

Business Angels

When Entrepreneurs and Investors get together

Expert knowledge means success

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Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

Many small businesses fail because they are starved of funds and are unable to secure additional support from their bank. Private equity is an alternative source of finance and, unlike traditional borrowing through banks, the money doesn't have to be repaid nor does it attract borrowing fees or interest. One of the fastest growing sources of equity finance for small business comes from people called Business Angels.

Business Angels are private investors - usually they have a business background and are experienced entrepreneurs. Many are, or have been, business owners, company directors, senior managers or business-related professionals. They all have some knowledge about business. Their main objective is to improve the business' chances of success and to help get good ideas off the ground.

The other thing about Business Angels is that they have capital to invest and are willing to take a degree of risk and work with other entrepreneurs as well as being willing to take a medium to long-term view of the future success of the business. They usually play an active role in companies in which they invest by joining the Boards of these companies and often provide informal consultancy. In some cases, they work in the investee companies on a part-time basis or even, in rare cases, full-time.

Business Angels are a major source of knowledge for the companies in which they invest and they improve the flow of investment capital and management expertise into start-up and growing companies in the UK - thus overcoming one of the major barriers to economic growth for young and growing businesses.

The private capital that Business Angels provide to companies is particularly effective when packaged with their business acumen. Experience shows that investment by an experienced private investor in the early stages of a business can provide the key to further funding by venture capital organisations later on. Business Angels offer skills, knowledge and expertise to fill any

gaps, an objective point of view, and someone with whom to share an interest in the business and they can help to put the company on a growth path. Further venture capital investment later on is not only based on a product or service but on a team who have some kind of track record.

Business Angel financing is best for:

- *Early-stage companies*
Business Angels typically provide seed money for companies just starting up or emerging from the prototype stage to establish their first operations
- *Companies that need more than credit card financing but less than venture capital*
Most Business Angels keep their investments well under £100,000, so they can spread their risk across several companies.

Who are Business Angels?

Business angels are wealthy individuals willing to invest in growing firms in return for an equity stake in the business. They accept the risk inherent to this kind of operation and expect a high return on investment. Traditionally, a Business Angel was someone who had retired or sold his/her business. This is beginning to change as news of the concept spreads and increasingly, executives, peers and portfolio investors now commonly become Business Angels. They are often self-made, with entrepreneurial backgrounds, and are usually over 45. Only 1 per cent is female. Usually they will invest between £10,000 and £50,000 and they are likely to want some degree of influence in the company they are backing. It is estimated that a third of deals involve a total of more than £100,000 and some deals involve more than one Business Angel.

Angels tend to stay out of the limelight, so estimates of the size of the market are based on educated guesswork. In the UK, there might be about 18,000 of them, all actively seeking investments and ready to invest up to £500 million a year in total into about 3,500 businesses.

They are a crucial source of funding for start-ups and growing companies that are too small to attract funds from venture capitalists.



Dragons' Den

The BBC's popular *Dragons' Den* programme is back on TV. The first series of *Dragons' Den* was transmitted on BBC2 in January 2005

Entrepreneurs pitch for investment in the Den from our Dragons, five venture capitalists willing to invest their own money in exchange for equity.

<http://www.bbc.co.uk/programmes/b006vq92>

Your Business Plan

Although Business Angels usually make quicker decisions and apply a less formal investment process than Venture Capital funds do, it's highly desirable that you have a Business Plan. It should set out a convincing case for the funding required and:

- Is a detailed statement of where the company is today and what its strategy is for the future.
- Must explain why the business will be successful and describe clearly what's unique about it.
- Should look at, in great detail, the basic assumptions of the business and its activity - its hot spots and its weak spots, its opportunities and the threats that may make life difficult.
- Should outline the skill and talents of the team who will take the business forward.

Your Business Plan is your key to understanding your business. It requires you to get down on paper, key information about your business - historical and projected, financial and non-financial. It plays an important part in promoting an understanding of the business within the business itself but also has a key role in adding substance to a proposal for obtaining funds from an external source – such as a Business Angel.

The aim of the business plan must not be to persuade A Business Angel to say 'yes' to a shaky proposition - this does neither of the parties any good - but to lend some substance to the proposal by giving credibility to the declared aims, and by setting out answers to many questions an investor could only otherwise cover at a lengthy discussion.

Every kind of business, whether sole trader, partnership, or limited company, needs to plan its business growth. To achieve successful results you will need to provide answers to some very searching questions. Tick those below that you can truthfully answer right now:

- Where you are you now? (your current status)
- Where have you come from? (your experience)
- Where you are going? (your ambitions)
- What are the obstacles? (the problems and challenges that will have to be overcome)

- Do you have the ability to do what needs to be done? (how are you going to cope)
- How are you going to do it? (your strategy)
- How much you will get out of it? (why are you doing it)
- How much it will cost? (how much money will you need)
- Will it be worthwhile? (are there other options)
- How long will it take? (the timeframe)
- What will you do next – after your goals have been reached? (what next)

The Business Plan must demonstrate in a rigorous manner the commercial viability of the proposed venture and its high growth potential. It should cover all aspects of the business: from its marketing strategy, its competitors and its potential customers, to the management and finances of the business, and its forecast annual sales and targets. The Business Plan should be prepared, to the highest standards, by management (a Business Angel investor wants to learn about you, not discover how well others can write for you), and should cover the following areas:

- An executive summary
- The market
- The product, process or invention
- Intellectual property rights
- The business and its trading position
- Marketing strategy
- Manufacturing
- Forecast of sales, cash flow and break-even
- Management and control of the business
- The required financing package

Check with us for further help on your Business Plan.

Finding an Angel

Although the concept is still relatively new, there are now several organisations that offer matching services for both Angels and businesses. Most of the matching services will charge a one-off fee to put you onto their database and search for the right match. It is essential that personal attributes as well as financial and business needs be taken into account by the matching service.

Before you select a matching service, it is best to shop around and find out what is available. While they all aim to match a business with an Angel, they vary slightly in their approach and the type of service they offer.

Most of the matching services have a comprehensive process that businesses and Angels go through to find the right partnership. In most cases, the stages it involves are:

- an initial search
- an informal meeting to get to know each other
- further formal meetings to discuss the details of the business and attributes of each party in the presence of a financial adviser or accountant
- concurrent research, to investigate each other via due diligence and other methods
- a formal agreement, which is signed when negotiations are finished

One of the key matters an entrepreneur needs to address is the valuation of his/her existing business and the percentage share to give away in return for an equity stake by a Business Angel. While there are standard formulae for valuing businesses with a track record, new businesses or those in the early growth phase are more difficult to quantify, so it is important that the business owner puts together as much information as possible - preferably in a Business Plan with cash flows, budgets, competitor analysis, product or service details, projected markets and opportunities. You will need professional help in:

- compiling your business plan
- valuation and sale of equity stakes
- negotiations with the Business Angel

Business Angel Networks

British Business Angels Association

The British Business Angels Association (BBAA) is the National Trade Association for the UK's Business Angel Networks and the early stage investment market.

<http://www.bbbaa.org.uk/>

Angel Investment Network Ltd

You can contact Angel Investment Network Ltd at:

Angel Investment Network Ltd.
238 St Margaret's Road
Twickenham
Middlesex
TW1 1NL, UK

www.angelinvestmentnetwork.co.uk

Angel Investors

This is an investor network dedicated to helping investors to source young dynamic companies in need of growth and expansion capital. Download a free guide to raising finance of up to £2 million.

www.envestors.co.uk

Beer & Partners

Beer & Partners is the leading source of venture capital and business angel investment for growing SME businesses in the UK. They have over 40 highly experienced professionals seeking suitable investment opportunities for their 1,700 private investors.

<http://www.investmentforgrowth.co.uk/associates>

Growth Business

Who they are, where to find them and how they can help your business.

<http://www.growthbusiness.co.uk/>

Business Angel Capital

This is a leading UK angel network with 2,000+ Business Angels.

<http://www.bacapital.co.uk/>

Angels Den Network

Angels Den is advertised as a place where entrepreneurs and Investors meet.

<http://www.angelsden.com/>

There are many more networks and Angel organisations both in the UK, in Europe and in the USA. Try a google search for more information.



British Venture Capital Association

You can obtain a free copy of the BCVA's *Directory of Business Angel Capital* by contacting them:

The British Private Equity and Venture
Capital Association (BVCA)
1st Floor North, Brettenham House
Lancaster Place, London WC2E 7EN, UK
Tel: +44 (0)20 7420 1800
<http://www.bvca.co.uk/>

Further Information

This guide is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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