

atTRACTION project: Attracting and connecting innovation ecosystem actors for international co-investments in advanced traction of deep-tech companies from Wielkopolska, Lithuania and Andalusia

atTRACTION



Training package for potential investors

This training package has been developed using materials created under the [ESIL project](#), which received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 727812.

Author: Dmytro Kuzmenko, UVCA



**Funded by
the European Union**

Funded by the European Union. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or EISMEA. Neither the European Union nor the granting authority can be held responsible for them.

What is Angel Investing?

Angel investing represents one of the most dynamic and impactful mechanisms through which individuals contribute to the innovation economy. Unlike institutional investors, business angels are private individuals who commit their own capital, time, and expertise to support the growth of startups. Their role is not confined to financial returns; it extends to mentoring entrepreneurs, building networks, and shaping industries.

Within Europe, business angels have become a cornerstone of the innovation community. They provide essential early-stage funding while simultaneously acting as partners and colleagues to founders. By offering guidance, strategic insight, and access to networks, angels help transform promising ideas into sustainable enterprises. Their engagement strengthens Europe’s competitiveness, fosters resilient ecosystems, and ensures that innovation is not only financed but also nurtured.

This training package is designed to serve both novice and experienced angels. It highlights practical examples and European best practices, with a dual focus on process and risk management. Also, it helps to gain a comprehensive understanding of how investments are sourced, structured, and supported, as well as how risks can be mitigated through syndication, co-investment, and collaborative models.

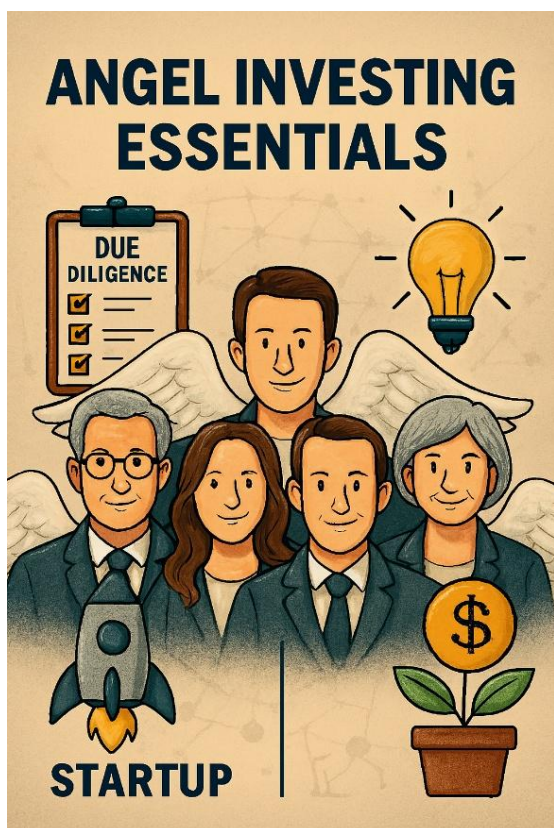
Angel investing is often imagined as a single moment - the signing of a check or the handshake with a founder. In reality, it is the beginning of a longer journey in which angels assume the role of mentors, connectors, and guardians of growth. Post-investment activity transforms capital into strategic partnership, ensuring that startups not only survive but thrive. Challenges such as cash flow constraints or underperformance are not obstacles but opportunities for angels to demonstrate their value beyond money.

By combining financial commitment with collegial partnership, business angels stand at the heart of Europe’s innovation ecosystem. Their contribution is both economic and relational, making them indispensable actors in shaping the future of entrepreneurship across the continent.

Table of contents

Chapter 1 What is angel investing and is it suitable for a novice investor?	3
Chapter 2 Overview of the investment process. Investment strategies. Risk reduction	9
Chapter 3 Sourcing. Initial screening	14
Chapter 4 Due diligence. Valuation	19
Chapter 5 Term Sheet. Structuring the deal. Legal issues.....	24
Chapter 6 Post investment activity & support	29
Chapter 7 Exits: understanding investor pathways	37

Chapter 1 What is angel investing and is it suitable for a novice investor?



Angel investing is one of the most dynamic ways individuals can participate in the innovation economy. Unlike institutional investors, business angels are private individuals who commit their own capital, time, and expertise to help startups grow. This chapter explores what angel investing is, why it is important and whether it is the right path for a novice investor, what are the motivations behind angel investors, what are the risks and rewards, and what role they play in Europe's innovation ecosystem. Angel investing is not only about financial returns; it is also about mentoring entrepreneurs, building networks, and shaping classic and innovative industries.

Contents of chapter 1

What is a Business Angel?	4
Angel investing in context	4
Why become an Angel Investor?	4
Types of Business angels	5
What do Angel deals look like?	5
Investment process overview	5
Levels of engagement	5
Angel vs. other investing	6
Risks & rewards	6
How to get started	6
Why networks & groups?	7
Case study: international Angel investing.....	7
Government incentives	7
Managing investments	7
Exit strategies	8
Closing.....	8

What is a Business Angel?

A business angel is a private individual who invests their own money into early-stage companies. Typically, angels commit between 2–10% of their personal wealth to startup investments. They are not only financial backers but also mentors, advisors, and connectors. Angels often bring industry knowledge, networks, and credibility to the startups they support. Their motivations vary: some seek financial returns, others want to give back to the community, and many enjoy the entrepreneurial journey. Unlike venture capitalists, angels are not managing other people's money; they are investing their own. This makes their involvement highly personal and often more flexible. Angels can be the first external supporters of a startup, bridging the gap between family-and-friends funding and institutional capital. They play a crucial role in validating ideas and helping entrepreneurs refine their business models. In Europe, angels are increasingly recognized as key actors in building resilient innovation ecosystems. Their contributions go beyond money, shaping the future of industries and regions.

Angel investing in context

Angel investing sits at a critical point in the funding landscape. Startups often begin with founders' savings or "love money" from family and friends. Once they need larger sums, typically between €200k and €2M, angels step in. This stage is too risky for banks, which require collateral, and often too early for venture capitalists, who prefer proven traction. Angels therefore fill the "valley of death" in startup financing. They provide not only capital but also credibility, which helps startups attract later-stage investors. Angels often syndicate deals, pooling resources to meet funding needs. They are also connected to accelerators, incubators, and universities, which provide deal flow. In Europe, angels are increasingly supported by public co-investment funds, which match private investments. This strengthens the ecosystem and reduces risk. Without angels, many startups would never survive long enough to reach venture capital or expansion funding.

Why become an Angel Investor?

There are many reasons to become an angel investor. Financially, successful angel portfolios can deliver annualized returns of 10–12%. However, the risks are high: out of ten startups, four will fail, four will survive modestly, and only two will thrive. Beyond money, angels are motivated by mentoring opportunities, social impact, and the chance to stay close to innovation. Many enjoy the camaraderie of angel networks and the intellectual stimulation of evaluating new ideas. Angel investing can also be a way to acquire entrepreneurial experience without starting a company yourself. It allows individuals to contribute to regional development and job creation. Angels often find satisfaction in helping young entrepreneurs succeed. The social aspect is important too: angels meet like-minded peers and build lasting relationships. For retired executives, angel investing provides a way to remain active and relevant. For younger investors, it is a way to build networks and credibility.

Types of Business angels

Business angels come in many forms. The most common are ex-entrepreneurs or retired executives, who bring deep experience and networks. Active busy executives may invest smaller amounts but provide strategic insights. Executives in transition often use angel investing to explore new opportunities. Up-and-coming future entrepreneurs invest to learn and build networks. Each type brings unique strengths to the ecosystem. Retired angels often mentor extensively, while busy executives may focus on strategic deals. Younger angels bring fresh perspectives and digital-native approaches. Diversity among angels enriches the ecosystem and supports startups in different ways. Networks often combine these profiles to balance experience and energy.

What do Angel deals look like?

Angel deals typically involve startups at the early stage. These companies have a working concept and may have pilot clients. They are usually incorporated and have a small founding team of two to four people. At least one founder is working full-time on the project. The startups are raising between €200k and €2M, often within a 4–6 month window. Angels invest in sectors such as deep tech, digital, and green transition. University spin-offs with intellectual property are common targets. Angels look for scalability, protectability, and clear market access. They also evaluate the team's values and commitment. Deals are often structured as equity investments, though convertible notes are also used. Angels may invest individually or through syndicates. The key is that angels enter when risk is high but potential is significant.

Investment process overview

The angel investment process follows a cycle. It begins with developing an investment strategy, including motivations, budget, and preferred sectors. Next comes sourcing deals, often through networks, accelerators, or direct approaches. Screening and due diligence follow, where angels evaluate the team, market, product, and financials. Negotiation of valuation and terms is critical before closing. Once invested, angels manage their involvement, often serving as advisors or board members. They add value by mentoring, connecting, and helping with follow-on rounds. Finally, exits occur, usually after 5–7 years. Exits can be sales to larger companies, VC buyouts, or rarely IPOs. Bankruptcy is also a possible outcome. The process requires patience, discipline, and resilience. Angels must balance risk with opportunity at every stage.

Levels of engagement

Angel investors vary in their level of engagement. Passive angels spend 2–4 hours per month, attending meetings and events. Moderate angels commit 4–8 hours, participating in due diligence and training. Lead angels invest 8+ hours, often becoming deal leaders or board members. Passive angels provide capital but limited involvement. Moderate angels contribute expertise and join syndicates. Lead angels take responsibility for negotiations and mentoring. The level of engagement depends on motivation and time availability. Some angels prefer a portfolio approach, spreading risk across many deals. Others focus deeply on a few startups. Networks often encourage angels to increase engagement over time. Training programs help angels move from passive to active roles. The ecosystem benefits from having all levels of engagement represented.

Angel vs. other investing

Angel investing differs from other forms of investing. Unlike venture capital, angels invest their own money, not pooled funds. They enter earlier, when risk is highest but valuations are lower. Private equity focuses on mature companies, while angels back startups. Real estate offers lower risk and steady returns, but little innovation impact. Angels combine financial capital with human capital, mentoring and advising startups. Venture capitalists are more structured and institutional. Angels are flexible and personal in their approach. Returns can be higher but are less predictable. Liquidity is low, with exits taking years. Angels often invest for impact as well as profit. This makes angel investing unique in the financial landscape.

Risks & rewards

Angel investing is inherently high risk, and investors must be prepared to lose the entire amount they commit. Startups at the early stage often lack proven business models, stable revenue, or established markets, which makes them fragile. Liquidity is another challenge: angels cannot easily sell their shares, and exits typically take five to seven years. Dividends are rare, since most startups reinvest profits into growth rather than distributing them. Despite these risks, angel investing can deliver outsized rewards when a startup thrives. A few successful investments can generate returns that more than compensate for losses elsewhere in the portfolio. Experienced angels often report annualized portfolio returns of 10–12%, but this requires diversification across many deals. Beyond financial gains, angels enjoy non-monetary rewards such as mentoring entrepreneurs, influencing innovation, and contributing to regional development. Angels also gain access to networks of peers, which can lead to new opportunities. Government incentives, such as tax breaks and co-investment funds, further reduce risk and encourage participation. Ultimately, angel investing is about balancing optimism with realism, expecting failures but celebrating the successes that drive innovation forward.

How to get started

For novice angels, the best entry point is through established networks and training programs. Attending angel network meetings provides exposure to deal flow and experienced investors. Reading books, articles, and watching numerous training videos helps build foundational knowledge. Participating in structured training programs offers practical guidance on due diligence, valuation, and portfolio management. Preparing an investment strategy is essential, including setting a budget and defining preferred sectors. New angels should start small, committing limited capital to gain experience while managing risk. Choosing the right network or program ensures access to quality deals and peer support. Syndication opportunities allow new angels to invest alongside experienced ones, reducing risk and learning by doing. Building relationships with entrepreneurs and other investors is as important as financial analysis. Over time, angels can increase their involvement and take on leadership roles in deals. The journey begins with curiosity and grows into active participation in Europe's innovation ecosystem.



Why networks & groups?

Angel networks and groups are increasingly central to the investing process. They provide structured deal flow, sourcing opportunities from accelerators, incubators, and universities. Networks allow angels to share risk by pooling capital into syndicates. They also enable collective due diligence, leveraging diverse expertise to evaluate startups more thoroughly. Networks foster community, offering mentoring, peer learning, and social connections. They amplify impact by coordinating investments across regions and sectors. In Europe, cross-border networks supported by ESIL and EBAN are particularly important. They help angels access deals beyond their local markets, increasing diversification. Networks also negotiate better terms with startups, thanks to collective bargaining power. For new angels, networks provide a safe entry point with guidance and support. Ultimately, networks transform angel investing from an individual activity into a collaborative ecosystem.

Case study: international Angel investing

Angel investing is no longer confined to local markets. Increasingly, angels participate in cross-border syndication, pooling resources across countries. This trend is driven by EU integration and digital platforms that make international collaboration easier. For example, angels from France and Germany co-invest in Baltic startups, combining expertise and capital. Cross-border deals reduce concentration risk and expose investors to new sectors. They also strengthen Europe's innovation ecosystem by connecting regions. International syndication requires harmonized legal frameworks and trust among investors. The future of angel investing in Europe lies in international cooperation. Angels who embrace this trend gain broader opportunities and contribute to a more resilient ecosystem.

Government incentives

Government incentives play a crucial role in fostering angel investing. Tax deductions are common, with schemes in the UK, France, Italy, and Belgium offering immediate benefits. Loss deductions, available in countries like the US and UK, allow investors to offset startup losses against income. Capital gains tax breaks reward long-term holding, typically after three to five years. Public co-investment funds match private investments, often at ratios of two or three to one. These incentives reduce risk and encourage participation by high-net-worth individuals. Without them, many investors would prefer safer assets like real estate or listed companies. Incentives also signal government commitment to innovation and entrepreneurship. They create a culture of private investment alongside public support. In France, Bpifrance plays a major role in co-investment. In the UK, [SEIS](#) and [EIS](#) schemes are widely credited with boosting angel activity. Incentives are essential for scaling angel investing across Europe.

Managing investments

Angel investing does not end with writing a check. Managing investments is a critical part of the process. Angels often serve as board members or advisors, committing one to two days per month. They add value by mentoring entrepreneurs, connecting them to networks, and helping with strategy. Angels also assist with follow-on rounds, preparing startups for venture capital or expansion funding. Addressing issues proactively is part of the role, whether financial, operational, or strategic. Angels must balance involvement with respect for founders' autonomy. Too much interference can harm, while too little engagement misses opportunities. Managing investments requires patience and adaptability. Angels often learn as much from failures as from successes. The most effective angels are those who combine financial support with active guidance. Their involvement can make the difference between a startup's success and failure.

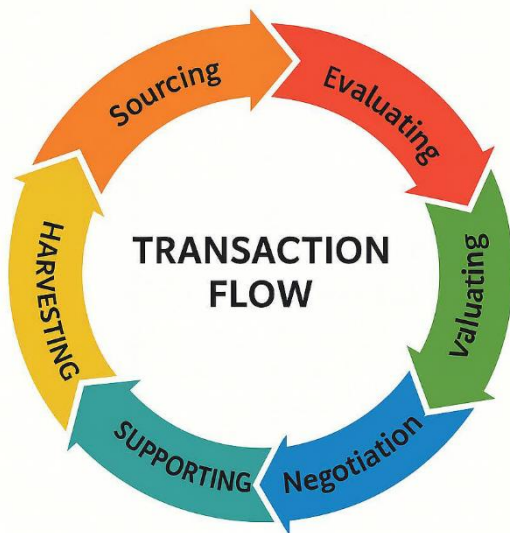
Exit strategies

Exits are the ultimate goal of angel investing, but they take time. Most exits occur five to seven years after the initial investment. The most common exit is a sale of the startup to a larger company. Sometimes angels sell their shares back to founders or other shareholders. Venture capital firms may acquire angel-held shares during later rounds. IPOs are rare but possible in exceptional cases. Bankruptcy is also a potential outcome, underscoring the risks. Angels must be patient and realistic about liquidity. Planning for exits is part of due diligence, evaluating potential buyers and market dynamics. Successful exits deliver financial returns and validate the angel's role. Even modest exits can provide learning and capital for future investments. Exits are the culmination of the investment cycle, closing the loop from strategy to reward.

Closing

Angel investing is a high-risk, high-impact activity. It is suitable for a novice investor if he can allocate time, capital, and energy. Angels must accept risk and illiquidity, but they gain financial and personal rewards. They contribute to innovation, job creation, and regional development. Angel investing is not for everyone, but for those who embrace it, the journey is rewarding. Networks and training programs make the path easier and safer. Government incentives reduce risk and encourage participation. Angel communities across the EU provide support and resources for new and experienced angels. By joining any of them, new investors become part of Europe's innovation ecosystem. Angel investing is about more than money - it is about shaping the future. The question is not only whether it's right for someone, but also whether someone is ready to take the first step.

Chapter 2 Overview of the investment process. Investment strategies. Risk reduction



Angel investing is a cornerstone of Europe’s innovation ecosystem, empowering individuals to support startups with capital, expertise, and networks. This presentation explores the investment process, strategies, and risk reduction techniques for business angels. The goal is to provide a comprehensive overview of how deals are sourced, structured, and harvested. We will also examine syndication, crowdfunding, and co-investment models. By the end, participants will understand the fundamentals of dealmaking and how to mitigate risks. Angel investing is not only about financial returns but also about building resilient ecosystems. This chapter is designed for both novice and experienced angels. It emphasizes practical examples and European best practices. The title reflects the dual focus: process and risk management.

Contents of chapter 2

Fundamentals of dealmaking: sourcing.....	10
Fundamentals of dealmaking: evaluating.....	10
Fundamentals of dealmaking: valuating.....	10
Fundamentals of dealmaking: structuring.....	10
Fundamentals of dealmaking: negotiation.....	11
Fundamentals of dealmaking: supporting.....	11
Fundamentals of dealmaking: harvesting.....	11
Investment cycle.....	11
Typical Deal size.....	11
Deal structures.....	11
Investment strategies.....	12
Why invest with others?.....	12
Types of syndications and co-investments.....	12
Crowdfunding: tools and opportunities.....	13
Risk reduction strategies.....	13
Case studies in risk reduction.....	13
Closing.....	13

Fundamentals of dealmaking: sourcing

Sourcing is the first step in the investment process. Angels find deals through networks, accelerators, incubators, universities, and direct approaches. Experts emphasize the importance of structured deal flow, supported by angel networks and platforms. Referrals from trusted peers are a common source of quality opportunities. Business plan competitions and innovation events also generate deal flow. Angels must actively engage with ecosystems to access diverse opportunities. Digital platforms now enable cross-border sourcing, expanding reach beyond local markets. Effective sourcing requires clarity on investment strategy and sector focus. Angels should balance proactive search with openness to unexpected opportunities. The quality of sourcing determines the pipeline for evaluation. Without strong sourcing, the investment process cannot succeed.

Fundamentals of dealmaking: evaluating

Evaluation involves assessing the startup's team, product, market, and scalability. Angels look for committed founders, innovative solutions, and clear market access. Due diligence covers financials, legal structures, and intellectual property. Experts emphasize high-level components: team values, innovation, scalability, and exit perspectives. Evaluation is both art and science, requiring judgment and analysis. Angels often collaborate in networks to share expertise during evaluation. Risks must be identified early, including market competition and execution challenges. Evaluation also considers alignment with the angel's motivations and strategy. A thorough evaluation reduces the likelihood of failure. It sets the stage for valuation and structuring.

Fundamentals of dealmaking: valuating

Valuation is one of the most challenging aspects of angel investing. Startups often lack revenue, making traditional metrics difficult to apply. Angels use methods such as comparable analysis, discounted cash flow, or rule-of-thumb multiples. Negotiation of valuation is critical, as it affects ownership and future rounds. Both sides must find a balance between fairness and opportunity. Overvaluation can harm startups by deterring future investors. Undervaluation can demotivate founders. Angels must consider scalability, protectability, and exit potential. Valuation is both financial and strategic. It requires transparency and trust between investors and entrepreneurs. A realistic valuation supports long-term success.

Fundamentals of dealmaking: structuring

Structuring defines the legal and financial terms of the investment. Common structures include equity, convertible notes, and SAFE agreements. Debt is rare but possible in specific contexts. Options may be used to align incentives. Syndicates often structure deals collectively, pooling capital. Structuring must balance investor protection with founder flexibility. Key terms include liquidation preferences, anti-dilution clauses, and governance rights. Complex structures can deter future investors. Angels should seek legal advice to ensure compliance. Structuring is the foundation for negotiation and support.

Fundamentals of dealmaking: negotiation

Negotiation is where angels and entrepreneurs align expectations. It covers valuation, terms, governance, and exit strategies. Successful negotiation requires trust and transparency. Angels must balance protecting their interests with supporting founders. Networks often appoint lead angels to negotiate on behalf of syndicates. Negotiation is not only about numbers but also about relationships. Experts highlight the importance of win-win outcomes. Hardline negotiation can damage long-term collaboration. Angels should focus on shared goals and mutual benefit. Negotiation sets the tone for the partnership. It is a critical step in building trust.

Fundamentals of dealmaking: supporting

Support is what differentiates angel investing from other forms of capital. Angels provide mentoring, networks, and strategic guidance. They may serve as board members or advisors. Support includes helping with follow-on rounds and addressing challenges. Experienced investors emphasize that angels add value beyond money. Support requires time commitment, typically one to two days per month. Angels must balance involvement with respect for founders' autonomy. Effective support increases the likelihood of success. It also strengthens the angel's reputation in the ecosystem. Support is both a responsibility and an opportunity.

Fundamentals of dealmaking: harvesting

Harvesting refers to exits, the final stage of the investment cycle. Exits typically occur five to seven years after investment. Common exits include sales to larger companies, VC buyouts, or IPOs. Bankruptcy is also a possible outcome. Angels must plan for exits during due diligence. Harvesting delivers financial returns and validates the investment process. Successful exits provide capital for future investments. They also strengthen networks and ecosystems. Exits are uncertain but essential. Harvesting closes the loop of dealmaking.

Investment cycle

The investment cycle covers strategy, sourcing, investing, managing, and exiting. It begins with defining motivations and budgets. Sourcing provides deal flow, followed by evaluation and structuring. Investment is formalized through negotiation and closing. Management involves active support and governance. Exits occur after several years, delivering returns. The cycle typically lasts five to seven years. Each stage requires different skills and commitments. Understanding the cycle helps manage expectations. It also highlights the importance of patience and diversification.

Typical Deal size

Typical angel investments range from €25k to €100k per individual. Syndicates pool capital to reach €200k–€2M per round. Larger rounds may involve co-investment with VCs or public funds. Deal size depends on sector, stage, and geography. Angels must balance portfolio diversification with meaningful involvement. Experts recommend starting small for novice angels. Experienced angels may commit larger sums. Deal size also reflects risk appetite. Smaller deals allow broader diversification. Larger deals require deeper involvement. Understanding typical deal sizes helps set realistic expectations.

Deal structures

Deal structures vary widely. Equity is the most common, providing ownership in the startup. Convertible notes and SAFE agreements offer flexibility. Debt is rare but possible in specific contexts. Options align incentives between founders and investors. Syndicates often use standardized structures for efficiency. Structuring must balance investor protection with founder flexibility, maintaining clarity and simplicity in deal structures. Complex terms can deter future investors. Angels should seek legal advice to ensure compliance. Deal structures shape the relationship between investors and entrepreneurs.

Investment strategies

Angels adopt different strategies based on motivations and risk appetite. Diversification across sectors and geographies reduces risk. Thematic focus allows deeper expertise in specific industries. Some angels prioritize impact investing, supporting social or environmental goals. Others focus on high-growth sectors like digital or biotech. Portfolio strategies balance risk and reward. It is crucial for business angels to define clear strategies before investing. Strategies evolve with experience and market conditions. Angels must align strategies with personal goals. A clear strategy guides sourcing and evaluation. It also supports long-term success.

Why invest with others?

Many angels prefer to invest with others. Syndication reduces risk by pooling capital. It also shares expertise and due diligence responsibilities. Networks provide access to structured deal flow. Investing with others builds community and trust. Syndication enables larger deals and better terms. It also provides learning opportunities for novice angels. Collaboration strengthens ecosystems and supports entrepreneurs. Investing with others is both practical and strategic. It is a hallmark of modern angel investing.

Types of syndications and co-investments

Syndication is one of the most common ways angels reduce risk and increase impact. Informal syndicates are small groups of investors pooling capital for a single deal, often organized around personal networks. Formal syndicates are structured through angel networks, with designated lead investors who negotiate terms and coordinate due diligence. Cross-border syndications are increasingly popular in Europe, allowing angels from different countries to co-invest in startups and diversify geographically. Co-investments with venture capital firms provide access to larger rounds and professional expertise, while maintaining angel involvement. Public co-investment funds, such as those supported by EU programs, often match private angel investments, multiplying available capital. Syndication also builds community, fostering trust and collaboration among investors. It enables angels to participate in deals that would be too large individually. Co-investments align interests between private and public actors, strengthening ecosystems. Syndication models vary, but all share the goal of reducing risk and increasing efficiency. They are a hallmark of modern angel investing in Europe.

Crowdfunding: tools and opportunities

Crowdfunding has emerged as a complementary tool for angel investors. Equity crowdfunding platforms allow individuals to invest small amounts in startups, democratizing access to early-stage deals. Angels often use crowdfunding to test market interest or to co-invest alongside larger rounds. Platforms provide transparency, standardized structures, and broad reach. Crowdfunding can also serve as a marketing tool, building customer engagement and brand awareness. Experts highlight crowdfunding as part of the broader toolkit for early-stage financing. Angels must evaluate platforms carefully, considering regulatory compliance and deal quality. Crowdfunding does not replace traditional angel investing but expands opportunities. It allows angels to diversify portfolios with smaller commitments. It also connects startups to wider communities of supporters. Crowdfunding is particularly useful for consumer-facing products, where customer validation is critical. It is an evolving space that angels should monitor closely.

Risk reduction strategies

Risk reduction is central to successful angel investing. Diversification across sectors, geographies, and stages is the most effective strategy. Syndication reduces individual exposure by pooling capital and expertise. Government incentives, such as tax breaks and co-investment funds, further mitigate risk. Careful due diligence identifies potential pitfalls early. Angels should set clear investment strategies and budgets to avoid overexposure. Starting small allows novice angels to learn without risking large sums. Active involvement, such as mentoring and board participation, increases the likelihood of success. Patience is essential, as exits take years. Angels must accept that failures are part of the process. Risk reduction does not eliminate risk but makes it manageable. It enables angels to pursue opportunities with confidence.

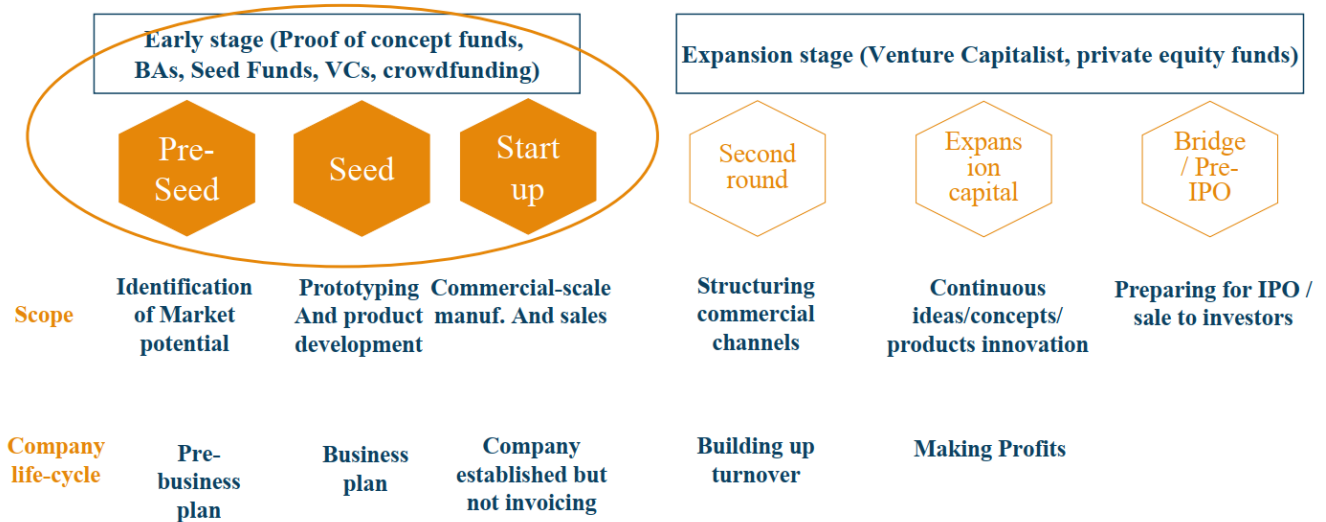
Case studies in risk reduction

European case studies illustrate effective risk reduction. In France, [Bpifrance](#) co-investment funds match angel investments, reducing exposure. In the UK, SEIS and EIS schemes provide tax relief, encouraging diversification. In Portugal, public loan guarantees support early-stage financing. Cross-border syndications in Germany and Italy diversify portfolios geographically. Angels in Scotland leverage networks like LINC to share due diligence. Crowdfunding platforms in Belgium allow angels to test market interest before committing larger sums. These examples show how ecosystems support risk reduction. They highlight the importance of incentives, networks, and collaboration. Angels benefit from learning best practices across Europe. Case studies provide practical models for new investors. They demonstrate that risk reduction is achievable with the right tools.

Closing

Angel investing is a journey that combines risk, reward, and impact. The investment process requires discipline, patience, and resilience. Angels must master the fundamentals of dealmaking, from sourcing to harvesting. They must understand the investment cycle and typical deal structures. Strategies such as diversification, syndication, and co-investment reduce risk. Crowdfunding expands opportunities and democratizes access. Government incentives provide support across Europe. Networks and communities amplify impact and learning. Angel investing is not only about financial returns but also about shaping innovation ecosystems. It is right for those who embrace risk and value mentoring. The future of angel investing lies in collaboration and resilience. The question is whether you are ready to take the first step.

Chapter 3 Sourcing. Initial screening



**Source: ESIL training materials*

Angel investing always begins with the hunt for opportunities, and that means sourcing and screening. This stage is the “front door” to an investor’s portfolio: if opened wisely, they can let in startups with real potential. This chapter explores where good deals come from, how to build relationships with incubators and accelerators, how to attract the best founders to start investment talks, as well as the role of networking, information to ask for immediately, and how to use an investor’s personal investment philosophy as a filter. Additionally, it will highlight red flags to look out for, both obvious and hidden, and share practical tools to make screening easier. Sourcing and screening are not just technical steps - they are aimed at building trust and curiosity. By mastering them, investors reduce risk, increase impact, and enjoy the journey of discovering new ideas.

Contents of chapter 3

- Where do good deals come from? 14
- Engaging with incubators and accelerators 15
- Attracting the best deals 15
- Role of networking..... 15
- Information to request at the start 16
- Using investment criteria as filters..... 16
- Spotting red flags 16
- Hidden features worth attention 16
- Screening tools and checklists 17
- Case study: university spin-offs 17
- Case Study: accelerator graduates 17
- International sourcing 17
- Building reputation 17
- Practical screening workflow 18
- Tools and templates..... 18
- Closing..... 18

Where do good deals come from?

Good deals don't just fall into your hands they come from ecosystems that nurture innovation. Universities and research centers often spin out companies with strong intellectual property. Incubators and accelerators polish raw ideas into investable businesses. Business plan competitions and hackathons showcase ambitious founders. Referrals from trusted peers are often the most reliable source, because they come with built-in credibility. Online platforms and angel networks also provide structured deal flow. International opportunities are growing, with cross-border syndication opening doors to diverse markets. Angels who stay curious and active in multiple channels build stronger pipelines. They know: the more places they look, the more likely they are to find gems. Deals are like seeds: they grow best in fertile ecosystems, and your job is to spot them early.

Engaging with incubators and accelerators

Incubators and accelerators are like greenhouses for startups: they provide structure, mentorship, and resources. Angels can engage by attending demo days, pitch nights, and networking events. Building relationships with program managers ensures early access to promising founders. Offering mentorship within these programs allows investors to see teams up close, beyond the polished pitch. Accelerators often specialize in sectors, so choose ones aligned with your interests. Your presence signals credibility and support, which attracts founders to approach you. Think of it as planting yourself where innovation blooms. Consistent engagement builds trust and reputation. Angels who show up regularly become familiar faces, and familiar faces get first calls when deals are ready.

Attracting the best deals

The best deals often seek out the best angels. Reputation matters: founders want investors who are supportive, approachable, and credible. Investors usually build visibility by participating in events, publishing insights, or mentoring. Clear communication about investment focus and preferences helps entrepreneurs make their own choices, saving time for both parties. Responsiveness and professionalism distinguish such investors; the founders speak out, and word spreads quickly. Angels who add value beyond money - introductions, advice, encouragement - attract stronger opportunities. In this case, they are acting like a magnet: the more value they radiate, the more quality deals they will draw in. Being part of syndicates also signals credibility. Attracting deals is less about chasing and more about being visible, reliable, and generous.

Role of networking

Networking is the lifeblood of angel investing. Business angel networks provide structured deal flow and shared expertise. Groups bring together investors across borders, creating opportunities that are unlikely to be found alone. Networking builds trust among peers, which is essential for syndication. It also connects investors directly to entrepreneurs, accelerators, and ecosystem actors. Events like pitch nights or angel forums are not just about deals, they're about relationships. Networking requires consistency: showing up, contributing, and listening. It's both social and strategic, and it often feels like community-building. Strong networks expand and amplify the reach and reduce blind spots. Every handshake could be the beginning of the next promising big investment.

Information to request at the start

When a startup approaches an investor, his first step usually is to ask for the right information. Executive summaries and pitch decks give him the big picture. Financial projections and business models show how they plan to grow. Details about the founding team reveal commitment and capability. Market analysis and customer validation provide context for demand. Intellectual property status clarifies defensibility. Fundraising goals and timelines help investors understand urgency. Standardizing these requests saves time and ensures fairness. Think of it as your “starter pack” for screening. Asking the right questions early prevents surprises later. It also signals professionalism to founders, setting the tone for collaboration.

Using investment criteria as filters

Clear and understandable investment criteria are like glasses - they help to see clearly through the noise. Investors usually set criteria by defining sector preferences, geographic focus, and stage of development, as well as typical funding sizes they're comfortable with. Experienced investors align criteria with their personal philosophy: some angels prioritize impact others focus on high-growth sectors. Applying filters consistently reduces wasted time. It also helps entrepreneurs self-select before approaching investors. However, flexibility is also important: sometimes a deal outside usual scope may surprise. But discipline matters too: filters keep investors focused and efficient. These criteria can be considered as rails, guiding investors toward deals that fit their goals.

Spotting red flags

Red flags are warning signs that a deal may not be right. Lack of founder commitment is a major concern: if they're not all-in, why should investors be? Overly optimistic financial projections suggest unrealistic expectations. Weak market validation raises doubts about demand. Poor team dynamics can undermine execution. Legal or intellectual property issues can derail growth. Hidden red flags include unclear governance or misaligned incentives. Spotting these early saves time and money. It's not about being cynical, it's about being cautious. Think of red flags as smoke signals: they don't always mean fire, but they demand attention.

Hidden features worth attention

Beyond obvious red flags, hidden features can reveal deeper risks. Founder motivations may not align with investor goals. Market timing may be unfavorable despite strong products. Competitive landscapes may be underestimated. Regulatory risks can be overlooked. Hidden features often emerge during probing conversations. Asking thoughtful questions uncovers what's beneath the surface. Using networks to validate information adds perspective. Awareness of hidden features strengthens screening. Think of it as detective work: you're piecing together clues to see the bigger picture. Hidden risks are often the difference between success and failure.

Screening tools and checklists

Screening tools help angels stay consistent and objective. Checklists ensure they don't miss key questions. Scorecards allow them to rate startups on team, market, product, and scalability. Online platforms provide structured processes for evaluation. Templates save time and create transparency. Tools reduce bias by standardizing decisions. They also support syndication, aligning evaluations across investors. Angels should adapt tools to their personal strategies. Consistent use builds discipline and confidence. These tools can be considered as a compass since they help investors navigate in the right direction.

Case study: university spin-offs

University spin-offs are a classic source of deals. They often have strong intellectual property but limited market experience. Angels must evaluate both the technology and the team. Engagement with university incubators provides early access. Screening requires assessing scalability and protectability. Spin-offs may need mentoring as much as capital. Market readiness is often the biggest challenge. Syndication with experienced peers reduces risk. University spin-offs are high-potential but high-risk deals. Screening carefully is critical to success.

Case Study: accelerator graduates

Accelerator graduates are another common source. They've undergone structured programs and mentoring. Angels gain access through demo days and pitch events. Screening requires evaluating progress during the program. Graduates often have clearer business models and customer validation. Angels must still assess scalability and financials. Syndication helps share risk in accelerator deals. Screening tools ensure consistency across graduates. Accelerator graduates are promising but require careful evaluation. They illustrate the importance of structured sourcing.

International sourcing

International sourcing expands opportunities and diversifies portfolios. Startups are increasingly born global, targeting international markets from day one. Angels must evaluate international regulations and cultural contexts. Networks facilitate cross-border sourcing. Screening requires understanding local ecosystems. International deals offer growth but add complexity. Syndication helps manage risks in foreign markets. International sourcing strengthens resilience and impact. It is a growing trend in angel investing. Think of it as opening new doors - each country offers unique opportunities.

Building reputation

Reputation is your most powerful currency as an angel investor. Founders talk to each other, and word spreads quickly about which investors are supportive, approachable, and fair. Angels who consistently show professionalism and respect attract stronger opportunities. Reputation is built through actions: showing up at events, mentoring, and following through on commitments. Publishing insights or sharing experiences also enhances visibility and credibility. A good reputation signals reliability to entrepreneurs and co-investors alike. It makes such an investor the person founders want on their cap table. Reputation also compounds over time: the more positive experiences investors create, the more doors open. This process is like planting seeds: each interaction grows into future opportunities. Building reputation requires patience, but it pays dividends in deal flow.

Practical screening workflow

Screening can feel overwhelming without a clear process, so having a workflow makes it manageable. The most proper way is to start by requesting standardized information such as pitch decks and executive summaries. Applying investment criteria as filters to quickly eliminate mismatches. Using checklists or scorecards to ensure consistency across agreements. Early detection of red flags and recording them. Exploring hidden features by asking thoughtful questions about time to market, competition, or founder motivation. Engaging the network to validate information and gain different perspectives. Documenting achieved decisions for transparency and future reference. A structured workflow reduces bias and saves time. It also helps to compare deals objectively. Over time, investors refine their workflow based on experience, making it more efficient and tailored to their unique approach and style.

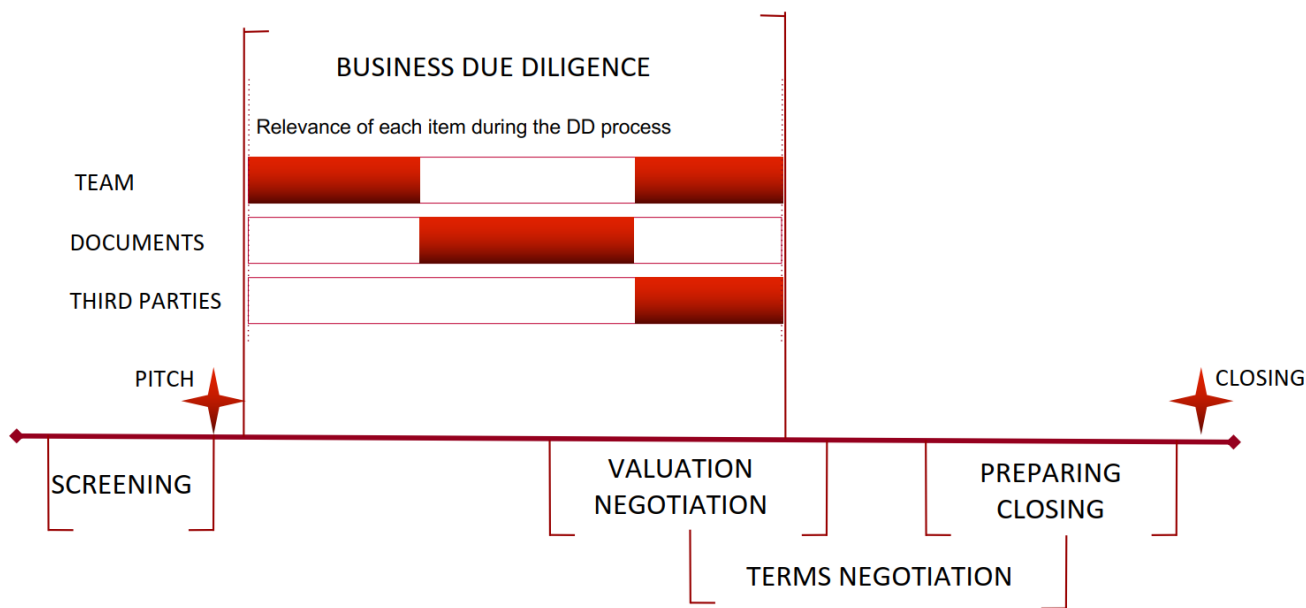
Tools and templates

Tools and templates are investors' allies in screening. Pitch evaluation templates save time and ensure they don't miss key details. Scorecards allow them to rate startups on team strength, market size, product innovation, and scalability. Online platforms like [EuroQuity](#) provide standardized processes and often integrate due diligence checklists. Syndicates frequently share tools to align evaluations among members. Using tools reduces bias and improves consistency, especially when emotions or excitement creep in. Templates also support transparency, making it easier to explain decisions to co-investors. Angels should adapt tools to their personal strategies, adding criteria that reflect their philosophy. Consistent use of tools builds discipline and confidence. Tools don't replace judgment, but they sharpen it.

Closing

Sourcing and initial screening are the foundation of angel investing. Deals come from diverse sources, but angels must actively engage to find them. Incubators, accelerators, and networks provide structured access to startups. Reputation and visibility attract the best opportunities, while clear criteria and disciplined workflows filter them effectively. Spotting red flags and hidden features reduces risk and saves time. Tools and checklists improve consistency and transparency, making decisions more reliable. Networking amplifies reach and builds trust, turning individual efforts into collective strength. Sourcing is about curiosity, and screening is about clarity. Together, they set the stage for successful investing. Angel investing is not just about money, it's about relationships, learning, and impact. The journey begins with the deals that investors choose to explore, and the care and diligence they take in selecting them.

Chapter 4 Due diligence. Valuation



Early-stage investing is both exciting and risky, requiring investors to balance enthusiasm with careful analysis. Due diligence is the structured process that helps investors reduce uncertainty and make informed decisions. Valuation, on the other hand, determines the financial worth of a startup and sets the foundation for negotiations. Together, these two processes form the backbone of angel and venture capital investing.

Contents of chapter 4

Why investors conduct due diligence.....	20
When do investors conduct due diligence?	20
How do investors conduct due diligence?	20
What do investors look for?	20
How do they decide what to look at first?.....	21
How long does due diligence take?.....	21
Tips for managing the process	21
Approaches to valuation - overview	22
Valuation in early stages	22
Valuation in growth stages	23
How valuation is negotiated	23
How long does valuation negotiation take?	23
When should investors start valuation discussions?	23
Can investors avoid doing a valuation?	23

Why investors conduct due diligence

Investors conduct due diligence to mitigate risks and validate opportunities. Startups are inherently uncertain, with untested products, evolving markets, and teams still proving themselves. Due diligence helps investors identify “green lights” that signal potential success and “red lights” that highlight risks. It ensures that the investment decision is based on evidence rather than emotion or hype. Investors want to confirm that the startup’s claims about technology, market, and financials are realistic. They also want to assess whether the team has the resilience and capability to execute. Due diligence builds trust between investors and entrepreneurs, laying the foundation for a long-term partnership. It also protects investors from reputational damage if a startup fails due to overlooked issues. Ultimately, due diligence is about balancing optimism with realism.

When do investors conduct due diligence?

Due diligence typically begins after initial interest but before signing a term sheet. Investors may first hear a pitch, review a summary deck, or meet the founders informally. Once they are intrigued, they initiate due diligence to validate their impressions. Timing is critical: too early, and the process may waste resources on startups that aren’t ready; too late, and investors risk missing opportunities. Angels often conduct lighter due diligence compared to venture capitalists, who may run multi-stage processes. The depth of due diligence depends on the size of the investment and the stage of the startup. For seed-stage deals, due diligence may focus more on the team and product vision. For later-stage deals, financials, scalability, and exit potential become more important.

How do investors conduct due diligence?

Due diligence is conducted through direct contact, document review, and third-party checks. Investors meet with entrepreneurs to understand their vision, test their communication style, and assess team dynamics. They review documents such as business plans, audited accounts, contracts, and intellectual property filings. They may also contact customers, suppliers, and industry experts to validate claims. Online research, trade publications, and credit checks provide additional insights. Confidentiality is managed through NDAs, though attitudes toward signing them vary. The process is iterative, with investors revisiting questions as new information emerges. Angels often rely on personal networks, while VCs may use formal deal rooms. The goal is to build a 360-degree view of the startup.

What do investors look for?

Investors evaluate 8 key components of a startup’s success: team and values, innovation and product, market access, scalability and protectability, business model and financials, valuation and terms, exit perspectives, governance and shareholder alignment. Among these, the team is often considered the most important. Investors want to see entrepreneurial spirit, complementary skills, and resilience under pressure. They also look for realistic go-to-market strategies, protectable innovations, and sound financial planning. Exit strategies, such as acquisition or IPO, are vital for long-term returns. Governance ensures transparency and alignment among stakeholders.

How do they decide what to look at first?

Investors often start with the team and product, as these are the foundation of any startup. A strong team can pivot and adapt, while a weak team may fail even with a good idea. The product or innovation is assessed for its ability to solve real problems and stand out in the market. Market access is then considered to ensure that the product can reach customers effectively. Scalability and protectability determine whether the startup can grow sustainably. Financials and valuation are reviewed later, once confidence in the fundamentals is established. Exit perspectives and governance are usually assessed toward the end. This prioritization helps investors manage time and focus on the most critical factors first.





How long does due diligence take?

The duration of due diligence varies widely. For angel investors, it may take a few weeks to a couple of months. Venture capitalists often run longer processes, sometimes lasting several months. The timeline depends on the complexity of the startup, the availability of documents, and the responsiveness of the team. Iterative processes allow investors to be efficient, focusing on key issues first and expanding if needed. Negotiations and legal reviews can extend the timeline. Entrepreneurs can speed up the process by preparing documents in advance and being transparent. Delays often occur when startups lack proper governance or financial records. Overall, due diligence is a balance between thoroughness and efficiency.

Tips for managing the process

Managing due diligence requires organization, transparency, and communication. Entrepreneurs should prepare a deal room with all relevant documents. Investors should create a checklist to ensure consistency across deals. Both sides should agree on timelines and expectations. Clear communication reduces misunderstandings and builds trust. Entrepreneurs should be honest about weaknesses, as hiding issues can backfire. Investors should respect confidentiality and avoid unnecessary delays. Using templates and standardized processes can save time. Engaging advisors or legal experts may be necessary for complex issues. Ultimately, due diligence should be seen as a collaborative process rather than an adversarial one.

STARTUP VALUATION METHODS

METHOD	DESCRIPTION
 Discounted Cash Flow (DCF)	Estimates the present value of future cash flows
 Comparable Company Analysis	Compares valuation multiples of similar companies
 Venture Capital Method	Analyzes prices paid in similar past transactions
 Scorecard Method	Values based on expected exit value and ROI
Scorecard Method	Assesses startups using qualitative factors

Approaches to valuation - overview

Valuation is the process of determining how much a startup is worth. It sets the basis for investment terms and ownership shares. Different approaches are used depending on the stage of the startup.

Early-stage valuations often rely on qualitative factors, while later-stage valuations use financial metrics. Common methods include discounted cash flow, comparables, and scorecard approaches.

Valuation is both art and science, requiring judgment as well as analysis. It reflects not only the startup's current state but also its future potential. Investors and entrepreneurs must align on valuation to move forward.

Valuation in early stages

At the seed stage, startups often lack revenue or profits, so valuation relies heavily on qualitative factors such as team quality, product potential, and market opportunity.

Methods like the Berkus Method assign values to elements such as idea, prototype, and market size,

while the Scorecard Method compares the startup to similar deals in the region. However, some investors also attempt to use the Discounted Cash Flow (DCF) method, even at early stages, though it is more challenging. DCF estimates the present value of a startup by projecting future cash flows and discounting them back using a risk-adjusted rate. The process involves forecasting revenues, expenses, and cash generation over several years, then applying a discount rate that reflects the risk of investing in a young company. For startups, assumptions about growth rates, market adoption, and margins are highly uncertain, making DCF less reliable unless the company already has traction. Still, DCF can be useful for later seed or early growth-stage startups that have some financial history or predictable revenue streams. It forces both entrepreneurs and investors to think critically about long-term sustainability and profitability. The discount rate is often set higher than in mature companies to account for startup risk. While DCF is not the primary method for very early-stage deals, it complements qualitative approaches by grounding discussions in financial logic. Investors may use DCF alongside comparables and rule-of-thumb ranges to triangulate a fair valuation. Entrepreneurs should be prepared to defend their assumptions when using DCF, as unrealistic projections can undermine credibility.

Valuation in growth stages

As startups grow, valuation becomes more quantitative. Revenue multiples, EBITDA multiples, and discounted cash flow models are used. Comparables from similar companies provide benchmarks. Investors look at traction, customer acquisition costs, and scalability. Exit potential becomes more important, as investors want to see pathways to IPO or acquisition. Negotiations are more data-driven, though still influenced by market sentiment. Growth-stage valuations are higher but also more scrutinized.

How valuation is negotiated

Valuation is negotiated through dialogue and compromise. Entrepreneurs want to maximize valuation to minimize dilution. Investors want to ensure they are not overpaying. Negotiations consider capital needs, ownership stakes, and future funding rounds. Term sheets outline valuation and conditions. Both sides must balance short-term interests with long-term partnership. Transparency and trust are key to avoid conflicts. Negotiations may take weeks or months, depending on complexity.

How long does valuation negotiation take?

Valuation negotiations can take from a few weeks to several months. Simple seed deals may be agreed quickly. Complex growth-stage deals with multiple investors take longer. Legal reviews and term sheet drafting add time. Market conditions can accelerate or delay negotiations. Entrepreneurs should be prepared for back-and-forth discussions. Investors should avoid dragging negotiations unnecessarily. Efficient negotiation requires preparation and clear communication.

When should investors start valuation discussions?

Valuation discussions should start once investor interest is confirmed. Too early, and entrepreneurs risk scaring off investors. Too late, and momentum may be lost. Initial conversations may focus on ranges rather than exact numbers. Formal negotiations begin after due diligence provides clarity. Entrepreneurs should avoid rushing into valuation before building trust. Investors should signal readiness to discuss valuation once they see potential. Timing is critical to maintain momentum and trust.

Can investors avoid doing a valuation?

In some cases, valuation can be deferred. Convertible notes and SAFE agreements allow investment without immediate valuation. These instruments convert into equity at a later round. They are popular in seed-stage deals where valuation is hard to determine. However, they may create uncertainty about dilution. Avoiding valuation can speed up deals but may complicate future negotiations. Entrepreneurs and investors must weigh the pros and cons.

Chapter 5 Term Sheet. Structuring the deal. Legal issues

	WHAT IS IT	WHEN ARE THEY DONE
STATUTES/ ARTICLES OF ASSOCIATION	Document that contains the purpose of the company as well as the duties and responsibilities of its members defined and recorded clearly. It is an important document which needs to be filed with the Registrar of Companies. (Source: Wikipedia)	When the company is created or when there are changes in any of the Terms included in the document
TERM SHEET	Bullet-point document outlining the material terms and conditions of a business agreement. (Source: Wikipedia)	During a capital raise
SHAREHOLDER AGREEMENT	Private legal document and legally binding between the various types of shareholders (investors and founders)	When shareholders want terms between them beyond those contained in the Statutes and/or terms only known between the shareholders

**Source: ESIL training materials*

A term sheet is often the first formal step in turning an investor’s interest into a structured deal. It is not just a legal document but a communication tool that sets expectations between entrepreneurs and investors. It’s a roadmap that outlines the journey from initial pitch to final investment agreement. In Europe, experts emphasize the importance of clear, transparent deal terms to empower early-stage investors. This chapter will cover the basics: what a term sheet is, how it differs from other agreements, what it typically includes, negotiation strategies, traps and pitfalls to avoid, and the legal documents needed to complete the agreement.

Contents of chapter 5

What is a term sheet?	25
Why do term sheets matter?	25
Difference: term sheet vs. investment agreement.....	25
Statutes vs. agreements	25
Typical inclusions:	25
Negotiation tips, common traps & issues	27
Investment structures overview	27
Ordinary equity explained	27
Convertible debt explained	27
Comparing equity vs. convertible debt.....	28
Legal documents & procedures.....	28
Timetable of negotiations	28
Conclusion & key takeaways	28

What is a term sheet?

A term sheet is a non-binding document that outlines the key financial and legal terms of an investment. It is usually written in plain business language rather than dense legal jargon. For example, a term sheet might specify that an investor will contribute €500,000 in exchange for 20% equity at a €2.5 million post-money valuation. It sets expectations before lawyers draft binding contracts. Term sheets are typically concise, often two to five pages, and cover valuation, share type, governance, rights, and exit provisions. Importantly, while most clauses are non-binding, some - such as confidentiality or exclusivity - may be binding. Think of the term sheet as a handshake written down: it captures intent and alignment, even if it is not enforceable in court.

Why do term sheets matter?

Term sheets matter because they balance investor protection with entrepreneur motivation. A well-structured term sheet reduces misunderstandings and accelerates due diligence. For example, if an investor insists on overly restrictive governance rights, founders may feel demotivated, leading to conflict later. Conversely, if founders ignore investor protections, investors may hesitate to commit capital. Term sheets also signal professionalism: a startup with a clear, fair term sheet is more likely to attract follow-on investors. They simplify complex negotiations into digestible points, making them a foundation for trust. In Europe, where cross-border investments are common, standardized term sheets help align practices across jurisdictions.

Difference: term sheet vs. investment agreement

A term sheet is preliminary and mostly non-binding, while an investment agreement is legally binding. The term sheet is like a sketch, while the investment agreement is the final painting. For example, a term sheet may state that investors will have one board seat, but the investment agreement will detail how that seat is appointed, voting rights, and indemnification. Term sheets are negotiated quickly, often within weeks, while investment agreements require detailed legal review and can take months. Both documents are essential: the term sheet sets the tone, and the investment agreement enforces the terms.

Statutes vs. agreements

Statutes or Articles of Association define the company's purpose and governance structure. They are filed with authorities and apply to all shareholders. Shareholder agreements, by contrast, are private contracts among investors and founders. Term sheets bridge the gap, translating business intent into legal language. For example, statutes may say the company can issue shares, but the shareholder agreement may specify preemptive rights or drag-along clauses. Term sheets ensure that these intentions are captured early, before legal drafting begins.

Typical inclusions:

General terms

General terms include issuer and buyer information, type of shares, pre- and post-money valuation, capitalization table, use of funds, closing date, and definitions. For example, a term sheet might specify that funds will be used for product development and market expansion, not for founder salaries. It may also include a capitalization table showing current ownership and how it will change after investment. These basics ensure clarity on who invests, how much, and under what valuation.

Governance provisions

Governance clauses define board composition, decision-making processes, shareholder rights, and management commitments. For example, investors may require quarterly updates, board meetings every two months, and veto rights on major decisions like acquisitions. They may also insist on D&O insurance to protect directors from liability. Non-compete clauses prevent founders from starting competing businesses. IP ownership clauses ensure that patents and trademarks belong to the company, not individuals. These provisions protect investors while ensuring founders remain motivated.

Transfer rights & obligations

Transfer rights include preferential rights, rights of first refusal, tag-along and drag-along clauses, and lock-up periods. For example, if a majority shareholder sells their stake, tag-along rights allow minority shareholders to join the sale. Drag-along rights allow majority shareholders to force minority shareholders to sell under the same terms. Lock-up periods prevent insiders from selling shares immediately after an IPO. These mechanisms prevent unwanted dilution, protect minority shareholders, and ensure orderly exits.

Future financing clauses

Future financing terms often include anti-dilution protections, such as full ratchet or weighted average adjustments. For example, if a company raises a down round at a lower valuation, full ratchet protection adjusts earlier investors' conversion price to the new lower valuation. Weighted average protection is less harsh, averaging the impact across rounds. These clauses safeguard investors if future rounds occur at lower valuations. They also clarify reinvestment rights, ensuring investors can maintain their ownership percentage.

Exit provisions

Exit clauses define liquidation preferences, buy-back rights, and timing of exits. For example, a 1x liquidation preference means investors get their money back before founders receive any proceeds. A 2x preference means investors get double their investment before others are paid. Buy-back rights allow founders to repurchase shares under certain conditions. Exit timing clauses may specify that investors can push for a sale after five years. These provisions ensure investors understand how and when they may realize returns.

General terms & warranties

General terms include representations, warranties, indemnification, covenants, confidentiality, and cost allocation. For example, founders may warrant that they own all IP and that there are no pending lawsuits. Covenants may restrict founders from taking on debt without investor approval. Confidentiality clauses protect sensitive information. Cost allocation clauses specify who pays for legal fees and due diligence. These clauses preserve investment value and clarify responsibilities.

Preferred shares clauses

Preferred shares may carry special rights: dividends, voting rights, redemption, or liquidation ranking. For example, preferred shareholders may receive a fixed dividend before common shareholders. They may also have enhanced voting rights or the ability to redeem shares after a certain period. In liquidation, preferred shareholders are paid before common shareholders. These clauses differentiate investor protections from common shares.

Negotiation tips, common traps & issues

Negotiation should balance fairness and simplicity. Tips include: avoid overly complex clauses, focus on alignment of interests, and ensure terms are scalable for future rounds. For example, insisting on a 3x liquidation preference may scare off future investors. Investors should be firm on essentials like governance and exit rights but flexible on details like meeting frequency. Founders should prepare by understanding standard terms and consulting lawyers.

Traps include overcomplicated anti-dilution clauses, excessive liquidation preferences, or restrictive governance terms that demotivate founders. Issues often arise from misaligned expectations or lack of legal clarity. For example, if investors demand veto rights on hiring decisions, founders may feel micromanaged. If founders ignore investor protections, investors may hesitate to commit capital. Avoiding these traps requires transparency, fairness, and legal advice.

Investment structures overview

Investment structures vary: ordinary equity, convertible debt, SAFE agreements, or preference shares. Each has pros and cons depending on stage, valuation certainty, and investor appetite. For example, ordinary equity is straightforward but requires agreement on valuation upfront. Convertible debt defers valuation discussions but can create misalignment later. SAFE agreements are simple but less common in Europe. Preference shares offer investor protections but can complicate future rounds.

Ordinary equity explained

Ordinary equity means investors buy shares directly at a set valuation. It is straightforward, transparent, and aligns incentives. For example, an investor may buy 25% of a company at a €4 million valuation by investing €1 million. This structure is common in Europe and preferred by many angels. However, it requires agreement on valuation upfront, which can be challenging for early-stage startups.

Convertible debt explained

Convertible debt is a loan that converts into equity at a later financing round, usually when a priced equity round occurs. Instead of agreeing on a valuation today, the investor lends money to the startup with the expectation that it will convert into shares later, often at a discount or with a valuation cap. For example, an investor might provide €200,000 in convertible debt that converts into equity at a 20% discount when the next round is raised. This structure is popular because it defers difficult valuation discussions, allowing startups to raise funds quickly. It also provides investors with downside protection, since they are technically creditors until conversion. However, risks exist: if conversion terms are unclear, disputes may arise about how much equity investors receive. Founders may also feel pressure if the debt matures before a new round is raised. Convertible debt is often used in seed rounds where speed and flexibility matter more than precise valuation.

Comparing equity vs. convertible debt

Ordinary equity and convertible debt are two common structures, each with distinct advantages and drawbacks. Equity is straightforward: investors buy shares at an agreed valuation, aligning incentives from day one. Convertible debt, by contrast, is faster and simpler but defers valuation discussions. For example, equity requires a full shareholder agreement immediately, while convertible debt may only require a short loan agreement. Equity provides clarity but can slow down negotiations; convertible debt accelerates funding but may create uncertainty later. Investors often prefer equity when valuations are clear and the company is mature enough to justify them. Founders may prefer convertible debt when they want to avoid premature valuation debates. SAFE agreements, a variant of convertible instruments, are even simpler but less common in Europe compared to the US. Choosing between equity and debt depends on context: stage of the company, investor appetite, and urgency of funding.

Legal documents & procedures

Closing an investment requires several legal documents and procedures. The process usually begins with the term sheet, followed by drafting the shareholder agreement and investment agreement. Statutes or Articles of Association may need to be amended to reflect new share classes or rights. Lawyers prepare these documents, and originals must be signed at closing. In many European jurisdictions, notaries are involved to certify documents and register the capital raise with public authorities. Some documents must be filed with registrars of companies, ensuring transparency and compliance. Timelines vary: simple deals may close in weeks, while complex syndications may take months. Costs must also be allocated, with investors and founders agreeing on who pays for legal fees and due diligence. Ultimately, the legal process ensures that the investment is enforceable, transparent, and compliant with local regulations.

Timetable of negotiations

Negotiations from term sheet to closing can take from a few weeks to several months. The speed depends on the readiness of entrepreneurs and investors, their alignment, and whether a lead investor is present. For example, a well-prepared startup with clear financials and a lead investor may close in six weeks. By contrast, a fragmented syndicate without a lead investor may take three months or longer. The process typically includes screening, valuation, term sheet negotiation, due diligence, and closing. Each stage requires coordination among lawyers, notaries, and stakeholders. Delays often occur when parties disagree on valuation or governance rights. Experienced angels often streamline the process by using standardized templates, promoted by various resources like [ESIL](#), [EBAN](#), and others. Timelines also depend on jurisdiction: some countries require more formal filings than others.

Conclusion & key takeaways

Term sheets are essential tools for structuring early-stage investments. They balance investor protection with founder motivation, simplify negotiations, and set the stage for binding agreements. Key takeaways include: understand the difference between term sheets and investment agreements, know what is typically included, avoid traps in negotiation, and choose the right investment structure. Ordinary equity provides clarity, while convertible debt offers speed and flexibility. Ultimately, successful deals depend not only on legal terms but also on trust, transparency, and alignment of interests. By mastering term sheets, investors and entrepreneurs can build stronger partnerships and increase the chances of long-term success.

Chapter 6 Post investment activity & support



Angel investing is often imagined as a single moment: the signing of a check, the handshake with a founder, the thrill of backing a bold idea. But in reality, that moment is only the beginning of a much longer and more rewarding journey. The true impact of angel investors unfolds in the post-investment phase, where capital is transformed into guidance, networks, and strategic support. This stage is where angels become mentors, connectors, and guardians of growth, ensuring that startups not only survive but thrive. It is here that boardrooms become arenas of collaboration, where reporting tools evolve into instruments of foresight, and where investors help founders navigate the fog of uncertainty. Post-investment activity is not about passive oversight; it is about active partnership, where angels lend their experience to sharpen focus, manage risks, and unlock opportunities. It is also where difficult questions arise: how to deal with cash flow challenges, how to support underperforming founders, and how to recognize when a company is drifting toward stagnation. These challenges are not obstacles but opportunities for angels to demonstrate their value beyond money. The introduction of follow-on rounds adds another layer of complexity, requiring investors to balance dilution, valuation, and confidence in the company's trajectory. And throughout this journey, legal and tax considerations are a constant reminder that business angel investing is not just a vision, but also a responsibility.

Contents of chapter 6

The role of angels in post-investment value creation..... 31

Examples of angel contributions 31

Typical board structures in startups 31

How startup boards operate..... 31

Reporting tools for risk management..... 32

Managing cash flow and burn rate..... 32

Supporting underperforming founders 32

Bringing in new talent 32

Understanding “zombie” companies..... 32

Difference between zombie and failed companies 33

Why operating companies can be bad investments 33

When do Follow-on rounds occur and how do they work? 33

When are the good times to do follow-on rounds?..... 34

Who typically provides follow-on funding? 34

How to determine a proper follow-on valuation?..... 34

The dilution effect and how to protect the rights 35

What are “down rounds”?..... 35

Legal consequences of post-investment activity..... 35

Tax consequences for angels 35

Case study: successful post-investment support..... 36

Case study: identifying a zombie company 36

Best practices for angels in post-investment support 36

The role of angels in post-investment value creation

Business angels play a multifaceted role after the initial investment, extending far beyond financial support. They provide mentorship, industry insights, and access to networks that can accelerate growth. Angels often help startups refine their strategies, avoid common pitfalls, and prepare for follow-on rounds. Their presence ensures accountability and oversight, which is particularly valuable for founders who may lack prior business experience. By contributing complementary skills, angels reduce information asymmetry and foster trust between entrepreneurs and future investors. This value creation is not abstract, it manifests in tangible outcomes such as improved sales pipelines, stronger governance, and better-prepared exits.

Examples of angel contributions

Angels frequently introduce startups to potential clients, investors, and strategic partners, thereby opening doors that would otherwise remain closed. They may help entrepreneurs navigate regulatory hurdles, refine product-market fit, or prepare for international expansion. In many cases, angels take board seats or advisory roles, ensuring that their expertise is embedded in decision-making processes. Their involvement can be as light-touch as monthly check-ins or as intensive as interim management. These contributions are critical because startups often lack resources to hire seasoned executives, making angel support both cost-effective and transformative.

Typical board structures in startups

A typical startup board is relatively small, often comprising the founders, one or two angel investors, and occasionally an independent director. The structure balances operational insight with external oversight. Angels on the board provide a voice of experience, ensuring that strategic decisions are grounded in market realities. Independent directors can add neutrality and specialized expertise, such as legal or financial knowledge. The board's composition evolves as the company grows, with venture capitalists or strategic investors joining in later rounds. The goal is to maintain agility while ensuring accountability.

How startup boards operate

Startup boards generally meet quarterly, though early-stage companies may require more frequent engagement. Meetings focus on reviewing financial performance, assessing milestones, and identifying risks. Unlike corporate boards, startup boards are often hands-on, with members actively contributing to problem-solving. Angels may help founders prioritize initiatives, balance short-term survival with long-term growth, and prepare for fundraising. Effective boards foster open communication, encourage constructive debate, and ensure that decisions are documented and aligned with shareholder agreements. Transparency is key, as it builds trust among all stakeholders.

Reporting tools for risk management

Risk management in startups requires structured reporting tools that track cash flow, sales pipelines, and operational milestones. Dashboards and key performance indicators (KPIs) provide real-time visibility into performance. Angels often encourage startups to adopt simple but effective tools such as monthly cash flow statements, burn rate trackers, and sales conversion metrics. These tools help identify early warning signs of trouble, such as declining customer acquisition or escalating costs. By institutionalizing reporting, angels ensure that founders remain disciplined and investors can make informed decisions about follow-on funding.

Managing cash flow and burn rate

Cash flow is the lifeblood of startups, and angels play a crucial role in helping founders manage it effectively. Burn rate - the pace at which a company spends its cash reserves - must be monitored closely. Angels often advise startups to begin fundraising when they have at least six months of runway left. They also help entrepreneurs allocate funds wisely, ensuring that budgets for sales and marketing are not diverted to unplanned product development. By instilling financial discipline, angels reduce the risk of premature failure and increase the likelihood of sustainable growth.

Supporting underperforming founders

Not all founders excel at every stage of growth, and angels must sometimes intervene when performance lags. This support can take the form of mentoring, coaching, or even restructuring responsibilities within the management team. In extreme cases, angels may recommend replacing the founder or augmenting the team with experienced executives. The goal is not punitive but constructive, ensuring that the company has the leadership it needs to succeed. Angels must balance empathy with pragmatism, recognizing when loyalty to a founder could jeopardize the investment.

Bringing in new talent

Talent acquisition is a recurring challenge for startups, which often cannot match corporate salaries or benefits. Angels assist by leveraging their networks to attract skilled professionals who are motivated by equity and growth opportunities. They may also mentor founders in team management best practices, emphasizing diversity and inclusion. By helping startups build strong teams, angels increase resilience and reduce dependence on a single founder. This intervention is critical for scaling, as no company can grow sustainably without a capable and motivated workforce.

Understanding “zombie” companies

A “zombie” company is one that continues to operate but shows little prospect of growth or exit. Unlike failed companies, zombies consume resources without generating meaningful returns. They may survive on minimal revenues or repeated small funding rounds but lack scalability. For angels, zombies represent a hidden risk: capital is tied up in ventures that neither succeed nor fail, preventing redeployment into more promising opportunities. Recognizing zombies early allows investors to minimize losses and redirect support to ventures with genuine potential.

Difference between zombie and failed companies

Failed companies typically shut down, allowing investors to write off losses and move on. Zombies, by contrast, linger, creating uncertainty and opportunity costs. The distinction lies in trajectory: failed companies collapse quickly, while zombies stagnate indefinitely. Angels must develop criteria for identifying zombies, such as lack of revenue growth, repeated down rounds, or absence of strategic direction. By confronting the reality of zombies, investors can avoid the trap of sunk-cost bias and make rational decisions about future involvement.

Why operating companies can be bad investments

An operating company may still be a poor investment if it fails to generate returns or consumes disproportionate resources. For example, a startup that maintains operations but cannot scale beyond a niche market may never deliver an exit. Similarly, companies that rely on continuous fundraising without achieving profitability erode investor confidence. Angels must evaluate not just survival but growth potential, recognizing that ongoing operations are not synonymous with success. This perspective ensures that capital is allocated to ventures with genuine prospects.

When do follow-on rounds occur and how do they work?

Follow-on rounds typically occur when a startup has reached a new stage of growth and requires additional capital to continue scaling. These rounds are not random; they are usually planned every 12 to 15 months, aligning with milestones such as product launches, market expansion, or revenue growth. The process involves reissuing shares, which means existing investors may be invited to reinvest while new investors are brought in. Unlike the first round, follow-on rounds allow investors to compare actual performance against earlier projections, making due diligence more evidence-based. Angels play a critical role here by helping founders prepare updated financials, refine pitches, and demonstrate traction. The mechanics of follow-on rounds mirror initial fundraising, with negotiations over valuation, shareholder agreements, and terms. However, the stakes are higher because expectations have been set and progress must be demonstrated. These rounds often determine whether a company can sustain momentum or stalls due to lack of resources. For angels, participating in follow-on rounds is both an opportunity to strengthen their position and a test of their confidence in the founders. The process requires balancing optimism with realism, ensuring that capital is deployed where growth potential is genuine.

When are the good times to do follow-on rounds?

The best time to initiate a follow-on round is when the company has achieved a clear stage of growth and can articulate its next milestones. Ideally, fundraising should begin before cash reserves run dangerously low, ensuring that negotiations are conducted from a position of strength rather than desperation. A good time is when there is existing demand for the product, early signs of scalability, and a market environment that favors fresh investment. Hot markets with strong valuations can accelerate fundraising, but angels must caution founders against chasing inflated expectations. Another favorable moment is when the company does not immediately need the money, allowing negotiations to be strategic rather than urgent. Angels often advise startups to prepare for fundraising when they still have at least six months of runway, ensuring continuity and investor confidence. Timing is crucial because raising too early may dilute unnecessarily, while raising too late risks survival. The art lies in balancing operational needs with market conditions, ensuring that follow-on rounds are catalysts for growth rather than lifelines for survival.

Who typically provides follow-on funding?

Follow-on funding often comes from a mix of existing investors and new entrants. Business angels frequently reinvest to protect their initial stake and demonstrate continued confidence in the company. Venture capitalists may join at this stage, bringing larger checks and more structured governance requirements. Strategic investors, such as corporations seeking innovation partnerships, may also participate, offering not just capital but market access. Crowdfunding platforms can supplement follow-on rounds, especially for consumer-facing products with strong community appeal. Banks and grant programs may provide debt or non-dilutive financing, though these are less common in early-stage rounds. The mix of investors depends on the company's trajectory, sector, and growth objectives. Angels play a bridging role, helping founders connect with new investors while ensuring that existing shareholders are aligned. Their networks are invaluable in syndicating rounds, especially across borders where local knowledge is limited. The diversity of funding sources reflects the complexity of scaling, requiring startups to balance financial needs with strategic partnerships.

How to determine a proper follow-on valuation?

Valuation in follow-on rounds is both art and science, requiring careful analysis of financial performance, market conditions, and growth potential. Unlike seed rounds, where valuations are often speculative, follow-on valuations can be benchmarked against actual revenues, customer acquisition, and product milestones. Angels help founders prepare realistic financial models that demonstrate scalability and profitability. Comparable transactions in the sector provide external benchmarks, while investor sentiment shapes negotiation dynamics. Overvaluation can deter new investors, while undervaluation risks diluting existing shareholders excessively. A balanced valuation reflects both past achievements and future potential, ensuring fairness to all parties. Angels often emphasize transparency, encouraging founders to share both successes and challenges openly. This builds trust and facilitates smoother negotiations. Ultimately, valuation is not just a number—it is a narrative about the company's journey, its market opportunity, and

its capacity to deliver returns.

The dilution effect and how to protect the rights

Dilution occurs when new shares are issued, reducing the ownership percentage of existing investors. While dilution is inevitable in follow-on rounds, angels must understand its implications and strategies for protection. One common mechanism is anti-dilution clauses, which adjust ownership in the event of down rounds. Another strategy is participating in follow-on rounds to maintain proportional ownership. Angels may also negotiate rights such as pro-rata participation, ensuring they can reinvest to preserve their stake. Dilution is not inherently negative if the company's valuation grows, as smaller percentages of larger pies can yield greater returns. However, excessive dilution without corresponding growth erodes investor confidence. Angels must balance their desire for protection with the company's need for flexibility, recognizing that overbearing terms can deter future investors. Education and transparency are key, ensuring that founders understand dilution dynamics and investors remain aligned. What are "down rounds"?

A down round occurs when a company raises capital at a lower valuation than in previous rounds. This situation signals challenges such as slower growth, missed milestones, or unfavorable market conditions. Down rounds can trigger anti-dilution protections, increasing the ownership of investors who reinvest while penalizing those who do not. They often lead to renegotiated shareholder agreements, sometimes with clauses that favor new investors. For founders, down rounds can be demoralizing, as they dilute ownership and signal weakness to the market. For angels, they represent both risk and opportunity: risk because confidence is shaken, opportunity because terms may be favorable for those willing to reinvest. Managing down rounds requires sensitivity, balancing investor protection with founder motivation. Angels must assess whether the company's challenges are temporary or structural, deciding whether to support recovery or cut losses. In some cases, down rounds precede successful turnarounds, but in others, they mark the beginning of decline.

Legal consequences of post-investment activity

Post-investment involvement carries legal implications, particularly for angels who take board seats or advisory roles. They may be subject to fiduciary duties, requiring them to act in the best interests of the company and its shareholders. Failure to fulfill these duties can expose angels to liability. Shareholder agreements often outline rights and obligations, including "pay-to-play" clauses in down rounds. Angels must understand these legal frameworks to protect themselves and ensure that their involvement is constructive rather than risky.

Tax consequences for angels

Taxation is another critical consideration. Depending on jurisdiction, angels may benefit from incentives such as capital gains tax relief or deductions for losses. However, they may also face obligations related to dividends, equity transfers, or convertible debt instruments. Cross-border investments add complexity, requiring careful planning to avoid double taxation. Angels should consult tax advisors to optimize outcomes and ensure compliance. Awareness of tax consequences allows investors to structure deals more effectively and maximize returns.

Case study: successful post-investment support

Consider a startup that received angel funding to develop a medical device. The angel not only provided capital but also introduced the company to regulatory experts, helped recruit a CFO, and guided the team through a Series A round. As a result, the company achieved rapid growth and was acquired within five years. This case illustrates how post-investment support can transform a promising idea into a successful exit, validating the angel's role as more than just a financier.

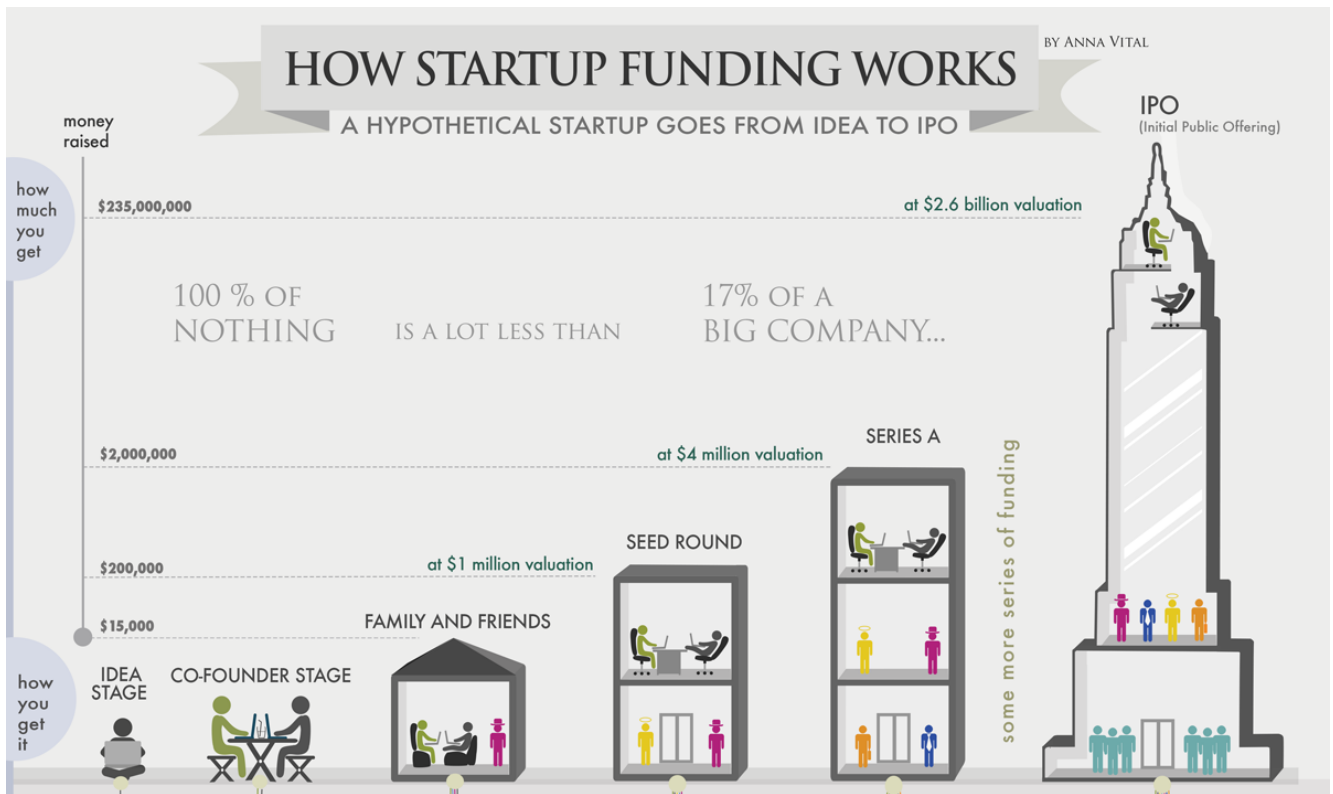
Case study: identifying a zombie company

In another case, a software startup continued operating for years without significant revenue growth. Despite repeated funding rounds, the company failed to scale and consumed investor resources. The angel recognized the stagnation and advised winding down operations, allowing capital to be redeployed. This decision prevented further losses and highlighted the importance of distinguishing zombies from viable ventures. The lesson is clear: survival alone does not justify continued investment.

Best practices for angels in post-investment support

Angels should adopt best practices such as setting clear expectations with founders, establishing regular reporting mechanisms, and maintaining open communication. They should balance strategic oversight with operational support, ensuring that their involvement adds value without undermining founder autonomy. By fostering trust and transparency, angels create environments where startups can thrive. Best practices also include preparing for exits early, recognizing that successful outcomes require long-term planning.

Chapter 7 Exits: understanding investor pathways



*Source: [Adioma blog post by Anna Vital](#)

Exits are the defining milestone in the lifecycle of startup investments, representing the moment when investors transform illiquid equity into tangible returns. For business angels and early-stage investors, exits are not only about financial gain but also about validation of their judgment, the opportunity to recycle capital into new ventures, and the satisfaction of seeing a startup evolve into a sustainable business. Exits are essential because they determine the long-term viability of angel investing as an asset class, and without clear exit pathways, investors may hesitate to commit capital. They also shape the reputation of ecosystems, with cities like London, Berlin, and Paris becoming hubs precisely because they generate frequent and successful exits. Exits can take many forms, from trade sales to IPOs, and each carries different implications for investors, founders, and employees. Understanding exits is critical because they influence negotiations, shareholder agreements, and valuation expectations from the very beginning of the investment cycle. They also highlight the risks inherent in angel investing, where studies show that many startups fail, but successful exits can deliver multiples of the original investment. This chapter will demonstrate how exits unfold and why they are the cornerstone of early-stage investing, what exits mean, when startups should prepare for them, the typical types, timelines, procedures, valuations, terms, and how investors can protect their rights throughout the process.

Contents of chapter 7

What is an exit: investor perspective	39
When should startups think about exits?	39
Typical types of exits: overview	40
Trade sale, detailed example	40
Bankruptcy and winding down	41
Repurchase of shares	41
IPOs and public listings.....	41
How long does it take to exit?	42
Determining a good exit value	42
Typical procedures: the exit algorithm	42
Likely terms in exit deals	43
Protecting investor rights (overview)	43
Exit considerations during due diligence	43
Exit considerations during negotiations	44
Managing investments with exit in mind	44
Preparing for an exit: long-term readiness	44
Time required for exit transactions.....	45
Tax considerations in exits	45
Case studies: angel returns.....	45
Exit risks and pitfalls	46
Best practices for investors.....	46
Founder-investor alignment	46
The role of advisors.....	46
Conclusion: exits as the cornerstone of angel investing	47

What is an exit: investor perspective

An exit is the process by which investors sell their shares in a startup, either to another company, to new investors, or through public markets, thereby realizing a return on their investment. For investors, exits are the culmination of years of risk-taking, patience, and active engagement with founders, and they represent the moment when illiquid equity becomes liquid capital. Exits are not guaranteed, and statistics show that many startups fail, meaning investors may lose all their money, but successful exits can generate multiples of the original investment. From the investor's perspective, exits are critical because they provide the financial justification for angel investing, allowing them to demonstrate returns to themselves, their networks, and sometimes to institutional co-investors. Exits also free up capital for reinvestment, enabling investors to support new ventures and diversify their portfolios. Importantly, exits are not only financial events but also strategic ones, as they often involve negotiations about employment, intellectual property, and future collaboration. Investors must therefore view exits as both a financial transaction and a relationship milestone, requiring careful preparation and foresight. They must also consider tax implications, which vary by country and can significantly affect net returns. Ultimately, exits are the bridge between risk and reward, and they define whether angel investing is sustainable in the long run.

When should startups think about exits?

Startups should begin thinking about exits much earlier than most founders realize, ideally during the first fundraising rounds, because exit scenarios influence shareholder agreements, valuation expectations, and strategic direction. Investors often ask during due diligence whether the industry has a history of exits, whether the business model is attractive to acquirers, and whether the team is willing to work for a larger company post-acquisition. Thinking about exits early helps startups align their growth trajectory with potential acquirers' needs, whether that means building technology that complements industry leaders or scaling in markets attractive to venture capitalists. Founders who ignore exit planning may find themselves unprepared when opportunities arise, missing the chance to maximize value. Early exit planning also reassures investors that founders are realistic and strategic, increasing trust and confidence. While startups should not obsess over exits at the expense of building a strong business, they should integrate exit readiness into their long-term strategy, ensuring that governance, financial reporting, and intellectual property protection are robust enough to withstand due diligence. Exit readiness also involves cultural alignment, as acquirers often look for teams willing to integrate into larger organizations. By embedding exit considerations into their strategy, startups can position themselves as attractive targets and maximize investor confidence.

Typical types of exits: overview

There are several common types of exits, each with distinct characteristics, risks, and rewards for investors. The most frequent is the trade sale, where a larger company acquires the startup, often paying in cash or shares, and sometimes offering employment contracts to the startup team. Another type is the repurchase of shares by founders or new investors, which allows early investors to exit while the company remains independent. Bankruptcy or winding down is unfortunately common, where investors may lose all or most of their money, though sometimes small amounts can be recovered from asset sales. Venture capital buyouts occur when VCs purchase shares from angels to consolidate ownership. Finally, IPOs represent the most public and prestigious exit, though they require extensive preparation and are rare among early-stage startups. Each type of exit reflects different triggers, such as industry consolidation, investor fatigue, or exponential growth opportunities. Understanding these types helps investors anticipate scenarios and negotiate terms that protect their interests. It also helps startups design strategies that align with realistic exit pathways, ensuring that both founders and investors are prepared for the future.

Trade sale, detailed example

A trade sale occurs when a larger company acquires 100% of the startup's shares, often combining cash payments with shares of the acquiring company. This type of exit is attractive because it provides liquidity and often secures employment for the startup team, ensuring continuity of operations. Trade sales are triggered when startups reach a stage where exponential growth is possible but requires resources only a larger company can provide, or when industry consolidation makes acquisitions a strategic necessity. For example, a health-tech startup might be acquired by a pharmaceutical giant seeking digital capabilities, or a fintech startup might be purchased by a bank entering digital payments. Investors benefit because trade sales often deliver higher valuations than private share repurchases, though they must be cautious about earn-outs, escrow accounts, and warranties that can delay or reduce payments. Trade sales are the most common exit type in Europe, particularly in hubs like London and Berlin, where corporate acquirers actively scout startups. They also highlight the importance of building visibility and credibility, as acquirers often look for startups with strong reputations and proven traction. For investors, trade sales represent a balance between risk and reward, offering liquidity while ensuring the startup continues to thrive under new ownership.

Bankruptcy and winding down

Bankruptcy or winding down is the least desirable exit, occurring when startups fail to generate expected revenues, run out of cash, or lose investor confidence. In bankruptcy, creditors have priority, meaning equity investors usually receive nothing, while in winding down, some assets may be sold, allowing partial recovery. Triggers include failed technology, regulatory barriers, or inability to secure follow-on funding. For investors, bankruptcy underscores the high-risk nature of angel investing, where [studies show](#) that approximately 30% of startups with venture backing end up failing. While painful, bankruptcy provides lessons about due diligence, diversification, and risk management. Investors can mitigate losses by negotiating liquidation preferences in shareholder agreements, ensuring they receive priority in asset distribution. Winding down also highlights the importance of contingency planning, as startups should prepare for orderly closure to minimize reputational damage and legal complications. Bankruptcy is a reminder that angel investing is not for the faint-hearted, and that risk management is as important as return maximization. It also emphasizes the need for investors to diversify across multiple startups to balance losses with gains.

Repurchase of shares

Repurchase of shares occurs when founders or new investors buy back equity from early investors, often over several years and sometimes linked to revenue or profit-sharing. This exit allows investors to recover capital while the company remains independent, and it is common when startups generate cash but are not yet ready for acquisition. For example, a founder may want to regain full control of the company, or a VC may want to invest more than the round size by purchasing existing shares. Repurchases are usually governed by shareholder agreements, which specify terms, timelines, and valuation methods. Investors must be cautious about deferred payments and ensure that agreements protect against default. While repurchases may not deliver the highest multiples, they provide liquidity and can be attractive in markets where acquisitions are rare. They also demonstrate the importance of flexible exit strategies that adapt to company circumstances. Repurchases highlight the role of negotiation and trust, as they often involve balancing founder ambitions with investor expectations. For investors, they represent a pragmatic way to exit when other options are not available.

IPOs and public listings

Initial Public Offerings (IPOs) represent the most prestigious exit, allowing startups to raise capital from public markets and providing liquidity for investors. IPOs require extensive preparation, including audited financials, governance structures, and market visibility, and they often take years to execute. For investors, IPOs can deliver significant multiples, though they also involve lock-up periods and market volatility. IPOs are rare among angel-backed startups but can occur in sectors like biotech or fintech where public markets are receptive. For example, a biotech startup with breakthrough technology may go public to fund clinical trials, providing early investors with substantial returns. IPOs also elevate the startup's profile, attracting talent and customers. However, they require founders and investors to accept transparency and regulatory scrutiny, which may not suit all companies. Investors should evaluate whether IPOs are realistic given the startup's sector, stage, and resources. IPOs highlight the importance of long-term planning and robust governance, as only well-prepared startups can succeed in public markets.

How long does it take to exit?

Exits typically take between five and ten years from the initial investment, though timelines vary depending on industry, growth trajectory, and exit type. Trade sales may occur within five years if startups achieve rapid growth, while IPOs often take longer, requiring sustained performance and market readiness. Emergency exits, such as liquidation, can occur within months if startups run out of cash. Investors must be patient and recognize that exits are not quick wins but long-term processes requiring active engagement. Preparation for exits can take several years, involving due diligence, negotiations, and building visibility. Investors should therefore plan portfolios with staggered timelines, ensuring that capital is recycled regularly. Understanding timelines also helps manage expectations, as unrealistic hopes for quick exits can lead to disappointment and strained relationships with founders. Timelines also depend on sector dynamics, with biotech exits often taking longer due to regulatory hurdles, while software startups may exit faster due to rapid adoption. Investors should balance short-term liquidity needs with long-term growth opportunities. Ultimately, the time required for an exit reflects the complexity of building sustainable businesses and the patience needed to realize returns.

Determining a good exit value

A good exit value is determined by valuation, market conditions, and negotiation, and it reflects the balance between investor expectations and acquirer willingness. Investors assess whether the exit price per share is competitive compared to similar startups in the sector and whether it leaves room for future increases. Valuation methods include discounted cash flow, comparables, and strategic value to acquirers. For example, a startup may be valued higher if it provides unique technology that accelerates an acquirer's market entry. Investors must also consider terms such as earn-outs, which tie payments to future performance, and escrow accounts, which delay payments until conditions are met. Determining exit value requires both financial analysis and strategic insight, as the highest price may not always be the best if terms are unfavorable. Investors should therefore focus on holistic value, balancing cash, shares, and contractual protections. They should also consider tax implications, which can significantly affect net returns. A good exit value is not only about numbers but also about fairness, sustainability, and alignment with long-term goals. By approaching valuation strategically, investors can maximize returns while ensuring smooth negotiations.

Typical procedures: the exit algorithm

Exits follow a series of procedures that can be thought of as an algorithm, beginning with preparation and ending with transaction closure. The first step is preparing the company, which involves strengthening governance, auditing financials, and protecting intellectual property. Next comes identifying potential acquirers or investors, often through networks, advisors, or investment banks. Negotiations follow, where valuation, terms, and conditions are discussed. Due diligence is then conducted by acquirers, examining financials, legal structures, and operations. Once due diligence is complete, contracts are drafted, covering purchase agreements, warranties, and escrow arrangements.

Regulatory approvals may be required, especially in cross-border transactions. Finally, the transaction closes, with payments made and shares transferred. Each step requires careful coordination between founders, investors, and advisors. Investors must remain actively involved to protect their interests, ensuring that procedures are transparent and fair. The

algorithm is not linear, as negotiations and due diligence may loop back to earlier stages. Understanding this process helps investors anticipate challenges and prepare strategies for successful exits.

Likely terms in exit deals

Exit deals often include terms that shape investor outcomes, such as valuation, payment structure, and warranties. Valuation determines the price per share, which must be competitive and fair. Payment structures may involve upfront cash, deferred payments, or shares of the acquiring company. Earn-outs are common, tying payments to future performance, which can benefit acquirers but create uncertainty for investors. Escrow accounts may hold part of the payment until conditions are met, protecting acquirers but delaying liquidity. Warranties ensure that startup representations are accurate, and breaches can lead to repayment obligations. Shareholder agreements may include veto rights, giving certain investors control over whether exits occur. Liquidation preferences protect investors by ensuring they receive priority in payouts. Anti-dilution clauses may safeguard investors if valuations fall. Terms also vary by jurisdiction, with local regulations influencing tax treatment and legal protections. Investors must carefully review terms to ensure they align with expectations and protect against downside risks. Understanding likely terms helps investors negotiate effectively and avoid surprises.

Protecting investor rights (overview)

Protecting investor rights during exits is essential to ensure fair outcomes and minimize risks. Investors must negotiate shareholder agreements that include clear exit provisions, such as veto rights, liquidation preferences, and anti-dilution clauses. They should also ensure that contracts specify payment structures, warranties, and dispute resolution mechanisms. Active involvement in negotiations and due diligence helps investors identify risks and protect their interests. Investors should also seek transparency from founders, requiring regular reporting and disclosure of exit opportunities. Legal advisors play a critical role in safeguarding rights, ensuring that agreements comply with regulations and protect against breaches. Investors must also consider tax implications, negotiating terms that minimize liabilities. Protecting rights is not only about contracts but also about relationships, as trust and communication with founders can prevent conflicts. By proactively safeguarding rights, investors can maximize returns and reduce risks during exits. Ultimately, protecting rights ensures that exits are fair, transparent, and aligned with investor expectations.

Exit considerations during due diligence

During due diligence, investors must assess whether the industry has a history of exits, whether the business model is attractive to acquirers, and whether the team is willing to integrate into larger organizations. They should evaluate financials, governance, and intellectual property to ensure the company is exit-ready. Investors must also examine market dynamics, identifying potential acquirers and competitors. Due diligence should include legal reviews, ensuring that contracts, licenses, and compliance are in order. Investors should also assess cultural alignment, as acquirers often look for teams that fit their organization. Exit considerations during due diligence help investors anticipate challenges and prepare strategies. They also reassure investors that startups are realistic and strategic, increasing confidence. By integrating exit considerations into due diligence, investors can make informed decisions and protect their interests. This stage is critical because it sets the foundation for successful exits and minimizes risks.

Exit considerations during negotiations

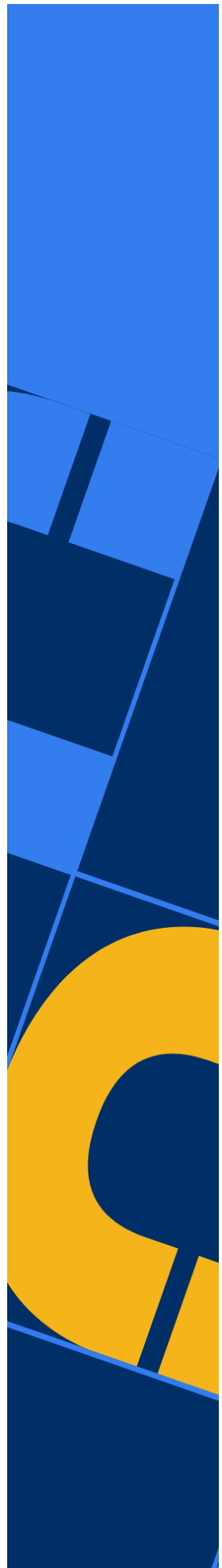
Negotiations shape exit outcomes, and investors must focus on valuation, terms, and protections. They should assess whether valuations are competitive compared to similar startups and whether they leave room for future increases. Investors must also negotiate payment structures, ensuring that cash, shares, and earn-outs are fair. Shareholder agreements should specify veto rights, liquidation preferences, and dispute resolution mechanisms. Investors must also consider warranties, ensuring that startup representations are accurate. Negotiations require balancing investor expectations with acquirer willingness, and compromise is often necessary. Investors should remain actively involved, seeking transparency and fairness. Legal advisors play a vital role, ensuring that contracts protect investor rights. Negotiations also involve cultural alignment, as acquirers often look for teams willing to integrate. By focusing on exit considerations during negotiations, investors can maximize returns and protect their interests. This stage is critical because it determines the final outcome of exits.

Managing investments with exit in mind

Managing investments with exit in mind involves monitoring performance, preparing for opportunities, and ensuring readiness. Investors should assess whether startups have strong exit options and whether valuations are competitive. They should also evaluate timing, identifying optimal moments for exits. Investors must encourage startups to prepare for due diligence, strengthening governance and financial reporting. They should also support startups in building visibility, attracting potential acquirers. Managing investments with exit in mind requires active engagement, not passive ownership. Investors must balance short-term performance with long-term exit readiness. They should also diversify portfolios, ensuring that capital is recycled regularly. By managing investments strategically, investors can maximize returns and minimize risks. This stage is critical because it ensures that startups are always prepared for exit opportunities.

Preparing for an exit: long-term readiness

Preparing for an exit is not a short-term task; it can take several years and requires deliberate planning. Startups must ensure that governance structures are strong, financial records are accurate, and intellectual property is protected. Investors should encourage startups to undergo mock due diligence to identify weaknesses early. Preparation also involves building visibility in the market, as acquirers and IPO investors look for companies with strong reputations. Founders must develop contingency plans in case exit opportunities fall through, ensuring the company can continue operating independently. Investors should support startups in hiring advisors, such as investment bankers and legal experts, who can guide them through complex transactions. Preparation also includes cultural readiness, as teams must be willing to integrate into larger organizations. By preparing thoroughly, startups increase their attractiveness to acquirers and reduce risks during negotiations. Investors benefit because well-prepared startups are more likely to achieve successful exits. Ultimately, preparation is the foundation of exit success, ensuring that opportunities can be seized when they arise.



Time required for exit transactions

Exit transactions themselves can take months or even years, depending on complexity. Liquidations may occur quickly, sometimes within weeks, if startups run out of cash. Repurchases of shares may take months if terms are clearly defined in shareholder agreements. Trade sales often take six to twelve months, involving negotiations, due diligence, and regulatory approvals. IPOs can take more than a year, requiring extensive preparation and market visibility. Investors must be patient and recognize that transaction timelines are unpredictable. Delays can occur due to legal disputes, regulatory hurdles, or changes in market conditions. Investors should therefore plan for flexibility, ensuring that capital is not tied up indefinitely. Understanding transaction timelines helps investors manage expectations and prepare for liquidity events. It also highlights the importance of ongoing communication with founders, as transparency reduces uncertainty. Ultimately, transaction timelines reflect the complexity of exits and the patience required to achieve them.

Tax considerations in exits

Tax considerations are fundamental during exits, as they can significantly affect net returns. Investors may face income tax, capital gains tax, or other levies depending on jurisdiction. Some countries offer tax incentives for angel investors, reducing liabilities at exit. Taxes may be deducted at source or paid through annual returns. Foreign investors may face different regimes, requiring careful planning. Investors should consult tax advisors to optimize outcomes and avoid surprises. Escrow accounts and deferred payments can complicate tax timing, requiring clarity in agreements. Tax considerations also influence investor decisions about payment structures, as shares may be taxed differently than cash. Understanding tax implications helps investors negotiate terms that minimize liabilities. It also highlights the importance of cross-border awareness, as international exits involve multiple jurisdictions. Ultimately, tax planning is as important as valuation, ensuring that investors maximize net returns.

Case studies: angel returns

Studies show that angel investing is high risk, with many startups failing but some delivering significant returns. [Research in the US](#) found that out of 10 startups 3 result in total loss, 5 deliver returns up to five times the investment, and 1 deliver more than five times. [TechCrunch](#) data shows average returns of 2.5x, though outcomes vary widely. Case studies highlight the importance of portfolio strategies, as diversification balances losses with gains. They also show that active involvement, such as mentoring and networking, increases success rates. Investors should therefore approach angel investing with realistic expectations, recognizing that only a minority of startups deliver exceptional returns. Case studies also highlight the importance of ecosystems, as cities with strong exit activity provide better opportunities. Ultimately, angel returns depend on risk management, diversification, and active engagement.

Exit risks and pitfalls

Exits carry risks, including failed negotiations, unfavorable terms, and delayed payments. Earn-outs may reduce returns if performance targets are not met. Escrow accounts may delay liquidity, creating uncertainty. Bankruptcy may result in total loss, highlighting the high-risk nature of angel investing. Investors may also face disputes with founders or acquirers, requiring legal intervention. Market conditions can change suddenly, reducing valuations or delaying IPOs. Cross-border exits may involve regulatory hurdles and tax complications. Investors must therefore anticipate risks and prepare strategies to mitigate them. Diversification helps balance risks, ensuring that losses in one exit are offset by gains in others. Active involvement also reduces risks, as investors can influence negotiations and protect their interests. Ultimately, exits are complex and uncertain, requiring careful planning and risk management.

Best practices for investors

Investors should adopt best practices to maximize exit success, including diversification, active engagement, and realistic expectations. They should negotiate strong shareholder agreements that protect rights and specify exit provisions. Investors should also support startups in preparing for exits, encouraging governance, financial reporting, and visibility. They should remain patient, recognizing that exits take time. Investors should also build networks, as connections increase access to acquirers and opportunities. Tax planning is essential, ensuring that net returns are maximized. Investors should also learn from case studies, applying lessons to their strategies. Best practices also include cultural awareness, as acquirers value teams that integrate smoothly. By adopting best practices, investors can maximize returns and minimize risks. Ultimately, success depends on preparation, engagement, and strategic foresight.

Founder-investor alignment

Alignment between founders and investors is essential for successful exits. Founders must be willing to consider exit opportunities and integrate into larger organizations. Investors must respect founder ambitions while protecting their own interests. Misalignment can lead to disputes, delaying or derailing exits. Alignment requires clear communication, trust, and shared vision. Shareholder agreements help formalize alignment, specifying exit provisions and veto rights. Investors should also mentor founders, helping them understand exit dynamics. Alignment increases confidence among acquirers, who value cohesive teams. By fostering alignment, investors and founders can maximize exit success. Ultimately, alignment is about partnership, ensuring that both sides benefit from exits.

The role of advisors

Advisors play a vital role in exits, guiding startups and investors through complex transactions. Investment bankers help identify acquirers and negotiate terms. Legal advisors ensure that contracts protect investor rights and comply with regulations. Tax advisors optimize outcomes, minimizing liabilities. Advisors also provide credibility, reassuring acquirers that startups are professional and prepared. Investors should encourage startups to hire advisors early, ensuring readiness. Advisors also help manage disputes, providing expertise in negotiations. Their role is critical because exits involve complex legal, financial, and strategic issues. By leveraging advisors, investors can maximize returns and minimize risks. Ultimately, advisors are partners in exit success, providing expertise and guidance.

Conclusion: exits as the cornerstone of angel investing

Exits are the cornerstone of angel investing, defining whether risks translate into rewards. They represent the culmination of years of effort, patience, and engagement. Exits provide liquidity, validate judgment, and enable reinvestment. They also shape ecosystems, with hubs thriving on frequent and successful exits. Exits are complex, involving preparation, negotiation, and risk management. Investors must adopt best practices, protect rights, and remain patient. Startups must prepare thoroughly, ensuring readiness and alignment. Advisors play their role, guiding transactions and providing credibility. Tax considerations, timelines, and terms all influence outcomes. Ultimately, exits are about partnership, strategy, and foresight. By understanding exits deeply, investors can maximize returns and contribute to vibrant ecosystems. Exits are not just financial events but strategic milestones, shaping the future of innovation and investment.

