'The money is out there': How to craft your pitch for angel investors

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According to the National Angel Capital Organization, 29 angel groups across Canada invested $89-million in 199 startup businesses last year. That's up 120% from 2012 when $40.5-million was invested. Karen Grant, executive director of the Angel One Investor Network in Oakville, Ont., has seen a strong uptake on good quality applications firsthand.

"The money is out there. Not only are the number of investments going up year over, but the round size is also increasing," she says. "Investors are putting more money in year over year. The right companies are getting the funding they need."

What makes the right company? Here's what investors want to see in a pitch:

Growth potential "Investors are looking for growth potential. If it's a mature company with a track record, it has to be a compelling growth opportunity because the greatest lift is when the angels have the opportunity to get involved with a very early stage company that has not yet developed a lot of value, but that is also where the greatest risk is. So it's a constant balancing between risk/reward," Ms. Grant says.

Knowledge of the business "They want to understand your business intimately because they are helping create that business," says Brad Cherniak, partner at Sapient Capital Partners, a business advisory firm in Toronto.

"That's why understanding the risk tolerance/preference of the investor you're pitching is so important. You want to know their style because you want to match that style in your pitch. They will be much more accepting of uncertainty than a bank. As a result, you can have a much more frank discussion with an investor as a result."

Andrew Penny, president of Ottawa-based advisory firm Kingsford Consulting, says most investors have sweet spots, spend time on their websites to see where their interests lie and where they have directed their money.

"Investors have their own ecosystem. The advantage of working with an investor who is focused on your space is they will understand the industry and can make decisions quicker and you can be connected to their ecosystem and have conversations with the network they have created."

A crystal clear pitch Investors want to know why you are in business, who you are going to sell to, what problem you plan to solve for those customers and how solving that problem will translate into bottom line cash, Mr. Penny says. "If you can do all this in 30 seconds all the better. You cannot equivocate."

Understanding attracting investor dollars is an iterative process "When you are meeting a stranger and you want to ask them for money, you have to capture their attention," Ms. Grant says. "Diving into the technical weeds is often a mistake. Be organized and realize that in the first meeting with an investor you have one thing to accomplish: You must attract them enough to convince them to invest more time to learn about your business."

Cash flow is everything This is especially true when you are a startup and have no reserves. From an investor's perspective, there is no point in giving a company money if they are going to blow through it in six months and not accomplish anything.

"In early stage companies no one really believes the forecast but it allows the investor to understand the thinking of the entrepreneur," Ms. Grant says.

"If you are a more mature company you can refer to your track record and build credibility more quickly. It becomes a lot more about whether investors are convinced you can execute."

A valuation both sides can live with Often the hardest part of the negotiation between an investor and business owner is agreeing on the valuation of the company.

"From the investor's point of view, the balance they try and reach is the lowest value without discouraging the entrepreneur. Success is when neither side is satisfied.

"In my experience, it's rare for an angel investor to want to more than 50% of the company at the start. Thirty per cent seems to be a sweet spot, so founders own a majority stake but the investor still gets a healthy chunk," Ms. Grant says.

Just as you would plan for a customer call, you need to plan for an investor call. Be prepared to talk about all the different stages you need to walk the investor through to get them to invest, she says, likening an investor pitch to the buy cycle: awareness, knowledge, liking, preference, buy. "If you can move potential investors through each stage, you'll be successful."