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# When to Invest in Start-Ups

*Part TWO of a three-part series on investing in High Growth Start-ups.*



Find [part ONE here](#).

Look, I get it. You're busy, and you're all out of ideas. If only you could think of that one! It could be massive, right? The next Amazon.

But not to worry, I've got you! Listen up.

It's a mobile app. Users can earn cash back on their purchases in exchange for providing feedback. Okay, now hold on.

If you're not sold yet, roll with me anyway, I'll show you how this start-up shit works.





*Oxlade-Chamberlain investing in StatsSports*

First, people download my app to save money on their purchases. Businesses want more reviews. So, they pay me for access to my users.

I then pay *some* of that money to users when they leave a review and I keep the difference. Simple.

In 5 years, this app could have a million users, leaving hundreds of millions of reviews, making me millions of pounds.

I need an app developer, a marketing budget, and a million other things. But I've got no money, so I'll need investment.

It's early, I know. It might not work. But if you invest now, and there comes a day when I'm making millions, you will be too.

Start-ups come in all shapes and sizes. Understanding the difference between startup investments will help you evaluate opportunities.

## Angel Stage Investing

So, back to our business.

Well, at this stage there is no business. It is just an idea. If you invest now, you're what the industry call an angel investor.

Why? Because it's so hard to get anyone to invest in an idea, to the founder, you're an angel.

'Angel' investments can range from \$10K to \$500K. They usually love the idea and the founder and are happy to take the risk.

You'll get around 20% of the business, which is quite a lot considering you didn't build it.

Angels typically take on a more personal role in the company and can help grow the business through their knowledge or network.

At this point, there is only one thing to consider. **How good is the founder/CEO?**

There is no business yet, so if you believe in the founder's ability, it could be a good investment even if they pivot the business in a different direction (changing the company).

Angel investments aren't ordinarily public. If you want opportunities to come, you have to get yourself out there.

Start making connections in the business world. The Ball Business community is a great place to start!

## Seed Stage Investing:

So now our killer idea is doing great. Thanks to my investor, I've launched in Manchester and have 1000 users.

It's working! I want to expand to other cities in the UK. But I need a bigger team and a bigger ad budget. Help me out?

As the name implies, this is the first round of 'proper' investment. The company is young and has a little bit of traction.

Typically, these rounds are about \$250K-\$2M, sometimes from several investors.

Whilst you might not be a professional investor, there is still an opportunity to be involved in seed rounds. But first, you must analyse 3 simple things.

1. *"Is there a proof of concept?"* Does it work? Do people want it?
2. *"Is there a market?"* How many people would use this, and are there competitors?
3. *"Is now the right time?"* Is this going to be the business of the future, or do you need to wait until I can prove it works in London?

Michail Antonio invested in the seed round of Virtual Reality start-up Rezzil. He met them at a networking event by [The Barn Door](#) and loved the idea.



Since then, Rezzil has grown and secured \$2.75M more in investment and partnered with Oculus (Facebook).

## **Series A Funding: Early Traction**

Woah, my app is now in every city in the UK, I've just done a deal with a huge restaurant chain, and I have over 100,000 users!

I want to raise a Series A fund to go international. This could bring in millions of users.

It seems like a good time to invest, you will only get a small percentage, but I'm proving it works!

This is the post-market stage when a startup's product is widely available.

When analysing a company like this, give importance to key performance indicators like customer base, revenue, and app downloads.

Usually, these rounds are led by professional investors or Venture Capital companies.

But because companies are typically raising millions with an s, there is a group of investors.

One investor will lead by putting in the most money, followed by other investors investing smaller amounts.

This is what you are likely to be; you see a good opportunity and contribute a smaller amount to the round.

Daniel Sturridge is reported to have made several investments around the series A stage.





One was in Oura, a health tech company known for the [Oura Ring](#), which tracks sleep and physical activities.

## Series B, C & D Funding: Scaling

My app is now everywhere. I have a million users, and I want to keep growing.

But growth is hard, so I need to keep pumping out the ads and have new offers to keep users coming back.

The more users I get, the more revenue I'll make, so this seems like a pretty safe investment.

You will only get a tiny percentage, and I'm not a household name yet, but I might be!

Series B, C or D funding sessions are about taking the business to greater heights. Each round is more significant than the last.

These rounds can be in the tens of millions.

Once again, you are likely to be a follow-on investor. This is an even safer play than series A. There's much less to worry about here. The business is well-established.

As an investor here, you are still looking for game-changing businesses, but perhaps ones that are already doing well.

Ask yourself: "Do I think this business will keep doing what it's doing?" I.e. is there more potential, and will it keep growing?

Start-ups continue to present a wide range of investment opportunities, some are moon shoots, and some are dead certs; you can tailor the deals you are looking for to your appetite for risk and knowledge.

Our next article will detail some ways to get involved with these deals, so if this excites you, stay tuned.

*We have also covered other types of investments, [Stocks](#), [Properties](#) and [buying smaller businesses](#).*

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