Angel Deals: Matches Made In Heaven? *(IW Growing Companies, October 1999 issue, page 18)*

My clients, like most business owners, want to establish links with individuals who affirm their business strategy. When it's time to raise growth capital, entrepreneurs get very tired (very quickly) of hearing questions and concerns about the venture's ability to produce the results outlined in the business plan. An individual angel investor may appear less intimidating (up front) than a committee of venture capitalists. After all, if this one person endorses your product and market, you may have found the perfect partner for your growing firm. But hooking up your vision with a high-net-worth angel does not guarantee a lower level of accountability or stress. So what can you expect as an angel deal plays out over the early stages of your company's growth cycle?

Entrepreneurs are very unique. Their ventures tend to reflect personal perceptions, where vision and direction are honed from owners' decisions about success. Most small firms get their initial funding from the founders' individual assets, or friends and family, so personally, there's a lot at stake. If the second round of capital comes from an angel, this person "connects" with, and endorses, the entrepreneur's business philosophy and firm strategy.

But many a firm owner automatically assumes the angel investor will be the "ideal" capital partner because he or she shares all the owner's enthusiasm and outlook for growth.

As a result, the funding sometimes is perceived (albeit misconstrued) as money provided by a good friend. Many of my clients initially view the individual investor with less fear and trepidation than they feel when

presenting to banks or formal venture capital groups. The less formal "one-on-one" nature of the angel deal can create the perception that this is someone supposedly less intense and driven by the numbers.
During initial negotiations, some nonfinancial benefits for the angel may surface, such as mentoring a younger entrepreneur or bringing in high-end strategic alliances to the smaller, growing firm. But that does not mean the funding deal is the same as borrowing from your rich uncle. The myth about angel deals is that they are based on a more personal connection, a more sincere hand-shake, and a less stringent cache of performance requirements.

Well, the myth is just that. Angels are investors, plain and simple. They want one thing: extraordinary appreciation in value, exactly the same as professional venture-capital companies. It's easy to assume that once the angel is "dialed in" to the key tenets of the business plan, he or she will share equally in all the risks of the venture. But don't misinterpret the angel's individual approach as synonymous with less demanding standards, higher tolerances for underperformance, or a need for lower risk protections.

Angel deals will contain very exacting terminology about ownership shares, benchmarks, time frames, future options, exit strategies, risk hedges, and penalties for subpar results. When the deal is 10 months into the second-stage funding, and
sales or profits come up short of the anticipated level, this investor will be every bit as concerned with the company's activities and remedies to improve performance as would a team of venture capitalists. In fact, on the back-end, entrepreneurs may feel better about responding to two senior associates, three analysts, and an attorney from a professional fund than having to answer to an angel one-on-one over lunch.

The angel may genuinely like you, but that does not give P&Ls any additional allowances for missing critical sales, cost, production, and profit goals. If results don't happen on time, angels will be as quick and motivated as any venture capital firm to exercise a rate-hike penalty, collateral lien, or personal guarantee from the entrepreneur. So, be sure the numbers in the business plan are targets you can hit. Keep investors thoroughly up to date as performance unfolds. They will give advice in crunch time, but don't expect too much extra leeway on the numbers.

Keep in mind, their expertise and accountability is aimed at achieving strong results.