

The Money Game In Search of an Angel

Finding local investors for a new business is tricky and time-consuming. And often crucial.

By AJA CARMICHAEL
Staff Reporter of THE WALL STREET JOURNAL
January 30, 2006; Page R4

The first time Scott Shickler went to a gathering of "angel" investors, he came home with a stack of business cards from lawyers, accountants and others -- and no investors.

"It took me five presentations to learn how to successfully raise money," Mr. Shickler says. Eventually, however, the Roswell, Ga., resident managed to raise \$2 million in seed money for three start-ups: an educational and inspirational center for youths, a school-software company, and a bagel, sandwich and ice-cream restaurant named Nirvana.

THE JOURNAL REPORT

See the complete [Small Business report](#).
• For more on small-business financing, visit StartupJournal.com/financing

After small-business hopefuls have tapped their own bank accounts and those of family members and close friends, angel investors are often the next step. Angels, in this case, are high-net-worth individuals able to provide large amounts of capital for start-ups. Some 85% invest in businesses within half a day's travel from their homes, according to the Center for Venture Research, a unit of the University of New Hampshire's Whittemore School of Business.

But finding and winning over local investors willing to put anywhere from a few thousand to hundreds of thousands of dollars into a start-up can be tricky and time-consuming. You have to tap into the right groups, the 39-year-old Mr. Shickler says, and understand that investors expect impressive returns and a proven concept before they sign up.

Angel investors, often successful local business owners themselves, are a crucial part of launching small businesses - especially those that require lots of upfront capital. Typically, angels will invest a small amount in several companies in hopes that one or two will pay off. Angels, according to the Center for Venture Research, often come in groups of three to five, and are looking for businesses with the potential for a 20% to 40% annual return and the

opportunity to cash out profitably within five to seven years.

According to estimates from the Durham, N.H., center, angels invested \$11 billion in start-ups in the U.S. in the first half of 2005 and \$22.5 billion in all of 2004. Of the 2005 investments, about 20% went into health-care services, medical devices and equipment, and most of the rest went to technology-related fields such as biotech and software. About 1% was invested in retail and restaurant businesses, and 2% in media.

Speed-Dating Option

A few years ago, finding angel investors meant hustling to get introductions to the right people, and then hoping for more introductions from them. To be sure, there are still so-called facilitators, some of whom promise introductions that never materialize. But these days there are also angel groups with Web sites that list their interests, and formal networks of angels aimed at identifying promising businesses. Formal angel alliances often require a minimum investment over a 12-month period, charge membership fees of \$2,000 to \$3,000 a year, and have a paid executive director. Some even hold "speed-pitching" lunches, which combine aspects of the power lunch with speed-dating get-togethers.

Mr. Shickler worked with an informal group of angels when he first raised money for his Nirvana ice-cream restaurant. He raised \$200,000 from 10 individuals, who each invested \$10,000 to \$30,000. The seed money enabled Mr. Shickler to secure a location, create the restaurant's meals with a master chef and employ a general manager. In return, the 10 got shares amounting to 20% of the parent company, Global Gourmet Group. The parent will own 60% of the next 10 Nirvanas, thus giving the angels participation without having to invest more.

In addition to the group of 10, Mr. Shickler found another investor whom he refers to as his "land angel," because this investor, a retired executive Mr. Shickler met through a business referral, borrowed against his waterfront property to provide a \$500,000 line of credit. In exchange, this investor owns 30% of Nirvana's first location and so is entitled to 30% of the profit, or at least \$6,000, each year. Once the 10-year balloon loan is repaid, by 2014, this angel's share will shrink to 10%. For now Mr. Shickler pays the investor's bank about \$2,100 a month for interest on the loan.

More recently, another angel, a real-estate investor and Nirvana customer, agreed to help fund as many as 10 new restaurants in the next three years. This investor is putting up \$5 million and will own 40% of the next 10 locations.

Contact Sport

Entrepreneurs say wooing prospective angels can require a lot of hard work, time and costs -- with no guarantees. Neal Fraser, chef and co-owner of Grace restaurant in Los Angeles, met with some of his early investor prospects at the then-vacant space where his restaurant now operates. In addition to restaurant visits, he spent \$1,500 to host several dinner parties for potential investors. When none of them yielded start-up funds, he got discouraged.

"When I started, I didn't think I could pull it off. The economy was really flat, and getting people to invest in the restaurant was really hard," says Mr. Fraser, 36 years old. "It was like asking people to invest in building igloos in the Caribbean."

But he was persistent. When it came to courting investors, he adopted an "any means necessary" policy, he says -- any means short of being rude. Shortly after 9/11, Mr. Fraser sent copies of his business plan to 300 friends and restaurateurs, soliciting them for \$25,000 shares in the restaurant. Some offered to make smaller investments, which he accepted. Others said they were interested but didn't follow through. Of some dawdlers, Mr. Fraser asked a one-third down payment to determine their actual level of interest. He kept others abreast of the fund-raising developments through steady emails and meetings, letting them know the final deadline for getting on board was running short.

Ultimately, he raised \$950,000 from three partners and 26 limited investors over three years. And when the restaurant doors opened to the public in 2003, not every angel who had promised money was yet on board. A few stragglers were writing checks while the wine was being poured. Ultimately, celebrities, restaurateurs, friends, family and others outside of the food and dining industry were among the early investors for the restaurant, which now brings in about \$2.5 million in annual revenue. Mr. Fraser declines to release information about the investors' profits.

Professional Help

If there is a next time, Mr. Fraser vows to use a professional to help. Raising capital alone is too stressful, he says, and could distract him from his business. The standard charge for a capital finder ranges from \$2,000 to \$5,000 upfront plus fees of 4% to 10% of the total raised. Before committing, entrepreneurs should negotiate all fees and confirm that capital finders have a track record and references.

Sometimes investors need to see the business up and running before they will commit. Rix Ryskamp had both of his companies fully operating before seeking early investors. The 28-year-old chief executive and founder of U.S. Field Research Inc. and SimpliPhones Inc. invested about \$350,000 of his own money to build the two companies in Orem, Utah. U.S. Field Research collects marketing data; SimpliPhones provides an easy-to-install PBX phone system for small businesses.

Mr. Ryskamp struck his first deal for additional funding in 1999, when an angel invested \$50,000 in his research firm.

To be successful, Mr. Ryskamp advises looking at your proposal from the investor's point of view. Confidence helps, too. "I took a step back and asked myself, 'If I really had the money, would I be spending it on this?' " he says. "The answer is clearly yes, for my company."

--Ms. Carmichael is a staff reporter for The Wall Street Journal in New York.

Write to Aja Carmichael at aja.carmichael@wsj.com