

Raising Business Angel Funding

Background

Business Angels are high net worth individuals who invest on their own, or as part of a syndicate, in high growth businesses. In addition to money, Business Angels often make their own skills, experience and contacts available to the company. Business Angels are individual investors with varied backgrounds. They are typically male (95%) and aged between 45-65 years old. Their background is usually entrepreneurial and they are high net worth individuals who can relate to the risks and rewards of investing in a high-risk type of investment. Business Angels investment habits are as follows:

- Over 50 % of the private investors in the Angel Market are investing less than 25% of their wealth. (Source Freear Sohl and Wetzel 1994).
- UK Angels average investment per deal is around £27,500 (Source Investor Pulse 2003).

Business Angels rarely have a connection with the company before they invest but often have experience of its industry or sector. The commitment of Business Angels is often very strong.

The majority of Business Angels make investments for financial reasons. However, there are also other motives for investment, for example, taking an active part in the entrepreneurial process, and the enjoyment from being part of the success of a good investment and the sense of putting something back in.

Finding Business Angels

Business Angel Networks

British Business Angels Association (BBAA) www.bbaa.org.uk

The British Business Angels Association (BBAA) is the National Trade Association for the UK's Business Angel Networks and the early stage investment market and is backed by the Department of trade and Industry. All BBAA Members have signed up to their Code of Conduct and regularly attend Best Practice workshops. The BBAA is a great source of information on the UK business Angel Industry.

London Business Angels

London Business Angels (LBA) provides an introduction service for innovative entrepreneurial businesses seeking growth capital between £100k and £750k located in the south east of England. We have a network of over 170 business angels (private investors) with a total of £50m available for investment. Since 2000 LBA has raised in excess of £18m for over 100 UK businesses.

The London Business Angel Network is the oldest in the UK has been awarded the 'Private Network of the Year' for both 2005 and 2006. These awards recognise the top performers from the UK's Venture Capital community.

The London Business Angels is regulated by:



Advantages of Business Angel Investment

- Business Angels prefer smaller investments to Venture Capitalists and groups of angels are prepared to invest in the “funding gap” i.e. amounts below £750,000.
- Business Angels invest in start up/early stage ventures whilst Venture Capitalists seldom appear in this market.
- Business Angels invest in all sectors and will invest in technology, low tech, biotech and inventions as long as they believe that the business has the prospect of high growth.
- Business Angels are more financially flexible than Venture Capitalists. They will close deals more quickly and take a more informal approach to closing an investment than a Venture Capitalist.
- Raising finance from a Business Angel is much more cost effective than raising Venture Capital Finance where there are usually charges for professional fees other than solicitors. This is rarely the case with Angels.
- Business Angels bring skill sets and experience and will usually mentor businesses that they invest in often without charge. This seasoned advice would not normally be available on such terms to an early stage entrepreneur in the market.
- Entrepreneurs who have previously raised Angel finance can gain respect in the market, with other sources of finance often following an angel’s lead, such as Debt and Venture Capital Finance.

Disadvantages of Business Angel Investment

- Entrepreneurs may lose some control and suffer interference where angels make their investment conditional on close involvement post investment.
- SMEs raising larger sums of angel finance (i.e. sums over say £200k) may need to organise and coordinate a large number of syndicate investors, which can quite time consuming.

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