Angels@Essex

Investor On-Boarding Pack

WE ARE A UNIVERSITY ENTERPRISE ZONE
  ■ Expertise ■ Business Support ■ Funding
INTRODUCTION

In 2019, the University of Essex gained University Enterprise Zone (UEZ) status. With the support from Research England, the UK Government and local organisations, our goal is to increase business and job creation by providing budding entrepreneurs with advice and practical support at the Knowledge Gateway, the University’s 43-acre research and technology park. The University has identified an opportunity to better support the growing regional digital and creative sector, in which business leaders are innovators, embrace and improve new technologies and constantly develop new business models.

Angels@Essex is aimed at facilitating the connection between angel investors and entrepreneurs, providing a confined, secure and safe environment for entrepreneurs in Artificial Intelligence, Virtual Reality and digital creative sectors to access angel investors with similar interests. This not-for-profit, legally compliant, FCA-regulated platform provides funding to meet the economic gap in local provision identified in Essex. Through opening up access to flexible sources of investment, our goal is to accelerate the pace at which business ideas can be brought to market and to expand the numbers of new products and services being developed successfully from the Knowledge Gateway and across Essex.

The platform is provided and managed by the University of Essex. The management of the deal process is undertaken by the investor, the entrepreneur or their representatives; the University of Essex takes no part in that process. The platform serves as an online vehicle through which you, the investor, can view opportunity proposals which have been created by entrepreneurs and carefully vetted by the University’s Administration Team. The platform offers functionality to allow you to request further information, connect with entrepreneurs and access the documents required to conclude investments.

If you require more information about the investment process on our platform, our business support team is always on hand and ready to answer any questions you may have. We also host a number of events for our angels to interact with entrepreneurs, connect with like-minded angels and share experiences. We hope to welcome you to our growing community and see you at an event or webinar soon!
UK Business Angels Association

The UK Business Angels Association (UKBAA) is the national trade association for angel and early-stage investment, representing over 160 member organisations and around 18,000 investors. Business angels in the UK collectively invest an estimated £1.5 billion per annum and are therefore the UK’s largest source of investment for startups and early-stage businesses seeking to grow. As members of UKBAA we are able to utilise their extensive resources and gain access to their investor membership.

Delio Wealth

Delio works with leading global financial institutions to deliver customised technology platforms that optimise the distribution, transaction and reporting of private equity, private debt, real estate, social impact, fund investment opportunities and provides the platform for angles@essex to place regulatory compliant opportunities before investors.

British Business Bank Finance Hub

The British Business Bank is a Government-owned, independently-run development bank that’s helped more than 126,000 growing businesses find the right finance option to help them reach their next ambition. Their Finance Hub has been built to help businesses understand and discover the finance options that could enable them to grow.
The Basics of Angel Investing

What is Angel Investing?

An angel investor makes use of their personal disposable finance to invest in small businesses that they have identified as having growth potential. An angel investor would normally take shares in the business in return for providing equity finance.

Angels use their knowledge, skills and insights to make their own decision, rather than leaving the decision to an external adviser. You may take your decision through face-to-face contact, or you may be identifying your deals through an online platform.

A key aspect of being an angel investor is the capacity to bring not only finance to help the business grow, but also to draw on your own experience, contacts and links to help the company achieve success post investment. You may be an active investor, or may act passively, often as part of a group of investors and where generally an investor is identified to take the lead in following the deal.

Angel investors seek to share in the successful growth and have a return on their investment. However, angel investing is generally regarded as “patient capital” and you may not see an exit or a return for up to 8-10 years.

Whilst business angels can invest on their own, more frequently angels invest alongside other angel investors through syndication. This enables you to pool your funds and share the risks, as well as share the due diligence and experience of other investors. Our Angels@Essex platform allows you to share risk with other likeminded investors.
The Risks

Whether in stocks and shares or high-growth SMEs, investing is a potential high risk/high return strategy and carries significant risks. Should you wish to invest through Angels@Essex, it's important to understand and accept the potential risks, including: illiquidity, loss of capital, rarity of dividends and dilution. The University of Essex does not accept liability for investment outcomes and all investments are undertaken at individual risk.

Market research has shown that 58% of angel deals may not return the original stake money. However, there are different ways of mitigating your risks, including: developing a diversified portfolio of investments and taking reasonable steps to carry out due diligence; developing your own skills and understanding of the angel investing process; and actively supporting your investee businesses post investment. Find out more about UKBAA-accredited training courses on being an effective angel investor by contacting the scheme administrators at uez@essex.ac.uk.

Angel investors can also benefit from the Enterprise Investment Scheme (EIS) enabling access to tax benefits to support risk mitigation when investing in relevant qualifying companies. To find out more about the EIS, please click here.

As an angel investor it is likely that you will be involved in future funding rounds of the businesses you have invested in. Be prepared for such events, as your investments are likely to be some years in duration.
Key Considerations for Angel Investing

There is a regulatory framework for angel investing that protects both the angel and the entrepreneurs. Before receiving business plans or beginning to make angel investments, you should ensure that you are self-certified as either a High Net Worth Investor or Sophisticated Investor, as defined by the FCA under the Financial Services and Markets Act 2000 (FSMA).

During the registration process on our platform, you will be required to complete a questionnaire to ensure that you meet investor requirements. As an individual angel under the FCA Financial Promotions Order you are entitled to receive business plans and make investments through your own decision, provided that you are able to certify yourself as either a High Net Worth Individual or a Sophisticated Investor:

Certified High Net Worth Individual

You confirm that you either:

• Have a net income in excess of £100K or;
• Have net assets in excess of £250K beyond your pension fund assets and your private residence.

Certified Sophisticated Investor

You confirm that have been one of the following:

• A director of a company turning over at least £1 million within the last two years;
• Have made more than one investment in an unlisted company in the last two years;
• A member of a network or syndicate of business angels for at least six months;
• Have worked in the past two years in a professional capacity in the private equity sector or in the provision of finance for small and medium enterprises.

If you do not fall under either of these categories, you may still be able to invest as a Restricted Investor. Please contact uez@essex.ac.uk to find out more on how you could do this.
How Does Angel Investing Differ From VC or VCT Investing?

Angel investment differs from venture capital (VC) funds or venture capital trusts (VCTs), which invest in businesses through managed funds, raised with private or public money. The fund manager invests the money on behalf of the fund which has to make a return for the fund’s investors.

Due to high costs of administration and the need to be very selective to ensure a return on the fund, VC funds are likely to be more risk averse and thus make larger-size investments and fewer investments in start and seed stage. Thus, business angels are becoming more and more significant in funding new ventures by supplying smaller amounts of capital to companies that cannot be economically funded by the established VC market.

Unlike investing in a managed fund, business angels make their own decisions about potential investments. Angels also engage directly in the due diligence and investment process, and are signatories on the legal investment documentation, unless you are making investments through a nominee structure which may be the case, for example, as part of a managed syndicate investment vehicle, or through an equity crowdfunding platform.

Business angels differ from VC firms not only in the size of their investment, but also in their approach. Angel investors are less concerned with rapid return and exit and are prepared to support the business through its path to growth and exit over a longer timescale.

Many VC funds are willing to co-invest alongside angels and can help to bring larger sums where more significant levels of finance are needed. This can also be useful when the business needs to make further expansions beyond the existing financial capacity of the existing angel investors. It can be possible for angels to also take a partial exit at this time. VC funds and VCT funds may have different share structures (e.g., with shares with preferences) and it is important to understand the structure and how your own shares may be affected.
EIS and SEIS

EIS- and SEIS-managed Funds

If you invest in an EIS or SEIS fund, you will receive your tax breaks through the investment in the fund. However, you are likely to be taking a passive approach, and may have no say in which businesses the fund is investing in and you would not have any direct active involvement with the business post investment.

Business angels do also invest some of their money in EIS or SEIS sidecar funds that operate as co-investment funds alongside angel syndicates. In this case you may have some say in the businesses that the fund invests in and the fund may also co-invest in deals in which you are also directly investing – you would in this way have the benefit of being more actively involved.

How Much Do Angels Invest In A Business?

In general, individual business angels will invest anywhere between £5,000 and £150,000 in a single venture, depending on the business and the growth needs. But this can be lower and occasionally much larger sums according to the disposable wealth of the individual and opportunity identified. Also, with an increasing trend towards angels investing in groups and syndicates, larger amounts of finance above £1m can be raised by investors pooling their finance and also their business skills.

What Kind of Shares And Structures Do Angels Have?

It is important to note that angel investors should not be seeking to take control of a small business and usually investor would not take more than 20-25% in a seed or early-stage business. It is vital to enable the founders and team to be incentivised to grow the business and for the investors to be supporting and not controlling the business. The business also requires to give away further equity for future growth rounds.

As an angel investor working with early-stage growth potential businesses, you should be seeking to align your interests with the business and thus take simple shares rather than complex or preferential share structures.

If you are using the EIS or SEIS scheme you are required to take ordinary shares.