

Angel Financing

Entrepreneurs seeking non-debt financing face a number of challenges. Many venture capital funds only seek deals in excess of \$2 to 3 million (the average VC investment in 2000 was more than \$9 million). Thus, business owners seeking equity funding in the range of \$50,000 to \$1 million often must look elsewhere. Entrepreneurs typically rely on personal savings, retained business earnings, and support from friends, family, and business associates. As a result, business creation and expansion efforts, especially those based in rural communities, may be underfinanced and thus vulnerable to short-term market downturns. Finding additional sources of risk capital encourages more start-up activity and helps expansion efforts by existing firms.

Angel capital offers one means for filling this gap. Angels are individuals, either working on their own or in networks, who invest in new and growing businesses.

Today's Angels Are Most Often Successful Entrepreneurs Who Want To Invest In Other Businesses

The term "angel investor" arose in the early 1900s and referred to investors who backed risky Broadway shows. Today, angels still make risky investments, but they no longer are limited to Broadway. Today's angels are most often successful entrepreneurs who want to invest in other businesses – for a variety of reasons. Some are eager to leverage their earnings and create greater wealth, others are interested in being part of the excitement of growing companies, and still others believe that they are helping their communities by growing more successful businesses. Whatever their reasons for being angels, more and more businesses have begun to rely on them. Angels provide both money and

hands-on assistance. They often sit on a business's board of directors and/or provide advice on technology development, human capital, and managing growth. They also often introduce business owners to lawyers, accountants, and venture capitalists skilled in helping a business to grow.

Angels Offer An Important Resource For Rural Areas Bypassed By Traditional Venture Capital Firms

Today the United States boasts more than three million angels who invest more than \$50 billion in new companies each year. Angel investors can fill a major gap in rural financial markets. Thanks to their business success, they often make patient investments that at the same time can be consummated quickly, and they are more likely to invest in early-stage start-ups than are other types of financiers. Rural areas often have good companies, but they lack sufficient deal flow to attract established institutional investors. Angels live throughout the United States, and thus they offer an important resource for rural areas bypassed by traditional venture capital firms.

But angel investing also has disadvantages. Angel investors can be difficult to locate. They also often invest in what is familiar, and they are less willing to invest in risky innovations or new ideas. Finally, each individual angel controls limited amounts of capital.

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