GUIDE TO STARTING AN ANGEL PROGRAM

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Introduction

Starting an Angel group is an excellent way to boost chapter participation, recruit new members, and increase chapter exposure in the startup community. However, significant time and energy are required to ensure the Angel group is successful. Initially, much if not all necessary work is performed by volunteer members. The Angel Chair is involved in all group activities, leading new member recruitment and education while also participating in deal screening. As the group grows and begins investing, the Chair and other volunteers can approach local business with sponsorship opportunities. These sponsorships can then be used to bring on part time and eventually full time staff to support Angel group activities.

A TiE Angel group typically has two primary staff: Chair and Program Manager. The Angel group may also lean on the chapter’s Executive Director to assist with outreach, member engagement, and sponsorships. The Chair is elected by the chapter board to oversee Angel group activities, recruit new Angels, encourage member engagement, and ensure active deal flow. While the Chair is often one of the most vocal Angels during deal discussion, the position’s primary role is as a facilitator rather than dominant leader. Discretion must be given to how much influence the Chair imposes over investment decisions made by the group.

The Program Manager is responsible for daily operations, primarily deal sourcing and screening. The Program Manager attends local startup events, such as meetups, pitch competitions, and conferences, engaging with interviewing new companies, and funnelling entrepreneurs to mentoring resources, and shuttling them through the deal flow pipeline. As the group grows, the Program Manager should become a salaried position. While volunteers have good intentions, a devoted salaried position ensures consistent deal flow management.

This document reviews the major activities necessary for starting and running a successful TiE Angel group. These are guidelines and should be adapted to fit the needs and experience unique to each TiE chapter. More detailed information can be found in associated reference material (e.g. Deal Flow Best Practices elaborates on individual deal flow stages).

New Member Recruitment

TiE Charter members come from diverse backgrounds and consequently are not easily identified by a simple profile. However, all effective and engaged Charter member have some combination of the following traits:

- Startup experience, ideally with at least one successful exit
- Prior Angel investment experience
- Specific industry or business management expertise
- Risk tolerance
- Desire to support new entrepreneurs and the local startup ecosystem
- Curiosity

Not all Charter members are former founders (e.g. upper management from companies such as Nike, Intel, Microsoft, etc. often participate in Angel investing) but nevertheless have valuable insight to offer as mentors. Though not necessary, an ideal Charter member will also have previous Angel investment experience, be a former entrepreneur with at least one successful exit, or both.
The chapter President or Chair of the Angel program interviews each prospective member prior to extending a formal invitation to join. This interview serves at least three purposes. First, screening new members to separate those who plan to participate only as Charter members (i.e. will not invest) from Angel investors. Second, personal interviews help determine what type of Angel investor each member is likely to be – active and engaged or passive – and how much and what type of experience that member will bring to the group. Industry-specific expertise is very useful when conducting due diligence. Third, engagement starts at the top; by actively participating in member recruitment, the President or Chair sets a precedent of active involvement in chapter activities. Since TiE is a voluntary organization, leading by example is a key part of maintaining a healthy, flourishing chapter.

If the President or Chair approves a new member, the Chair or Program Manager of the Angel program sends a formal invitation with details about membership dues and payment method. Typically, Angel dues are higher than basic Charter membership. Higher dues for Angels partially support costs associated with deal sourcing and screening, hosting Angel events, and producing diligence material. These dues also partly offset membership costs for entrepreneurs, allowing Entrepreneur membership to be offered at a significant discount. This discount is both necessary and attractive to entrepreneurs who use most of their available capital in support of their businesses.

**Education**

Education is critical to maintaining member engagement, improving deal flow, enhancing investor returns, and building chapter reputation. Successful Angel groups provide membership with an investor handbook and offer regular (quarterly or monthly) new investor orientation meetings. Both investor handbook and new investor orientation cover general chapter information, review chapter deal flow practices, and provide an overview of important Angel investing terms and considerations. The following are suggested topics to be introduced to new members and revisited as necessary (note these are non-exhaustive lists and each chapter should include additional salient topics).

**General chapter information**

- Brief history of TiE, including original and chapter founding
- Chapter mission
- Board of Directors and staff, including contact information for Executive Director and Program Manager
- Key sponsors and sponsorship opportunities
- Non-investment chapter programming (e.g. Mentor Connect, Pitch Club, TiE Young Entrepreneurs (TYE))
- Membership tiers (benefits and dues)

**TiE Angels information**

- Difference between Angel and Charter member
- Chapter portfolio, invested capital, and associated returns
- Reasons to join as Angel investor
  - Diverse investment opportunities
  - Returns, both national and chapter-specific
  - Investment education
  - Mentorship opportunities
- Deal flow process overview
• Appropriate investment stages
  ○ Seed – concept, likely pre-revenue, modest traction (not necessarily customers)
  ○ Early series A – available in market, post-revenue, seeking capital for growth opportunities
  ○ Mature if already invested (i.e. bridge loan or follow-on investment)
• Industry sectors and business models typical of investment from that chapter
• Expectations of TiE Angel membership
  ○ Attendance
  ○ Investment minimums (annual and per company)
  ○ Due diligence participation

Angel investing
• Angel investing overview (i.e. What is Angel investing?)
  ○ Accredited investor definition
• Company structures and which are best for investment
• Common vs preferred stock
• Investment vehicles (debt, convertible debt, equity)
  ○ While any vehicle may be used, the remainder of this section covers key terms for convertible notes
  ○ Valuation cap
  ○ Discount rate
  ○ Interest
  ○ Term (or duration)
  ○ Liquidation preference
  ○ Participation
  ○ SAFE note
• Resources

Engagement
Member engagement is necessary for a chapter to drive investment and support the local startup ecosystem. Active engagement by chapter leaders, including President and Angel Chair, encourages Angel investors to take ownership over their investment portfolios by becoming involved in all aspects of deal flow.

• Deal sourcing. Often, Angel investors are aware of new entrepreneurs and companies before they are known publicly. Angels are encouraged to direct potential deals to the Chair or Program Manager for evaluation and placement in the deal flow pipeline.
• Screening committee. Typically, a deal screening committee is composed of the Angel Chair and three Angel investors. Two of these Angels are active within the chapter and have considerable investment experience; these are semi-permanent seats on the committee. The third seat is a rotating slot for Angels with specific industry expertise, dependent on the companies to be screened.
• Investor meetings. All Angels are invited to attend Investor meetings. During these meetings, Angels are updated on chapter activities, changes to chapter policies, and upcoming events. They also receive updates from portfolio companies. For company presentations, attendees are encouraged to ask probing questions and volunteer feedback during the closed-door discussion.
• **Due diligence.** Angels considering investment in a specific company (usually resulting from the Investor meeting) are invited to participate in due diligence efforts. Active DD participation lets Angels get an intimate view of the target company and lets them influence the investment decision of other Angels. Assuming Angels can devote sufficient time to a thorough diligence effort, this is a powerful tool to engage members.

Charter members and Angels are also encouraged to engage in non-investment activities, especially mentoring entrepreneurs, annual Angel-only events, and attending chapter events like Pitch Club and startup conferences. This allows Angel investors to identify promising new companies not yet at an appropriate stage for investment. Further, the invaluable mentorship Angel investors provide can be leveraged to groom new entrepreneurs and set up early-stage companies for later success, both in raising capital and achieving critical milestones.

**Deal flow**
Deal flow is the central component of any Angel group. A robust deal flow pipeline requires clear guidelines about what types of companies qualify for investment consideration, a basic set of screening criteria, mentorship, critical feedback for entrepreneurs, and active Angel investors.

**Deal flow stages**
An efficient deal flow pipeline typically consists of seven stages:

- Sourcing
- Prescreening
- Screening
- Investor meeting
- Due diligence
- Funding and beyond

**Sourcing** TiE Angel groups receive deal information from many different channels, such as application via the TiE chapter website, recommendations by Charter members, business plan and pitch competitions, and chapter-specific programming. Companies are shunted into different parts of the deal flow pipeline in part due to the channel by which they come to the chapter. Referrals from other Angel groups will likely fast track a company through the pipeline while cold contact by an unknown entrepreneur requires much more scrutiny.

**Prescreening** Regardless of where a company enters the pipeline, each should receive an initial interview. The preliminary interview serves multiple purposes, from determining company’s developmental stage to whether the company and CEO align with the culture and expertise of the Angel group. Prescreening interviews lead to one of three outcomes: definite pass, definite approval, or good possibility but too early.

Companies that are clearly not a good fit (definite pass) are given constructive feedback and directed toward other resources (other local Angel groups, accelerators, startup resource centers, etc.). Companies deemed a good fit and at the right developmental stage progress through the pipeline. Some bypass screening and proceed directly to the investor pitch or are socialized with individual investors.
Promising companies not yet ready to pitch are given constructive feedback and directed to the chapter’s mentoring resources. The bulk of companies applying for funding fall into this category. Funnelling them to mentors and remaining in contact is essential to maintaining a strong pipeline. Often, immature companies make impressive progress under the guidance of Angels and become the most successful investments in the chapter’s portfolio.

**Screening:** Screening meetings are optional intermediate steps before allowing a company to pitch at an investor meeting. Not all companies require extensive review but screening meetings add another level of qualification to ensure only high quality companies continue through the pipeline. A new chapter or one with low investor participation may initially bypass the screening meeting to boost deal flow and investor engagement.

**Investor meeting:** Investor meetings provide entrepreneurs opportunity to pitch their companies to TiE Angels, who then decide whether to pursue due diligence and ultimately invest. A typical agenda for investor meetings is:

- 4:00 - 4:30 pm: Introduction and meeting overview
- 4:30 - 4:50 pm: Company 1
- 4:50 - 5:00 pm: Discussion
- 5:00 - 5:20 pm: Company 2
- 5:20 - 5:30 pm: Discussion
- 5:30 - 5:50 pm: Company 3
- 5:50 - 6:00 pm: Discussion
- 6:00 - 6:20 pm: Company 4
- 6:20 - 6:30 pm: Discussion and wrap up

Each company is given a 20-minute slot: 10 minutes for an uninterrupted pitch and 10 minutes for questions. Following questions is a closed-door discussion during investors discuss merits and shortcomings. If a company generates sufficient interest, a due diligence is formed from volunteers in the group. An Angel also volunteers to lead the due diligence effort to ensure timely completion.

All presenting companies receive constructive feedback and notification of intent to invest or pass. If the chapter chooses to hold a reception following the meeting, feedback may be given then or within two days of meeting conclusion. Feedback should be direct and unambiguous, with an indication of next steps and anticipated timeline if Angels will continue to due diligence.

**Due diligence:** As accredited investors, each Angel must decide individually whether to invest. Due diligence gives investors in-depth understanding of a target company to make educated investment decisions. The outcome of due diligence should be a comprehensive, objective written report and non-binding investment recommendation.

The diligence team is composed of volunteer Angel investors and supported by the Angel Chair or Program Manager. The diligence lead (also a volunteer Angel) directs diligence efforts to address major weaknesses in business plan, team, market analysis, competitive positioning, and other areas critical to company success. Every effort should be made to complete due diligence expeditiously, typically in 4-6 weeks after the investor meeting. Efficiency benefits both investors and the company: Angels complete their investments quickly and the company can refocus its efforts on growth with the new capital infusion.
The diligence lead is also expected to have both the means and intent to invest if diligence concludes with a positive recommendation. While none of the diligence team (including lead) are under legal obligation to invest, failure to do so (without good cause) following a positive recommendation undermines the diligence process and calls into question the reputation of both the chapter and its members.

*Funding and beyond:* Funding rounds typically range between $100,000 and $1.5M but may be higher if a company is extremely attractive. Companies pitching to TiE Angels are typically raising seed capital using a convertible note. Other investment vehicles used by companies pitching to TiE Angels are SAFE (simple agreement for future equity) notes and sale of equity (priced round). Standard anchors for TiE Angels using convertible notes are:

- Discount rate: 20%
- Interest: 6%
- Term: 18 months
- Valuation cap: $2.4M
- Liquidation preference: 2X with participation

Angels with sufficiently large investments may request a board seat or information rights. Often, if the aggregate from a TiE Angel group represents a majority investment, the group may elect a representative to a board seat. If TiE Angels are unable to meet a company’s investment minimum individually, they may form a sidecar fund to pool capital and bring their aggregate investment above the minimum.

While tempting to negotiate hard for terms that heavily favor TiE Angels, careful thought must be given to whether those terms become punitive to the entrepreneur and create improper incentives. If TiE Angels lead a round or are first to commit funds, they have substantially more leverage when negotiating terms. On the other hand, attempting to negotiate on a nearly full round, especially when TiE Angels represent only a small minority, is often fruitless and may create animosity between company and investors.

Depending on the level of investment, TiE Angels may have information rights allowing them to gain insight into company progress. More likely, investors must rely on quarterly and annual updates from the company. While not as thorough as board updates, investors should expect information on financial performance, sales benchmarked against projections, major employee changes, and growth plans. The chapter President or Angel Chair also prepares quarterly and annual updates for the chapter board.

**Screening criteria**

Most Angel groups receive funding solicitation from many more companies than they will ever consider for investment. Establishing clear baseline criteria helps select for the most promising companies. Flexible consideration is then given since each company presents a unique combination of target industry, business model, founding team experience, and many other characteristics. Major topics to consider during evaluation at each stage include:

- Problem
- What problem does the company solve?
- Is this a true pain point for potential customers?
  - Solution/market fit
    - How well does the solution fit the market need?
    - Is the solution tractable?
  - Market analysis
    - Into what market or industry does the company sell?
    - How big is the market opportunity and what share of the market can the company reasonable expect to capture?
  - Traction
    - At what stage is the concept or product?
    - Is the company pre-revenue or post-revenue?
  - Competitive analysis
    - How crowded is the market?
    - What are the company’s competitive advantages?
  - Financial analysis
    - Do the pro forma projections and underlying assumptions make sense?
  - Exit strategy
    - Are there potential acquirers?
    - What is the anticipated exit timeline?
  - Team
    - Does the founding team contain appropriate industry or business experience?
    - What is the ownership distribution?

Of these, three are typically weighted more than the others: solution/market fit, competitive analysis, and team. While identification of market problems is often straightforward, inventing novel solutions that both address the problem at hand and are tractable is much more difficult. Many entrepreneurs present solutions that cannot possibly be delivered to market or require so much customer education as to become infeasible. Similarly, if too many competitors exist in the market with similar solutions, the company is unlikely to standout and will ultimately fail.

Team makeup is arguably the most important feature to consider when screening a company for potential investment by Angel members. Ideally, every founding team is well-rounded with the necessary industry experience and business development skills to effectively grow the company. Realistically, founding teams lack one or more critical component that must be addressed for the company to realize its potential. Lacking key team members or experience is not an immediate cause for disqualification. Early stage companies often make up for these deficiencies by engaging advisers with appropriate skills and connections or targeting specific experts as key hires once capital is raised. However, an inability to identify these deficiencies or plan for their correction is a sure red flag. Ultimately, screening early stage companies is a fluid exercise and should be approached with the understanding that no company will fit the template perfectly.

References
Deal flow best practices
Due diligence template and Standard Operating Procedure
Angel investing primer