



# SECURING AN ANGEL INVESTOR



## Angel Investor Due Diligence Checklist

Business Angels are generally wealthy individuals or syndicates who invest in businesses in exchange for a share of the equity of the business. Typically they will invest in start-up or young businesses that have an opportunity for growth through, for example, product development or market expansion.

When approaching investors a business needs a well-rehearsed presentation about the plans and goals for the business including what the funding is needed for. Much of this information will be contained in a business plan and financial projections which investors will expect to see. Although angel investors can make quick decisions about whether or not to make an investment, they do so as a result of a thorough evaluation of the information they receive from the business.

The following checklist has been used by an angel investor to review a prospective investment opportunity so it is important that a business plan and presentation can answer these points:

### The product or service

- What is the product or service and how will it be used?
- If the product or service is in development at what stage is it? How long is it before it can be commercialized?
- What is its USP, its sustainable competitive advantage?
- How will it add value or fill a gap in the target market?
- Is this a revolutionary product or service or does it already exist in the market?
- Is there an existing or latent demand for the product or service or does demand have to be created?
- Is it a "bought" product or service (e.g. a better mousetrap) or a "sold" product (e.g. life assurance)?
- Is the product or service opportunistic (short life) or durable (constant demand)? Will it be re-ordered?
- If the product or service already exists, who is the competition and how similar is their product or service and pricing points?
- What are the competition's weaknesses? How does the competition position itself in the market?

- Is the proposed price of the product or service competitive?
- Are raw materials readily available and are raw material prices stable?
- Is the product or service easily scalable?
- Can suppliers and/or subcontractors increase production in line with demand?
- Does the product need licensing or official approval in the markets it will be sold in? Has this been obtained? If still to be obtained, how long will it take and what will it cost?

### Business plan and Due Diligence

- Have the promoters drafted a professional and convincing business plan?
- Has the investee company populated an online dataroom? Request access.

### Intellectual Property protecting the product or service

- Is the product or service protected by a patent, trade mark, design rights etc.?
- If yes, does the company own these rights or are they licensed from a third party? If the latter:
- What are the terms of the license (life, restrictions on sublicensing etc.)
- Has an adequate provision for royalties has been included in the financial projections?
- In the case of a patent, at what stage is registration? What territories does the patent(s) cover?
- Does the investee company share its brand with any other business, even if the latter produces a different product or service? How is use and quality of brand controlled?

### Marketing the product or service

- Has the investee company developed a marketing plan?
- What is the end-user target market?
- What is the geographic market (Jersey, UK or international)?
- How big is the potential market and what is the company's potential market share?
- Is the market growing or declining? What are the factors behind this?
- Has the investee company done any market research?
- If the company is established does it have any testimonials or customer feedback?



- Is the market reliant on or subject to Government policy, legislation or subsidy?
- Who will manage the sales and marketing & what experience do they have?
- What distribution channels or intermediaries will the investee company use?
- What sales & marketing tactics are to be used?
- Has a realistic cost for marketing been included in the budget?

### Cash-flow

- Does the investment proposal include a cash-flow forecast for the next 3 years?
- If the investee company currently receiving any revenue, where is this coming from and how sustainable is it?
- What is the current monthly cash burn? Will this increase or decrease over the next 12 months?
- What is the investee company's current cash balance?
- How much is the minimum or maximum subscription proposed for this round?
- How will the investment be used? For example, working capital to cover cash burn, purchase of fixed assets or employment of staff?
- Is the proposed minimum investment adequate for purpose or will it merely be swallowed by existing creditors?
- Who are the company's bankers? Is the relationship good?
- Does the company have an overdraft or loan facility? If yes:
  - a) How much is drawn down?
  - b) What % of the facility has been used in each of the previous 4 quarters?
- Will the investee company need to raise another round of funds? If so, when; how much and what is the likely source or format?
- Does the investee company qualify for any grants, soft loans from Government If so, when and how much?
- Are there any contingency plans in case the cash runs out? For example sale & leaseback of assets, JVs etc.
- Are there any loans or other creditor balances requiring repayment before the company is ready for an IPO or trade sale?
- Are creditors reasonably up-to-date, especially payroll, ITIS, social security, GST?

### Financial Statements

- What is the date of year end?
- Does the gross profit look reasonable?
- Are the costs of delivery or fulfilment adequately provided for in the budget?
- What are the terms of trade? For example, stage payment with order; during manufacturing or invoicing full price on dispatch?
- Will the investee give customers credit terms? If yes, how will they finance this?
- What is the procedure for checking the creditworthiness of customers?
- Who is CFO & what qualifications and experience does he/she have?
- How often are management accounts produced?
- Are the last two years audited financial statements available?
- Who are the auditors and is the audit report qualified?
- How have development costs been accounted for? If they have been capitalized what is the amortization policy?

### Management

- Who is the main promoter? What is his/her position in the company background, experience and track record?
- Has he/she got proprietary knowledge or experience or is this shared with the rest of the management team?
- Is the promoter totally familiar with the numbers and customer profile?
- Is the company's know-how stored electronically and backed-up?
- Is key-man insurance in place for the promoter and other senior executives?
- How are the promoter and other principal directors tied into the investee company for example through personal investment; contract or profit share forfeit?
- What is the management structure and is all the management team available to meet?
- What proportion of the equity do the executive directors hold?
- Ask promoter for a SWOT analysis
- Is there currently or will there be a long term incentive plan for executive directors, which may result in dilution of equity investors? If yes, what are the details?
- Is there a company pension scheme that will impact on the performance of the business?



- Are any third party equity investors represented on the board?
- Are there any independent Non-Executive Directors on the board? What do they contribute? Is the Chairman Non-Executive?
- 14. Will management undertake to provide monthly
- or quarterly management information to equity investors?

### Capital structure and valuation

- Obtain a copy of the up-to-date Memorandum and Articles of Association (M&A).
  - a) Undertake research about the share holders, directors, latest filed accounts etc.
  - b) Is there more than one class of shares? If so, what are the rights attaching to each class?
- Which class of shares are now being offered for investment? What is nominal value of each share?
- Is there a shareholders' agreement? As a new investor, will I become a party to this agreement?
- Who are the existing major shareholders (over 5% shareholding)?
- Does the M&A or the shareholders agreement contain or waive pre-emption rights? Can the directors issue new shares to whomever they like without first offering them to existing shareholders?
- Has the investee company issued loan notes? If so:
  - Are they secured?
  - Are they convertible into ordinary shares and at what price?
  - Are there any fixed or floating charges?
- If the company is not currently profitable, and therefore a P.E. basis is inappropriate, who has estimated the pre-money and future valuations of the company and on what basis?
- What is the dilution effect of future fund raising? Ask for, or prepare, a table for proposed funding rounds until IPO or sale in the format in Appendix.

### Threats

- Search the web for any adverse comment on investee company and promoters
- Is the investee company involved in any litigation?

- Do the directors know of any circumstances which may lead to litigation for example breach of copyright?
- Are there any claims from current or previous staff?
- Where is the company's production facility or office? If leased on what terms and when will the lease be renewed?
- 6. Are there any supply chain threats for example,
  - a shortage or price volatility of raw materials?
- 7. Is there any threat to product or service from changes in public sentiment or Government policy?

### Investor exit

- What are the exit plans for example an IPO; trade sale or sale to other investors?
- What is the approximate timing and estimated share value at exit?
- Has the company sought professional advice on an exit? If an IPO, will shareholders be locked in for 2+ years?
- Where is the investee company tax resident? Will there be any local tax on the gain on sale of shares?

### Subscription

- What could go wrong?
- Weigh the opportunity v risk.
- Are there any conditions that I, as an investor, intend to attach to subscription e.g. a minimum aggregate subscription?
- Are the subscription monies being paid direct to the company or to an escrow holder (e.g. the company's solicitor) to hold until any conditions are met?

This checklist has been provided by Envestors, a Jersey and UK focused angel investor network. For more information on Envestors email [ed@envestors.je](mailto:ed@envestors.je).

**Further Information or Advice please contact us on 01534 610 300 or Email: [info@jerseybusiness.je](mailto:info@jerseybusiness.je)**

**WHETHER YOU ARE THINKING OF STARTING A COMPANY, WANT TO IMPROVE OR GROW YOUR EXISTING BUSINESS OR NEED TO MANAGE YOUR EXIT PLAN, JERSEY BUSINESS IS HERE TO HELP YOU ACHIEVE YOUR GOALS.**