

Angel investing 101: Doing it right in Bangladesh

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it shouldn't have a strategy to improve its unit economics. It's a good sign when each successive sale the startup makes loses less money than the previous sale. One way to improve unit economics and scale efficiently is by having founders who have built or are capable of building a tech-enabled process that allows for the company to grow faster as it gets more customers. For instance, if a company needs to hire a new person for every new sale, then it's likely that the founders do not have a clear strategy on how to scale.

MARKET SIZE AND POTENTIAL

During due diligence, investors should confirm that there is a reasonable market size for the product or service that the founders are envisioning. In addition, ask them, "What would you do if you had 100% market share?" This will show you how they think beyond their current business.

VALUING THE INVESTMENT

While there are no hard and fast



rules for valuing an angel investment, taking a mid-to-long term view here is necessary to ensure a positive outcome. The goal of an angel should be to make sure the company is properly set up for the next round of funding.

larger scheme of the fundraising process. Angels need to structure their involvement in a way from the beginning that allows a startup to successfully raise capital from institutional funds, likely from abroad, in a future round. We stress the importance of doing things the right way early so that an angel investor has a clearer path in actualising a return—or, in other words, get money back for the investment. In order to do this, angel investors must be able to sell their shares into the market either through an acquisition, secondary sale or IPO. It's important to gauge the possibility of these options for each company.

CURRENT ISSUES WITH ANGEL INVESTING

Prospective investors not only need to assess startups with the right criteria but also need to evaluate their own motivations so that they can provide the kind of capital and support. Before getting into angel investing, prospective investors must ask themselves why they want to invest: Is it financial gain? If so, what is your time horizon? Is it personal satisfaction? Maybe a story to tell at a dinner party? It is to show support to the community? How important is return?

"Am I interested in investing in a startup or an SME?" This reflection is critical; the inability to understand the difference between the two has caused

significant issues between investors and founders and, at times, negatively impacted the ecosystem's progress. Capital should only be allocated to a startup when the goals and vision of the investor and the founders are aligned.

The following is a compilation of issues based on feedback from local founders currently affecting the Bangladeshi angel investment scene:

- Angels taking more than around 20% of companies: As a startup is expected to raise multiple rounds of capital, it's important that the founders retain a sizable portion of equity in order to remain incentivised. We have repeatedly seen that founders who own a larger part of their company will work on its success more than

founders who own a small percentage of a startup. Globally, angels usually do not take over 15% in the initial round. Due to the risky nature of the Bangladeshi ecosystem, taking a slightly higher percentage within reason is understandable. Ultimately, an angel investor's goal is to get the highest absolute dollar return regardless of percentage; 5% of \$100 million is preferable to 20% of \$10 million.

- Angels taking board control: In short, when an institutional investor (such as a venture capital fund) invests in a company, it wants to make sure the founders are in control of their company instead of an early angel who came in with a relatively small amount of early capital — especially when they are looking to put in a much larger sum.

- Focus on short-term metrics such as break-even and profitability: As discussed above, the primary goal for a startup should be to create defensible value through providing a scalable product, service or technology. Focusing on these two metrics will often stunt long-term value creation which may limit the investor's return.

- Asking for dividends: Startups do not pay dividends as all positive cashflow a company may produce should be put back into the business for further growth.

- Failing to add value beyond the money: The best angels provide mentorship, aid in business development and help with fundraising to further increase the value of the startup.

- Focus on physical assets: In general, asset-light startups will be valued higher due to their ability to use capital and scale more efficiently. For many, this may seem counter-intuitive, but the goal of founders is to maximize the return on every dollar raised.

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