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Business Angles

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ABSTRACT *While venture capitalists have been taking an interest in India's thriving investment market for more than a decade by providing large sums of money to companies with proven growth potential, entrepreneurs at the start-up phase weren't given as many financing options until recently. Business angels, or wealthy individuals who invest their own funds, are a relatively new phenomenon in India, especially in comparison to America, where a large number of entrepreneurs turn to these private investors at the beginning stages of business development. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies. Entrepreneurs in India have also experienced greater rewards from their "angel" relationships outside of financing*

Introduction
An angel investor or angel (also known as a business angel or informal investor) is an affluent individual who provides... An angel investor or angel is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies. Wealthy often have managerial and/or technical experience to offer the management team as well as equity and debt finance. Medium to long term investment in high-risk situation.

Definition
Usually, a former entrepreneur or professional who provides starting or growth capital in promising ventures, and helps also with advice and contacts. Unlike venture capitalists, angel investors usually operate alone (or in very small groups) and play only an indirect role as advisors in the operations of the investee firm. They are deemed to be 'angels' in comparison with grasping investors who are termed 'vulture capitalists.' Also called business angel.

An angel investor is a person who invests in a business venture, providing capital for start-up or expansion. These individuals are looking for a higher rate of return than would be given by more traditional investments (typically 25 percent or more)

Who are Business Angels
Start up capital is the first and foremost requirement to start any business venture. But it's not always possible to accumulate or make enough arrangements to start any new business. This is where business angels come in. A business angel and very appropriately called; serves as a financial supporter for all your business needs. Angel Investors Network who takes keen interest in your business proposal and if it arouses their interest they finance the initial capital to start your business. Angel Investment in India is rapidly gaining in popularity with the advent of trusted and renowned companies like IAN or Indian Angel Network etc who are ever eager to lend their support to new ideas and new ventures.

Role Of Business Angels
The private venture capital investment, also known as informal investment or angel investing. Very few companies undergoing the initial phases in their life cycle (the "seed" phase and the "start-up" phase) receive financing via institutional or formal venture capital. Venture capital companies are showing an ever decreasing interest in small, risky investments with high due diligence costs. If they are not to fall by the wayside, who can entrepreneurs turn to when they have exhausted their personal financing capabilities? One alternative are the so-called business angels (informal investors), who can cover this "equity gap" using their own money, providing financing and with a "hands-on" approach until the company can attract - formal venture capital or bank financing - However, the so-called informal venture capital market entails problems of asymmetric information, lack of a communication channel, knowledge of the investment process and differences in the perception of expectations, on the part of both the potential investors themselves and the entrepreneurs looking for capital. Many private investors do not have sufficient knowledge of the private investment process and are not able to identify, recognize and evaluate investment opportunities. Financial problems are more important in the initial stages of a business start-up. In the beginning, businesses are generally supported by funds coming from family and friends, or by simply "bootstrapping". Very few venture capital companies are interested in investing in this sort of projects, in which the capital requirement does not justify the expense of making the relevant due diligence and the subsequent monitoring of the investment. Furthermore, banks are not normally willing to undertake the risk represented by newly-created companies. As a result, in the current context, start-up financing is ever more dependent on business angels.

Profile Of a Business Angel
Business angels generally display certain characteristics, such as a significant level of personal wealth, intense entrepreneurial experience, a profound knowledge of the business world and a large network. Normally, business angels form part of the management team or the company board in which they are investing, thus contributing both their management skills and their network of contacts, giving them the status of "smart capital." As a result, the business angel is the perfect bridge between a business in its initial stages and a business that has become attractive to the institutional or formal venture capital sector. Investors who took part in the study, regardless of their investment experience, showed a high level of prior entrepreneurial experience. Sixty-nine percent had created at least one new company, and given that angels with entrepreneurial experience have participated in the creation of, on average, three companies, the vast major-

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ity of them are considered to be "serial" investors..

The main reasons for investing given by active business angels are the expected return and the personal challenge represented by committing to a young and promising company. They are aware that their personal and professional networks provide business opportunities, and they want to take advantage of them by using their own and their family's resources. When the moment comes to invest, the social element is also present in some cases, though this is not one of the reasons that generally determines investment. There is even sometimes a certain level of altruism, when the business angel feels happy about supporting the next generation of entrepreneurs.

What Does an Angel Investor Expect?
There are almost as many answers to what angels expect as there are angels. Each has their own criteria and foibles because they are individuals. Almost all want a board position and possibly a consulting role. All want good communication although for some that means quarterly reports, while for others that means weekly updates. Return objectives range from a projected internal rate of return of 30% over five years to sales projections of $20 million in the first five years to the potential return of five times investment in the first five years. Most are looking for anything from a five to 25 percent stake in the business. Some want securities - either common stock or preferred stock with certain rights and liquidation preferences over common stock. Some even ask for convertible debt, or redeemable preferred stock, which provides a clearer exit strategy for the investor, but also places the company at the risk of repaying the investment plus interest. Additionally, the repayment may imperil future financing since those sources will not likely want to use their investment to bail out prior investors.

Some angels ask for the right of first refusal to participate in the next round of financing. While this sounds eminently reasonable, some venture capitalists will want their own players only or certain investment minimums so this strategy may limit who future participants might be. Future representation of the board of directors also needs to be clarified. When a new round of financing occurs, do they lose their board right? Or should that could be based on a percentage ownership - when their ownership level drops below a certain level, they no longer have board representation.

In order to protect their investment, angels often ask the business to agree to not take certain actions without the angel investors approval. These include selling all or substantially all of the company's assets, issuing additional stock to existing management, selling stock below prices paid by the investors or creating classes of stock with liquidation preferences or other rights senior to the angel's class of security. Angels also ask for price protection, that is anti-dilution provisions that will result in their receiving more stock should the business issue stock at a lower price than that paid by the angels.

To prepare to solicit an angel, several critical factors will aid in making the approach successful. First, assemble an advisory board that includes a securities accountant and an attorney. Two important functions of the board are to recommend angels to contact and to work with the management team to develop a business plan to present to the angel. The business plan itself should define the reason for financing, how the capital will be spent and the timetable for going public or seeking venture capital funding. It should include: an executive summary (description of the business, opportunity and strategy, target market, projections and competitive advantages); the industry, the company and its products and services (including entry and growth strategies); market research and analysis (customers, market size and trends, competition, estimated market share and sales); the economics of the business (including gross and operating margins and break-even analysis); marketing plan (overall strategy, pricing, advertising, promotion, and distribution); design and development plans (product/service improvement and new products/services); manufacturing and operations plans (geographic location, facilities and capacity improvements); management team (organization overview, biographies and compensation plans for key employees); financial plan (tax returns, profit and loss forecasts, pro forma cash flow analysis and balance sheets, 5-year projections); and proposed company offering (desired financing, securities offering, capitalization, timetable).

Conclusion:
Business owners often report that company finance that can be very difficult to obtain - even from traditional sources such as banks and venture capitalists. Banks generally require security and most venture capital firms are not interested in financing such small amounts. In these circumstances, companies often have to turn to "Business Angels". Business angels are wealthy, entrepreneurial individuals who provide capital in return for a proportion of the company equity. They take a high personal risk in the expectation of owning part of a growing and successful business. The business has an experienced and professional management team - as a minimum with strong product and sales skills. If there are weaknesses in the existing management team, a business angel can often provide the missing skills or introduce the business to new management.

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