



# **Are you Investor Ready?**

## **Creative Clusters**

**24<sup>th</sup> October 2005**

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# LONDON BUSINESS ANGELS



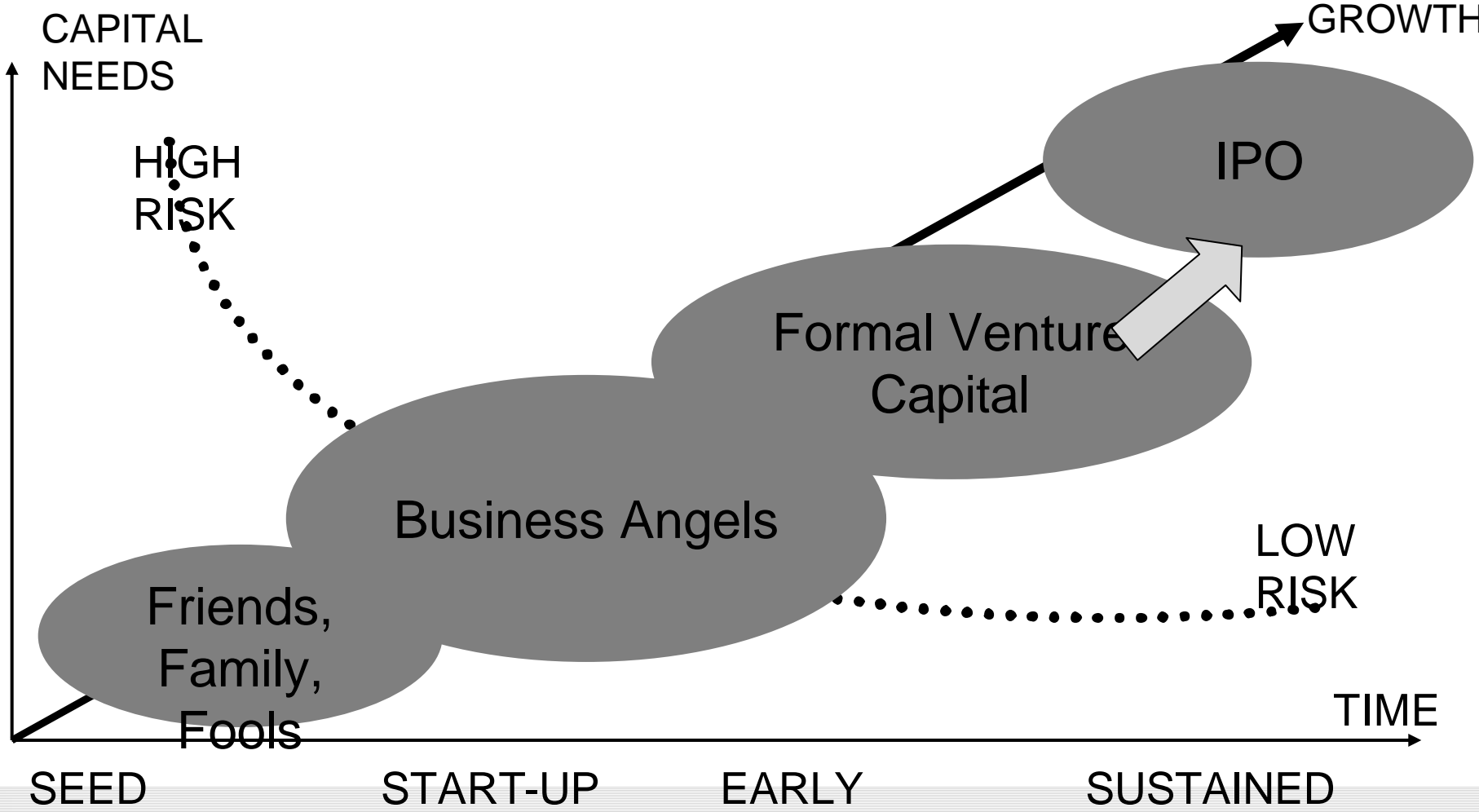
- Established In 1982
- 200 investors with over £40m to invest
- 2004 : 10 SMEs raised £2.8m from LBA Investors
- Events Based: 42 SMEs qualify per annum
- Matched £5m fund – London Seed Capital
- Pilot Creative Business Accelerator: Investment readiness

# CO-INVESTMENT MODEL

**LONDON SEED**  **APITAL**  
backing early growth

- The UK's first £5m Business Angel Co-investment fund
- 17 investments since launching 12/02
- Bridging the equity gap (£100k - £500k)
- Average syndicate circa £400k
- LSC Invests c. £100k on same terms Angels follow post investment

# SME FINANCING



# UK ANGEL MARKET

- Est. 18,000 + angel investors?
- Circa 90% male
- Aged 50+ entrepreneurial background
- Investing between £500m / £1 billion p.a.
- £3 billion invested in SMEs 1999/2004
- BBAA /BANs
- Angel Co investment Funds

# EQUITY FUNDING GAP

- Demand and Supply side market failure.
- Demand = SME investment readiness.
- Supply = Investor readiness / capital for start up early stage businesses.

# SME INVESTMENT READINESS

- SME Equity Aversion: Loss of control
- SME Investability: Business not credible/lifestyle
- SME Presentational Failings:
  - Business Plan poorly written
  - Inability to sell business to investors

\* Designing an Investment Ready Programme. A report to the UK Small Business Service. Colin M Mason and Richard T Harrison, September 2001

# INVESTMENT CRITERIA

- Committed founders providing initial start up capital
- Clear and Concise Business Plan
- Product/Service needs to be developed
- Validation from at least one customer
- Management proven
- Potential for explosive growth
- Understanding the needs of investors

# RAISING ANGEL FINANCE

- High Capital Returns for risks involved
- SMEs with a clear/concise Business Plan
- Minority shareholder legal protection
- Potential for explosive growth
- Involvement post investment
- Exit in medium term

# THE ANGEL APPROACH

- They ask 100+ questions
- Focus on downside
- Spend a lot of time assessing the deal
- Meet the entrepreneur. Many times!
- Discuss the opportunity with friends
- Carry out their own due diligence
- Low costs of investing

# ADVANTAGES OF ANGEL FUNDING

- Angels invest in equity gap < £500k
- Angels invest in start up/early stage SMEs
- Angels invest in all sectors
- Angels are flexible, close quicker, more informal
- Angel finance is cheaper
- Angels skill sets/experience mentoring investments whereas VC's monitor
- Angels widely dispersed
- Angels lever in other finance (debt/factoring/leasing)

# DISADVANTAGES OF ANGEL FUNDING

- Angels may not have desire/ cash to follow investments
- Angels involvement post investment may be a distraction
- Angels may attempt to gain control particularly if further funding rounds required
- Angel syndicates necessary to raise larger sums ( i.e > £100k). May be time consuming, raising issues of lead investor / passive investor

# TYPES OF ANGELS

- **Corporate Angels**
- **Enthusiastic Angels**
- **Value added Angels**
- **Syndicate Angels**

# ANGEL INVESTMENT CRITERIA

1. Enthusiasm of entrepreneur
2. Trustworthiness of entrepreneur
3. Sales potential of product
4. Expertise of entrepreneur
5. Investor liked entrepreneur
6. Growth potential of product
7. Quality of product
8. Perceived financial rewards
9. Niche market
10. Track record of entrepreneur

*Source: Harvard Business School*

# FUNDRAISING PITFALLS

- Large and complex Business Plans with no Exec Summary
- Large salaries post investment
- Lack of focus
- Unrealistic underlying assumptions
- Entrepreneurs who only “need” 1% of the market to be a success
- Entrepreneurs who have no customers
- Entrepreneurs without personal commitment
- Entrepreneurs who significantly overvalue their business

# SMEs FAILING WITH ANGELS

- No Clear financials
- Business not scaleable, i.e. lifestyle
- No must have product or service
- No likely exit
- Unrealistic pre money valuation
- Poor management team

*Source: Investor Pulse Survey 2003*

# London's Creative Business Accelerator (CBA)

- Pilot Investment Readiness Programme for fast growth Creative Businesses run by LBA
- Two 1day workshops (30/35 SMEs)
- Recruitment from Creative Business intermediaries/hubs
- 20+ SMEs are provided with an investor champion and receive 5 days of free coaching
- Showcase events to Angel Investors/VCs

# Case Studies: LBA Funded Creative Businesses In London

Company	Sector	Angel Funding £'000	Date
<b>UK Explorer</b>	Software	£300	1999
<b>Vibrant Media</b>	Advertising	500	2001
<b>Mindhouse</b>	Interactive TV	750	2004/05
<b>Imagineer</b>	Film	400	2004
<b>Codima</b>	Software	750	2004/05
<b>Fifth Dimension</b>	Games	300	2005



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***Thank you for your interest***

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