FINANCIAL DYNAMICS

Chartered Certified Accountants & Business Advisers

Business Insights

FEBRUARY 2014

A SIMPLY HEAVENLY WAY FORWARD

Though venture capital companies might grab all the headlines and banks might be the most active advisers, business angels are actually the more likely route to finding business finance.

Although angels are ready to put money into high risk businesses, most are unprepared to risk a large sum of money on any single venture. This means that the majority of larger sums are raised by syndicates. Entrepreneurs must be clear about the potential of the business and will be keen to conserve as much equity for themselves as well as conserving enough to allow for other parts to be given away at future rounds of funding.

DIFFICULTIES

If sourcing angel funding is difficult, the process that follows, where the terms and conditions of the deal are agreed, is equally arduous. This often begins with the thorny issue of the valuation of the business, the point at which both entrepreneur and investor have to agree what stake in the business will be handed over for the cash on offer. As with any loan, angels expect their money to be paid back. So, another important element of the finished agreement is the set of terms governing the exit.

The most common exit method will be a complete write-off of their money, something which accounts for forty per cent of investments. The face of early stage investment is changing. Angel investors are smartening up their act and more money is currently pouring into the sector. Frankly, in the face of tough trading conditions, things have had to change. When it comes to sustaining deal flow, the new players are looking to operate on a national level.

DECISIONS, DECISIONS

There are a number of matters to be considered before an entrepreneur should take angel investment on board:

1. What will the funds be used for and how will they grow the business?

2. Is the business in a fast growing market?

3. Is this the only source of investment or are there other avenues?

4. Can a realistic valuation be placed on the business?

5. Are there areas where the business would benefit from outside experience?

6. Is there a comfort zone with the idea of working with an active investor?

6. How will the angel exit the deal profitably?

7. Are there angel investors in the area of operation?

8. What happens if things go wrong?

FINANCIAL DYNAMICS

For further help and advice please telephone us on

0121 321 1700