

Angels can rescue ideas from oblivion



**MERRICK
WEALTH**

**By
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An angel investor, or angel, is an affluent individual who provides capital for a business start-up. There are many different structures but usually the angel offers capital in exchange for convertible debt or ownership equity. A small but increasing number of angel investors are organizing into angel networks, or angel groups, to share research and pool their investment capital.

One of the most prominent and successful groups is the Maple Leaf Angels, a Toronto-based association that was formed in 2007. They meet once a month to review deals and so far have invested in eight transactions totaling approximately \$3 million. Their meetings

generally feature three presentations by companies looking for money. These presentations are made to approximately 30 well-qualified angels.

Ken Paige, chair of the Maple Leaf Angels, explains: "We have attracted very interesting deals and they have been presented to a real cross-section of the business world. We have a great group of minds that get together and evaluate deals. There is a consensus that we all feel that we are stronger together than the sum of the parts."

The term 'angel' originally comes from England where it was used to describe wealthy individuals who provided money for theatrical productions. In 1978, Professor William Wetzel, a founder of the Center for Venture Research at the University of New Hampshire, completed a pioneering study on how entrepreneurs raised seed capital in the U.S. He began using the term 'angel' to describe the investors who supported them, and the name stuck. In Europe they refer to them as 'business angels.'

Rob Koturbash, managing director of the Maple Leaf Angels, describes the reasons that people get involved: "Our group is made

up of investors who are often retired entrepreneurs or executives, who may be interested in angel investing for reasons that go beyond pure monetary return. These include wanting to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs, or making use of their experience and networks on a less than full-time basis. Thus, in addition to funds, angel investors can often provide valuable management advice and important contacts."

According to the Center for Venture Research, there were 234,000 active angel investors in the U.S. in 2006. Beginning in the late 1980s, angels started to coalesce into informal groups with the goal of sharing deal flow and due diligence work, and pooling their funds to make larger investments.

Angel groups are generally local organizations made up of 10 to 150 accredited investors interested in early-stage concepts. The more advanced of these groups have full-time, professional staffs, associated investment funds, sophisticated web-based platforms for processing funding applications

and large annual operating budgets.

Angels typically invest their own funds. Although typically reflecting the investment judgment of an individual, the actual entity that provides the funding may be a trust, business, limited liability company, or investment fund.

Angel capital fills the gap in start-up financing between friends and family (sometimes humorously called friends, family, and fools) who provide seed funding, and venture capital. Although it is often difficult to raise more than a few hundred thousand dollars from friends and family, most traditional venture capital funds are usually not able to consider investments under US\$1-2 million. Thus, angel investment is a common second round of financing for high-growth start-ups, and accounts in total for almost as much money invested annually as all venture capital funds combined, but into more than 10 times as many companies.

Geoff Simonett, one of the Maple Leaf Angels shares these thoughts: "I've noticed that many entrepreneurs initially believe they have a great idea and if they just meet the right VC (venture capi-

talist) and raise some money, they will be the next big winner. The problem is that they are not prepared for VCs and often not even prepared for investors at all. Usually VCs won't give them the time of day since, as representatives of investors, they have to focus on the right deals.

"Angels, on the other hand, are entrepreneurs first and will often help coach these companies, before they are ready for financing, in order to bring them to the table with the right tools. So, friendly but with good advice".

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