

Tech Sector Tool Kit: Angel Investment



Practical advice on angel investment and what to ask yourself before choosing your angel investor.

Angel investment is one of the most significant sources of funding for start-ups and the tech sector is becoming more reliant on the willingness of “angels investors” (private individuals who invest in start-ups) to invest in their company. Finding suitable angel investors however is perhaps one of the biggest challenges in the early life of a company. Whilst it might be tempting to leap at any opportunity to obtain the funding you might desperately need, it is crucial to be selective and target potential investors who will not only add their money, but also value to your business. Ask yourself the following questions:

1. Have I looked in the right places?

How you meet an angel investor is likely to affect their decision to invest in you, and, equally, your decision to accept their investment.

- Personal Introductions - consider your network for who might be best placed to provide a referral. The better your introducer understands you and your business, the more successful the introduction is likely to be.
- Research successful companies which operate in a similar market to your own and identifying the early investors. These angels are more likely to understand the market and have a genuine knowledge of and connections within your industry, which often proves as valuable as their money.
- Test the local market by attending networking events, including speed pitching events sponsored by local business links in Northern Ireland, and industry specific events as and when they crop up.

2. Is there chemistry?

Personalities matter a lot.

- Are you compatible? Your relationship with your angel investor is more than just money so it's important to know this.
- Spend time with potential investors on a social level to find out if their personality is well-suited to yours and if their motivations are in line with what you and your company can realistically offer.

3. Do they have industry expertise?

As your angel will own part of your company, they are likely to want a say in major decisions. But will you want to listen to them?

- Consider your potential angel's investment history and operational experience and assess whether their skills and contacts will be of benefit to your business.

- Get comfortable that your angel understands the market in which you are operating and can share their connections with you.
- Don't be afraid to ask questions about their other recent investments and what they typically provide to companies in addition to capital.

4. What's their long term plan?

- How and when does your potential angel expect to reap a return on their investment?
- Get to know the different types of repayment and exit strategies available to angel investors and work out which suits your business situation. It is not often that angels will be willing to wait a long time for a good return on their investment - agreeing a strategy at the outset will avoid headaches later when expectations are not being met.

5. Should I be considering other options?

Generally, the best time to raise money from angels is when the business is starting to gain traction.

- Be wary of raising money from angels when you are desperate – you lose your bargaining power and risk giving away a slice of your business on unfavourable terms. It is better to have less money than to take it from the wrong person or on the wrong terms.
- Be careful not to give away too much too soon i.e. don't accept more money than you need to achieve your next major target.
- Depending on your circumstances and the maturity of the business, angel investment may not be right for you. Venture capital, grants, crowd funding and traditional alternatives (loans/overdrafts) are all avenues which should be explored.

6. What are my instincts telling me?

It's likely you will be working with your angel for a long time. Do you like and trust your potential angel, feel positive about what value they will bring to your company and confident about your ability to work with them? Remember - you are giving away a slice of your business. If the first potential investor isn't right for you, there are plenty more fish in the sea.

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