

Tips and war stories from an Invested Investor

Business SIG, *CW July 2018*

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The Invested
Investor





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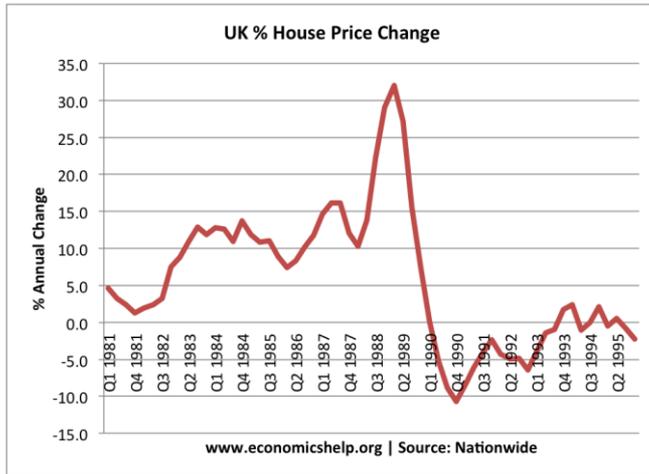
eban
 Fueling
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Some of my 65+ Angel investments



5 positive exits 😊 9 failures 😞 and at least 2 terminally ill

The early '90s recession and Camdata



Investment Criteria (see www.petercowley.org)

My 60+ [angel investments](#) have passed most, if not all, of the following criteria.

THE TEAM

•**High growth ambitions.** This is essential and not necessarily a given.

•You have an outstanding founding **team of at least two people (3 also works, but not 4)**. Sole founders find it difficult to get investment from Business Angels (if you're a sole founder, try the FFF route).

•UK legal structure, with **founders based in the UK, and with a very strong preference for Cambridge and the South East**. This is primarily as I like to meet the founders face to face, during due diligence and post-investment at least once or twice per year, and that is much easier for me, if the rail journey time is under an hour.

•I will not invest, unless I get to know and **trust the investor NED** who will be representing my and others' money

•I need to know that you understand, and can justify the ratio: "**Customer Lifetime Value**" over "**Cost of Customer Acquisition**". See [this article](#) for a more in-depth explanation

THE PRODUCT

•**Evidence of a large market.** Globally at least \$/£100m, although not all businesses need to have global ambitions. Note that I don't need to see a billion+ market - angels can get an excellent return, even if the investee's revenues are less than £5M on exit.

•A level of **defensibility**, whether it is speed to market, know-how or a patent application

•I have limited life science technology knowledge, but strong experience in **software, electronics, RF comms, sensing** and related areas. Please look through my [portfolio](#) to get a feeling for my comfort zone

•**Business model: B2B and B2B2C.** Never B2C unless I already personally know the entrepreneurial team

•**Deep product technology.** I do not invest in web or mobile apps, nor service businesses. I will invest in a platform, provided there is a clear understanding of the costs of sourcing and supporting both sides of the platform - see CCA/CLV (see above)

THE FINANCES

•**Early stage income,** probably pre-revenue and pre-grant income, although evidence of valid (even if a one off trial) customer sales traction will help

•**Pre-money valuation,** mostly under £1m and with an upper limit of £2m (unless exceptional). Valuations have been upwards, due to the over-supply of early stage money (particularly in London) and NOT because exits are at a larger multiple nor more frequent,

•Like most Angels, I look for a **minimum 10X valuation increase within 5 to 10 years**, so if you are asking for, say, a £1m post-investment valuation, what does your company look like? and who will buy it for £10+m in a few years' time?

•**Syndicated.** I never invest alone. Although I can connect and/or build a syndicate, if I like your proposition. Angels (although very rarely those who invest through online platforms) want and expect to add value with connections, advice, governance and future funding. I do not invest in deals that either have been, or are, on any equity crowd-funding sites except [Syndicate Room](#)

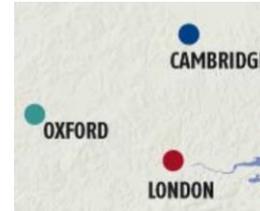


LTV > **CAC** = 😊
CAC > **LTV** = ☹️

>£/\$/€100,000,000 market

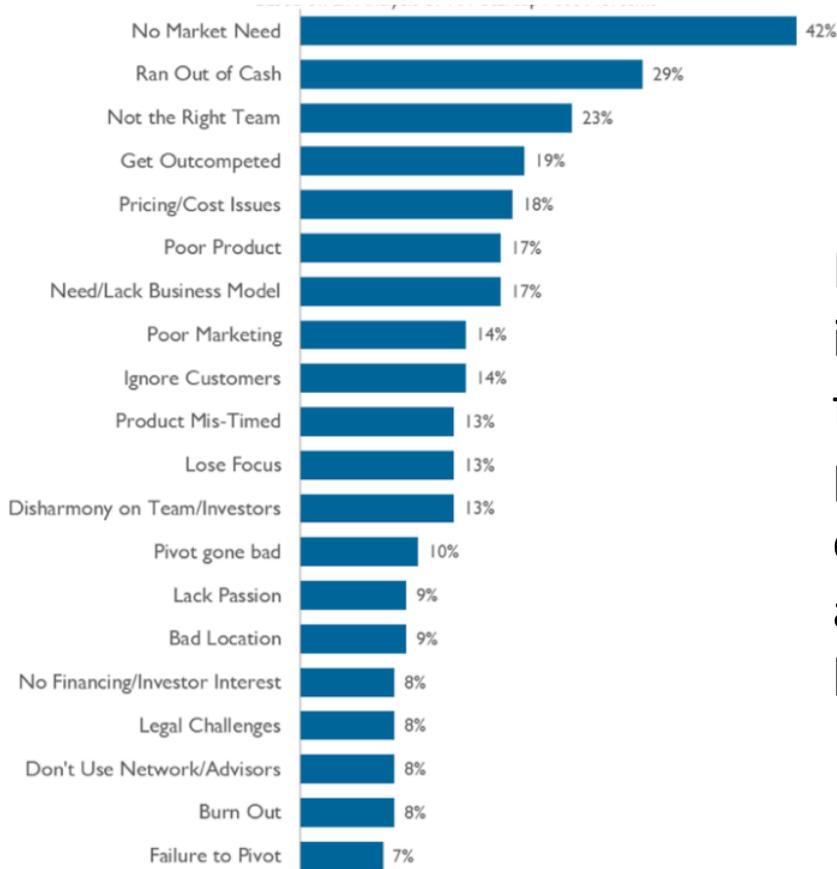


DEEP TECH



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Top 20 Reasons Startups fail



Primarily (71%) due to insufficient equity cash to find sufficient product/market fit to allow either:

- a) An exit, or
- b) Reliable profits

Some of my investment failures and successes

- **Open Frontiers**
- **Phase Vision**
- **Lumejet**
- **Captive Media**
- **e-Go Aeroplanes**
- **Knowledge Transmission**
- **Ept Computing**
- **Cambridge CMOS Sensors**
- **Outside View**
- **Neul**
- **Worksbrug**

A few of the lessons learnt (the hard way)

Back a team and not a piece of technology nor a market

The “pint of beer” test

Don't back founders, who are in an emotional relationship

Pre-investment, build up trust and knowledge of the entrepreneurs and vice versa

Have difficult conversations about founder bad/good leaver and vesting, as early as possible

Choose your co-investing angels and VCs with care

Have an open, trusting working relationship with the investor director

Remember: it is easier to get divorced than sell illiquid angel shares!

“White” lies

Great exit = even the milkman was a creditor

Solid team = may fire a co-founder after investment closes

Defensible IP = only had one “cease and desist” letter (so far), and haven’t checked Freedom to Operate

Early customer = my second cousin wants one

Scales easily = we don’t know the cost of acquiring customers but hope it is not more than the gross margin they provide



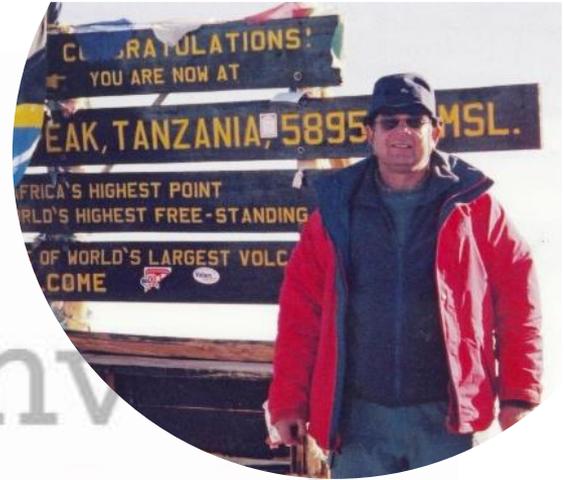
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Questions?



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