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ABOUT THE GUIDEBOOK

Pakistan's evolving startup ecosystem offers a unique opportunity for angel investors to support early-stage startups while potentially earning high returns. However, early-stage investments carry risks, and local challenges must be understood. Invest2Innovate (i2i) has developed this guidebook to equip aspiring angel investors with the knowledge and tools necessary to successfully participate in Pakistan's angel investment landscape. Informed investors are key to fostering innovation, driving growth, and creating an inclusive entrepreneurial environment. This guidebook aims to demystify and provide practical insights on the angel investment process, making it accessible to a wider audience and nurturing a new generation of angel investors in Pakistan.

ACKNOWLEDGEMENTS

We would like to extend our heartfelt gratitude to Ahmed Uzair - Investment Lawyer and Head of Corporate Matters at AUC, Maaike Doyer - Founder at Epic Angels Singapore, Sophia Ahmed - Lead Mentor at Augmentor, Fahad Asad - Founding Member at Augmentor, and Maha Shehzad - Founder and CEO of BusCaro for their invaluable insights and contributions to the development of this guidebook. Their expertise and experience have significantly enriched the content, making it a comprehensive resource for aspiring angel investors in Pakistan.

MEET THE AUTHORS



SABA KALSOOM

Programs Ecosystem Lead,
invest2innovate (i2i)

Saba Kalsoom is the Programs Ecosystem Lead at Invest2Innovate (i2i), where she is driving the growth of Pakistan's startup ecosystem by building strategic partnerships, fostering connected investor and founder communities, and empowering growth-stage founders in their fundraising journey through the i2iScale accelerator. She's also a Venture Scout at Epic Angels; she has previously held key roles at Fasset, ScaleX, and COLABS and has co-founded Aiyin.

Saba's diverse experience in entrepreneurship, entrepreneurial support, and venture scouting, combined with her passion for creating inclusive entrepreneurial spaces, brings unparalleled insights to this guidebook. As an active contributor to Pakistan's innovation ecosystem, she remains committed to driving meaningful change and enabling impactful connections.



MUBARIZ SIDDIQUI

Founder, Carbon Law

Mubariz Siddiqui, Founder of Carbon Law, is a leading corporate lawyer with vast experience in startup law, angel investing, and the legal frameworks governing investments in Pakistan. Acted for various eminent start-ups and investors to structure and negotiate equity financing aggregating more than USD 250 million, ranging from Seed stage to Series B. He has actively advised on corporate structuring, compliance, intellectual property, and regulatory frameworks. Mubariz's extensive legal expertise has made him a trusted advisor in Pakistan's rapidly evolving startup ecosystem.

As a co-author of this guidebook, Mubariz provides valuable insights into the legal landscape of angel investing in Pakistan. His contribution ensures that investors are equipped with the knowledge they need to navigate the complexities of investment regulations, taxation, and compliance, allowing them to make informed decisions.

01

UNDERSTANDING ANGEL INVESTING IN PAKISTAN

Angel investing in Pakistan offers crucial support to early-stage startups facing traditional financing hurdles. The ecosystem is steadily growing, despite being in its early stages. While challenges exist, the potential for high returns is significant. As the ecosystem matures, we can expect a more dynamic environment with increased local and international investor interest, fostering startup growth.

Challenges in Pakistan's Angel Investing Landscape

Small, Fragmented Angel Network

Angel investing in Pakistan offers crucial support to early-stage startups facing traditional financing hurdles. The ecosystem is steadily growing, despite being in its early stages. While challenges exist, the potential for high returns is significant. As the ecosystem matures, we can expect a more dynamic environment with increased local and international investor interest, fostering startup growth.

Lack of Awareness and Education

Many aspiring investors and founders in Pakistan lack a clear understanding of angel investing. Misconceptions around valuations, equity distribution, risk management, and financial instruments often hinder the effectiveness of investment negotiations.

No Centralized and Credible Data on Startups, Investors, and Deals

In Pakistan, the absence of centralized and credible data on startups, investors, and deals presents significant challenges for both founders and investors. Fragmentation of information makes it difficult for investors to effectively identify and evaluate investment opportunities and for startups to access the right investors. The availability of data on valuations and deals is often inconsistent, which increases uncertainty and deters potential angel investors from investing by limiting their ability to make informed investment decisions. This lack of transparency hampers efficient deal flow and ultimately limits the growth of the local startup ecosystem.

Inefficient Enforcement

Courts in Pakistan do not quickly and efficiently adjudicate disputes, which causes investors to be cautious. Recent developments in alternative dispute resolution laws are expected to improve the situation.

Regulatory Hurdles

Navigating Pakistan's regulatory environment can be challenging, especially for startups operating in highly regulated sectors like fintech or health tech. Legal and compliance issues can delay investment decisions and pose challenges during the fundraising process.

Double Taxation

A significant problem for angel syndicates in Pakistan is double taxation. Investors who pool their money in a syndicate are taxed twice: once on the syndicate's income and again on the profits they receive. This makes it less attractive to invest together because it reduces potential returns.

High Failure Rate of Startups

Like many emerging markets, Pakistan experiences a high startup failure rate driven by an unstable economic environment, inadequate infrastructure, and limited access to skilled labor. While this is not unique to Pakistan, an additional challenge in the local ecosystem is the limited availability of venture capital (VC) funds. Angel investors rely on the presence of strong VC networks to support startups in subsequent funding rounds, enabling early-stage investments to scale and grow. Without sufficient VC funding in the market, startups often struggle to secure the capital needed for growth, increasing the risk for angel investors and limiting their potential returns. This lack of follow-on funding may deter investors from entering the market at an early stage, as the pathway for growth and successful exits is less specific.

Limited Exit Opportunities

A significant challenge for angel investors in Pakistan is the lack of clear exit opportunities. The market for mergers, acquisitions, and initial public offerings (IPOs) is still developing, so investors may have to wait longer to realize investment returns.

Opportunities for Angel Investors in Pakistan

Growing Investor Networks and Communities

Pakistan has seen a rise in investor networks and communities focused on early-stage startup funding. Key among these is Invest2Innovate's (i2i) Angel Investors Community, which brings together individuals interested in supporting high-impact startups through angel investments. This community offers educational resources, networking opportunities, and investment guidance to empower new investors. Other notable networks include the Aspire Angel Investor Network, which connects local and international investors with promising startups, and TiE Islamabad, part of the global TiE network, which fosters entrepreneurship through mentorship and investment opportunities. These networks are crucial in building a vibrant entrepreneurial ecosystem in Pakistan.

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In angel investing, your network is your most powerful tool. It's not just about the money you bring to the table but the connections you enable that can open critical doors for startups. A well-connected investor can drive growth far beyond financial contributions.

Abbas Yousafzai, Angel Investor

Data Initiatives on Startups, Investors, and Investment Deals

Initiatives like Invest2Innovate (i2i)'s Investor Founder Discovery Platform (IFDP) are helping bridge the data gap in Pakistan's startup ecosystem by building a centralized and credible repository of investor and startup data, streamlining the matching process between investors and founders, and fostering better connections within the ecosystem.

Similarly, i2i's Deal Flow Tracker (DFT) provides public data on deals closed by investors in Pakistan, promoting transparency and encouraging new investments.

Growing Entrepreneurial Ecosystem

Pakistan's startup ecosystem is expanding rapidly, with founders emerging from tech hubs like Lahore, Karachi, and Islamabad. The growth of incubators, accelerators, and co-working spaces has fostered a culture of innovation and entrepreneurship.

High Mobile and Internet Penetration

With 111 million Internet users and a penetration rate of 46% as of early 2024, Pakistan offers a robust market for tech startups. Most users are young, creating a strong demand for digital services and tech solutions.

Untapped Sectors

Several sectors in Pakistan remain underdeveloped but present significant growth potential, including agriculture, logistics, renewable energy, and education.

Diaspora Involvement

Pakistani US, UK, and Middle East expatriates significantly contribute to the local angel investing landscape. These diaspora investors bring capital, international expertise, networks, and global market exposure.

Support from Development Organizations

International organizations and development agencies have shown interest in Pakistan's entrepreneurial ecosystem through funding programs, grants, and capacity-building efforts, providing additional support for early-stage ventures.

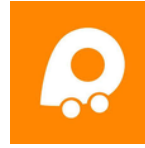
The recent surge in angel investments in Pakistan is a testament to the exciting potential of the startup ecosystem.

Some notable startups that have successfully secured angel investment over the last couple of years in Pakistan include:



GharPar

A beauty and wellness service offering in-home appointments, GharPar filled a unique niche in Pakistan. Its growth attracted angel investors who recognized the potential in the on-demand services sector.



BusCaro

An innovative intercity transportation platform in Pakistan, BusCaro secured crucial angel investment that enabled it to scale, stabilize operations, and attract further funding. See the detailed case study in the conclusion section for an in-depth look.



PostEx

An e-commerce logistics and cash-on-delivery service, PostEx provides financing options to retailers. PostEx's innovation in solving merchant cash flow issues led to strong angel interest and subsequent growth rounds.

The early investors of **FindMyAdventure**—a travel-tech platform specializing in adventure tours in Pakistan that was founded in 2016—generated substantial returns on their investments when it was acquired by GoZayaan in 2022. These examples underscore the diversity of Pakistan's startup ecosystem and the immense potential it holds for angel investors.



RepairDesk

A B2B platform for repair businesses to manage operations, RepairDesk attracted angel funding due to its SaaS model and potential to scale globally from Pakistan.

Sign-up today to become a part of i2i's Angel Investor Community and access workshops and bootcamps on early-stage investing, investor meetups and ecosystem events, and a curated deal flow of startups to invest in.

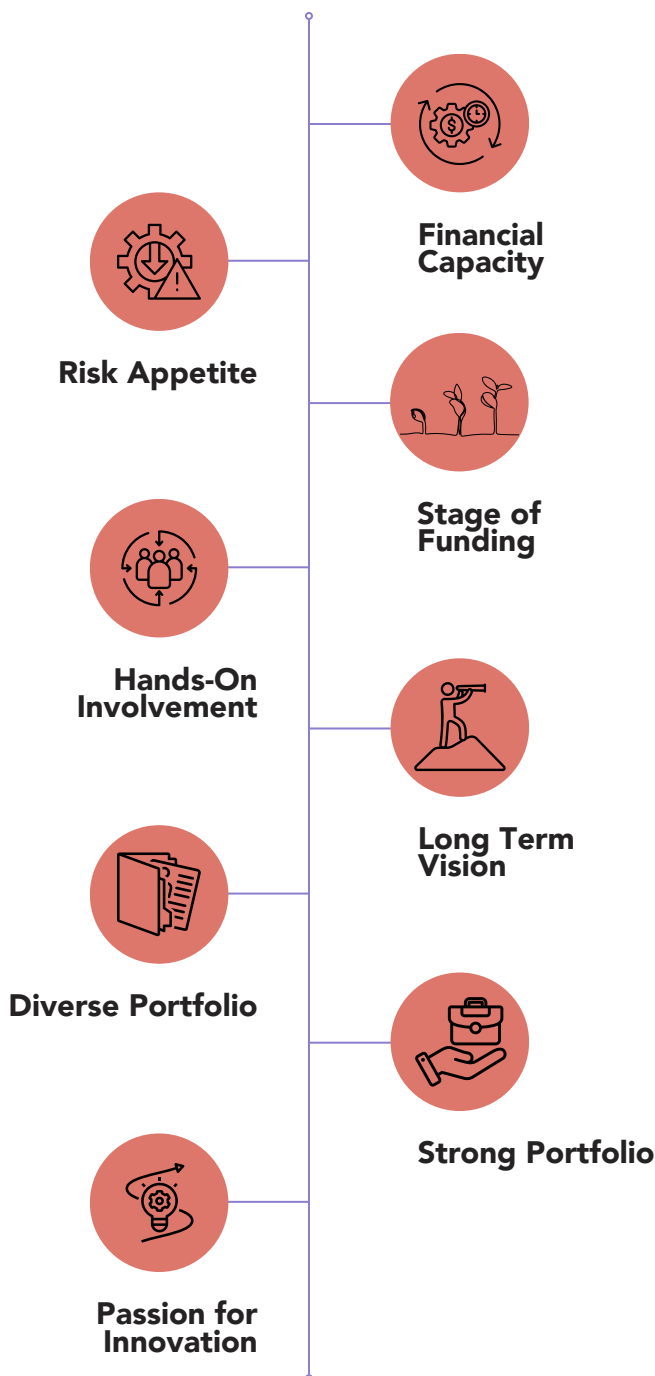


Trukkr

A logistics startup optimizing freight transport for businesses in Pakistan. Its platform for efficient, cost-effective transportation solutions quickly gained investor attention.

Critical Characteristics of Angel Investors

Angel investors are high-net-worth individuals who fund early-stage startups in exchange for equity. Unlike venture capitalists, angels invest personal funds and often take a hands-on role in guiding startups. Beyond capital, angels offer mentorship, industry expertise, and valuable networks. Critical characteristics of angel investors include:



Financial Capacity

Angel investors have sufficient wealth to invest in multiple startups without jeopardizing personal financial stability. Angel investments in Pakistan typically range from \$10,000 to \$100,000, with the potential for higher contributions through syndicates.

Risk Appetite

Angel investors are typically high-risk takers. They understand that early-stage investments come with significant uncertainties, including potential failure. However, the possibility of high returns on successful ventures, along with the passion for innovation, social change, and mentorship, motivates them to engage with promising startups despite these risks.

Stage of Funding

Angel investors typically invest in pre-seed or seed-stage startups. Pre-seed investments support startups in the ideation phase, where founders are still developing the concept or early prototypes. Seed-stage investments, however, focus on startups that have moved beyond ideation and are working on product development or gaining initial market traction. By providing early-stage funding, angel investors help entrepreneurs bridge the gap between concept and commercialization, enabling them to scale and attract further investment. This funding stage carries higher risk but also offers the potential for higher returns, making it an attractive opportunity for those willing to invest in emerging companies.

Hands-On Involvement

Unlike institutional investors, many angel investors play an active role in the companies they invest in. This could involve providing mentorship, offering industry connections, and advising on strategy. Angel investors often bring more than just capital; they provide valuable expertise and experience, which can be critical to a startup's growth.

Long Term Vision

Angel investors generally have a long-term perspective, understanding that startups may take years to mature and achieve profitability. They focus on the potential for scalability and significant value creation over time rather than seeking immediate returns.

Diverse Portfolio

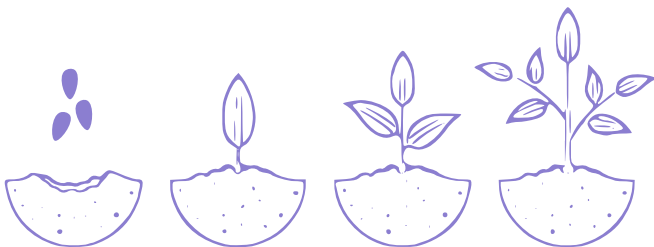
Successful angel investors typically diversify their investments across multiple startups. By spreading their capital, they increase their chances of backing a highly successful venture, as not every startup will yield positive returns. This diversification helps manage risk while maintaining exposure to various opportunities.

Strong Portfolio

Angel investors leverage their professional networks to help startups succeed. They often have deep connections within industries, access to other investors, and relationships with advisors or strategic partners. These networks can be instrumental in helping startups grow and scale.

Passion for Innovation

Many angel investors are driven by a passion for innovation and entrepreneurship. They are often excited about supporting groundbreaking ideas and disruptive technologies, and they derive personal satisfaction from seeing startups succeed and contribute to broader economic and social goals.



Abbas Yousafzai, Angel Investor



“

A successful angel investor isn't just someone who provides capital; they're a mentor, a connector, and a strategic guide. By combining industry expertise, risk tolerance, and a genuine passion for innovation, you can help shape the future of startups while enabling growth and trust in the ecosystem.

Ahmed Uzair, Angel Investor



“

Anyone can write a check. What I want to offer is my experience navigating the ups and downs of entrepreneurship. I want to be the person founders can call when they need advice on scaling or entering new markets.

Sophia Ahmed, Angel Investor



“

I always ask myself, 'What can I do to make this founder's journey easier?' Sometimes, it's making an introduction; other times, it's giving them the confidence to take risks. That's the value I aim to add.

Types of Angel Investors

Angel investors can be broadly categorized based on their investment motivation, risk appetite, industry experience, and desired level of involvement in a startup's operations. Understanding these types can help startups identify the kind of angel investor that aligns with their needs.

Lead Investors

These are typically the first investors in a startup and often play a crucial role in providing funding and mentorship. They may also help attract additional investors.

Co-Investors

These investors join alongside lead investors to provide additional capital. They may not take as active a role in the company's operations but still contribute significant financial support.

Syndicates

Angel syndicates involve multiple investors pooling their resources to invest in a startup. This allows individual investors to diversify their risk while providing startups with more significant sums of capital. Syndicates are often coordinated by a lead investor who represents the group in discussions with the startup.

Affiliated Investors

These individuals have a personal connection to the entrepreneur, such as friends, family members, or colleagues. They are often easier to approach for initial funding.

Non-Affiliated Investors

These investors do not have a personal connection to the entrepreneur. They are typically found through networking events, angel investor groups, or online platforms.

Industry Specific Investors

Some angel investors specialize in specific industries, such as healthcare, technology, or finance. Their expertise can be invaluable to startups in those sectors.

Hands-on Investors

These investors prefer to take an active role in the business, offering guidance and mentorship and sometimes even taking on advisory or board roles.

Hands-Off Investors

These investors provide capital but prefer to remain passive, allowing the entrepreneurs to run the business without much interference.

Local vs. Foreign Angel Investors

Angel investors can also be categorized based on their geographic location and geographic scope of investment. Local Angel Investors are based in Pakistan and typically have a strong understanding of the local market dynamics. Foreign Angel Investors are often based outside of Pakistan, such as in the US, UK, or the Middle East, but are interested in the potential of Pakistani startups. These investors may have more significant resources, experience with high-growth markets, and access to international networks.

Attribute	Local Angel Investor	Foreign Angel Investor
Market Knowledge	Deep understanding of the local market, customer behavior, and regulatory environment	Broader global perspective and industry insights from more mature markets
Network Focus	Local solid connections within Pakistan’s entrepreneurial and business circles	International networks, including access to foreign markets, customers, and investors
Investment Motivation	Passion for supporting local innovation and contributing to Pakistan’s economic growth	Interest in emerging market opportunities and potential for high growth in Pakistan
Ticket Size	Typically, smaller, more focused investments	More significant investments, often pooled through syndicates or venture funds
Challenges	Faces regulatory complexity, limited deal flow, and fewer high-quality opportunities	Navigating regulatory risks, currency fluctuation, and limited local market insight
Regulatory Considerations	Primarily focused on local tax laws and compliance issues	Needs to address cross-border compliance, capital repatriation, and international regulations
Currency Exchange Risk	Minimal, since investments are made in local currency	High, due to potential devaluation of the Pakistani Rupee affecting return on investment
Risk Mitigation Capacity	High risk, but with local market familiarity, able to mitigate some risks	High risk, compounded by unfamiliarity with local nuances and market conditions

Types of Investment

Companies typically seek funding through two main avenues: equity and debt financing.

Debt Financing

Debt capital is the funding obtained by a company through borrowing from individuals or institutions without giving up any company ownership. This debt must be repaid in full within a specified timeframe. The relationship between the company and the debt financier terminates upon debt repayment. Debt can be secured (company assets pledged as collateral, which lenders can seize if the debt is not repaid) or unsecured (without collateral).

Equity Financing

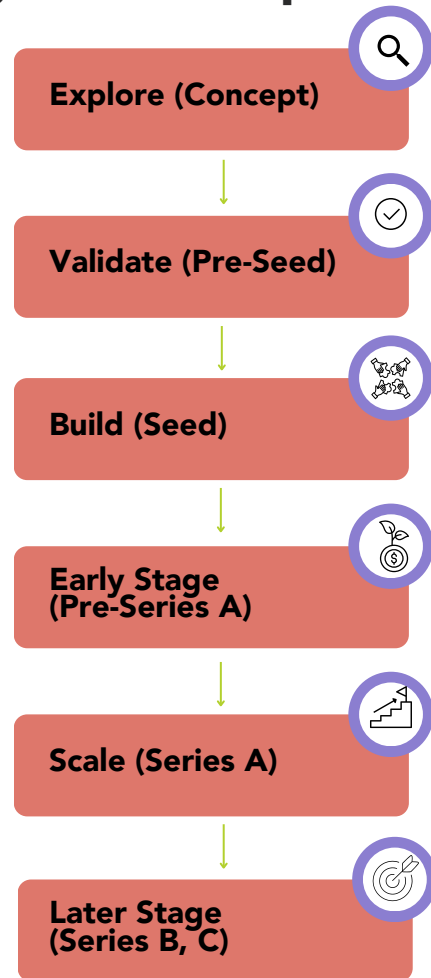
Equity financing involves selling a company's ownership shares to investors. These investors become shareholders and have a claim on the company's profits and assets. Shares can be equity shares or preference shares.

Feature	Debt Financing	Equity Financing
Ownership	No ownership change	Ownership transfer
Repayment of capital	Required	Not required
Interest payments	Yes	No
Potential for capital gains	Limited	Significant

Alongside debt and equity financing, companies can explore hybrid financing options such as mezzanine financing, combining elements of both. Mezzanine financing often takes the form of subordinated debt or preferred equity, providing investors with higher returns while allowing startups to access funds without immediate ownership dilution.

Startups may also consider non-dilutive funding sources, such as grants or revenue-based financing. These options enable the company to raise capital without sacrificing ownership or assuming high-interest debt, making them attractive alternatives for founders who want to retain control of their company.

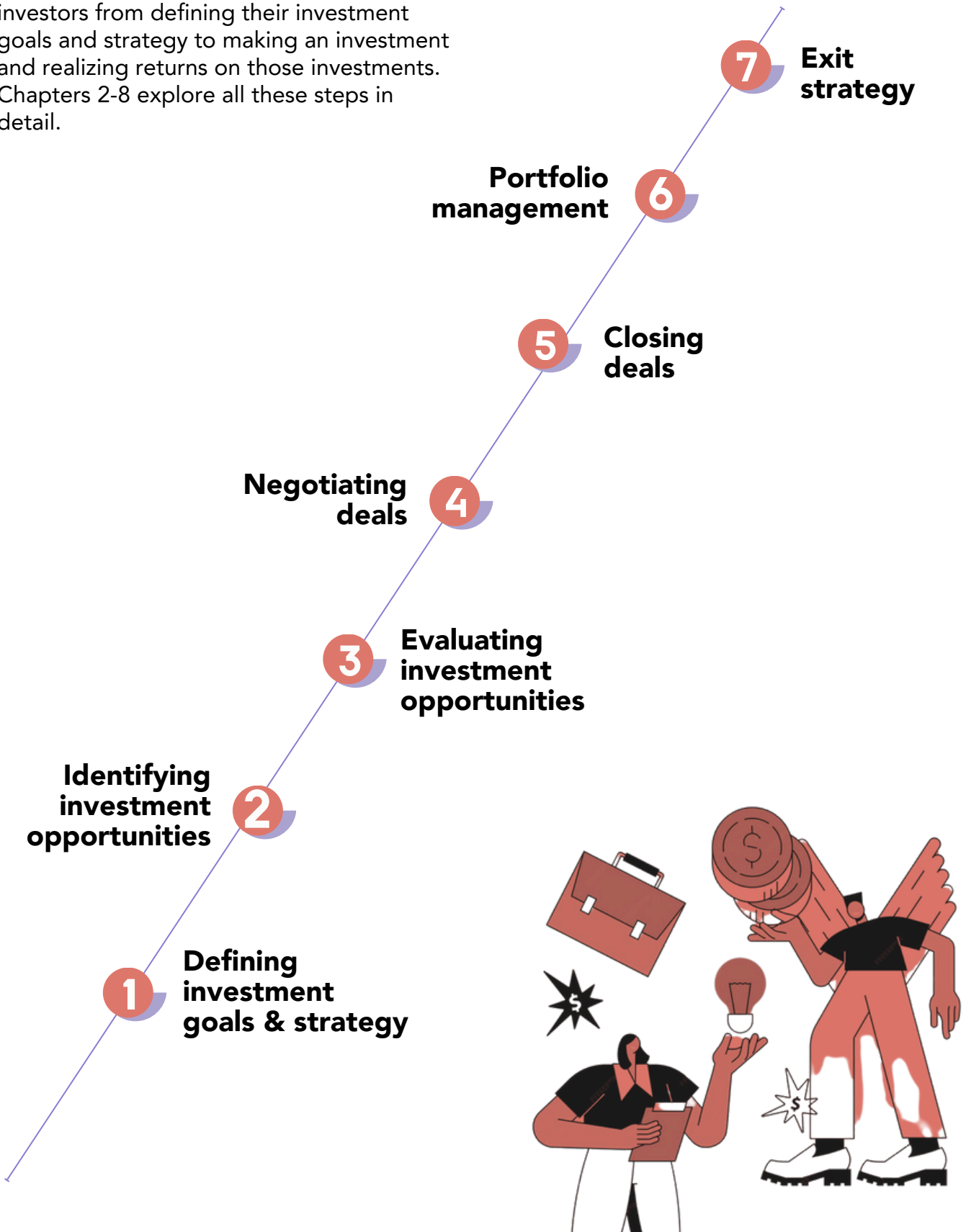
Company and Funding Stages of Startups



Startups typically progress through various stages of growth, each requiring different levels of funding and support. From the Explore phase, where an idea is conceptualized, to the Validate and Build stages, where the product is developed, and early market traction is gained, startups seek pre-seed and seed funding. As they enter the Early Stage or Scale phases, startups aim to raise larger rounds (Series A and beyond) to fuel rapid growth. Later-stage rounds (Series B, C) are often raised to scale operations, expand into new markets, and solidify their market presence.

The Angel Investing Process

Angel investing involves steps that take investors from defining their investment goals and strategy to making an investment and realizing returns on those investments. Chapters 2-8 explore all these steps in detail.



02

INVESTMENT GOALS AND STRATEGY

Angel investing differs significantly from traditional forms of investing, as it typically involves a long-term commitment, higher risk, and active involvement in the startup's growth. Establishing specific goals and aligning them with a sound strategy helps investors stay focused, make informed decisions, and increase the likelihood of achieving their desired returns.

Defining Investment Goals

Angel investors should first define their specific goals. These may range from purely financial objectives to broader impacts, such as fostering innovation or contributing to the growth of particular industries. Common goals include financial returns, supporting innovation, and contributing to economic development.

Short-Term Goals

- **Diversification of Investment Portfolio**

Adding early-stage ventures to diversify from traditional asset classes.

- **Gaining Investment Experience**

Learning the processes of startup investment and building networks within the ecosystem.

Long-Term Goals

- **Wealth Accumulation**

Preparing for potential significant financial returns over a long holding period.

- **Impact Investing**

Aligning investments with personal values, such as fostering social impact and innovation.

- **Legacy Building**

Supporting startups that align with a vision of creating jobs and contributing to economic growth.



Maaike Doyer,
Angel Investor

“

Profitability and impact don't have to be mutually exclusive. I look for companies that are not only financially viable but also create positive externalities for their communities.



Yasser Bashir,
Cofounder & CEO of
Arbisoft

“

To be a great angel investor, back the right team over the right idea and diversify across enough high-potential ventures to manage risk.

Timelines, Returns, and Risks

Angel investing is a long-term commitment, and returns may take years. When developing their strategy, investors should clearly understand their risk tolerance, timelines, and expected returns.

Investment Timelines

Angel investors typically have an investment horizon of 7 to 10 years. Unlike public market investments, early-stage companies may take years before they achieve profitability or an exit event (e.g., acquisition, merger, or IPO).

Expected Returns

Given the high-risk nature of angel investing, investors often seek substantial returns to compensate for the risk of failure. A portfolio approach—where most startups may fail, but a few succeed disproportionately—usually delivers returns. The goal might be to achieve a 10x to 20x return on successful investments.

Risk Considerations

Startups, especially those in their early stages, carry a high risk of failure. To mitigate this, angel investors should perform thorough due diligence, diversify their investments across various sectors, and be prepared for potential losses.

Example

An angel investor may decide that their risk tolerance allows them to invest \$100,000 across ten different startups, expecting two or three of these investments to generate substantial returns, while some may fail. They understand that they need to hold these investments for at least seven to ten years to see returns and are prepared to accept the risks involved.

Asset Allocation and Portfolio Strategy

Proper asset allocation is essential for managing risk. Investors should aim to diversify their investments across various startups and industries to balance potential losses with gains.

Diversification

A well-balanced portfolio reduces risk by investing in startups across various industries, stages, and geographies. This minimizes the impact of any single investment failure.

Stages of Investment

Some investors may prefer to focus on seed-stage startups, which require smaller investments but carry higher risks. In contrast, others might opt for later-stage investments with more traction and a more straightforward path to profitability.

Allocation to Angel Investments

Angel investing should only be part of an investor's overall portfolio. Given the high-risk nature of the asset class, a standard recommendation is that angel investments make up no more than 5-10% of an investor's total net worth.

Example

An investor may allocate 70% of their portfolio to traditional investments (stocks, bonds, real estate) and 30% to alternative investments. Within the 30% alternative investments, 10% might be allocated to angel investments, spread across 10 to 15 startups in different sectors such as fintech, e-commerce, and agritech.



Ahmed Uzair,
Angel Investor

“

Angel investing should not make up more than 5-10% of your portfolio because it's risky. It's all or nothing.

Developing an Investment Thesis

An investment thesis provides a framework for decision-making and ensures that investments align with the investor's goals and strategies. A solid dissertation outlines:

- **Sector Focus:**

Investors may choose to specialize in sectors they understand or believe have high growth potential.

- **Stage of Investment:**

The thesis should also clarify the stages of startup development the investor is willing to participate in—seed, early, or growth stage.

- **Impact Focus:**

Besides financial returns, some angel investors prioritize social or environmental impact, aligning their investments with broader societal goals like sustainable development or women's empowerment.



Sophia Ahmed,
Angel Investor

“

I'm open to investing in any sector as long as the startup creates a positive impact. Whether it's tech, education, or healthcare, I want to see that my investment makes a difference in people's lives

03

IDENTIFYING INVESTMENT OPPORTUNITIES

Identifying and accessing promising investment opportunities is one of the most critical skills for angel investors and is essential for building a solid portfolio. Various networks, communities, events, and platforms allow investors to source a deal flow of startups aligned with their investment goals, enhancing their chances of success. Critical channels for sourcing deal flow include:

Identifying and accessing promising investment opportunities is one of the most critical skills for angel investors and is essential for building a solid portfolio. Various networks, communities, events, and platforms allow investors to source a deal flow of startups aligned with their investment goals, enhancing their chances of success. Critical channels for sourcing deal flow include:

Online Directories and Platforms

Locally tailored and dynamic online platforms like Invest2Innovate (i2i)'s [Investor Founder Discovery Platform \(IFDP\)](#) that consolidate and authenticate fragmented data on investors, startups, and founders from multiple sources are an excellent resource for angel investors to source deal flow. The platform employs hyper-categorization of data, allowing investors to quickly navigate various startup sectors, stages, and investor preferences and efficiently discover investment-ready businesses that match their investment thesis and interests.

Investor Networks and Communities

Investor networks and communities provide access to curated deal flow, collaborative investment opportunities, and educational resources. Some active investor networks in Pakistan include [Invest2Innovate Angel Community](#), Epic Angels, Angel Investment Network, Pak Angels, AugMentor, TiE Angel Fund, LUMS Investors Club, Venture Capitals (i2i Ventures, Indus Valley Capital, Zayn VC, Fatima Gobi Ventures, Deosai Ventures and Sarmayacar), VentureDive, and Pakistan Chapters of Draper University and Draper Venture Network, among others.

Startup Incubators and Accelerators

Incubators and accelerators are critical players in nurturing early-stage startups in Pakistan. They offer angel investors a pipeline of startups vetted, mentored, and prepared for investment.

Accelerators and incubators help de-risk early-stage startups by providing investors access to more investment-ready startups that have achieved early traction. Prominent incubators and accelerators in Pakistan include [i2iScale Accelerator](#), Accelerate Prosperity, Katalyst Labs, and National Incubation Centers (NICs).

Events and Conferences

Events like Pak Launch Community events, 92 Disrupt, She Loves Tech, TiE Pakistan Startup Cup, Momentum Tech Conference, and Startup Grind Pakistan bring together Pakistan's top startups, industry experts, and investors, making it easier for angels to meet and evaluate potential investment opportunities. Startups present their ideas competitively, often judged by seasoned entrepreneurs and investors.



Disclaimer: Please note that the list of platforms, networks, accelerators, incubators, events and conferences is not exhaustive.

04

EVALUATING INVESTMENT OPPORTUNITIES

Once investors identify potential startups, they must evaluate them thoroughly. This process includes analyzing the market, team, business model, competitive landscape, financials, and possible risks. Comprehensive due diligence mitigates risks and improves the chances of selecting successful ventures.

Initial Screening

Before conducting commercial due diligence of startups, investors should consider alignment with their investment thesis and the quality of the founding team as an initial screen.

Commercial Due Diligence

Commercial due diligence evaluates a potential investment opportunity to assess its financial viability, market potential, and overall risk. It thoroughly examines various aspects of a company, including its team, market, business model, product, traction, failure risks and exit potential.

• Team

Assess the founding team's skills, experience, dynamics, leadership qualities, and cultural fit. Conduct in-depth interviews to assess founders' capabilities and compatibility. Conduct reference checks with previous employers, colleagues, mentors, and investors (if any) to gain insights into their leadership and resilience. Founders' ability to pivot and align with investors is crucial for long-term success, particularly in early-stage startups with high uncertainty.

• Market

Evaluate a startup's growth potential by analyzing its market size and growth rate, target customers, competition, industry trends and go-to-market strategy.

• Market Size and Growth Rate

Assess the Total Addressable Market (TAM), Serviceable Available Market (SAM), and Serviceable Obtainable Market (SOM) to assess the startup's potential for growth. Additionally, consider the overall Compound Annual Growth Rates (CAGR) of the industry in which the startup is situated and the growth rates of key competitors.

• Industry Trends

Examine key industry trends, benchmarks, growth drivers, regulatory environment and challenges to gauge the startup's positioning and growth potential.

• Target Market

Evaluate the adequacy of market research - demographic, geographic, firmographic, psychographic, behavioral - on the startup's target market. Understand the target customers' needs and pain points to evaluate whether or not there is a genuine market demand for the startup's solution.

• Competitive Analysis

Analyze barriers to entry in the market, direct and indirect competitors, market share distribution, and how the startup differentiates, positions and prices its products and services against its competitors.

• Go-to-Market Strategy

Analyze the startup's overall go-to-market strategy, focusing on its marketing and sales strategy and how well the market assessment informs these. Evaluate the effectiveness of sales and marketing strategies through metrics such as traffic/impressions, unique reach, engagement, qualified leads, new enrolments, conversion rate, customer acquisition cost, and customer lifetime value.

• Business Model

Analyze the startup's revenue streams, cost structure, profitability and scalability.

• Revenue Streams

Evaluate primary sources of revenue (e.g., product sales, subscription models) and their growth potential. Consider customer acquisition channels and how scalable these are as the startup grows.

• Cost Structure

Examine fixed and variable costs, focusing on cost efficiency and opportunities for optimization. Also, assess the startup's ability to manage these costs as it scales.

- **Profitability and Scalability**

Assess whether the startup's revenue, expense, and cash flow projections are realistic. Evaluate the potential for long-term profitability and the scalability of the business model, focusing on whether unit economics will remain sustainable at scale.

- **Product**

Examine the startup's core technology, intellectual property (IP) protection, and product development roadmap. Ensure the technology is scalable and can support significant growth without compromising quality or efficiency. Review any IP protection, ensuring the startup has the freedom to operate and is not at risk of patent infringement.

- **Traction**

Look for evidence of market traction and customer validation through key performance metrics such as:

- **User and Revenue Growth:**

Evaluate trends over time, ensuring the startup demonstrates consistent and sustainable growth.

- **Customer Validation**

Customer satisfaction, net promoter score (NPS), retention, and churn rates are critical indicators of product-market fit. They help investors assess whether the startup's product or service is aligned with customer needs.

- **Failure Risks**

Evaluate market (market changes, competition, or regulatory changes), product (product-market fit, technical feasibility, scalability, intellectual property), operational (supply chain disruptions, production issues, or human resource challenges), and financial (financial projections, burn rate, funding needs) risks, and develop strategies to mitigate them.

- **Exit Potential**

Evaluate potential exit options (such as acquisitions, IPOs, or secondary market sales), valuation of the company at exit, risks associated with exit and exit timing.

While the factors mentioned above can provide valuable insights for evaluating startups as potential investments, it's crucial to remember that angel investors often invest very early when much of this information may not be readily available. Therefore, having realistic expectations is essential.



Maha Shahzad,
Founder BusCaro

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Especially for angel investors, it's important to recognize that if you're coming in extremely early, the information you're looking for may not fully exist. You need to focus on the fundamentals and have realistic expectations about what early-stage startups can deliver at that stage.



Maaïke Doyer,
Angel Investor

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Angel investing is more about betting on the founder than the idea. The founder's resilience, vision, and ability to pivot at this early stage will determine the startup's success, not just the initial business model.

Legal Due Diligence

Legal due diligence is a crucial step in the angel investment process. This exercise aims to ensure that the angel investor has a valid, enforceable title to the share company's shares and that the repreneur's representations about its business are true.

Legal due diligence involves thoroughly examining a startup's legal standing to identify potential risks that could affect the investment. It helps investors identify red flags, clarify ownership structures, and verify that the startup's intellectual property (IP), contracts, and business operations are legally sound.

• Startup Structure and Formation

The first step in legal due diligence is understanding the startup's corporate structure. This involves reviewing documents that confirm the startup's legal formation, ownership, and governance.

• Holding Company

Verify whether the company has a holding company outside Pakistan. If it does have a holding company, ensure that relevant approval from the State Bank of Pakistan (SBP) was obtained before the holding company was formed. The holding company should also wholly own the operating company in Pakistan. Lastly, make sure that you receive equity in the holding company.

• Incorporation Documents

Review the company's certificate of incorporation, memorandum and articles of association, shareholder agreements (if any), and any documentation outlining governance practices. Ensure the company fully complies with all filings with the Securities and Exchange Commission of Pakistan (SECP).

• Cap Table Review

Confirm that the capitalization table is accurate, up-to-date, and reflects the company's ownership structure without discrepancies.

• Intellectual Property (IP) Rights

For many startups, intellectual property (IP) is one of their most valuable assets, especially in tech or product-driven businesses. Ensuring the startup has clear ownership of its IP is crucial to safeguarding the investment.

• IP Ownership

Confirm that any patents, trademarks, copyrights, and trade secrets are owned by the company, not individual founders or third parties. In the case of licensed technologies, ensure these licenses are valid and assess the terms on which the license can be revoked.

• IP Assignment Agreements

Review agreements between the company and its employees or contractors, ensuring all IP created during their tenure is legally assigned to the company.

• Patent and Trademark Registration

Verify whether the startup's patents and trademarks are registered in key jurisdictions, including the target market countries. Unregistered IP poses risks of infringement or legal disputes. In Pakistan, registration is done through the Intellectual Property Organization.



• **Employment Contracts and Founder Agreements**

Employment and founder agreements ensure the startup has the suitable governance structures.

• **Founder Vesting Agreements**

Ensure that founders' equity is subject to vesting schedules, which define how and when equity is earned over time. Typically, founders earn their equity gradually, with a standard schedule of over four years, often including a one-year cliff. This helps align long-term commitment to the company. The agreement should also include precise methods to determine good and bad leaver situations, ensuring that a founder who leaves early doesn't retain a significant equity stake without contributing to the company's growth. This is essential to reduce the risk of a founder leaving early with a substantial equity stake.

• **Employee Contracts**

Review all employee agreements to confirm that the company complies with local labor laws and that employees are under enforceable contracts, including confidentiality, a reasonable non-compete, and intellectual property assignment clauses.

• **Contractor Agreements**

For startups relying on third-party contractors to outsource some function, ensure that their contracts clearly define deliverables, timelines, payment terms, termination terms and consequences of termination, and IP ownership.

• **Material Contracts and Client Agreements**

Depending on the startup's business model, materials, including customer, supplier, and partnership agreements, could be critical to ensuring these contracts are legally binding and favorable to help mitigate risks.

• **Customer Contracts**

Review the validity of any significant customer agreements that form the backbone of the startup's revenue model. Check for the extent to which the company's liability is limited, including termination clauses and payment terms.

• **Supplier and Vendor Contracts**

Ensure the company has firm contracts with its suppliers and vendors. This includes verifying payment terms, delivery schedules, termination, and quality control clauses.

• **Partnership Agreements**

Evaluate partnership agreements to determine if they have been appropriately structured and offer long-term benefits. Ensure no exclusivity clauses limit the startup's ability to expand or seek new partners.

• **Regulatory Compliance**

Startups operating in highly regulated sectors such as fintech, healthcare, or pharmaceuticals must comply with specific regulations. Investors must confirm that the startup meets all relevant legal and regulatory requirements.

• **Licenses and Permits**

Ensure the company holds all necessary licenses and permits to operate in its industry. Any missing licenses could delay operations or expose the company to fines or penalties.

• **Tax Compliance**

Review the company's tax filings to ensure they are in good standing with federal and provincial tax authorities, such as the Federal Board of Revenue (FBR). All tax returns, services tax payments, and payroll taxes have been paid and documented.

• **Sector-Specific Compliance**

Depending on the sector, verify that the company is adhering to regulatory frameworks, such as data privacy laws (e.g., GDPR if the company is offering services to users in Europe) in tech or healthcare regulations in the medical industry.

- **Legal, ESG, and Shareholder Considerations**

When evaluating a startup, investors should consider legal risks, ESG compliance, and shareholder protections. First, it is essential to assess any ongoing litigation, contingent liabilities, or potential legal disputes that could pose financial or reputational risks. This includes reviewing unresolved issues, such as warranties or indemnifications, that could lead to future lawsuits.

Next, attention should be given to the startup's Environmental, Social, and Governance (ESG) practices. Investors increasingly value companies that adhere to ESG standards, including compliance with environmental regulations and social solid governance, such as diversity and fair labor practices. Startups with robust ESG policies may attract additional interest and face fewer reputational challenges.

Finally, reviewing exit clauses and shareholder agreements is crucial to ensure investor rights are well-protected in exit scenarios like mergers, acquisitions, or IPOs. Shareholder agreements should include provisions for voting rights, anti-dilution protection, and the ability to participate in critical decisions, ensuring that investors maintain influence and security throughout their involvement with the startup.



05

NEGOTIATING DEALS

Once an angel investor has identified a promising startup and completed their commercial and legal due diligence, the next step is negotiating the investment deal. Deal negotiations are a critical aspect of angel investing, as they determine the terms under which the investor will participate in the startup's growth and share in its potential success. The goal of negotiation is to create a win-win scenario where both the startup and the investor feel confident about the terms of the partnership.

Angel investors in early-stage startups should negotiate higher startup valuations to minimize dilution. This helps ensure that founders retain a meaningful equity stake, which is crucial for motivating them to remain committed to the company's long-term success. Maintaining significant founder ownership is particularly important in startups where the founder's vision and leadership drive growth. Balancing fair valuations with founder incentives creates more substantial alignment between investors and founders, fostering sustainable growth and value creation.

Valuation

Valuation is one of the most critical and contentious aspects of deal negotiations. It determines the equity the investor will receive in exchange for their capital. Two concepts are crucial to understanding valuation methods: pre-money and post-money valuation.

- **Pre-money valuation**

Valuation of the startup before the new capital investment is made. It represents the company's worth based on its current assets, revenue, and growth potential without factoring in the incoming capital.

- **Post-money valuation**

A startup's valuation after the new capital investment. It includes both the pre-money valuation and the new capital raised. Investors use this figure to calculate their equity stake in the company.

Example

If a startup is valued at \$4 million pre-money and an investor commits \$1 million, the post-money valuation would be \$5 million. In this case, the investor would receive 20% equity ($\$1 \text{ million} \div \5 million). Angel investors use a combination of valuation methods, depending on the startup stage.



Angel investors use a combination of valuation methods, depending on the startup stage.

Valuation Methods for Startups	How to Use	When to Use
Berkus Method	Assign a pre-money value to different aspects of a startup, such as the idea, prototype, quality of the management team, strategic relationships, and product rollout or sales. Sum the assigned values to determine the overall valuation.	It is ideal for pre-revenue startups at the seed stage, mainly when limited financial data is available.
Scorecard Valuation	Compare the target startup to other similar startups that recently received funding. Adjust the average valuation based on team strength, market opportunity, product stage, and competition.	It is best suited for pre-revenue startups at the seed stage, especially when benchmarking against peers is necessary.
Risk Factor Summation Method	Start with a base valuation and then adjust it based on 12 risk factors, including management, stage of the business, legislation/political risk, manufacturing risk, sales and marketing risk, funding/capital raising risk, competition risk, technology risk, litigation risk, international risk, reputation risk, and potential lucrative exit.	It is useful for pre-revenue startups at the seed stage, mainly when a thorough risk assessment is critical.
Comparable Transactions Method	To determine appropriate valuation multiples, compare the startup's key performance indicators (KPIs), such as revenue, user base, and market size, with recent transactions of similar companies.	Effective for post-revenue startups at the seed or pre-Series A stage, especially in well-defined industries.

Venture Capital Method	Estimate the startup's future value at exit (e.g., through acquisition or IPO) and discount it back to the present value to calculate post-money valuation.	This is typically used for post-revenue startups at Series A, B, C, or beyond stages when forecasting future outcomes is feasible.
Discounted Cash Flow (DCF) Method	Project the startup's future cash flows and discount them back to their present value using a discount rate that reflects the risk and time value of money.	Appropriate for post-revenue startups at Series A, B, C, or later stages, especially when reliable financial projections are available.

Negotiation

Negotiating a deal requires strategic thinking, flexibility, and a willingness to find common ground. Investors and founders need to strike a balance between achieving a fair valuation and ensuring that the terms reflect the risks and rewards of the investment.

Practical negotiation skills are essential for achieving favorable deal terms. Key tactics include:

- **Preparation and Research**

Understand the startup's financial needs and market position.

- **Anchoring**

Setting an initial offer to guide negotiations.

- **Bundling**

Grouping multiple terms (valuation, board seats, liquidation preferences) to find common ground.

- **Walk-Away Point**

Know when to walk away if terms don't align with your goals.

Cap Tables

A capitalization table (cap table) is a critical document that outlines the ownership structure of a startup, detailing who owns shares, how many shares they own, and the percentage of ownership each stakeholder has. Understanding the cap table is essential for investors to assess how their investment will impact their equity stake and future dilution. Critical components of a cap table include:

- **Share Classes**

Startups often issue different classes of shares, such as joint and preferred stock. Each class may come with other rights, including but not limited to voting power, dividend rights, and liquidation preferences.

- **Ownership Percentages**

The cap table shows the percentage of ownership each founder, employee, and investor holds in the company. Calculating how much equity the investor will receive after their investment is essential, and it is essential to determine how future funding rounds might dilute that ownership.

- **Option Pools**

Many startups set aside a pool of shares for employee stock options. This pool can affect the overall equity structure, as the shares will dilute existing ownership when exercised. Investors should ensure the option pool is accounted for when calculating their post-investment stake.

- **Convertible Notes and SAFEs:**

If the startup has raised capital through convertible notes or Simple Agreements for Future Equity (SAFEs), these instruments will convert into equity at the time of the next funding round. Investors need to understand how these instruments will impact their equity position.

Term Sheets

The term sheet is a non-binding agreement outlining the investment's essential terms and conditions. It is the foundation for the final legal documents, such as the investment and shareholder agreements. Both investors and founders must carefully review the term sheet to ensure all parties are aligned on the deal structure before moving forward. Key components of a term sheet include:

- **Valuation and Equity Ownership**

The term sheet should clearly state the startup's pre-money and post-money valuation, as well as the equity percentage the investor will receive in exchange for their capital.

- **Liquidation Preferences**

Liquidation preferences dictate the order in which investors and shareholders will be paid in the event of an exit or liquidation. Investors typically negotiate for a 1x or 2x liquidation preference, meaning they will receive 1 to 2 times their initial investment before other shareholders are paid.

- **Anti-Dilution Provisions**

These provisions protect investors from dilution in future funding rounds by adjusting their ownership percentage if new shares are issued at a lower price.

Common anti-dilution mechanisms include full-ratchet and weighted-average adjustments.

- **Right of First Refusal (ROFR)**

Investors may seek a right of first refusal, allowing them to match any future offers to purchase shares from existing shareholders before those shares are offered to third parties. This ensures they maintain their ownership stake.

- **Information Rights**

Investors often request information rights, providing them access to regular financial and operational reports. This ensures transparency and keeps investors informed of the company's performance.

- **Board Representation**

Investors may negotiate for a seat on the startup's board of directors to have a say in major decisions. This can be particularly important for larger investments or when the investor brings significant industry expertise.

- **Voting Rights**

The term sheet should outline the voting rights of each class of shares. Investors may negotiate for special voting rights on key decisions, such as future fundraising, acquisitions, or company structure changes.

- **Reserved Matters**

Reserved matters refer to decisions that cannot be made without the consent of certain key investors or the board. These decisions may include approving major expenditures, changes to business strategy, or issuing new shares.

- **Exit Strategy**

The term sheet may include provisions related to the investor's exit, such as drag-along rights, which allow majority shareholders to force minority shareholders to join in the sale of the company under certain conditions.

06

CLOSING DEALS

Once the term sheet has been agreed upon and the major deal terms have been negotiated, the final stage is closing the deal. Closing involves formalizing the investment through legal documentation, transferring funds, receiving the shares (if not investing through SAFE) and ensuring that all regulatory and compliance matters are in order. The goal of this stage is to complete the transaction smoothly, ensuring that both parties are satisfied and that the startup receives the capital needed to scale.

To ensure a smooth transaction, both parties should develop a deal closure checklist detailing the steps to be completed, such as verifying compliance, finalizing legal documentation, and addressing regulatory approvals. Maintaining transparent communication between the startup and investors throughout the closing process is critical to avoid delays and misunderstandings. Additionally, startups should allocate sufficient time for unforeseen legal or regulatory hurdles, and investors may consider hiring legal counsel familiar with startup transactions to ensure smooth execution.

Financial Instruments

Once the terms of the investment are decided, the next step is to formalize the term sheet using the appropriate financial instrument. Common instruments include Share Purchase Agreements, Convertible Notes, and Simple Agreements for Future Equity (SAFEs). Each financial instrument serves different purposes depending on the startup's stage and needs.

- **Convertible Note:**

Convertible notes are typically used in early-stage startups when it is difficult to determine a valuation. They allow the startup to raise funds in the form of debt, which can later convert to equity at a discounted rate during the next funding round. While offering investors some security with interest rates and maturity dates, convertible notes provide flexibility for startups in their early stages.

- **Simple Agreement for Future Equity (SAFE):**

SAFEs are similar to convertible notes, but the financing raised through a SAFE is classified as equity, not debt, meaning it does not accrue interest. SAFEs are often used in early-stage investments due to their simplicity and speed, allowing startups to raise capital quickly without negotiating complex terms.

However, SAFEs may pose higher risks to investors if the startup fails to raise future rounds or reach certain milestones, as they convert to equity only during a qualifying event like a future funding round.

Primary investment documents such as a SAFE may also be supplemented by a side letter. A side letter is used to outline specific terms or rights granted to an individual investor or group of investors without modifying the terms for all parties involved in the deal. It typically includes provisions not covered in the main agreement, such as information rights, additional voting rights, or special privileges. Side letters may also include requests for more detailed financial reporting, participation in future funding rounds, or assurances about corporate governance.

- **Priced Round**

This is when the investment is made at a fixed valuation, and the company issues shares against the investment. A priced round involves multiple documents to cover the transaction. These typically include shareholders agreement and share purchase/issuance agreement, among others. Priced rounds are usually time-consuming and expensive, so they are best suited for later stages when the company is raising large amounts of capital.

Legal Framework, Regulations and Compliance Requirements

Before closing, investors must ensure that legal and regulatory requirements are met. This includes compliance with securities regulations, foreign investment rules, and tax considerations.

Investors should know sector-specific regulations that may impact startups, particularly in highly regulated industries like fintech, healthcare, or energy. In Pakistan, for example, fintech startups must comply with State Bank of Pakistan regulations,

while health-tech companies must meet stringent privacy and data security standards.

Additionally, foreign investors must be mindful of local capital controls and foreign exchange regulations, which may limit the repatriation of profits or require approval for foreign investment. In many jurisdictions, approval may be required from local regulatory bodies, such as central banks or governmental investment authorities, to ensure compliance with foreign investment laws. These regulations can impact the transfer of funds into and out of the country, and failure to obtain the necessary approvals could result in delays or penalties.

In Pakistan, the key authority responsible for regulating foreign investment and foreign exchange transactions is the State Bank of Pakistan (SBP). The SBP governs foreign exchange regulations, including repatriating profits, dividends, and capital gains. Foreign investors may also need to comply with rules set by the Board of Investment (BOI), which facilitates and promotes foreign investment in the country. Approval from these entities is often required to ensure that foreign investments and the repatriation of funds comply with Pakistan's regulations.

Ensuring that the investment complies with these regulations upfront can prevent issues later in the exit process.

Investment Documentation

Investment agreements and shareholder agreements must be finalized. These outline the terms of the investment, such as equity stake, voting rights, and exit strategies.

Beyond just investment and shareholder agreements, it's essential to include governance provisions that protect both parties:

- **Board seats or veto rights** give investors oversight of key company decisions, ensuring their interests are safeguarded. In addition, **reserved matters** are specific decisions or actions that cannot be made without the approval of key investors or the board. These matters typically include significant corporate decisions, such as issuing new shares, taking on debt, or approving major expenditures.
- **Pre-emption rights** allow investors to maintain ownership by participating in future funding rounds, preventing dilution.
- **Drag-along and tag-along clauses** ensure minority investors are treated fairly during an exit, particularly in mergers or acquisitions.

Due Diligence Completion

- **Confirm Compliance**

Ensure the startup has complied with all legal, regulatory, and financial obligations. Any discrepancies discovered during the initial due diligence should be resolved before transferring funds.

- **Address Outstanding Issues**

If there were any red flags during the due diligence process, such as unresolved IP issues or pending litigation, these should be addressed and documented in the closing process. Investors may negotiate indemnification clauses, which protect them from future liabilities by requiring the startup or founders to cover any losses or damages resulting from certain risks, such as legal disputes or breaches of representations and warranties, to protect themselves from future liabilities.

Due diligence expectations vary by stage:

Due diligence may focus on the founders' track record, business model, and market potential in early-stage investments.

In growth-stage investments, more emphasis is placed on financials, customer acquisition, and competitive positioning.

Additionally, ESG due diligence is becoming increasingly important for investors prioritizing sustainability and ethical practices. This involves evaluating the startup's environmental impact, social responsibility, and governance standards, which can affect long-term profitability and risk.

Fund Disbursement

Once the legal documents are finalized, the next crucial step is the disbursement of investment funds. This process involves transferring the agreed-upon amount to the startup's bank account in exchange for shares or other investment instruments, as the investment agreement outlines. Ensuring smooth and timely fund transfers is key to maintaining momentum and trust between the parties.

Common methods for fund disbursement in Pakistan include:

- **Direct Bank Transfer:**

A simple and widely-used method for transferring funds directly between bank accounts.

- **Wire Transfer**

An international option for investors, particularly in cross-border deals, ensuring secure and fast transfers.

- **Cheque or Bank Draft:**

While less common in modern transactions, these methods are sometimes used for the paper trail.

- **Electronic Funds Transfer (EFT)**

This digital transfer method is quick, efficient, and commonly used for domestic transfers.

- **Escrow Accounts**

In some cases, funds are held in an account until certain predefined conditions are met. This may include the completion of additional due diligence, receipt of regulatory approvals, or the startup reaching specific milestones. Using an escrow account mitigates risk by ensuring that funds are only released when all conditions are fulfilled, offering protection to both the investor and the startup.

Investors and startups can negotiate the disbursement terms to ensure funds are released at appropriate stages, maintaining flexibility while safeguarding both parties' interests.

Post-Investment Activities

Once the deal is closed, the investor's involvement continues through monitoring performance, providing mentorship, and potentially participating in follow-up investments.



07

PORTFOLIO MANAGEMENT

Effective portfolio management is essential for angel investors to achieve sustainable success in early-stage investing. While investing in individual startups can yield significant returns, it is inherently risky due to the high failure rates of early-stage companies. A well-managed portfolio helps mitigate these risks by diversifying investments, monitoring performance, and strategically managing follow-on investments. Common portfolio management strategies include:

Diversification vs. Concentration

Investing across multiple startups spread across sectors (e.g., fintech, health-tech), stages (pre-seed, seed, series A and beyond), or geographies (Pakistan, MENA region, Europe, etc.) helps spread risk. Some investors, on the other hand, choose to focus on fewer investments in sectors where they have the expertise to minimize risks.

Passive vs. Active Portfolio Management

Passive investors take a hands-off approach, while active investors provide mentorship, take board seats, and guide startups.

Value vs. Growth Investing

Value investors seek out undervalued startups, while growth investors focus on startups with rapid market expansion.

Solo vs. Co-Investing

When it comes to angel investing, investors can choose to invest individually (solo) or in co-investing through a syndicate or alongside other institutional investors. Solo investing often offers full control and works best for those who have a deep understanding of the industry or startup they are investing in but carry higher risks nonetheless. Co-investing with others spreads risk, provides access to expertise, and opens doors to larger deals. This collaborative approach is becoming increasingly popular among angel investors seeking to reduce risk while maximizing opportunities.



Ahmed Uzair,
Angel Investor

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Rather than investing in 10-15 startups across various sectors, I believe in focusing on 1-2 industries I have deep knowledge in. It's about adding strategic value and mitigating risks by leveraging your expertise rather than just diversifying for the sake of it.

While managing their portfolios, investors should actively monitor startups they have invested in by tracking revenue growth, customer metrics (acquisition, retention, churn), burn rate, cash runway, and milestone achievements. Active monitoring also positions investors for follow-on investments in high-performing startups to reduce exposure to underperformers.



Maaike Doyer,
Angel Investor

“

In nascent markets like Pakistan, expecting hypergrowth is unrealistic. Instead, we need to see steady progress and the ability to course-correct based on what the market tells them.

08

EXIT STRATEGIES

An exit strategy is crucial for realizing returns on angel investments. It defines how and when investors can exit and secure investment returns. While it's essential to develop a preliminary exit strategy based on the findings from commercial due diligence before closing a deal, investors should regularly review, adapt and modify their exit strategy to ensure it remains aligned with their goals and the evolving market environment.

Factors Affecting Exit Strategy

Factors that impact an angel investor's exit strategy include:

- **Startup Stage, Growth and Competitiveness**

The stage of the startup, its growth trajectory and competitive edge impact the exit strategy. A rapidly growing company with strong financials may support an earlier exit through an IPO or acquisition. Similarly, if the startup has a unique offering, it may attract strategic buyers.

- **Market Conditions**

Broader market conditions can influence exit timing and method. Economic downturns, for instance, can impact investor sentiment and valuations, affecting the timing and terms of an exit.

- **Investor Preferences and Time Horizon**

Different investors may have different exit timeframes or preferences for exit methods. An investor's investment goals and risk appetite determine exit timeframes and preferences.

Preparing for Exit

In addition to the factors listed above, angel investors can optimize their exit strategy by:

- **Building Value**

Increasing revenue, improving profitability, and enhancing intellectual property (IP) can help maximize exit potential.

- **Timing the Exit**

Assessing market conditions and the startup's growth to choose the right time for exit.

- **Exit Strategy Alignment**

Ensuring initial alignment between investors and founders on exit preferences.

Exit Methods

An effective exit strategy involves identifying the potential exit methods and considering the timing, valuation, and risk mitigation measures. Common exit methods within a broader exit strategy include:

- **Acquisition**

A larger company purchases the startup to integrate its offerings or remove a competitor. This is one of the most common exit methods for investors, often leading to significant returns if the startup is sold at a high valuation. Examples in Pakistan include Bykea and Daraz.

- **Initial Public Offering (IPO)**

When a startup goes public by listing its shares on a stock exchange, it provides liquidity for shareholders. However, IPOs are rare due to the high requirements for scale and profitability.

- **Secondary Market Sale**

Investors can sell their shares to other investors, such as venture capital or private equity firms, rather than waiting for a formal exit event like an acquisition or IPO. This method can offer liquidity at various stages of a startup's growth.

- **Management Buyout (MBO)**

The startup's management team purchases the equity outside investors hold. This method is often used when the management team wants to retain ownership and control of the company.

- **Merger or Strategic Partnership**

When two companies combine to form a new entity, both shareholders receive shares in the merged company. This method often generates returns while allowing the business to continue operating.

- **Liquidation**

In the event of a business failure, liquidation involves selling the startup's assets to pay creditors, often resulting in investor losses.

By including these methods as part of a broader exit strategy, investors can better plan for the optimal timing and conditions for their exit, ensuring they maximize returns while mitigating risks.

Legal and Regulatory Considerations

- **Due Diligence and Compliance**

Ensure the startup's financials, IP, and contracts are compliant and ready for scrutiny during exit.

- **Shareholder Agreements and Rights**

Understand drag-along rights, tag-along rights, and liquidation preferences to ensure fair distribution of exit proceeds.

- **Tax Implications**

Be aware of capital gains taxes and any international tax considerations for cross-border investments

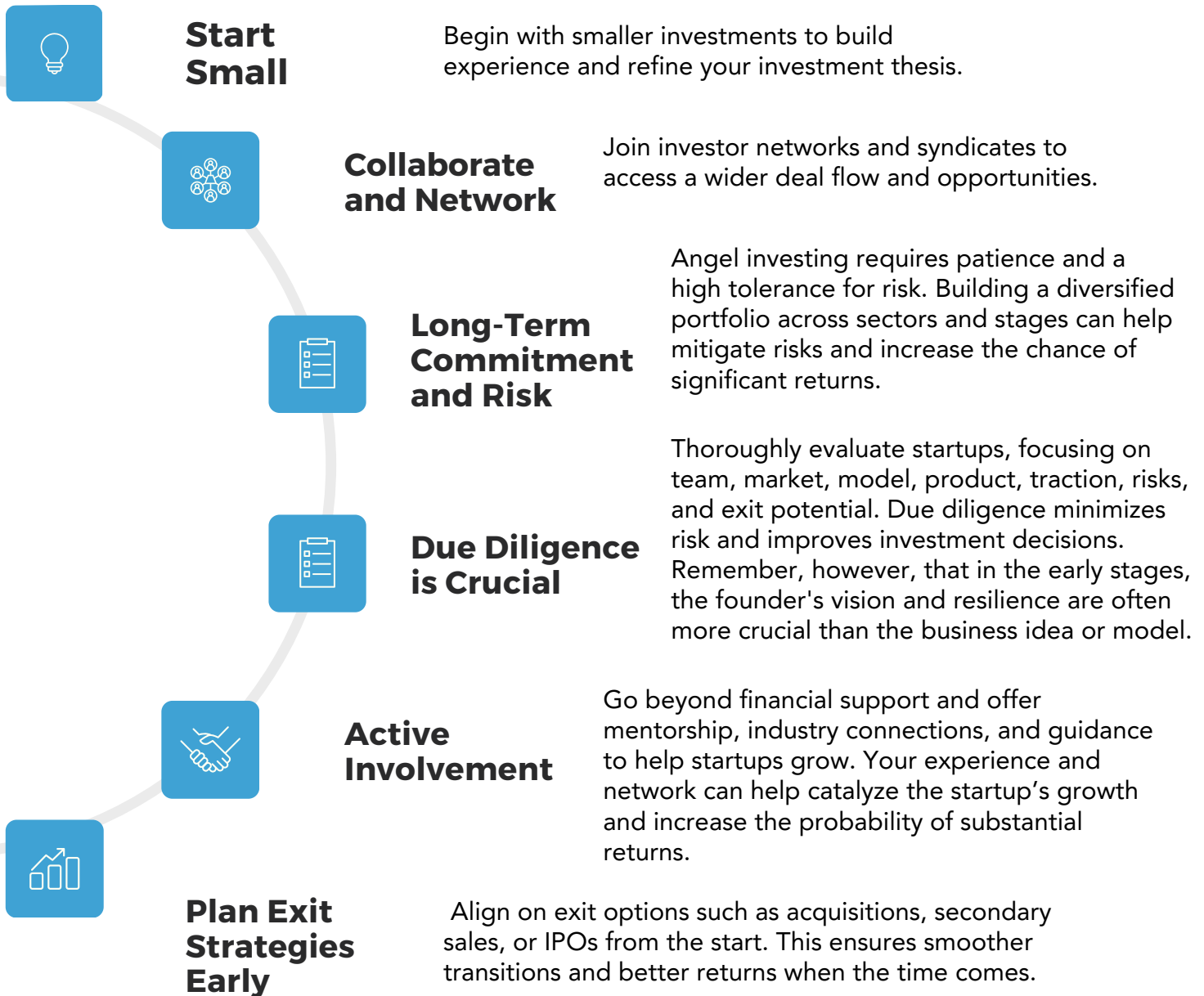


09

RECOMMENDATIONS

By staying informed, building relationships, and contributing actively, angel investors can play a vital role in the growth of Pakistan's entrepreneurial landscape and achieve meaningful financial and social impact. Following are some recommendations for aspiring angel investors in Pakistan:

By staying informed, building relationships, and contributing actively, angel investors can play a vital role in the growth of Pakistan's entrepreneurial landscape and achieve meaningful financial and social impact. Following are some recommendations for aspiring angel investors in Pakistan:



10

CONCLUSION

As we conclude the Starter Guide for Angel Investing in Pakistan, it's important to reflect on angel investing as a financial endeavor and a driving force for innovation, economic growth, and societal impact. At Invest2Innovate (i2i), we believe that the future of entrepreneurship in Pakistan and the broader MENA region is tied to a well-connected and vibrant angel investment ecosystem. This ecosystem must empower both investors and startups for long-term success.

Angel investing is not just about providing capital; it's about giving back to the community, fostering innovation, driving economic growth, and supporting entrepreneurial success through mentorship. As an aspiring or current angel investor, your role is pivotal in shaping the future of Pakistan's startup ecosystem.

The Journey of BusCaro – A Testament to the Power of Angel Investment

Let's revisit a story that embodies the transformative role of angel investment. Founded in 2022, BusCaro emerged with a vision to revolutionize Pakistan's transportation landscape by providing tech-driven, reliable, and affordable transit options. Despite strong demand, the startup's tight resources placed it at a crossroads.

Maha Shahzad, Founder of BusCaro (formerly at Careem and Swvl), recalls the challenging period when positive traction alone wasn't enough—they needed a financial lifeline to bring their vision to life. Recognizing the potential beyond numbers, a group of local and international angels stepped forward, led by investors like Justin Caldbeck, Alan Rutledge, Mart Kelder, Alexander Hanhikoski, Adeel Habib, and Kashif Rehman. This initial \$500,000 round fueled growth, allowing BusCaro to build operational stability and refine its platform.

These angel investors saw BusCaro not as a high-risk proposition but a solution desperately needed by people nationwide. With their investment, these angels gave BusCaro the capital to continue and the validation that investors—and future partners—could believe in its mission.

BusCaro attracted a subsequent **\$1 million round** with this foundation, leveraging early traction to scale further.

BusCaro's journey illustrates how angel investors' faith can be pivotal, catalyzing growth and signaling wider market potential in Pakistan's burgeoning smart mobility sector. Today, BusCaro's impact reaches far and wide, and its journey serves as a reminder of the critical role that early believers play in a startup's success.

The BusCaro story is more than a tale of survival; it's a testament to what happens when angels take a chance on local ideas with global potential. For aspiring angels reading this guidebook, remember that your support, belief, and capital can distinguish between a startup fading away and becoming a name that changes lives.

As you consider the next big idea, think of BusCaro. Think of the lives impacted, the jobs created, and the ecosystem strengthened—all because a few individuals believed in something more. This, at its core, is the true power of angel investment.



KICKSTART YOUR ANGEL JOURNEY WITH INVEST2INNOVATE (I2I)

At invest2innovate (i2i), we aim to foster a thriving and sustainable startup ecosystem in Pakistan by empowering angel investors, entrepreneurs, and ecosystem builders. Through education, collaboration, and community building, we aim to ensure long-term success for both investors and startups, contributing to economic growth and innovation.

Join i2i Angel Investors Community: [Sign-up](#) today to become a part of i2i's Angel Investor Community and get access to:

Workshops and Bootcamps on Early-Stage Investing



Gain practical knowledge on early-stage investing topics.

i2i Investor Meetups and Ecosystem Events



Network with other investors and startups.

Curated Dealflow



Discover vetted startups, conduct due diligence, and explore potential deals.



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