The Angel Investment

Starting a new innovative business might require some sort of financial and professional assistance. It is possible to seek support from experienced individuals from the same sector. Angel investing is the source of funds for start ups and growing businesses who are showing a growth potential. This type of funding is significant for new companies which cannot be funded by the venture capital. The UK business angel market is one of the most mature across the Europe.

In the UK it is estimated that approximately £1.5 billion per annum is invested by angel investors. Angel investing is the equity finance which can be used to fund the business projects. An Angel investor is an individual who invests their funds into particular investments of their choice. The investor takes shares in the business in return for equity finance. An Angel investor is putting into the selected business project their funds, knowledge and experience to achieve the aimed performance.

Business Angels differ from venture capital providers who invest through managed funds in the size of investment and the approach of investing. They are more patient with the return and termination and more prepared to support the business through its life. They engage in the business on their own, meet with business owners and engage in the investment process. Business Angels are parties on the investment documentation. Angel investors actively observe their investment by taking a role on the board or by supporting a business. However, they can also invest as a part of a group with only the lead angel taking the active role.

There are roughly 18,000 angel investors in the UK. Due to syndication, a group of angels can invest up to £2million while individually investments range from £10,000-£500,000. Angel investors look for a return in 3-8 years time so they carefully assess the opportunity and check if the project meets their investment criteria. Innocent and Uber are examples of successful angel investments.

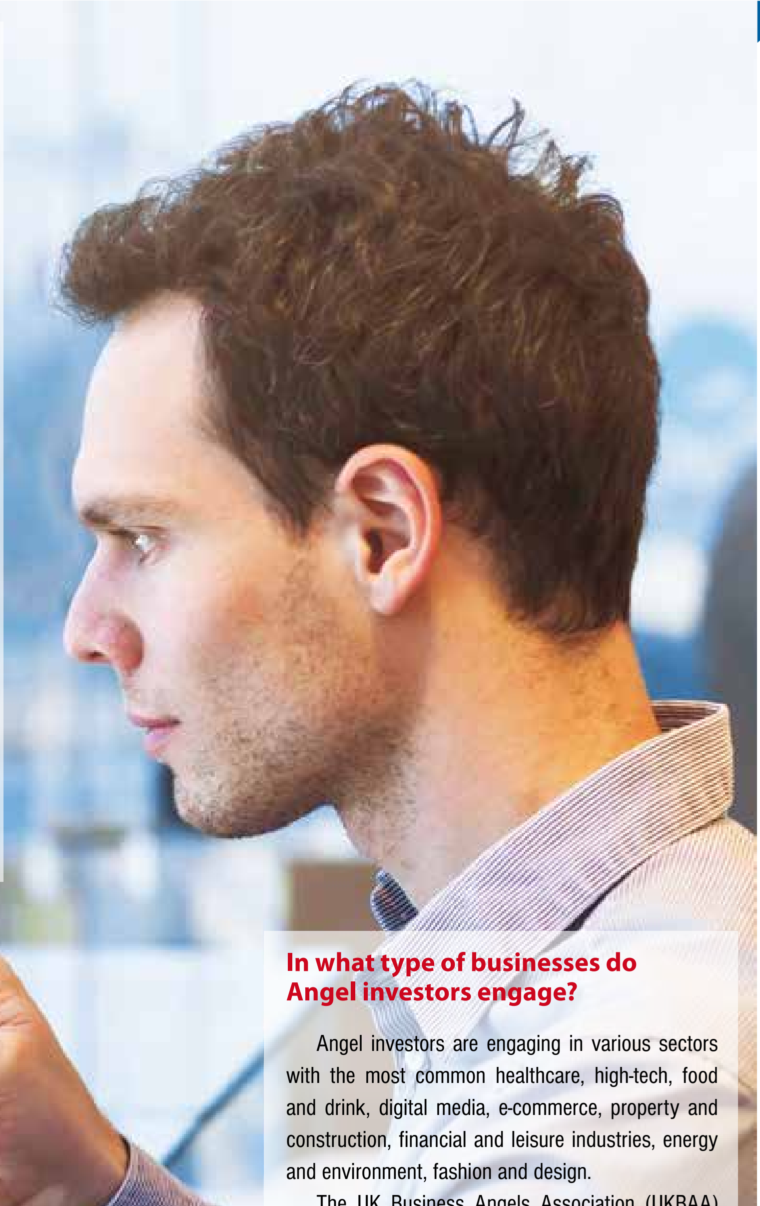
The Angel investment is regulated. According to the FCA under the Financial Services and Markets Act 2000 (FSMA) the Angel investor has to be self-certified as a High Net Worth or Sophisticated Investor. Self-certified high net worth investor has to have a net income of more than £100k and have net assets worth more than £250k. A certified investor has to prove he has been a member of the Angels group for at least six months and gets the profit of at least 1 million within last two years. Moreover, he has made at least one investment into the unlisted company within last two years and has been working in the private equity sector or provision of finance for young businesses.

The UK Government has provided tax incentives for angel investors through the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS). EIS is designated for higher-risk investment in small businesses, while SEIS is for individual investments into early stage companies. EIS and SEIS schemes are designed to help smaller higher-risk companies to obtain funds by offering investors a range of tax relief. Enterprise Investment Scheme offers tax relief on new shares in businesses

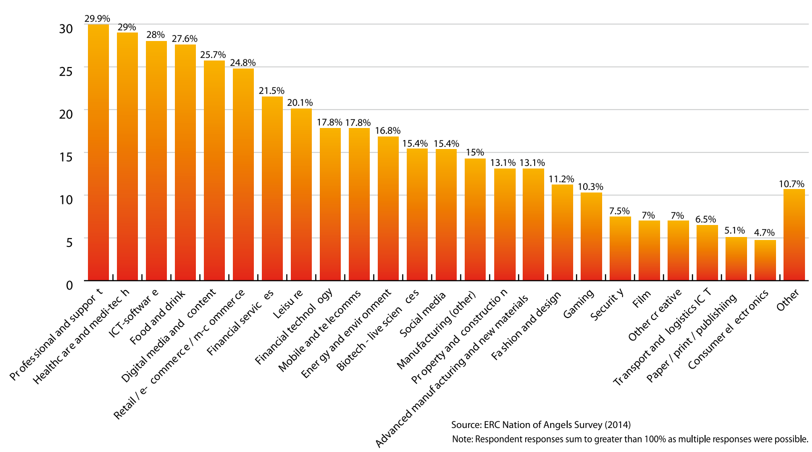
that qualify for up to 30% tax relief. SEIS scheme investors can receive even the 50% tax relief on investments up to £100,000 and also Capital Gains Tax (CGT) exemption. Under the EIS/SEIS scheme, in return Angels cannot take more than 30% equity in the business but they are required to increase the business growth.

The Angel investing is quite risky and statistics shows that approximately 58% of angel deals may not generate the return on investment. The diversification of investment portfolio decreases the potential risk. So how to be attractive for the angel investor:

- It is only for already established businesses.
- The business had to be relatively young and pre-profit.
- The business has to have the attracted customer base, proof of product attractiveness, a business plan and exit strategy.
- The business has to invest in protection like copyright, brand protection, etc.
- The level of the owner's involvement in the business is crucial.
- Projects that are challenging and disruptive are more welcomed.
- The business has to have the stable revenue streams.
- The scale of the project
- Whether is the deal EIS/SEIS eligible?
- Whether there is a plan to give shares in return for the investments.



Sectoral Distribution of UK Business Angel Investments



(graph source: ERC Nation of Angels Full Report, January 2015)

In what type of businesses do Angel investors engage?

Angel investors are engaging in various sectors with the most common healthcare, high-tech, food and drink, digital media, e-commerce, property and construction, financial and leisure industries, energy and environment, fashion and design.

The UK Business Angels Association (UKBAA) is representing the angel and early stage investment sector. Angel investment is getting more popular. UKBAA's members include amongst others angel investors, syndicates, equity crowdfunding, intermediaries and advisors. UKBAA's represents the 18,000 Angel investors. At the UKBAA's website there is possibility to find investors by sector interest, region and amount - See more at www.ukbusinessangelsassociation.org.uk

During a year there are numerous industry events attended by angel investors where networking gives opportunity to secure the potential funding. Also, Angels investors invest alongside other options like crowdfunding, so it is worth to look for them at various crowdfunding platforms.