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# How To Approach & Raise Capital from Angel Investors

**A guide to help entrepreneurs find an informal investor to raise the first initial capital for their businesses**

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## Contents:

# Chapter 1:

# Angel Investors vs Venture Capitalists and other Equity Investors

You are probably wondering what an angel investor is and how he or she differs from institutional investors, such as venture capitalists and other equity investors. The difference is in the amount of money that is available for investment and what resources these investors will have. Why is there a difference? Well, that is quite simple. Angel investors are investors who invest as a hobby or on their spare time, whereas venture capitalists and other institutional investors invest other people's money in equity funds managed by the firms they work for and therefore they have massive funds and usually invest more than $1 million in promising opportunities.

## Angel Investors

Angel investors are the kind of investors that have made their wealth from either founding a successful company or working in a key management position of a large corporation. Because angel investors invest their own money at their leisure, they tend not to invest large sums of money. In most cases, angel investors invest between $50,000 and $500,000 in a given company. Some angel investors do invest as much as $1 million, but this is a rare.

The manner in which angel investors invest is can also differ between individuals. Many angel investors set their own conditions for their invest-ments and some want to make profits whereas others might just want to know how their money is being spent and have quarterly reports about how the invested company is doing. Very rarely do angel investors demand control of the company or a seat on the company's board of directors, as institutional investors often do.

## Venture Capitalists and Other Institutional Investors

Institutional investors are investors who invest for a living and invest money managed by either a private equity firm or a venture capital firm. Private equity is the net worth of a company that is privately owned and is usually held in funds. Most private equity and venture capital firms invest money from funds that can be either pension funds, healthcare funds, or the funds from private wealthy individuals. Unlike angel investors, institutional investors are professionals who invest money from funds that are managed by private equity and venture capital firms. A venture capitalist is an investor who works for a venture capital firm. Venture capital is a subset of private equity, but the difference is that venture capital is private equity earmarked for startup ventures.

Unlike angel investors, who generally invest no more than $500,000, venture capitalists and private equity investors have access to much larger sources of money and other resources. This can be a better outcome for the entre-preneur than angel capital. The reason is that angel capital is limited and if you are not careful in spending angel capital, you can run out of it rather quickly. Venture capitalists, on the other hand can manage funds of over $2 billion and this allows them to give investments of anywhere between one and three million dollars, if not more, to any given company. Angel investors invest only money. However, if you are able to get the perfect investor, that investor may have connections to institutional investors, who in turn have connections to experts within your industry.

## The Beginning of Angel Investing

Have you ever wondered how angel investors got their name? Angel investors began in the United States when certain private wealthy individuals would invest in different companies on New York City's Broadway. Many budding Broadway artists received large donations from wealthy individuals who liked their performances, thus becoming Broadway angels. As time went on, the name stuck and became associated with other-investors.

# Chapter 2:

# Why Do Angel Investors Risk Their Own Money?

There is no standard angel investor,   as a result there are different reasons for why angel investors risk their money in investments. Some angel investors might invest in a particular industry they are familiar with, whereas others are entrepreneurs who made it big and want to share their entrepreneurial success with other new entrepreneurs. Others like to see a small profit from the businesses they invest their money into, while others only request a quarterly update on how their money is being spent.

The main difference with angel investors compared to more institutional investors is that angel investors are informal investors, so their rules can be either more laid back or stringent compared to the formality of doing business with venture capitalists or private equity investors.

Some of the key things you should know about angel investors is that they tend to be in their mid to late forties. However, there are some angel investors who could be over 60 years of age. The average angel investor earns an income of about $100,000+ per year and has a net worth of roughly $750,000, which explains the relatively small investments compared to larger institutions.

Furthermore, the average angel investor is more educated than the common citizen of their respective country. Angel investors tend to invest only in industries that they work in or in entrepreneurs who have had jobs as corporate CEOs or other key management positions. These might be more difficult angel investors to deal with and they are generally over 60 years of age.

## Angel Investors Make Investments Expecting Risks

One of the reasons that angel investors take such high risks is that they like to see the kind of opportunities that they would not see in the stock market. Many angel investors usually expect to see returns with an entrepreneur of over three times more than what they might expect in the stock market. Other angel investors take risks because they feel like they want to do some charity work, such as helping out their community. Some angel investors feel like helping out the economy of a particular nation or other geographic area and will focus his investments there.

The truth is that angel investors can have a whole wide range of reasons for why they risk their money the way they do. Some angel investors may even want to help out an entrepreneur who is just starting out and enjoys spreading around the entrepreneurial spirit to young people and new entrepreneurs.

Here are some good reasons why angel investors have the kinds of investment tactics they have.

A. Many angel investors invest in high risk ventures because they believe that they can get huge profits in those ventures. Many of them have the knowledge logic that the newest ventures can become very profitable and can produce over a hundred times earnings. Some examples of these profitable ventures include Google, Facebook, Check-Point, and My Space.

B. Having trust in the entrepreneur is also a key reason why angel investors invest the way they do. They trust the entrepreneur because they either know the entrepreneur personally or through a series of acquaintanceships. Some angel investors will invest in an entrepreneur whom they interviewed and can trust, much similar to a job interview. Entrepreneurs might also show recommendations from people who maybe able to provide useful references for the investor.

C. Some angel investors are either entrepreneurs themselves or hold key executive positions in large companies, they therefore feel that they can help the entrepreneur they are investing in by adding value to that entrepreneur's company, through their expertise and contacts. These experienced investors generally have great contacts , such as venture capitalists and private equity firms for when the company reaches its later stages.

D. Angel investors love to take risks. They thrive on taking risks in new ventures and sometimes even invest in ventures simply because they want to help out an entrepreneur, as others did for them.

Another thing to keep in mind when looking for angel capital is your industry and market sector. Angel investors can be very selective in what market sector they invest in. This is because angel investors primarily invest in sectors where they have their expertise, contacts and formal investors, such as venture capitalists and other private investors.

According to data provided by Growthink University, here is a list of all the market sectors in which angel investors invest and the percentages of capital these industries received:

| | |
|---|---|
| **Healthcare** | **16%** |
| **Software** | **13%** |
| **Retail** | **12%** |
| **Biotech** | **11%** |
| **Industrial & Energy** | **8%** |
| **Media** | **7%** |
| **Misc. Hi-Tech** | **33%** |

According to the same data, the percentage of angel investments may seem low in the retail industry, but you also need to take into consideration that there are many angel investors who are latent angel investors. What is a latent angel investor? A latent angel investor is a wealthy private individual who could be an entrepreneur himself but has not yet really invested any of his or her money as a typical angel investor might. This means these people may be waiting to find the right opportunity to invest and then become an angel investor. The best thing about latent angels is that because they usually do not openly invest, like regular angel investors, they are usually not inundated with business plans like other angel investors.

Another reason why many angel investors are latent and hard to find is that they do not like to advertise the fact that they are an angel investor. Reasons why many angel investors are reclusive can vary, but the most common reason why angel investors are reclusive and do not advertise their services is to avoid being inundated with poorly thought-out and lazily planned out business plans. You need to realize that angel investors invest as a hobby. Therefore, they do not have the time to browse poorly crafted business plans, since they are too busy with other obligations, such as running their own companies or working their regular jobs.

Angel capital is a often a good sum of money for starting a company, but despite the fact that it provides more capital than what an entrepreneur can raise by various other, angel capital is far less than the typical amount of funding that an entrepreneur can receive from venture capital. Angel investors are equity investors and usually expect to own from 10% to 35% of a company's equity.

# Chapter 3:

# The Different Kinds of Angel Investors and How They Invest

As mentioned above, angel investors are not formal investors. Therefore their rules and regulations are not as formal as those of institutional investors. Investment criteria that angel investors have are much less stringent than those of institutional investors or venture capitalists, and angel investors usually expect less **internal rate of return**, or IRR. IRR is defined by the use of return rates in capital budgeting to compare the profitability of investments.

The important thing to take into account for angel investors is that the entrepreneur has a good track record of expertise, a good management team, a good idea, and the unique selling point, or USP, of either a product or service provided by the company. Angel investors also like to see that the entrepreneur's business has a good growth potential in the sector market.

Further categorization of different angel investor groups are as follows:

## Entrepreneurial Angel Investors

Entrepreneurial angels are angel investors who are the most comfortable about risking their money. Entrepreneurial angels are in essence the type of angel investors who have the true angel spirit and are more than likely entrepreneurs themselves and understand the stresses that an entrepreneur goes through to find funding for his company. In most cases, entrepreneurial angels are highly successful entrepreneurs who have made large amounts of money with their enterprises. This means that entrepreneurial angels tend to have deeper pockets and make larger investments than other angel investors.

## Corporate Angel Investors

Corporate angel investors are angel investors who are either corporate executives or former corporate executives and can be difficult investors to receive funding from. Many corporate angel investors are looking to expand their retirement fund and expect both returns and an consulting position within their invested company.. The biggest problem with corporate angel investors is that they are rigid in structure and do not tend to want to wear all the hats that are necessary. Corporate angel investors can also be controlling, which can be difficult for an entrepreneur to deal with; but on the other hand, their contacts can be a great benefit to a startup company, including finding more healthy capital of a formal type, such as venture capital.

## Enthusiast Angel Investors

Enthusiast angel investors are similar to entrepreneurial angels in that they are simply satisfied with themselves in making a deal. These kinds of angel investors invest in a company for any number of reasons and might require minimal returns from the company. Some might just want monthly, quarterly, or yearly updates of how their investment is spent. Because enthusiast angels are retired entrepreneurs, they tend to make small investments which range from $10,000 to $200,000. This kind of angel investor is the true angel investor, and they are becoming a rare breed.

## Micromanagement Angel Investors

Micromanagement angel investors are investors who are serious people who made money from their own means and often like to take a controlling position in the company they invest in. This type of angel investor usually likes to have a seat on a company's board of directors, like a venture capitalist or other institutional investor.

## Professional Angel Investors

Professional angel investors are investors who have some kind of profession, such as doctors, lawyers, or other types of trades. They usually do not like to have control in the company, nor do they really have good business experience and so they likely will not hang on if the company experiences problems. Many professional angels want to be hired by the company they invest in as a consultant in their respective field of experience.

Besides the above mentioned different kinds of angel investors, one also needs to take into consideration that many angel investors will only invest in a company if they are convinced that the company has the potential for explosive growth and a highly profitable liquidity event.

Liquidity is a term that is used not only with angel investors, but with equity investors in general. Angel investors usually invest equity, just like venture capitalists. Unlike debt capital, where the investor of debt capital, takes a rather low risk and is usually guaranteed that he will be paid back with at least 10% interest; with equity investing, the investor actually buys some of the equity of a company when he or she invests in it. Equity is the worth of a company and when investors invest equity in a company, they will want some shares in your company stock. Usually an investor will not want to buy a large piece of company stock. This is because the investor knows very well that if he or she want to see any profits it is within their interest to leave the original entrepreneur with an incentive to maintain an successful business.. Although angel investors invest similarly to venture capitalists, they rarely want control on the company, such as a seat on the company's board of directors - which venture capitalists usually want.

So, what are liquidation events and how do investors make profits from them? A liquidity event is when a company either goes public via an initial public offering, or IPO, gets sold or gets liquidated. When a company is ready to be publicly traded on the stock market, through an IPO, that is where most initial investors make their profits. When a company is sold as a whole to a specific buyer, investors see the return on their initial investment in proportion to their share of the company's equity. Lastly, during a liquidation of a company, a company is broken up and it's parts are sold to various buyers; again investors receive their return as a proportion of their initial investment.. The total value of these individual transactions are equal to a company's equity.

One of the first criteria for many angel investors who invest in a company is to see what your company will be worth later, after his or her investment. Investors can see profits from a company by collecting their dividends or selling their shares in a given company's stock. In fact, investors selling parts of their company's stock is quite common. For example, should a company have a pre-money value of $500,000 before the investor invests his money, and he then invests $1 million and then in three years the company grows to be worth over $10 million, the investor can sell 10% of his or her shares in that company; thus getting back there full initial investment. This can be a good exit strategy because the entrepreneur is still in control of most of the company and the investor cashes in on a small percentage of his or her shares. In theory, this process can be duplicated over and over again for each new investor within a company.

# Chapter 4:

# How To Find Angel Investors and Where To Look

Angel investors can be rather difficult to find because many of them are secretive, meeting entrepreneurs through friends and acquaintances so they do not get flooded with poor quality business plans. Some angel investors form groups with other angel investors, working together to share the investment burden, such as the Chicago Angels. Angel investors who form such groups can also sometimes be referred to as business angel investors.

One great way to find angel investors, as well as other institutional investors, such as venture capitalists is the VCgate Venture Capital Database. The VCgate Venture Capital Database provides access to contact information of over 4300 investors worldwide. Furthermore, VCgate can even provide access to secret angel investors who do not advertise their contact information, to avoid being inundated with poor business plans.

Word of mouth is another good way to find angel investors. Through being in contact with different associates, one can develop contacts with prospective angel investors who can provide that initial startup capital quicker than competing databases.

When seeking angel investors, it is a good idea to be able to develop connections that can provide several angel investors. Never rely on the contacts with one angel investor alone. This is because, like any other investors, a business plan may appeal to one investor and not the next.. Though angel investors are not as stringent as formal investors, they do like to see that the business they are about to invest in is about to succeed.

## How To Get a Deal With an Angel Investor

The one thing to remember about angel investors is that they make deals primarily based on strong relationships built up over time, regardless of whether one contacts them cold or through an acquaintance. Relationships are very important when dealing with angel investors. It should be remembered that an investor and entrepreneurs are business partners with everyone relying on one another.

## Building a Relationship With an Angel Investor Through an Acquaintance

One of the ways to locate an angel investor is to get to know them through a mutual acquaintance. One way to find out how to get to know an angel investor is by talking with employers, colleagues, friends and family. This can be a good start. If an individual angel investor gets to know an entrepreneur through one of his or her associates, that entrepreneur should have some success with funding..

# Chapter 5:

# How Can You Get Into Contact With a Business Angel Network?

Business angel networks are basically networks of angel investors who work together and invest in select entrepreneurs whose plans show promise. There are many business angel networks out there that can be contacted, and the best way to contact a business angel network is by approaching it with an executive summary of a business plan.

Several things need to be taken into account when preparing an executive summary for a business angel network include, stating a company's funding stage, the company name, industry, sector, location and the amount of capital sought out.

Generally, less than 10% of investment opportunities will circulate through investment networks. Entrepreneurs also need to remember that angel investors are private individual investors who invest on the side, so the investment sizes tend to be relatively small..

Entrepreneurs should also devote a lot of time on their business plans. The most important thing that needs attention within a business plan is the marketing research. This is key. Is there a market out for the product? If so, how is the product expected to fare in the market? All this information should be in an abbreviated format in the executive summary of the business plan. Only then should an entrepreneur contact the business angel network. VCgate can help speed up any search for business angel networks. With the angel network, the investment can be bigger than from an individual angel investor.

# Chapter 6:

## How Do I Know If My Business Can Attract an Angel Investor?

There are many businesses out there, but the truth is that not all of them need either angel capital or venture capital. Many small businesses do not need as much capital, so a simple business loan or debt capital might be the right thing for many businesses.

For example, many small local family-owned businesses are solely suited for the purpose of providing a source of income for the family running the business and rarely seek to go nationwide or international.

Entrepreneurial businesses on the other hand can be poised to grow and expand to new heights. These kinds of businesses are the kinds that need to raise capital. Debt capital can be raised in the beginning, but for businesses to seek further markets, raising such a large amount of debt capital can be rather devastating to the company. Therefore, in these cases either angel capital or venture capital might be the key to entrepreneurial success. In most cases, angel investors usually invest the first round of capital in a company, either seed or startup capital. Getting an angel investor to make the first investment in a company can also open the way for venture capitalists and other equity investors who have deeper pockets and other connections which can help a company flourish.

Before getting some capital from either an angel investor or a venture capitalist, there are quite a few things to know about your business plan to get such investors interested. Some of these things that should be included in a business plan are as follows:

A. Proof that the business will have sufficient turn-around and generate enough profits within the next three to five years.

B. Does the business plan allow for the realization of growth by reducing the entrepreneur's equity share?

C. Proof that the business has a unique selling point, or USP, to potential investors. An expression that was originally coined in the 1940s, a unique selling point is a term that is used by marketing strategists to define a marketing tactic which can get consumers to switch brands.

D. Good demonstration to the angel investor that the amount of capital requested in appropriate and necessary.

E. Does the business plan provide a clear roadmap of the business, how it will function and what is to be done at each stage?

F. Is all the book keeping work in order? Can the investor see exactly how the money is budgeted in a way that they can see exactly how it can be spent?

G. Can the entrepreneur demonstrate how the angel investor will make a return on their investment?

Though angel investors hope for a liquidation event which they can cash in on, that is not necessarily the only way that angel investors cash in. One common way is by selling a percentage of their stock three to five years after the investment, and then that percentage of the share is worth more than the entire shares in the company's equity which the investor has invested in. This is because most angel investors will invest equity, as venture capitalists or other formal investors do. This means that they invest money in a company in return for shares of company stock. Other angels like to invest convertible notes in a company. Convertible notes are investments that can begin as debt capital but then can convert into an equity investment.

Determining the informational needs of raising capital from angel investors is very similar to the criteria for raising venture capital. One of these criteria includes a good survey of competition and having good barriers of entry. Remember, angel investors are still investing. It does not matter whether an angel investor is investing his or her own money in a company or a venture capitalist is investing money from a fund managed by his or her firm; the object of the investors is still the same. Investors want to see returns on their investment and the higher the return on investment, or ROI, the better. This can especially apply to the angel investor because they invest their own money. Angel investors do not have massive amounts of funds, as venture capital and private equity firms do, so angel investors want to expand their money. Hence they take the higher risks and want higher profits.

Now, the question is how to survey the competition and how to can create good barriers of entry.

## What are barriers of entry?

Barriers of entry are institutional road blocks that you build around your customer base to keep the competition from winning over or making it more difficult for your competition from winning over your customer base. There are many different ways a company can create effective barriers of entry by providing incentives for your customers to remain your customers or having unique features to your products or services that you are certain that your competition does not have. Some of the things that you can have as effective barriers of entry can include the following:

A. If you are a tech company and you have a patented technology that can be modified and you have a particular feature on certain devices which your competition does not have, that can be a good barrier of entry. Let us take Apple. You remember that Apple has a much superior operating system on its computers than Windows. Its system is more stable and less susceptible to viruses than Windows, but Microsoft almost blew Apple out of the water by massive marketing efforts. Well, other examples about good barriers of entry include different brands and product lines. For example, Nike, the famous athletic shoe brand teamed together with basketball player Michael Jordan to develop the Air Jordan product line of Nike. Though Nike's competition did not have a product line that could match the Nike Air Jordan, what's the barrier of entry? Well, Michael Jordan is a famous basketball player and people can associate with him. Furthermore, Nike designed the Air Jordan to fit the style of Michael Jordan and many basketball fans. Especially fans of the Chicago Bulls would buy the Air Jordan shoes because of its affiliation with Michael Jordan. This product line has generated immense revenue, not only for Nike, but Michael Jordan licensed his name into the product line, so he also has a nice piece of the pie, and only Nike has the license to use Michael Jordan's name in the use of the Air Jordan product line, preventing the competition from having a similar product.

B. Let's look at another competitive industry, the service industry. There are all kinds of services out there and many companies offering pretty much the same kinds of services. Now in such of a competitive sector, you might think that finding a good barrier of entry can be next to impossible. Well, that can be the case, but a creative entrepreneur can do his research and see what is lacking in this sector that people would like to see. In the service sector, there are many people that may not be satisfied with a given service or may think that a particular service company is not providing the desired quality of service to a customer base. Here is a good chance to provide a barrier of entry. Let's look at the cable and satellite dish industry. In the United States the competition in the television service industry can be highly competitive, with the cable companies offering certain benefits that satellite companies cannot offer and satellite companies can offer benefits that the cable companies cannot offer. Both competitors have their barriers of entry and can cater to a very diverse clientele. One of the biggest complaints people have with the cable companies is that they are stuck in one program and end up paying fees and cable becoming more expensive. The satellite companies, such as Dish Network or DirectTV caught on to this and saw the perfect opportunity to create a good barrier of entry in this highly competitive industry that has seen a heavy monopoly of the cable industry. The satellite companies came out with different packages for different people. In the United States there are many different immigrant groups who would like to have channels in their own languages. Cable companies can be limited in this feature with possibly providing a few channels in Spanish or some other language. Satellite companies have the ability to get channels from all over the world and provide certain international channels to certain clients. The satellite companies had a great barrier of entry, but the cable companies had a barrier of entry of their own for a certain period of time. The barrier of entry the cable companies had against the satellite companies was that satellite companies could not allow the broadcast of local channels in their services. The cable companies, however, lost those barriers of entry when many people petitioned the FCC to remove that restriction.

What these two examples show is that barriers of entry can be a variety of factors that companies can take advantage of to build barriers around their client base. The important thing to know about this is that angel investors and institutional investors as well look at these barriers of entry.

Having a good survey of your competition and showing strong barriers of entry are great, but you shouldn't rely on those alone to guarantee that an angel investor will base his decision solely on that to invest in your venture. Some of the other criteria that angels might have to make investments include the following:

A. **A strong management and experienced management team** who are highly competent in their sector. Although an entrepreneur may be inexperienced in one business field, they should include other executives on their boards, who can fill in any knowledge gaps. This is very important because like all investors, angel investors want to know that the company they invest their money in will succeed. It is important to keep in mind that angel investors invest their own money in companies, so they can get very impatient if they see that the management is not competent.

B. **Location** is also important for many angel investors. Though there are angel investors who invest internationally, many angels like to invest locally, within 50 miles from where they live or work.

## Chapter 7:

# What Kind of Angel Investor is the Ideal Angel Investor for My Business?

As mentioned before, angel investors are different. They are informal investors who can invest money for a number of different reasons. Now the question becomes, which angel investor is the right angel investor? This can be a rather tricky question. In most cases entrepreneurs should know the specifics they need from an investor. To find the right investor one should ask oneself the following questions:: Can I work together with this particular angel? Does a particular angel investor have conditions that I can live with? Is an angel too demanding if they want a position on my company's management? All of these questions should be answered before sealing a deal with an angel investor.

# Chapter 8:

# Accreditations for US and International Standards

What are accreditations? Well, within the U.S., investors are accredited as investors by the federal government. Some countries have their own criteria for accrediting investors, whereas other countries may not have any accreditation criteria at all. If an entrepreneurs company is based outside of the U.S., then they should check the local criteria of that particular country. In the U.S., however, there are federal security laws which define investor accreditation.

## Accreditation and Angel Investors

When raising angel capital, it is important to keep in mind that not all angel investors are accredited in the U.S.. When looking for angel investors it is important to find an angel investor who is accredited by the proper federal and state agencies. If an investor is accredited with the proper authorities, they will not have to register a new entrepreneurs securities offering.

## What Is a Securities Offering?

A securities offering is a funding round that companies receive from investors, which is intended to raise capital to cover operational costs, expansion, capital projects, acquisitions, and other business endeavors.

## Accredited Investor

According to Federal Securities Regulation D, Rule 501, an accredited investor is defined by the following criteria:

A. Banks, insurance companies, investment companies, business development companies, or small business companies.

B. An employee benefit plan defined under the Retirement Security Act if a bank, insurance company, or investment advisor makes the decisions in an investment or plans to have total assets of over $5 million.

C. Charitable organizations, corporations, or partnerships that have assets over $5 million.

D. Directors, executive officers, or general partners of companies who are selling the securities.

E. A company, in which the owners of its equity are all accredited investors.

F. An individual who has a single net worth in excess of $1 million or a couple with net worth in excess of $1 million.

G. An individual person with a single income of over $200,000 or a couple with income exceeding $300,000 a year.

H. A trust which has assets that exceed $5 million and that is not formed to acquire securities offered which a sophisticated person buys.

# Chapter 9:

# How to Market Your Venture to Angel Investors

Marketing a business to angel investors is very similar to the marketing process of venture capitalists or any other formal institutional investors. The difference is that with angel investors, you need to have private placement memorandums, or PPMs, which are documents needed for the placement of private securities. This will be mentioned in more detail later in this chapter, but first, we should cover the other basics in marketing with angel investors.

## Initial Contact With an Angel Investor

Having initial contact with an angel investor is very much the same as with a venture capitalist. Just as one might need to convince a venture capitalist that a venture is worth investing in, you also need to convince the angel that your venture is worth his investment, and ways to make the initial contact with the angel investor require many of the same basics as contacting a venture capitalist or any other formal investor. These tactics include the following:

A. **High Concept Pitch** - A high concept pitch is a very common marketing tactic that does not only need to be used when marketing to investors, but also once a business opens and starts marketing products or services. A high concept pitch is a pitch that is two to three words that compares your product or service to that of a well established company. For example, when the founders of Dogster wanted to market their product, a social network for dog lovers and owners, they knew about the popular and rather successful social network, Friendster. The founders came up with the high concept pitch "Dogster, Friendster for dogs!" This type of pitch can serve as a double-edged sword. First as a marketing tactic to investors because investors who are savvy about the different markets can see how successful Friendster has been and can relate that success to Dogster. This approach won the investment. Dogster got funding. At the same time, when Dogster was ready for launch, the same high concept pitch was used to introduce Dogster to the general public. Many dog owners and dog lovers knew about Friendster and other social networks and then saw that Dogster was a social network specifically designed for dog owners and dog lovers alike. Dogster came to be just as successful in its niche market as Friendster.

B. **Teaser Emails** - Teaser e-mails are usually associated with cold contacting formal investors, such as venture capitalists, but in the case an entrepreneur cold contacts an angel investor, a teaser e-mail is a great way to market a venture. The teaser e-mail should begin with an available high concept pitch, and then it needs to briefly describe the business. Teaser e-mails should explain what a company does, including products and/or services, and why that venture is a good opportunity for the angel investor. Entrepreneurs might want a line in their teaser e-mail telling the investor why their venture is a good opportunity.

C. **Elevator Pitch** - An elevator pitch is a method to entice potential investors with a very brief oral presentation. When it applies to angel investors, it would probably be known better as the "cocktail pitch." This is because most angel investors tend to be private individuals and invest on the side. There are some angel investors who advertise themselves, but the reality is that most angel investors like to be reclusive in order not to be inundated with misguided business plans or fraudulent opportunity offers. This is why entrepreneurs are more than likely get to know an angel investor through an acquaintance or business associate..

D. **Internet Investor Databases** - Internet investor databases, such as the VCgate Venture Capital Database, can provide entrepreneurs with access to numerous investors, including angel investors.

The VCgate Venture Capital Database is one of the better known investor databases available and it contains information on over 4300 different investors. Additionally, VCgate even has those above mentioned secret angel investors who do not advertise their services.

E. **The Business Plan** - As with any other investors, angel investors will eventually want to see a complete business plan. A business plan is a serious document that is a complete guide to your business and its action plan. Because business plans include private, privileged, and proprietary information, entrepreneurs should hesitate to provide their entire business plan upfront. During initial stages of an entrepreneur-investor relationship, entrepreneurs should provide just the executive summary of their business plan. Though the executive summary is part of your business plan, you should have the executive summary as a standalone document.

F. **The Executive Summary** - As mentioned in the above paragraph, the executive summary is a short and concise outline of the highlights of your business plan. The main purpose of the executive summary is to get oneself in front of a serious investor. Like venture capitalists, angel investors also like to first see executive summaries. Only after viewing an executive summary might an investor ask to see a PowerPoint presentation.

G. **The Slide Presentation** - As with presenting to venture capitalists and other formal investors, entrepreneurs should also provide a slide presentation to present their business to an angel investor. This is especially trueThe Easy Way to Raise Venture Capital if the angel investor is part of an angel investor or business angel network. Though angel investors may not be as formal as venture capitalists, entrepreneurs should still be prepared because all angels have their own criteria for investments. The typical slide presentation should be done from a professional electronic presentation, such as Microsoft PowerPoint or Apple Keynote. The presentation should be no more than ten slides, the font size should be no less than 30, and all text should be easy to read in a room where the presentation is projected to an audience. Though the slide presentation must look professional, it is important to remember that the data on the slide presentation should be accurate and well researched. All the market research, competitor surveying, and barriers of entry should be included, to demonstrate the company's worth.

## Private Placement Memorandums or PPMs

The next thing you need to have for an angel investor is a private placement memorandum, or PPM. A PPM is basically a document that is provided to potential investors for a private placement of securities. Some of the documents that are to be included in a PPM include the following:

A. A business plan;

B. An explanation on how the offer works by payments, state disclosures, and the like

C. A summary of the offering

D. An overview of the company, which includes the amount of shares in the company, and the minimum investment required.

E. Risk factors;

F. A detailed use of proceeds

G. Management compensation

H. Principal share holders and capitalization tables

I. Subscription agreement; and

J. Actual subscription form that investors sign.

For U.S. entrepreneurs, they should know that private placements are exempt from registration under the Securities Act of 1933 in accordance with Regulation D, along with one or more statutory exemptions.

International entrepreneurs and founders of companies that work with foreign markets should check the laws and regulations of the countries where they are doing business. Every country is different and has different laws that pertain to business and private placements.

# Chapter 10:

# Due Diligence and Documents Needed for Due Diligence

## What Is Due Diligence?

Due diligence is the process in which an investor closely scrutinizes all aspects of a potential venture. This process includes checking market data, internal business data, licensing agreements and all other important components of a potential investment. As with everything else, the due diligence process requires a series of prepared documents. These important prepared documents include:

A. Company background;

B. Management background;

C. Business plan

D. All aplicable company financials;

E. All aplicable internal memorandums discussions regarding company performance;

F. A list of equity holders. This is also known as a capitalization table ;

G. Company leases;

H. Employment contracts, covenants, and contracts;

I. Sale and purchase contracts ; and

J. Any previous letters of intent

Keep in mind that these documents should be prepared way ahead of time and should be easily accessible in order to answer any investor' questions.

# Chapter 11:

# The Plan of Action for Seeking Angel Capital

The action plan in raising angel capital is similar to raising venture capital. There are several steps that are essential in raising angel capital; they are as follows:

A. **The teaser email** is the best way for an entrepreneur to introduce him or herself to an angel investor when contacting him or her cold. Entrepreneurs can use the services provided by VCgate, such as the VCgate Venture Capital Database to get into contact with angel investors or angel investor networks

B. **Carefully research** everything before submitting business plans to an investor. Entrepreneurs should prepare an executive summary to present to the investor, once interest is shown for a teaser email. The executive summary is a brief synopsis of a business plan.

C. **A business plan** needs to be carefully and strategically thought out, and should include plenty of research, as previously mentioned to have it presentable to investors. The research needs to be carefully done and needs to include surveys of competition. Entrepreneurs also need to show a well detailed plan of action and a plan to execute each individual milestone.

D. **The due diligence** is the process that investors take to review a business plan. During this time, angel investors might want to see a PowerPoint presentation of a proposed business.

E. **The presentation** should not be more than ten slides, the text should be less than 20 point font, and should be visible from ten or more feet away so it can be viewed in a meeting room. This especially applies if one is seeking capital from an angel network.

F. **Control issues** are also very important. The one who owns the most equity in a company is the one who controls the company. Entrepreneurs should be able to hold onto at least 51% of the equity in their company. Furthermore, entrepreneurs need to have management and seats on their board of directors, though many angel investors usually do not require a seat on the board of directors, as venture capitalists do.

# Chapter 12:
# Terminology

**Consolidation**
When a company undergoes consolidation, it can have a variety of different meanings. A classic definition of consolidation is a company that is looking to be merged with another company. Some investment firms, however, define consolidation as an amalgamation.

**Recapitalization**
Recapitalization is the restructuring of a company's debt and equity to make it more stable.

**Restructuring**
Restructuring is a step a company takes when it encounters problems. The primary reason for restructuring occurs when a company is in debt and needs to restructure its finances, management, and other key operations.

**Seed Funding**
Seed funding is the initial capital investment a company receives when it is just starting out. The seed funding round is the funding a company seeks to develop its product or service and purchase the necessary equipment and real estate to begin operations.

**Late Stage**
Late stage, also referred by some investment firms as expansion or growth stage, is the stage when a company seeks capital to expand its operations into new markets. During this part of a company's development a company primarily requires bridge funding and the company is already considered to be in a mature stage.

**Series A Funding**
Series A funding is the first round of early-stage funding. Companies seek series A funding to provide them with enough capital to operate from six to twenty four months into the future.

**Series B Funding**
Series B funding is the second stage of early stage funding and is usually given to companies who are preparing for mezzanine funding.

**Leveraged Buyout or LBO**
A leveraged buyout, or LBO, happens when a company is looking for funding to acquire a smaller company and the licensing of the acquired company's products or services.

**Management Buyout or MBO**
Much like an LBO, a management buyout, or MBO, is also the acquisition of a smaller company by a larger company. The difference is that in an MBO, the company works together with the management of the company it is looking to acquire. The biggest difference of an MBO is that in an MBO, the management of the acquiring company acts as the management of the acquired company.

**Startup**
A startup company is a company which is in its early stages of formation.

**Mezzanine Funding**
Mezzanine funding is funding given to a company that is in mezzanine stage. Mezzanine stage can best be defined as the middle stage of a company's life. Mezzanine funding is primarily intended for companies who are preparing an initial public offering, or IPO. In an IPO a company prepares for public trading on the stock exchange.