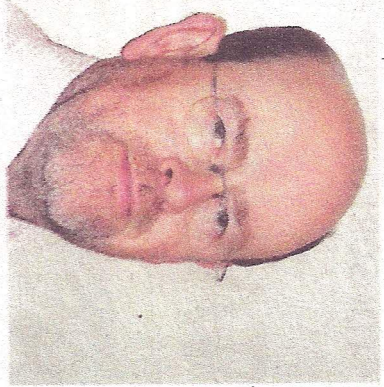


ANGEL INVESTMENT

HEAVEN-SENT FUNDING

Associate with Beer and Partners Meredydd Jones on angel investment



FINDING finance in the current economic climate is tough, especially for small businesses.

In many cases banks have either reduced or withdrawn established credit lines, and as a result, businesses are short on working capital and the finance required for continued growth. However, alternative sources of funding available and "business angels" are fast becoming the most popular source of development capital for early stage businesses.

Angels provide capital in return for a share of an early-stage company, often investing their knowledge and skills alongside their money, and bringing to bear their useful network of contacts to help the company on its path to success. Many angels' aims tend to be closely aligned to those of the entrepreneur, because having founded and owned their own businesses in the past, they understand the challenges faced by the management team, and appreciate an entrepreneur's passion for the business. With the help of my colleagues at Beer & Partners I have put together a ten point

checklist for companies looking for angel investment:

- **Decide level of funding required** Seek sufficient funds to see the business through the stage of development;
- **Put in place a strong management team.** Be open in identifying the skill gaps in the team as they may be filled by the angel investors;
- **Create a business plan identifying the strategy** The plan must contain a commercial idea which will provide an eventual return for the investors;
- **Determine a sensible valuation of the business** There are various methods. One example is:
  - A solid business idea alone – £10,000,
  - A business idea with a reasonably presented business plan – £50,000,
  - Both of the above, plus a good management team – £250,000,
  - All of the above, plus a sale – upwards of £500,000.
- Or, the rule of thirds, with the valuation

split between the inventor, the management team and the investment. However, the bottom line is that the valuation is essentially what a willing investee will accept and a willing investor will pay.

- **Define the unique selling points (USP)** Ensure that nobody else is offering exactly the same product or service. Consider how easy it would be for another business to replicate it, assuming that it is not patented;
- **Protect your business** An easily replicable product for example, if protected, can be a great investment. Seek professional advice to register patents and Intellectual Property rights (IPR);
- **Prepare your business for due diligence** The investor will require a level of due diligence before investing which may include financial, legal and commercial review and checks on the directors and senior management;
- **Appoint a solicitor** It is essential to appoint a corporate solicitor who has experience of this type of investment;

Have an exit plan Lifestyle businesses often find it difficult to attract investors. Having a clearly planned exit is a key element of obtaining investment; and

- **Find an investor** This can be a minefield as arranging investments is a category of regulated activity which can only be carried out by firms authorised by the Financial Services Authority (FSA). Direct approaches to potential investors by individuals can be fraught with issues and it is best to seek professional advice. The funding landscape has changed dramatically in the past few years and alternative business investment offers a number of advantages. The key is to ensure that the businesses are well-prepared and are investor ready.
- **Beer & Partner was founded in 1991 and is an established business investment agency with a database of some 1,700 active investors and over 300 smaller institutions**