

TIE HOUSTON ANGEL INVESTMENTS INVESTING CRITERIA

TIE Houston Angels (THA) will establish and adopt a set of evolving criteria and evaluation processes while making investment decisions. The purpose of this document is to codify these factors.

Investment Criteria:

(A determination needs to be made as to whether a factor is a “must have” vs a “nice to have”, and how strictly we intend to adhere to it. We should also consider applying quantifying metrics to some of the key factors – e.g., how much revenue traction should we expect a presenting company to have?)

The criteria we will consider while evaluating a startup for investment suitability are as follows:

1. Stage of Company
2. Readiness of Company's Offering
3. Protectability/Uniqueness of Company's Offering
4. Business Model
5. Revenue Progress
6. Growth Velocity
7. Caliber of Management Team
8. TIE Houston's Ability to Help the Company
9. Investment Terms
10. Valuation Upside Potential
11. Potential Time Frame of Investment to Exit

Investment Criteria Discussion:

1. **Stage of Company:** We will not invest in very early-stage companies. We expect to only work with companies that are past their seed stage, and on track to their Round A funding. This is likely the ideal situation we would want to come in at.
2. **Readiness of Company's Offering:** We are not prepared to invest in companies that require a substantial amount of product development. We recognize that such companies can end up consuming a significant amount of investment in product development, and may never get out of this cycle without additional funding. As a result, we expect the company's offering to be in a 'market ready' condition – including already proven customers. This means that we expect our funding to come in at a 'market acceleration' stage.
3. **Protectability/Uniqueness of Company's Offering:** How unique or protectable is the company's position – either in terms of patents, difficulty of competitive replication, or first

mover advantage leading to strong market traction. This may not be a 'must have' factor, but certainly a key factor to consider.

4. **Business Model:** How well understood, and how strong is the company's 'money making' model. Is the company dependent on making large enterprise sales, or many smaller consumer-type sales? Does the company have a recurring revenue model? And if so, what level of MRR or ARR do we expect to see for us to like this?
5. **Revenue Progress:** We expect that most companies we will consider will already have some revenue momentum. But do we want to establish a minimum threshold of at least \$20K MRR or annual revenue of at least \$250K? Along with this we will also evaluate the company's pipeline and how quickly we believe it can be converted into revenue.
6. **Growth Velocity:** How quickly has the company grown. And since the time we started our due diligence, how much progress has the company made on their sales projections?
7. **Caliber of Management Team:** This factor should be one of our most critical evaluation factors. In the past, we have invested in several inexperienced teams, and along with that our investments have gone through wasteful cycles with the inexperience trying to "figure things out". We need to consider experienced teams, or teams that are coachable. For teams that require coaching, we need to put them through some sort of a test (suggestions welcome) to see if they are truly coachable, rather than paying us lip service to being coachable.
8. **TIE Houston's Ability to Help Company:** Naturally, companies that our CMs can help with our own resources get some priority.
9. **Investment Terms**
 - a. **Form of Investment:** We are open to Convertible Debt and Equity deals. We will no longer accept SAFE notes.
 - b. **Valuation:** While we are open to valuations north of \$15m, our sweet spot is valuations less than \$10m.
 - c. **Preferred Rate:** Nothing less than 6%.
 - d. **Conversion Rate:** A minimum of 15% discount to the next round of funding
 - e. **Funding Raised:** TBD – are we prepared to be the early money in a funding round, or do we want to wait until the company has raised at least 50% of their funding for the round?
10. **Valuation Upside Potential:** We should be only considering deals that have an exit potential of at least 10x our entry valuation.
11. **Potential Time Frame of Investment to Exit:** We should not be considering opportunities that may require a 7+ year timeframe to exit.

Apart from considering these investment criteria, we need to also establish a process for our investment Go/No Go decisioning.

Go/No Go Decisioning Process:

1. **Presenting Company Evaluation:** Only companies that have been pre-screened by one of our Angel Investing team, or one of our key investing members should be brought to the presentation table. Assuming we do this right, we should be able to dedicate an hour's worth of time to just 1 company. In case we have more than 1 company, we should limit the presentation session to 2 companies at most, with 30 mins allocated to each.
2. **Frequency:** Our goal should be to conduct at least 1 session per month. We should consider establishing a fixed day of each month to this effort.
3. **Company Presentation:** Minimum of a 15 minute presentation, followed by a minimum of 15 mins of Q&A (if only 1 company, then we could reserve 30 mins for presentation, and 20 mins for Q&A, followed by an internal discussion). The presentation should be recorded for distribution to all CMs. At the end of the session, those on the call need to
 - a. Make a quick decision about whether it's worth our while to have any further discussions with the company.
 - b. If so, we should then gauge the level of investment interest. If there isn't enough interest, we should inform the company and inform them accordingly.
 - c. If there is at least \$50K(?) worth of interest, we need to assign a lead to manage the due diligence (DD).
4. **Due Diligence:** The DD lead reaches out to the company to get the DD started – this should be done within 72 hours of the presentation. Our goal should be to undertake "Due Diligence by Expert" – tapping into our CM network to short-circuit the DD process. The DD lead should solicit concerns/queries from the CMs who have expressed interest in investing in the company. In addition to a call for several company documents, DD should look closely at the company's sale pipeline, and attempt to interview select customers, partners, and even other investors.
5. **Recording:** The recording of the presentation should also be sent out to all CMs by the Executive Director within 72 hours of the presentation.
6. **DD Timeframe:** In the past, our DD has dragged on for months. We should attempt to get the DD completed within 2-3 weeks.
7. **Writeup:** The lead DD investigator does a brief writeup, and then reaches out to 2-3 others on the Angel Investment committee to discuss his/her findings.

8. **Go/No Go Recommendation:** Should the committee feel that the company is worth investing in, an email should be generated to our CMs that includes:
- a. 1/ pitch recording,
 - b. 2/ slide deck,
 - c. 3/ DD writeup,
 - d. 4/ access to the company's data room
 - e. 5/ summary of the investment terms, and
 - f. 6/ the timeline to receive responses of investment interest.
 - g. Assuming there is at least \$50K of interest, the lead investor can take the lead on establishing the SPV and follow through on making the investment.

Please append your input/edits/feedback notes on this document in "Edit" mode and send it back to me.