



WestBIC – Ireland (IO10 – Business Angel Support Strategy)

Objectives:

- i) Summarised Business Angel Attraction Plan

This publication reflects the views only of the authors, and the Education, Audiovisual and Culture Executive Agency and the European Commission cannot be held responsible for any use which may be made of the information contained therein.



TABLE OF CONTENTS

1. An introduction to Business Angel Investors / Syndicates

1.1 Overview

2. What do Business Angels expect from an Entrepreneur / Project?

2.1 Introduction

2.2 Making your case to a Business Angel

2.3 The process of engaging with a Business Angel

2.4 Tips for Attracting Business Angels

3. Social Impact Investing

3.1 Introduction

4. Angel Investors and Equity Crowdfunding

4.1 Overview

5. Appendices

5.1 Pitch Slide Deck

5.2 One Page Business Plan Summary (Sample Template)

1. An introduction to Business Angel Investors / Syndicates

1.1 Overview

Business angel investors are high net worth individuals who provide smaller amounts of finance to early stage businesses to help them scale and grow. They can invest alongside public funds and usually contribute much more than pure cash – they often have industry knowledge and contacts that they can pass on to entrepreneurs.

The investor buys shares in a company in exchange for a cash injection and the investor shares the risks and rewards with the promoter. Angel investment helps to accelerate growth, add credibility and inspire confidence amongst customers, suppliers, staff and other funders.

Investments can be made by individuals or by business angel syndicates. Syndicates are groups of like-minded investors and involve two or more private investors working together to share the risks and rewards of investing in private companies. For Business Angels, the principal benefits of participating in an angel syndicate can include:

1. **Diversified portfolio:** portfolio investing (i.e. investing in more than one company) is a lower risk approach to investment compared to the higher risk 'all eggs in one basket' approach of investing in just one or two companies;
2. **Pooling of economic resources:** pooling of funds provides the opportunity to invest in several companies and/or in larger deals;
3. **Pooling of skills, contacts and experience:** syndicate members will benefit from each other's skills, networks of contacts and experience. This all enhances the possible success and returns of investing;
4. **Due diligence:** ability to undertake a greater level of due diligence on the project being considered for investment
5. **Recognition:** a formal syndicate can leverage its recognition in the investment community to attract deal flow to a greater extent than an individual can
6. **Common Purpose:** A syndicate tailored towards preferred industries means that Angels with common interests can share common goals and foster a sense of camaraderie.

2. What do Business Angels expect from an Entrepreneur / Project?

2.1 Introduction

When approaching Business Angels or Private Investors you should be aware of the following:

- Business Angels want to see that both you, and your project, are grounded in reality
- They want to see that you have identified a genuine market opportunity, have a product / service that can be successful, and a business model which can be scaled up
- Angels will want to see that you have a management team / structure / advisors with relevant experience (including the skills required to grow and scale)

- While pre-revenue projects are considered, some early market traction is preferred so try to achieve product / service sales as early as possible
- Business Angels tend to focus on your ability to 'execute' (i.e. achieve results / deliver on key milestones) and your ability to understand that all plans will iteratively change in interaction with the market
- They also tend to focus on Cash V's Sales (i.e. they want you to manage cashflow)
- Angels will also want to see that you value the experience & knowledge of others

2.2 Making your case to a Business Angel

Before you get to meet with a business angel you must have a well thought out business proposition, which is realistic and which stands up to scrutiny. This can be achieved through a well thought out Business Plan. This is a key document in scaling a business both in terms of giving thought as to how the business will grow and develop, as well as being a tool to attract investment. Sooner or later a Business Angel will ask to see your Business Plan. The Plan should be used to construct a project proposal which is investor ready. It is important that you take time to get the Business Plan right. Some important things to address are:

- If possible, demonstrate any sales, or if sales have not yet been achieved then note any purchase orders or letters of intent, good results from beta testing, testimonials, etc. – these demonstrates a market ready product and investors take an interest in this!
- As a small company, investors are concerned at how you will scale. Therefore, significant engagements with any potential distributors / partners / licensees / etc. (and how these will open up or expand markets for your business) are important.
- Investors want to see that your project has the potential to scale up and grow? Have you identified the key roles in terms of scaling, who will fill them and is there a timeline as to when they would be filled?
- How much money do you require and how will it be spent? Is it on development costs, market development, key person hires, etc., etc.???? It is important for investors that there are no unexpected / hidden development costs.
- Finances should cover four years.

While a Business Plan is a key document in terms of giving thought as to how the business will grow, develop and scale as well as a tool to attract investment, it is unusual that a Business Angel will read a full Business Plan. Therefore, (usually) a one page summary of the key points in the Business Plan needs to be produced and it is this which is distributed to potential investors / angels (see sample one pager in the appendices).

2.3 The process of engaging with a Business Angel

Raising private finance takes time with a lot of discussion and negotiation required before an actual cash investment takes place, although a typical time frame is three to six months. However, allowing a lengthy time period will help you, as you do not want to be in a position where you need funding urgently and would be on the 'back foot' when negotiating the terms of the investment – being 'needy' will put off an investor.

Raising finance also involves a legal process including due diligence undertaken by the investor and the signing of shareholders agreements. You need to be prepared to put time and resources into the process because raising equity from an external investor is an all-consuming exercise and requires commitment before, during and after any deal is done.

The equity process can be described as a marriage although a marriage with a difference, one with a planned divorce (the exit). Since their investment is unsecured, an investor needs to become very comfortable with the people they are backing (i.e. you) and so the process of relationship building should commence well ahead of when you actually need to raise the money.

If possible, you should also undertake research on the potential investor and check out their record of support or otherwise... This may be a challenge. However, try to do your homework on potential investors and attract the best ones into your company. Note – you may have to search a bit harder for Angels who are interested in a social return / benefit as well as a financial outcome.

2.4 Tips for Attracting Business Angels

If you hope to establish a relationship with an investor then consider the following:

- Start building the relationship early, ideally before you need any money;
- Try to do some research on your potential investor - find out what is attractive to them;
- Make sure that you always addresses the top three investment criteria - management, exit and revenue potential;
- You need to have a plan as to how the investor will 'exit';
- The revenue potential of your company must demonstrate a sustainable, scalable business that is capable of producing significant returns for an investor, (as well as measurable social benefits in the case of a social enterprise);
- Your business plan should be compelling, fully costed and have a great executive summary – its role is to succinctly sell the investment opportunity, not to just describe the business;
- You need to understand the finances and be able to discuss them;
- You should ideally have made or intend to make a financial investment in the company;

Raising external equity is rewarding and worthwhile if it accelerates the growth of your business. If an external investor is getting an attractive return (and a measurable social outcome in the case of an impact / social investor) then you are likely to be getting an even better return. This is a win-win.

3. Social Impact Investing

3.1 Introduction

Impact Investing is a particular type of investment made in organisations, companies and funds that have the purpose of creating social and environmental impact with a financial return on capital, and which are responding to social needs which are not currently being satisfied. That is to say, impact investors are committed to achieving social returns / benefits as well as generating a financial return.

Impact Investing is growing in importance because social innovators / social entrepreneurs are required to combine innovation and entrepreneurship to find new solutions for the distribution of existing services and they are also required to develop new solutions which can benefit society overall.

Impact Investors (or their agents), in addition to the provision of finance, also provide entrepreneurial and strategic skills to projects and companies that have real social change as their mission. The pursuit of a social purpose does not preclude the possibility of obtaining a financial return for the investment.

4. Angel Investors and Equity Crowdfunding

4.1 Overview

The convergence of technology and regulation in recent times now means that crowdfunding platforms can offer a wider range of investments for small investors including equity (investment in return for shares in a business). Equity crowdfunding is growing in importance in countries such as the UK and France for example where potential impact investors can use sites like Crowdcube, the Funding Tree and Seedrs, and invest as much (or as little) capital as they want to - to buy an equity stake in some businesses.

Equity crowdfunding works like Impact Investing mentioned in Section 3 above, where investors can use innovative online investment platforms to achieve financial returns as well as achieving measurable social and environmental benefit.

While crowdfunding platforms have tapped into the public enthusiasm for supporting beneficial projects and some social businesses you should, however, exercise caution when considering the crowdfunding route. It takes time, effective planning and some upfront money to make crowdfunding work.

5. Appendices.

5.1 Pitch Slide Deck

This is a Powerpoint tool which can be used when you are pitching to individual angels / investors or groups. There should be 10 to 12 slides maximum addressing the following areas.

1. The offering. What is your project about? Have you identified a (social) problem or a gap which you can address or have you seen an opportunity in some market? What problem or gap are you solving? What opportunity are you availing of?
2. The solution (your product/service) – how does it work, who/where are your customers?
3. The market opportunity – can you quantify potential markets / customers or put a value on the market (currently and into the future) and will the opportunity continue to grow (i.e. does it demonstrate scalability and sustainability)? What is driving this growth opportunity?
4. The competition (current and prospective) – how do you compare and how can you differentiate yourself from them?
5. How will you generate revenue? Can you generate recurring revenue and can you grow this? Is the business model B2B, B2C, e-commerce, etc?
6. How will you access the market regionally and nationally (your route to market). Address distribution agreements, resellers, licensing agreements, etc. and your marketing plan - how do you plan to grow?
7. Financials - have you completed your P&L and cashflow for 4 years (can you demonstrate scalability? For a social enterprise can you highlight social impacts / benefits?
8. Management team. How will you scale? Have you the necessary people on your team or, if not, have you identified them? If you don't know them, what skills are needed? What gaps exist and how will you fill them?
9. How much funding do you require and what will the funds be used for? Have you any public or other private investment already which makes your project more attractive for other investors.
10. How will the investors get their money back (exit strategy) and/or what social impact will they help to achieve?

5.2 One Page Business Plan Summary (Sample Template)

Requirement:

AN Other Company, based in XXXX, is seeking funding of €150k from equity investors which will be matched by €100k approved preference share financing from EI/ WDC / Údarás. The company is EIIS approved. The investment will be used to develop the marketing and commercialisation strategy of the company over the next 24 months.

What AN Other Company does?

AN Other Company provides an Observation and Management Software solution, focusing on advanced wireless patient monitoring systems delivering Heart and Respiration Rate, BP, Pulse Ox, Temp and Patient Location plus Paperless Records..... The solution delivers measurable improvements and reduces costs associated with patient observation and management including: 80% average time saving by staff when performing patient observations and reporting/reviewing patient history; up to 82% reduction of measurement and recording errors. It is flexible to use: one patient or 1000 patients – one ward or the entire site, standalone system or highly integrated with existing investments.

Present Position:

AN Other Company product trials and test procedures have been undertaken in companies, including international companies, based in Ireland (AN Other, AN Other, AN Other, AN Other). Strong expressions of interest have been received during 2014 from international software resellers to supply the companies product to their major clients based in Ireland, the US, South America and Europe.

Sales and Marketing:

Product Sales are scheduled to commence during Q4 2015. In the short term AN Other Company will utilise decision maker contacts within partner organisations (e.g. AN Other, AN Other, AN Other, AN Other) as well as strategic market partner and reseller channels (e.g. AN Other, AN Other, AN Other, AN Other) to achieve sales. They will also increase their direct sales force to target SMEs in Ireland and the UK using web and digital marketing support. Competitors include AN Other, AN Other, AN Other, AN Other.

The Opportunity:

According to GALLUP and RAND Health, the U.S. market for Patient Observation and Management Software solution is worth €8.5 billion, while waste and health management inefficiency issues cost UK businesses €33 billion per annum (UK Centre for xxxxx). Based on extensive research to date, the promoters have identified that hospitals are not delivering full value for their Human Capital investment with no ground breaking solutions to this problem for more than 20 years. AN Other Company provides the solution, delivering cost effective, long term improvements in the area of Patient Observation and Management.

Financial Summary

Summary	2015	2016	2017	2018
Total Revenue	€XXX	€XXX	€XXX	€XXX
Gross Margin%	XX%	XX%	XX%	XX%
Net Profit (post tax)	€XXX	€XXX	€XXX	€XXX
Net Profit Margin	XX%	XX%	XX%	XX%
Employees	XX	XX	XX	XX

Company: AN Other Company

Ref: BMWXXX

Stage of Dev.: Start-Up

Investment Required: €250K

Sector: Logistics / Software

Skills sought: Strategic and Market Dev.

Revenues:

2015: €XXX

2016: €XXX

2017: €XXX

2018: €XXX

Document created: April 2014

Management & Shareholding:

AN Other – CEO (Product Dev & Sales) – Previous experience includes

.....

AN Other – CFO (Finance, Project Management, Statistics) – He has had roles as

.....

AN Other – CTO (Software platform architect)

.....

The detail above is based on information supplied by the company. It is recommended that before entering into a transaction involving the acquisition or subscription for shares, investors obtain the advice of a person authorised under the appropriate regulatory legislation who specialises in advising on investments of this type and obtain appropriate due diligence, taxation and legal advice.