

DRAGONS & ANGELS



Angel investors quiz entrepreneurs to find the best new ventures to support

Background

Dragons & Angels (D&A) is a small syndicate of angel investors based in Edinburgh that provides companies and entrepreneurs with capital and expertise. Being part of a syndicate allows investors to make larger and more frequent investments. Some are successful entrepreneurs themselves.

D&A is prepared to back start-ups or established companies that are seeking to expand. The typical investment is from £50,000 to £500,000. The investors often attend face-to-face 'speed-funding' events, where they interview entrepreneurs in five minutes.

Angel investment is a risky business, but as one of D&A's senior partners puts it, 'Companies which might otherwise have financed growth plans through bank loans have had to consider equity, while investors who might traditionally have invested in the stock market or property are looking to diversify their portfolios to spread the risk.'

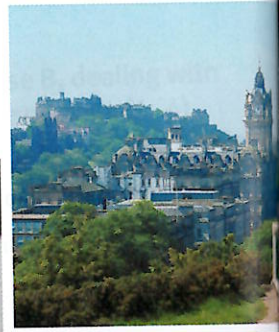
Research shows that business angels stand to make a significant profit by investing in start-up companies, with an average rate of return of 22 per cent over four years.

Task 1

Evaluating business ventures

You are investors from D&A and are planning to attend the next speed-funding event in Edinburgh. You can invest up to £500,000 in total and you may invest in more than one venture. Read the three profiles on the opposite page and evaluate the different entrepreneurs according to how successful and profitable you think their ventures will be. Then discuss these questions.

- 1 Which of the ventures sounds the most interesting and promising? Do any of the products have a distinct advantage in the marketplace?
- 2 How much money are you prepared to invest or lose?
- 3 Which business do you think will give you the best return on your investment?
- 4 What kind of stake would you be interested in as an investor, e.g. 30–40 per cent ownership?
- 5 What will your role be? Are you interested in being a 'sleeping' partner or taking an active role in the business?



ANGEL INVESTORS ASSOCIATION

THIS WEEK'S ENTREPRENEURS

- 1** Evan Griffiths, founder of E-sellers and maker of an e-reader



Investment required:
£400,000–
£500,000, mainly
product
development for
designing a
smaller and
smarter e-reader

Return on

capital: 25%–30% over
four years

'I'm the founder of E-sellers, an e-book publisher and online bookstore. We already have an 18 per cent share of the e-book market. I've now developed my own e-reader. I'm not worried by the competition from bigger companies. Their e-readers are over-priced or don't fit easily in a pocket or handbag like ours do. E-books and physical books will co-exist for many years. Whenever I buy a book, I usually buy two: one to have on the shelf and another to read on my e-reader.'

- 2** Agnes and Morag McQueen, cheese makers and co-directors of McQueen's, an Edinburgh-based family business



Investment required:
£100,000–
£125,000 for
investing in
renewable energy,
expanding the
current premises
and taking on more
staff

Return on capital: 20% over four years

'I'm joint director of McQueen's. We make quality Scottish goat's cheese, which I'm passionate about. Our customers value our environmental standards, quality and years of experience. We pride ourselves on organic farming and using resources more sparingly. We're trying to become a carbon-neutral company. That means we would also need to invest in alternative energy, which would reduce our greenhouse gas emissions even more. I think that would give us an edge over our competitors.'

- 3** Danish adventurer Troels McClintock, Soul-air



Investment required:
£45–£55 million
to build
a solar-powered
aircraft

Return on capital:
40%–45% over
four years

Soul-air – the sky's the limit!

'My dream is to fly around the world in a solar plane. I want to demonstrate the potential of renewable energy. Airplane manufacturers are sceptical such a plane can be built, but I have always believed in thinking creatively and outside the box. Currently, we have a society based on oil dependency. The result is car manufacturers are going bankrupt. It's a typical example of people who did not make the turnaround early enough. Join me on this adventure of a lifetime – you won't regret it!'

CD2.38 – 2.40 Listen to three investors at the speed-funding event asking the entrepreneurs questions and take notes. Which entrepreneur(s) dealt best with the questions? What other questions would you ask at this stage?

Task 2

Decision-making meeting

Work in groups. After the speed-funding event, compare notes as investors. Discuss these questions.

- Which venture(s) will you invest in, and why? Does the product have a large and fast-growing market?
- How much money will you invest collectively as a syndicate?
- What will be your role in the business(es); for example, a mentor, a management advisor or a partner with a stake in the firm? How much control would you like?
- What quality contacts could you pass on to the entrepreneur? Which of your family, friends or associates could be interested in the product(s) as potential customers?

Watch the Case study
commentary on the DVD-ROM.



Writing

You are one of the investors at Dragons & Angels. Write an e-mail to a colleague who missed the presentations, proposing the business idea you would like to invest in. Include these points.

- Say why you want to invest in this particular venture.
- Mention the background and expertise of the entrepreneur or management team.
- Say how much money you have decided to invest and what kind of return on investment you expect (a minimum of 20 per cent at this stage).
- Briefly describe D&A's role in the venture.

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