovation, and address critical issues. Together, we can shape a better world and leave a lasting legacy of positive impact for generations to come.

The beauty of investing in impact startups lies in its potential for both financial returns and the fulfillment of knowing that your investments are making a difference

Overcoming bias in angel investing:

THE UNTAPPED POTENTIAL OF MINORITY FOUNDERS

The tech industry has a diversity problem. Despite efforts to increase inclusivity, minority founders are still heavily underrepresented in the startup world. So much so that women-led startups receive less than 3% of VC funding, Latinx only 2% and Black founders a mere 1%.

But why should you care? Besides basic human decency.

Because diversity is not only a social issue but also a smart investment strategy.

The untapped potential of minority founder startups

Throughout history, white men have held power, which has led to seeing their views and experiences as the norm. When the white Western male is the “standard” for startup founders, we’re missing out on the perspectives, experiences, and needs of people who are not white, male, or Western.

Why is this a problem?

Firstly, this perspective reinforces systemic inequalities and perpetuates bias and discrimination. And subsequently, it limits innovation and progress by only valuing a narrow set of perspectives and ideas.

The beauty of investing in impact startups lies in its potential for both financial returns and the fulfillment of knowing that your investments are making a difference

Minority founders’ unique perspectives and experiences help them identify unaddressed problems and tap into underserved markets. They can create innovative solutions that meet the needs of diverse consumers. Such as, to name a few, media and tech company Blavity News which focuses on black millennials and the plant-based feminine care brand The Honey Pot Company – both have rapidly become leaders in their industry.

Excluding minorities is simply a waste of talent and potential. The shortage of IT talent has been a topic for years, yet we continue to overlook whole societal groups. Furthermore, studies have shown that diverse teams perform better, make better decisions, and are more innovative. By knowingly, unknowingly, or systematically pushing aside minority founders, we can’t unlock the full potential of the startup ecosystem and build a more inclusive society.

The benefits of investing in diverse startups

There are various studies and statistics that suggest startups with diverse teams are significantly more profitable than their peers. For example, a study by McKinsey & Company found that companies with gender-diverse executive teams had a 25% likelihood of outperforming their peers and ethnically diverse teams a whopping 36%! The statistics clearly suggest that diversity in startups leads to better outcomes.

Rooted in historical and systemic biases and discrimination, our startup ecosystem and society, in general, are less supportive of minorities. Changing this requires joint efforts from the whole startup ecosystem

In addition to better performance, investing in minority founder startups offers a range of other benefits:

- Diversifying your portfolio, reducing risk, and increasing potential returns;
- Accessing new or underserved markets and staying ahead of industry trends;
- Promoting diversity within the industry and society in general, thus supporting social justice and equality.

Obstacles faced by minority startup founders

The reasons why funding and representation are so low for women and minority founders are complex and multifaceted. Rooted in historical and systemic biases and discrimination, our startup ecosystem and society, in general, are less supportive of minorities. Changing this requires joint efforts from the whole startup ecosystem – from investors and accelerators to policymakers and the broader tech community.

Here are the – often intertwined – obstacles faced by women and minority startup founders.

- **Lack of access to funding** due to biased investment processes, lack of networks and connections, and a preference for founders who fit the traditional mold of a successful entrepreneur.
- **Bias and discrimination** throughout the startup ecosystem, from investors to potential customers. This can take many forms, from overt prejudice to unconscious biases and microaggressions.
- **Limited representation** makes it harder for these groups to connect with mentors and investors or access other resources.
- **A lack of role models** to help them navigate the challenges of starting and growing a business.
- **Systemic barriers** such as a lack of access to quality education, healthcare, or childcare, can make it harder for them to build the skills and experience needed to succeed.

The trillion-dollar question: how to overcome barriers and bias in the startup world

The global startup ecosystem was worth $6.4 Trillion in 2022. Imagine how much it could be worth if all founders had a fair shot. But what can investors do to unlock that potential?

- **Reflect on your own biases**. Everyone has them. The good news is that it's possible to overcome them through education and awareness. First, acknowledge the potential for unconscious bias in decision-making. Bias can come in many forms, including race, gender, age, and socioeconomic status. And second, honestly face the negative stereotypes you may have about others.

- **Challenge your assumptions**. Ask yourself questions like, "Am I making assumptions about this founder based on their race or gender?" or "Am I prejudiced about this startup because it doesn't look like my idea of a successful startup?"

- **Intentionally seek out and support diversity**. Be wary of your possible biases, and actively and intentionally work to counteract them. Actively seek out minority founder startups and look for ways to support them. Attend events and conferences that focus on diversity in entrepreneurship. Seek out opportunities to mentor or invest in minority founder startups.

The bottom line: get invested in diversity

As investors, we have the power to make a positive impact on the industry and society in general. Investing in minority founder startups is not only the right thing to do, but it also makes good business sense. However, to overcome the obstacles faced by minority founders, we must all take action. We must acknowledge our biases and challenge our assumptions, intentionally support diversity, and promote equity within the startup ecosystem and society as a whole. Ultimately, positive change begins with each of us.

Ready to broaden your investment horizons by sharing and discovering diverse deals in our investor group?

Join Dealum now and get unique perspectives and deal information through a better deal-sharing system in your investor group.

3.

THE POWER OF COMMUNITY

THE GROWING VARIETY OF ANGEL INVESTOR GROUPS

A more vibrant and diverse angel investment community supports and enables a more diverse startup community in general.

In recent years, we've seen a constant rise in diversity of angel investor groups. From the diversity of angels themselves to the way the groups operate. And this is only a good thing. A more vibrant and diverse angel investment community supports and enables a more diverse startup community in general.

For years, the status quo of angel investing was white male ‘bro clubs’ and/or highly organized and regulated angel funds. Today, we’re seeing more and more informal groups popping up, many comprising only of friends and family. The growing number of online angel platforms also helps individual angels or smaller angel groups participate in early-stage investments.

As the startup ecosystem evolves and becomes more accessible, there has been a significant increase in the diversity of angel investors and investment approaches. This diversity includes:

- **Demographic diversity:** Angel investors now come from a wider range of backgrounds, genders, ethnicities, and ages, contributing to a more inclusive and varied investment landscape.
- **Geographic diversity:** Angel investing is no longer limited to traditional tech hubs. It’s now possible to find angel investors and startup ecosystems in various regions around the world.
- **Niche focus:** Angel investors are increasingly specializing in specific industries or sectors where they have expertise, leading to more targeted investments and better support for startups in those domains.
- **Alternative investment models:** New investment models, such as revenue-based financing and tokenized securities, are offering different ways for angels to invest and startups to raise capital.
- **Impact and sustainability:** More investors are considering the social and environmental impact of their investments, leading to the rise of impact-focused angel investing.

Dealum is built to embrace the vibrant early-stage investing ecosystem just the way it is – enabling and supporting investor groups of all shapes and sizes. We truly believe that the tool should suit the network, not the other way around.

BUSINESS ANGELS AND ANGEL INVESTMENT NETWORKS – THE COOPERATIVE SUPERPOWER

Angel investing can be a lonely business. Angel investor is solely responsible for the decision to invest some of their available resources, monetary or in-kind, to help build a successful business. Hence the homework, as well as the consequences, lay on them alone.

Yet for early-stage startups, cooperation is more crucial than ever. Angel investing in its core is best done as a team effort. For the startup, investment from a group of angels (a syndicate) gives access to more varied knowledge and industry expertise of the angels. The angel investors, on the other hand, can more likely provide sufficient funds for the company to succeed, as well as diversify their portfolio as opposed to "putting all eggs in one basket".

Of course, individual investment strategies can vary significantly between angels and this is only one of the approaches, but here at Dealum we truly believe cooperation is the key to an active and thriving early-stage investing ecosystem.

BAN scene in the Nordics and Baltics

Nordics & Baltics angel investment scenes are dominated by nationwide non-profit associations acting as umbrella organizations with high member counts and visibility. In addition, there are smaller groups and organizations focusing on specific regions, sectors, or segments.

Looking at these business angel networks (BANs) mission statements, they consider themselves a crucial part of the early-stage investment ecosystem. They also want to help the ecosystem evolve – by encouraging and supporting individuals in becoming angel investors, improving the quality of investing, creating more possibilities for companies and investors, working on a local and national level to create a supportive legislative framework, and enhancing the visibility of the early growth and seed capital's role in the society. All of this with one goal in mind – to help startup companies succeed in their ventures.

Our two favorite (and coincidentally also the shortest) mission statements are from FiBAN and Keystones. The former declares they are here to "Inspire private investments" and the latter to "Make entrepreneurship a popular sport" (rough translation, courtesy of Google Translate). What a great way of saying all of the above with only a few words!

As cooperation becomes increasingly crucial in the connected world, we are excited to see national networks opening up and sharing their deal flow with partners. On the Dealum platform you can collaborate with other groups and investors and even share funding rounds. This is your sign to reach out to thy neighbor and propose a joint venture.

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GLOBAL COLLABORATION OF THE ANGEL COMMUNITY

Increasing regional and global angel group collaboration can help expand deal flow, share resources, and sharing expertise.

One of the goals of Dealum is to help capital and brilliance to move freely across borders. Why is that important? Well, capital market tends to be fairly fragmented geographically. Increasing regional and global angel group collaboration can help expand deal flow, share resources, and sharing expertise.

The main reasons that hold business angels back from cross-border investing are lack of information, preference to invest locally, and tax or legal purposes.

Angel investors often rely on their networks and local knowledge to find information about investment opportunities.

Online networks and platforms like Dealum help overcome this constraint, giving a reliable way for angels from different countries to connect and enabling them to discover potential investments.

Online networks and platforms like Dealum help overcome this constraint, giving a reliable way for angels from different countries to connect and enabling them to discover potential investments. Cross-border angel networks, international conferences, matchmaking events, and mentorship programs also help bring together angels from various regions.

Still, many angels deliberately or subconsciously prefer to invest locally and for a good reason – they know the local market and often even most of the startup community, it's therefore easier to conduct due diligence and provide hands-on support to their portfolio companies. Tax incentives and legal requirements can also heavily influence investment decisions. If some countries are just so much easier or more beneficial to invest in, why should you look any further.

Yet, as the startup ecosystem continues to evolve, we're moving to a more interconnected entrepreneurial finance landscape regionally and globally. **Regional collaboration** involves angel groups within a specific geographic area sharing resources, deal flow, and expertise. This can be particularly beneficial in growing startup ecosystems where individual angel groups might have limited resources or expertise.

Global collaboration is facilitated by advancements in technology, communication, and transportation. Cross-border collaboration can offer access to diverse markets, innovation hubs, and opportunities to leverage international expertise and networks. However, it also involves dealing with regulatory and legal complexities, as well as potential differences in investment practices and cultural norms.

The pros and cons of cross-border collaboration

Collaboration among angel investment groups, both within regions and beyond, can offer several benefits, but it also comes with its own set of challenges.

Pros and cons of angel group collaboration:

+ **Access to a wider pool of investment opportunities** – collaborating with other groups can give access to a broader range of startups and industries they wouldn't have been able to access individually.
+ **Pooling resources and expertise** – therefore angel groups can participate in larger investments, increase their potential impact and the likelihood of success. Angel groups can also reduce their due diligence workload and raise their overall investment skills.
+ **Risk mitigation** – investing across borders helps diversify portfolios and reduces the risks of only investing to a single region or market.

– **Decision-making challenges** – different groups can have different processes, cultures, and objectives, not to mention different expectations about investment terms, timelines, and exit strategies.
– **Communication challenges** – managing communication among multiple groups across different time zones and cultures can require significant coordination. You also have to tackle confidentiality and data security when handling and sharing sensitive investment information.
– **Legal and regulatory differences** – cross-border collaboration may involve diverse legal and regulatory environments and compliance challenges.

To reap the benefits of collaboration, you need deliberate planning, open communication, and a willingness to adapt to different practices and perspectives. The degree of collaboration can vary widely, ranging from occasional co-investments to more structured partnerships and alliances.

10 recommendations for starting cross-border collaboration with other angel groups

1. **Start small** – try out small-scale collaborations or pilot projects before taking on larger and more complex endeavors.

2. **Use the right tools –** explore angel investing platforms that facilitate virtual collaboration, deal management, and communication.

3. **Value-first –** base your collaboration on similar investment philosophies, goals, and values.

4. **Clear communication** – establish efficient communication channels and protocols to keep everyone in the loop, involved in discussions and decision-making.

5. **Define roles and responsibilities –** make sure each group knows their role, rights and responsibilities to avoid confusion and conflicts.

6. **Deal structure** – keep the deal structure as clear and simple as possible. E.g. consider structuring deals through syndication, where each group invests a portion of the required funding required for an opportunity.

7. **Confidentiality** – use confidentiality agreements or data-sharing protocols for sharing sensitive information.

8. **Exit strategies** – discuss and settle on potential exit strategies and timelines to make sure all groups have a common understanding of the investment's lifecycle.

9. **Legal and regulatory expertise** – seek legal and regulatory expertise to navigate potential challenges of cross-border investing.

10. **Conflict resolution**: – plan ahead how to address potential conflicts or disagreements down the line.

Cringe-free networking –

HOW TO BUILD GENUINE RELATIONSHIPS IN THE STARTUP WORLD

Networking is an essential part of the startup world, but it's not just about vain metrics or amping up your LinkedIn follower count. Building genuine relationships is the key to success. We all know the saying: it's not just what you know – it's who you know. Networking helps you find like-minded investors, as well as access a wider range of deals and investment opportunities

Building genuine relationships is the key to success.

And if merely hearing the word "networking" makes you cringe, read on to find out how to build genuine relationships in an authentic way.

What is a genuine relationship?

Let's start with the basics: what is networking, and why is it so important? At its core, networking is about building relationships that can help you achieve your goals – connecting with other investors, making new contacts, and fostering long-term connections.

Networking tends to get a bad rep as being fake and transactional. But it's much more than schmoozing people up, shaking hands, and exchanging business cards. In the startup world – and the world in general – it's building genuine relationships that really matters. And is also your key to success.

What does it mean to build a genuine relationship? It means taking the time to get to know people on a deeper level – learning about their interests, goals, and values, and looking for ways to provide value and support in their endeavors. Yes, 'their', not only yours.

You gain a network of trusted allies who are invested in your success, willing to go the extra mile to help you achieve your goals, and mention your name in a room full of opportunities.

Building these types of authentic connections gives you something way beyond an impressive LinkedIn headcount. You gain a network of trusted allies who are invested in your success, willing to go the extra mile to help you achieve your goals, and mention your name in a room full of opportunities.

Networking principles that won't make you cringe

How can you build a network that works for you? Here are some key principles to keep in mind:

- **Be authentic:** the most important thing in networking is to be yourself. Don't try to impress, but focus on building genuine relationships based on shared interests and values. People want to work (and invest) with someone they trust and feel comfortable with – don't be afraid to let your personality shine through.

- **Be generous:** building a strong network is about more than just what you can get from others – it's about what you can give. Look for opportunities to provide value to your contacts, whether it's by making an introduction, sharing your expertise, or offering feedback and support. By being generous and helpful, you can establish yourself as a valuable member of your industry's community and build stronger, more meaningful relationships.

- **Be intentional:** to make the most of your networking efforts, be intentional about the connections you make. Think about your goals – whether it's finding investment opportunities or new members for your investment group – and identify the key players who can help you achieve them. Look for opportunities to connect with these people at industry events, through professional organizations, and on social media. But remember, it's not just about making initial connections – it's about nurturing and maintaining those connections over time.

- **Be patient:** building genuine relationships takes time and it's essential to be patient and persistent. Don't expect immediate results or try to rush the process. Instead, focus on building authentic connections and providing value to your contacts, and trust that the benefits will come in time.

Ready to build genuine relationships in the startup world?

Join Dealum today to access a wider range of deals and unlock opportunities for collaboration and growth.

The power of genuine relationships in the startup world

Why is building genuine relationships so valuable? There are many benefits, but to name a few, here are three ways a well-nurtured network of connections can help you along your way:

- **Building trust and credibility:** startup world is fast-paced and often cutthroat. By nurturing genuine connections with other industry professionals, you can establish yourself as a credible and trustworthy player in the field.

- **Finding new opportunities:** genuine relationships can open doors to new opportunities, whether a new partnership or a potential investment. By maintaining an active and engaged network of contacts, you can stay on top of the latest trends and developments in your industry, not to mention on top of people's minds for when the ideal opportunity presents itself.

- **Sharing expertise:** they say that if you want to go fast, go alone, but if you want to go far, go together. A trustworthy network of genuine relationships gives you access to a wealth of knowledge, expertise, and support. This comes in handy for anything from due diligence to solving problems along the way.

Networking for newbies – where to get started?

As an industry newbie, knowing where to start networking can be overwhelming. What are the best options for getting your foot in the door?

- **Industry events:** attending industry events, e.g. conferences or networking events, is the easiest way to meet other professionals in your field. Look for events that cater to newbies, such as meetups or mentorship programs. Also, it's worth looking into volunteering options for such events.

- **Professional associations:** many industries have professional associations that offer networking opportunities, educational resources, and other benefits. Joining an association can be a great way to connect with other professionals and gain access to industry-specific knowledge and resources.

- **Social media:** platforms like LinkedIn or Twitter can be great networking tools. Position yourself clearly, share relevant content, engage with others in your field, and participate in online conversations, to build industry connections and establish yourself as a thought leader.

- **Just reach out:** we all know the book "Never Eat Alone". Make it a habit to reach out to individuals you admire or would like to get to know better. Asking people out for lunch or coffee is a great way to connect with new people or nurture old connections.

Networking is an essential part of the startup world, but it's also a long game. Be authentic, generous, intentional, and patient, and the allies will come. Allies, who are invested in your success and willing to go the extra mile to help you achieve your goals.

5 WAYS (BESIDES MONEY) ANGEL INVESTORS CAN HELP STARTUPS SUCCEED

The best way investors can help their investments succeed is by taking an active, hands-on approach with the startups they invest in

There is no “set it and forget it” strategy in angel investing – or at least it might not be the best strategy to follow. The best way investors can help their investments succeed is by taking an active, hands-on approach with the startups they invest in. Being an “actively involved” angel investor is rewarding for both investors and startups.

Compared to "traditional" investing, angel investing usually involves more risk, higher rewards, and longer commitment. And speaking of involved, investors are often more involved in the companies they invest in – by sharing their expertise, network, or other types of value. This also means that investors can significantly impact the startup's success by shaping the direction or values of the company or giving the right boost at the right moment on the path to success.

5 non-monetary ways angel investors can provide value to startups

1. **Mentoring and advising:** Investors can provide valuable guidance and advice to the founders, helping them navigate the challenges of growing a business.

2. **Network and connections:** Investors often have a wide network of contacts in the industry, which can help startups find new customers, partners, or employees.

3. **Industry expertise:** Investors with specific expertise or experience in the startup's field can help with business development, product development, marketing, or other areas.

4. **Board representation:** Investors may be appointed to the board of directors, providing oversight and guidance to the management team.

5. **Recruiting:** Investors can use their experience and network to help the startup recruit top talent.

Many angel investors are also sought-after mentors and advisors on a wide range of topics crucial for startups' success. For example, LinkedIn co-founder Reid Hoffman is a well-known angel investor who has invested in companies such as Airbnb, Dropbox, and Instacart. He is known for his vast network in the tech industry, as well as his strong background in marketing and product development.

Peter Thiel, the co-founder of PayPal is an accomplished entrepreneur and angel investor who has invested in companies such as Facebook and Palantir. As a successful entrepreneur himself, he has extensive knowledge to share about building a successful company, hiring the right people, creating a company culture, and scaling the business. He's also well known for his strategic thinking and tech background.

But how to know, which type of help to offer startups and when?

This calls for some honest introspection and open dialogue with the startup. Firstly, investors can assess their own strengths, skills, and experiences, as well as the startup's industry, to identify the areas where they can support the startup. It's important for investors to be realistic and honest about what support or input they can offer and in which capacity.

Also, the investors can just ask the startup's management team what are their biggest pain points (besides funding, of course). Not all startups need the same type of support and it greatly varies depending on the stage, industry, founding team, and other characteristics of the startup.

Startups need different help in different stages

Startups' needs change and evolve as the company matures. Knowing these needs helps investors provide the right support at the right time.

- **Early-stage startups** may need help with product development, business planning, and fundraising.
- **Growth-stage startups** may need help with scaling their operations, expanding into new markets, and building out their management teams.
- **Late-stage startups** may need help with exit strategies, such as preparing for an IPO or a strategic acquisition.

Should this affect the way investors pick startups to invest in?

Yes, investors should consider the additional value they can offer a startup when picking investments. For the most obvious reason, it's good for business. Helping startups overcome challenges or navigate a tricky industry, increases the chances of the startup's success. Ultimately, this can lead to a better return on the investment for the investor.

Additionally, the investor is more likely to form a strong partnership with the startup. This can lead to more effective communication and collaboration, and an overall more successful working relationship for both parties. And finally, over time the investors can accumulate valuable first-hand experience with different founders and startups and use this to make even better investment choices.

13 WAYS TO MONETIZE YOUR INVESTOR GROUP

There are only a few subjects in the early-stage investing ecosystem that result in a discussion as heated as when it comes to monetizing the angel network. How much should the investor pay, what can you ask from the startup, and how to manage the survival of the organization without sufficient funds can all be very polarizing questions. After all, no one wants to dish out cash for no good reason, and at the same time, no one wants to dedicate their time without getting something back (at least, a sense of purpose would be nice).

We are not here to judge. And we see every day how angel groups relying on low membership fees struggle to make ends meet and try to find ways to optimize their expenses. It’s especially true for non-profit associations which tend to be more of a club of like-minded people and less of an instrument to get deals done.

And we see every day how angel groups relying on low membership fees struggle to make ends meet and try to find ways to optimize their expenses.

With a ‘softer’ value proposition comes a higher barrier to what can be charged for the services provided.

Nevertheless, running an angel group always comes with expenses – staff, office, deal flow screening, assisting syndication, organizing events, etc.

So how can an investor group cover their costs and provide quality service to members? We have gathered some ideas other angel groups have put into practice.

Hopefully, this list can serve as a starting point for internal discussions of your angel group, bearing in mind that all options might not be feasible for every organization. Non-profit groups may function differently from for-profit groups or venture funds therefore it’s important not to lose sight of the values and mission you’re on to make sure there is no conflict of interest with some of the fees.

Nevertheless, running an angel group always comes with expenses – staff, office, deal flow screening, assisting syndication, organizing events, etc.

But without further ado – here are 13 ways to monetize your investor group.

Collecting money from your members

1. Membership fee.

2. Due diligence fee for deals that have passed the first checkpoint and are taken forward to syndication.

3. Success fee on closed deals for the deal administration, such as contract, legal advice, investment vehicle-related requirements, etc.

4. Annual syndicate (deal leading) fee that covers annual and tax reports.

Collecting money from the startups/applicants

5. Application/registration fee which gives the company access to the network. That's especially helpful to weed out the startups who have a machine-gun approach to raising funds and apply everywhere in hopes of a lucky shot.

6. Funding options assessment – basically, a consultation service to guide them in the right direction (which may or may not be an angel syndicate).

7. Training program on various subjects, e.g. pitch training.

8. Pitch event fee for the opportunity to showcase their startup to the group (one of the more controversial fees, proceed with caution!)

Collecting money from the community

9. Event participation fee from guests or group alumni for a lovely evening of mingling or to get the latest insights during an educational seminar.

10. Fee for sharing the deal flow with them, e.g. joining the pitch event, weekly "Now syndicating" email, or direct access to the deal flow.

Collecting money from the partners

11. Promotion fee for sharing partner's product or service in group channels.

12. Selling a slot to speak during the group event.

13. Affiliate marketing – commission from intros that convert.

Whichever fees you choose, there is plenty of administration and tracking involved with collecting them.

On Dealum, angel groups can collect membership payments online easily and automatically with Stripe integration. The network manager can request payments from deal room members and members can pay the fee without leaving the platform. Payments are transferred from the payer directly to the group's business account (Stripe fees apply) and the deal room admin can track the status of the fee in the deal room members list with the "paid until" date.

Stripe handles all the monetary transactions and we are not involved in the actual transfer so it's all very safe and straightforward. You can also create several different payment plans with different billing options: one-time payment, annual, half-yearly, quarterly, and monthly.

We hope this helps angel groups develop sustainable business models for themselves. Even though monetizing access to seed capital can be seen as controversial, we believe angels are a crucial part of the early-stage ecosystem and therefore need to be able to feed themselves in order to survive. We're rooting for your success, no matter which route you take!

Ready to streamline your angel group's operations and grow your network? Discover how effortlessly you can collect membership fees on Dealum!

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