



5 THINGS NEVER TO MISS-OUT BY ANGEL INVESTORS TO CHECK WHILE INVESTING



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1. Business Model and Tentative Break Even





1. Business Model and Tentative Break Even [1]

- Transactions relating to angel investment, one of the most important things to analyze therein is the business model and its relevance in the current eco-system
- This is imperative to identify the possibility of the business to scale up and its sustainability in future
- Along with the relevance of business model it is also necessary to analyze as to the period required for achieving break-even. This helps to evaluate of whether the investment would be in line with the returns and timelines expected by the angels

[1]The article reflects the general work of the authors and the views expressed are personal. No reader should act on any statement contained herein without seeking detailed professional advice.



2. Ownership of IPR





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- Intellectual Property rights (IPR) are one of the most important assets of the investee company. Most of the times this is the basis on which the deal is initiated by the parties
- However, it may so happen that the ownership of such IPR might not be with the entity in which the investment is being done by the Investor
- In case of patents and trademarks, the title and ownership might be in the name of Promoters or another company instead of the investee company
- It is imperative to ensure that the title, ownership and interest in such IPR is entirely with the investee company

3. Promoters' Business Hygiene





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- Warranties and indemnifications are common mechanisms identified in legal documentation by Investors for protection against any discrepancies that the Promoters may have done or may do in future
- However, before taking the decision of actual investment, the following things among others can be verified especially during discussions:
 1. Background of the Promoters with respect to academia, work experience
 2. Details about the previous ventures of Promoters if any
 3. Investment so far done by promoters themselves in the investee company
 4. Litigation current and past, by and against the promoters
 5. Long term plans and Intent of the Promoters towards the business
- Verifying such background helps to envisage the conduct of investee company operations by its promoters in foreseeable future



4. Compliance Culture



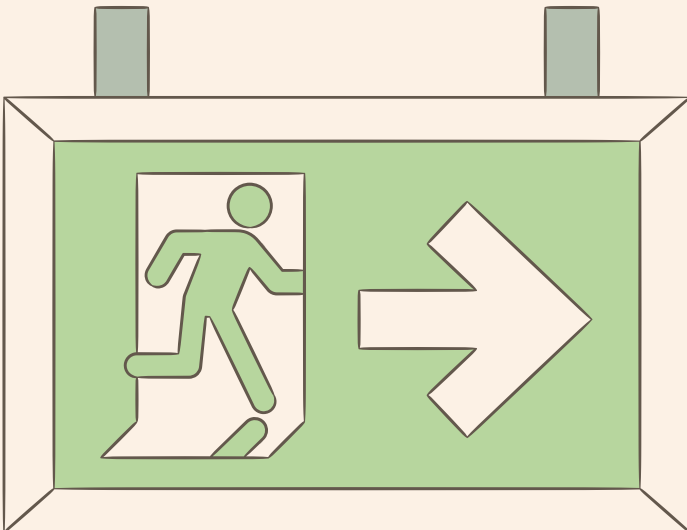


4. Compliance Culture

- While most of the companies are at nascent stage during the angel investment rounds, yet it is important to verify the status of compliance being done by them
- The investment round itself should be carried out with appropriate compliance.
- Investors can obtain information on the compliance status so far done by the investee company and discrepancies in the same if any, to be rectified in timely manner



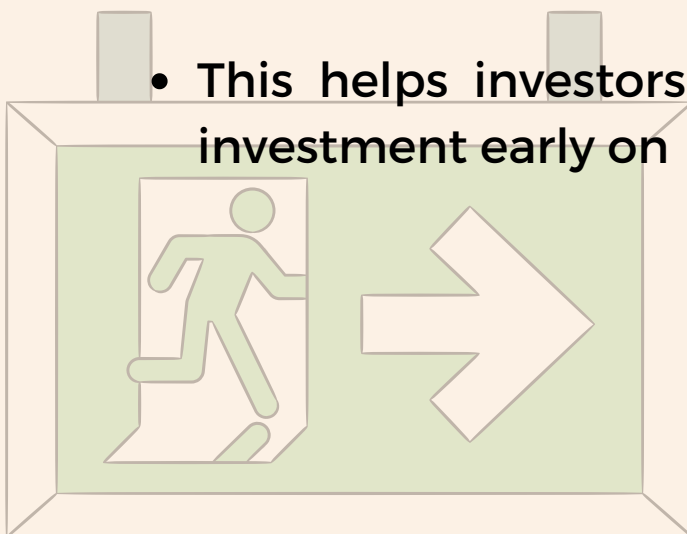
5. Exit Strategy





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- The investors must get clarity on the exit strategies expected by them and the exit options proposed to be provided by the Promoters
- Investors should identify in definitive agreement, the period within which the exit is expected
- The primary exit proposed shall be supported by other exit mechanisms as fallback options
- This helps investors to get a clarity on the return and exit on its investment early on



Conclusion and Disclaimer





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- The expectations and background with which angel investment rounds are done differ from the investments done at later stage by venture capital firms or strategic investors. In such cases, the face value of Promoters is critical
- Considering the general scenario where the angel investors might not be veterans/experts in the business industry of investee company, it becomes imperative to carry out due diligence before taking a decision of investment irrespective of the investment ticket size.
- The points stated herein are identified broadly considering angel investment transactions in general and subject to additional pre-cautionary steps on case-to-case basis
- Further, the suggestions stated herein are only identified in the interest of angel investors. They are not exclusive and do not replace the formalities and compliances that are customary to actual transactions



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