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## A Glimpse into the Mind of Early Stage Investors

Companies seeking early investment face many uphill battles. Figuring out how to position and present an opportunity to investors is only the start. Unraveling the mystery behind what will propel an investor to say yes is even tougher. A recent Northwest Entrepreneur Breakfast meeting provided a glimpse into how investors analyze company presentations when Dan Rosen of the Alliance of Angels, Gary Ritner of the Puget Sound Venture Club and R. Michael Crill of Atlas Accelerator, which works with early stage companies, critiqued three investor presentations. Their feedback shed light on what compels early stage investors to engage. In subsequent interviews they provided even deeper insights.

### What will get an investors attention right now?

R. Michael Crill, Atlas Accelerator: "Revenues. Investors are looking for deals that are either at break-even or will be after their investment. Oddly, this is not because they're risk-adverse, but because they don't believe that other investors will be there for the next round if needed."

Dan Rosen, Alliance of Angels: "Great entrepreneurs, building great businesses, with solid plans. This is a constant."

Gary Ritner, Puget Sound Venture Club: "New healthcare ideas are hot."

### How do deals look right now?

Gary Ritner, Puget Sound Venture Club: "There seems to be a lot less to choose from compared to last spring."

R. Michael Crill, Atlas Accelerator: "There's good deal flow overall. What's missing is the market's ability to fund

very early, pre-revenue, pre-product deals and that's just a shame."

### Executive Insights



Cheryl Isen

Dan Rosen, Alliance of Angels: "This is a great time to be an angel investor. It would be better if there were more positive exits."

### What does it really take for a deal to get a "yes" today?

Gary Ritner, Puget Sound Venture Club: "Accurate valuations. If valuations are too high we won't invest. Otherwise it boils down to CEO passion which is a major factor that can sway a decision."

Dan Rosen, Alliance of Angels: "Since financing risk has increased, capital efficiency has become even more critical."

R. Michael Crill, Atlas Accelerator: "We need to know that a modest amount of capital (under \$1MM) can make the business profitable. We didn't have this requirement before the recession."

### First impressions: how long does it take to know if you'll invest?

Dan Rosen, Alliance of Angels: "I will usually know in 10 minutes if I am going to do due diligence on a company and spend the next 90 minutes looking at it. (This is the primary reason that we do 10 minute pitches). Then, based on the impressions of the company's leadership, answers to questions, and their market/business model, I'll typically do another day or two of due diligence to reach a decision, but those days might be

spread over a month. I am often influenced by who else is looking at the deal and will rely on their due diligence and experience."

Gary Ritner, Puget Sound Venture Club: "A phone call is our first impression. Getting to no is easy. They need to be able to explain what their business is in three sentences and have good answers when asked: how they sell; what their channels are; why buyers need the product; who their competition is; and who will be the first person they hire when they get the money."

### What are the top reasons you say no to a deal?

R. Michael Crill, Atlas Accelerator: "(1) Crowded space: We don't like deals chasing a hot area. (2) Ego: Founders kill companies. In our experience and in that of surveyed angels, 40% of early-stage (pre-VC) failures are directly attributable to actions a founder took or failed to take in disagreement with the input of investors/advisors. (3) Capital Requirements: This is just a reflection of today's reality. There's no point in jumping in to fund a portion of the company's capital requirements unless others are going to fulfill the balance."

Gary Ritner, Puget Sound Venture Club: "Valuations that are too high. This is a big issue in our current market. 'Artsy' calculations like discounted cash flow analysis without making money are a joke. Gut feel tells us if the valuation is right."

Dan Rosen, Alliance of Angels: "The main reasons for passing on a deal are: not capital efficient, insufficient confidence in the management team, no chemistry with the CEO, any hint of deception, too small a market, a

management team that believes its own marketing more than the reality of the market. The main problem I see with business models is the inability to scale from the initial customer set to critical mass. Usually I hear words like “viral marketing” or other external ways to build market. These rarely work.”

**One thing everyone agrees on**

Early stage companies pitching angel investors face a wide range of priorities, opinions and issues. What excites one Angel may fall flat with another.

However, one thing Ritner, Crill and Rosen all agreed on was the importance of having a top notch management team. An experienced start-up team with a track record of success is always preferred and will open many doors. Passion is also critical. Most serious investors have lost money in the past and the one thing they all learn and understand is that in the end they’re investing in a team of people. As Ritner said, “One man teams don’t get through a phone interview.”

These “Executive Insights” are based on monthly presentations provided by leading entrepreneurs at the Northwest Entrepreneur Network (NWEN.org), a non-profit organization dedicated to helping entrepreneurs succeed. The column is written by Cheryl Isen, founder of Isen & Company, a strategic marketing and public relations firm that helps emerging companies increase corporate visibility and brand awareness. Contact Cheryl at (425) 222-0779, Cheryl@IsenandCo.com or on the web at [www.IsenandCo.com](http://www.IsenandCo.com).