

Hitting the right pitch

There you stand, a brilliant business idea in mind and in front of you a room full of investors with the cash to help you realise your ambitions. All you have to do is deliver the perfect sales pitch. But presenting to private investor networks is far from easy.

The pressure of this make-or-break pitch is obviously one problem, yet there are other difficulties too. The process is tricky and often lengthy. Moreover, as with all forms of private equity funding, raising money through investment networks will not suit everyone, not least because the entrepreneur treading this path has to realise that they will no longer have complete control of their business.

'You have to remember this is a minority sport,' says Anthony Clarke, managing director of the London Business Angels network (LBA) and chairman of industry regulator the British Business Angels Association (BBAA). 'Yet it's also necessary for those able to grow quickly and who don't have the assets on which to secure bank debt.'

For those willing to accept these caveats, a private investor network has one significant advantage over other forms of funding. 'Networks are a great way of getting in front of a group of potential investors,' says Stephen Pegg, spokesman for Lloyds TSB Commercial Finance. 'For entrepreneurs it is always a real challenge to find possible backers.' Exposure to many at once should therefore not be passed over lightly.

Investigate your options

In practice, there are two main types of investor network. The first (typified by recent BBC2 show *Dragon's Den*) usually consists of a not-for-profit organisation operating an investment club for private individuals. These operations, such as the LBA and the Great Eastern Investment Forum (GEIF), tend to have a regional focus and work by bringing their member investors together with local entrepreneurs in need of funding. Those managing the network will sieve through business plans and select a certain number of companies, perhaps ten a month, to then pitch to would-be backers. Having delivered a ten-minute presentation, these investors will have a chance to grill those seeking finance.

By way of contrast, the members of other networks, such as Braveheart Ventures, Hotbed and Pi Capital, are more passive in their approach. In these cases, the managing organisation acts more like a venture capitalist than an investment club. 'We receive business plans, select certain businesses from this list and then send the details of these firms to our clients,' says Geoffrey Thomson, Braveheart's chief executive. Unlike the more traditional networks, which simply facilitate a meeting between entrepreneur and investor and allow

the two to then consummate any deals, the likes of Braveheart assume a greater burden. They will, for instance, reject a far greater number of business plans, carry out risk assessments and even strive to balance the portfolios of their member investors.

One company to have been through this latter process is visual display technology developer MicroEmissive Displays, which went on to float on AIM in November 2004. Prior to that, the company secured funding from a series of backers, including Braveheart and venture capital behemoth 3i.

Finance director Alan Bennie has nothing but positive remarks to offer with regard to the experience. 'You get the best of both worlds,' he explains. 'From one point of view you are dealing with a single entity and yet you can also speak to your individual investors too.' Also, this structure seems to afford ongoing benefits. 'All our investors stayed on at flotation,' Bennie continues. 'In fact, all of our investors invested again and it's given us an interesting shareholder base. We have institutions but we also have a lot of private individuals too, which will become increasingly important as we develop on AIM.'

Know your place

When dealing with either type of organisation, the key point to remember is that private investor networks, as their name suggests, favour those looking to invest and not those seeking investment. Regardless of the network you opt for, you have to understand that they will spend far more time vetting the businesses seeking cash than they do wannabe investors. To this end, should you receive an offer of financial backing through such an organisation, you must carry out all the appropriate checks and balances yourself and it is essential to have your own adviser (usually an accountant) on hand to ensure the deal is structured appropriately. It is also important to understand an investor's motivation.

Few, if indeed any, will be driven by anything as noble as altruism. Instead, as Braveheart's Geoffrey Thomson reasons, many 'want real high-risk, high-growth opportunities.' Anthony Clarke of LBA adds: 'I think that most angels are going for businesses that are scaleable but very innovative. Investors go for high-risk, exciting ventures as the rewards are potentially far higher and so are the exit opportunities.'