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ANGEL MONEY
Advice for a Price

By Suzanne Kimball

Josh James was just 24 years old in 1996 when he co-founded, along with his partner, John Pestana, MyComputer.com. Both men were passionate about their concept of providing Web-based tools to power e-Business, and took a chance on their own business by financing it using credit cards and student loans. Eventually those funds ran dry, and James and Pestana went looking for capital that would help their Orem-based company grow.

"When you're young with no college degree and very little experience, you're not exactly what traditional venture capitalists are looking for," says James. "So, we knew we'd have to turn to other sources for our initial seed funding." That's when the two men tapped key relationships they had cultivated with high-net-worth individuals — "angel investors" — who eventually took a chance on MyComputer.com. Over a two-year period, the angels invested close to $4 million in three rounds of financing.

Like MyComputer.com, more and more start-up companies around the state are seeking such angels, looking for wealthy individuals willing to take higher risks in return for potentially high financial rewards. These high-net worth individuals drive seed money into small companies in exchange for an ownership stake. They open new doors for small businesses, doors that have previously been closed by banks and venture capitalists due to the perceived risk of fledgling start-up companies.

Off the Ground

Angel investors have made their fortune in successful business venture and are interested in getting start-up concepts off the ground. Angels often take bigger risks, and are sometimes called "adventure angels." They usually act as a link between early-stage financing and higher-level venture capital funding.

The amount an angel will invest varies greatly from deal to deal, but usually they provide from between $150,000 in the first round of financing to a total of $2.5 million over additional rounds. It is estimated by the SBA (Small Business Administration) that angel investors pump $20 billion into more than 30,000 start-up companies every year.

Generally, Angel Investors:

- Supply seed money to businesses they understand, those with significant growth potential.
- Offer more flexible terms than venture capital funds.
- Prefer to invest at the early stage of a business and in ventures close to home.
- Operate an investment time horizon of three to five years or more.
- Expect an average of 26 percent annual return at the time they invest.

Lindsay Atwood, founder, president, and CEO of TruVision Inc. is thankful for angel investors. If venture capitalists had been his only source of funding in 1998, the Midvale-based company that provides value-added services for eye and vision healthcare might not have been around today. "At that time, if you weren't a dot-com company, the venture capital community wasn't very interested," says Atwood. "Traditional funds weren't looking at old revenue-based models like ours — if you weren't an Internet company, you weren't hot." During that time, Atwood was working with a private placement fund for a round of financing worth $3 million, but when the stock for 1-800-CONTACTS plunged from $12 a share to $5, the venture capitalists got spooked and withdrew, viewing the eye healthcare industry as a bad investment. That's when Atwood turned to a group of saving angels who pumped $700,000 into TruVision. Since then, Atwood's company has done additional rounds of financing with angels, receiving in total $2 million over a two-year period. Today, TruVision's angel investors consider it a high-growth company with strong potential for long-term success.

More than Money

While any start-up company will agree that money is important, what seems to be more significant are the contacts, experience, and mentoring an angel investor brings to a new business venture. "Angel investors have already grown a business and can advise you when you have strategic or hiring decisions to make," says James, who has cultivated MyComputer.com into a fast-growing Internet company with over one million customers. "To me, the advice an angel extends is the most important asset they bring to a business venture. Strong contacts are another. For example, one of our angels is a close colleague of the CEO of a multi-billion dollar Internet company where we needed an introduction in order to land a deal we're currently working on," says James. "This angel called his CEO contact and we flew out to meet him a week later. Without that angel, we would never have had such an opportunity."

Atwood agrees that an angel's experience is priceless. "When you're looking for an investor, you can't just look for the dollars. My largest angel investor is a Harvard MBA graduate in finance who brings a wealth of talent to my company."

Advice for a Price

While angels may be a better investment match for a fledgling start-up company than venture capitalists, their help doesn't come without a price. Granted, their investment terms tend to be more informal than those of venture capitalists, but angel money isn't easy. "The best advice I can give start-up companies is to network with potential angels from day one. If they observe you from the beginning of your venture, and can actually watch you accomplish what you set out to do, they will be more likely to invest in you when it comes time to ask for the money," says James.

Atwood recommends that entrepreneurs focus on their business plan, specifically the first four pages. "Angels don't usually take time to wade through an entire business plan," says Atwood. "They will usually sum up, within the first four pages, your experience, competitive advantage, market possibilities, and management team. If they can't see the value of the deal within those pages, they probably won't invest, so it's wise to make those pages count."

The people behind the business concept of the company are also key when attracting angels. The business plan may change a number of times along with the strategic direction of the company, but a strong team of passionate individuals goes a long way in attracting angel money. "Obviously, the idea cannot be hairbrained, and the market has to have potential for growth," says James, "but angels look closely at the caliber of the people behind the ideas."

Small businesses trying to attract angel money should also look for the right match. "Don't be desperate," says James. "You have to be able to walk away from the table if necessary." Atwood agrees, emphasizing that entrepreneurs need to be selective. Start-up companies that marry themselves to the wrong investor may find the angel taking charge of the company. Entrepreneurs should also plan to invest their own money into the venture if they want to structure the relationship to their advantage.

The most common reasons for an angel to reject a deal include poor growth potential, lack of management experience, and lack of sufficient information about the entrepreneur and the company. "My best advice to those seeking funding is to just get started," says James. Make that phone call today. If the idea is halfway decent with growth potential, and the team is passionate with some level of competence, start-ups can find the money. The first step is to try."

Suzanne Kimball is a marketing communications consultant and freelance writer specializing primarily in the promotion of small to mid-size companies.