

Navigating Early-Stage Investments



Summary by



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Overview

In the dynamic realm of early-stage investing, navigating the complex landscape requires not just capital but a strategic partnership that aligns closely with the growth trajectories of nascent startups. Dan from Black Sheep Capital, a pre-seed and seed stage investor in the Australian ecosystem, offers invaluable insights into how they have sculpted a supportive framework tailored for founders. Black Sheep Capital emphasizes the essence of being the most helpful partner rather than merely directing from the sidelines. Their approach—centering on thorough due diligence, rapid engagement cadences, and fostering transparent communications—serves as a beacon for founders aiming to make their mark in the challenging yet rewarding journey of building a startup.

20-Point Summary:

1. **Investor Focus:** Black Sheep Capital is a pre-seed and seed stage investor primarily focused on the Australian ecosystem.
2. **Investment Philosophy:** They prioritize being helpful and supportive rather than directing founders, aligning with Jason Calacanis's view of angel investing as a competition to be the most helpful.
3. **Company Growth Stages:** Emphasizes Jason Lemkin's view on revenue stages: zero to \$1M ARR is possible, \$1M to \$10M is improbable, and \$10M to \$100M is inevitable, guiding their investment strategy.
4. **Due Diligence Approach:** The due diligence process is designed more to find reasons to walk away than to proceed, focusing on honesty and transparency from founders.
5. **Engagement Cadence:** Post-initial meeting, a quick follow-up indicates a higher likelihood of investment.
6. **Investment Criteria:** Importance of a clear, concise pitch deck to engage investors quickly.
7. **Funding Model:** Operates on an angel syndicate model recently, allowing a broader community to invest behind Black Sheep's lead.
8. **Sector Focus:** While comfortable with B2B SaaS, they maintain a portfolio diversity that includes successful non-SaaS investments like Amber Electric and AirTasker.
9. **Investment Bias:** Acknowledges the natural bias towards comfortable investment areas but strives for a balanced portfolio.

10. **Early Investment Strategy:** Prefers to enter investments at the pre-revenue stage, seeing this as a period where they can add significant value.
11. **Founder Relationships:** Stresses the importance of ongoing communication with investors post-funding to maximize their usefulness.
12. **Investor Education:** Believes in keeping their investor community well-informed to help navigate the ups and downs of startup growth.
13. **Initial Contact:** Open to conversations that make sense, valuing meaningful interactions over quantity.
14. **Investor Responsiveness:** Aims to reach a quick "no" in their due diligence to save founders' time if a deal isn't likely.
15. **Portfolio Strategy:** Focused on a lower frequency of deals per year (around six) to maintain quality engagement with each investment.
16. **Risk Management:** Early mistakes in understanding financial projections taught them to be more analytical and skeptical.
17. **Community Impact:** Uses their angel network to enhance the impact and reach of their investments.
18. **Learning Curve:** Reflects on the steep learning curve in the early years, valuing those experiences for the growth they prompted.
19. **Opportunistic Investments:** Encourages founders to align their outreach to investors' interests and previous deals.
20. **LinkedIn as a Tool:** Significant portion of deals sourced from LinkedIn, stressing the platform's value for initial outreach.