

WEST OF GLASGOW *Business Club*

Innovating Your Finances



Knowledge · Experience · Implementation

Nelson Gray



- Debt

- contractual obligation to pay interest and repay the debt regardless of the performance of the company.

- Equity

- a shareholding (ownership share) in the company. No contractual rights to dividends or capital repayments, regardless of company performance.



Venture Capital

“.....long-term, committed, risk sharing equity capital...

The investor’s returns are dependent on the growth and profitability of the business....”

British Venture Capital Association



Equity-backed Companies Boost the Economy:

In 5 years to 2007, private equity-backed companies:

- ♦ Sales rose by 8% pa
 - ♦ FTSE 100 companies 6% pa
- ♦ Exports grew by 10% pa
 - ♦ national growth rate of just 4%
- ♦ Corporate investment rose by 11% pa
 - ♦ 3% nationally
- ♦ Research and development increased by 14% pa
 - ♦ 1% nationally



[British Private Equity and Venture Capital Association (BVCA)

“The Economic Impact of Private Equity in the UK” 2007]

The Added Value of Equity Risk Capital

- ◆ **'Smart' Money**
 - Entrepreneurial experience
 - Mentoring skills
 - Contacts
 - Access to more cash



It's Angels who Fund Early Stage

“In 2002 and 2003, business angel investment in Scotland was more than twice the level of early stage investment recorded by British Venture Capital Association members ”



Richard T Harrison, The Equity Risk Capital Market In Scotland:
A Benchmark Analysis And Report (2004)

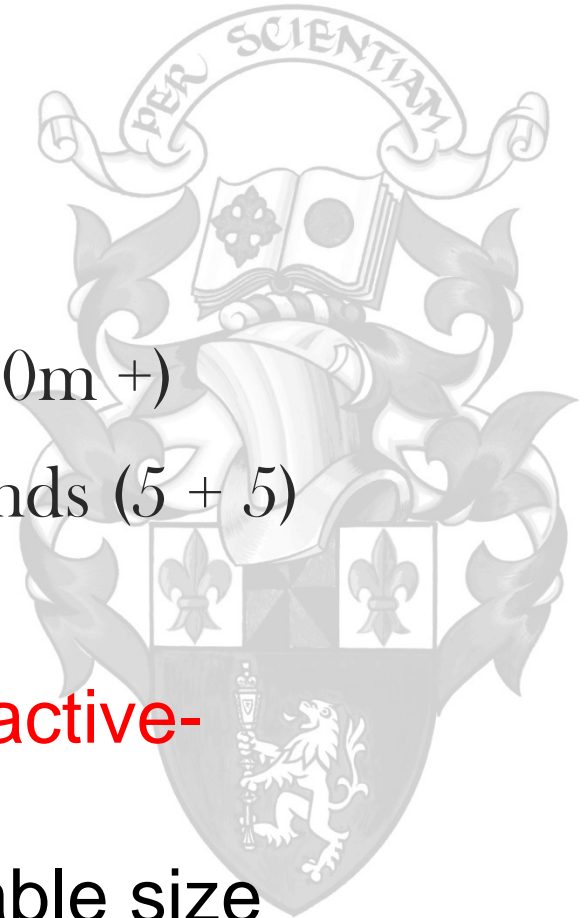
For VC's, small is ugly

- Fixed costs in a fund
 - Transaction costs
 - Due diligence costs
 - Monitoring costs
- The growing size of VC funds (\$100m +)
- The structural of fixed term VC funds (5 + 5)

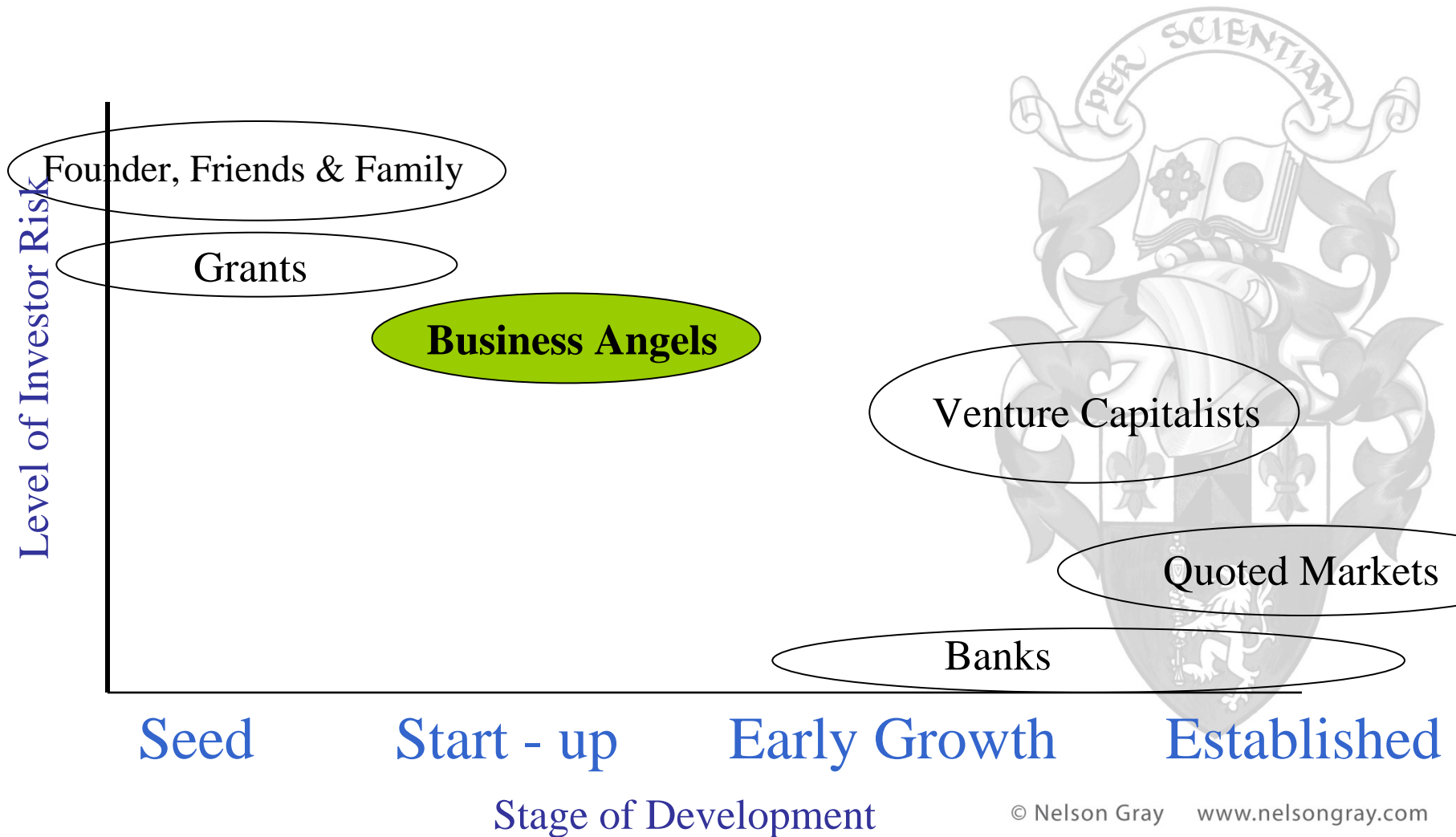
Result –

Early-stage Companies Unattractive-

- Need too little money
- Take too long to grow to saleable size



Who Funds Entrepreneurs? “Business Angels”, not VC’s.



Angel Investing 2007 and 2008

LINC Scotland	2008	2007
Total Invested	£21.5m	£21.1m
Number of Investments	72	61
Size of Investments	£298k	£346k

What is a “Business Angel”?



“An individual who invests their own money (and time), directly in unquoted companies in which they have no family connection, in the hope of financial gain.”

Angel Investors

- Not super wealthy but has some ‘free’ cash.
- Does not have to invest.
- Most have direct experience of business.
- Not a scientist, rarely an engineer.
- Not necessarily an experienced investor.
- Looking for a high cash return, and ‘excitement’.



What does an Angel Deal Look Like?

- £300 total investment , made up of £10k to £50k per person
- Take 25% to 40% of equity of company
- Angels usually invest close to home.
- Looking for a 5x plus capital gain return
- 4 - 6 years to an exit.
- “2 in 10” principal of “great exits”
- Increase of Angel Groups & Syndicates of Groups



Designed for living. Engineered to last



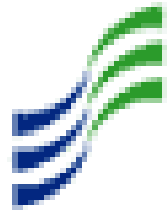
Finding Angels



LINC Scotland®

The Scottish Angel Capital Association

www.lincscot.co.uk



Scottish Enterprise

www.scottish-enterprise.com/equity



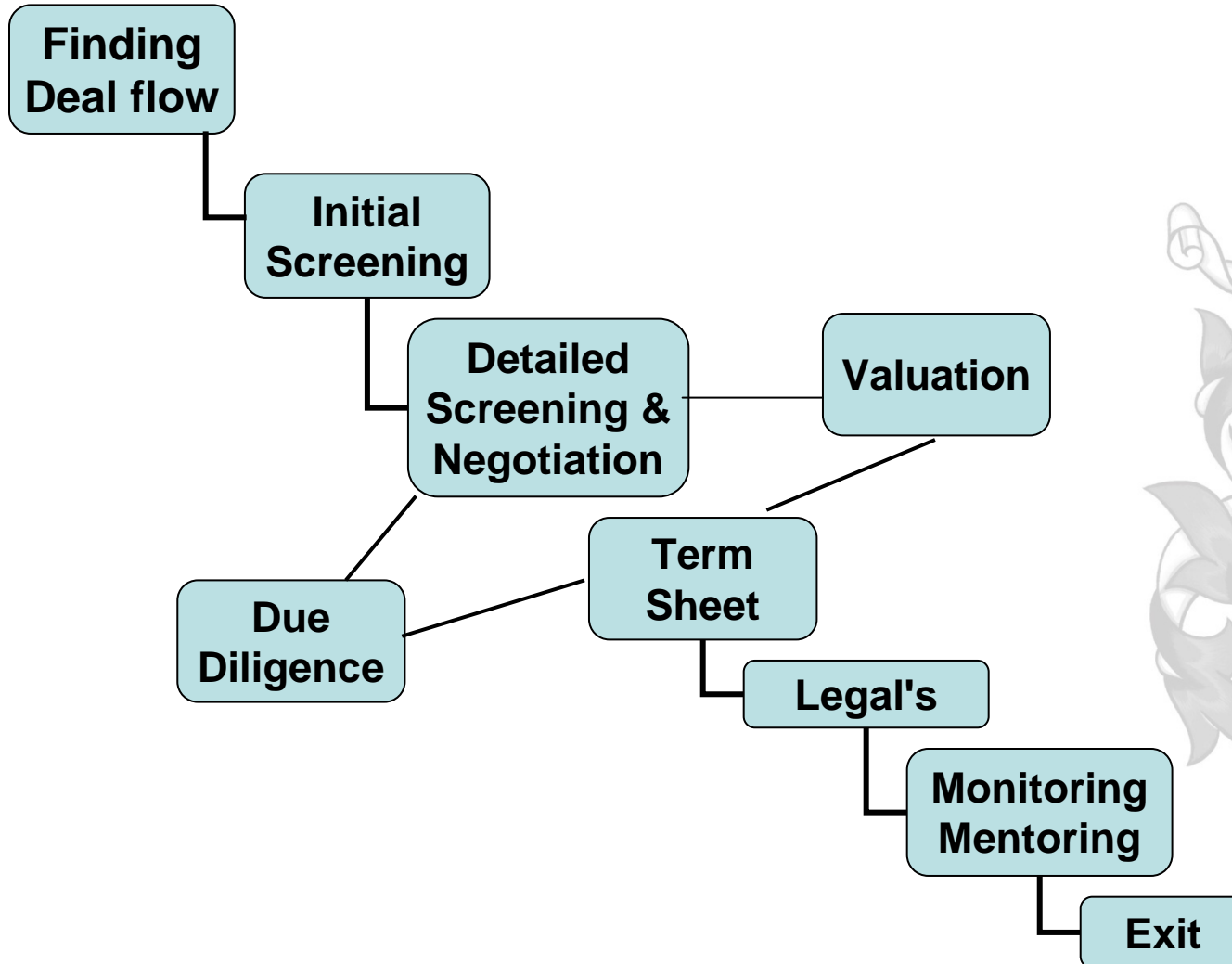
young company finance

Scotland

www.ycfscotland.co.uk/

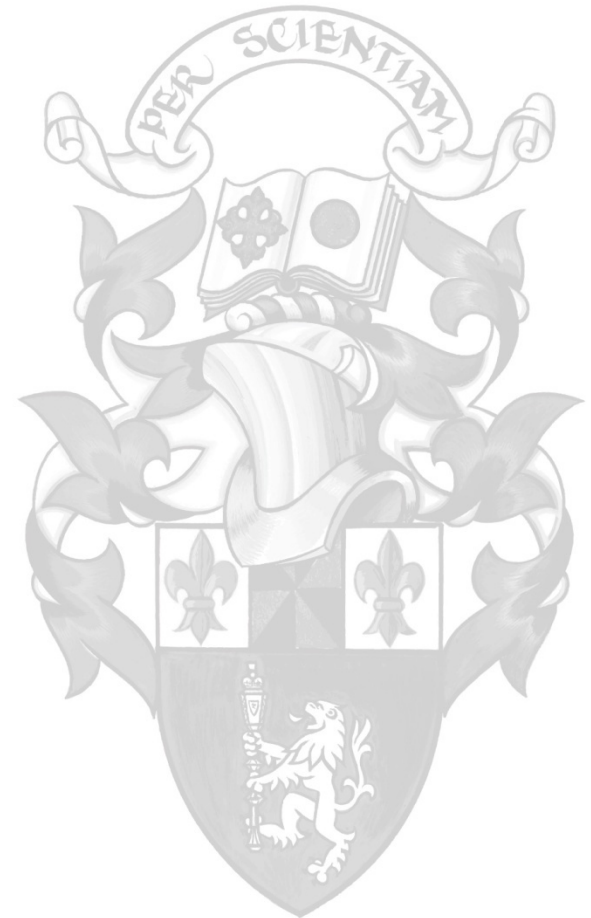


The Investment Process



Investor Protection Terms

- Warranties.
- Undertakings.
 - Information rights
- Good Lever / Bad Lever
- Drag-Along / Tag-Along
- Pre-emption Rights
- Anti - Dilution Rights.
- Investors Director.
- Dividend Policy.



What Tools Do I Need?

- Elevator Pitch.
- Executive Summary.
- Business Plan.

- Presentation.

Primary Objective –
Get a Meeting with
the Funder

Primary Objective –
Get them to ask
Questions,
Show some Interest



Summary & Conclusions

- Equity – sharing risk & ownership
- Potential conflicting objectives - Exit
- Most Equity comes from Angels
- Scotland has a well developed angel community
- But you need to be prepared
 - Understand the process
 - Develop the tools
 - Target your investor

