



# What Makes an Investible Entrepreneurial Business?

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Appalachian Investors Alliance

<https://appalachianinvestors.org>



You're going to learn what seed- and angel-stage venture investors look for when deciding whether to invest.



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Appalachian Investors Alliance

15 Years' Experience in Public Market and Private  
Placement Investing. Prior Investment Advisor,  
Venture Capital Operating Company CEO.

Master's degree in Business Intelligence and  
Analytics

20-year US Navy Pilot (# takeoffs = # landings);  
Space Operations sub-specialist

(Purported to be an irredeemable) Contrarian

# Appalachian Investors Alliance 501(c)(3)

Non-profit organization launched in 2018 to revitalize the region's economy by organizing private capital into angel funds that invest in Appalachian-based entrepreneurial businesses.

Nearly 280 AIA active, accredited investor members in 14 angel/micro-venture funds covering ten states have to-date been credited with \$12.7 million in direct private investment in 46 entrepreneurial companies.

AIA is a provider of technical services to a network of member-managed angel funds. Funds make independent investing decisions, and rely on AIA for **due diligence**, financial modeling, investor rights management, deal closings, bookkeeping, and business and technical subject matter expertise.

# Diligence = A Fancy Term for “Checking It Out”

I don't want to receive a pitch until I've read the business plan. There's little I can learn from a pitch that I won't know after reading a well-crafted plan.

What I *can* learn from the pitch is if the entrepreneur can sell (to investors or customers), how well the entrepreneur thinks on his/her feet, and whether the entrepreneur is likely to be troublesome.

Don't believe what an entrepreneur says about their own business or about themselves. Due diligence should provide investors with unbiased, independently-sourced information.

Proper diligence helps to take bias and emotion out of the decision-making process.

# 10-Step Quick Look

Not all angels follow my approach. Some prefer to take a pitch or meet the entrepreneur first. Some care less about business plans.

I start with a “quick look” designed to uncover reasons to disqualify.

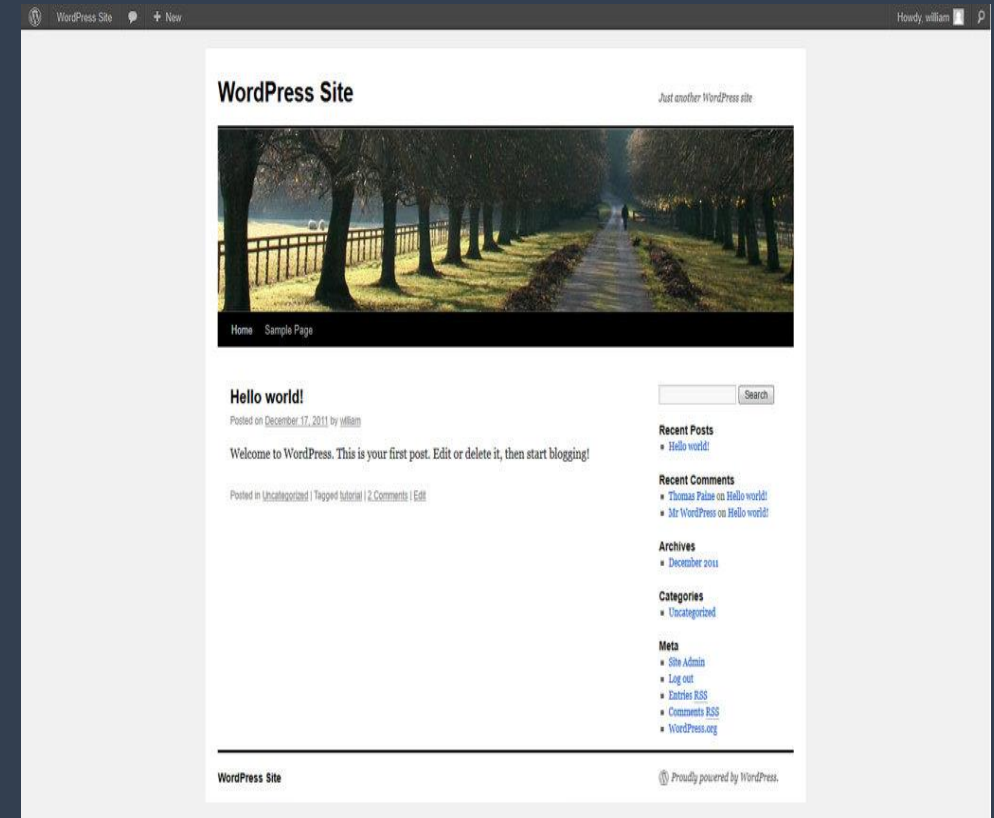
Investors see too many promising deals to dwell on marginal ones.

All investors need some method for weeding out what appear to be flawed deals.

Even if a deal isn't as flawed as it might first appear, investors don't want to spend valuable time reconsidering first impressions.

# 1. Check out the company's website

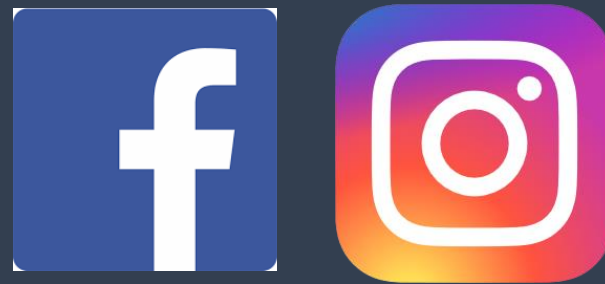
- Is there one?
- Registered domain name or just a Facebook page?
- 404 error? Broken links?
- Tombstone page or content-rich?
- Professional-looking or done by an obvious amateur?
- Product mock-up or actual product shown?
- Physical address in the “Contact” information?



<https://creativecommons.org/licenses/by/2.0/legalcode>

## 2. Check out founders' social media profiles.

- Stupid is as stupid does on social media. Q: “Would you give a stupid person your money?”
- Resumé padding is obvious, esp. on LinkedIn.
- Beware of “serial entrepreneurs”, “thought leaders,” and anyone calling themselves a “strategist.”
- Are the entrepreneurs working full or part-time (or no time) in the business?



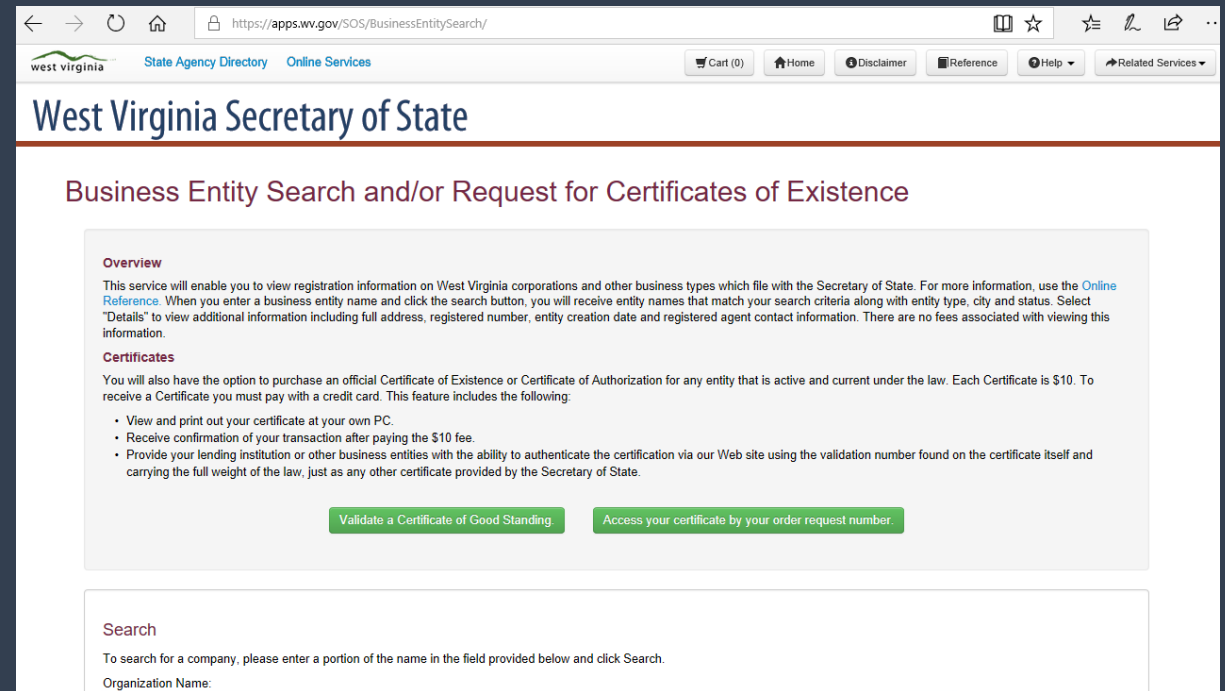


### 3. From the description of the business on the company website and on social media...

- Is there a plain, easily understood description of what product or service the company provides?
- Why should anyone care?
- Who would care enough to trade \$\$\$ for what the company is selling?
- Is there a Call To Action (CTA)? Is there information for prospects on how to buy or become a customer (more than just “Contact Us”)?

# 4. Check registrations with the Secretary of State.

- Is the company actively registered?
- What is the business structure?
- How long as the company been in existence?
- Have annual reports been filed on time?
- What are the street addresses of the company office and officers?



The screenshot shows the website for the West Virginia Secretary of State, specifically the Business Entity Search and/or Request for Certificates of Existence page. The page is titled "Business Entity Search and/or Request for Certificates of Existence" and includes an "Overview" section explaining the service and a "Certificates" section detailing the purchase process. There are two green buttons: "Validate a Certificate of Good Standing" and "Access your certificate by your order request number." Below the buttons is a "Search" section with a text input field for the organization name and a "Search" button.

west virginia State Agency Directory Online Services

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## West Virginia Secretary of State

### Business Entity Search and/or Request for Certificates of Existence

**Overview**  
This service will enable you to view registration information on West Virginia corporations and other business types which file with the Secretary of State. For more information, use the [Online Reference](#). When you enter a business entity name and click the search button, you will receive entity names that match your search criteria along with entity type, city and status. Select "Details" to view additional information including full address, registered number, entity creation date and registered agent contact information. There are no fees associated with viewing this information.

**Certificates**  
You will also have the option to purchase an official Certificate of Existence or Certificate of Authorization for any entity that is active and current under the law. Each Certificate is \$10. To receive a Certificate you must pay with a credit card. This feature includes the following:

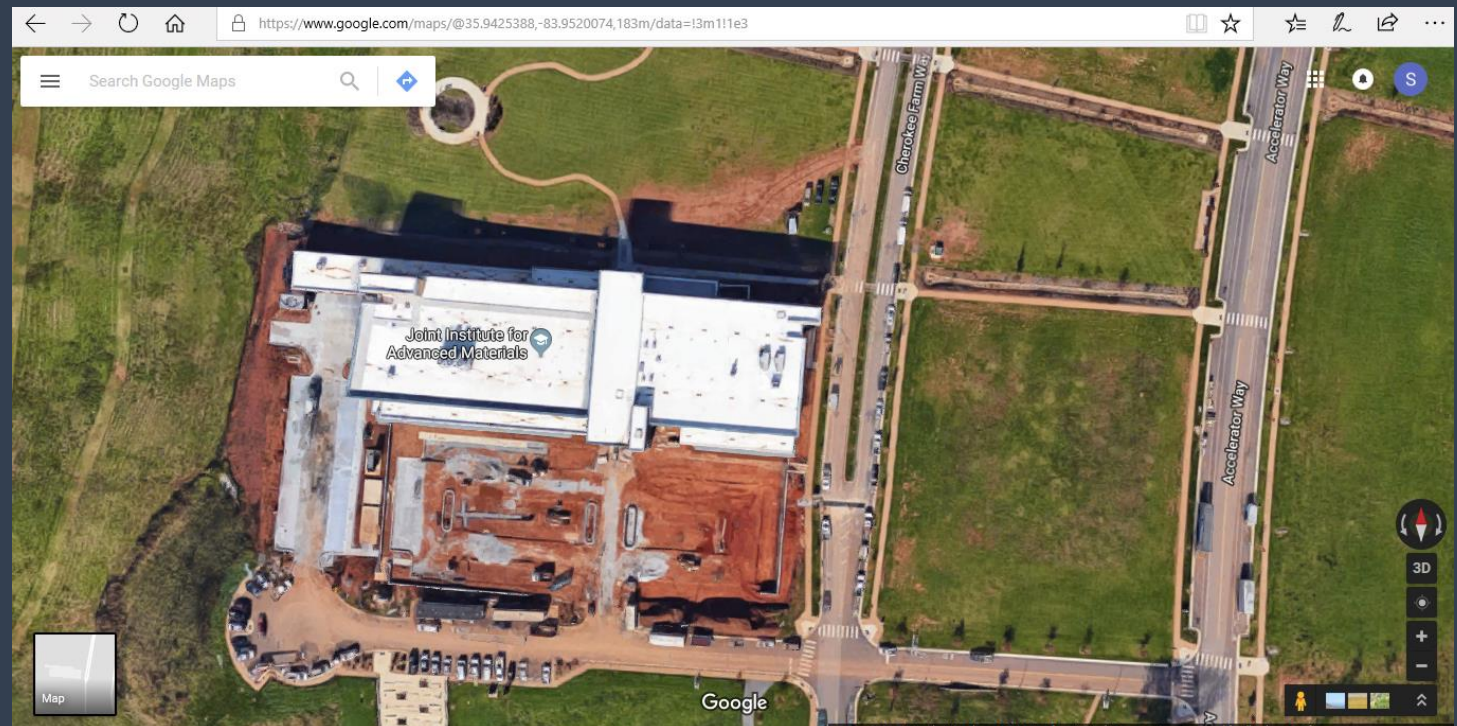
- View and print out your certificate at your own PC.
- Receive confirmation of your transaction after paying the \$10 fee.
- Provide your lending institution or other business entities with the ability to authenticate the certification via our Web site using the validation number found on the certificate itself and carrying the full weight of the law, just as any other certificate provided by the Secretary of State.

[Validate a Certificate of Good Standing](#) [Access your certificate by your order request number.](#)

**Search**  
To search for a company, please enter a portion of the name in the field provided below and click Search.  
Organization Name:

## 5. Check business addresses with online GIS tools.

- Does the company street address match a business location?
- Is the company operating from a residence? Is that appropriate for the type and stage of the business?



# 6. Check online for press about companies and founders.

- Genuine positive press stands out. (It's easy to spot "puff-pieces" and company PR posing as "news").
- Investors also check industry news and search for information about your competition.



## 7. Check into the company's fundraising efforts.

- Has company tried to raise crowdfunding? On Kickstarter? Indiegogo? Fundable.com? What was the result? (Strong negative if the campaign didn't meet goal.)
- Is the company trying to raise money on iSelect? Gust? Wefunder? AngelList? How long has the deal been posted?
- Is there information on the company's financing available on Pitchbook? CrunchBase? Whoisraisingmoney.com?
- Beware of companies that repeatedly raise new rounds of capital without growing value for investors (Seed I, Seed II, Series A, Series A1, Series A2, Series A3, Series B...).

# 8. Check court records & background records online.

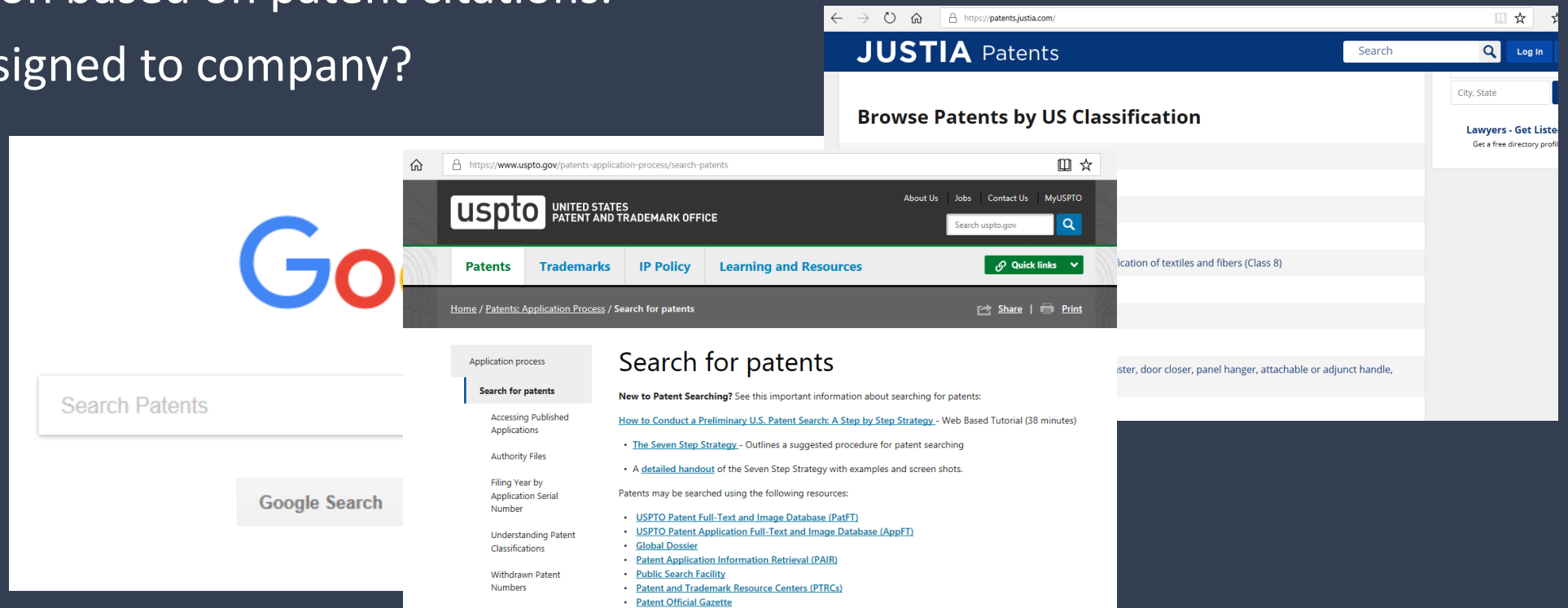
- Most states provide civil case records and family law cases online. Some states put criminal records online.
- Basic background checks can be done for low cost or free.

The image displays three overlapping screenshots of online legal and background check services:

- Top Left:** Kentucky Court of Justice CourtNet 2.0 Search Court Records. The interface includes a search bar and filters for Party Category (PRIMARY), Case Category (ALL), Party Type, County (STATEWIDE), and search criteria like Last Name, Business, First Name, Birth Date, and Drivers License #.
- Top Right:** LexisNexis gateway page. It features a navigation menu with options like People Search, Background Check, Criminal Records, and Reverse Lookup. A prominent banner advertises 'LEGAL & PROFESSIONAL SOLUTIONS' and 'RISK SOLUTIONS' for law firms and government agencies.
- Bottom Center:** Intelius Background Check page. It has a navigation bar with 'Background Check' selected. The main heading is 'Find Out with a Confidential Background Check'. Below it is a form with fields for First Name, M.I., Last Name (required), Current/Previous Address, and City and/or State, followed by a 'Search' button. A red arrow points to the First Name field.

# 9. Check patents and applications online.

- Published patents and applications are necessary for due diligence. A published application is public information.
- Investors gather information on the value of intellectual property and potential competition based on patent citations.
- Patent assigned to company?



The image shows a screenshot of the USPTO website's search for patents page. The browser address bar shows the URL <https://www.uspto.gov/patents-application-process/search-patents>. The page features the USPTO logo and navigation links for Patents, Trademarks, IP Policy, and Learning and Resources. A search bar is present with the text "Search uspto.gov". The main content area is titled "Search for patents" and includes a "New to Patent Searching?" section with a link to a tutorial. Below this, there are links to various resources such as the USPTO Patent Full-Text and Image Database (PatFT), the USPTO Patent Application Full-Text and Image Database (AppFT), and the Patent Official Gazette. On the left side, there is a sidebar with a "Search Patents" input field and a "Google Search" button. The page also includes a "Quick links" dropdown menu and a "Share | Print" option.

# 10. Check the financial assumptions.

- “The only thing I know about your proforma is that it will be wrong.”

**Table 1: Financial Projections**

	2021					2022					2023	2024	2025	2026
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	FY	FY	FY	FY
Units Sold	0	0	0	5	5	10	15	30	45	45	100	180	270	350
	0	0	0	340	340	830	1,160	2,500	4,000	8,490	30,830	57,330	93,000	128,010
Revenue*	\$ -	\$ -	\$ -	\$ 34	\$ 34	\$ 83	\$ 116	\$ 250	\$ 400	\$ 849	\$ 3,083	\$ 733	\$ 9,300	\$ 12,801
COGS*	\$ -	\$ -	\$ -	\$ 12	\$ 12	\$ 30	\$ 28	\$ 50	\$ 80	\$ 188	\$ 617	\$ 1,147	\$ 1,860	\$ 2,560
Gross Profit*	\$ -	\$ -	\$ -	\$ 22	\$ 22	\$ 53	\$ 88	\$ 200	\$ 320	\$ 661	\$ 2,466	\$ 4,586	\$ 7,440	\$ 10,241
Gross Margin %							75%	80%	80%	78%	80%	80%	80%	80%
Operating Expenses*	\$ 185	\$ 109	\$ 134	\$ 197	\$ 625	\$ 203	\$ 190	\$ 240	\$ 274	\$ 906	\$ 1,769	\$ 2,633	\$ 3,763	\$ 4,729
EBITDA*	\$ (185)	\$ (109)	\$ (134)	\$ (175)	\$ (603)	\$ (149)	\$ (102)	\$ (40)	\$ 46	\$ (245)	\$ 697	\$ 1,953	\$ 3,677	\$ 5,512
EBITDA Margin %							-88%	-16%	12%	-29%	23%	34%	40%	43%
Headcount		2	2	2	2	2	4	4	5	5	10	15	21	25
Avg Rev / Empl (Annual)						\$ 29	\$ 63	\$ 80	\$ 170	\$ 308	\$ 382	\$ 443	\$ 512	
Avg Exp / Empl (Annual)						\$ 47	\$ 60	\$ 55	\$ 181	\$ 177	\$ 176	\$ 179	\$ 189	
Investment & Financing*	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash* (End of Period)	\$ (137)	\$ (246)	\$ (392)	\$ (612)	\$ (612)	\$ (803)	\$ (962)	\$ (1,155)	\$ (1,289)	\$ (1,289)	\$ (1,381)	\$ 775	\$ 1,110	\$ 5,277

Assumptions	
AP/ AR/ Inventory Days Adjustable	
AP Days	30
AR Days	90
Inventory Days	90

- $\$3,083K - \$849K = \$2,234K$
- $\$2,234K \times (1 - .80) = \$447K$
- $\$447K / 365 = \$1,224$  per day  $\times 90 =$   
 $\sim \$110K + \$447K = \$557K$



# 10. Check the financial assumptions (cont.).

- “The difference between a venture investor and a “vulture” investor is how well or poorly you execute your business model (i.e.: achieve your proforma projections).”

	A	B	C	D	E	F	G	H	I	J
						1/7/2021	6/30/2021			
<b>Fully Diluted Current</b>		<b>Shares</b>	<b>Ownership</b>	<b>Dollars</b>		<b>Notes</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Share Price</b>
Voting		990,625.00	53%	\$ 3,500		Convertible	\$1,000,000	\$ 33,369.86	\$ 1,033,369.86	\$ 14.40
Non-Voting		477,814.00	26%	\$ 336,323						
Covertibles		71,761.80	4%	\$ 1,000,000						
Series A		312,500.00	17%	\$ 5,000,000						
						AAF Ownership	Shares	% Ownership	Per Share	
						\$ 100,000.00	6,944.44	0.3748%	\$ 14.40	
<b>total</b>		<b>1,852,700.80</b>	<b>100%</b>							
<b>Current</b>		<b>Series A</b>	<b>Pre Money</b>	<b>Post Money</b>	<b>Price</b>					
			\$ 24,643,212.74	29,643,212.74	\$ 16.00					
<b>Return</b>		<b>Break Even</b>	<b>2x</b>	<b>3x</b>	<b>4x</b>	<b>5x</b>	<b>7x</b>	<b>10X</b>		
Liquidation Event		\$ 26,678,811	\$53,357,782.93	\$80,036,674.39	\$106,715,566.85	\$133,394,457.32	\$186,752,240.24	\$266,788,915		
<b>total cash back</b>		<b>\$100,000.00</b>	<b>\$200,000.00</b>	<b>\$300,000.00</b>	<b>\$400,000.00</b>	<b>\$500,000.00</b>	<b>\$700,000.00</b>	<b>\$1,000,000.00</b>		
IRR		0.00%	25.99%	44%	59%	71%	91%	115%		
NPV		(\$4,303.74)	\$89,914.68	\$184,133.10	\$278,351.52	\$372,569.95	\$561,006.79	\$843,662.06		



Is it more  
important to  
create  
“impact” or to  
generate  
profit?

# A false dichotomy!

Mal-investment creates negative impact!

## Summary of Deposits

Offices and Deposits of all FDIC-Insured Institutions  
County Summaries Deposit Market Share Report  
For West Virginia  
Deposits as of: June 30, 2020  
Sorted By: Market Share

County	No. of Offices	Deposits (\$000)	Market Share
Kanawha	49	5,931,907	4.89%
Monongalia	39	3,347,313	4.69%
Cabell	30	2,783,199	4.46%
Wood	28	1,890,315	4.16%
Ohio	20	1,822,261	3.73%
Harrison	29	1,734,672	3.30%
Berkeley	27	1,618,466	3.19%
Raleigh	26	1,449,490	2.78%
Marion	17	1,282,916	2.52%
Putnam	19	1,238,633	2.05%
Mercer	16	1,079,362	1.99%
Jefferson	13	980,300	1.74%
Hardy	10	798,072	1.52%
Greenbrier	19	772,801	1.45%
Hancock	9	675,998	
Randolph	12	591,431	
Marshall	7	565,127	



# Bonus: Lessons learned from successful entrepreneurs that received AIA investment:

- Prepare your personal finances first, and be prepared to live with limited means for an extended time.
- Your business should not require a lot of capital to get going.
- Find a partner(s) that addresses your blind spots or weaknesses.
- Do not start until you have a high probability of closing at least one customer.
- Know your market, players, and conditions before you start. Presell your company to relevant players.
- Resources only come with revenue, be prepared to do a lot with no support.
- Be prepared to learn every element of the business—including bookkeeping & finance.
- Sell to high quality customers even if they are small. High quality = Revenue contributing without excessive resource consumption. Customer discovery starts day one and happens every day after.
- Customer service should be a top priority. You cannot afford to lose a high-quality customer early.
- Fail quickly and move on with any element of the business. Time is not your friend.

- Monitor Accounts Receivable and collection religiously. Try to get partial up-front payments and not extend terms if possible
- Be slow to hire and quick to fire. If a person is not working out in the first month, they need to go.
- Do not sign long-term contracts, all elements of the business must be agile.
- Don't tinker with or iterate your product until you know there are not enough customers for what you already have. Expand your product/service offering with an eye on your current customers first.
- Build and they will come is a myth. Have a messaging strategy to differentiate.
- Pitch to everyone, not just investors.
- Founders need to earn their capitalization table position (equity ownership) through vesting.
- First money in is the hardest.
- The right lead investor is critical.
- Most important hire: The sales lead.
- The process of doing a business model canvas or written business plan is important.



Do well and  
do good!