

What is the value and role of a lead investor?

How do you read this article?

- 1) This article is written for startup founders.
- 2) There are two examples of a lead investor.
- 3) Then there is a generic description of a lead investor. The lead investor in your specific situation will likely be different.

Two examples of a lead investor:

The lead investor in an angel investor organization:

- 1) Produces the due diligence report. Consultants and other angels may have provided input to the report and carried out specific due diligence task.
- 2) Negotiates with the founders on behalf of all the angels.
- 3) Manages angels' lawyers.
- 4) Manages the angel close including getting the money into escrow.

The lead investor of a syndicate:

- 1) Has prepared a due diligence report, completed a term sheet after negotiations with the founders.
- 2) Then begins to actively recruit more investors to the deal.

What is the value of a lead investor?

- 1) Without a lead investor, you may fail to raise capital.
- 2) The reputation and network of the lead investor will attract other investors.
- 3) Many VCs, angels, and angel groups will not invest until there is a lead investor.
- 4) Including the name of the lead investor and terms in your pitch deck greatly improves your chance of success.
- 5) Having a lead investor reduces the overall time and effort to raise capital.
- 6) The lead investor will make a major investment, at least 15% of the round and sometime up to 50% of the round.

What may the lead investor do?

- 1) Prepare a due diligence report. Subsequent investors may still decide to conduct their own due diligence.
- 2) Negotiate the term sheet.
- 3) Hire a law firm to handle the investors paperwork. Sometimes the startup will pay for some or all of the lead investors out-of-pocket costs.
- 4) Sit on your advisory board.
- 5) Sit on your board of directors.
- 6) Make introductions to potential investors, customers, partners, suppliers, employees, and others.
- 7) Help manage the other investors.
- 8) Help structure future fund raising rounds.
- 9) Participate in future fundraising rounds.

What are the characteristics of a lead investor?

- 1) They passionately believe in you and your startup. They are not going to try to force you out and take control.
- 2) You'll be able to work with them for the long term. Divorce from a spouse is often easier than divorce from a lead investor. Do you actually like the lead investor?
- 3) Consider the investor's values, morals, and ethics.
- 4) They are respected in your industry and/or in the startup financing world.
- 5) It's helpful if the lead has been a lead before.
- 6) They have invested before and those investments have done well.
- 7) They have lots of funds for follow on investments and investments in other startups.
- 8) They are not in any kind of financial distress.
- 9) The investors have diverse portfolios so that market problems in one sector will not result in pressure on your startup to perform.

Look for the lead investor before you look for the follow-on investors.

- 1) This can take a long time.
- 2) You may make hundreds of phone calls and emails, meet with over a hundred people, and spend over 20 hours a week for three to nine months to find a lead investor.
- 3) You need to build relationships with investors over time. You'll need a plan, and a CRM, to stay in touch with them.

How do you find a lead investor?

- 1) Build a target list of investors. A CRM is helpful.
- 2) You identify targets from: other founders, advisors, people you meet, researching the lead investors from other deals, lists of conference attendees, The Canadian Venture Capital and Private Equity Association website (www.cvca.ca), hockystick website (www.hockystick.co) startup here Toronto website (<https://startupheretoronto.com/startup-support/>), the Angel Investors of Ontario website list the Ontario angel groups (<https://www.angelinvestorsontario.ca/groups>), www.crunchbase.com.

Your next steps

- 1) Define what you are looking for in a lead investor.
- 2) Set out your plan to find a lead investor and to stay in contact with the investors you have met.