

*Working with Entrepreneurs and Angels to change the world one deal at a time.*

## **Five Things I Learned at the Angel Capital Association Midwest Conference**

Recently I attended the Angel Capital Association Midwest conference in Cleveland, Ohio. Our thanks to the North Coast Angel Fund for hosting this event. Through panel discussions, a tour of the Cleveland Clinic, networking and a half day seminar on valuation of Angel and investment opportunities, I learned a great deal from the speakers and from my colleagues in attendance.

But five lessons stood out among everything that we covered.

### **1. Picking the CEO.**

Investors should look for someone with skills to get the company to the next year or two at the most (and NOT the person to take the company all the way to exit). Reason: the portfolio company CEO needs to have different skill sets at each stage of the company's growth.

Change CEOs when you still have enough funding runway so the new guy can make a difference and has some minimal room to make mistakes.

### **2. Angel's success in the medical space.**

When evaluating an investment opportunity, don't worry too much about the science. Focus more on identifying companies that have a potential for early exit, and then focus on how the company will execute upon that exit.

Medical device deals: the key question to ask (perhaps the ONLY question to ask) is "Will this device make the doctor's life easier?"

### **3. Follow-on VC rounds.**

Angel investors should alert their target VC funding source about the portfolio company at the time the angel round is closed. Reason: the VC can follow a portfolio company from a 35,000 foot perspective until the VC round is needed; at that point, when the Company is ready for VC funding, the VC is warmed up on the deal, ready to fund.

### **4. Valuation rules of thumb.**

An investor can study valuation theory at length only to reach the following conclusions: \*

- There are no pre-revenue deals that have a pre-money value over \$2 million (some would differ).
- The angel should pick deals where the value will multiply 30 times (30x) in five years. This will yield a 25% IRR in the investment in that portfolio company after taking into account the "divergence effect."
- Because of the "divergence effect" the angel should try to exit before the next round.

\* Note: guidelines only; outlying exceptions may exist; your mileage may vary.

### **5. Healthcare is amazing and global!**

As noted above, our Conference included a tour of the Cleveland Clinic biomedical engineering department. We saw new technologies that the Clinic is working on in artificial hearts, cardiac therapy,

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robotic catheters, and other devices. The doctors we met who pioneered these technologies were all young (well under 40) and were the best in their fields. They had an obvious passion about what they do and they are clearly changing the world for all of us. It was an amazing tour. The tour concluded with a cocktail reception across the street at the Intercontinental Hotel, which was built solely to accommodate the families of patients at the Cleveland Clinic who come from all over the world, primarily the Middle East. My Palestinian cabdriver later explained that the governments of many Middle Eastern countries have a health care system that pays not only for the patient's medical care but also for a family member to accompany them to the treatment center. There is no direct flight between Dubai and Cleveland so my Palestinian cabbie has made numerous runs between Detroit Metropolitan Airport and Cleveland, picking up the families of patients. Amazing and global!

For further information about the Conference, or to discuss any of the above points, please feel free to call me at 248-539-2030 or e-mail me at [rbruder@elp-law.com](mailto:rbruder@elp-law.com).

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Richard Bruder, JD, LLM (taxation), founder of ELP, is a business owner's lawyer. He has counseled and represented Michigan entrepreneurs, companies and investors for over 25 years, handling numerous mergers and acquisitions, technology licensing deals, franchising transactions and financial restructuring.

He looks forward to helping you and your business succeed.