



Business Angels

Most businesses, at one point or another, need to raise finance. This can be particularly difficult for new businesses which do not have a proven track record or credit rating, or assets with which to secure a loan. This is where Business Angels come in.

Who are Business Angels?

Business Angels are wealthy individuals who invest risk capital in, and bring entrepreneurial know-how and experience to small companies with high growth potential.

These individuals invest smaller amounts than say, venture capitalists, starting as low as £10,000, but have been known to invest up to £500,000 and even £1 million (using a group of Business Angels).

These investments are usually in return for a proportion of the shares in the business, therefore guaranteeing them return on their investment.



Types of Business Angels



There are several types of business angels, each with their own different characteristics:

- Serial Business Angels – these have several active investments on the go at any one time.
- Capital Growth Seeking Angels – these look for rapid capital growth of their initial investment, usually a multiple of up to 10 times over a period of 3-5 years. To gain this the business is usually floated or sold.
- Corporate Angels – these are centred more around the running of the business, achieving cost reductions, fully utilising assets or capture innovative technology etc. Their strategy is centred around growth and survival.
- Annual Profit Seeking Angels – these Angels are ideally looking to receive a maximum annual profit payment and get the business up and running as quickly as possible.
- Sleeping or Passive Angels – these type of Angels are in the minority, they do not require any active involvement in the running of the business.
- Syndicates or Choirs of Angels – these are a group of between 3 and 20 or more Angels who all invest money together in businesses. There is typically 1 or 2 lead Angels who find suitable deals and bring them to the syndicate.
- Virgin Angels – these are Angels who have never invested before, usually have just come into the money and want to invest it.
- Job Seeking Angels – these are Angels seeking to obtain a job through the investment.

Business Plan



The first thing a Business Angel will look for in a potential investment is a sound business plan. This business plan must have:

- A clear and convincing executive summary that makes them want to read on. You should state how much you need, what you intend to spend it on and your unique selling proposition.
- An uncluttered contents page with easy to follow numbered sections and page references.
- A brief history – how the business has achieved its current plans.
- Details of the product or services and how they are going to be produced and how the business is going to be run.
- Description of the market, detailed research and who the competitors are.
- Details of the marketing strategy and sales process.
- Details of the management team.
- Finance – accounts so far, sources of finance, needs and uses.
- Risk analysis.

Shareholdings

Business Angels may take an equity stake of anything between 10 and 50 percent in its investment business.

They would be reluctant to take over 50 percent, as this may be a big turn-off for the founding entrepreneur(s) who would feel like employees without control.



Tax Benefits

There are many tax incentives for the Business Angel from making this kind of investment. These can be used to reduce their income tax, defer capital gains and shelter assets from inheritance tax, under the Enterprise Investment Scheme.

Becoming a Business Angel

Do you have money to invest and expertise and experience to offer? Do you like the idea of the tax savings you could make on your investment? Are you not adverse to risk?

If so, maybe you could consider becoming a Business Angel, Monahans will be happy to help you with this.

For further advice and assistance

Monahans Corporate Finance Team can assist you whether you would like to contact a Business Angel or become one, or simply want more information on this subject.

Please contact **Peter Lugg** in our Bath office on **01225 472800**
or email **peter.lugg@monahans.co.uk**