

Training business angels

4 potential business angels

Ivo Remmelg

ESTBAN President

superherocapital.com Venture Partner

ROMIVO.com hedge syndicate

Ivo Remmelg

My activities:

romivo.com hedge syndicate: Low risk 10-20% annual return, (5y 2x)

Superherocapital OY: early stage B2B SaaS VC fund in Finland

EstBAN- President of the Business angel network

Author of the management book “Kes on tõeline juht?”



Invested startups:

Ridango AS

fractory.com

fooddocs.eu

Guestjoy

Like a Local guide

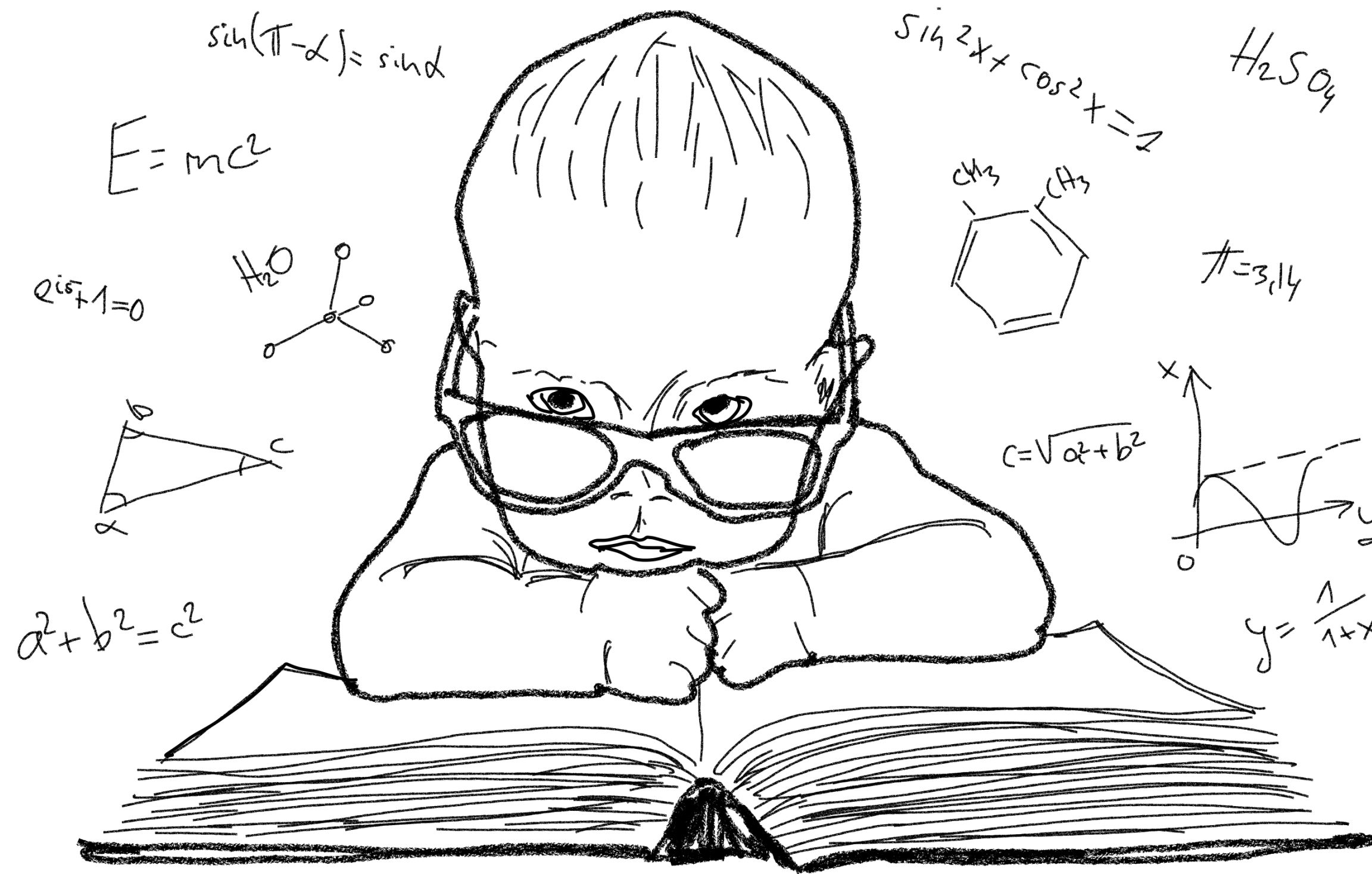
Nordic Automation System

checkspotapp.com

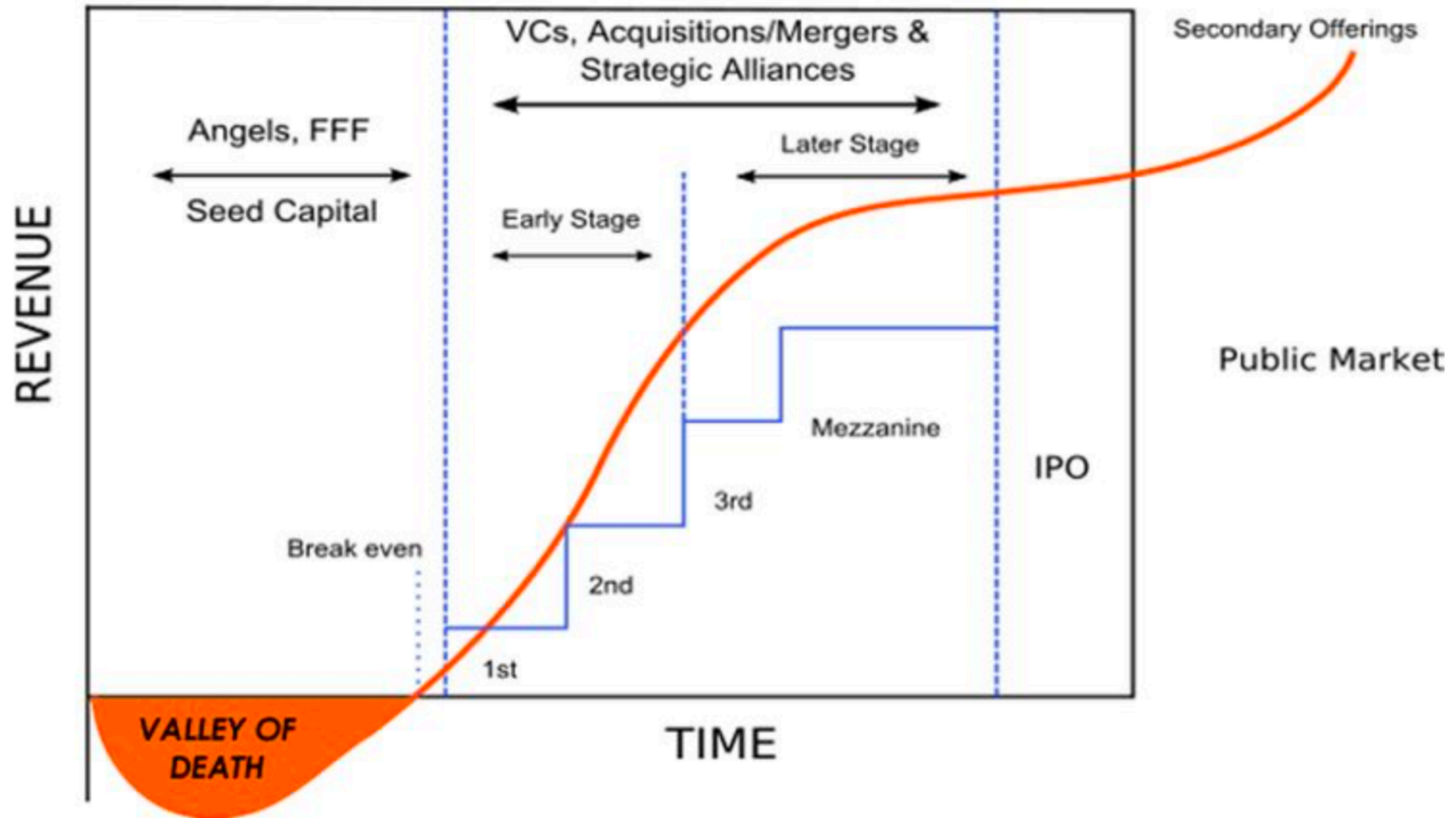
Pulse & Fidelity



Why (angel)invest into startups



STARTUP FUNDING AND THE "VALLEY OF DEATH"



Different approaches of investing startups

make lots of little bets and double up the best – Dave McClure
(500 Startups)

Join startup, invest money and time- less bets + more equity

Find your sector

Success and failures

1 good success story out of 10 financed, out of 100 total that applied for funding

It is possible to pinpoint startups that will never succeed

Nearly impossible to tell which funded startup will be successful

Risk awareness

Invest into startups when you are mentally ready to lose this money.

Diversification

Portfolio should have 20-50 investments in total

Dealflow: Invest no more than into every 10th. startup

Example: $30 \times 10k = 300k$ in total

Follow on investments

Same amount of capital to follow-on investments, about 20-30% of your portfolio companies, 10x 30k=300 kEUR

Total investment 600 000 EUR- about 10-20% of total wealth 3-6M€

How not to lose your money

20-50 investments

every 10th startup

no more than 10-20% of your wealth

Typical return 1x-2,5x

Syndicates

Typical angel investment rounds: 50k-500k EUR

Typical startup stage, preseed or seed

Two models for leading:

1- 50% discount or 2% extra shares

2- SPV (loan or equity), Carried interest after exit minus all costs, 3-20 % from returns

How to invest smaller

Passive investments 1000-5000 EUR/startup

Crowdfunding, accelerators.

Diversify, as all crowdfunding platforms are also startups.

Synergy of two business models of startup investing

Startups

Get money from investors to run the business.

Investors

Invest in High-growth scalable startups in a hope of good exit in up to 10 years

Exit

Startup investing is exit
business

trend: time to exit growing



Funding stages

First funding, FFF

- Government support programs
- Accelerators, incubators
- Family, Friends, Fools - because they trust the entrepreneur



Preseed funding: Business angels, some small funds

>500k

- MVP
- Growth 15% + MoM
- Good team
- Good market potential
- Potential revenues 10M EUR+
- Good Business angels - building trust to the team, investing and mentoring



Seed funding: Angel syndicates Superangels, early-stage funds 350k-2,5m€

- Monthly recurring revenues 1k-50k
- Monthly growth 7- 15% MoM
- All important team positions fulfilled
- Strong in at least one market



Crowd funding platforms 350k-2,5m€

- B2C, B2SMB, B2B2C, some revenue
- Partly marketing reasons



A-round

Venture capital, 5m€+

- Monthly recurring revenue MRR 100-250k
- Monthly growth 3-10% MoM
- Strong team of founders
- Scalable business model
- International market
- Potential revenues 20m€+



And then B, C, D.... Unicorn

The math of startup investments

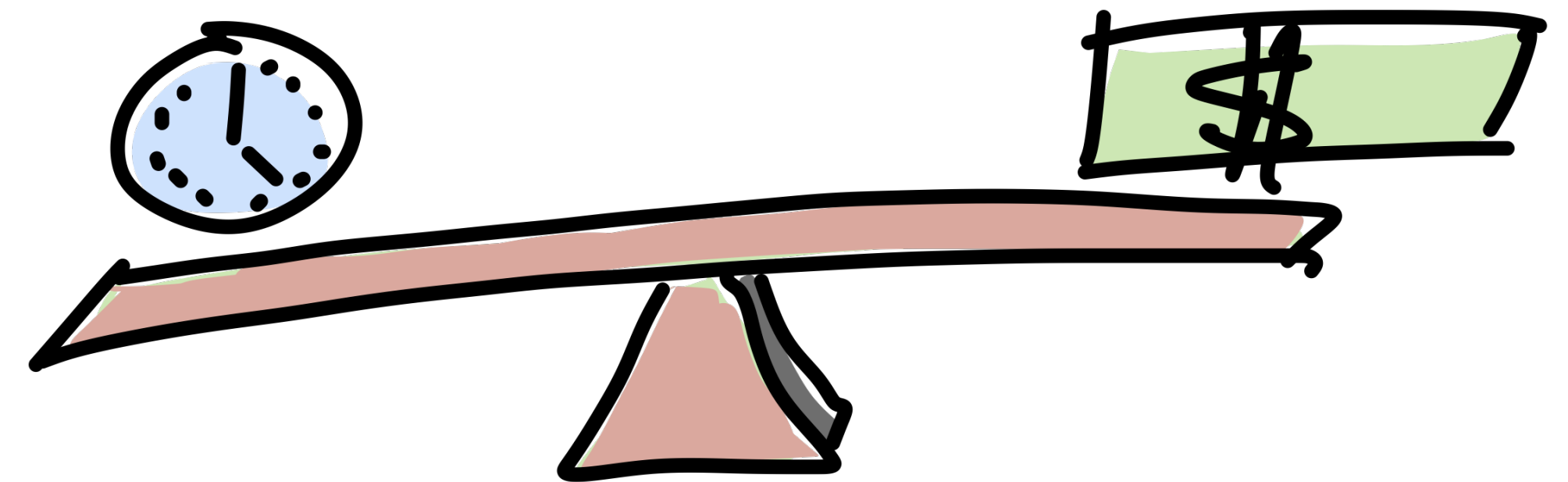
- Most exits between 1-20M
- Companies are bought not sold.
- Every round of investment for 15-25% of equity
- For the startup, it's hard to get anything done below 100k of investment

| | PRESEED | SEED | A | B |
|------------|----------|-----------|----------|---------|
| VALUATION | 500K-2M | 2-6M | 10-40M | 30-200M |
| Investment | 150-400k | 350K-2,5M | 5-12M | 10-40M |
| MOM growth | 15-20% | 7-15% | 3-6% | <5% |
| MRR | 0-1K | 1K-50K | 100-250K | 400k-2M |
| Years | 1 | 3 | 5 | 7 |

Angel investment is relatively small and proper Due Diligence may be too time consuming

Proper Due Diligence is very time-consuming. Startup may need money faster.

Look for unfair advantage



TIME IS MONEY

Evaluating startups

Investable startup

IF THERE IS NO:

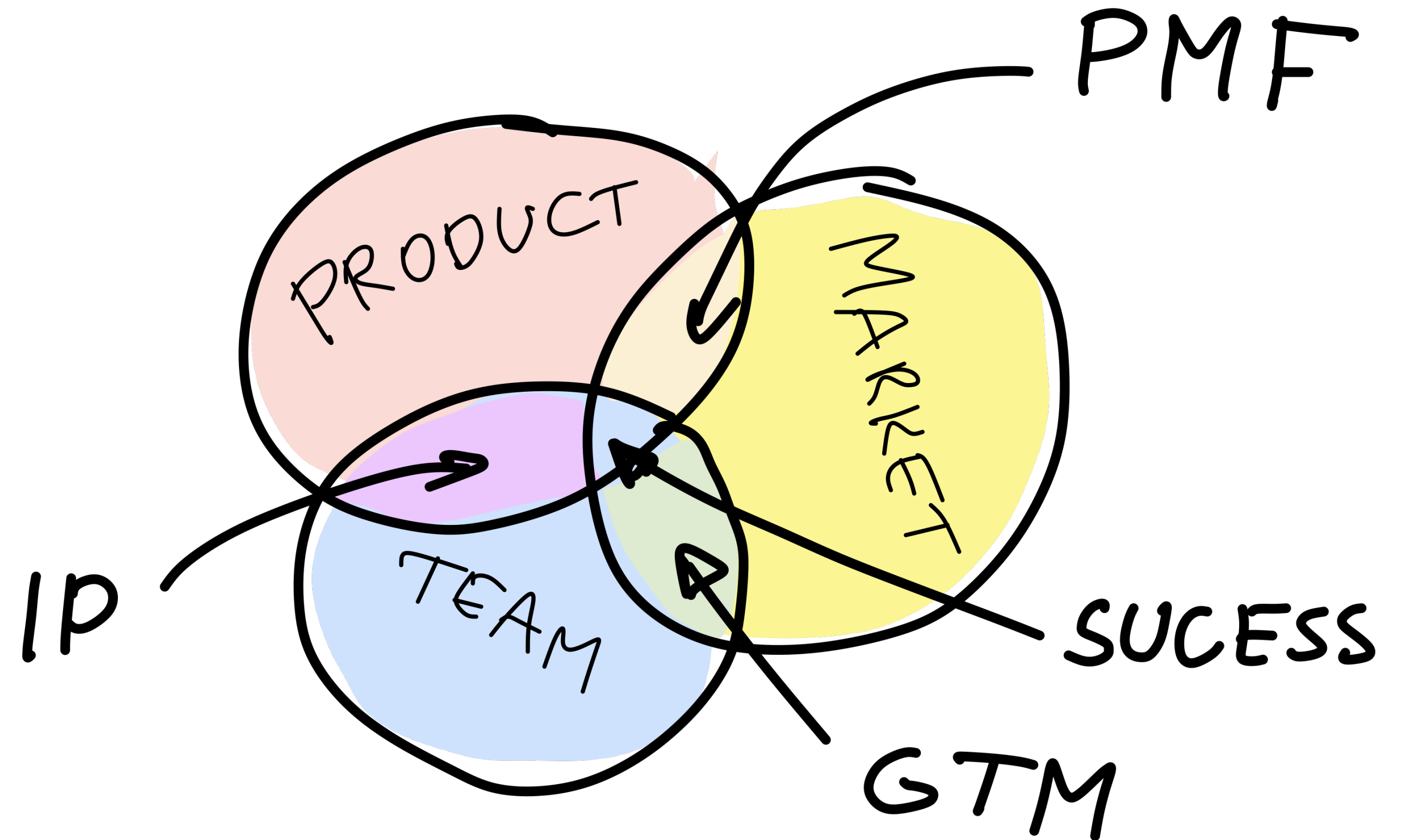
PRODUCT

TEAM

MARKET

THEN THERE

IS NO VALUE



Tõenäosus imepisike $0,1 \cdot 0,5 \cdot 0,5 = 0,025$

What should startup have to get funding

- Can say with one sentence what they are doing (Skype, Transferwise, Spotify, Taxify)
- Understand Resources- Product- Market (see next slide)
- Scalable business
- Corporate governance, www.startupestonia.ee/resources
- 2 sets of slides, onepager, financial prediction, cap-table
- Periodical investor updates
- High monthly growth
- Typically more than 1 founder
- x-factor

Startup culture and processes

Long and complicated story.

Ideal founders shall be able to grow the company through Valley of deaths at different growth stages, 15, 50, 150 and 450 employees. This needs successful management of processes, communication and people.

Hired management

Coachability

Team

2-4 founders, who know each-other for a long time.

Avoid solo founders.



Unit economics

Lifetime Value = Gross Margin % X (1 / Monthly Churn) X Avg.
Monthly Subscription Revenue per Customer

Customer acquisition cost < Lifetime value

Traction

Customer interest in using product or service. Growing number of customers

Market, market potential

In the beginning growth comes from advertisements. Later most of the traffic must be word of mouth and inbound.

Serviceable, obtainable market size should be >10M.

Ownership and cap table

Founders should have majority shareholding until to A or B round.

Otherwise they do not have enough ownership left after few rounds of financing.

Focus

Startups don't starve, they drown. Eric Ries

Startup must find and work with the niche where they become the best.

How to begin investing to startups ?



Few other things

Early revenue is good, but does not mean there is Product Market Fit

In most cases, early successful exit is best correlated with luck

Luck does not happen without serious work



IF DOGS DO NOT EAT THE
FOOD, YOU CANNOT SELL IT

Valuation = Value of the company

Run rate- The run rate functions as an extrapolation of current financial performance and assumes that current conditions will continue

LTV- Customer Lifetime Value

Churn- lost customers within specific time frame

Pre-money (valuation) = value of the company before the investment round

Post- money (valuation) = value of the company after the investment round

Dilution = Decrease of the shareholding (by new round)

Convertible note/loan = loan instrument that can be exchanged to shares

Runway = time that is left until money runs out

Burn = revenue less the cost of the company (usually monthly basis)

Liq. Preference = definition of who gets money first at what multiple in the event of liquidation

TAM- Total Addressable Market

SAM- Serviceable Available Market

SOM- Serviceable Obtainable Market

Thank you!

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