

## Commercial Finance- Angel Money

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Commercial Finance- Angel Money explores the world of angel investors. During these times of hard money what are the pros and cons of working with angel investors? Are they really venture capitalists with wings?

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The Merriam-Webster Online Dictionary defines angel as:

- “1 a: a spiritual being superior to humans in power and intelligence; especially: one in the lowest rank in the celestial hierarchy;
2. an attendant spirit or guardian
  3. a usually white-robed spirit or guardian of human form in fine art
  4. messenger harbinger i.e. angel of death;
  5. a person like an angel ( as in looks or behavior);
  6. Christian Science- inspiration from God;
  7. one (as a backer of a theatrical venture) who aids or supports with money or influence”

{bot\_wrgoogle}Who are angel investors? They may be an individual, or a group of individuals with money to invest in start-up businesses in exchange for various forms of ownership and control of the entity. Many angel investors organized into organizations or groups that pool their money to make larger investments and spread the risks of failure among many investors.

Many start-up businesses borrow seed funding from family, friends and acquaintances to provide capital to pay the initial expenses of starting a new company. It is difficult to raise significant amounts of money this way. Most venture capital firms will not consider investments less than one or two million dollars. Angel investors fill the gap by providing risk capital for potentially high growth companies, usually in amounts of \$100,000 to \$1,000,000. These investments are extremely high risk since approximately 8 out of every ten such investments result in failure and loss of investments. Thus angel investors look for opportunities that have potential to return over 10 to 20 times the original investment within a relatively short period of time.

Most startup businesses that compete for angel investor money are in a pre-revenue stage. As such, they are not eligible for bank financing, purchase order financing or accounts receivable financing for exponential growth.

How do you obtain money from Angel investors? The process is difficult. A due diligence package should be prepared for the angel's which will include all details of the start-up company's organization; who the executives and board of directors are; their resumes, experience and academic backgrounds; the business plan for growth; specific details on the product or services including projections regarding economies of scale; and an analysis of the potential marketplace for the product or service; an exit strategy; and an analysis of

competition in the marketplace regarding similar products or services. It is necessary to create a power point presentation for angel investors with an enthusiastic principal of the start-up company extolling the virtues of their idea to convince angel investors this is "the next big one". The presentation can occur in a conference room one on one with the angel, or at a dog and pony show where five to ten prospects make their pitches to a panel of angels.

What are your chances of obtaining angel investor money? It is about the same probability of being guaranteed a place in heaven; in brief, it is not good. Less than one out of ten proposals for angel investor financing receive funding. Some angel investor groups fund about one start-up out of every 1000 submissions. Many deals are rejected because there is insufficient growth potential, or management lacks talent or skills to succeed, or the product or service simply does not have the requisite potential for spectacular results. On the other hand, some deals are funded because the angel has a special interest in a particular area that the product addresses, such as cleantech products.

How do you find angel investors? One good national listing is

<http://www.inc.com/magazine/20050701/angels-in-america.htm>. You can also look on the internet for angel investors that are local in your area. This is important because most angel investors like to invest within 50 miles where they are located because it is easier to keep on top of local investments.

Are angel investors really angels? Are they any different than venture capitalists, just smaller in size? These are very difficult questions. Some angel investors nurture their offspring more than others. Consider the statement of Josh Kopelman, a venture capitalist with a new company called "FirstRound". FirstRound funds entrepreneurs with big ideas in the \$250,000 to \$750,000 range. Mr. Kopelman "sticks with them long enough to determine which business plans will work and which should be taken out back and shot" according to the January 21, 2008 issue of Fortune Magazine.

"Angel" is the name of a song written and recorded by Jimi Hendrix. It was released on the album, The Cry of Love, in 1971. Here are the lyrics:

"Angel came down

From heaven yesterday,

Stayed with me just long enough

To rescue me....

And she told me a story yesterday;

About the sweet love

Between the moon and the deep blue sea.

Then she spread her wings high over me.

She said, I'll come back again to see you tomorrow....

And I said fly on, my sweet angel.

Fly on through the sky.

Fly on, my sweet angel.

Tomorrow I'm gonna be by your side....

Sure enough,

This woman came home to me.

Silver wings silhouetted against a child's sunrise....

And my angel,

She said unto me,

today is the day for you to rise.

Take my hand, you're gonna be my mind,

And she took me high over yonder.....

And I said fly on, my sweet angel.

Fly on through the sky.

Fly on, my sweet angel.

Tomorrow I'm gonna be by your side.....”

Jimi Hendrix never made much money during his lifetime. This album was released after his death. He truly was an angel as a musician and his estate has earned millions of dollars from the sales of his music over the past forty years. His music and guitar playing technique has inspired millions of people. He literally changed the way the guitar was perceived and played as an instrument. From a musical point of view, during his life he was “the next big one”.

The bottom line: Are you the next “Jimi Hendrix” of the business world? If so, angel investors may be the answer to your prayers.

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