

Angel Program: How to Analyze a Pitch Deck



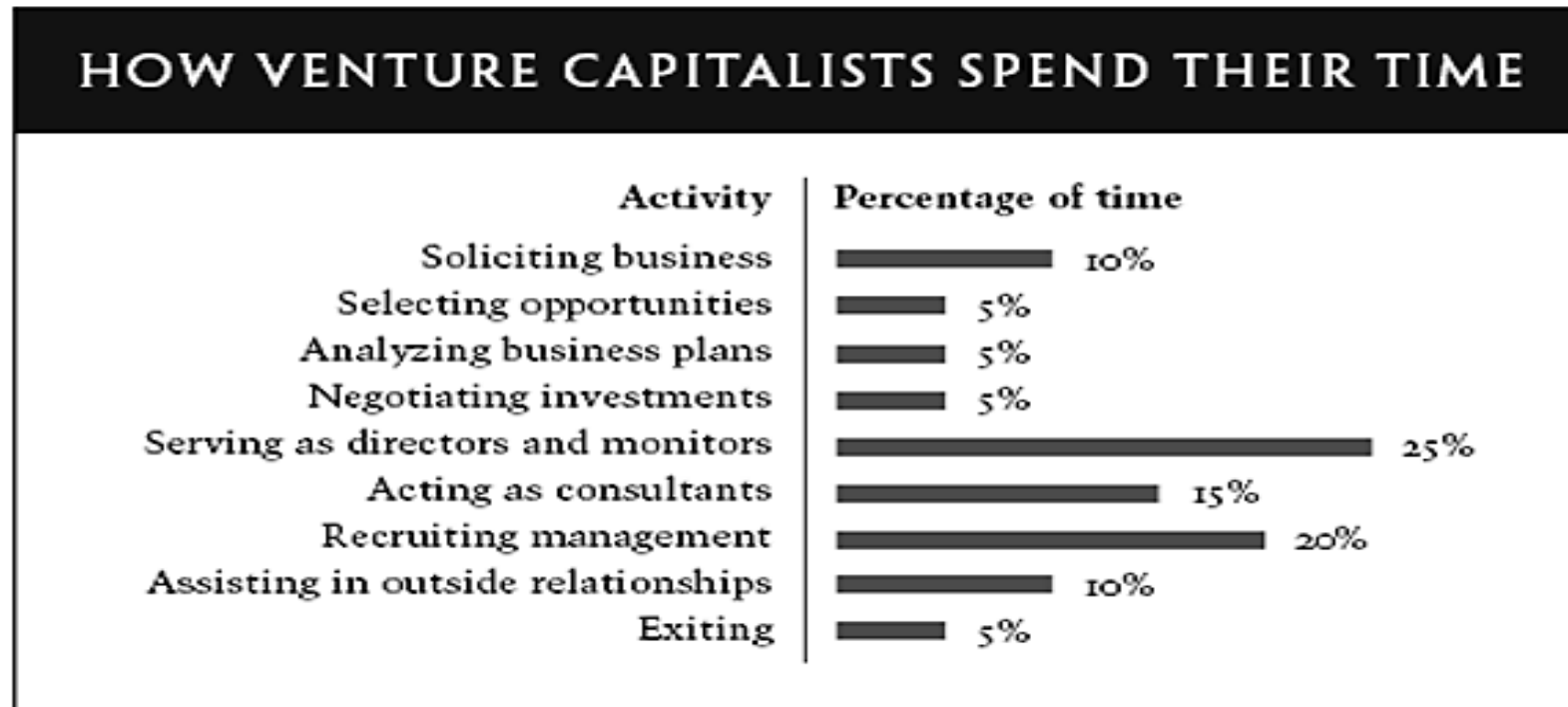
Introduction

Very often, the only Information you have about a company is the pitch deck or executive summary.

- How do you determine whether its worthy of your time and consideration?
- How do you evaluate it?

Each Investor Has Their Method

How do VCs Spend Their Time?



- How much time do they have to read a plan?

~ 90 Seconds

What's Your Commitment Level?

Career

- 50+ hours per week
- Build a dedicated, proprietary team & process
- Lots of travel

Part Time

- ~20 hours per week over nights & weekends
- Building a process
- Drafting off of other investors

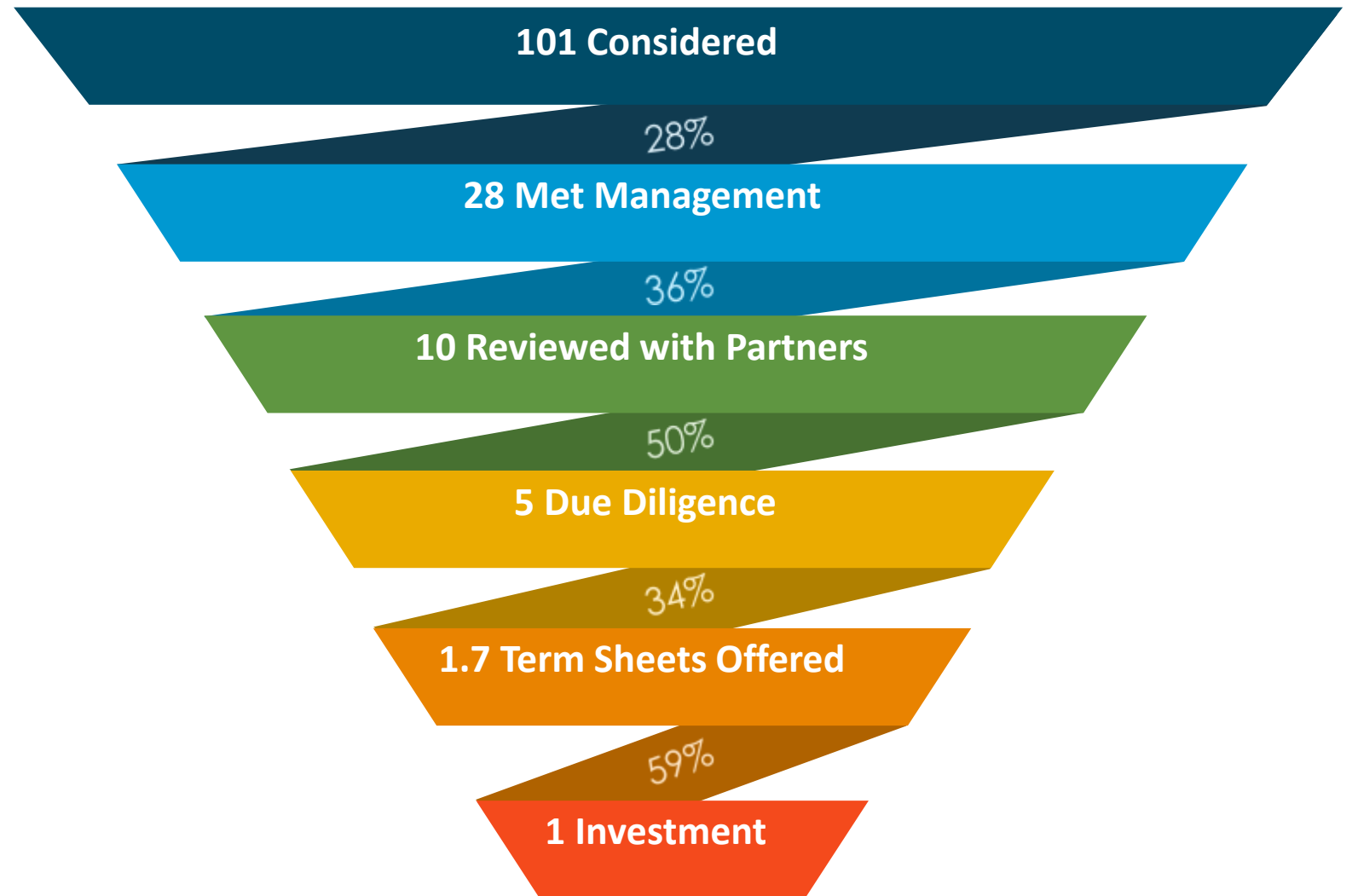
Hobby

- ~10 hours per month
- Drafting off other investors
- Participating in syndicates
- Not developing proprietary deal flow

Passive

- ~2 hours per month
- LP or Syndicate members
- Never talking directly with Founders

Deal funnel per closed deal



You Need a Method!

A thick, hand-drawn style orange line that underlines the text "You Need a Method!". It starts under the first letter and ends under the last letter, with a slightly wavy, irregular appearance.



The 8 Questions

The 8 Questions

- Problem
- Market Size
- Solution
- Competitive Advantage
- Landscape
- Strategy
 - Traction
- Team
- Need

<i>Item</i>	<i>Comment</i>	<i>No of slides</i>
1. The Problem	What is the problem in the world you seek to address? What is the basic <i>need</i> that people have that your product or service will fulfill? Make sure you are a problem seeking a solution instead of a solution seeking a problem. What is keeping them up at night?	1
→2. Quantify It	Express the problem in quantified terms. How big is it?	1
3. Your Solution	Describe how your solution addresses <u>the problem as described above</u> . Don't just describe your product or service. Do that, but make sure you make clear how that product or service applies to the problem or need you've described. How much will they pay you to have a good night's sleep?	1 or 2
4. Your Advantage	Describe your competitive advantage ... how your product or service is better, faster or cheaper. What is defensible? This will bridge from the value proposition described above to the competitive landscape discussed next.	1
5. Competitive Landscape	Describe the other players who are attempting to address the problem described, either as direct competitors or as one offering a substitute product. As you outline the other players, you are also sending a subliminal message that you belong in this company and should be valued accordingly.	1 - use the 4 quadrant approach
6. How You Win The Game aka Strategy	Discuss your business model and the marketing plan. This will show how your solution gets to market and how that activity returns financial results of interest to the Company.	2, 1 each
7. Your Team	Management primarily; influential people serving as Directors or Advisors; professional service providers if appropriate	1 (divide the mgt and board slides if there are a lot of them)
8. Your Need	Ask for the money you are trying to raise. Talk about how the money will be used, the results expected and the time needed.	1
9. Summary	Summarize in three points why the investment makes sense.	1



How venture capitalists evaluate potential venture opportunities

New Venture Development



Key questions

- How do you evaluate potential venture opportunities?
- How do you evaluate the venture's prospective business model?
- What due diligence do you conduct?
- What is the process through which funding decisions are made?
- What financial analyses do you perform?
- What role does risk play in your evaluation?
How do you think about potential exit routes?





Evaluating potential venture opportunities

1. Large market opportunity in fast-growing sector
 - Explosive growth – difficult for others to catch up and for incumbents to respond
 - \$100 to \$300 M revenue stream within five years
 - Market potential needs to be > \$500M to get 25% market share



Evaluating potential venture opportunities

2. Competitive advantage – as unfair as possible
 - Network effect like eBay or operating system lock-in like Microsoft
 - Usually based on difficult engineering problem that takes years to solve
 - Patents OK, but competitors work around them



Evaluating potential venture opportunities

3. Team

- Strong technical founder for technical problem + a sales-oriented entrepreneur
- Founder understands thrusts of technology and industry dynamics around it
- Entrepreneur drives other parts of the business and sells the vision to investors
- Vision, execution, sales, and entrepreneurship

Evaluating potential venture opportunities



4. Other factors

- How much pain does the customer feel, and how much will he pay to solve it?
- Market opportunities (2 types)
 - Replacement for existing product: better, faster, cheaper
 - New-to-the-world product with less market certainty and greater risk



Evaluating the business model

- Two kinds of investments opportunities
- First is a company capable of executing better or offering a better version of an existing product or service – market is proven
- Second, completely new markets or business models where they *think* they understand their bets: e.g., Friendster or Webvan



Due diligence

- VCs hire professors and technical experts to meticulously study a new technology. Too hard to be done? Or are they asking the right questions?
- Determine customers' real needs and their willingness to pay
- Industry experts about the idea, team, market, and market need
- Entrepreneur and team – call references and blind references
- Some firms require 2 general partner sponsors and a devil's advocate to raise objective questions



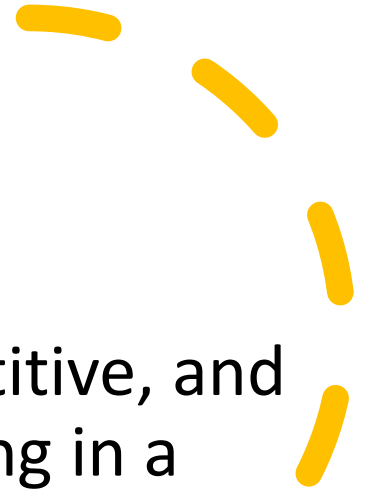
Financial analysis?

- Revenue and expense models
- VCs look at expense model first to determine break-even point $[FC/(VR-VC)]$
- Create their own revenues models – not top-down, but bottoms-up, which becomes a fraction of the top-down estimate in the business plan



Role of risk

- Consider technical, competitive, and market risks before investing in a company
- Track milestones around product, first beta customers, first revenue customers

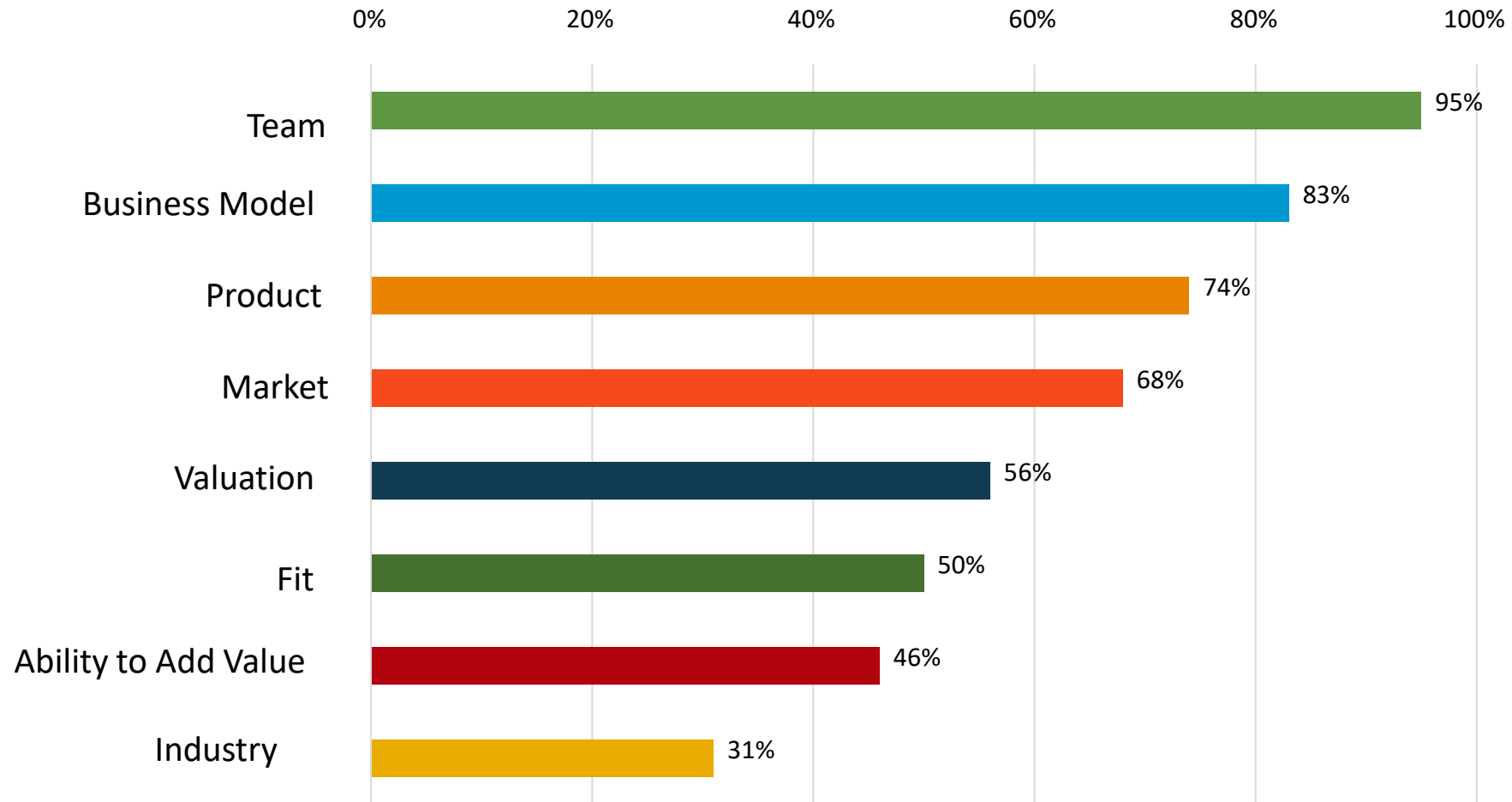




Potential exit routes

- Market cap > \$200 M,
- + Revenues > \$60 - \$80 M
- = large enough market for an exit
- Plus consideration of likely acquirers
- IPO always most profitable exit

Important factors in selecting deals



Source: Gompers, Gornall, Kaplan, Strebulaev (2020)

The Jockey or the Horse

JOCKEY

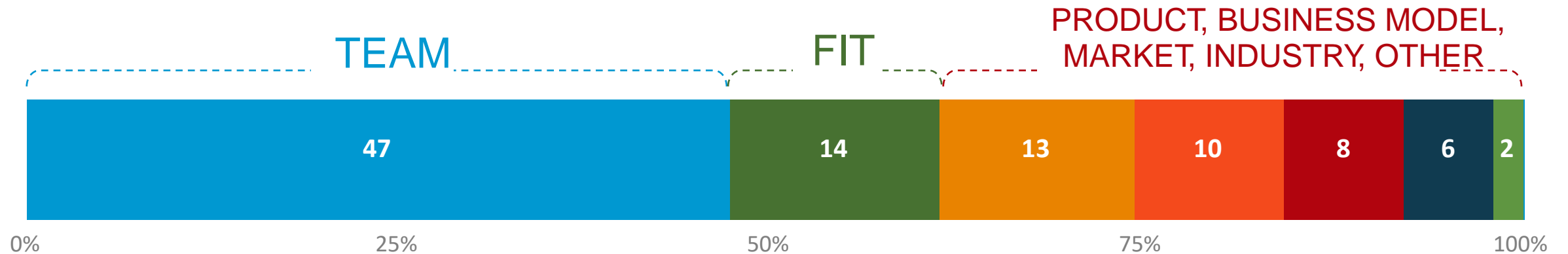
Founders
Startup employees

HORSE

Business Model
Product
Technology
Market

Do you bet on the jockey or the horse?

Most important factor when deciding to invest



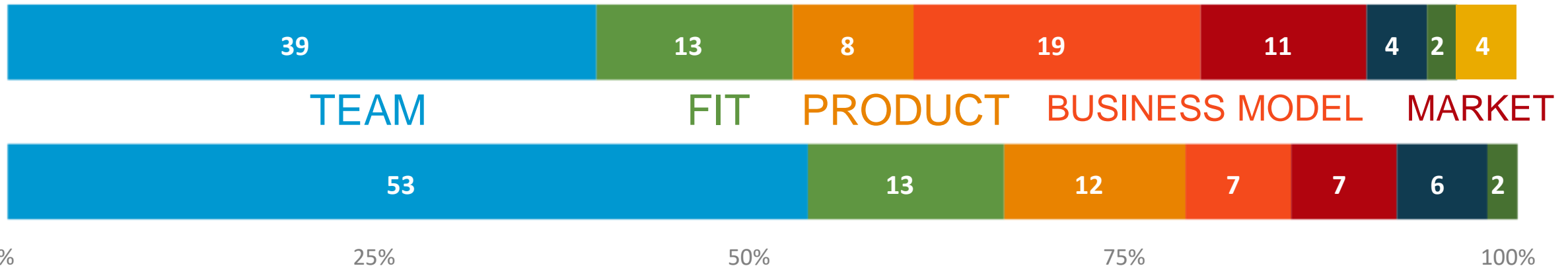
Do you bet on the jockey or the horse?

Jockey vs. horse for early vs. late stage VC firms



Early stage firms bet more on the jockey

53% consider the team the most important factor



Late stage firms bet more on the horse but jockey important

39% consider the team the most important factor

You Have to Develop Your
Method!

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Questions?

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